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Second-Generation Social Pacts and European Socio-Economic Governance: Institutional Emergence and Consolidation in the 1990s and 2000s

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Summary

The re-emergence of national concertation in Europe in the 1990s occurred in quite different places (e.g. southern Europe) and in rather different form (as ‘lean’ or ‘competitive’ rather than redistributive pacts) than their ‘first-generation’ predecessors of the 1950s-1980s in northern Europe. That difference has triggered a widespread debate as to the ‘why’ and ‘wherefore’ of these ‘second-generation’ social pacts. Precisely because they apparently have so little in common with their predecessors, much theorizing of new social pacts has abandoned the extensive neo-corporatist theory that accompanied the original social pact phenomenon. Instead, this paper places the new social pacts in the context of neo-corporatist theorizing since the 1960s, and seeks to explain their emergence and consolidation by adapting the earlier insights of the neo-corporatist literature. The conclusion is that new social pacts emerge under similar external shocks, and their fragility is due precisely to the absence of the conditions that allowed their predecessors to endure. Only when those preconditions are present – in the form of a hierarchy of goals and a licensing of private actors as ‘public-purpose’ agents and under conditions of complex reciprocity and political exchange (i.e., characteristics that closely resemble those of ‘first-generation’ pacts) – do new social pacts endure beyond basic single- or two-shot cooperation games.

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I. Introduction

The re-emergence of national concertation in Europe in the 1990s occurred in quite different places (e.g. southern Europe) and in rather different form (as ‘lean’ or ‘competitive’ rather than redistributive pacts) from their ‘first-generation’ predecessors of the 1950s-1980s in northern Europe. That difference has triggered a widespread debate as to the ‘why’ and ‘wherefore’ of these ‘second-generation’ social pacts. Precisely because they apparently have so little in common with their predecessors, much theorizing of new social pacts has abandoned the extensive neo-corporatist theory that accompanied the original social pact phenomenon and engaged in ad hoc theorizing that has muddied rather than clarified the critical issues at stake. Instead, this paper places the new social pacts in the context of neo-corporatist theorizing since the 1960s, and seeks to explain their emergence and consolidation by adapting the earlier insights of the neo-corporatist literature.

Social pacts proliferated in Europe in the mid-to-late 1980s and in the 1990s EMU convergence decade and provided important new adjustment capacity to certain national socio-economic governance systems. Some of those pacts have persisted in the 2000s, other newer examples have emerged. At their most effective the new social pacts achieved critical policy objectives, including wage moderation, fiscal consolidation and welfare state reform.

But their emergence and institutional consolidation has been an uneven affair. Some countries used these concerted policymaking devices extensively, others narrowly, and still others not at all; some countries attempted to forge social pacts but failed; in cases where they were achieved, social pacts were sometimes short-term phenomena – single or at most two-shot cooperation games limited to particular sectors; in others they were used repeatedly, across multiple sectors, although often in gradually weakening form; in two countries - Ireland and Spain - they became regular and enduring modes of policymaking, and in the latter case arguably completely transformed that country’s system of socio-economic governance, as well as the identities of the public and private actors involved.

The key questions of relevance for academics and policy makers are therefore the following:

1. Why did some countries achieve pacts but not others, and what were the conditions for their emergence;
2. What were the advantages (and disadvantages) of such pacts for policy making, and what determined their persistence or failure; and
3. Given new demands for economic adjustment in the late 2000s, a decade or so after the new social pacts attracted academic and policy-maker attention, does social pacting still offer a viable strategy for socio-economic governance?

In the following I argue that new social pacts emerge under similar external shocks to those that triggered the formation of their predecessors in the 1960s to 1980s, but only when certain pre-conditions (weak governments, and weakening trade unions) were present; and that their fragility is due precisely to the absence of the conditions that allowed the ‘first-generation’ social pacts to endure. Only when those preconditions are present – in the form of a hierarchy of goals and a licensing of private actors as ‘public-purpose’ agents, under conditions of complex reciprocity and political exchange (i.e., characteristics that closely resemble those of ‘first-generation’ pacts) – do ‘second-generation’ social pacts endure beyond basic single- or two-shot cooperation games.

Otherwise, and contrary to normative arguments made in favour of their further proliferation, the advantages of social pacting can quickly become disadvantages as the incentives that spurred the initial round of cooperation quickly become dead-weights on the actors involved.

This conclusion suggests that the general suitability of national social pacts for European national socio-economic governance is rather limited

I begin by looking at the academic literature on neo-corporatism in the form of a genealogical survey in an effort to detect what lessons can be taken from the analysis of first-generation social pacts for the study of their second-generation successors. In the next section I examine the characteristics of second-generation social pacts prior assessing the implications of those characteristics for theory. Following that, I critically review contemporary arguments about social pact evolution and consolidation and argue in favour of retaining two concepts from the older neo-corporatist literature – the need for political exchange and institutional integration – if new social pacts are to endure. I conclude by considering the prospects for social pacts as a mode of socio-economic governance in the contemporary period.

II. Problems of Theory and Practice: from Neo-Corporatism to the New Social Pacts

Policymaker and academic interest in social pacts was stimulated in the 1990s as multiple cases of concerted policymaking emerged in countries without the traditional corporatist prerequisites – i.e., strong and centralized functional interest representation of both capital and labour, producing small numbers of actors from peak organization who could agree to macro-economic policy bargains (primarily pay moderation in return for an expansion of the social wage via new and bigger social welfare benefits) and implement through their control of micro-economic tiers of their organizations. The puzzle ever since has been why this new form of ‘lean’ or ‘competitive corporatism’ (or what I refer to in this paper as ‘second-generation’ social pacts) occurred and how it was possible, especially in countries like Italy and Portugal with traditions of adversarial labour relations and fragmented bargaining systems – the reverse of the Scandinavian or Austrian neo-corporatist archetypes (or ‘first-generation’ social pacts) of the 1950s-1980s.

In a survey of the neo-corporatist literature and its lessons for understanding the new social pacts from the early 2000s, Molina and Rhodes (2002), argued that although neo-corporatist theorizing had gone into decline by the 1980s (in many ways it came to resemble what Imre Lakatos, the philosopher of science, called a ‘degenerative research programme’) many of its core insights were too readily abandoned as ‘real existing’ neo-corporatism seemed to run out of steam in the face of organizational decentralization, the growth of the welfare state ‘to limits’ and the emergence of post-fordist industrial systems. Regardless of this decline, they argued strongly in favour of retaining two critical concepts when trying to understand the apparently quite different phenomena represented by the new social pacts, or what Philippe Schmitter has called ‘neo-neo-corporatism’: the centrality of complex reciprocity (or political exchange) and importance of hierarchy if what were now understood (much too vaguely) as more heterarchic, network forms of socio-economic governance were to acquire any durability and potency as policy-making forums.

