

TRADE-OFFS AND VETO PLAYERS: REFORMING PENSIONS IN FRANCE AND ITALY

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France, like other European countries, has faced growing challenges to its welfare state. Pensions in particular have been at the core of the public debate on recasting its 'social model'. This article analyses reform processes in the 1990s and early 2000s to explain 'how France reforms pensions'. While in other Bismarckian welfare states with pay-as-you-go pension systems, reform is usually undertaken via concertation, in pluralist France it is formulated by the government alone. Yet even in the French case of state-led policy-making, where the institutional preconditions for corporatism are weak, the political élite needs to adopt a consensual approach to overcome trade union veto powers. The Balladur pension reform of 1993 is used to explore this apparent contradiction between a unilateral approach and a consensual style, with an extension of the argument to the 2003 Raffarin reform. A comparison with Italy – a case of consensual, concerted pension policy-making - sheds light on 'la voie française' to distributive policy reform.

1. Introduction

Over the last two decades, the French welfare state, like those of other European countries, has faced considerable challenges. Due to growing financial strains, an inequitable distribution of costs and benefits between generations and socio-economic groups, ineffective responses to new forms of social exclusion, and problems of economic competitiveness, pensions have been at the core of public debates on recasting welfare.

As elsewhere, reform has proven difficult to achieve. For as in other Bismarckian welfare systems with pay-as-you-go (PAYG) pension systems, the pension policy network has been 'over-crowded', with multiple political and social actors, pursuing different reform priorities, all contending to influence the policy process and its outcomes. In order to implement a reform which responds effectively to new system demands and pressures, political élites have to secure the acquiescence of potential veto players, principally the trade unions. In doing so, policy-makers must engage in distributive reform, which inevitably triggers sometimes bitter social conflict, while also building consensus for its passage into law and eventual implementation.

In this article, we analyse a decade of pension reforms in France and Italy to show how policy-makers in countries with similar social systems and problems have adopted quite different strategies to neutralise vetoes and pass reforms. The comparison between France (the central case) and Italy (a shadow case) allows us to focus on two divergent modes of policy-making: pluralist in the first and corporatist in the second. French pension politics are 'special' among Bismarckian systems in that they are characterised by both a paradox and a dilemma. The *paradox* relates to a labour movement that is too

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strong to be isolated in the pension policy network, but too weak and fragmented to participate in concertation. The subsequent *dilemma* for policy-makers stems from the need to neutralise union opposition, and build support for reforms, in a country that lacks the institutional preconditions for corporatism.

For as revealed by the experience of pension reform successes and failures in the 1990s, even in a case of state-led policy-making such as France, the political élite must adopt a consensual policy-making style to overcome trade union vetoes. While in most of Europe a consensual approach will typically proceed via negotiations with the social partners, in pluralist France it is pursued without their active participation. An analysis of the French reform process will explain the apparent contradiction between a consensual policy style and a unilateral policy-making process.

But first we engage with the literature on pension politics in France and seek to strengthen our conceptual understanding of relations between the state and organised interests. Recent contributions have usefully identified certain key traits of the French reform process, but underestimate the capacity of political leaders for building consensus in the absence of conventional forms of concertation. We argue that terms such as ‘concertation’ and ‘quid pro quo’ have been misused to characterise a system that remains essentially pluralist in form. Equally, attempts to explain the French reform process in terms of a particular policy-making ‘style’ or ‘method’ have been imprecise and theoretically under-developed. We innovate in our use of both the neo-corporatist and policy style approaches to provide a new understanding of how French governments undertake distributive policy reform.

Part two of our analysis presents the main challenges to pension programmes and the characteristics of the ‘crowded’ pensions policy network, identifying the sources of trade union veto powers. Part three explains the divergent reform pathways in our two countries. A contrast between ‘pluralist’ France and ‘neo-corporatist’ Italy helps us understand why the former has had to implement pension reforms unilaterally, while the latter has proceeded via concertation. Combining insights from the ‘neo-corporatist’ and ‘policy-making style’ perspectives, we explain how French policy-makers were able to resolve their policy dilemma. We define their solution – a unilateral approach to reform that nonetheless accommodates the preferences of organised interests - as a *pre-emptive trade-off*. This we contrast with the genuine *quid pro quo* achieved in Italy.

Part four illustrates this contrast in detail by examining the successful reforms adopted by the Balladur and Dini governments in France and Italy respectively. A consensual policy style, though procedurally quite distinct in each case, has been decisive for recasting pensions. Part five analyses two reform failures. Both the Juppé proposals in France and those of the Berlusconi government in Italy demonstrate the folly in these countries of imposing reform on the labour movement. Strategies of outright confrontation prove counterproductive, while consensual approaches and trade-offs enlarge the space for reform. In part six, an extension of the analysis to the 2003 Raffarin reform serves to bolster our argument. Part seven concludes.

2. Context: Reform Pressures and the Pension Policy Network

At the beginning of the 1990s, both France and Italy were confronting similar economic problems due to low growth, high unemployment and difficulties in meeting the criteria for joining Economic and Monetary Union (EMU)². Financial strains on the welfare state had been steadily increasing.³ The situation in pensions was especially alarming: the deficit of the French basic pension scheme had reached 39.5 billion FF by 1993 (Bonoli 2000), while in Italy, an enormous public deficit and debt overhang demanded cost-containment and extensive public sector reform.

Like their European counterparts, France and Italy had also to address the potentially negative impact of rising welfare spending on economic competitiveness, and the inability of traditional policies to respond to new forms of social exclusion (Ferrera and Gualmini 2000; Palier 2002). And while large and expensive, both welfare systems had also created their own inequities due to an uneven distribution of benefits and costs. This is particularly true of pensions. While in Italy these inequities have occurred between occupational categories, the French system has produced less-visible intra-category inequities (Natali 2002). A further issue in the French pension debate concerned the management of social protection schemes. Policy-makers identified the managerial role of the social partners as a source of inefficiency and a stumbling block to reform, thereby increasing tensions between the government and the unions.

