



Project no. CIT1-CT-2004-506392

NEWGOV

New Modes of Governance

Integrated Project
Priority 7 – Citizens and Governance in the Knowledge-based Society

Institutional Emergence: Framework Evaluation

Analytical Report I - Synthesis

reference number: 18a/D08new

Due date of deliverable: August 2006
Actual submission date: 31 August 2006

Start date of project: 1 September 2004

Duration: 48 months

Organisation name of lead contractor for this deliverable:
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Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)		
Dissemination Level		
PU	Public	X
PP	Restricted to other programme participants (including the Commission Services)	
RE	Restricted to a group specified by the consortium (including the Commission Services)	
CO	Confidential, only for members of the consortium (including the Commission Services)	

Summary

This report (D08) draws on this projects most developed country reports – Italy, the Netherlands, Poland, Slovenia and Spain – presented in accompanying D09. This report links the empirical evidence from those country reports to the overall analytical framework. Section one assesses the relevance of the four central pillars of our bargaining model (D01) – bounded rationality, context-specific and changing preferences, non-unitary actors, and perceptions of power – for the real-world strategies of actors. The country reports confirm the relevance of those central pillars in shaping actor strategies but also indicate the need for further refinements to our indicators of relative power. Section two tests the bargaining model itself. We examine a number of the most important attempts to craft social pacts in the five countries concerned and confirm the general logic of the model, even if there are also several instances where social pact attempts do not conform to its core predictions. We therefore suggest ways of improving the model’s predictive power by making it more complex to allow for variation in the discount rates which indicate actors’ time preferences. Section three presents the steps we need to take in improving the model. In the conclusion we relate our study to the general literature on social pact emergence.

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I. Introduction

Workshop 2 (D07) held at the Amsterdam Institute for Advanced Labour Studies in October 2005 provided an opportunity for our research teams to meet and discuss the first drafts of seven empirical reports (D06) on the emergence and evolution of social pacts in Ireland, Italy, the Netherlands, Poland, Portugal, Slovenia and Spain. Apart from providing an in-depth empirical analysis of different attempts to craft and institutionalize social pacts as a specific mode of socio-economic governance, these reports served to initiate discussion on the relationship between the empirical findings and the original analytical framework/grid (D01) proposed by the project leaders (Avdagic, Rhodes and Visser). In particular, the workshop served to facilitate the discussion on whether the empirical findings presented in the country reports lend support to the main hypotheses laid out in the analytical framework. As a follow-up to the workshop, the project leaders prepared and distributed to individual country teams detailed comments and guidelines for revising their reports in a way that would distil rich, context-specific, empirical information so as to enable a structured cross-country comparison and evaluation of the hypotheses proposed.

This report (D08) draws on some of the most developed country reports that have been revised in accordance to those guidelines – Italy, the Netherlands, Poland, Slovenia and Spain – and which constitute the accompanying D09. The general purpose of this report is to link the empirical evidence contained in these country reports to the overall analytical framework. The specific aim is to offer a more systematic evaluation of that part of the analytical framework that deals with institutional emergence, namely the bargaining model of pact creation.

The report is organized in three sections. The first section offers a general assessment of the relevance of the four central pillars of the bargaining model – bounded rationality, context-specific and changing preferences, non-unitary actors, and perceptions of power – for the real-world strategies of key actors. Our focus here is on evaluating the relevance of the factors we hypothesized as indicating the relative power of actors and thus their negotiating strategies: organizational attributes, institutional resources, the degree of inter- and intra-sectional unity and the degree of actors' interdependence. Overall, the country reports (D09) confirm the relevance of the central pillars of the bargaining model in shaping actors' strategies, while also suggesting some further refinements to our indicators of relative power.

The second section provides a more explicit first test of our proposed bargaining model. It presents a structured overview of the empirical evidence from Italy, the Netherlands, Spain, Poland and Slovenia which allows us to examine whether the outcomes of attempts to craft social pacts in these countries correspond to the expectations of the model. To mitigate the standard drawbacks of small-N analyses and increase the robustness of the test, we briefly examine a number of the most important attempts to craft social pacts - a total of nineteen - in the five countries concerned. While this exercise confirms the general logic of the model, it also pinpoints several instances in which the outcomes of attempts to build social pacts do not correspond to the model's predictions. In addressing the apparently limited capacity of the bargaining model to predict correctly negotiation outcomes, we offer some preliminary suggestions for improving it. In particular, we argue that the model's predictive power would increase if we made it more complex to allow for variation in the discount rates which indicate actors' time preferences.

Finally, the last section summarizes the steps we intend to take to improve the original analytical framework. We conclude by considering the potential contributions of our study to the general literature on social pact emergence.

II. Evaluating the assumptions of the model

In order to strengthen and render more schematic our interpretations of both spontaneous and intentional institutional creation (discussed in D01 - Avdagic, Rhodes and Visser 2005: 9-14), we made four general assumptions about actors, their preferences and their cognitive capacity. We then used these assumptions as building blocks for the bargaining model of institutional creation, which depicts the process and outcomes of social pact negotiations. Drawing on the five country reports (D09), this section briefly considers the extent to which these assumptions are grounded in the reality of our cases. Section II then proceeds with a more explicit test of the model.

- (1) We made the assumption that actors involved in attempts to craft social pacts are intentionally-rational utility maximizers. But we also clarified this assumption by claiming that actors' ability to calculate correctly the prospective payoffs of alternative courses of action is impeded by the high degree of uncertainty characteristic of times of economic difficulties and crisis - situations that most often trigger attempts to negotiate social pacts. In essence, this means that we expect that representatives of government, unions and employers' organizations choose the strategies which they believe would best advance their interests in any given situation. This does not mean that they will always 'get it right'. Because of high uncertainty, we recognize that their evaluation of the situation and the capacity of other actors might be inaccurate. Such misperceptions can generate, in turn, actions that ex-post might appear irrational, excessively risky, unnecessarily generous or even plainly wrong. What our assumption does imply, however, is that actors must have believed at the time that these actions were best suited to advance their interests.

