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Summary

This paper explores the logic and conditions of institutionalisation of social pacts. What accounts for the continuation and diffusion of social pacts as an institution, once it has emerged? I will approach this question in five steps. First, I will seek to define social pacts as a particular institution in democratic capitalist societies, closely related to coordination in labour (or employment) relation and consultation, or concertation, in welfare state politics. Next, I compare social pacts will be compared to other institutional outcomes. Thirdly, the concepts of institutions and institutionalisation will be clarified in order to better understand what is involved when we apply these concepts to social pacts. Fourthly, I shall try to identify the empirical patterns of institutionalisation, and de-institutionalisation, of social pacts in the 1990s and early years of the new millennium. The concluding section is devoted to a discussion of the causal mechanism explaining patters of institutionalisation and institutional change.

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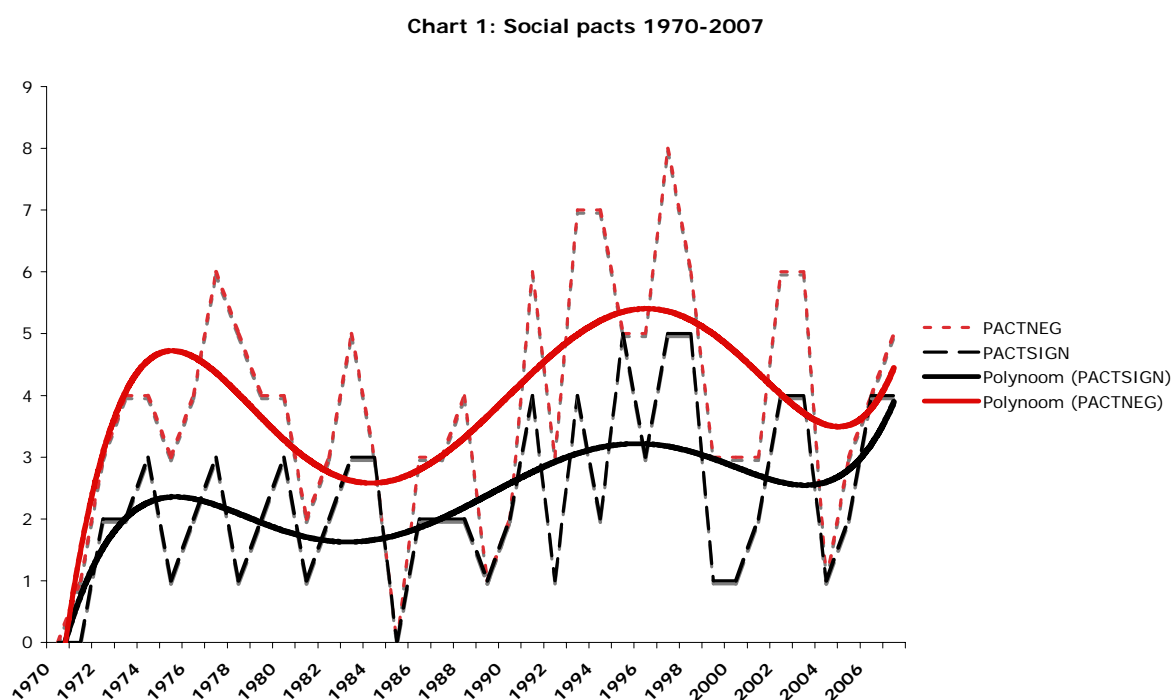
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I. Introduction

In the final decade of the last century there was a surge in the use of social pacts as a method to agree over wage increases, labour and welfare state reforms in many European countries. Attempts to strike such deals occurred in all EU member states except Britain. After transition and later, when preparing for EU membership, social pacts also made their appearance in the post-communist states of Central and Eastern Europe. All this was in stark contrast with developments in the non-European part of the OECD and in Britain, where policies towards co-ordinated wage and reform policies, negotiated with the trade unions, had been abandoned in the 1980s.

Chart 1: Social pacts 1970-2007



Source: ICTWSS Database, Visser (2008)

In Western Europe, the ‘second generation’ pacts of the 1990s represented a comeback, after the first wave of ‘incomes policy’ pacts negotiated in response to the 1970s energy and currency crises had resulted in rather disappointing results and provoked growing employer and political opposition. In the 1980s there was a lull in social pact activity, together with a tendency of decentralisation in labour relations.