This latter issue is far from being restricted to France. Because the social protection institutions inherited from the past have provided social actors with particular resources of power, in most of Europe's Bismarckian pension systems, policy-makers have sought to neutralise the actual or potential opposition of trade unions as the first step towards reform. Notwithstanding the strength of the state and the organisational weakness of its social partners, the French statist model is no exception: trade unions play a decisive role in the pension network and on occasion can exert their veto power over policy.

This power derives from several sources. Union coverage (that is the proportion of employees covered by collectively bargained contracts) remained high in the mid-1990s at 82 per cent in France and around 70 per cent in Italy. This bore testament to the persisting institutional power of trade unions over wage setting, and, more generally, to their role as a countervailing force to both the state and employers in economic governance (Boeri et al. 2002). Moreover, as in several other countries belonging to the Bismarckian model, the social partners co-manage social insurance programmes. This function gives the labour movement an institutional stake in the system and delivers important social, symbolic and material resources to their leaders as policy actors. These include an ideological legitimacy and status as the defenders of acquired social rights, as well as other more concrete gains and benefits, such as financial resources and administrative employment (Bonoli 2000).

The ageing of trade union membership may be a sign of growing union weakness, and testifies to union failure to recruit among younger generations of workers. But it also

² Against a Maastricht convergence target of 3 per cent, the deficit-to-GDP ratio in France in 1993 was 5.8 per cent, while in Italy it stood around 11 per cent.

³ The deficit of the main French social insurance scheme (*Régime général*) was around 2 per cent of its resources from 1981 to 1986, between 0.2 per cent and 1.5 per cent from 1988 to 1992, and around 5 per cent from 1993 to 1996 (Palier 2002).

provides yet another source of union power in the pension policy network. Non-active workers represent a significant proportion of the unions' contemporary rank and file. In France, non-active members accounted for 25 per cent of total union membership in the 1990s, the majority consisting of pensioners. This was a larger proportion than in any other European country apart from Italy, where 47 per cent of union members are currently non-active.⁴ In France, special pensioner sections of the union confederations are particularly powerful in key sectors such as energy and the railways (Visser 2000), and mature cohorts of workers have exerted a steadily growing influence over the labour movement's social policy agenda.

Finally, despite their declining membership, the unions have retained enormous potential for social mobilisation, successfully organising large-scale protests in reaction to pension reform proposals. In France, a massive strike wave was organised against the Juppé Plan in 1995, while in Italy, confederal unions led street-level protests against the Berlusconi government and its pension reform plans in 1994. The reforms were shelved in both cases.

Unions therefore retain substantial voice in the pension policy network, with the power and potential to impose a veto on reforms. Although typically not understood to be veto players in the classical sense (e.g. Tsebelis 2002; Jochem 2003), we argue, following Béland (2001), that under certain circumstances – as in Italy and France in the 1990s and early 2000s - trade unions do act as 'ideological veto players'. Although lacking formal veto powers in the policy-making process, and even in the absence of a policy linkage with formal veto players (e.g. political parties which may or may not lend support to union demands), they are entirely capable of blocking or shaping reform. Governments can work with them or around them, but they ignore them at their peril.

3. Pension Politics in France: A New Conceptual Approach

Why, given similar pressures for change and crowded policy networks, have France and Italy taken two different pathways to reform? French particularity can be portrayed in terms of a *paradox* and a *dilemma*. The first is related to a labour movement that is simultaneously too strong to be isolated but too weak and fragmented to be included in a social policy pact. The second consists of the need for policy-makers to gain the acquiescence of trade unions even in the absence of the institutional preconditions for concertation. Reform would appear to be blocked, social conflict the norm and the welfare landscape 'frozen'. Nonetheless, reform does occur.

The contemporary literature is unable to explain how French policy makers respond to this dilemma. Some analysts (e.g. Baccaro 2002a; Culpepper 2002) have attempted to innovate within a neo-corporatist approach. Others (e.g. Vail 1999; Bonoli 2000; Levy 2001) have rather loosely adopted concepts such as policy 'style' or 'method'. None have fully succeeded in explaining the '*la voie française*' to reform.

Baccaro considers France to be an example of welfare innovation negotiated with the unions, and portrays the Balladur pension reform of 1993 as a peak level agreement between social and political actors. But his interpretation roundly contradicts the

⁴ By contrast, in Sweden this ratio was just 15 per cent in the same period (Boeri et al. 2002).

conventional understanding of France as a ‘low corporatist case’ (e.g. Compston 1998) and fails to convince in revising this assessment. The problem seems to be an imprecise definition and misuse of the concepts of concertation and neo-corporatism. We return to this issue below.

More conventionally, Culpepper draws the opposite conclusion from the Balladur case, explaining that, due to their low organisational resources, French trade unions are far too weak to take part in a genuine social pact. Concertation ‘à la française’ is therefore heavily constrained. Culpepper rightly contests Baccaro’s portrayal of the Balladur reform as ‘a victory for concertation’. But, as we argue below, his argument that it was simply imposed on the unions from above is more problematic. The Balladur reform, he asserts, was approved by Parliament because of the particular weakness of the private-sector unions at which it was targeted. The subsequent 1995 Juppé Plan failed because it targeted their more powerful public-sector counterparts instead. Culpepper argues that even had Prime Minister Juppé sought to create a broad consensus for reform, he would have failed because of the unions’ lack of informational resources and their insufficient ‘dialogic capacity’.

