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# **Does discourse matter in the politics of building social pacts on social protection?**

International experiences

Vivien A. Schmidt



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**SOCIAL  
POLICY****Does discourse matter in the  
politics of building social pacts  
on social protection?**

International experiences

Vivien A. Schmidt



UNITED NATIONS



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## Index

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<b>Summary</b> .....	5
<b>I. Ideas about social protection and changes in the content of social pacts</b> .....	9
<b>II. Discursive processes of interaction in the building of social pacts</b> .....	13
A. Liberal market economies: UK and Ireland .....	14
B. Coordinated market economies: Germany and the Netherlands, Sweden, and Denmark .....	16
1. Germany and the Netherlands .....	16
2. Sweden and Denmark .....	18
C. State-influenced market economies: France and Italy .....	19
D. Emerging market economies: Brazil and South Africa.....	21
<b>Conclusion</b> .....	23
<b>Bibliography</b> .....	25
<b>Social Policy Series: Issues published</b> .....	29



## Summary

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Discourse always matters in the politics of building social pacts on social protection —for failure as much as for success.<sup>1</sup> And by discourse, I mean not just the ideas behind the social pacts but the policy debates and political discussions surrounding the negotiation of those pacts. Over the past three decades, with globalization a major driving force in the international economy, new social pacts have been negotiated and older ones renegotiated. Many of these negotiations have been underpinned by neo-liberal ideas focused on increasing flexibility in labor markets through greater management ability to hire and fire at will, on improving worker productivity or reducing unemployment through labor market activation policies, and on cutting the costs of the welfare state through reducing benefits and introducing competition in services. But they have also been moderated by social-democratic and social liberal ideas emphasizing respect for workers' rights and job protections, the improvement of working hours, working conditions, and worker training, and the maintenance or enhancement of workers' benefits and social services over the lifecycle. Most notable is how much has changed as labor and social policies designed for old social risks have been redesigned to address new social risks. In the process, institutions have been transformed and interests not just realigned but reconceptualized.

Which set of ideas wins out in the politics of building social pacts does not only depend on the ideas *qua* ideas —what they are, whether they are objects of consensus, whether they can work, or whether they are defended regardless of their workability, as a matter of interest, identity and/or group solidarity.

It is also about power, although not only the coercive powers of the different parties in the negotiation to impose their interests —whether management, labor, and governments. It is equally about the discursive powers of such actors —especially in the case of innovative social pacts— to persuade those involved in the discussion to compromise, or even to change their perceptions of their interests and/or of what is appropriate with regard to values. Such discursive power can be complicated, however. It may depend not only on how the actors involved in the negotiations coordinate agreement behind closed doors but also on how they communicate their views to the public, which in turn depends on how

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<sup>1</sup> There is no need here to go back to questions about whether discourse has a causal influence, which now seems generally accepted (Schmidt 2002a, 2002b; Ferrera 2013; Hemerijck 2013, p. 97-102).

their pronouncements are mediated in public debates by the media (newspapers, television, and internet), discussed by politicians, opinion leaders, and experts, and responded to by social movements, labor activists, and the everyday citizen, all of which may then affect how the actors in negotiations may reconsider and revise their positions (Schmidt 2000, 2002a, 2006).

Discourse itself therefore should be understood not only as embodying ideas about the substantive content of social pacts on social protection but also as representing the interactive processes of coordination and communication that generate such pacts. Context also matters, however. This includes not only the political economic institutions—in particular whether countries have more decentralized systems based on individualized contracts or more coordinated labor-management negotiations, decided with or without the state—but also the political institutions—especially whether the country is a ‘simple’ polity with governing authority channeled through the executive or is a more ‘compound polity’ with diffused authority; and if the sector tends to be a ‘multi-actor’ system with many veto players as opposed to a ‘single-actor’ system where one player has a monopoly on decision-making (Schmidt 2000, 2002a, 2006). Moreover, one additionally needs to take into account the policy problems precipitating consideration of new social pacts, the policy legacies of earlier pacts, and the ‘politics’ of right and left, along with culture and history (Schmidt 2002a, 2003). Put another way, we also need to pay attention to the path-dependent formal rules and regularities that historical institutionalists would consider, the rationalist interest-based politics that are the focus of rational choice institutionalists, and the cultural meanings and norms that sociological institutionalists would explore (Hall and Taylor 1996; Thelen 1999; Finnemore 1996). All these serve usefully as background information to the investigation of ideas and discourse undertaken in this paper (Schmidt 2008, 2010).

The framework for analysis used in this paper is what I call ‘discursive institutionalism’ because it considers the substantive content of ideas and the interactive process of discourse in institutional context (Schmidt 2002a, Ch. 5, 2006, Ch. 5, 2008, 2010). The ideas may be developed through cognitive arguments about their necessity or normative arguments about their appropriateness (Jobert 1989; Schmidt 2002a); they may come at different levels of generality, including policy, programs, and philosophy (Berman 1998; Schmidt 2008; Mehta 2011); they may appear in different forms, such as narratives (Roe 1994), frames (Rein and Schön 1994), frames of reference (Jobert 1989; Muller 1995), paradigms (Jobert 1989; Hall 1993; Schmidt 2002a), discursive fields of ideas (Bourdieu 1990; Torfing 1999), argumentative practices (Fischer and Forester 1993; Fischer and Gottweis 2012), storytelling (Forester 1993), and collective memories (Rothstein 2005); and they may change at different rates, either incrementally through evolutionary processes (Berman 1998; Steinmo 2010) or in revolutionary shifts (Hall 1993; Blyth 2002). The discursive interactions may involve policy actors in discourse coalitions (Hajer 1993), epistemic communities (Haas 1992), and advocacy coalitions (Sabatier 1993) engaged in a ‘coordinative’ discourse of policy construction as well as political actors engaged in a ‘communicative’ discourse of deliberation, contestation, and legitimization of the policies with the public (Schmidt 2002a ch. 5, 2006 ch. 5, 2008, 2010a). Such ‘communicative action’ (Habermas 1989) may involve informed publics of the media, opinion leaders, intellectuals, experts, and ‘policy forums’ of organized interests (Rein and Schön 1994) as well as the more general public of ordinary people and civil society (Zaller 1992; Mutz, Sniderman, and Brody 1996).

In both the policy and political spheres, moreover, some actors may serve as ‘ideational’ policy entrepreneurs (Kingdon 1984) or leaders (Stiller 2010)—whether ideological, because they are fully committed to a given philosophy; pragmatic, because they cobble policy and programmatic ideas together, without a doctrinaire commitment to an underlying philosophy; or opportunistic, because they use ideas often temporarily with little commitment, mainly to gain political power (Schmidt and Thatcher 2013; Schmidt and Woll 2013). Although such entrepreneurs are mostly depicted as national or supranational elites making top-down policy, they can also be cast as activists in labor and social movements with bottom-up policy effects (Keck and Sikkink 1998; Epstein 2008; see also Schmidt 2008). The institutional context, moreover, should be considered not only in the historical, rationalist, or sociological institutionalist terms discussed above. It should also be understood in terms of the meaning context in which agents’ ideas develop as well as of the nationally situated logics of communication in which discursive interactions proceed. Agents’ ideas, discourse, and actions in any institutional context,



however, must also be seen as responses to the material (and not so material) realities which affect them—including material events, structures, and pressures, the unintended consequences of their own actions, the actions of others, and the ideas and discourse of others as they attempt to make sense of all such realities (Schmidt 2008).