The two peaks in social pact activity are particularly visible if we focus on *attempts* to negotiate a pact, with the initiative usually coming from the government (the variable ‘*pactneg*’ in Chart 1). There were 80 pact attempts in the second period (1990-2007), against 62 attempts in the first period (1970-1989). The success rate, that is, those negotiations that ended in a *signed* agreement (‘*pactsign*’ in Chart 1), went slightly up from 56.4 to .63.8 percent. In other words, about one in three social pact negotiations fails.¹

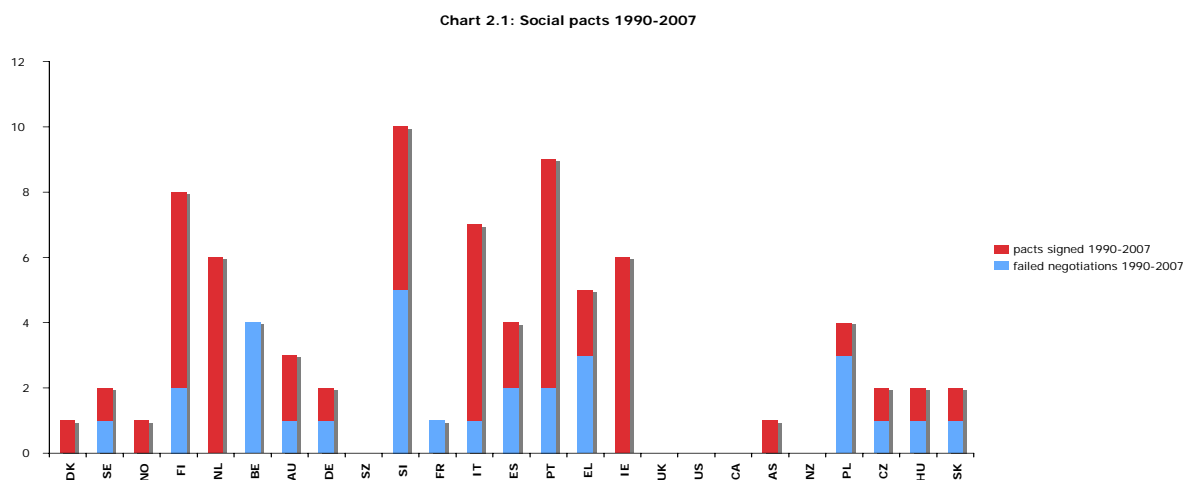
¹ The 26 countries included in the sample belong all to the OECD. They are Austria (AT), Australia (AS), Belgium (BE), the Czech Republic (CZ, 1993-), Denmark (DK), Finland (FI), France (FR), Germany (DE),

The ‘first generation’ pacts of the 1970s tended to be part of a Keynesian approach to economic policy, based on ‘political exchange’ of wage moderation and social consensus for increased public spending, employment creation and political support for trade unions (Regini, 1984; Lange, 1984). In contrast, the 1990s pacts were generally wedded to a monetarist policy stance and tried to enlist union support for wage moderation, the easing of labour supply and welfare reforms (Ebbinghaus and Hassel, 2000; Rhodes, 1998; Regini 1997; 2000). Their context was the approaching membership of the European Monetary Union (EMU), the Maastricht convergence criteria on inflation and public deficits, and attempts to improve the competitive position of firms.

The probability that in any one year a social pact will be negotiated went up from .15 in the first to .17 in the second period, an insignificant difference.² But such probabilities are highly skewed, with many pacts and pact negotiations in some countries and none or few in others. In some countries, like Ireland, Slovenia, the Netherlands, Portugal or Finland, the probability that in any one year a pact will be negotiated lies between 33 and 55 percent and would be much higher but for the fact that many of these pacts are negotiated for a period of two or three years. In France, Sweden or the United Kingdom the probability of pact negotiations is close to zero (see Chart 2.1 and 2.2).

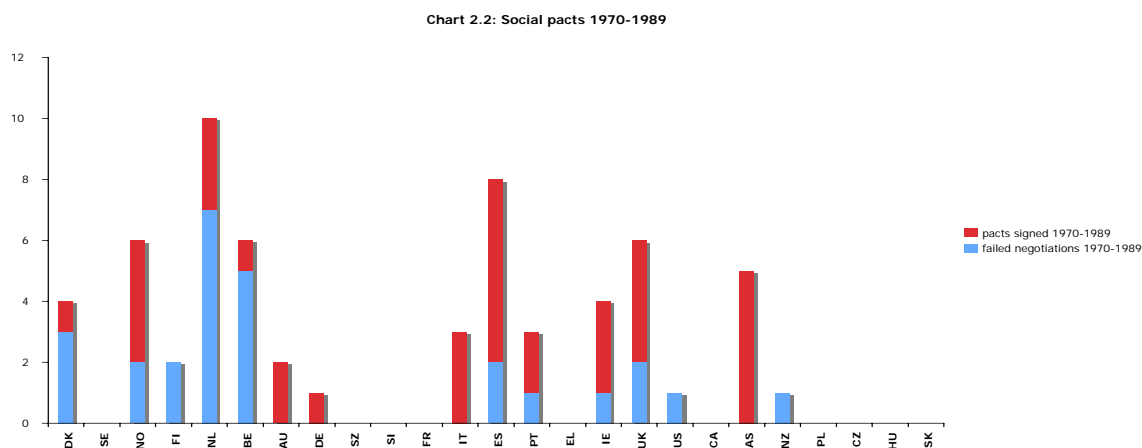
Chart 2.1 shows that during the 1990s and early years of the new millennium social pact negotiations spread to all countries in Europe except the United Kingdom. We observe a double process of repetition of pacts in a small number of countries and a process of diffusion of pact attempts to other countries during the 1990s.