The reasons why these concepts were originally abandoned are rather complex, and need to be explained not just by the changes occurring in the real world of first-generation social pacts and in the puzzling emergence of their second-generation successors, but by the idiosyncrasies of neo-corporatist theorizing. Following the initial success of Philippe Schmitter’s seminal analysis of neo-corporatism in Europe in ‘Still the Century of Corporatism?’ published in the mid-1970s (Schmitter 1974) which first alerted analysts to the extent of functional-interest based concertation across the continent, both the existence and the study of neo-corporatism seemed to be secure. Alongside party systems and parliamentary politics, we had also to un-

derstand the equally important contribution to governance made by networks linking government with interest organizations, many of which had quasi-public status as key actors in policy making (Offe 1981). Although the Scandinavian countries and Austria provided the most compelling examples of this type of polity, other nations contained less complete but nevertheless important elements of neo-corporatist bargaining as integral parts of their systems of government.

If in the 1970s, corporatism seemed to have become something of a ‘model’ – what Wiarda (1997, p. 23) called an “approach, an intellectual framework, a way of examining and analyzing corporatist political phenomena across countries and time periods” - already by the early 1980s, however, theorists of neo-corporatism became less than self-confident as to the utility of the theory, and some of the key examples of the phenomenon appeared to be in big trouble. Initially, the concept appeared to be robust. Schmitter (1974) had clearly defined neo-corporatism as a form of interest representation distinct from pluralism, statism, and syndicalism. Slightly later, Lehbruch (1977, 1979) began to place greater emphasis on neo-corporatism as a form of policy making in which concertation assumed central importance. But the common concern of both analysts was to understand the continuous and structured participation of interest organizations in policy-making and other stages of the policy process, especially policy implementation.

Schmitter (1982) managed to span the divide between his own position and that of Lehbruch with his distinction between “neo-corporatism 1” (a structure of interest representation) and “neo-corporatism 2” (a system of policy making). But thereafter, both definitions of the concept and the institutional contexts deemed appropriate for neo-corporatist analysis quickly proliferated, with attention shifting from macro-political, macro-economic policy making (as typified by the Scandinavian and Austrian examples par excellence) to cases of local, or meso- and micro-corporatism and (by Schmitter himself) to the realm of sectoral organization, or ‘private-interest governance’. As the neo-corporatist school became ‘schools’ of analysis, and as the phenomena identified as ‘corporatist’ spread to ever-more devolved areas of west European polities, newer, encompassing definitions of the phenomenon became harder to find, , corporatism became a multipurpose concept. If its elasticity initially ensured its popularity as more and more academics jumped on the bandwagon, simultaneously its power to explain or even characterize political systems and processes became diluted – in other words, the research programme, as Lakatos (1970) would have put it, was ‘degenerating’.

But it is important to note that a research programme can degenerate both because it loses explanatory capacity for understanding already observed phenomena, or because new phenomena emerge that it is supposed to be able to explain but cannot. Both occur can occur simultaneously, and that is precisely what occurred with neo-corporatism. As Lakatos (1970) explains, a research programme has both a core (of theories and hypotheses) and a ‘protective belt’ of analysts who apply those theories and hypotheses with greater or lesser success. In the case of degeneration rather than renewal, those analysts ‘on the belt’ may continue to apply the original theory but with ever diminishing returns. At that point, the protective belt weakens and analysts will progressively abandon the declining research programme for a more successful one. To some extent, that is precisely what occurred with the paradigm of neo-corporatism.

To the extent that there was a new paradigm to take the place of neo-corporatism, it was the spread of post-fordism as a concept applied both to industrial and political organization, and its core argument that the new world of flexible manufacturing systems and high technology production required flexibility and decentralization. To some extent, the shift in emphasis in

neo-corporatist studies from national corporatism to meso- and micro-corporatist studies had already prefigured this development. As it gathered case, political economists joined with geographers in focusing on regional government and regional economic development, with a special place for regional clusters and cooperative regional regeneration involving firms, governments and trade unions. The ‘third Italy’ of regionally-specific flexible specialization became the new intellectual ‘Valhalla’, usurping the place that Sweden once held in academic obsessions. In the process, its characteristics became as exaggerated and mythologized as its Nordic national counterpart.

Thus, the rise of neo-fordism was invoked (even by some former ‘neo-corporatists’) to explain neo-corporatism’s decline. Corporatism would be eroded from below, it was argued, as technological change and the decline of heavy industry undermined the foundations of old-style European industrial relations. It would also be incapacitated from above, as looser labour markets and a shift in the balance of power from unions to employers rendered tripartite macro-political bargaining less useful (see among others Schmitter 1989 and Gobeyn 1993).

Lash and Urry (1987) and Regini (1995) argued that neo-corporatist institutions were degenerating in the transition to post-Fordism and would recombine on a more flexible, decentralized basis, demanding that our analytical attention be redirected to the micro and meso (or local and company) levels of concertation between employers and employees. The challenges posed to unions (Crouch 2000) and the neoliberal character of economic policies during the 1990s (Glyn 2001) had undermined the structural conditions upon which neo-corporatism had been based and developed. Hemerijck (1995) was one of the first to provide a detailed study (of the Dutch case) into how positive corporatist stability could degenerate into negative immobility, demanding a critical shift in institutional arrangements if the responsiveness and potential for innovation in the system were to be regained.

Schmitter and Streeck (1991), meanwhile, maintained that a combination of the business cycle effect (lower growth and higher unemployment) and European integration would remove the logic underpinning successful corporatism. While looser labor markets would empower employers, an integrated European economy, with less room for discretionary national economic policies, would reduce the incentives for unions to organize collectively and deliver wage restraint in return for package deals or side payments. Gobeyn (1993, p. 20) asserted bluntly that “contemporary economic realities make corporatism largely unnecessary. Market forces alone can presently achieve labor discipline and wage demand moderation.” National neo-corporatism – as both a phenomenon and a theory of socio-economic governance – appeared to be dead.

Analysts were therefore completely unprepared for the re-emergence of a form of neo-corporatism – national social pacts – in countries which had long assumed to provide completely infertile ground for national concertation between peak interest organizations, precisely because peak interest organizations of capital and labour of a cohesive, all-encompassing kind (providing government with a small number of credible and reliable partners for cooperation) did not exist there. And yet the 1980s and 1990s witnessed the emergence of such structures and relationships, albeit in less embedded and institutionalized form, in many other European countries. To varying degrees, the Netherlands, Ireland, Portugal, Italy, and Spain have all implemented social pacts over the last 10-15 years, based on a more precarious for peak-level concertation than existed in Scandinavia or Austria, to adapt to new economic policy challenges. These included new competitive demands stemming from the creation of the European single market and from the urgent necessity of bringing debts, deficits, and inflation under control for membership in the economic and monetary union. (Fajertag and Pochet 1997, 2000; Traxler 1997; Rhodes 1998).

At the same time, older, traditional corporatist structures and relationships had not disappeared but were being adapted, rather than abandoned, in those countries where they were always most important in order to address the “older” employment and social issues that were of renewed concern. Consociational political systems (e.g. in the Netherlands and Belgium) made these ‘negotiated political economies’, and even if the archetypal form of corporatism *à la suède* was now less in evidence, cooperation – sometimes sporadic, sometimes more regular – between national governments and their labour and employment movement counterparts were still extant. This ‘return’ of neo-corporatism has led some scholars to hypothesize and analyze its cyclical nature and the reasons for its rise, demise, and resurgence (Schmitter and Grote 1997). The new wave of concertation revived discussions of the relationship between these new forms of corporatism and their antecedents. However, the theoretical analysis of this new wave of corporatism remains underdeveloped -largely because of the problems of application that had long afflicted the concept of corporatism.