In what follows, I use discursive institutionalism to examine in greater detail both the ideational content of social pacts on social protection and the discursive processes of their construction and communication in different contexts. In so doing, I explore a wide range of empirical examples in the transformations of social protection regimes since the 1980s in response to the pressures of globalization as well as of Europeanization, with special attention to the social pacts following the Eurozone sovereign debt crisis. Part I considers ideas about social protection and the various ways in which to explain ideational change in social pacts. Here, the focus is on the clash between neo-liberal and social democratic or social liberal principles with regard to work and welfare, with illustrations from a range of advanced industrialized countries. The second part explores the discursive interactions involved in the construction and public communication about social pacts, along with the framing of more specific policy ideas and programs. This part examines a wide variety of cases, taking paired comparisons of countries that may have similar forms of capitalist regimes but differ in their approaches to labor coordination or welfare provision. These include UK vs. Ireland for liberal market economies; Germany vs. the Netherlands and Sweden vs. Denmark for coordinated market economies; France vs. Italy for state-influenced market economies, and Brazil vs. South Africa for emerging economies.



## **I. Ideas about social protection and changes in the content of social pacts**

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The baseline for ideas about social protection generally follow along the lines of the postwar social-democratic settlement, in which workers were to be guaranteed labor rights, wage coordination functions, and social protections that were expected to increase over time. Such ideas could be cast as the post-war ‘paradigm,’ following Thomas Kuhn (1970; e.g., Jobert 1989; Majone 1989; Hall 1993; Schmidt 2002; Skogstad 2012), or, following Karl Polanyi (1945), as the ideational result of the social counter-movement to the classical liberal ideas that spurred the market movement of the 1920s and early 1930s, and led to the Great Depression. These postwar neo-Keynesian social democratic ideas came to be seriously challenged by neo-liberalism beginning in the 1970s, as policymakers sought a way out of the serious economic crisis caused by the two oil shocks, and could be seen as having produced a market counter-movement to the earlier social counter-movement to the market. While the adoption or adaptation of neo-liberal ideas may have come suddenly for some countries, appearing as a paradigm shift in the UK (Hall 1993) or a great transformational moment in the US and Sweden (Blyth 2002), in others it came more slowly, as more of an evolutionary or incremental process, as in Germany, France (Schmidt 2002; Palier 2005) and Denmark (Benner and Vlad 2000).

As a general philosophy, neo-liberalism entails belief in competitive markets enhanced by globally free trade and capital mobility, backed up by a pro-market, limited state that promotes labor market flexibility and seeks to reduce welfare dependence while marketizing the provision of public goods (see Hay 2004; Peck 2010; Schmidt and Thatcher 2013).

With regard to labour markets in particular, neo-liberal ideas challenged the post-war ideal of organization via corporatist relations between management and unions, with a new frame in which businesses were to determine wages in decentralized labour markets, while labour unions were largely written out of the script. Multinational businesses in particular largely reconceptualized their interests in this way, even in corporatist countries, as they increasingly pressured unions to agree to greater flexibility in wages and working conditions and governments to legislate ‘structural reform’ (Crouch 2011; Jackson and Schnyder 2013; Martin 2013). As for the welfare state, in its original formulation, following Hayek (1944) and Friedman (1962), this was to be rolled back to a basic minimum in order to ensure individuals taking responsibility for themselves and their families.

The main focus of neo-liberalism in the 1970s was macroeconomic reform through fiscal consolidation and ‘hard money’ policies, but success in this area was seen as necessarily also entailing reform of labor markets and welfare systems. By the 1980s, work and welfare reform came onto the agenda in a range of advanced industrialized countries, and by the 1990s was everywhere (Scharpf 2000; Hemerijck 2000). With regard to work, neo-liberal ideas were largely concerned with increasing flexibility in labor markets by easing rules for hiring and firing, promoting part-time and temporary jobs, and decentralizing bargaining on wages and work conditions to sectoral and firm levels. With regard to welfare, the objects of reform tended to be of two different types: the ‘old’ social risks, involving pension systems, disability schemes, and health care systems generally designed during the postwar period and benefiting older workers and ‘insiders’, and those targeting the ‘new’ social risks, focused on the ‘outsiders’ who benefited least from the postwar welfare state, who tended to be younger, female, or immigrant, and who may be without work, without skills, or on welfare. Neo-liberal ideas for new risk reforms largely concentrated on work-related issues, and emphasized labor market activation policies such as education, training, and job-seeker aid along with welfare-to-work programs for the young and the long-term unemployed or child-care services (and to a lesser extent elderly care) for women, to free them up for work (Taylor-Gooby 2004). All of this was to ensure ‘equality of opportunity’ rather than the ‘equality of results,’ or redistribution, which was at the heart of the social policies related to the ‘old’ risks, for which ideas for reform were mainly concerned with reducing cutting the welfare rolls to encourage individual responsibility, the generosity of benefits, and cutting costs in social services, mainly by increasing their marketization.

The philosophical ideas behind reforms of both work and welfare were almost always neo-liberal, but the programmatic and policy ideas shifted over time. From the 1980s to early 1990s, conservative parties’ neo-liberal ideas were tied to the ‘roll-back’ of the state to leave room for the market —by cutting welfare on old social risks and increasing labor market flexibility by reducing workers’ job protections and also, in some states, their capacity for collective action. This gave way beginning in the mid to late 1990s to social-democratic parties’ neo-liberal ideas tied to the ‘roll-out’ of the state to enhance market competition, which were more concerned about addressing new social risks via ‘active labor market policy.’ Once the Eurozone’s sovereign debt crisis hit beginning in 2010, moreover, neo-liberal ideas attached to the ‘ramp-up’ of the supranational ‘state’ (that is, the European Union) returned to state roll-back on welfare spending even as it continued state roll-out on ‘structural reforms’ (Schmidt and Woll 2013), often accompanied by state imposition of new restrictive social pacts.<sup>2</sup> Across these three periods, the ideas underlying the social pacts that were negotiated —or imposed— were necessarily different. This was not only because of the different reform ideas in each period but also because of differences in national contexts. Neo-liberal ideas were adopted and adapted in different countries to differing effects at different times in different ways. There are, in other words, many different national variants in terms of policies and programs, even where the underlying philosophy is neo-liberal. And such differences are even apparent in countries that share similar political economic institutions.