Overall, empirical evidence from the country reports supports this assumption of bounded rationality. We find that in all our cases actors strove to advance their interests, but that because of high situational uncertainty they often could not determine easily the best means (i.e. the best strategies) to achieve that goal. Our interviews with government officials and leaders of trade unions and employers' organizations confirm that these actors often could not predict with a satisfactory degree of certainty others' strategies, and thus could not calculate the best responses in a simple and straightforward way. Instead, we find that they navigated through this uncertainty by observing carefully their environment, relying on previous experience and picking up new clues, which then allowed them to gauge the likely payoffs of alternative courses of action. Such 'informed guesses' most often proved correct in that they allowed actors to choose what turned out to be appropriate, and often even effective, strategies. But we also detect some cases of apparent misperception in which the strategies that actors chose generated outcomes that had not been intended by them and that sometimes went against their own interests.

Perhaps the clearest and the most dramatic example here is the case of parliamentary deputies from the Polish Solidarity union initiating a vote of no confidence in the Suchocka government in 1993. This action eventually led to the dissolution of parliament and early elections that brought to power a government that the Solidarity union would not have wanted in office. As such, the strategy chosen by the Solidarity leadership clearly reflected a misperception of the situation. Because the Suchocka government ceded to union demands under the pressure of strikes on an earlier occasion, the union leadership perceived (wrongly) that its position at that point was sufficiently strong to extract further concessions demanded by public-sector

employees. As our interviews indicate, the no-confidence motion was initially intended as a threat that would assert the union's position and thus bring the government closer to the preferred solution, rather than a deliberate, well-thought-through decision to oust a government that shared common roots with the union.¹ The fact that later on some Solidarity deputies publicly stated that they either did not expect such an outcome or did not fully understand the possible consequences of their actions confirms our conclusion about the importance of perceptions. In this light, the strategy of the Solidarity leadership was not irrational, but rather what they believed to be the optimal response given their (mis)perceptions of the situation and of their relative capacity to achieve desired outcomes.

Other country reports also reveal some cases of misperception. One example is that of the Dutch unions in 1979, shortly before the Wassenaar agreement. The unions at the time refused the terms of a pact proposed by the evidently unpopular government. They did so because they were convinced that they would be able to secure more substantial gains by holding out. As it turned out they were wrong because the government eventually opted for unilateral measures which brought about a drop in real wages, reductions in public sector employment and subsequently higher unemployment rates. Another example of misperception is that of the Spanish unions, whose call for a general strike in 1994 was later described by the union leadership as a 'relative failure'. Hoping to repeat the success of the 1987 general strike, the union leadership perceived wrongly both the government's likely response and the level of support that they could expect from their own rank and file.

Finally, it is important to note that even though we find that actors strove to advance their interests, the definition of the latter was by no means simple and straightforward. Indeed, we find that in several cases actors could not define their interests easily because this involved balancing mutually conflicting concerns. This was particularly clear in the cases of Spain (1982), Italy (1992) and Poland (2003) where unions faced the common dilemma of whether to prioritize their short-term (narrow) or long-term (broader public) interests. As unions, they had an interest in fulfilling the material demands of their members. At the same time, however, they were interested in having a strong and growing economy, which required accepting wage moderation and some of the unpopular policy reforms proposed by the government. Union responses to this common dilemma differed. The Spanish and Italian unions put the long-term interests of the economy over the immediate material concerns of their members and signed the pacts, while the unions in Poland refused to do so. Interestingly, it seems that these responses were not determined solely by the size of the unions or the degree of union encompassingness, as implied by an Olsonian logic. Indeed, union density rates in Spain and Poland were comparable and among the lowest in Europe. Instead, these cases suggest that a more important influence on union choices is likely to have been the duration and the level of sacrifices that unions had already endured prior to the government's proposal to negotiate the pacts. Having experienced dramatic declines in wages and living standards at the onset of transition, and the repeated reductions in employment and welfare benefits over the previous decade, the Polish unions were less inclined to prioritize the general interests of the economy over the more immediate concerns of their members.

- (2) We assumed that actors' rank-order of preferences cannot be established deductively because the way in which actors evaluate different options depends on the structural and historical contexts within which they operate. For instance, we warned against making a simple assumption that union

¹ The Suchocka government was a coalition composed of parties that originated in the pre-transition Solidarity movement, and which therefore had long-standing and extensive ties to the leadership of the Solidarity union.

preferences over social pacts will be determined by sector (e.g. public vs. private or exposed vs. sheltered sector). Similarly, we warned against assuming that weak(ened) unions would always consider social pacts their preferred (or at least second-best) solution because this would give them more visibility and a more stable role in policy making.

Our expectations have been supported by the country reports, which suggest the great importance of historical-structural contexts in shaping actors' preferences. The Italian case, for instance, reveals that the main reason explaining why the traditionally adversarial unions did not stick to the terms of the 1978 agreement (the 'EUR turning point') is that "they could not accept measures that would radically contradict their past claims." Similarly, the Polish case shows the importance of the historical context in shaping union preferences. Although significantly weakened and craving for more influence, the Solidarity union refused to sign a pact proposed by the government in 2003 to a large extent because it "did not want to make a deal with a government which had communist roots." These cases clearly show how historically-defined roles and positions can influence union preferences and thus their strategies in the attempts to craft social pacts.