In most neo-corporatist analysis there existed a set of structural assumptions concerning the centrality of all-encompassing interest organizations and above all the link between neo-corporatist practices and Keynesian macro-economic management. External trade constraints – the ‘small states in world markets’ phenomenon (Katzenstein 1985) – and the need to hold down labour costs in export sectors provided the impetus for cooperation behind incomes policies, whereby – in the classical version of macro-political exchange - wage moderation was secured in return for an expansion of the social wage (i.e. unemployment and social security benefits). If centralized functional interest organizations were assumed to provide the necessary hierarchy and order for such disciplined forms of neo-corporatism to function, then the macro-level political exchange characteristic of the first three postwar decades when welfare states were expanding was assumed to provide the ideal conditions for political exchange.

The ‘problem’ with these assumptions were not so much that they were ‘wrong’, but that they had taken center-stage in most analyses of neo-corporatism, which also, it should be said, prioritized ‘blue-sky’ theorizing over careful empirical analysis. Hence a tendency to neglect the analysis of what we might term the operation of corporatism, i.e., the relationship between the corporatist polity and corporatist policies. To put it another way, there was a failure to focus on the role and characteristics of corporatist politics. Scholars regarded a particular set of formal policy-making practices as neo-corporatist (social pacts, tripartite negotiations at national or peak level, and forms of concertation) but offered few insights into how they functioned or adjusted over time (Parsons 1988). As Flanagan (1999, p. 1156) argued, discussions on corporatism had neglected the micro-foundations of decision making within interest organizations and the government, effectively assuming identical preferences among all members or an absence of democratic processes for resolving internal conflicts. As a result, the corporatist literature lacked precision on the process and outcome of bargaining among interest groups. That defect would handicap attempts to come to grips with the resurgence of corporatism (after its apparent demise) in the new circumstances of the 1980s and 1990s.

The first attempts to understand the new second-generation social pacts all focused on structural variables. Traxler (1995) and Traxler et al. (2001) argue that a shift from classic to “supply-side” or “lean” corporatism has been driven by the shift from Keynesian economic policy to a non-accommodating monetary regime under the Maastricht Agreement and EMU. Rhodes (1998, 2001) argued that concertation through a model of “competitive” neo-corporatism has been the response of European welfare states to increasing economic internationalization and accentuated economic integration in Europe. Others (Fajertag and Pochet 1997, Pochet 1998, Pochet and Fajertag 2000) trace the changing nature of the external context of new social pacts from the early phases of EMU (when the issue of pay restraint became central) to

the more recent period when labour costs and pension reform have risen to the top of the policy-making agenda. Crouch (2001) suggested that such “organized decentralization”—to use Traxler’s (1995) term—might prove to be a “new” (but unusual) form of neo-corporatism, in which representative organizations accept a role of restraining their members, a role that would also prove more appropriate for an era of global restructuring and monetary discipline than a disorganized *and* decentralized neoliberal alternative.

In stressing the functional appropriateness of new forms of corporatist experimentation, such interpretations drew the opposite conclusion from the literature on corporatist decline. Although the latter saw globalization, deindustrialization, and new post-Fordist production paradigms as undermining forces, perhaps there was also something in this turbulent environment that triggered the search for new modes of concertation. This interpretation suggested, in turn, the possibility of an evolutionary, transformative understanding of corporatism, rather than one that saw it as cyclical but essentially unchanging.

But although these contextual changes may help explain the presence of new incentives for governments, employers, and unions to engage in concertation, they do not in themselves explain how or why attempts at concertation achieved greater or lesser degrees of success in different countries. For although there is agreement on the renewed importance of concertation, there have been few serious and systematic attempts to explain why this has occurred and how it has been possible. As Molina and Rhodes (2001) argued, understanding the return to neo-corporatism in the 1990s and 2000s (both in terms of the redeployment of existing corporatisms and the emergence of new versions) required greater emphasis on the goals and strategic behavior of actors than on institutions and systemic variables (Therborn 1992).

It is therefore important to note the differences in actors’ perceptions and political resources in explaining the successful negotiation of any given pact. But it is also important to be able to generalize about the conditions for both emergence and consolidation. Several factors that received considerable attention in the older neo-corporatist literature remain relevant for that task: the importance of an external ‘shock’ or constraint that provides the proximate reason for a truce or settlement and compromise in the more or less antagonistic relationship between capital and labour; the importance of political exchange – although understood much more broadly than in its classical wage moderation/welfare state expansion trade-off form; and the need for some form of hierarchy – an element that was always present in first-generation social pacts because of the internal control systems of all-encompassing functional interest organization – but which is much harder to create under the looser, more fragmented institutional conditions of second-generation social pacts.

III. Understanding Second Generation Social Pacts: Emergence

The core differences between first- and second-generation social pacts are well known. Those pacts, typical of the pre-1990s Scandinavian social-democratic model, were based on and held together by a strong mechanism of political exchange in which trade unions traded wage moderation for increases in social spending. Increasing public expenditure was critical in gaining union support and compensating for the loss of wages to their members incurred via wage moderation, although to some extent in some countries (e.g. Germany) union inflation-aversion and their perception that greater employment would result from wage moderation replaced specific social wage compensation as the principal incentive for bipartite social pacts (Visser 2006; Acocella and Di Bartolomeo 2007).

Especially important were the organizational dynamics underpinning these pacts, especially the small number of actors (decision-makers) in the first-generation pacts and the fact that the

unions involved were all-encompassing, providing a strong element of hierarchy. Thus, not only were the private actors (employers and unions) able to clearly understand the costs and benefits of political exchange, but they were also able to communicate the benefits of the trade-off to the lower levels of their organization, preventing defection and free-riding at the base of their organizations (Summers et al 1993; Acocella and Di Bartolomeo 2007).

Second-generation pacts differ in terms both of motivation and underlying organizational dynamics. First, keeping the contrast straightforward for the moment, whereas the first-generation pacts traded wage moderation for welfare state expansion, second-generation pacts have traded the maintenance of employment levels or purchasing power for union members or the involvement of unions in managing parts of social security for a reform of the welfare state and the labour market, which sometimes involves not just restructuring but a reduction in certain types of protection and benefits. Whereas first-generation social partners were strong, centralized (or coordinated), second-generation social pact partners have been weaker and fragmented.

As a result of the innovative work of Sabina Avdagic, we now have important information about the paths taken by states and social partners to the signature of social pacts that also allow us to deduce motivations. Using fuzzy-set qualitative analysis (fs/QCA) of institutional and macro-economic variables, one of our project directors, Sabina Avdagic (2008), has demonstrated that no single condition turns out to be necessary, suggesting that the resurgence of policy concertation in Europe in the 1990s is complex, multi-causal and strongly influenced by context-specific conditions. Rather than one single variable, or a single set of variables, explaining all cases, there turn out to be three ‘causal paths’ to social pacting: path 1, which combines high inflation or deficits with weak governments and intermediate trade union centralization (explaining the cases of Italy, Portugal and Spain); path 2 which combines high unemployment, relatively centralized unions and predominantly weak governments (explaining Ireland); and path 3, combining high unemployment with intermediate trade union centralization (and corresponding to Finland).