With regard to labor markets, for example, in Anglophone ‘liberal market economies’ in the 1980s, neo-liberalism promoted views that led to a transformational change in labor relations, by encouraging the state’s smashing of unions in order to end the negotiation of any kind of social pacts. This was most notably the goal of ideational leaders both in the US, with President Reagan ideologically committed to breaking up the PATCO air traffic controllers’ strike of 1982 and in the UK, with Prime Minister Thatcher equally committed to crushing the coal miners’ strike of 1984. For the ideational leaders of these countries, organized labor was to be eliminated in order to free up the markets. In much smaller Ireland, unlike in the US and the UK, the government’s pragmatic leadership in the mid 1980s promoted the idea that it was more useful for ‘competitiveness’ and more appropriate in terms of national values to organize workers in a more coordinated negotiation process that led to successive social pacts (Teague and Donaghey 2004; Hay and Smith 2005).

---

<sup>2</sup> Schmidt and Woll (2013) note that this increase in state activity, which goes against neo-liberalism’s fundamental principle of a limited state, has produced a new synthesis that they call ‘liberal neo-statism’.

In Continental and Northern European ‘coordinated market economies,’ by contrast with US and UK liberal market economies, there was no significant attack on the idea of coordination itself, just on the kinds of social protections it provided. Social pacts between management and labor—whether with or without state involvement—were often renegotiated to accommodate neo-liberal ideas about how to make economies more ‘competitive’ without direct attempts to undermine the power of labor, let alone to smash unions, although labor was indeed often weakened as a result (Jackson and Schnyder 2013). In countries like Germany and Sweden, this has also produced a kind of ‘corporatist-managed liberalisation’ in which social pacts integrated key principles of neo-liberalism such as using markets to allocate resources or increasing competition, and in which the ‘social partners’ were important participants in promoting the international competitiveness of firms. That said, whereas in Germany, ideas about liberalisation focused on seeking competitiveness through low wage and welfare costs without undermining key beliefs about such matters as co-determination in ‘core’ parts of the labour market, in Sweden, liberalizing ideas centered on aiding the rise of high-technology sectors and risk venture capital, not on reducing the higher wage and welfare costs appreciably, although they did also introduce competition in service provision (Jackson and Schnyder 2013).

All such countries, regardless of capitalist market economy, adopted labor market activation policies, influenced by the diffusion of ideas from other countries (in particular Scandinavia), that were also facilitated by the EU’s ‘open method of coordination’ (Pochet and Zeitlin 2005). But employers’ active engagement in such policies, and their concomitant success, differed greatly between the liberal UK, where employers for the most part didn’t commit themselves or their resources, and coordinated Denmark, where they were actively committed to it. Here, the differences can be explained not only by employers’ very different ideas about their responsibility for worker training but also by the institutional arrangements and path dependencies that discourage employer coordination on training programs in the one country, encourage it in the other (Martin 2013).

While in the work arena, then, neo-liberal principles came to be either substituted for postwar social democratic principles, or intertwined with them, in the welfare arena social democratic ideas remained the predominant underlying philosophy in most social policy sectors, in particular in areas of universal provision (see Rothstein 1998), even as neo-liberal ideas may have been layered on top. Thus, for example, social-democratic or social liberal (e.g., Rawlsian) views of the normative appropriateness of social provision remained, even as a number of more neo-liberal measures were accepted as (cognitively) necessary, such as means-testing for social assistance, taxation for pensions, or introducing competition into healthcare systems. This is why (national) state reforms of the welfare state have led to a new synthesis in most advanced industrialized countries that Maurizio Ferrera (2013) characterizes as ‘liberal neo-welfarism,’ because neo-liberal ideas are joined with principles of social justice as the basis for welfare provision. This new synthesis can be seen not only in traditionally liberal welfare states like the UK but even in the seemingly ideal-typical social-democratic welfare states such as Sweden and Denmark, which grafted neo-liberal ideas onto their welfare systems, freeing up markets without giving up their basic values of equality and universalism (Schmidt 2000; Jackson and Schnyder 2013). Notably, this synthesis maintains the neo-liberal emphasis on ‘negative freedom’ (from state interference) and individual responsibility but extends its reach to new areas such as non-discrimination on grounds of gender, sexuality, or racial origins, balancing equality of opportunity with that of outcome, and ensuring that workers should be assisted in order to become ‘fit for work’ (Ferrera 2013). In terms of ideational content, this new synthesis has also been termed the ‘social investment’ welfare state (Hemerijck 2013).

With the Eurozone sovereign debt crisis, policy ideas linked to (national) state rollback returned to the fore, even as state rollout continued. But the ramp up of (supranational) state intervention by the EU with the advent of the Eurozone crisis was also significant. This came in the form of a generalized acceptance of austerity across European countries, beginning in May 2010, led by German Chancellor Merkel, under the assumption that only in this way could the EU return to economic health as well as remain ‘credible’ to the markets. Instead of continued pragmatic (somewhat neo-Keynesian) policy in a time of economic slow-down or recession as in the US, then, European countries accepted a more ideologically neo-liberal or, better, ‘ordo-liberal’ (read neo-liberalism with rules) approach that emphasized ‘sound finances’ and belt-tightening in response to economic crisis (Gamble 2013; Schmidt

and Thatcher 2013). This had long been Germany's macroeconomic philosophy, as embodied in the Bundesbank's approach to central bank policymaking, and had been generalized to the rest of Europe through its embedding in European Monetary Union and the European Central Bank's Charter. Such a philosophy translated into the commitment to engineering state roll back through a return to the numbers expected in the Stability and Growth Pact (SGP) of no more than 3% deficit and 60% debt. On the agenda was therefore rapid deficit reduction via such measures as cutting state spending, reducing public payrolls and welfare costs, and 'structural reform' via increases in labor market flexibility. Moreover, for countries requiring Eurozone assistance via a loan bailout either directly —Greece— or via the European Financial Stability Facility (EFSF) —Ireland, Portugal— the Troika (European Central Bank, European Commission, and IMF) strictly enforced these conditions. Such conditionality was soon also applied to those countries in danger of needing such a bailout that were 'too big to fail' —Spain and Italy— while other countries seen as increasingly weak were also urged to reform, such as France most recently. And all of this was reinforced by successive pacts, such as the Euro-Plus pact, the 'two-pack,' the 'six pack' and so on that focused on more and more stringent enforcement of the SGP criteria. The result has been tremendous pressure in both work and welfare arenas, as governments have sought to renegotiate previous social pacts with the social partners in efforts to

Paying attention to the substantive content of ideas helps show the complexities of neo-liberal influence on change in social pacts as well as the social-democratic pushback. But we are still missing an explanation of the dynamics of change. And this is all about discourse not as the embodiment of ideas but as an interactive process of the conveying and exchanging of ideas, where the ability to persuade one's interlocutors about the value and necessity of one's ideas, and not just to impose one's interests, also matters.