Chart 2.1: Social pacts 1990-2007



Greece (EL, 1975-), Hungary (HU,1990-), Ireland (IE), Italy (IT), the Netherlands (NL), New Zealand (NZ), Norway (NO), Poland (PL, 1990-), Portugal (PT, 1976-), Sweden (SE), Slovakia (SK, 1993-), Slovenia (SI, 1990-), Spain (ES, 1977-), the United Kingdom (UK), the United States (US).

² $62/(21*20)-18$, and $80/(26*18)-6$.

Chart 2.2: Social Pacts 1970-1999

source: ICTWSS Database, Visser (2008)

There is little in the history of industrial relations and union-government cooperation of, say, Italy, Portugal, Ireland or Finland that would predict that, after 1990, unions, employers and governments in each of these countries signed no less than six social pacts. The surprise is that the new social pacts of the 1990s emerged and in some cases became repeated in unlikely places — characterised by rival and fragmented trade unions, decentralised collective bargaining patterns and the absence of robust conflict-resolving institutions, three conditions that had become associated with steady patterns of neo-corporatist policy making in labour relations (Lehmbruch and Schmitter, 1979; Tarantelli, 1986). As surprising and in need of explanation is that there appeared to be no or few pacts, or that negotiations tended to fail in some of the ‘likely places’ with profound traditions of neo-corporatist policy making, such as Belgium, Germany, Denmark or Sweden. All this calls for an examination, not only of the circumstances that propelled governments, unions and employers to negotiate and sign social pacts (Avdagic, 2008; Colombo, Tirelli and Visser, forthcoming), but also of the conditions that conduce them to re-issue and eventually institutionalise social pacts.

This paper explores the logic and conditions of institutionalisation of social pacts. What accounts for the continuation and diffusion of social pacts as an institution, once it has emerged? I will approach this question in five steps. First, I will seek to define social pacts as a particular institution in democratic capitalist societies, closely related to coordination in labour (or employment) relation and consultation, or concertation, in welfare state politics. Next, I compare social pacts will be compared to other institutional outcomes. Thirdly, the concepts of institutions and institutionalisation will be clarified in order to better understand what is involved when we apply these concepts to social pacts. Fourthly, I shall try to identify the empirical patterns of institutionalisation, and de-institutionalisation, of social pacts in the 1990s and early years of the new millennium. The concluding section is devoted to a discussion of the causal mechanism explaining patters of institutionalisation and institutional change.

The data used for this analysis comes from a database that was for this purpose assembled by the author, with financial support from the EU 6th Framework program as part of the NewGov project.³ The ICTWSS (Institutional Characteristics of Trade Unions, Wage Setting, State In-

³ Project 18a on ‘Distributive Politics, Learning, and Reform: National Social Pacts’ formed part of the Integrated Project (CITI-CT-2004-506392) on “New Modes of Governance” (Robert Schumann Centre, European University Institute, Florence) and was directed by Sabina Avdagic (University of Sussex), Martin Rhodes (Denver University) and Jelle Visser (University of Amsterdam).

tervention and Social Pacts) database contains information on wage setting (bargaining coordination, state intervention, minimum wage regulation), social pacts and agreements (type, actors, wage and non-wage issues, years of application), industrial relations institutions (bi- and tri-partite councils, routine involvement in policy making, sectoral organisation, employee representation in firms) and trade unions (gross and net membership, union density, bargaining coverage, organisational concentration, unity, authority of peak federations and national unions, bargaining centralisation) (Visser, 2008a). Currently, the database contains annual data for 38 countries, i.e. the 30 member states of the OECD plus the eight EU member states that not members of the OECD. A subset of 26 countries is used for the analysis here (see footnote 1). The data are mostly from national sources (books, journals and reports for the earlier years; government reports and documents from the social partners, excerpts from the *European Industrial Relations Online Observatory* (EIRO) and the *European Industrial Relations Review* (EIRR) for the 1990s and since.

II. What is a social pact?

The first step in any comparative research on social pacts must be to identify what a ‘social pact’ is and analyse the dynamics of social pacts with a more or less standard measure to be applied across cases. There has been some terminological confusion in the literature on social pacts and the borderline between central agreements and social pacts is not always clearly drawn. Some have included all negotiated reforms or legislation based on consultation with trade unions or employers as instances of social pacts (Kelly and Hamman, 2006), whereas other authors tend to identify social pacts as specific *tripartite agreements* over social and economic policies between governments, unions and employer.

In this analysis I adopt the restrictive definition of social pacts proposed by Avdagic (2008: 11): “publicly announced formal policy contracts between the government and social partners over income, labour market or welfare policies that identify explicitly policy issues and targets, means to achieve them, and tasks and responsibilities of the signatories”. This excludes a) tacit understandings or agreements that are not publicly announced⁴, b) bilateral agreements between employers’ organizations and trade unions that do not involve the government as negotiating party, and c) so-called symbolic or declaratory pacts that do not commit the negotiating parties to specific tasks, means and responsibilities.⁵ I concur with Avdagic that “calling all types of agreements social pacts regardless of their formal status, substantive content or actors involved would inflate artificially the number of pacts” (ibid) and make it virtually impossible to test hypotheses about the emergence and institutionalisation of social pacts as a specific institution in capitalist democracies.