But while successfully demonstrating the persistent pluralist nature of French pension politics, Culpepper exaggerates in denying a role for the unions in the Balladur reform. Nor is it possible, following Culpepper’s approach, to explain why some political leaders have been able to build a consensus for reform while others have conspicuously failed; or, indeed, how French policy-makers could ever introduce a pension reform against the veto powers of the public-sector unions. How, then, do we explain the Raffarin reform of 2003, which did precisely that?

Other analyses focus on the French ‘policy-making style’, arguing that, while French welfare policy continues to be statist in orientation, governments have nonetheless sought to build support for reforms. In contrast to Culpepper, Vail and Levy both acknowledge the consensual nature of the Balladur reform. Vail refers vaguely to ‘state capacity’ in retrenchment politics, stressing the importance of substantive and stylistic choices if policy makers are successfully to avoid blame. Levy labels direct negotiation between political leaders and the street ‘*la méthode Balladur*’ – a strategy that succeeded with pensions yet ultimately failed as the basis for a wider programme of reform. Neither, however, precisely defines policy ‘method’ or ‘style’; nor can they explain the apparent paradox of a ‘consensus-oriented’ approach in the absence of formal concertation. Both emphasise the problems faced by the French *dirigiste* state in adopting ‘blame avoidance’ strategies, the frequently purported *sine qua non* of the ‘new politics’ of welfare (Pierson 1996; 1998). Yet, as we argue below, even in France political and social actors can diffuse blame and sometimes claim credit if their preferences are effectively accommodated by trade-offs.

Finally, combining elements of both the neo-corporatist and policy style perspectives, Bonoli (2000) uses the term *quid pro quo* to describe strategies for neutralising (rather than co-opting) potential policy opposition. Synonyms such as ‘corporatist-like’ process and ‘consensual strategy’ are used to account for successful reforms in France. But was the Balladur reform a *quid pro quo* in terms of its style or its content? Did the informal interaction between policy-makers and trade union experts consist of a dialogue with substantive effect; or was it just a tactic with no major implications for the final reform? Like Baccaro, Bonoli fails to bring precision to his concepts. And in common with Vail

and Levy, his analysis fails to distinguish between the style, mode and content of policy-making. Reform substance and procedure are thereby confused, and the particularities of French pension politics obscured.

Bringing Conceptual Precision to the French Case

The obligatory first step in improving our understanding of French policy making is to return to the canons of the literature on the state and organised interests. A critical weakness in many analyses of French welfare reform is an imprecise usage of the concepts of concertation and *quid pro quo*. Can France even be described in corporatist terms?

Neo-corporatism is traditionally defined as both a system of interest intermediation and a mode of policy-making (Lehmbruch 1979; Schmitter 1982)⁵. As a system of interest intermediation, it is based on a limited number of singular, compulsory, non-competitive, hierarchically-ordered and functionally-differentiated interest organisations. In its polar opposite – pluralism – there exists an unlimited number of competing and freely organised groups (Martin 1983). As a mode of policy-making, neo-corporatist concertation consists of co-operation between organisations and the state for the articulation of interests, the allocation of values and the implementation of policy decisions. Major interest organisations are incorporated within the policy process as recognised, indispensable partners and are made co-responsible for the implementation of decisions (Schmitter 1982; Regini 1984). By contrast, pluralist (or pressure) politics prevail when the affected interests remain outside the policy process as consultants or combatants; and policy is implemented by the public authorities.⁶

How does France stand up against these definitions? In the 1990s, France had the lowest union density (the ratio of union members to employees) in Europe at 8 per cent (Labbé 1996). Multiple peak-level confederations and persistent ideological tensions between them have encouraged an adversarial approach to industrial relations and prevented horizontal (inter-confederal) co-ordination (Natali 2002). Vertical (intra-confederal) co-ordination is also low because of the high degree of autonomy of single unions within the national confederations, especially in the public sector. The important role played by firm-level committees of labour representatives with few links to national organisations (*listes sans étiquette*) further contributes to disorganisation (Golden, Wallerstein and Lange 1998; Mouriaux 1998). Combined with parallel weaknesses on the employers' side, this institutional fragmentation dooms to failure any attempt at broad concertation and social dialogue, demonstrating (*pace* Baccaro 2002a) that the term 'neo-corporatism' is inapplicable to France (Hall 1990).

Concertation in Italy in the early 1990s faced similar constraints but with some notable differences. Compared with France, the Italian labour movement has a higher degree of unionisation (around 30 per cent), a less acute degree of fragmentation and a lower level of ideological conflict between the major confederations (Carrieri 1994). New opportunities for concertation opened up in the course of the 1990s as a result of a

⁵ In fact, the literature on corporatism is replete with definitional disputes and complexities. For a survey and critique, see Molina and Rhodes (2002).

⁶ These polar opposites are ideal types, and concrete modes of policy-making will always consist of varying degrees of corporatism and pluralism. As argued by Schmitter (1982), the real world is almost always situated somewhere in between.

number of innovations: the introduction by union leaders of new mechanisms for increasing vertical co-ordination (e.g. the introduction of worker referenda on major collective bargaining and welfare reforms); new government measures to strengthen the role of confederal unions in the work place and reduce the challenge from independent, break-away unions; and new laws limiting the right to strike in the public sector (Rhodes 2001; Baccaro 2002b). But while Italy began to put in place the pre-requisites for concertation, thereby improving its capacity for reform, French policy-makers could not escape their pluralist dilemma: how to neutralise union veto powers in the absence of corporatist institutions?