## **II. Discursive processes of interaction in the building of social pacts**

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To understand the negotiation and renegotiation of social pacts we need to consider not only the substantive content of the discourse, that is, what is said, written, and understood in the social pacts, but equally the discursive interactions, or who talks to whom about what where and why in the construction of any such pacts. And for this, we need to take account not only of the coordinative discourse involved in the processes of construction and agreement on social pacts in the policy sphere but also the communicative discourse of legitimization of social pacts in the political sphere. Ideally, the two spheres are fully interconnected, such that the policy ideas developed in the coordinative discourse—often more heavily weighted toward cognitive justification—are generally translated by political actors into language and arguments accessible to the general public for debate and deliberation as part of a communicative discourse that also adds normative legitimation, to ensure that the policy and programmatic ideas resonate with the philosophical frames of the polity (see Schmidt 2006:255-7). This said, the coordinative and communicative discourses don't always connect with one another, and this is where problems may arise for social pacts, in particular where policy actors justify their agreement using one set of arguments in the coordinative policy sphere, while political actors legitimate them with another set in the communicative political sphere. Moreover, such negotiations can go very wrong indeed where what is said in the policy sphere behind closed doors contradicts what is said in the political sphere, especially if this is found out and communicated, say, by the media (see Schmidt 2002a, Ch. 5, 2002b, 2006, Ch. 5).

Ideational leaders also matter here, in particular government leaders, because governments are necessarily key to the negotiation of new social pacts, as well as to the destruction of old ones. The ways in which they lead ideationally are complex. To simplify, I have used the three-fold division between ideological, pragmatic, and opportunistic ideational leaders to differentiate among ideological leaders who hold to the ideas they seek to institute, pragmatic leaders who are willing to compromise, and opportunists who are more interested in gaining and maintaining power (Schmidt and Thatcher 2013; Schmidt and Woll 2013). Another way of thinking about this—as used in party politics literature focused on political actors' motivations—could be in terms of leaders who are 'policy-seeking' (ideological and pragmatic) and therefore tend to hold to a particular set of ideas, whether or not they

compromise on them, or ‘office-seeking’ (opportunistic), because they are willing to switch whenever useful (Marx and Schumacher 2013).

Institutional configurations naturally also make a difference. Political economic institutions—liberal, coordinated, or state-influenced—set the patterns and rules of negotiation that are clearly very important for understanding discursive interactions, as are the political institutions that tend to be on a continuum from simple to compound polities, or from single to multi-actor sectoral systems. Thus, in liberal market economies nowadays, business tends to be able to make decisions autonomously with comparatively little obstruction by labor as well as little interference from governments where they so decide. This has made for highly decentralized wage bargaining and no social pacts as such in the UK. But where the government decides to intervene, as in Ireland, highly centralized and coordinated social pacts can result. In coordinated market economies, in contrast, business tends to make decisions in conjunction with labor, through wage bargaining coordination centralized at different levels, either national (Denmark), sectoral (Sweden) or regional (Germany), sometimes with state involvement (e.g., the Netherlands, Denmark, and Sweden) sometimes not, when the rules are set by public law (Germany) (Schmidt and Scharpf 2000). In state-influenced market economies, differently again, business is often able to act autonomously where there are individualized contracts, but the state may nevertheless intervene via generalizing wage agreements and providing job protections (in France) or through ‘state-led’ corporatism, by leading corporatist coordination when it so decides (Italy) (Schmidt 2002, 2009; Howell 2009). Finally, in emerging market economies, any one of the three patterns just described may be operative, largely depending upon government will, levels of labor organization, and business cooperation.

Governments’ involvement also often depends upon history, organization, and capacity. In single actor sectors and/or simple polities, the unitary state often has greater capacity to impose either decentralized or coordinated wage bargaining (e.g., the UK and France for decentralized, Ireland for coordinated) than in more compound polities. This is where the state may be federal (Germany) or regionalized (Italy) or, despite being unitary (Sweden, the Netherlands, Denmark), business and labor are highly organized actors with whom negotiation is unavoidable, unless they decide not to be involved (as in Sweden and the Netherlands at different junctures on welfare reform, when the unitary configuration of the state enabled it to act effectively).

## **A. Liberal market economies: UK and Ireland**

The UK and Ireland, despite having much in common as Anglophone liberal market economies with the same kind of growth model focused on financialization (Hay and Smith 2013), differ significantly, in particular with regard to social pacts on social protection. Whereas Thatcher, once elected, set about destroying any possibility for social pacts by smashing the unions in the early 1980s, Ireland, after having adopted the British approach to unions in that same period, switched and began coordinative discourses with labor and other groups that led to successfully negotiated social pacts until the financial crisis of 2008, at which point such negotiation was abandoned.

The interesting story with regard to the UK is on welfare reform. While Thatcher managed to eliminate the possibility of opposition by organized labor (in destroying it) she was nevertheless stymied by the opposition of the general public. Significantly, although public opinion polls show that by the mid to late 1980s, Thatcher’s communicative discourse about the ‘enterprise culture,’ the value of hard work, and ‘the right to be unequal’ enabled her to convince the public to accept neo-liberalism and the value of merit over equality, they also indicate that Thatcher’s communicative discourse contrasting the “worthy poor” with “the feckless and the idle” did not resonate with a public that remained concerned about the poor and valued the universal benefits of the national health service (Taylor-Gooby 1991). She was unable to convert the country to neo-liberal welfare reform, although she was able to make cuts in areas other than universal services, like aid to single mothers, and to introduce more competition into universal services like education as well as health (Rhodes 2000). It took Labor Prime Minister Blair to complete Thatcher’s revolution in the welfare arena via state ‘roll-out’, with a communicative discourse that did resonate as it insisted on the necessity of reform resulting from the challenges posed by globalization (Hay and Rosamund 2002), appealed to values of equality and compassion as much as to neo-liberalism,



promised to “promote opportunity instead of dependence” through positive actions (i.e., workfare) rather than negative actions focused on limiting benefits and services, and by providing ‘not a hammock but a trampoline,’ not ‘a hand out but a hand up’ (Schmidt 2000; Schmidt 2002b, 2009). Subsequently, notably, this communicative discourse of the ‘third way’ between Tory conservatism and ‘Old Labor’ was replaced by similarly legitimating arguments centered around adopting Swedish labor market activation policies and creating an ‘Anglo-social’ model of welfare state. Under the Conservative Party led by PM David Cameron, by contrast, the communicative discourse switched to a more fully neo-liberal one, back to state ‘roll-back’ by encouraging individual responsibility and promoting community control, in particular with the campaign discourse of ‘the Big Society,’ described as an attempt to reframe the role of government and unleash the entrepreneurial spirit (The Times, April 14, 2010), although the Labor opposition leader described it as a “cloak for small government” (The Independent, Feb. 12, 2011)

Ireland tended to follow the British trajectory with regard to the welfare arena, moving from a Thatcherite discourse about cuts to the equivalent of a ‘third way’ discourse on the reform of work and welfare (Hay and Smith 2005). But it followed a completely different track with regard to the work arena, where it was largely characterized by state-led corporatism.