However, even within this restrictive definition there are two situations that need further clarification. Least problematic is the situation that one main union or employers association is

⁴ An example is the tacit understanding between the Christian-democratic led Belgium government and the leadership of the main Christian union confederation in 1981 over the course of the stabilisation policy following the devaluation of the franc, which is claimed to have existed according to one of the union leaders of the principal Christian union federation, in contrast to the public protests of the same confederation at the time (Jones, 2004; Hemerijck, Unger and Visser, 2000).

⁵ Examples are the tripartite ‘agreements to agree’, concluded in 1992 in the Dutch *Sociaal- Economische Raad*, or in 1997 in the Austrian *Beirat for Wirtschafts- und Sozialfragen*. These agreements or understandings basically confirmed the commitment of all parties to the tripartite policy making approach and stressed the importance of that approach for meeting the challenges of European integration, especially in view of the nearing Economic and Monetary Union. Such agreements can be important steps in the institutionalisation of social pacting, but they are not themselves social pacts.

excluded from the negotiations, refuses to participate or withholds its signature under the final document. There are quite a few examples of this in Portugal, Italy and Spain, and even in Ireland, Finland and the Netherlands minority unions have often refused to be bound by the commitments undertaken by their peak associations or by the majority organizations. Such cases are still counted as social pacts, although obviously such exclusions and opt-outs suggest that the social pact is contested and fragile (Molino, 2006). More problematic is the case in which the agreement is negotiated with and signed by one of the social partners only. The famous “social contract” between the Labour Party and the British unions (1974-78) or the Australian Accord (1982-1991) are cases in point. The ‘pension pact’ of 1995 between the Italian government and the three main Italian union confederations is another example —the employers participated in the negotiations but did not want to sanction the final result. I have included such one-sided pacts under my definition, as they are in structure tripartite, allowing government policies to be conditioned by negotiations with, in this case, the trade unions. There are no examples of social pacts struck between the government and the employers, though such agreements may exist in other domains (corporate taxation, investment) not considered in this paper.

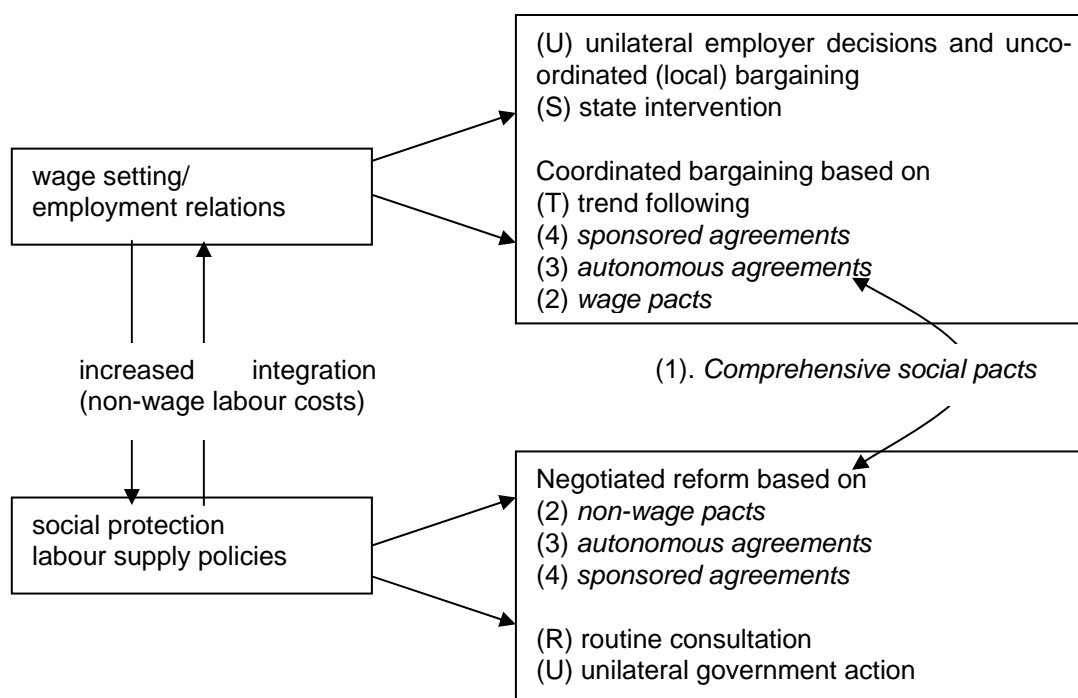
The second situation to be considered is one in which the government is directly or indirectly involved in the negotiations, but does not formally sign the pact. The Wassenaar agreement of 1982 in the Netherlands is a case in point (Visser, 1998). Formally this was a bipartite agreement, prepared and signed between the two chairs of the main union and employers’ peak associations, but the agreement was made so as to prevent another government intervention in the industrial relations domain. The ‘shadow of hierarchy’ (Scharpf, 1993; H  ritier, 2002) of a government measure restricting the employers’ freedom to manage and the unions’ freedom to negotiate was constantly present in shadow negotiation with Ministry officials that took place in the tripartite Social Economic Council. I see this as a case of indirect negotiations by the government and count such agreements negotiated under the shadow of hierarchy as tripartite social pacts if they lead to explicit commitments of the government. In some cases, for instance the Dutch social pact of 2004, the pact consists of two agreements – one between the social partners, and one with the government (Van der Meer and Visser, forthcoming).