This analysis also explains why pacts failed to emerge, or were never attempted. The 1990s was a period of important economic adjustment. The acceleration of socio-economic reform during that decade was driven in most EU countries by the process of monetary integration, which committed governments to strict anti-inflationary policies and responsible fiscal spending. But the institutional framework for policymaking differed considerably across them. Many countries (Austria, Denmark, France, Germany, Greece, Sweden, and UK) had no experience of pacts at all. But Italy, Ireland, Portugal and Finland engaged in broad tripartite pacts, linking incomes policy with labour market and welfare reforms, Spain experimented with narrower pacts, focusing on labour market and welfare policies, while the Netherlands and Belgium produced union-employer pacts under the threat of government intervention. The challenge, therefore, is not simply to explain why pacts emerged where they did, but also why they assumed different forms.

Avdagic (2008) reveals that where economic problems were evident, but governments were not weak, the latter either tried to correct imbalances unilaterally, or alternatively threatened unilateral intervention. In Greece, where Maastricht-related problems were particularly pronounced, the uninterrupted rule of single-party majority governments was one deterrent to pursuing tangible concerted agreements, preventing an efficient policy response to the debt and deficit demands of EMU membership. In Belgium and the Netherlands, where unions remain moderately strong, rather than investing heavily in tripartite concertation, coalitions with comfortable majorities used threats of unilateral government action if employers and unions failed to agree on an acceptable course of adjustment (for a similar argument about Belgium,

see Baccaro and Lim 2006). This ‘shadow of hierarchy’ argument also applies to the emergence of a pact in Finland in 2004, where the government strongly encouraged the Finnish social partners to agree to a deal (Donaghey and Teague 2005). Strong unions seem, on the other hand, to deter governments from seeking their support. As Baccaro and Simoni (2006) argue, social pacts seem to be coalitions between the ‘weak’ (governments who need to enlist social partner support) and the ‘weakened’ (trade unions that have declined and in which moderates have prevailed over militants).

Overall, we can take several lessons from this analysis. First, many of the factors that were critical for explaining first-generation neo-corporatist social pacts appear not to be relevant at all for their second-generation counterparts. This is indeed what one would expect given that neither macro-political, Keynesian style political exchange nor centralized, well-coordinated, all-encompassing functional interest organizations are in evidence in the new social pact countries. Thus in Avdagic’s analysis, none of the following models have explanatory power: combining a high economic problem load with union centralization; the ‘power-resources’ model, combining high Left cabinet incumbency with encompassing and centralized unions and different measures of economic problems; the classic corporatist model, focusing on institutional conditions (union encompassingness and centralization), or a model combining measures of economic openness and a tradition of consensus democracy with various economic variables.

Second, problem loads are important – social partners and governments do not engage in the difficult and messy process of pacting for the sake of it – but not on their own. In this respect, Avadagic allows us to nuance some more recent attempts to explain the new social pact phenomenon. While Hancké and Rhodes (2005) argued strongly that EMU convergence constraints on countries well out of line with debt, deficit and inflation membership criteria were the critical factors getting private and actors to negotiate and bargain. We now know that although those problem loads were important in a number of cases, unemployment also mattered much more so for other cases. In general, problem load is still an important factor in changing actor perceptions and creating ‘emergency’ situations in which extraordinary actions will be agreed to, an especially important condition in countries with little or no history as ‘negotiating societies’. Of course, governments have to perceive a political advantage in tackling a problem load via concertation: as Hamann and Kelly (2007) note, “[...] parties forge social pacts not only to deal with economic problems but also when they perceive them to be helpful in reducing the potential electoral costs of economic adjustment and wage policies”. Nevertheless, problem load in and of itself is not a sufficient factor of explanation.

Because third, we now know that the strength (or rather lack thereof) of governments and unions also matters, creating a quite different set of conditions for those pertaining under classical corporatism. Weak governments and weakening unions appear to be a critical factor behind social pact emergence. And the reason for that is that while weaker governments are more likely to give private actors ‘public status’ (Offe 1981) – making them in some cases the ‘agents’ in a classical principal-agent relationship – stronger governments are much less likely to do so because making trade-offs is always costly, and there is nothing ‘post-corporatist’ about this (cf. O’Donnell 2001). Even if macro-political trade-offs and pay-offs of the Scandinavian type are absent, concession bargaining in which governments agree to ‘tie their hands’ regarding certain policy innovations they may be seeking in return for union support creates obligations that are hard to renege on without undermining government legitimacy, even if the union partner concerned is relatively weak. Equally, a weakening union (it cannot be so weak that it will not provide a credible and reliable bargaining partner) will be more prepared to make concessions in an environment of austerity and sacrifice than a union that is

stronger and can exert influence through ‘negative power’ – i.e., the sometimes latent threat of disruption or protest if its core preferences are ignored. This analysis confirms the insights of the work of Baccaro and his co-authors that social pacts are frequently coalitions of the ‘moderate and the weak’ (Baccaro and Simoni 2004; Baccaro and Lim 2006; Baccaro and Simoni 2006).

This analysis is therefore extremely important in pushing forward our knowledge of the ‘why’ of social pacts. And it shows that not only are second-generation pacts different from their first-generation predecessors, but that quite different kinds of explanation must be sought for explaining them. This allows us to make the following generalizations about the new social pacts (see Molina and Rhodes 2002 for the original discussion of these features).

1. The state often plays an active role in negotiations, although in some cases, the government has intervened not as a third actor to a tripartite bargain, but in casting a ‘shadow of hierarchy’ over the actions of unions and employers, threatening unilateral intervention if a bipartite bargain could not be reached, thereby pressured unions and employers to come together. In most cases, it has been responsible for steering the bargaining process (Pochet and Fajertag 2000). There were echoes of this argument in the neo-corporatist literature well before the new social pacts emerged. Pekkarinen predicted this development in the early 1990s when he suggested that the gradual erosion of those institutions traditionally supporting neo-corporatism would increase the importance of public authorities. These would “replace, reinforce, or supplement private, centralized wage bargaining with various kinds of official intervention” (Pekkarinen 1992, pp. 18–19). Although he was not thinking of the countries where social pacts have emerged, his point is an important one. Governments may be vulnerable in those instances where they are forced to enlist private actors for public purposes, yet they must be ‘strong’ enough to “reward” cooperation and make alternative strategies costly for the actors” (Visser 2008: 18) or impose at least a ‘shadow of hierarchy’ on one or both social partners in the areas where it matters to them (Rhodes and Visser 2009). In this connection, Avdagic (2008) confirms an earlier insight into the contrast between classical neo-corporatism and new social pacts that government composition is now much less important than in the past when social democratic governments were the principal partners in pacting. Given the cross-party nature of welfare reform projects in many European countries, the dependence of corporatist concertation on Left governments has been replaced by a new pragmatism with regard to macroeconomic management and micro-policy reform, making newer forms of corporatism “rather neutral to government composition” (Traxler et al. 2001: 302).