Ireland offers a fascinating case of how one country managed to create a deliberative coordinative discourse among not just the social partners but also civil society. In so doing, it had a radical paradigm shift in its approach to labor relations. This shift came in response to major economic meltdown at a ‘critical juncture’ in 1986-1987. Although Irish leaders’ ideas and communicative discourse were similar to those of Thatcher with regard to the necessity of neo-liberal reforms in macro and microeconomic policy, and the state similarly unitary, with a capacity to impose their ideas, their approach to the labor markets did not follow the British pattern. Thatcher was an ideological leader who engaged in no coordinative discourse with labor as she radically decentralized the labor markets, crushing the unions and then instituting legislation to keep them down, claiming that they were the problem. By contrast, Irish leaders were highly pragmatic as they instead enlisted the collaboration of unions through social pacts. At the same time that they engaged in an elaborate coordinative discourse with a wide range of groups, they developed an elaborate communicative discourse to the general public in which they presented globalization as a non-negotiable constraint in order to ensure wage restraint and to reinforce the corporatist cooperation between labor, management, and government (Hay and Smith 2005). In the negotiation process for the social pacts, the coordinative discourse brought in a wide range of stakeholders in an elaborate process that has sometimes been termed ‘deliberative democracy,’ involving a ‘four room’ negotiating procedure—with a main room consisting of the main employer and trade union associations; a business room of those not involved in pay negotiations such as the Chamber of Commerce and Small Firms Association; a farming room; and a community room representing the voluntary and community sector—with bilaterals held between the different rooms, coordinated by the Prime Minister’s office (Teague 2006).

Significantly such negotiations were preceded by a strategic document developed outside the hard bargaining arenas of government buildings, in an epistemic community, which in turn facilitated the emergence of a coordinative discourse on the economy focused on maintaining Ireland’s competitiveness in a global market. The interactive processes were key not only to reaching common understandings, however, but also to provide the Prime Minister with a strategic management tool for the economy, by getting a ‘buy-in’ from labor (Regan 2010). The countless numbers of actors at the local level as well as the national involved in deliberative interactions, not just the social partners but civil society in the form of different community groups, public interest as well as other kinds of interest groups, also ensured the widest possible consultation process. These wide-ranging discussions provided the government with a resource for ideas and a platform for designing best practice policies that also fed into the formal bargaining process at the national level, as these groups formally came together (Regan 2010, 2012). But it also served as the basis for the government’s legitimating communicative discourse to the general public, which was reinforced by the fact that a wide range of citizens had already bought into the agreement as members of discursive communities in the coordinative discourse of policy

creation. Thus, even if one were to argue that some of the consultations did not yield much in terms of concrete policy, they were still useful as the legitimating tools of deliberative democracy (Teague 2006).

Most significantly, however, in the aftermath of Ireland's major economic crisis, social partnership negotiations collapsed in January 2009. This is at least in part because, unlike the negotiations from 1987 on, the talks were not preceded by a process of communicative exchange that led to shared agreement on the key issues, as embodied in a strategy document on national recovery. Moreover, the state-led nature of the social pacts, dependent upon the political executive, together with the voluntary and exclusive nature of Ireland's corporatist wage pacts, had weakened the power resources of labour and enabled the government to pursue a neoliberal strategy of adjustment at a moment of crisis (Regan 2012).

## **B. Coordinated market economies: Germany and the Netherlands, Sweden, and Denmark**

The trajectories of coordinated market economies have been very different between Continental European Germany and the Netherlands, as traditionally conservative welfare states, and Nordic Sweden and Denmark, as long-standing social-democratic welfare states. And yet, here too, the processes by which neo-liberal reforms have been coordinated and communicated provide some crosscutting comparisons. In coordinated market economies, governments generally do not have a choice with regard to pursuing coordination because the social partners are by definition part of the negotiation process in the work and welfare arenas. This has been the rule for Germany and Denmark, despite differing results with regard to the uptake of neo-liberal ideas and discourse. That said, where the social partners withdraw from the negotiation process, governments may decide on their own, although they generally do this either with the tacit approval of the social partners, or find alternatives via other kinds of consultations in the coordinative policy sphere or in discussions with civil society in the communicative political sphere. This has been true for both the Netherlands and Sweden —with again differing results.

### **1. Germany and the Netherlands**

In Germany, reform of both work and welfare was the product of a mix of ideational policy and political entrepreneurship, although the discursive interactions in the coordinative sphere tended to be the key to success (Schmidt 2009: 536-7). In the 1990s, most reform efforts were stymied by a stalemated coordinative discourse characterized by diverging ideas pitting management against the unions. Management increasingly favored neo-liberal reforms to promote labor market flexibility and rationalize pensions; the unions resisted such reforms, blaming European Monetary Union and macroeconomic policy for the lack of economic growth. In the early 2000s, however, the stalemate was overcome with the Hartz IV reforms. This marked a revolutionary change the effects of which are still being felt.

The ground for the Hartz IV reforms was prepared by a communicative discourse in which neo-liberal ideas were brought in from the outside, first by business in the main employers' organization, the BDI. This then became part of a more generalized communicative discourse as government leaders began espousing more liberalizing ideas which were then picked up in the media and, at a time of public concern about continuing high unemployment, served as a spur to Chancellor Schröder's decision to go ahead with the Hartz reforms of pensions and labor markets (Schmidt 2002a, 2002b; Kinderman 2005). The resulting reforms were extensive. But their successful negotiation cannot be attributed to Schröder himself, who failed to articulate a sufficiently legitimating communicative discourse about the reforms —in particular since he offered no normative arguments regarding the merger of unemployment compensation and means-tested social assistance into a single system, a development which violated the public's basic beliefs about the appropriateness of an insurance-based system. The absence of a cohesive set of ideas or 'frame' helps explain the tenuousness of the reform, and its subsequent partial reversal (Bosenecker 2008). But Schröder's persistence in the face of plummeting popularity ratings and public discontent earned him some grudging respect, while it allowed time for the coordinative discourse among social partners and ministers to produce significant results.

This success can be attributed in large part to the pragmatic ‘ideational leadership’ of particular ministers in Schröder’s government, who ‘framed’ the terms of the coordinative discourse with the social partners (Stiller 2010). But it also resulted from the creation of a new coalition of political parties and corporate actors representing groups with very different interests who agreed to a package of reforms that balanced positive and negative effects, thereby producing a compromise appeal to interests (Häusermann 2010). The question remains open as to whether government ministers acted more as ideational leaders with the flow of ideas coming from top down, from ministers to the unions, political parties, and business associations, or as ‘brokers’ of ideas, from top to top, through a kind of participatory empowerment among all of these groups in the negotiations and deliberations (e.g., Fung and Wright 2003)? Such a process of arriving at common agreement on ideas could alternatively be described as one that involves ‘common knowledge creation’ through reasoned argument about cause and effect, as Culpepper (2008) suggests in the cases of the creation of social pacts in Ireland as well as in Italy (discussed below).

