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## Introduction

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

*Karl Polanyi, The Great Transformation 1958, 2001*

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

Much less is known, however, about the role played by tripartism in other parts of the world.<sup>3</sup> The available literature tends to focus more on the formal analysis of the tripartite institutions that exist in different countries than on the actual impact of these institutions. The gap we seek to fill with this project concerns this latter issue. We do not try to answer the – equally interesting – question of why tripartite institutions or, more specifically, social pacts emerge in some developing countries

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and not in others, or why tripartism is stronger or more consolidated in some countries than in others. We focus, rather, on the policy impact of tripartism on national policymaking in an age, the 1990s and early 2000s, which has been characterized by the predominance of neoliberalism; have tripartite negotiations altered in any way the pace, sequence or content of economic reforms? Have they affected the environment in which reforms are implemented? We explore this issue through case studies of eight countries from different parts of the developing world that exhibit varying degrees of tripartism – from weak to strong. The countries are Chile, the Republic of Korea, Poland, Singapore, Slovenia, South Africa, Uruguay and Zimbabwe.

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

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

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

## 1.1 The general argument

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

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

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

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

financial crisis and the growing attention paid to the plight of low-wage workers in recent years.

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

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

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

From a labour perspective, the tripartism we examine in this book has served a largely defensive purpose and is, in this respect, considerably different from the type of tripartism that provided the building blocks of the 'social corporatist' model aptly described in the literature on advanced, and especially Scandinavian, countries (e.g., Pekkarinen, Pohjola and Rowthorn 1992; Pontusson 2005). The classic social corporatist model, which captured European experiences in the post-war Keynesian era, was based on the notion of 'political exchange' (Pizzorno 1978; Mares 2006), by which trade unions exchanged a commitment to moderate wage demands for full employment policies and the development of comprehensive and largely decommodifying<sup>9</sup> welfare

states (Korpi 1983; Esping-Andersen 1990). As a result of both compression of market earnings in highly centralized collective bargaining rounds, and redistributive taxation and transfer policies, the countries with social corporatist regimes had a considerably more egalitarian distribution of incomes than others. In contrast, the tripartism that has prevailed in developing countries in the 1990s generally lacks the redistributive and decommodifying features of the old corporatist model, even though, as argued above, it did manage to take away the edge from neoliberal policy reforms.

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

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

and government has often bypassed tripartite channels; and cases where tripartism is strong, such as Slovenia, where genuine negotiations and agreements have had a significant and continued impact on policies.

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

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

This protective function does not mean that countries had to sacrifice economic goals to tripartism. The strong economic performance of Slovenia and Singapore, the two countries with strongest forms of tripartism in our study, shows indeed that tripartite institutions and economic performance can be mutually supportive. As mentioned earlier, in the cases of these two countries – as well as during certain periods in Uruguay, another country in our study – tripartite wage policies served as a useful tool for macroeconomic management. The way this normally worked was, as in the European experience, through coordinated wage moderation. But Singapore presents an interesting episode in the late 1970s of a three-year wage hike that was engineered to promote economic upgrading by pushing producers to move onto more capital-intensive, higher value-added sectors. Another mechanism by which tripartism has

likely contributed to economic growth is by fostering training and other active labour market policies that facilitate restructuring and raise the skills of the workforce. A third mechanism is conflict management. Dani Rodrik (1998), for instance, shows evidence that external shocks result in greater growth losses in countries with weak institutions to manage the distributive conflicts that these shocks trigger.

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

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

encompassingness of trade unions and employer associations (Olson 1982), their strategic orientation and their desire or ability to build broader coalitions including outsiders.

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

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

## 1.2 Research approach and hypotheses

It is a widely recognized fact that Washington Consensus policies did not work as planned. There were multiple surprises, including the unexpected depth and length of the transition depression in the former Soviet bloc; the frequency of financial crises that also affected, as in East Asia, countries with solid macroeconomic fundamentals; and Latin America's weak economic growth despite extensive reforms. At the same

time, star performers China and India had policies that were highly unconventional, with high levels of trade protection, lack of privatization, extensive industrial policies and lax fiscal and financial policies through the 1990s (Rodrik 2006).

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

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

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

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

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

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

(Synopsis, x)

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

There is a growing recognition (e.g., Bhagwati 2004; Bardham, Bowles & Wallerstein 2006; Rodrik 2007; Birdsall, De la Torre & Menesses 2008) that, in order to deflect political opposition to globalization, policies need

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

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

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

unions committed to wage moderation in return for full-employment policies and comprehensive social protection.

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

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

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

Moreover, the available literature tends to focus on the formal analysis of tripartite institutions without covering in much detail their

functioning or the policy content of agreements. One can surmise from these accounts that tripartism is weak in most – but not all – developing countries and that more fine-grained information would be needed to assess its impact on economic reforms. A case study design seems well-suited to this task since it can rely on primary sources, in particular interviews of the three actors (government, trade union and employer association officials), to map out and reconstruct the tripartite negotiations and political dynamics surrounding different reforms.