The Politics of Trade-Offs

How have French leaders responded to this dilemma? We argue that, lacking institutional innovation *à l'italienne*, the adoption of a consensual policy style in France has been decisive for successfully realising pension reforms. As mentioned above, the notion of 'policy style' has been imprecisely used in the contemporary literature. Policy-making style has been most clearly defined by Richardson et al. (1982) as the 'standard operating procedures for handling issues which arrive on the political agenda'. More precisely, it refers simultaneously to the government's approach to problem solving and the relationship between government and other actors in the policy process. Proceeding from this baseline, we identify two different ideal-type policy styles in welfare reform in the 1990s. The first is *consensual* in that it is based on an incremental approach to problem solving (via mutual adjustment and a low level of coercion) and the government's desire to build a certain degree of consensus among organised groups. The second, opposing style, is *confrontational*, and consists in both a more active approach to problem-solving (radical change/high coercion) and government determination to impose its decisions, notwithstanding the opposition of vested interests.

As we have also claimed above, there has been a failure in the literature to distinguish between the style, mode and content of policy making. In bringing greater precision to all of these terms we have to demonstrate how each is conceptually distinct yet related to the others in the real world of policy making. We illustrate these distinctions and connections in Figure 1.

Figure 1. Style, Mode and Content in Pension Policy Making

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|----------------|----------------------|-----------------------|-------------------|
| <i>Style</i> | Consensual | | Confrontational |
| <i>Mode</i> | Corporatism | Pluralism | Pluralism |
| <i>Content</i> | Negotiated Trade-off | Pre-emptive Trade-off | Unilateral Agenda |

We use the concept of *policy-making style* to characterise the strategy of the government. Our polar opposite ideal-types are consensual and confrontational. In the first, policy-makers seek to build support for reform, but in the second they impose their agenda with no concessions to organised interests. *Mode of policy-making* refers to the form of interaction between policy-makers and interest groups – in our study, trade unions – and, in line with Schmitter/Lehmbruch, can either be concerted or pluralist. In the first, interest groups are incorporated into the reform process, while in the second they remain outside. Note that a consensual style of policy can be pursued via corporatist concertation (as in the Italian reform) or via pluralist politics (as we argue is

the case in France). We then link the style and mode of policy making to the content of reform by introducing the concept of ‘trade-off’⁷. Government agendas are imposed unilaterally through a confrontational style and a pluralist mode. But the trade-offs resulting from a consensual style can take the form either of a genuine negotiation between political and social actors (a *negotiated trade-off*) or – somewhat counter-intuitively - a unilateral approach that accommodates the preferences of organised interests (a *pre-emptive trade-off*). The latter is unavoidable when the preconditions for concertation are weak.

To explicate further, we want to stress that true corporatist concertation involves a process of political exchange in which policy priorities are ‘traded’ with one another. The notion of a *quid pro quo* can only be used in this case, and can be legitimately applied to the 1995 Italian Dini reform. Yet there is also the potential for a trade-off under a pluralist mode of policy-making, as we argue occurs under Balladur in France. Given the immense difficulty of negotiating with social partners in France, if they are to succeed with pension reform, policy makers need to pre-empt opposition by accommodating the demands of potential or actual opponents. Hence our use of the term ‘pre-emptive trade-off’. Social partners are not incorporated into the reform process as such; but instead they give their tacit or active consent to its outcome, thereby legitimising the reform and facilitating its implementation. In this respect, the ‘pre-emptive trade off’ provides a functional substitute for genuine concertation.

Finally, a word about ‘blame avoidance’. As Pierson (1996; 1998) has convincingly argued, the ‘old politics’ of welfare expansion are quite distinct in their political dynamics from the ‘new politics’ of welfare retrenchment and reorganisation. While in the former politicians could claim credit for introducing new welfare programmes and entitlements, in the latter politicians must avoid blame. This severely restricts the space for politically feasible reform. Yet we argue that trade-offs enlarge that policy space, precisely because they do allow social and political actors to claim credit. This is either because real gains can be identified (as in the case of a more equitable distribution of the costs and benefits of welfare programmes), or because social and political actors can demonstrate that those they represent would be more heavily penalised by unilateral solutions or the costs of non-reform. Of course, it is easier to claim credit from a reform when the trade-off is negotiated, as in the case of the Italian Dini reform. Balladur’s strategy was rather one of ‘blame diffusion’. But as shown by the recent Raffarin reform, even in France there is potential for credit claiming if the trade-off accommodates a certain range of preferences.

4. Reform Success via Policy Trade-Offs: The Balladur and Dini Reforms

The Balladur Reform: A Pre-emptive Trade-Off

The pension policy debate in France has long been polarised between the views of political decision-makers and those of the trade unions. In the early 1990s, all political parties (except the Communists) agreed on the means to tackle the ‘*trou de la Sécu*’: increase the number of contributory years required for a full pension, extend the period for calculating the reference salary and introduce less generous indexation formulae.

⁷ See Natali and Rhodes (2003) for a more extensive analysis of the logic of trade-offs in welfare reforms.

None of the major labour organisations shared this concern with the social budget deficit. The anarco-syndicalist *Force Ouvrière* (FO), for example, argued that the deficit was the consequence of inadequate financing by the state: establishing a clearer separation of contributory from non-contributory benefits would improve the financial equilibrium of the system. The unions claimed that the main source of the system's financial problems was the high rate of unemployment, not welfare inefficiencies. Rather than back cost-containment, the unions called for the creation of a solidarity fund, financed from taxation, and rejected the introduction of fully-funded supplementary schemes. They also sought to defend their managerial role in the social security system.⁸

For reasons discussed above, concertation between governments and social actors had always proven to be difficult. Nevertheless, in the early 1990s the Balladur government tried to adopt a consensual approach to pension reform. This strategy had two distinct phases. From the beginning of his mandate, Prime Minister Balladur formally expressed his desire for a broad collaboration between the government and social actors in recasting the French welfare system. The first tripartite meeting organised at the *Palais Matignon* at the end of April 1993 focused on the issues of social protection reform and new liberalising measures for the labour market. As a *quid pro quo*, Balladur was willing to reinforce '*paritarisme*' (joint administration by employers and employees) in social security management. Periodic meetings were also envisaged between social partners and government ministers to establish guidelines for macroeconomic management. New forms of collective bargaining in the firm were also proposed (Natali 2002).