2. An early perception in the new literature on social pacts was that the “balance between the negotiating partners has shifted substantially as compared with the situation prevailing when the pacts of the 1960s and 1970s were signed” (Pochet and Fajertag 2000, p. 18). The fragmentation or weakening of the trade union movement in most of Europe over the past 20 years has certainly diminished trade unions’ positions vis-à-vis employers and governments. Accordingly, negotiations and the political exchange involved have also been shaped by new asymmetries in the objectives and action capacities of the different actors. In the presence of these new asymmetries, the centralization and extensive associational coverage of the peak interest organizations of capital and labour is not be the *sine qua non* of successful corporatism. In certain contexts, new and flexible forms of concertation may actually be more successful when unions are less centralized and less embedded in the workplace. Thus, it is precisely the strength of the German unions that has enabled them to resist government overtures to negotiate labor market reforms that their weaker Dutch counterparts have been able to embrace (e.g., Ebbinghaus and Hassel 2000).

Nevertheless, as we also learn from Avdagic (2008), weakening itself is not as important as the level of strength. Governments can ignore truly weak unions, or even if they wish to seek their help, such unions will probably not be in a position to provide it, because they cannot deliver on commitments and/or they experience competition from other unions, usually more militant ones. Occasionally (e.g. Portugal) one union will make a deal and another will reject it; but the resulting pact will be all the weaker because of that. Thus, a relative degree of centralization and moderate strength emerges as an important organizational facilitator of social pact formation. In addition, when it comes to the durability or strength of a social pact, the kind of ‘internal hierarchy’ created by centralized unions may have to be found in functional equivalents in the absence of organizational cohesion in the new social pacts. Baccaro (2006) argues that those functional equivalents can emerge from internal interest-associating mechanisms, which can be of two types: aggregation and deliberation. He speculates that there is a shift to a form of associational democracy behind these changes, and argues that the previous emphasis of some kind of coercion (e.g. within unions) to get members to support a deal negotiated by their leaders, may be misplaced. As this factor may be critical for institutional consolidation, I return to this argument below.

3. New social pact concertation has not been centered on the distribution of financial resources among participating actors as in the past; the economic surplus that had facilitated compromises via side payments in the past is either absent or heavily restricted (Schmitter 1989, p. 70). Instead, concertation has focused, for example, on the establishment of adequate institutional frameworks for macroeconomic management and microeconomic (supply-side) reform. In practice, therefore, the new social pacts no longer stem principally from an incomes policy commitment, in return, say, for an increase in the social wage, as in traditionally conceived neo-corporatism. Instead, they stem primarily from the unions’ acceptance of pay restraint in return for an undertaking by the public authorities and employers to promote employment creation (Fajertag and Pochet 1997).

4. A second key component of the trade-off is the opportunity for the unions to help reform the welfare state via changes that span the labor market, social security, and industrial relations (Rhodes 2001). This is especially important when the social partners administer social insurance schemes, and lies behind the capacity of unions to compel governments to bargain pension systems reform. Thus, the process of exchange has also had a participation component, i.e., pay restraint in exchange for enhanced involvement in policy making and institutional design (see Traxler 1997 for an extended discussion). This is the first indication that the capacity for engaging in political exchange – a process variable - is still a factor in the formation of social pacts that institutional and macro-economic variables cannot detect. As argued by Traxler (1997: 35), there are two prerequisites for political exchange in the process of concluding social pacts: in terms of content, there must be a settlement (or at least suspension) of the conflict of distribution between capital and labor; and in terms of procedures, there must be a reciprocal allocation of representational and organizational privileges among the social partners.

It is precisely when concertation involves the distribution of concessions and sacrifices rather than economic surpluses (as has tended to be the case for the 1990s and 2000s) that procedural topics gain significance. These give the partners the opportunity to exchange representational and organizational privileges as compensation for material concessions and thus enhance the chances of building a compromise. As Natali and Rhodes (2008) demonstrate, pension policy reform bargains between governments and trade unions in France, Spain, Germany and Italy in the 1990s and early 2000s could only be achieved via complex trade-offs involving the allocation of representational and organizational privileges. These all involved

concessions by unions to pension system modernizers in government in return for a maintenance of their policy influence or co-administration roles, and/or agreement from the government itself to vary the distribution of costs and benefits across different categories of union membership.

5. There has been an extension of the issues covered by social pacts and agreements, and this has made the nature political exchange rather complicated in many pacts. Accordingly, macro-political bargaining has not been restricted to the negotiation of (short-term) incomes policies but has also involved the introduction of (longer-term) institutional reforms. This makes ‘issue-linkage’ a critical component of many of the most successful social pacts. To some extent, the competitiveness-orientation of many new social pacts has made such issue linkage the *raison d’être* of new social pacts. Incomes policies have been closely linked to social security reform for example. Rising social contributions linked to increasing social expenditure can counteract the positive effect of wage agreements, and thus social security reform necessarily becomes a key part of the wages/competitiveness equation. The linking together of issue areas in this way has favored the conclusion of agreements, for the greater the number of topics included in the negotiations, the greater is the chance of finding a compromise through ‘generalized political exchange’ and trade-offs (Crouch 1990) - a point I return to below. For as explored in the game-theoretic literature on social pacts, corporatism (whether ‘first’ or ‘second-generation’) poses some serious challenges to both policy makers and their traditional partners, trade unions, in cementing corporatist deals. Pay-offs, or side-payments, remain critical for the *quid pro quo* bargains that underpin social pacts – even in their second-generation manifestations: as Acocella and Di Bartolomeo (2002) put it, “although corporatism generally increases social welfare, it is difficult to be implemented since it often reduces the union’s utility. This result underlines the importance of, and the need for, a side-payment design in corporatist countries”.

6. Finally, there has been a tendency for the most enduring social pacts (for example, those of Ireland, Portugal and Spain) to be the subject of constant renegotiation. This is partly because of their extension to new issues (and sometimes new partners) in line with changing pressures for reform. But it is also because, in the absence of traditional institutional prerequisites, an iterative process can help consolidate concertation and embed it in institutions and behavior. A strong process may compensate for a lack of traditional corporatist prerequisites in countries where organizational structures are weak and fragmented. Nevertheless, as argued below, institutional consolidation in the most successful cases reveals that iteration must be complemented by political exchange and a degree of institutional control (hierarchy) if social pacts are to be more than a temporary fix and what by what Salomon (2002) calls ‘modulation’, or the ability to find the right combination of rewards and punishments (inducements and sanctions) to elicit the necessary cooperation. Hamann and Kelly (2007: 991) have argued that because pacts are often used by governments for electoral reasons – to bolster the strength of a party or coalition vis-à-vis its rivals – pacts will continue to be resurrected when such political considerations again become important. The question remains, however, why unions, let alone employers, should engage in such pacts simply because political parties consider them of electoral utility given that such agreement, as well as delivering potential benefits, will also extract costs from its partners.