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

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

An important methodological issue for the study was how to operationalize this distinction between strong and weak tripartism. This is not a simple task since the construct has multiple dimensions: full freedom of association and collective bargaining, organizational strength of

the labour movement, organizational structure of collective bargaining (more or less centralized), type of policy-making system (affording various degrees of private interests' involvement in policymaking), institutionalization of practices, and so on. As such, it becomes difficult to rank countries neatly on a weak–strong continuum, as some countries may be strong in one dimension (e.g., institutionalization of tripartite institutions) and weak in others (e.g., legal protection of freedom of association or organizational strength of the labour movement), and vice versa. All one can do with this kind of multidimensional construct is to be very explicit about the coding choices one makes. We identified five indicators that together can be used to gauge the strength of tripartism in a given country:

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

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

The third indicator, the scope of agreements, may seem redundant since the policy scope of tripartite discussions is already included. However, it helps us distinguish between cases in which issues are bundled into social pacts that span across – and involve trade-offs between – different policy areas, and cases with more circumscribed agreements. Bundling is the hallmark of classical European social corporatism, as well as the more recent experience with social pacts, and we take it as indicative of strong tripartism. An interesting contrast among our case studies is provided by South Africa, where the policy scope of tripartite discussions has been wide – with the notable exception of macroeconomic

and incomes policy – but compartmentalized, and most agreements have focused on single policy issues. The fourth indicator, continuity of practices, is a proxy for institutionalization. This indicator may overlap with the second indicator, the number of agreements. But it is possible, for instance, that agreements are concentrated over a certain period of time and then tripartism is discontinued, or that tripartite discussions are a well-established practice but seldom result in agreements. The latter is the case, as we will see, in Uruguay.

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

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

The dependent variable is the reforms themselves, i.e., their pace, sequence and content; rather than macroeconomic and distributive outcomes such as the level of unemployment, poverty or income

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

### 1.3 Overview of the evidence from the case studies

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

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

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

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

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

Table 1.1 Key features of tripartism in the countries under study

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

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

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

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

Source: ILO, *World Labour Report 1997-8* and Visser (2003).

Notes: <sup>a</sup> Almost total coverage in Slovenia, according to the European Industrial Relations Observatory.

<sup>b</sup> But tripartite national wage council guidelines have strongly influenced wage levels in Singapore.

<sup>c</sup> Bargaining coverage has oscillated greatly in Uruguay; it reached almost 90% of private sector workers in 1985-92 and again from 2005 on, after tripartite wage councils were restored.

<sup>d</sup> Bargaining data for Poland is for 2002 from Lawrence & Ishikawa (2005).

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

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

Tripartism in Singapore is based on a symbiotic relationship between the National Trades Union Congress (NTUC) and the ruling People's Action Party (PAP), which started out back in the 1960s with a strong element of authoritarian control over labour. Nowadays, restrictions on freedom of association and collective bargaining remain in the books but many are not applied in practice and the unions have called for these outdated restrictions to be removed from the country's legislation.<sup>14</sup> Industrial relations are nonconfrontational and there have been only two recorded days of strike action since 1978.<sup>15</sup> The government, however, took swift action in 2004 in response to a high-profile dispute involving the more militant independent pilots union; it revoked the residence permit for one of its leaders and amended the law to exclude

membership ratification of collective agreements.<sup>16</sup> NTUC, which represents about 97% of unionized workers, has direct access to the Cabinet, where its secretary general sits as a minister without portfolio; it has also developed a major role as provider of affordable goods and services through cooperatives – e.g., supermarkets, insurance, childcare and eldercare. But union density (16%), collective bargaining coverage (19%) and, especially, union autonomy are low.

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

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

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

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

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

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

The Republic of Korea's experience with tripartism is closely connected to the Asian financial crisis of 1997–8. There had been some failed

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

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

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

Tripartism in Poland emerged, as in Slovenia, in the context of growing worker discontent with the hardship associated with market transition. Facing a large wave of strikes, the government negotiated a tripartite pact on state enterprises in 1993, which provided for worker shares and union participation in privatized companies. This pact also phased out wage controls and led to the creation of a Tripartite Commission for Socio-Economic Affairs in 1994. Tripartism, however, has been undermined by deep political rivalry between the two main trade union organizations, Solidarity and The All-Poland Alliance of Trade Unions (OPZZ), which has resulted in frequent and prolonged interruptions of tripartite practices and government sidestepping of tripartite institutions. Whereas the commission has discussed a range of policies – e.g., labour legislation, employment, social policy,

tax reform – it has only played a marginal role in policymaking. Labour representation was initially fairly strong in terms of union density (34% of formal sector wage earners in 1995) but then dropped considerably (to 12.1% in 2006) and has suffered from the high politicization and division among the two union centrals. Collective bargaining coverage was 28% in 2002.