But both FO and the communist *Confédération général du travail* (CGT) responded negatively. As demonstrated by the reaction of FO leader Marc Blondel, neo-corporatist policy-making was rejected outright and in principle: "We do not want to be part of a process defined as 'solidarity or social pact' following the Italian or the German model [...] We refused in 1983 and we will refuse again [...] To each his own" (*Force Ouvrière*, Official publication, no. 2159, 28/04/93). In response, the Balladur government adopted a 'leaner strategy' for enlarging consensus. Accordingly, in the second phase of the strategy, policy-makers aimed to develop a reform package that would not only tackle the root causes of the French welfare crisis, but also pre-empt the opposition of the unions and employers. By engaging in informal consultation with social partner experts, the government sought to obtain their acquiescence to reform rather than their explicit support.

Thus, meetings with the unions did not extend to formal negotiation or constructive dialogue. As argued by a CGT expert: "The Balladur reform was unilateral. Balladur (and Juppé two years later) tried to adopt new provisions without involving the social partners. He had a clear strategy: he exploited differences between trade unions, and targeted the reform proposals at the less-unionised private sector" (interview, Paris, 23/04/2001). Thus, the pension reform introduced in the summer of 1993 was highly consistent with the first draft proposed by the government back in May. This was not a negotiation *inter pares* but rather a case of government-led policy-making. The mode of policy-formulation was pluralist, not corporatist. And regardless of their managerial role in the system, the participation of the social partners policy making was occasional, and

⁸ There is a vast literature on the pension reform debate in France. For a review, see Bonoli and Palier (1997), Bonoli (2000) and Palier (2002).

their influence on the final reform both limited and indirect. But unlike Juppé, policy-makers did adopt a consensual style. They sought to implement change incrementally and carefully pre-empted the opposition of the unions. If a genuine social pact was impossible in French conditions, then gaining the tacit consent of the unions was the second-best alternative.

Within its pre-emptive trade-off, the government exchanged its cost-containment priorities with the defence of the managerial role of the social partners, introduced a clearer distinction between social assistance and social insurance (a key union goal), and limited the new measures to the private sector (thereby protecting the unions' core clientele). The employers obtained a reduction in social contributions to meet their concerns with the growing burden of social security funding on firms (Natali 2002). Government and employer cost-containment priorities were achieved by lengthening the period required for gaining a full pension (from 37.5 to 40 contribution years), changing the basis for calculating the reference wage, and indexing pensions to prices instead of wages. Trade union preferences were met by the creation of the *Fonds de Solidarité Vieillesse* (FSV), an old age solidarity fund financed through general taxation to pay for non-contributory pension benefits (Palier 2002). Trade union acquiescence was further guaranteed by granting greater financial and managerial autonomy to the social security funds, and strengthening the unions' role as co-managers of the system (Fromentin 1993).

All of these measures must be observed in the light of one crucial fact: the reform only referred to the *Régime général*, targeting the less-unionised private-sector workers. The more heavily-unionised public-sector workers were spared⁹. Furthermore, a long phase-in period minimised the impact of new provisions on mature cohorts of workers, a measure designed to avoid antagonising the unions and responsible for introducing a strong element of inter-generational inequality into the system. Younger workers (under-represented in union membership) bore the brunt of financial reorganisation (Labbé 1996).

Blame was diffused and the social and political costs of reform were minimised through a consensual approach, a pluralist mode of policy making and a complex pre-emptive trade-off. The price to be paid was a much less incisive reform than the government would have preferred. But at least a reform was achieved in 1993, making a significant contribution to reducing long-term pension liabilities (Palier 2002). Which is more than can be said for the more radical plan launched by the government of Alain Juppé just two years later.

The Dini Reform: A Negotiated Trade-Off

In the mid-1990s, Italian social and political actors shared the same concerns with the future sustainability of pension programmes, though, as in France, their reform preferences differed significantly. Policy-makers focused on the need to reduce pension outlays, prioritising new formulae for the indexation of benefits, raising the age of retirement and increasing the reference period for calculating benefits (Natali 2002). Trade union experts had a wider focus, arguing that financial disequilibria had to be

⁹ Private workers accounted for around 35 per cent of total CGT and FO membership in 1993. Union density was around 4 per cent in the private sector but over 10 per cent in the public sector (Labbé 1996).

tackled alongside other problems, including equity gaps (between self-employed and dependent workers, and within the latter between public and private employees), and the inadequacy of pension cover for system ‘outsiders’ (i.e. workers on new and more flexible contracts). As in France, the labour movement wanted a clearer distinction to be made between contributory and non-contributory benefits. But, unlike in France, the social partners and the government agreed on the need to introduce a second pension pillar of supplementary funded schemes. While for the government these schemes would allow a containment of costs over the longer term, for the unions they were a means of compensating for losses in the first public pillar and increasing their own organisational resources if they could also gain a role in their management (Lapadula and Patriarca 1995).

If the meeting of minds in some areas, alongside differences in others, created an opportunity for trade-offs, the occasion was provided by the so-called ‘technocratic’ governments of the early-to-mid 1990s. In this respect, the policy-making process of the Dini reform of 1995 followed a similar logic to that of the earlier Amato and Ciampi governments. Enjoying only weak electoral support, and led by non-partisan prime ministers untainted by the scandals that brought down the party system of the ‘First Republic’ in the early 1990s, the success of these governments in meeting the Maastricht convergence criteria depended greatly on strengthening the corporatist arena of policy-making.