The Spanish case presents another example of the impact of historical context on union evaluation of the desirability of social pacts. Here, union preferences over pacts reflected not only ideological, but also organizational traditions. Because of its traditionally strong roots at company level, decentralized structure and a class ideology of industrial unionism, the CCOO was not favourable to national-level pacts in the period following the transition to democracy. The UGT, by contrast, was traditionally more open to political bargains and had a more centralized structure and a weaker presence at company level. Because of these characteristics, the UGT looked favourably upon social pacts, seeing them as a possibility for gaining institutionalized access to national-level policy making.

In line with our expectations, these country studies also reveal that union preferences do not always correspond neatly to the often taken-for-granted and deductively-derived assumptions about the impact of sectors on the preferences and strategies of trade unions. This was especially the case in countries such as Spain and Poland, where traditionally unions have been organized according to both sectoral and territorial logics, and where inter-union rivalry has long undermined attempts to define common sectoral interests and build sector-based alliances. In addition, our cases also show that union preferences are not stable. The case of Slovenia, for instance, shows how union preferences change through the process of learning and a gradual crystallization of interests. Here, the preferences of the unions in the early transition reflected their respective ideological and political positions. Subsequently, however, these preferences have changed so that they increasingly reflect the different conditions facing unions in the public and private sectors.

- (3) We assumed that unions, employers' organizations and governments are non-unitary actors. Rather than depicting these actors as coherent entities with clearly identifiable and stable interests and preferences, we recognize that they often comprise different and even conflicting interests. In making this assumption, we cautioned against explaining the strategies of these actors as simple responses to shifts in the external environment and in other actors' strategies. Instead, our assumption implies that the strategies these actors eventually settle on reflect to a considerable degree their internal politics and struggles. Correspondingly, we posited that the greater the internal divisions, the less predictable and stable actors' negotiation strategies will be. This focus on internal dynamics also draws attention to the procedures

that organizations such as trade unions and employers' organizations use to aggregate internal preferences. Where organizations rely on centralized decision-making, their strategies might prove less stable and resolute than in cases where organizations rely on procedures tailored explicitly to ensure that the preferences of different sections are taken into account. The latter method better facilitates a two-way communication between the central and lower levels, which in turn minimizes the likelihood that decisions taken by organizational leaders will subsequently be challenged at lower levels.

Our country reports provide ample examples that confirm the impact of internal politics on the strategies of governments, unions and employers' organizations. Unsurprisingly, internal struggles and divisions were particularly pertinent to coalition governments whose different member parties often had different preferences with respect to the desirability and content of social pacts. Given that high-level politics and national policy-making receive a great deal of public attention and scrutiny, divisions within the government are easiest to detect, and as such well documented in much of the literature on social pacts. But our country reports go further by providing an in-depth analysis of the internal politics and struggles within unions and employers' organizations. Since these issues are much less in the public eye, there is less information available on the politics and decision-making procedures within these organizations. Yet, our country reports clearly show that the strategies followed by these organizations cannot be understood without a deeper knowledge of their internal politics. For example, issues such as struggles for leadership in union elections often spurred conflicts between moderate and more radical union sections (e.g. in Poland). The way in which these struggles played out, proved to have a great impact on the strategies that these organizations subsequently followed in negotiating pacts with employers and the government. Similarly, the strategies of employers' organizations often reflected the outcomes of internal conflicts - such as those in Italy in 1993 where large and small firms clashed over the desirability of entering into negotiations on the proposed pact.

In addition, our country reports confirm the impact of different methods of preference aggregation within organizations on the resoluteness of their pact-negotiating strategies. Procedures such as referenda and membership ballots generated more resolute and stable strategies. Such procedures minimized the uncertainty facing union leaders and helped them pursue negotiating tactics which they knew would draw sufficient support from their members. It is well known that union referenda played an important role during the negotiations of the 1993 pact in Italy, which was overwhelmingly supported by union members. Apart from securing support for the pact, this 'institutional innovation' helped to mitigate a crisis of representation and reduce the internal tensions that Italian unions had long struggled with. The Dutch case also confirms the importance of referenda for the resoluteness of union strategies. In less than a year, the Dutch unions relied on this 'institutional innovation' three times. They first used a referendum in 2003 to test the support of their members for a far-reaching and potentially costly pact proposed by the government. Once these negotiations reached a deadlock, the unions used the same method to secure support for mobilization against the government. Finally, the last referendum served to secure approval for the pact signed in November 2004. By contrast, unions in Poland and Spain have relied on more centralized procedures for decision-making, even if they have also made some attempts to improve connections between different levels. In consequence, these union leaderships faced greater uncertainty in that they had to decide whether to accept or reject governments' and employers' offers without knowing fully whether those decisions would be supported by their membership base. The case of Spain clearly shows how the decisions of both the UGT and CCOO unions have frequently been

challenged and heavily criticized by their members. Given this uncertainty, it is not surprising that the strategies of centralized unions often appeared less resolute, with the leadership sometimes pulling out of the negotiations at the last moment, despite the positive signals that they had initially given to the government (e.g. Poland in 2003).

- (4) Finally, we assumed that perceptions of relative power play a more important role in determining actors' strategies than trust, habits and norms. The latter, we posited, might become more relevant if pacts are regularly repeated and widely perceived as successful. Absent such experience, however, the strategies of the government, unions and employers should reflect their perceptions of relative power. In our analytical framework we defined 'power' in rather general terms - as the capacity to achieve desired goals. We proposed that this capacity depends on the general organizational and institutional resources, the degree of internal unity and the extent to which actor A needs the cooperation of actor B to achieve its goals. Some of these components are not easily measured and depend on actors' subjective evaluations or perceptions. One purpose of our empirical investigation was to help clarify this broad conceptualization of 'power' by documenting how actors gauge their relative power and what indicators they actually rely on.