But whatever the process of negotiation, the result is that German workers generally not only opened a breach in the labor market that allowed the tremendous expansion of part-time and temporary jobs in the name of flexibility, they also accepted massive wage restraint with the goal of bringing the country back to competitiveness, so much so that they effectively ended up with no real wage growth across the first decade of the 2000s (Streeck 2011). This set the stage for German public opposition to the bail-out of Greece, on the grounds that ‘we Germans save’ and are hard-working, as opposed to ‘the lazy Greeks,’ which was the public discourse throughout early 2010, prior to the loan guarantee agreement in May. It was only beginning in 2011 and 2012 that the unions themselves began pressing for their fair share, seeing the continuing profits of the corporations. But whether this means the negotiation of new social pacts remains to be seen.

The Netherlands followed a different trajectory of reform, starting much earlier than Germany, and developing more incrementally, beginning with labor reform in the 1980s, welfare in the 1990s. Most notably, the Netherlands had suffered a total breakdown in its system of wage-negotiation in the 1970s. In the early 1980s and continuing into the early 1990s, however, labor became more willing to negotiate adjustments in wages and work conditions to the benefit of industry. This began in response to the arrival of the “no-nonsense” coalition government of Christian Democrats and conservative Liberals in 1982, with an ideological ideational leader at the head of government. The declaration of Prime Minister Ruud Lubbers that the government “is there to govern,” with or without the social partners’ consent, helped precipitate the Wassenaar agreement, which ushered in a new era of “responsive corporatism” with social concertation and wage restraint. With this responsive corporatism, moreover, came a coordinative discourse that continued through the 1990s, serving as the primary manner in which wage restraint was maintained, wage negotiations decentralized, and work conditions made more flexible. By contrast, during this same period, in the welfare domain, the government engineered “corporatist disengagement” by progressively diminishing social partners’ powers and responsibilities over the administration of social programs on the grounds that the coordinative negotiation process had contributed to immobilism (Visser and Hemerijck, 1997; Schmidt 2002b).

Although there were moderate cutbacks in welfare state funding in the 1980s, the truly radical liberalizing reforms that reorganized the welfare system, under governments that now included the Social Democrats, came in the early 1990s, and these were not popular. The crisis narrative about the “tough medicine” that Prime Minister Lubbers, in a televised speech in 1989, claimed was necessary for such a “sick country,” where one million of its seven million workers were out on disability insurance, did not go down well with either the unions, which organized the largest protest in the postwar period, or the general public, which saw the reforms as an attack on established rights—and which voted the government out of office in 1994 (Visser and Hemerijck, 1997; Kuipers 2004). But this did not stop the subsequent left-Liberal government under Prime Minister Wim Kok, who was more of an opportunistic ideational leader (Marx and Schumacher 2013), from continuing with the unpopular reforms. His coalition nevertheless won a resounding victory in 1998. This was not only because of the success of the policies in getting people back into gainful employment that Prime Minister Kok vindicated with a cognitive discourse claiming they had generated “jobs, jobs, and even more jobs,” or the fact that the Dutch social welfare system remained

reasonably generous (Hemerijck, Visser, and Unger, 2000; Green-Pedersen *et al.* 2001). It was also because of the government's communicative discourse, which made the normative argument that they were safe-guarding social equity even as they produced liberalizing efficiency, for example, by attacking inefficient inequities such as paying disability to the able-bodied even as they sought to balance out the possible negative effects of wage restraint through compensatory, targeted tax breaks for low-wage workers (Levy, 1999; Green-Pedersen *et al.* 2001; Schmidt 2002b, 2003). Since then, governments have continued broad-scale liberalization programs while the economy has prospered, such that the public has come to see economic success as linked to neo-liberal reform and, despite economic stagnation in recent years, continues to support it as well as to maintain a positive attitude toward globalization. Its siding with Germany on austerity policies and harsh conditionality for countries that used the loan bailout funds until at least late 2012, when a new coalition came to power, is testimony to the hold of neo-liberal ideas and discourse not just on labor but on the citizens generally. That said, as the centrist coalition continued to advocate further rapid deficit reduction through public sector wage freezes and general tax increases — only putting off to 2014 reaching 3% deficit (at 3.3% in 2013)— the labor unions finally resisted, describing the cuts as “stupid and ill-advised” (*Financial Times* March 3, 2013), and resisting the Labor Party's urging to take part in discussions about the cuts “to seize the opportunities offered by the new measures to stimulate the economy” —which, as Simon Wren-Lewis (2013) has noted, is a bit like “asking the Christmas turkey to talk about recipes for the stuffing”.

## 2. Sweden and Denmark

Sweden and Denmark, as social democratic welfare states, had significantly different experiences from those of Germany and the Netherlands, but also from one another with regard to the negotiation of reform in work and welfare. In the case of welfare reform in Sweden in the 1990s, for example, the ideas for change emerged from a coordinative discourse that was highly restricted, consisting of an epistemic community of specialized politicians and policy experts alone because the famous concertation among business, labor, and government no longer worked for such macro-level reforms (Marier 2008), much as in the case of the Netherlands. But unlike in the Netherlands, where the lack of consultation or communicative led to public disaffection and government defeat in the mid 1990s, the Swedish government in this same time period vetted its reform proposals through a more open communicative discourse. This involved a kind of decentralized deliberative process in which social-democratic politicians sought to build legitimacy for reform by holding meetings in local communities, listening to responses, and changing their proposals accordingly (Schmidt 2003, p. 141). Moreover, in their communicative discourse, social-democratic leaders consistently presented themselves as defending basic welfare state values of equality, even as they cut benefits in order to ‘save the welfare state’, while promising to reinstitute benefits as soon as the country's finances were better —which they did (Schmidt 2000). It is only in relatively recently, with the election of an avowedly neo-liberal center right party in power that significant changes have occurred that may have permanently undermined the social-democratic qualities of the Swedish welfare state.

Whereas in Sweden, the state had to go it alone once the social partners had pulled out of centralized national level corporatist mechanisms of negotiation, in Denmark the reform process was facilitated by the continuation of centralized coordination, enabling the state to negotiate far-reaching reforms cooperatively with the social partners. This meant that in a range of work-related reforms, the Danish state was able to successfully promote policy change through national level coordination mechanisms. With regard to wage coordination, Denmark was better able to promote wage restraint centrally and labour flexibility locally than Sweden, and this in turn enabled it to better maintain overall commitments to equality than Sweden (Vartiainen 1998). On active labor market policies, Denmark was better able to use firms in order to achieve its goals of bringing the long-term unemployed into the economy, unlike in Germany, where German firms worked through the state to achieve their goals of shedding unproductive labor (Martin and Thelen 2007). But while in the work arena, Denmark's sustained centralized policy coordination help reform success, in the welfare arena it was the lack of sustained centralized political coordination that facilitated reform. In Denmark, the constitution of shifting *ad hoc* political coalitions facilitated the minority Social Democratic government's ability to reform (Green-Pedersen *et al.* 2001).