By 1995, the government’s relationship with the labour movement had become particularly constructive and stable. In pensions, union experts and Ministry of Labour advisors together developed the guidelines for reform. Nevertheless, the final reform package was essentially based on union preferences (Cazzola 1994; Braun 1996). The Italian employers’ association (*Confindustria*) refused to sign the final reform text due to its failure effectively to tackle the problem of seniority pensions.¹⁰ This, then, was, a case of ‘corporatism without capital’. But if compared to the Balladur reform, it was also a genuine negotiated, *quid pro quo* trade-off between the cost-cutting goals of the government and the equity-improving objectives of the unions (Beltrametti 1995). And if the pre-emptive trade-off in France sought largely to avoid blame on all sides, the negotiated trade-off in Italy did more than just diffuse blame amongst the partners: it allowed both the government and the unions to claim credit for achieving their respective goals.

The Dini reform embraced a wider range of objectives than the preceding Amato and Ciampi reforms. To relieve financial strains, the benefit structure was modified, involving a major shift from a defined benefit to a defined contribution basis for pensions calculation. Seniority pensions were not completely eliminated, but new rules were introduced to restrict their use. A further change proposed by union confederations (and then accepted by the government) was a clearer distinction between national solidarity schemes and social insurance. This reduced the deficit and transferred responsibility to the state for funding social assistance benefits (Lapadula and Patriarca 1995). In order to improve equity, public and private-sectors employees were obliged to contribute to the scheme in equal measure, while self-employed contributions were increased (Ferrera and Gualmini 2000). The pension net was extended to workers on

¹⁰ Seniority pensions are benefits paid to workers on the basis of a certain period of contributions, regardless of the age of retirement.

occasional, discontinuous and temporary contracts to improve the effectiveness of pension programmes and enlarge the base of contributions.

One similarity with the French case was the willingness of the unions to protect their own membership at the expense of labour market ‘outsiders’. The reform was to be implemented only very gradually, favouring the heavily-unionised mature cohorts of workers to the detriment of their younger, less unionised counterparts. As in the Balladur case, such compromises in the trade-off made this just one small step on the road to a much more incisive reform. But as revealed by the fate of Berlusconi’s confrontational strategy a year earlier, even a small step was better than none.

5. Confrontation and Failure: The Juppé and Berlusconi Reforms

The Juppé Plan

In a socio-economic context largely analogous to that of 1993, two years later the Juppé government, emboldened by its political majority and cohesive executive, adopted a confrontational approach to reform. Accurately described by Vail (1999: 322) as a case of “welfare Bonapartism”, the government’s strategy was quite distinct from that of Balladur. It held meetings with the main leaders of the social partners in September 1995 and revealed to them the key principles of the reform proposal. But this led neither to a reciprocal exchange of information nor to genuine negotiation. The trade unions were reduced to ‘combatants’ outside the policy process and were forced to compete rather than co-operate with policy makers in their quest to modify or force the withdrawal of the government’s proposals.

The actual content of the Juppé reform was not even made public during its preparation. As a member of the *Conseil d’Orientation des Retraites* (The Pensions Advisory Council) put it: “In 1995 the pension reform was prepared in secret. Usually, when decision-makers prepare a reform there are formal and informal contacts between the government and its parliamentary majority, as well as with the social partners, to avoid the surprise effect. On the contrary, the Juppé plan was prepared by a very restricted number of people” (interview, Paris, 04/05/2001). Although the social partners were told that public sector pension reform was not being considered, to their great surprise it was included in the Juppé plan at the moment of its presentation to Parliament on 15 November (Bonoli 2000). This triggered a violent protest movement during the final months of 1995, that eventually forced the government to remove the pension reform from the more general Juppé plan.

The Juppé plan contained the most radical proposals yet to recast the French welfare state (Yahiel 1996; Bouget 1998). There were two principal goals: to improve the financial sustainability of the welfare system through an increase in revenues and a reduction of expenditure; and to progressively reorient system-funding away from social insurance towards general taxation, one objective of which was to alleviate the burden of social charges on firms. To facilitate reform, an attempt was made to strengthen state control over welfare institutions and reduce the managerial role of the social partners (Roques 1996). To achieve the first, a vote took place in February 1996 on an amendment to the Constitution (Bonoli 2000). To achieve the second, new rules were introduced regarding the composition of the directors’ boards within the *Régime*

général, supervisory councils were to be created, composed of members of Parliament and experts, and national fund directors (designated by the state) were charged with appointing the directors of local and regional funds (Ruellan 1996). These proposed changes were a direct attack on the role and legitimacy of the unions as welfare policy actors.

The principal aim of the pension reform was to fully extend the 1993 Balladur reform to both the private and public sectors in their entirety (Bouget 1998). But in contrast to 1993, there was no attempt to trade the introduction of cutbacks with concessions to the unions. Indeed, the proposals were completely at odds with union requests. Nor was there any attempt to soften the impact of the reform on those most likely to mobilise behind trade union protests. While most analyses (e.g. Vail 1999; Bonoli 2000; Levy 2001) have argued that the Balladur and the Juppé reforms were rather similar in substance, but polar opposites in style, in reality their impact on particular categories of worker was quite different, especially with respect to the entitlements of those close to retirement (Natali 2002).

As confirmed by data in the 1999 Charpin Report, although the Balladur reform increased the number of contribution years for obtaining a full pension to 40 under the National Fund for Old Age Insurance within the *Régime général*, in effect the great majority of those affected by this reform in the private sector had already fulfilled, if not exceeded this requirement (Charpin 1999). As an expert with the CFDT (*Confédération française démocratique du travail*) pointed out: “The new ‘40 year contribution’ rule did not touch anyone at that time. In the 1990s, seven private-sector workers out of ten arrived at the age of retirement with more than 40 years of contributions” (interview, Paris, 10/05/2001). By contrast, the majority of public-sector workers included in the Juppé plan fell short of the new minimum contribution period. A CGT pension specialist stressed that “Juppé did not shift cutbacks on to younger generations. At that time, 80% of public workers had less than 37.5 years of contribution. The 1995 reform proposal had a direct impact on public-sector employees” (interview, Paris, 23/04/2001). The number of workers affected by the 1995 reform was therefore much larger than in 1993.