All our cases confirm a strong impact of actors' perceptions of relative power on their strategies. Our interviews clearly indicate that their perceptions of relative power shaped actors' decisions on whether to enter pact negotiations, as well as their evaluation of what deals were to be considered acceptable. In addition, our empirical investigation corroborates the importance of the general indicators of power proposed in our analytical framework and helps clarify them further. Specifically, our country reports allow us to identify the three most commonly-used indicators of relative power:

1. *organizational attributes*, most notably the electoral strength of the government (majority/minority), and the size/encompassingness of unions and employers' organizations;
2. *internal unity*, or the absence of visible internal conflicts and divisions;
3. *the ability to present a credible threat of 'exit,'* which in the case of the government signifies the capacity to act unilaterally, and in the case of unions and employers, the capacity and the willingness to bear the likely costs of abandoning negotiations.

These three indicators come up repeatedly in the country reports as the authors try to reconstruct the events and politics underpinning attempts to build social pacts. As suggested above, some of these indicators are easily measurable or directly observable, and as such can be treated as 'objective measures' of power. Others - such as the ability to present a credible threat of exit - reflect largely subjective evaluations of the situation. While the subjective indicators are more difficult to quantify, and as such are more open to criticism, we do find that they have played a large role in all attempts to build pacts. Sometimes, such indicators served to reinforce objective indicators of power. This was the case for Italy in the late 1970s and again in 1992. In both instances, the inability of electorally-weak governments and internally-divided social partners to present a credible exit threat shaped their perceptions of interdependence, thus increasing the propensity towards agreement.

On the whole, our empirical findings reveal a strong impact by objective measures of power on actors' strategies. Indeed, we find that minority and coalition governments were keener to sign social pacts than single-party majority governments (see Section II). But we also find that subjective evaluations of relative power sometimes played a more important role than ob-

jective measures. The case of Spain demonstrates this point very clearly. The Socialist government tried by all means to sign an agreement with the UGT union and CEOE employers' organization in 1984, even though this was an electorally-strong government facing what, at least in objective terms, seemed to be relatively weak social partners. This favourable power position notwithstanding, the government insisted on signing a pact primarily because of its subjective evaluation of the situation. Because it had already introduced some unpopular policy reforms, the government was convinced that its legitimacy would be eroded if it decided to introduce further reforms unilaterally. In addition, the government believed that crafting a tripartite agreement on wage moderation would serve to reassure foreign investors that this new European Community member was worthy of more substantial investment. Similarly, in 2003 the government in the Netherlands initiated pact negotiations despite having a strong electoral mandate. Even though this coalition government was at that point still internally united and thus objectively strong, the government believed that signing a pact with the unions and employers would improve its rather poor public opinion rating, and thus strengthen support for a series of intended policy reforms. Put differently, the government's subjective evaluation of its capacity to achieve its policy goals was evidently lower than the objective indicators of power would suggest.

The next section builds on these findings to present a first test of the bargaining model proposed in our analytical framework (D01).

III. Testing the bargaining model

In our analytical framework (D01) we relied on the four assumptions presented above to develop a heuristic bargaining model which allowed us to make predictions about pact negotiation outcomes. We conceptualized the creation of pacts in terms of processes of institutional emergence or formation, and argued that these processes are considerably influenced by actors' perceptions of relative power. Our framework depicts this process of institutional emergence as a simple bargaining game consisting of a series of offers and counter-offers proposed by two lead players (i.e. government vs. unions, or unions vs. employers). Drawing on standard bargaining theory we adopted two further assumptions about actors' attitudes towards risk and their time preferences.

First, we assumed that actors with 'more abundant resources', i.e. those who perceive themselves as being in a relatively strong position, are more likely to persist in pressing for their demands - even at the cost of breakdown. In the same line of reasoning, those who see their position as weak and deteriorating should be more likely to settle for a quick solution rather than risk the costs of breakdown. Second, to simplify the model, we assumed that discount rates (which affect the value of future bargains) are similar for all actors. Because pact negotiations are usually initiated in periods of crisis, we assumed that prolonged bargaining is costly for all actors, and that they therefore all prefer to reach an agreement sooner rather than later. On the basis of these assumptions, we derived the following predictions about negotiation outcomes (see Figure 1):

- Negotiations are more likely to be successful (i.e. to result in pacts) in cases where one actor perceives its position as strong or increasing and the other as weak or decreasing, and where such perceptions are mutually shared. In such cases, the content of an agreement should be more favourable to the actor who is perceived as strong (box II and III in Figure 1).
- Negotiations have a higher chance of failure in cases where both actors perceive their power as strong/increasing, or alternatively as weak/decreasing. In the first scenario, none

of the actors would be willing to settle for a quick and less favourable solution. However, since prolonged bargaining is likely to result in significantly discounted payoffs, actors will eventually reach a point at which the expected benefits of prolonged bargaining would not be considered sufficiently high to continue negotiation. In the second scenario, both actors might be inclined to opt for a fast agreement, but such an agreement would have a high potential for failure because the actors might lack the capacity to enforce its terms. (Alternatively, mutual perceptions of extreme weakness might even prevent actors from signing an agreement in the first place.)