The Irish and Finnish social pacts are strongly influenced by the government’s willingness and ability to compensate union and employers’ concessions with tax compensation (Johansson, 2006; Roche, 2008), but formally very different. Irish pacts are prepared in the tripartite National Economic and Social Council, negotiated under guidance of the prime Minister’s office and signed by the Cabinet (O’Donnell, and Thomas, forthcoming). Kauppinen (2000: 161) reminds us that in Finland pacts are called ‘income policy agreements’ that are formally signed between the central union and employers’ organisations. However, these agreements are premised on explicit promises of the government, in particular the Finance Minister, which are annexed to the agreement. The rule of the game is that these promises will only take effect if a sufficient large number of union affiliates and sector organisations ratify the agreement. As in the Netherlands, central agreements are unlike collective agreements not legally binding but merely recommendations, with a strong element of moral and financial pressure however. If many unions fail to ratify the agreement, employers and governments can back out. I consider these agreements, although formally bipartite, as instances of tripartism, based on a strong presence of a ‘shadow of hierarchy’ based on credible legal intervention or promises. Without formally signing, the government actor does commit itself to a particular course of action depending on the commitments of the other actors.

III. Social pacts and the alternatives

Before analysing how social pacts may become institutionalised, we must also consider the alternative courses of action each of the three actors – unions, employers, governments – can follow. In the absence of a social pact there are several possibilities. Each of the three actors can act unilaterally and let the issues be determined by power, market forces and conflict. Or they can try to coordinate their decisions bilaterally. Making a distinction between the two broad policy domains or issue areas covered by social pacts – wage setting and employment relations on the one hand and welfare and labour market reform on the other – there are then different institutional outcomes other than a social pact. These are pictured in Chart 3.

Chart 3: institutional outcomes



Thus, if the government and the social partners do not reach a social pact, various other possibilities obtain, some of which imply other forms of coordination and consultation. In the domain of employment relations and wage setting, employers may resort to unilateral decision making, shrinking the domain of collective representation and bargaining, to which unions may respond by local bargaining or conflict. This is the market alternative to neo-corporatist labour relations described by Goldthorpe (1984). But unions and employers may also stay within the model of collective labour relations and try to coordinate bargaining outcomes through central agreements, like they did or do in Scandinavia, or by using a trend following mechanisms as in Austria or Germany. And the government may step in and try to influence behaviour and outcomes through the instrument of the statutory minimum wage, using the public sector as a benchmark or imposing legal limits. France and Belgium offer recent examples of such state-led strategies of coordination, of which there are also examples in the post-communist countries in Central and Eastern Europe.

In the domain of social protection and regarding policies affecting labour supply (training and education; employment protection legislation; taxation; work-family policies), the position of unions and employers is usually more conditioned by legislation and politics than in the do-

main of wages and employment relations, and also within these domains, and across countries, there are profound differences in the degree to which social partners have claimed an autonomous policy-making and administrative role in social insurance, employment protection or training policies (Visser, 2008b).

There are, again, several possibilities. Governments can take decisions in these domains unilaterally, unencumbered by the advice or veto powers of unions and employers. This has been the way taken by the British government since the early 1980s. But in most countries the veto powers of the social partners are such, they governments must seek their advice and engage in some form of consultation. This can be organised via the party system, like the once powerful liaisons between unions and Social Democratic or labour parties in Britain and Scandinavia, through the role of the social partners in committees preparing legislation (as in Switzerland) and through tripartite committees and councils (as in Austria, Belgium, or the Netherlands).

It is also possible that large chunks of labour and social protection regulation are delegated to the social partners and the law plays a minor role — as in the Danish case. In that case the social partners may try to shape policies, and pre-empt legislation, through autonomous agreements. In the 2004 agreement, which deals with parental leave and strike payments, the Danish social partners included a so-called mousetrap clause, discharging them from responsibility should Parliament decide new legislation. This is a case where politics operates under the “shadow of agreements”. Sponsored agreements, on the other hand, operate under the shadow of the legislation, which it prepares or tries to modify. These agreements depend for their implementation on legal action. Since the early 1970s there is a series of such agreements in France – in topics varying from training or unemployment funds to working hours. In Portugal, Spain, Greece and Belgium, too, there is a tradition of sponsored agreements, both in the wage and non-wage domain.