Thus, the Juppé plan not only attacked the unions’ role and legitimacy as actors in the French welfare system; it also undertook to reduce the entitlements of their core clientele – all in the absence of even a minimum of consultation. To that extent, the Juppé government demonstrated its strategic ineptitude, compounded by an extension of the more general government plan to fiscal and public enterprise reform that antagonised a wider range of vested interests. This aggressive and ill-prepared assault on the status quo was a long way from ‘reform as statecraft’. Its principal – and entirely predictable result – was to unleash the full veto powers of the French labour movement.

The Berlusconi Reform

The consensual strategy adopted by the Italian technocratic governments of the 1990s contrasts sharply with that of the right-wing Berlusconi government in 1994 which, like that of Juppé a year later, attempted to reform pensions without negotiation. As in France in 1995, the government sought to impose a reform regardless of union preferences or opposition. After formal meetings with the social partners in the summer of 1994 that revealed deep differences in reform priorities, the government proceeded

unilaterally and submitted a pension bill to parliament in September. The government's confrontational style and the nature of the new provisions produced an immediate reaction from the labour movement. Indeed, the most impressive protest marches since the 1970s were organised in the last few months of 1994 – with considerable effect. The unions' opposition led first to the withdrawal of the proposal and then to the Prime Minister's resignation as the conflict spilled over into the governing coalition.

Like Juppé, not only did the Berlusconi government not consult, but it chose to target the reform at some of the most sensitive issues for the unions: seniority benefits and pensions' indexation. The government's proposals included a temporary halt to seniority pensions and a subsequent revision of their calculation formulae: a 3 per cent reduction in benefits would be applied for each year between the receipt of the seniority pension and the statutory retirement age in force for the FPLD – the Private Employees' Pension Fund. Moreover, a new method of indexing pensions was proposed that for the unions was tantamount to removing indexation altogether. Union proposals for a clearer distinction between social-assistance and insurance benefits were ignored (Lapadula and Patriarca 1995; Artoni and Zanardi 1997). A further similarity to the Juppé reform (and in clear contrast with the Dini reform a year later) was its calculated impact on the unions' core clientele. In targeting heavily-unionised mature workers, and maintaining the most favourable treatment for traders, craftsmen and farmers, the government openly privileged the entitlements of those socio-economic groups that had contributed to its electoral success (Beltrametti 1995).

Even if they could be justified on equity grounds (which would have been difficult), the manner in which these reforms were packaged and presented shared with the Juppé reform a degree of strategic ineptitude that could only lead to outright failure. Rather than work with or around the trade unions, these governments openly confronted them, provoking in both cases a full and unprecedented demonstration of their veto power potential.

6. Extending the Argument: the 2003 Raffarin Reform

The Raffarin reform of 2003 is commonly seen as a triumph of government determination against union obduracy. If that were true, our argument concerning the 'consensual imperative' in French pension politics would prove to be unfounded. In reality, the successful passage of the Raffarin reform depended ultimately on a combination of confrontation and consensus seeking, including a series of significant amendments to its original plan in response to union protests and demands. Unsurprisingly, given the history of union hostility to pension reform in France, Raffarin failed to achieve a consensus that embraced the CGT and the FO: the CGT's leadership was actually torn between compromise and conflict, but drawn to the latter by its more militant federations. Nevertheless, as in the Balladur case, the passage of the Raffarin reform was only secured after a policy trade-off successfully divided the moderate sections of the labour movement from the government's more militant opponents.

As in 1995, the Raffarin government enjoyed a cohesive executive (the President of the Republic and the Prime Minister belonged to the same party) and a majority in both houses of parliament. It proceeded boldly to engage in highly controversial social policy

reform. Nevertheless, this was not a unilateral project à la Juppé or Berlusconi. Compared with Juppé, Raffarin acted in a way portrayed by the press as ‘ruffled and friendly’ (*The Economist* 15 May 2003). Unlike Juppé, Raffarin did not prepare his reform in secret but spent months consulting with the social partners. The Minister for Social Affairs, François Fillon, outlined the scope and detail of the reform on numerous occasions and the eventual reform package included concessions to the more reformist unions - the CFDT and the smaller white-collar CFE-CGC (*Confédération général des cadres/Confédération française d’encadrement*). The final draft of the reform adopted by the government on 28 May 2003, and then by Parliament in July, was the result of an agreement with the CFDT and CFE-CGC and received the tacit support of the CFTC (*Confédération française des travailleurs chrétiens*). In this respect, it was even more inclusive than the Balladur reform and, in reality, part pre-emptive and part negotiated in its final form.

The reform process was officially initiated in January by President Chirac. Then, from February to May, there was a period of formal meetings between policy makers and social actors. After the first round of protests and strikes at the beginning of May (culminating in a record-breaking day of demonstrations on 13 May, involving over fifty per cent of central government civil servants), on 14 May Minister Fillon negotiated certain changes to the first version of the reform with a selection of trade union leaders. Nineteen amendments significantly altered the final draft. These concessions produced what CFDT leader François Chéreau called an ‘*acceptable compromise*’, and divided the moderate from the more militant union leaders and workers (*Le Monde* 28 May 2003). The latter called for further mobilisation in the streets, but the protests steadily subsided.