Figure 1: Predictions of negotiation outcomes

		Relative power of A	
		strong/ increasing	weak/ decreasing
Relative power of B	strong/ increasing	Failure	Outcome benefits B
	weak/ decreasing	Outcome benefits A	Potential for failure

In what follows we undertake a first test of this model by drawing on the empirical analyses of five countries (D09): the Netherlands, Italy, Spain, Poland and Slovenia. To facilitate the test, Tables 1-5 present a synthesis of our empirical findings: we focus on nineteen most relevant attempts to negotiate pacts in these five countries, ranging from the late 1970s to the present. Each table provides information on the following categories: the state of the economy at the time of negotiations; actors’ perceptions of power; the outcome of negotiations; and a brief evaluation of the model’s predictions (confirmed or not).

Based on this empirical information, we find that the outcomes of 14 out of 19 attempts to negotiate pacts are in line with the predictions of the bargaining model. While this result could be interpreted as largely confirming the model, this nonetheless leaves around 25% of observations that can be only partially explained by the proposed model (3), or that clearly contradict its predictions (2).

A closer examination of the dynamics of these episodes reveals that the inability of the model to predict correctly negotiation outcomes in these cases stems largely from our assumption that actors share similarly high discount rates. This analysis, however, reveals that even though this assumption corresponds to the real-world negotiations in a large number of cases, several episodes suggest that the discount rates of the negotiating partners sometimes differed significantly (see the bottom rows in Tables 1-5). Because time preferences - like attitudes towards risk - affect actors’ bargaining strategies, variations in discount rates are bound to generate negotiation outcomes that are different from those predicted by our model. Actors whose discount rates are higher are likely to be more interested in signing an agreement quickly because their expected payoffs from prolonged bargaining decline more rapidly. In contrast, the expected costs of prolonged bargaining are not as high for actors whose discount

rates are lower. The latter, in simple words, are not in a hurry and are therefore more willing to test their negotiating partner for longer, hoping to achieve a more favourable deal.

Why might the discount rates of actors who negotiate pacts differ? In the original model we assumed that these rates are similar for all actors because they would all incur significant costs if the crisis which triggered pact negotiations was considerably prolonged. What this assumption obviously does not take into account is (1) that these costs are not always distributed evenly, and (2) that they might 'hit' some actors sooner than others. For example, the expected costs of prolonging the negotiations of a pact might be especially high for a government facing new elections. Unions, at the same time, might not have the same sense of urgency. Even if the union leadership is concerned with broader public interests, there might be a significant time gap before it manages to muster sufficient support for the pact within their own organization. Similarly, employers' discount rates might be particularly high when they suffer from a prolonged loss of competitiveness. In such cases, they might be especially keen to obtain the unions' firm commitment to wage moderation as soon as possible. Unions, at the same time, might feel that there is no need to rush into such an agreement, especially if they are convinced that employers would not immediately try to balance the costs of high wages by cuts in employment.

A more careful examination of pact negotiations in Spain in 1993 and the Netherlands in 2003 - both of which contradict the predictions of our model - suggests that the differences in time preferences among the negotiating partners are likely to have played a large role in generating such negotiation outcomes. The Dutch case is particularly instructive in this respect. The negotiations ensued between, on the one hand, weakened and divided unions whose mobilizing power was evidently low at the time (as demonstrated by a recently failed strike), and on the other, the electorally strong and (then still) internally-united government whose reform proposal was backed up by organized business. Given such a power constellation, our model predicts that the negotiations would result in a pact whose terms would be more beneficial to the government. Contrary to this prediction, however, the negotiations collapsed. The reasons behind this failure seem to be related to the different time preferences held by the unions and the government. The unions were so weak at that point that they believed that their position could hardly get worse. Correspondingly, their preference was to have the negotiations at a later point in time, when their position might be stronger. The government, on the other hand, preferred a rapid agreement on its proposal for extensive reforms in several policy areas. Being fresh in office, the government was keen to introduce the reforms that would show some positive results by the forthcoming elections. Even though the government's solid electoral majority and considerable unity among the coalition partners was probably sufficient to introduce the reforms unilaterally, it was its poor performance in public opinion polls that convinced the government to search for a consensus. The problem, however, was that the unions - because of their extreme weakness - were convinced that they would not be able to extract any concessions from the government at that point. Put differently, there appeared to be hardly any difference in the expected payoffs for them between (a) signing the pact under conditions of extreme weakness, and (b) abandoning the negotiations and thus risking government unilateralism. As a consequence, the unions decided to call the government's bluff and abandoned the negotiations - a decision that proved wise and paid off during the 2004 negotiations.

The power constellation in Spain in 1993 was similar in the sense that the governing coalition had a majority in parliament and the power of the unions had been significantly eroded. As in the Netherlands, the negotiations ended in failure, thus contradicting the model's predictions. The dynamics of the negotiations, however, were somewhat different: responding to the government's refusal to modify its proposal, the unions abandoned the negotiations and called the

government's bluff by threatening a general strike. Unlike in the Netherlands, however, the government did not postpone the negotiations, but resorted to unilateralism. The fact that the economic situation was more critical than in the Netherlands undoubtedly contributed to the government's decision by raising more significantly its discount rate. Given a steep decline in the expected payoffs from prolonged bargaining, the government relied on its majority in parliament to introduce the reforms unilaterally.

By demonstrating how a difference in actors' time preferences influences negotiation outcomes, these two cases suggest the need for re-thinking and modifying the model's original assumption concerning discount rates.

IV. Conclusion and Future Steps

This report provides a first synthesis of our empirical findings and examines how these findings relate to our analytical propositions concerning the emergence of social pacts (WP 1). Two general conclusions emerge from this analysis. First, as shown in Section I, our country reports confirm the relevance of the four basic assumptions that serve as the central pillars of our analytical framework. Second, as demonstrated more explicitly in Section II, these findings also lend considerable support to the proposed bargaining model of pact creation. Nonetheless, the test also reveals some cases in which the outcomes of pact negotiations did not correspond to the model's predictions. Re-examining the dynamics of negotiations in some of these cases suggests that the inability of the model to accurately predict negotiation outcomes stems largely from its overly-simple assumption that the rates at which actors discount the payoffs from future bargains are similarly high for all actors.