Before applying the conceptual scheme in Chart 3 to the actual data and analyse the pattern of social pacts in relation to other institutional outcomes, I now turn to a discussion of institutionalisation as a process.

IV. The institutionalisation of social pacts

If by *institution* we mean a social order or pattern of behaviour that has attained a certain persistence or regularity, *institutionalization* denotes the process by which this occurs, *de-institutionalization* its weakening or disappearance, and *re-institutionalization* its change or reappearance (Jepperson 1991: 145). According to Lepsius (2001), institutionalisation involves the formation of specific dominant ideas and value orientations that guide behaviour; the differentiation of life domains or contexts in which these orientations are seen as ‘valid’ as opposed to other domains where they are not or less, including the conflict between domains; the availability of sanctions; and the possibility to externalise contingencies.

Institutions inevitably carry a normative aspect — the ‘infusion of power with value’ (Stinchcombe, 1968). Institutions reflect the actors’ “self-understanding about what is the right thing to do” (Mahoney 2000: 523) and persist when they embody norms, beliefs or value orientations that are shared and accepted as appropriate and just (March and Olson, 1982). The stronger and the more widespread these norms, the more stable the institution will be. A particular kind or pattern of social behaviour is institutionalized if the basic idea or set of expectations on which it is based has acquired a particular ‘validity’ for the actors and is chosen “because it is in some appreciable way regarded by the actor as in some way obligatory or exemplary (*verbindlich* oder *vorbildlich*) for him” (Weber 1985 [1922] 15). Social pacts — rather social pacting as an activity — become institutionalised if the relevant actors consider

‘social partnership’, consultation, joint decision making, concertation, *overleg*, as their first choice of behaviour above the alternative of unilateral decision making, bargaining, haggling and fighting it out.

Obviously, such a norm cannot apply everywhere, not even in the social-economic domain. In his study of labour relations in the Netherlands, Windmuller (1969) defined *overleg* as the implicit commitment to go to extraordinary length to find compromise solutions’ and noted that this principle stood against the values of entrepreneurship, risk and innovation. Here, domain differentiation comes in. To stay with the Dutch example, the initial post-1945 arrangement was that macro-economic decision-making, including wage setting and the lay-out of the post-war welfare state, is a matter for tripartite decision making, whereas decision-making within the company remains the prerogative of the employer. This domain differentiation, at first accepted by the unions, was in later years questioned and rendered invalid. A fight over the domain of validity of particular principles and value orientation is characteristic of an institutionalisation process. These conflicts can exemplify themselves between specialised organisations — for instance between trade unions and investors or companies — but also within organisations — for example between the human resource and the finance department of a business.

Some institutions may be fully self-enforcing, if the effects they produce are fully aligned with the motivations of the actors, in other words if they produce outcomes and incentives motivating actors to continue behaving in accordance with its principles. Such self-enforcing properties are very important for the stability of any institution (Greif, 2006; Greif and Laitin, 2004). However, in the domain of social pacts and with reference to a norm like social partnership, consultation, concertation or *overleg*, institutionalisation, or the stability of the institution, will also be tied to the availability of sanctions, i.e. the expectation that actors will incur disadvantages, in particular public disapproval, if they fail to conform with the norm when following the norm is inconvenient or not expedient (see Streeck and Thelen, 2005). Sanctioning may be based on loss of status, prestige or reputation, financial damage or legal punishment — the crucial question for institutionalisation of social pacts is whether such sanctions have a public element, over and above the damage unions and employers (and the government its capacity of employer) can inflict upon each other.

Finally, institutionalisation of a particular norm in a particular domain implies that the consequences of following that norm can at least in part be externalised. This is inherent in the notion of differentiation. Thus, if the application of the partnership norm in industrial relations implies a certain degree of buffering of the price and quantity of labour against the vagaries of the market, it has consequences for the management of firms and of the economy. Firms need to plan more ahead and they may grow more cautious in hiring permanent staff. National economies must develop matching policies between demand and supply of labour, including unemployment insurance, training and active labour market policies. In the case of social pacts, the crucial questions are two: how the interdependence between the two main domains of labour relations and social protection are handled, and how decisions in both domains are related to issues of productivity, social and economic change, and global instability. Pacts are (more) institutionalised if they have created (more authoritative) shared analysis and specialised institutions dealing with these interdependencies.

To sum up, my understanding of the institutionalisation involves the adherence, among the relevant actors, to a particular set of principles or behavioural norms; the public recognition of a domain, or domains, where such principles or norms are considered valid; the legitimate expectation that deviance will be sanctioned; and the availability of boundary spanning institutions and analysis dealing with external contingencies. This understanding goes beyond the

mere observation of a repeated series of social pacts. Pact repetition may, but need not, indicate institutionalisation. We may see it as provisional evidence that institutionalisation of the pact principle may have happened, but further research may indicate that a new pact was concluded because the previous one was violated. Moreover, defining institutionalisation of social pacting broader and in a sense deeper than the pacts that happen to be signed, we can better understand the dynamics between social pacts and routine consultation (in the domain of social protection) or coordination (in the domain of labour relations). It is to this dynamics that I turn in the next section.