The trade-off consisted of a mix of cost-containment measures, benefit improvements (e.g. more generous indexation), concessions to particular categories of workers, equity-improving provisions and a consolidation of the unions’ co-management role. New and more rigorous measures to contain costs (extending the contributory period for all workers from 37.5 to 40, and subsequently to 41.9 years) were justified in terms of introducing greater equity between private and public-sector pensions. Earlier retirement for workers who started work in their mid-teens was protected from the reform, as were the generous entitlements of certain *régimes spéciaux*, notably those covering metro and railway workers. Civil service pensions would continue to be calculated on the basis of the last six months of employment (instead of the last three years originally planned by the government), and employers’ old age pensions contributions were increased. These modifications were fiercely criticised by business organisations. Also in response to union calls for greater equity, the pension guarantee for low-paid workers was raised from 75 per cent of the minimum wage in the original draft to 85 per cent in the final version of the reform. A new compulsory supplementary scheme for public-sector employees will be managed jointly by the social partners as a public fund (Jolivet 2003; *Le Monde* 29 May 2003).¹¹

Various elements of the trade-off allowed blame for the reform to be diffused (the moderate unions were fiercely attacked as traitors by union opponents and some left-wing parties) but also for credit to be claimed. While Raffarin has claimed credit for success in ensuring the passage of a difficult reform (against a tumble in his previously

¹¹ See Journal Officiel (2003) for the full text of the Raffarin government’s pension reform.

high opinion poll popularity), the moderate unions have stressed that its final provisions do provide for greater social justice and equity while also making the system more sustainable. CFDT leader François Chéreau has used the pension reform to consolidate his union's position as a policy interlocutor able to wrest concessions from government, as a force for socially-responsible modernisation and as the enemy of the *immobilisme* created by interlocking vested interests. For Chéreau “c'est l'immobilisme qui menace les acquis sociaux” – it is political sclerosis that threatens acquired social rights (Chéreau 2003).

Nevertheless, as argued by the OECD, as a consequence of its consensus-seeking concessions, the government's new reform is insufficient in itself to rescue the French pension system (*Reuters* 19 May 2003). But as with Balladur, Raffarin's pension plan is part of an ongoing process, and a significant step towards a more comprehensive reform. The next steps, if they are to succeed, should follow a similar path: building consensus, neutralising opposition and seeking trade-offs that not only ensure the successful passage of the reform but also improve the sustainability, effectiveness and equity of the pension system.

7. Conclusion: French Pension Politics from Balladur to Raffarin

This article has argued for a new approach for understanding *la voie française* to successful pension reform. We have characterised French pension politics in terms of a *paradox* (trade unions that are too weak to take part in concertation, but too powerful to be marginalised by policy makers), a *dilemma* (the need to neutralise union vetoes in the absence of effective concertation), and a subsequent *solution* (consensual but unilateral reform through pre-emptive trade-offs).

France and Italy have faced similar pension problems. The labour movement is a potential veto player in the pension policy network in both countries. Yet, these countries have taken divergent paths to reform. While Italy embraced concertation, French policy-makers have successfully adopted a consensual style within a pluralist policy-making process. When French policy makers have experimented with social dialogue in the 1990s, they have come up against the fragmentation, ideological divisions and organisational weakness of the labour movement. In Italy, by contrast, reforms implemented in the early 1990s in collective bargaining and union representation provided a new organisational basis for negotiated reform. In the absence of similar innovation in France, policy makers had to find a novel means of working with and around the union veto. In both countries, trade-offs (pre-emptive in the first case, negotiated in the second) have enlarged the space for, and facilitated the passage of reform. Trade-offs accommodated the preferences of the various parties and allowed them to share or diffuse blame. In certain episodes they could even claim credit with their electorates or client groups. By contrast, when governments have tried to impose their own policy agendas, trade union protests have derailed their reforms.

Theoretically we have sought to bring greater conceptual clarity to the analysis of the French case by distinguishing between the mode, style, and content of reform. Tracing the connections between them has assisted in explaining how French policy-makers have adopted consensual reforms under pluralist politics, in contrast to the concerted, consensual path taken by successful reformers in Italy. We have also corrected the

misuse of certain terms in the literature, such as ‘corporatism’, ‘concertation’ and *quid pro quo*. We confirmed that France remains a ‘low corporatist’ case, and that pension politics have been pluralist. We then defined two polar opposite policy-making styles (consensual and confrontational), each combining different problem-solving approaches and strategies towards organised interests. Policy-makers adopt a consensual style when they mix or trade their own priorities with those of other actors to build a reform coalition. They engage in confrontation when they refuse to ‘trade’ and impose their own agenda.

The comparison between the two countries revealed how trade-offs are made. The Balladur government in France and the Dini government in Italy sought to mix measures consistent with their own agendas with others proposed by the unions. They tried to neutralise potential opposition and increase consensus. While in France, the final reform emerged from unilateral government action (a pre-emptive trade-off), in Italy it was the result of genuine social dialogue (a negotiated trade-off). The concept of ‘trade-off’ thus allows us to identify two ways of building consensus via different modes of policy-making.

The utility of our approach is revealed by its capacity for both cross-country and within-country comparisons. It provides new insights into the nature of reform politics across welfare states (see Natali and Rhodes 2003) while also allowing for a deeper understanding of reform dynamics in particular systems. In contrasting the differences in the style, mode and content of French pension policy making from Balladur to Raffarin, we are able to assess the nature of reforms along these three dimensions. We have explained the success (and limits) of the Raffarin government’s attempt to recast public pensions in terms of a consensual style (albeit one conducted in disputatious circumstances) and a pre-emptive policy trade-off, with some negotiation. The contrast with the Juppé plan of 1995 is evident, even if each appeared confrontational and was accompanied by record-breaking protests. In reality, pension policy-making in 2003 was much more consistent with that of the 1993 Balladur reform. In some respects it was even more inclusive. And arguably, as a hybrid of pre-emptive and negotiated elements, the Raffarin trade-off allowed credit to be claimed as well as blame to be shared. It may well prove to be the first step towards a more ‘concerted’ future for French welfare state reform.

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