While incorporating the possibility that actors have different discount rates would certainly make the model more complicated, this endeavours would also increase the model's explanatory potential. In the next six months we plan to invest in this endeavour by focusing more closely on the relationship between actors' time preferences, their perceived exit options and negotiation outcomes. In particular, we aim (1) to establish more clearly the conditions that may raise or diminish the discount rates of governments, unions and employers respectively (e.g. depth of crisis, distance from elections, etc.), and (2) to offer a clearer specification as to when - given different discount rates - these actors could be expected to choose an 'exit option'. Answering these questions and modifying our framework accordingly requires a more thorough re-examination of our empirical findings and, in certain cases, some further empirical investigation.

The end result, we believe, will make a significant contribution to the broader literature on social pacts. We embarked upon this research by arguing that functionalist explanations, which link the emergence of social pacts to economic crisis, offer at best only a partial understanding of the recent efforts of a number of European countries to manage their economies by crafting a broader consensus. While we support the underlying claim of those accounts that pact negotiations are most often initiated in moments of crisis or serious economic difficulties, we maintain that they cannot adequately explain why in a number of cases such negotiations have ended in failure, despite the presence of such economic conditions. Understanding why some pact negotiations succeed while others fail, we argue, requires a more thorough examination of the politics behind social pacts. But rather than opting for ad hoc, case-specific explanations for negotiation failure, our ambition has been to develop a framework that can explain the negotiation behaviours of governments, unions and employers more generally.

In focusing more systematically on the politics behind social pacts, we share the preoccupations of other recent accounts whose explanations of the willingness of actors to negotiate so-

cial pacts and the eventual outcomes of those negotiations rely on factors such as electoral considerations, the strength of governments and the mobilization capacity of labour movements (Baccaro and Lim 2006; Hamann and Kelly 2006). Our framework combines the objective measures of power emphasized by those analyses with our own novel focus on perceptions of relative power – in other words, the subjective evaluations by actors of their capacity to achieve their desired outcomes. By incorporating both objective *and* subjective measures of power, we hope to improve upon those accounts which rely exclusively on the former by providing a much more complete explanation of negotiation outcomes.

V. Tables

Table 1: The Netherlands

	1979	1982	2003	2004
Pact signed?	No (G and U only)		No	Yes
Economic conditions	Economic decline, but not crisis	Severe crisis	Economic decline; high problem load but not crisis	Similar to 2003
Power perceptions:				
Unions	Still relatively strong, though internal divisions and gradual loss of membership	Declining: organizational weakening (membership losses), internal divisions, low mobilization capacity, public pressure to cooperate with G and U	Weak: inter- and intra-union divisions, membership decline, recent unsuccessful mobilization	Increasing: objectively still weak but strengthened by successful strikes and demonstrations backed up by solid public support
Employers	-	Divided over pact; but stronger than unions and less inclined to concertation, but under pressure of G who threatens unilateral intervention (regarding working time as compensation to U for wage moderation) they realize that the exit option would be too costly (see G's threat as credible)	Stronger than the unions and support G's plans for multi-policy reforms (social security, pensions, unemployment and disability benefits)	Declining: internal divisions over G's policy proposals
Government	Objectively strong although insecure: electoral majority, but internal divisions and low public approval	Increasing: electorally strong, internally united, resolved to act unilaterally if no agreement	Electorally strong and internally united, but unpopular	Declining: same government as in 2003 but internal cracks and divisions, further loss of public support and less solid support from E
General outcome	No agreement	Quick agreement, more favourable to E and G (ensured wage moderation)	No agreement	Agreement, more favourable to U

	1979	1982	2003	2004
Relation to the model	Confirmed (BUT needs further elaboration - different time preferences and perceptions about exit options play a role (see below))	Confirmed	Not confirmed	Confirmed
Time Preferences	No urgency, though G's discount rate appears higher than for U because G interested in starting to solve problems (electoral cycle), though not willing to accept any compromise because of its electoral strength. U's discount rate lower because they believe that their power not declining dramatically, so they can continue negotiating until a favourable solution is found	Similarly high for all actors - urgency, but not interdependence because G sufficiently strong to act alone	Time preferences differ: G interested in starting reforms early in their term so to see the benefits by the next elections; U are convinced that their position cannot get worse (they hope that their position would get better, so they want to gain time)	Similarly high: G weakening and under pressure to solve the problems (more than a year unable to do so, i.e. failed 2003 agreement); U want to exploit the opportunities of the moment (they are in the apparently stronger position, but they don't know for how long, so they want to reach an agreement fast b/c they believe that they could get a better deal)

Table 2: Italy

	1977/78	1983 <i>Lodo Scotti</i>	1984 <i>San Valentino</i>	1992	1993	1995 (pension reform) Yes (without Confindustria)	2002 (Pact for Italy) Yes (but without Cgil)
Pact signed?	Yes	Yes	No (agreement without Cgil)	Yes	Yes	Yes	Yes
Economic conditions	Crisis	Still inflation problems	Still inflation problems (Lodo Scotti ineffective)	Deep crisis, need to comply with Maastricht criteria	Still crisis	Still high deficit and debt, exacerbated by pensions spending	Crisis, loss of competitiveness
Power perceptions:							
Unions	Decreasing, convinced it is impossible to get wage concessions even though strong mobilization potential	Decreasing, divided internally and along political lines	Decreasing, strongly divided, crisis of representation (<i>autocconvocati</i>)	Weak, the gap between the levels continues (though some attempts to close it); inter-union divisions (Cgil leadership reluctant to sign until the last moment) although some attempts at inter-union cooperation	Increasing: better internal dynamics (referenda to check and secure support for the pact), stronger inter-union cooperation and unity	Increasing, representation crisis resolved; visibly stronger inter-union unity; convinced that their power strengthened by successful strikes and rallies	Initially appeared weak; breakdown of union unity (Cgil refuses to negotiate multi-policy pacts; Uil and Cisl favourable to concertation); but then large general strike which forces G to take U's demands into account even though inter-union divisions remain