V. Patterns of institutionalisation

In table 1 I summarize the alternation of social pacts and social partner agreements in the domains of wage setting and welfare reform, using the distinctions in Chart 3.

Table 1: Patterns of pacts and agreements, 1993-2007

		'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07
DK	t▷T						^3									
	R						(2)		3				3			
SE	t▷T			^3		3										
	R▷r						^2						3			
NO	S▷s	1					3				3		3		3	
	R	1														
FI	S▷s		^1	1			1		^1	1		1		1		
	R		^1	1			1		^1	1		1		1		
NL	s	2		3		3		3		3	2	(1)	1			
	R				3	2					3	(1)	1			3
BE	S	^2	4		^2	^1	4		4		4		^4		4	
	R					^1	4		4		4		^4	^2	4	
DE	T															
	R/r				^2		2	2	(2)	^2						
AU	T															3
	R/r		^2	2		2				4						
SI	S	^2	2	2	2	^2		^2	4		4	1				1
	r▷R											1				1
FR	S					^2										
	r/R			4					4			4				4
IT	s	<i>1</i>					(1)									
	r/R	<i>1</i>		2	2		(1)		2	4						2
ES	s	^2									3	3	3	3	3	3
	r/R		4		4	2				4					2	
PT	S				1					2	^2	^2				
	r/R				1					4					4	
EL	S		^2		4	(1)	4		4		2		4		4	
	r					(1)			^2	^2						
IE	u		1			1			1			1			1	
	r▷R		1			1			1			1			1	
UK	U															
	U															
US	U															
	U															
PL	s/u											^1				
	u	2										^1				^2
CZ	s/u						4									
	u															
SK	s/u	(4)	(4)	(4)	(4)			(4)	(4)	(4)	(4)	(4)				
	u														2	
HU	s/u						(2)									
	u															

Source: ICTWSS Database.

Note: based on Chart 3. 1=comprehensive social pact; 2=wage pact (first line) or non-wage pact (second line); 3=autonomous (bipartite) agreement; 4=sponsored agreement; R (upper case)= established tradition of consultation over welfare state/labour market policies; r (lower case)= weak tradition; T=trend following in wage setting; t=weak element of trend following; S=strong pattern of state intervention or state influence in wage setting; s=weak pattern of state influence; U=uncoordinated bargaining or state unilateralism; u=mostly uncoordinated. *Italics/bold* = constitutive pacts (see text); between brackets: minor or weakly implemented agreements or pacts; ^ indicates failed negotiations.

From table 1 we can derive a few simple observations. Firstly, there are only a few series of repeated social pacts: Ireland, Finland, possibly Slovenia. There are many more experiences of repeated sponsored or autonomous, usually *partial* agreements between the central organisations. Secondly, comprehensive social pacts, covering many issues in both domains, rare, and although wage pacts are more frequent than non-wage pacts, the latter become more frequent in later years. Between the first (1970-1989) and second (1990-2007) period, the incidence of comprehensive pacts decreased from 59 to 51 percent of the total; “wage only” pacts decreased from 31 to 20 percent, whereas “non-wage” pacts became more frequent, with an incidence rising from 5 to 29 percent. Similarly, sponsored agreements became more prominent than autonomous agreements.

How are these alternatives related in time? Following my argument in section two about alternative institutional solutions, I propose that the patterns of agreements and pacts, shown in table 1, be analysed against these alternatives — different modalities of central agreements and coordination, state intervention, and consultation. The presence of these alternatives varies across production, employment or industrial relations regimes. Table 2 stylized the institutional differences between these regimes.

Table 2: Industrial relations regimes or arrangements

	North	Centre-west	South	West	Centre-east
Production regime	Coordinated market economy		statist market economy	Liberal market economy	Statist or liberal?
Employment regime	Inclusive	Dualistic		Liberal	
Industrial relations regime	Organised corporatism	Social partnership	Polarised/state-centred	Liberal pluralism	Fragmented/state-centred
Power balance	Labour-oriented	Balanced	Alternating	Employer-oriented	
Principal level of bargaining	Sector		Variable/unstable	Company	
Bargaining style	Integrating		Conflict oriented		Acquiescent
Role of state in labour relations	Limited (mediator)	‘Shadow of hierarchy’	Frequent intervention	Non-intervention	Organiser of transition
Role of social partners in welfare state	Institutionalised		Irregular/ politicised	Rare/ event-driven	Irregular/ politicised
Countries	Denmark Norway Sweden (Finland)	Belgium Netherlands Germany Austria Slovenia (Finland) (Ireland)	France Italy Spain Portugal Greece	UK USA Ireland	Czech Republic Hungary Poland Slovakia

Source: Visser (2008): based of Ebbinghaus and Visser (1997); Crouch 1993; 1996; Schmidt (2002; 2006); Bohle and Greskovic, 2006; and Platzer and Kohl (2007).