IV. Understanding Second-Generation Social Pacts: Institutional Consolidation

Cooperation in complex political economies depends on strategic, economic and political considerations. As economists (who have been more aware of the political and power dynamics underpinning social pacts than certain political scientists) have pointed out, observations of practical cases of negotiations between governments and trade unions reveal the importance of threats, side payments, issue linkages, political exchange, and delegation of public functions to unions (Acocella, Di Bartolomeo and Pauwels 2004; Acocella et al 2006). As threats are rather rare (and counter-productive) in turning a non-cooperative into a cooperative game (except for cases in which an external actor, the state, exerts a ‘shadow of hierarchy’ type of influence in encouraging unions and employers to reach an agreement), then side payments, issue linkages and the delegation of public functions to partners to the deal will all be critical for social pact success – both at the stage of institutional emergence and institutional consolidation.

And yet there has been a tendency for political science observers of social pacts to ignore these features of pacting and to focus instead on perceptions and shared knowledge – a kind of constructivist rebuttal to the more rationalist, materialist preoccupations of those who focus on power and the ways in which antagonism can be converted into compromise via an altered set of incentives. Thus, Compston’s (2003) ‘configurational theory’ of policy concertation argues that the creation of broad policy concertation is caused by the combination of factors: (a) the recognition of a serious relevant problem; (b) considerable pre-existent agreement on the aims and mechanisms of economic policy; and (c) the perception that prospective participants are reasonably likely to implement their sides of agreements. Persistence will be based on the continued relevance of these factors; termination will be caused by their diminished relevance (Compston 2003). All of these factors may be relevant to social concertation, but they are internal to the concertation process itself and not especially attuned to circumstances – or to the power dynamics that are entailed in trade-offs and pay-offs, side payments, issue-linkages and the delegation of public functions to partners. Nor does it explain why second-generation pacts can happen at all given the absence of traditional neo-corporatist prerequisites in all of the countries where they occur.

Similar arguments about the importance of ‘perceptions’ and ideas come from Culpepper (2008) who combines a rationalist and constructivist approach to show how prolonged economic problems in the late 1980s and early 1990s in Ireland and Italy facilitated a process of “common knowledge creation,” which culminated in formal agreements over the transformation of wage bargaining institutions. He argues that once unions and employers became persuaded that the “failure to restrain wages would damage competitiveness and employment”, it was possible to shift to a cooperative “game in which a coordinated solution was preferred by both parties”. The critical point for Culpepper is what he calls a “common knowledge event”. The crux of the argument is that employers succeeded in arriving at a public statement of common knowledge that broke with previous union interpretations and shifted the agreed model of the economy to one that took inflation as the main constraint on international competitiveness, that in turn led to changes in wage bargaining institutions that employers had previously rejected out of hand. Union acceptance of a new set of common understandings increased the value of negotiated agreement relative to a breakdown of negotiation, thus changing employers’ ranking of institutional preference. In the wake of common knowledge events, they also possessed few persuasive arguments in favor of their most preferred institutional alternatives.

This is an argument about the nature of the consensus achieved within a bargain – but it depends not on the availability of political exchange, issue-linkages or the delegation of public functions (all of which other analysts show to have been important in both the Irish and Italian cases) but on the changing realizations by actors that their previously-held ideas were no longer relevant. That may well have been the case, but it provides the fraction of an adequate explanation as to why the deals should have been broached in the first place, and then signed. There is also no reference to the fact that concertation in Italy subsequently receded into the background, with neither partner being much interested in institutionalization, while in Ireland it becomes cemented by repetitive cooperation games, backed up by intensive investment in side payments – primarily tax concession in exchange for wage moderation.

Donaghey and Teague (2005: 486) similarly argue for the importance of shared perceptions, in their case referring to “learning mechanisms” that “focus on how labour market actors develop certain shared understandings and make particular strategic choices not in response to immediate macroeconomic constraints but due to historical initial conditions and cultural beliefs”. In fact, in many social pact countries, even a cursory glance at the ‘historical initial conditions’ and ‘cultural beliefs’ pertaining would suggest that social pacts were unlikely ever to be achieved. Donaghey and Teague also refer to the fact that “social pacts can give rise to bilateral reputational mechanisms between trade unions and employers’ organisations which have the effect of encouraging them to maintain cooperative relationships even when macroeconomic constraints change”. This is a much more perceptive comment, for as argued by Rhodes and Visser (2008), reputational costs are element underpinning the perpetuation of ‘commitment devices’ of which social pacts are one example. The problem, however, is that reputational costs - such as the fear of being considered a ‘free-rider’ or ‘defector’ from a deal - may not be sufficient to hold together partners who are not receiving any material benefits from such a deal. What keeps a pact together the critical question for persistence and survival, and for explaining why some pacts are limited to one- or two-shot games, and only rare examples endure.

As Visser (2008) argues, however, social pacts are just one institutional conduit to social partnership and learning “and as it turns out a rather exceptional one if we consider its lasting effects”. In the post-neo-corporatist era of social pacts, there are relatively few examples of well-institutionalized pacts for “other institutional formats for partnership and learning [...] based on coordination games, through peak level associations, trend following and vertical articulation, and on processes of consultation” are easier and less costly for all parties to engage in. Visser concludes (ibid.: 24) that “social pacts do not substitute for these older and more established modes of governance, but that they so sometimes renew, correct or reinvigorate these existing modes or offer a path to institution building where they do not exist”.

Moreover, as Hemerijck and Vail (2006) remind us in their study of corporatism in the Netherlands and Germany, just as there is more than one way to skin a cat, there is also more than one way for governments to intervene in economies facing significant problem loads, and social pacting is just one of them: “As the cases of Germany and the Netherlands amply demonstrate, the particular character of state responses to corporatist failures varies significantly with both national institutional capacities and specific policy legacies. Forms of intervention can range from stimulating corporatist accords in wage-bargaining and pensions, to legislating corporatist agreements in labour-market regulation, to bypassing corporatism in labour-market policy, to the dismantling of corporatism in social-security administration”. There is nothing inevitable, therefore about the likelihood that social pacts – even when they have succeeded in certain instances – will continue to be used in a given country, let alone proliferate to other ones.

Molina and Rhodes (2002) make two arguments about the prospects for institutionalization. The first is that the long-established premise of the theory of neo-corporatism that social partnership-type arrangements could be validly understood as a form of ‘political exchange’ remains important for understanding contemporary social pacts. This contrasts, as Roche (2007) has recently pointed out, with a powerful strand of thinking in theorizing the new social pacts that assumes away the importance of *quid pro quo* bargaining. While Regini (1997: 268) regarded social pacts as concertation “without explicit political exchange”, Hassel and Ebbinghaus (2000, p. 35) argued that “concerted social policy reform is more than a means to facilitate wage moderation; it is also an end in itself,” and Hassel (2003: 721) considered that “compensation was not vital to the interaction between governments and trade unions”. Donaghey and Teague (2005) argue from the highly successful Irish case (where pacting has persisted for twenty years) that “even though they have been unable to advance their agenda completely, trade unions have maintained a higher level of policy input and ‘special public status’ than they would have enjoyed without social pacts”, and that “*this benefit alone* [my emphasis] ought to be sufficient enough reason for trade unions to support fully their continuation”.