## C. State-influenced market economies: France and Italy

The trajectories of Italy and France, as state-influenced market economies, are polar opposites of one another both in terms of their responses to neo-liberal ideas, their discourse, and the ideational leadership. France in particular has had an ambivalent relationship to neo-liberal ideas, which never gained much ground as an ideology in public opinion. Political leaders in France have therefore often used a discourse about neo-liberal constraints opportunistically, by applying its principles whenever it advanced their policy agenda. But they were equally quick to push back or even develop legitimacy claims based on the arguments of the opponents of neo-liberalism throughout the party spectrum. In Italy, by contrast, neo-liberal ideas did gain ground, in particular among policy experts, but they were rarely put into practice by politicians, even when they claimed to embrace them, with Berlusconi a case in point.

Significantly, Italy's trajectory since the postwar years has taken it back and forth between opportunistic, ideologically-divided political leadership acting mostly as a hindrance to national economic development for long stretches of time, and pragmatic technocratic leadership for short moments at critical junctures which overcame both political and institutional constraints to liberalize and modernize. By contrast, France began with ideologically united (*dirigiste*) technocratic leadership in the postwar years that successfully promoted growth via an interventionist state and then moved to pragmatic political leadership since the 1980s that liberalized as it modernized (Gualmini and Schmidt 2013).

The problem for France has been that ever since the early 1980s, French political elites have been in search of a new discourse that would serve to legitimize the country's liberalizing economic transformation in a way that would resonate with national values of 'social solidarity.' In its absence, successive governments of the left and right have more often than not justified neo-liberal policy change by reference to the challenges of globalization, while claiming that further Europeanization served as a shield against globalization, and that neither liberalization nor Europeanization would do anything to jeopardize 'social solidarity.' Governments' attempts to reform in response to the crisis of the welfare state as well as the need to meet the Maastricht criteria for the EMU were repeatedly stymied as a result of the lack of a discourse that spoke to the normative appropriateness—rather than just the cognitive necessity—of reform (Schmidt 1996, 2002 Ch. 6). That said, reforms that political leaders had difficulty legitimating to the general public they sometimes successfully brokered nevertheless with the social partners (Palier 2005). This was the case with Prime Minister Balladur's reform of private sector pensions in 1993 that lengthened contribution time and lowered benefits, to which the social partners agreed on the basis of an 'ambiguous consensus' that balanced positive and negative benefits (Palier 2006; Häuserman 2008). Consensus occurred despite the general absence of any communicative discourse to the public about reforms that were floated as 'trial balloons,' to be quickly withdrawn in the case of negative response (Levy 2000). By contrast, the 1995 attempt by Prime Minister Alain Juppé to impose reform of public pensions and of the 'special regimes' of the railroad workers was met by massive protest, as the highly unionized public sector, supported by the sympathetic public, paralyzed France for over three weeks. Here, the problem was not only entrenched interests but also that Juppé engaged in almost no discourse at all, whether communication to the public or coordination with the social partners.

Interestingly, even when the Socialists in the late 1990s finally did come up with a discourse that served to legitimate reform by balancing cognitive arguments about efficiency with normative arguments about equity—for example, by claiming 'neither to soak the rich nor let them shirk their obligations' with regard to tax reforms—they did not tackle the major pension problems for fear of protests (Levy 1999; Schmidt 2000). But this did set the stage for public acceptance of Prime Minister Raffarin's major reforms of public sector pensions in 2003, despite his minimal communicative discourse, because of an extensive coordinative discourse again balancing positive and negative benefits (Natali and Rhodes 2004; Palier 2006; Häuserman 2008). Notably, President Sarkozy's success with the 2007 reform initiative on the special pension regimes that had failed so dramatically twelve years before can be explained in large part by his ability to reframe the issue in a communicative discourse that resonated with the concept of equality central to the French republican tradition, with a normative

argument insisting that equality of treatment demanded that railroad workers retire like everyone else after 40 years of employment (rather than at age fifty for railroad conductors). The power of the discourse was such that union leaders themselves acknowledged to the media that the most they could do was engage in rearguard action with a communicative discourse focused on those whose ‘difficult work’ entitled them to earlier retirement, and accept coordinative negotiations in which they hoped to recoup their losses through side-payments in exchange for labor peace (Schmidt 2009).

Only with the return of the Socialists to power in 2012 has major renegotiation through social pacts occurred, with an agreement signed by the social partners in January 2013 (to be voted on by the French Parliament in the spring) that introduces greater ‘flexicurity,’ building on Danish ideas. This is to allow companies in trouble to negotiate reduction in working hours (through flex time) and wages for up to two years as well as to reassign workers and to have caps on laid-off workers’ labor court awards in exchange for paying more of lower wage workers’ health care costs, a payroll tax surcharge on short-term hiring (to discourage it), a workers’ representative on the boards of major enterprises, and retention by laid off workers of their accumulated unemployment benefits when they returned to work (to reduce incentives to stay on the dole). Even more importantly, whereas Peugeot decided to lay off workers and close a plant with little social concertation, to much criticism from the government, Renault reached a ‘historic’ (because consensual) agreement with all unions other than the CGT in which 17% of its workers in France would be laid off over three years, all workers would have a wage freeze, and a longer work week (up from 32 to 35 hours) in exchange for no plant closures before 2016 and an increase in the numbers of cars manufactured (*Financial Times* March 13, 2013).

Thus, France’s reform trajectory tended to be incremental, as the ‘strong state’ actors of this simple polity and state-influenced market economy proved weak with regard to coordinating reform efforts with the social partners, let alone communicating their legitimacy to the general public. In comparison, Italy was able to engage in major reform only at critical junctures, when the ‘weak state’ actors of this compound polity and ‘state-hindered’ market economy were replaced by technocratic elites who managed to institute major reforms in the mid 1990s, after the collapse of the postwar Italian party system following the demise of the Soviet Union, and again in the late 2000s, in the midst of the Eurozone’s sovereign debt crisis.

Italy was able to put through major reforms in work and welfare in the 1990s, as it sought to join the European Monetary Union on time, by mustering both a successful coordinative discourse with labor and a communicative discourse with the general public. Italian leaders’ communicative discourse spoke to the cognitive necessity of reform by invoking the EU as a *vincolo esterno* —the external constraint or, better, ‘opportunity’— along with the normative appeals to national pride in making the sacrifices required to ensure that Italy joined EMU from the start (Radaelli 2002: 225-6) and to social equity —to end unfairness and corruption as well as to give ‘*piu ai figli, meno ai padri*,’ more to the sons, less to the fathers, so as to ensure intergenerational solidarity (Ferrera and Gualmini 2004; Schmidt 2000). This communicative discourse was accompanied by an equally effective coordinative discourse with the unions that at various junctures engaged not just national union leaders with business and government in tripartite discussions but also the entire union rank and file in deliberations that culminated in a referendum that ensured that opposing union members would accept the ‘procedural justice’ of the vote, and therefore not stage wildcat strikes, as they had in the past (Ragini and Regalia 1997; Locke and Baccaro 1999).