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

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

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

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

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

Table 1.3 Impact of tripartism on reforms and policies

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

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

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

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

industries. This fund was financed by a training levy on workers, which was later shared by employers and complemented with state funds; its mandate was also expanded over time from the initial focus on laid off workers to include programmes for youth, rural workers, women and hard-to-employ groups.

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

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

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

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

The impact of tripartism on social and tax policy has been high in Slovenia, where social agreements have provided guidelines in areas such as housing and health care. Tripartite negotiations substantially altered the content of pension reform in 1999, when the government dropped its initial proposal to introduce a mandatory fully funded second pillar at the unions' behest. A negotiated tax reform in 2003 featured higher tax cuts for people with lower incomes, and labour managed to stop a plan to adopt a flat tax rate system in 2005. Singapore, on the other hand, has a fully funded mandatory pension system, the central provident fund, that was inherited from colonial times and is

run by a tripartite board. The system, which also covers housing, education and health care expenses, is often subjected to adjustments that emerge from tripartite discussions. Tripartism also influenced the 1994 tax reform that reduced corporate and income taxes and introduced a value-added tax.<sup>17</sup>

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

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

## 1.4 Conclusion

To conclude, we may briefly revisit the hypotheses that guided our study in light of the evidence from the case studies. These findings clearly support *Hypothesis one*, that relatively strong tripartism produces economic reforms that reconcile efficiency and equity. The mechanisms

vary from country to country but they include different combinations of the following: efforts to reduce dislocation, to moderate the pace or limit the scope of structural change; measures to compensate losers and to promote adjustment through training and industrial policy; policies that bolster worker rights and social protection; efforts to reduce income inequality. Whereas tripartite negotiations did not fundamentally alter the content of market-oriented reforms, they brought attention to equity issues and mitigated their social costs.

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

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

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

The first one concerns incomes policy, which has been the backbone of tripartite practices in both Slovenia and Singapore, the two countries

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

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

## Notes

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

- competitive exchange rate in contrast with the policies these institutions came to promote in later years (Williamson 2004).
5. *The Millennium Development Goals 2007 Report*, United Nations, NY, p. 7.
  6. Calculating global inequality among individuals requires use of data from national household surveys that are often incomplete and differ in methods and definitions across countries; hence the conflicting estimates.
  7. *World Economic Outlook October 2007 – Globalization and Inequality*, IMF, Washington DC, 2007, p. 158.
  8. *World of Work Report 2008 – Income Inequalities in the Age of Financial Globalization*, ILS/ILO, Geneva, 2008, p. 1.
  9. Decommodification refers to the extent to which workers are emancipated from the need to sell their labour power in the market for survival. Welfare states have variable capacity to decommodify. This capacity tends to be higher in social-democratic welfare states, where universal benefits granted on the basis of citizenship predominate, than in liberal welfare states, where modest benefits cater mainly to the poor while the state encourages market provision for the rest.
  10. See the preface written by Joseph Stiglitz to the 2001 edition of Polanyi's book. This was also the general theme of the 2008 conference of the Society for the Advancement of Socio-Economics (SASE).
  11. *2005 PRS Review: Balancing Accountabilities and Scaling Up Results*, The World Bank and International Monetary Fund, September 2005: pp. 26, 29–31, 43–5. [http://siteresources.worldbank.org/INTPRS1/Resources/PRSP-Review/2005\\_Review\\_Final.pdf](http://siteresources.worldbank.org/INTPRS1/Resources/PRSP-Review/2005_Review_Final.pdf).
  12. This literature tends to blend two different meanings of corporatism (Schmitter 1982): the first one refers to a particular structure of interest intermediation characterized by monopolistic, centralized and hierarchical organizations; the second one refers to policy concertation, what we call tripartism here. The distinction is important, especially since tripartism has spread in recent decades to countries with less concentrated, centralized and hierarchical forms of interest organization.
  13. As to exactly which type of collective bargaining structure may be most beneficial, there is still controversy. Calmfors and Driffil's famous 'hump-shaped' relationship (1988) postulates that both decentralized and highly centralized bargaining structures have the best macroeconomic performance. Iversen (1999) has argued that, in an age of restrictive macroeconomic policies implemented by independent central banks, industry-level bargaining is the most efficient. In a recent econometric analysis, Baccaro and Simoni (2007) find that there is a monotonic negative relationship between bargaining coordination and wage militancy.
  14. See the 2007 Annual Survey of Violations of Trade Union Rights in Singapore by the International Confederation of Free Trade Unions (ICFTU). <http://survey07.ituc-csi.org/getcountry.php?IDCountry=SGP&IDLang=EN>.
  15. *Ibid.*
  16. ICFTU, 2005 Annual Survey of Violations of Trade Union Rights in Singapore <http://www.icftu.org/displaydocument.asp?Index=991222328&Language=EN>.
  17. See Jenkins & Khadka (1998) and NTUC news, 'When GST was introduced in Singapore...' December 4, 2002. [http://www.ntucworld.org.sg/ntucunions/news/news\\_120402e.asp](http://www.ntucworld.org.sg/ntucunions/news/news_120402e.asp).

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