But as Roche (2007: 417) argues in one of the best analyses available of the Irish case, “social partnership in Ireland cannot be viewed as paradigmatic of social pacts that no longer involve a compensatory role for governments, realized through political exchange”. On the contrary, “the Irish case points to a politically and socially tempered monetarist posture on the part of the state, in which compensatory political exchange remained pivotal to securing union support and to legitimizing government policy measures”. As Roche goes on to argue, this point has wider applicability than just the Irish case, for “to the degree that political exchange *had* become debased in social pacts in other countries, the question arises as to whether the longevity and stability of social pacts in Ireland can in part be explained in terms of the continuing availability of a non-debased currency for exchange in the form of tax concessions, social welfare buffering, and measures to alleviate extreme poverty and to promote social inclusion” (ibid.: 417-418). This suggests that the failure of other countries to sustain pacting as generalized form of socio-economic governance

The second argument stressed by Molina and Rhodes (2002) is that although there has been much speculation regarding the ‘network governance’ character – with Traxler, Blaschke, and Kittel (2001: 301), for example, representing recent social pacts as a “distinct governance mode beyond hierarchy and market, something that is widely understood as the constituent property of a network” - such a portrayal of social pacts as institutions functioning “beyond hierarchy” is to misrepresent their nature for social pacts that succeed in acquiring a degree of institutionalization have continued to depend for their successful operation on a degree of hierarchy and institutional integration. Policy network analysis has been important in the ‘new governance’ literature in general, and has led to a great of romanticism in academic speculation about the rise of ‘deliberative democracy’ and utopian notions of ‘governance without government’ (See Rhodes and Visser 2009 for a critique). But it also has a respectable pedigree in the older corporatist literature, in the work, for example, of Bernd Marin (1990). Yet Marin never romanticized about ‘network governance’, but argued rather institutionalization via increasing network density would accompany a shift from ‘elementary political exchange’ (e.g., basic forms of wage bargaining) that can take place in weakly institutionalized contexts to generalized political exchange that requires a hierarchy of rules (or “calculated rigidity” in Marin’s terminology).

As Molina and Rhodes (2002) argues, this was why the linking together of diverse policy domains in weakly institutionalized social pacts could help sustain those pacts over time, sug-

gesting that the generalization of exchange could in and of itself generate new relations of dependence and mutual commitment—and a form of institutional hierarchy and rigidity. But as they also point out “Without hierarchy and integration—linking levels of bargaining and involving strong commitments (and exchange) between social partners and government—the new “networked” forms of corporatism could hardly be sustained”. Strong evidence in support of that argument comes once again from the Irish case where institutionalization has proceeded much further than in any other European social pact. Hancké and Rhodes (2005) argue that the persistence of the Irish social pact might be due to the fact that it is the weakness of or non-articulation between national and company employment relations that may have caused Irish governments and central organisations to regularly renew their social pacts, thus contributing to institutionalisation and expansion into more domains of government policy. And yet as Roche (2007: 420-421) once again points out, what is truly distinctive about the Irish pact is the ‘control system’ that has emerged, not just with the invoking of ‘reputational costs’ for renegeing on the terms of the partnership (although those are important), but a significant degree of hierarchy in the mutual monitoring of partner behaviour and preparedness on the part of labour in particular to mobilize strongly against those who would breach the spirit and letter of the agreement. Once again, the weakness or absence of repetition and institutionalization in many other of Europe’s new social pacts, and their frequent limitation to one- or two-shot cooperation games, is likely due also to their lack of hierarchical ordering in addition to the weakness of political exchange (Rhodes 2008)

V. Does Social Pacting Still Offer a Viable Strategy for Socio-Economic Governance?

A recent argument to emerge about second-generation social pacts is that they have become more widespread and important than their first-generation predecessors. Baccaro (2006) goes so far as to argue that “social concertation is not a declining institutional arrangement, but a recurrent and, overall, stable characteristic of European societies”. Writing in a normative vein, Donaghey and Teague (2005) go so far as to argue that “social pacts provide a mechanism of pragmatic adaptation to the trilemma of reconciling market integration, intergovernmentalism and democratic accountability” in the European Union. They do not explain how exactly, but they argue that national and EU-level social pacting will help Europe respond much better than it currently does to the need for stronger European-level social and economic policy making. Not only have pacts have been good for countries that have needed to accommodate wage bargaining to the formation and consolidation of monetary union, they argue, but having revealed their utility unions should now continue to fight for their adoption more widely. Their argument against those (their example is Hancké and Rhodes 2005) who argue that pacting may not be available on command, is that not only has the demise of certain pacts in the late 1990s and 2000s (e.g. Portugal and Italy) been due simply to the arrival of right-wing governments in power, but that new pacts (e.g. Finland in 2004) have continued to emerge, demonstrating their continued resilience and potential.

And yet a comparison of the pacting experience in Italy, Portugal, Spain and Ireland tell a more complicated story. The advantages of such pacts for policy making have been evident in the experiences of all four countries in the 1990s. But so too is the tendency for decline in two of them - Italy and Portugal – from the end of that decade. Only the Spanish and Irish appear to have been able to sustain ‘pacting’ as an effective, routine mode of socio-economic governance. The reasons for their success may also help explain other countries’ failures. The principle advantages of social pacting have been in securing wage moderation, fiscal consolidation and welfare state recalibration, especially in pensions. The broad Italian and Portu-

guese tripartite pacts of the 1990s linked incomes policy and collective bargaining reform with broader innovations in the labour market and social security systems. This amounted to an extensive – although far from complete - remodelling of their respective political economies. Governments took the opportunity of EMU membership to bolster their legitimacy by making employers and unions their close accomplices in reform.

But although such cross-policy area pacting might have led to institutionalization it did not – in large part because of the critical factors mentioned above: the absence of a capacity for political exchange (both countries have struggled with large public deficits) and the problems in creating an effective ‘commitment device’ in the presence of competitive union confederations, fragmented union hierarchies and governments inimical to public policy compromises. Even if both countries have struggled to make their public finances sustainable and EMU-compatible, pacting for the purpose of budgetary and labour market and social policy innovation has proven extremely difficult to resurrect. Thus, under the tripartite ‘Pact for Italy’ signed in 2002, social partner agreements were supposed to be taken into account in government legislation, employer-union initiatives followed on ‘irregular work’ and a dialogue was launched on a range of economic development issues. But they were of little practical consequence and there was no return to the successful pacting of the mid-1990s. In 2007 a new pact was signed by a very weak centre-left government and amidst considerable internal union dissent, an example of the ‘weak and the weakened’ coming to each others aide, as both sought to innovate in social policy before their electoral defeat at the hands of the centre-right at in early 2008 (Molina and Rhodes 2007). Portugal was a similar story. Having been a ‘poster boy’ for corporatism in unexpected places in the mid-1990s, in mid-2003, facing a worsening economic situation, as well as its breach of the Stability and Growth Pact’s 3 per cent deficit limit, the Portuguese government proposed a new ‘social contract’ to revive the three table negotiations and reintroduce an incomes policy in the form of biannual productivity-linked pay bargains. But the incentive and opportunity structures were now quite different from a decade earlier and the initiative failed. Labour market reform has become especially hard to introduce given serious divisions within the labour movement.