	1977/78	1983 <i>Lodo Scotti</i>	1984 <i>San Valentino</i>	1992	1993	1995 (pension reform)	2002 (Pact for Italy)
Employers	Unclear b/c in light of economic crisis they were convinced that they no longer could shift costs of higher wages to higher product prices. This strengthened their position in claiming that no alternative to wage moderation, BUT still unsure about unions' response (i.e. whether U would find this a credible threat), so willing to negotiate a pact to avoid potential conflict.	More favourable position because they could claim wage moderation was necessary	Similar to 1983	Unchanged, fragmented, but in better position than the unions	Weak and internally fragmented (<i>Tangentopoli</i> + conflicts between large and small firms on how to solve the crisis)	Increasing, resolved fragmentation problems (merger of Confindustria with Ingersind and ASAP to ' <i>Grande Confindustria</i> ')	Increasing, new president, close to the Berlusconi government, believes that the government would be an ally in its efforts to flexibilize labour market and decrease corporate taxes
Government	Decreasing power, unstable majority, economic crisis	Powerful coalition government (<i>pentapartito</i>); threatens unilateral action	Same as 1983	Weak technocratic government, <i>Mani Pulite</i> investigations, but the state of emergency acts to strengthen G's negotiating position	Weak government, (resignation of Prime Minister b/c of <i>Tangentopoli</i>), no parliamentary majority	First unstable and fragmented coalition government (Berlusconi) which collapses after general strikes at the end of 1994; replaced by technocratic Dini government	Strong Berlusconi government, parliamentary majority, unfavourable to concertation
General outcome	Quick agreement, trade-off	Agreement, favourable to the unions	Partial agreement: Csil support Uil and accept further sacrifices; Cgil refused - G implements it regardless of Cgil	Agreement, benefits E and G (abolishment of <i>scala mobile</i>); U no direct and immediate economic payoffs	Agreement, but trade-off more advantageous to the unions than before	Agreement between G and U; benefits U; E abandon the negotiations because they wanted a more radical reform and because they can bear costs of exit (exist is not more costly than signing)	Agreement; more favourable to E (labour flexibility, taxes) and G; U manage to soften or postpone some measures

	1977/78	1983 <i>Lodo Scotti</i>	1984 <i>San Valentino</i>	1992	1993	1995 (pension reform)	2002 (Pact for Italy)
Relation to the model	Confirmed (b/c quick agreement but implementation problems)	Confirmed	Partially confirmed; Cgil's response left unexplained (reasons probably political - linked to the Communist party who opposed the pact)	Confirmed	Confirmed	Confirmed (though further elaboration needed for employers' decision)	Confirmed
Time Preferences	Similarly high: G wants to solve the crisis fast; E want to exploit the crisis and get U's acceptance of wage moderation; internally divided U saw their power as decreasing and were keen to reach an agreement while G and E still believed that they were capable of mobilization	Similarly high: G wants to start solving the problems early in its term; U and E convinced that G would act unilaterally if they don't reach an agreement fast	Similar to 1983	Similarly high - no exit available to any of the actors, interdependence, acting in general interests	Similarly high - still crisis and perceived interdependence	High for G and U because G wants to solve the crisis fast; U want to capitalize on their successful mobilization rather than prolong negotiations and risk weakening; E might be more willing to prolong negotiations to obtain a favourable result, but see this as unlikely	Probably higher for U than E and G. U want to capitalize on the success of the general strike, knowing that longer negotiations would reveal ever wider inter-union disagreements; E and G ready to negotiate longer to get favourable results

Table 3: Spain

	1982 (ANE)	1984	1993 (Social Pact for Employment)
Pact signed?	Yes	Yes (CCOO exits)	No
Economic conditions	Crisis	Economic problems, but not crisis as in 1982	Recession (worst year)
Power perceptions:			
Unions	Increasing: organizationally weak and politically divided, but in a stronger position than G and E since they knew that the weak G and E needed their support for wage moderation and austerity measures. BUT leadership unsure of whether their members would support pact that implies sacrifices.	Weak and politically divided, first signs of internal dissent, though different perceptions held by CCOO and UGT: CCOO sees itself weak and unable to extract concessions. Given the sacrifices implied by the pact, this union perceives exit a better option (even though this doesn't increase its bargaining power vis-à-vis G who can rely on UGT to sign a pact) UGT perceives that G needs its cooperation, which strengthens its position and inclination to the pact, although leadership unsure of members' support	Declining: internal divisions and low support because of the gap between the leadership and lower levels (UGT leadership criticized for accepting sacrifices in the 1980s; CCOO leadership for not participating in pacts and obtaining at least some organizational benefits), but they believe that G needs them for reforms and that their mobilization capacity is still as high as in the late 1980s (this turns out to be a wrong judgement later on)
Employers	Weak, only recently formed and extremely fragmented, interested in concertation to consolidate its role in policy making, and b/c it fears the close links between the Socialist government and UGT (high exit costs)	Similar to 1982; favourable to concertation because it perceives high costs of exit	Stronger than before and less fragmented (their position also strengthened by high unemployment)
Government	Electorally weak, needs an agreement on wage moderation to solve the crisis	Electorally strong, but needs pact on wage moderation for legitimacy reasons and to attract foreign investors (capable and willing to act unilaterally in other areas, e.g. pensions)	Majority, but uneasy coalition between Socialists (PSOE lost majority in 1993) and two nationalist parties who advocated austerity measures