Under the center right governments of Prime Minister Berlusconi, by contrast, both in his short tenure in 1994 and his longer ones from 2001 to 2006 and between 2008 and 2011, did none of this. Instead, he used a communicative discourse to the general public to accuse all of the left, and by extension the unions, of being communists, and had little productive coordinative discourse. As a result, his attempts to impose policies failed time and again in the face of union strikes. Moreover, what few measures that were taken were done with no coordinative discourse with the social partners —unlike in the 1990s— nor with the Parliament because of the “command and control” decision making style of the Premier on the one side, and the rigid European budgetary constraints on the other (Gualmini and Schmidt 2013). Only with the one-year technocratic government of Mario Monti did concertation return, as the coordinative discourse with the social partners led to major adjustment in the pension regime and

with regard to labor market flexibility under the existential threat of the markets and the pressures of Eurozone governments, which Monti repeatedly mentioned in his communicative discourse to legitimate reform. But while the reform efforts were reasonably successful, they appeared less and less legitimate as the public became increasingly disenchanted.

## D. Emerging market economies: Brazil and South Africa

Arguably the best comparative cases among emerging market economies are Brazil and South Africa, since both undertook recent reforms of work and welfare. The difference is that whereas Brazil's reform process led to new and productive forms of coordinative and communicative discourse on work and welfare that helped produce a new sustainable universal social security system based on 'fiscally sound social inclusion' (Alston et al. 2013), in South Africa the results were not as positive.

In Brazil, the institutional bases for work and welfare reform were already laid with the Constitution of 1988, which established a universal set of social rights for all citizens. But this did not guarantee their implementation, given economic constraints related to the macroeconomic adjustment agenda and resistance by powerful actors (Fleury 2011). And yet, by the late 2000s it was clear that Brazil had undergone a decisive shift in beliefs society wide in which agreement on the importance of 'fiscally sound social inclusion' had produced highly positive results, even if the substantive process of getting there had involved 'dissipative inclusion,' in which redistribution and socially inclusive policies were accompanied by distortions, inefficiencies and rent dissipation (Alston et al. 2013). The interactive processes that produced such results involved both bottom up and top down interactions.

With regard to bottom up interactions, in addition to the democratization pressures from citizens that resulted in the Constitution and its commitment to universal social rights, labor unions and social movements were also key actors (Fleury 2011). For example, social movements played a particularly important role in promoting the development of universal public health care, once 'subversives,' consisting of the *sanitario* social movement activists with over-arching ideas about the need for universal health care delivered in a decentralized manner, managed to infiltrate the bureaucracy and to persuade even authoritarian governments to layer on new rules (Falletti 2009; see also Fleury 2011).

Labor also played a major role in pushing for greater social inclusion, and this was facilitated equally by pressures from above, with the election of President Lula beginning in 2002. While labor in the neo-liberal period of the 1980s through the mid 1990s remained largely outside the circuits of power, as it negotiated with management for a piece of the pie, in the 2000s under Lula it was incorporated into those circuits, as union leaders were named as heads of major public enterprises, as labor was included in the policy formulation process, and as labor pension funds became a key actor in the financial markets (Boschi 2013). President Lula, moreover, could be seen as a pragmatic 'ideational entrepreneur' whose philosophical ideas about social justice and the policy program to bring it about through jobs, training, and welfare were successful not just because they worked but also because he was first able to persuade big business and the rising middle classes that although these reforms would make the rich pay more in taxes, it would boost productivity, income, and prosperity for all. Once this happened, moreover, the entire population became convinced, including the poor who were now finding jobs and had money in their pockets to spend, thus boosting consumption and increasing wealth (Boschi 2013).

President Lula not only had a persuasive communicative discourse of social justice and economic reform that resonated with the citizens and business, however. He also created the conditions for a coordinative discourse that included labor in the development of policy. Although for some this seemed a return to authoritarian corporatism, it was actually a way to create a more inclusive policy community, in which a new channel of communication was opened up with civil society, as represented by labor unions. At the same time in another venue, the high level CDES (Council of Economic and Social Development) constituted an inclusive consultative body focused on the creation of consensus while establishing guidelines for development and guiding principles for the different spheres of government. Finally, under the new President Dilma Rousseff, a further coordinative effort to improve economic performance by creating a Chamber for Competitiveness in which business would gain from discursive interaction with academics and experts (Boschi 2013).

South Africa makes for an interesting case with regard to labor because it sought to create a coordinated market economy or corporatist kind of relationship between business and labor in the 1990s, and failed. The problems were with both the unions and business, and this despite the fact that South Africa had developed a reasonably successful coordinative discourse in certain cases that, rather than top down, was very much bottom up as the ideas were developed in the negotiating process (Natrass 2013). With regard to political economic reform in particular, the restricted coordinative policy discourse that had been limited to the ANC opened up to more social democratic and neoliberal formulation through a process in which ideas were shaped through active discussion, deliberation, and contestation with economists, political strategists, international institutions, and others. The ideas themselves came out of several high-level 'scenario planning' exercises that made policy makers much more concerned about issues related to macro economic stability than they had been heretofore and in the end also became collectively 'owned' as a common set of shared ideas. Although they did not translate entirely into the communicative discourse of all political elites in the public arena (given Malema's calls for nationalisation of the mines), it was nevertheless the case that Malema was himself constrained by having to accept a market system. He had to give up on 'socialism' per se and instead engage in arguing about the role of the state and the kind and degree of redistribution that was appropriate. Importantly, as part of this process, President Mandela also acted as an ideational leader when he reversed his position on nationalization after going to China, when the new Chinese leader Li Peng said—and he repeated everywhere in a highly effective coordinative discourse with the ANC and in communication with investors— 'I don't understand why you are talking about nationalisation. You're not even a communist party. I am the leader of the communist party in China and I'm talking privatisation' (Green, 2008: 345-6-cited in Natrass 2013).

The coordinative discourse with the labor unions did not work as well, in particular because they did not buy into the results of the coordinative discourse on macroeconomic and industrial policy. Despite the significant influence of social democratic ideas circulated by think tanks and experts coming from advanced industrialized countries like Germany, Austria, and the US in the early 1990s, the coordinative discourse between government and trade unions failed. This is because labor stuck to its ideas of class conflict, and claimed that the government had sold them out with regard to its turnaround on economic policy. They continued to push for 'decent work', and wanted a 'developmental state.' So the government compromised by giving unions control over labor policy and increasingly over aspects of industrial policy. While this was politically beneficial, improving stability and labor relations, it was not economically, as 'dissipative inclusion' was highly dissipative, as wages grew more quickly than productivity, and thereby decreased the country's competitiveness.



## Conclusion

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Social pacts since the 1980s have altered the landscape of work and welfare in advanced industrialized and emerging market economies. This has resulted not just from the increasing importance of neo-liberal ideas or from the pushback of social democratic ones. It has also resulted from the interactive processes of discourse through which policy actors coordinated agreements on reforms of work and welfare and political actors communicated about these. Discourse, in short, always matters, for better or worse in social pacts on social protection.



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