In Spain the story went rather differently. Like Italy and Portugal, Spain was a country with high inflation and deficits in the 1990s and also had weak governments and intermediate strength trade union centralization. There a successful but very flexible system of pacting has been achieved. The flexibility was established early on when after the unions spurned government invitations to join a tripartite pact, separate tables for welfare reform (unions+government) and labour reform (unions+employers) were created and an informal incomes policy was coordinated by the unions themselves to prevent a return to the state-governed industrial relations of the 1980s. This is a remarkable instance of disciplined self-government on the union side and a generalization of political exchange on an informal basis. Reform was undertaken across adjacent policy areas in the absence of an explicit, formal and all-encompassing pact ensuring not just that wage moderation and low inflation were achieved, but that major innovations in pensions in the 1990s were followed by further social and labour market reforms in the 2000s. Reputational costs and the recognition of the value of the public goods produced seem to underpin the continuation of repetitive but only weakly institutionalized pacting between the social partners. Governments, in turn, of both left and right, have good reason to keep the system going, although Spain is a majoritarian system, political parties who win elections must strike deals with small nationalist to govern, and shoring up their support with backing from other social actors always helps maintain political legitimacy.

In both Spain and Ireland, pacting has become routine, although it has taken quite different forms in each case. While in Spain the ‘two-table’ formula has provided both Socialist and Popular Party with an extra means of bolstering support given slender majorities (in line with the arguments of Hamann and Kelly 2007 and that of Avdagic 2008), while also providing flexibility for the social partners, as already indicated above, the Irish Pact has become a highly centralized system of decision making. The Irish pact – also a broad and tripartite – was not originally inspired by the challenges of EMU membership criteria, as was the case for the southern European countries, but emerged much earlier in the late 1980s when both inflation and debts were very high. Over the last 20 years or so, the Irish social pact has continued to contribute to, and has been underpinned by, a virtuous cycle of fiscal consolidation, an effective deployment of EU funds, the infusion of new technology and business practices by foreign firms, a re-regulation of the labour market, high productivity and employment growth and a reconstruction and recalibration of the welfare state.

Many have recognized that the Irish social pact may have lessons for other European countries, as well as insights into the reasons for more general social pact success and failure (e.g. Baccaro and Simoni 2007). The Irish pact is without doubt the most institutionalized and enduring of all social pacts, and the reasons for its survival over time are distinct from those – i.e., high unemployment, relatively centralized unions and predominantly weak governments – that help explain its emergence. Moreover, the distinction between this most significant (because ongoing) and successful (in terms of enhancing the competitiveness of the Irish economy) and ‘first-generation’ social pacts is important to note: the pact has not been fully redistributive (income inequality has worsened) and union consent seems to have been achieved via the maintenance rather than expansion of welfare benefits (Baccaro and Simoni 2004).

However, Roche (2007) places great emphasis on the capacity of the Irish government to engage in an ongoing process of political exchange (swapping tax reform, the sustained value of welfare benefits and employment creation for wage moderation) – a luxury that other governments (e.g. Italy and Portugal) have not enjoyed given the more parlous state of their public finances. As Hardiman (2004) also argues, “at the heart of the Irish social partnership process is the pay-tax trade-off, facilitating real pay increases through the employer-labour pay deal, supplemented by additional real increases in disposable income from government tax cuts.” While arguing for the importance of ‘network governance’ in sustaining the pact, Hardiman (2006) also emphasizes that “[...] the viability of this model of social partnership continues to depend on there being sufficient scope for both union and employer interests to arrive at compromise solutions, based on wage regulation, which can accommodate the issues that each side defines as central to their interests”. For partnership, against a background of weak systems of vertical and horizontal pay coordination, is critical in sustaining competition-related pay agreements in an economy that lacks the institutional embeddedness of incomes policy in countries. Indeed, Hancké and Rhodes (2005) argue that this is a critical element distinguishing Ireland from other countries in which incomes policy-linked social pacts have significantly weakened.

In sum, institutionalization and the persistence of pacts within particular countries is a rare phenomenon – and some of the central lessons of the older corporatist literature remain relevant to understanding why. For in the absence of ongoing political exchange, a strong external imperative (such as sustaining wage moderation in the absence of a coordinated wage system in the Irish case) and functional substitutes for the hierarchy and order imparted to first-generation social pacts by centralized, and all-encompassing trade unions, then corporatism in unexpected places, will remain a fragile affair.

VI. Conclusions

Although social pacting may be aspired to by many governments, many in the labour movement across Europe, and many in the pro-European social policy camp, there are serious limits to the likely expansion and deepening of the social pact phenomenon. Especially when faced with difficult distributive policy choices (tax policy, welfare reform, EMU-related fiscal, inflation and relative labour cost pressures), several insights from the above discussion reveal the problems of concertation as a viable and well-institutionalised mode of socio-economic decision-making in Europe.

The first insight is that incentives and opportunity structures do change and may make the ‘imperative’ of concertation less critical for certain partners – governments, unions and employers. The EMU convergence constraint provided an especially conducive context for collaboration – even among previously antagonistic parties. The challenges of fiscal sustainability and wage moderation remain, but many of the changes introduced in the 1990s have provided relatively strong long-term institutional responses to them. New problems ten years after EMU began include the large divergence in relative unit labour costs and current account positions between Germany, on the one hand, and Ireland, Portugal, Greece, Spain and Italy on the other, posing new productivity, pay-bargaining and structural reform challenges to these countries. Whether pacting will help meet those challenges can be answered in part, although obviously only speculatively, by insights two and three.

Insight two is that the existence of serious problem loads (high unemployment and fiscal deficits, and possibly in the near future, the declining competitiveness of certain Eurozone economies) do matter as triggers for social pacting, but only in certain circumstances – those where unions have a certain degree of strength (moderate-to-high levels of centralization and membership rates, enough that is to make them useful partners in policymaking and implementation) and where governments are relatively weak. The third insight, provided by Ireland, is that although the social pacts of the 1990s (and, where they persist, the 2000s) have not been based on the large-scale distributive bargains and social contracts that characterized Scandinavian neo-corporatism in its heyday, credibility and commitment are still critically dependent on political exchange – the capacity, that is, of governments to provide material inducements (tax reform, purchasing power adjustments, generous social and labour market provision) for continued participation.

As explored in the game-theoretic literature on social pacts, corporatism (whether ‘first’ or ‘second-generation’) poses some serious challenges to both policy makers and their traditional partners, trade unions, in cementing corporatist deals. Pay-offs, or side-payments, as political exchange are critical for the quid pro quo bargains that underpin social pacts: as Acocella and Di Bartolomeo (2002) put it, “although corporatism generally increases social welfare, it is difficult to be implemented since it often reduces the union’s utility. This result underlines the importance of, and the need for, a side-payment design in corporatist countries”. That capacity has severely declined in many of the new social pact countries, and bodes ill for the future of concerted policymaking.

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