	1982 (ANE)	1984	1993 (Social Pact for Employment)
General outcome	Secret agreements/pacts, trade off: wage moderation in exchange for substantial organizational, political compensations to U (benefits U more than one would expect by looking solely at their objective power)	Secret pacts, trade off: substantial wage moderation in exchange for organizational and financial compensations to UGT	No agreement: U unwilling to accept further wage cuts and reforms of labour market and social protection systems without compensations, and threaten strike and exit, but G resorts to unilateralism
Relation to the model	Confirmed	Partially confirmed (G gets what it wanted, but UGT gains more than one could expect given its power - b/c G needs its cooperation in this area for legitimacy reasons)	Not confirmed (because of U's misperceptions of their own power. they believe they are able to present a credible threat of exit, while G doesn't share this opinion)
Time Preferences	Similarly high; crisis and urgency: G needs to obtain U's acceptance of wage moderation fast and is willing to pay for it; U want to seize the moment and extract concessions while it can (unsure about next elections)	Different time preferences: U knows that G needs its cooperation to legitimate its policies and that G is willing to pay for it. This is why UGT is willing to persevere and obtain concessions that it wants. G's discount rates higher because it wants this agreement quickly so that it can proceed with other reforms.	High for both, but possibly higher for G parties which as a new coalition want to show that they have a solution to the crisis since this could also potentially strengthen internal unity; U's discount rate might be lower as they believe that Socialists within the government will look to their interests

Table 4: Poland

	1993 (Pact on State Enterprises)	2003 (Pact for Labour and Development)
Pact signed?	Yes	No
Economic conditions	Transitional crisis (prolonged decline in living standards, unemployment, strikes)	Economic decline (deficit, unemployment, growth decline)
Power perceptions:		
Unions	Increasing: organizationally weakened (dramatic loss of membership) and politically divided, but able to show a strong mobilization capacity in the massive wave of strikes and demonstrations in 1992-93 where unions appear more united	Declining: organizationally weak (huge membership losses since 1990, few strongholds remaining, e.g. mining, steel) and politically divided; gap between leadership and lower levels (sporadic strikes)
Employers	- (primarily G-U pact; E in formation)	Fragmented but in a stronger position than U; support G's proposals for multi-policy reforms hoping to achieve their goals (flexibilization of labour market and tax cuts)
Government	Declining: Electorally weak (7-party minority), internally divided, allied union Solidarity withdraws its support and joins strikes	Declining: Electorally weak and internally divided coalition, declining public approval
General outcome	Fast agreement, favourable to U	No agreement
Relation to the model	Confirmed	Confirmed
Time Preferences	Similarly high: G want to solve the crisis and stop the strikes; U want to seize the opportunity and capitalize on the successful strikes as soon as possible because they are unsure of how long they can keep the mobilization going (both inter- and intra-divisions more visible) and they are convinced that they could get a better deal if they sign soon	Similar, but no sense of urgency (9-month long negotiations). U's costs of exit might be lower than for G, but G knows that U not strong enough to enforce the agreement, and thus feels reluctant to pursue it further.

Table 5: Slovenia

	1994/95	1996	1999 (pension reform)
Pact signed?	Yes	Yes	
Economic conditions	End of transformational depression, but inflation and unemployment problem	Economic recovery	Stable
Power perceptions:			
Unions	Increasing: Membership losses but not dramatic for a transition country, inter-union divisions soften, evidently strong mobilization capacity as demonstrated by the 1992 general strike; economic recovery feeds U's expectations for concessions	Similar to 1994/95, and probably even in a stronger position because of the further weakening of G (see below); threatens general strike to change G's initial proposal demanding concessions regarding adjustment of wages, minimum wage determination, and assurance for better extension of collective agreements	Increasing: strong membership support against G's proposal (to introduce mandatory second pillar, increase pension age and equalize it for men and women); massive demonstrations evidently present a credible threat to G; support by political opposition and general public
Employers	Unclear, though weaker than U and thus they consider exit option more costly and are thus inclined to negotiate	Similar to 1994/95	Unclear: supporting G but consider any agreement better than stalemate
Government	Declining: initially (1992 elections) electorally strong four-party coalition, but soon cracks which later led to an important party leaving the coalition	Declining: G becomes minority government after another party leaves the coalition, weak public rating (after strikes in public sector)	Declining: 3-party majority coalition, BUT growing internal divisions over the reform + eroding public support in view of demonstrations
General outcome	Agreement, more favourable to U: they accept wage moderation in exchange for establishing Economic and Social Council to institutionalize regular centralized negotiations over wages and IR issues, and secure G's commitment for a series of measures aimed at reducing unemployment and creating employment	Agreement, more favourable to U (G finds strike threat credible and grants concessions demanded by U)	Agreement, more favourable to U (G abandons its original plan and yields to most U's demands)
Relation to the model	Confirmed	Confirmed	Confirmed
Time Preferences	Similarly high: politically weakened G interested in gaining union acceptance of wage moderation fast; U wants to seize the opportunity to secure these concessions before too late	Similarly high: G wants to reach an agreement before the 1996 elections; U want to extract concessions before elections which are bound to bring to power a stronger government	Similarly high: G wants to have an agreement on pensions before the 2000 elections; U want to capitalize on the power demonstrated through demonstrations before it is too late

VI. Bibliography

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