In Scandinavia social pacts or pact attempts, if occurring at all, are set in a tradition of autonomous agreements and consultation over social policies. In the wage domain, the state appears to have left affairs to the social partners, albeit within a new macroeconomic (monetary) framework and with reinforced procedures for conflict settlement. This conclusion does not apply to their Northern neighbour Finland.

Formally, Finnish social pacts are central agreements propped up by the government with tax concessions. The last forty years there were only six years – 1973, 1980, 1988, 1994, 1995 and 2000 – without such agreements. In years without these incomes policy agreements, there is pattern bargaining based on a few large sectoral contracts (Johansson, 2006).

Of the three Scandinavian countries, Norway comes closest to the Finnish example. In the 1970s Norway had a spell of tripartite income policy agreements, but in the 1980s it returned

to a mix of central, pattern and local bargaining, with government interventions in 1988 and 1989. In 1993, after long preparations beginning in 1991, the central organizations signed a tripartite agreement for five years (“The Solidarity Alternative”) about incomes policy, macroeconomic (monetary) policy, public spending and taxation, structural policies, social security, employment legislation, job programs and active labour market policies. This experience was not repeated, however. Norway returned to the pattern of half-way centralised bargaining, with more space for company supplements and sectoral variation, albeit regulated within a unique, highly centralised and *compulsory* arbitration system. As in the other Scandinavian countries, collective bargaining at any level remains embedded in the often renewed bipartite “basic agreement” between the central organisations, which guarantees union participation and consultation rights and contains a “cooperation agreement” which regulates the activities of different coordinating bodies within and beyond the firm, extending into a host of labour supply and skill qualification issues.

With most labour and social security law originating not in Parliament but in collective bargaining, ‘pact-like agreements’ in Denmark involve the government only very indirectly. Moreover, these bipartite agreements, though extending into the welfare and social protection domain, are usually settled for the private sector only (Due, Madsen and Jensen 1997; Visser, 2001). With regard to wages, Danish collective bargaining has long ago given up on central agreements and even industry agreements settle only minimum rates. However, bargaining activities remain coordinated within highly concentrated organisations of unions and employers, which regularly negotiate principles of understanding and “climate agreements” preceding the bargaining rounds that now take place every four years. Unions and employers, mainly through their peak associations, remain involved in drafting legislation and in implementing the provisions subsequently passed by Parliament.

In comparison with its neighbours, Sweden’s conflict regulation system is much more ‘voluntaristic’, with weak powers and limited resources, consistent with the treasured principle of freedom of government intervention (Elvander, 2002). Until recent there were no emergency provisions analogous to compulsory arbitration in Norway or parliamentary intervention in Denmark. After the breakdown of centralised agreements in 1980s and the employers’ withdrawal from central coordination in 1990, the centre of gravity in pay bargaining definitely shifted downward, with local bargainers controlling much more of total earnings, more of which is calibrated to performance, with an increasing residual that is individualized (Martin, 1995: 282). In the mid-1990s attempts to establish a common wage norm foundered and in 1998 the government’s attempt to draw the social partners into signing a social pact — on issues of taxation, labour law and investment—failed as well. However, in the preceding year, the main unions and employers’ associations in private manufacturing sector had agreed on a new conflict resolution system in 1997. This “Industry Agreement” was emulated throughout the economy and pre-empted government intervention on dispute settlement. With the agreement came a host of new institutions, joint committees and councils: the Economic Council for Industry (1997) with independent economic advisors; the selection of eight impartial chairs with powers to intervene in collective bargaining; and the International Committee of Industry (1999).

My conclusion is that in the three Scandinavian countries social pacts remained a marginal phenomenon. It may be that the decision not to participate in the EMU offered governments and social partners more room of manoeuvre, but it seems to me that the autonomy of social partners and their ability to conduct coordinated and decentralise wage bargaining, while shoring up conflict settlement procedures, is of greater importance. Governments had few sticks or carrots in the wage domain and social partners had already full access to influencing

public labour market and welfare policies, through the parliamentary and party channels. The Finnish experience deviates in the sense that the state has always played a much stronger role in labour relations and wages. In this sense, its experience is closer to the continental corporatist group.

In contrast to the “inclusive employment regimes” of Scandinavia, where “organised labour has a strongly institutionalised participation in decision-making, both in its own right and through its influence over the party in government” (Gallie, 2007: 18), the “dualist employment regimes” of continental Europe tend to “be characterised by a consultative involvement of labour in the decision-making system, reflecting its weaker organisational strength” (idem, 19). Labour’s influence on policies will be contingent on the political orientation of the government and the strength of unions will mostly depend on “a more easily mobilisable core workforce of employees in large firms” (ibid.). This tends to be reflected in larger differences between insiders and outsiders as “dualist regimes are less concerned with the overall employment levels but guarantee strong rights to a core workforce of skilled long-term employees, at the expense of poor working conditions and low security at the periphery” (idem, p 18).

Social pacts, in this context, tend to oscillate between a confirmation or, where it did not exist, the establishment of social partnership and attempts to reorient policies and outcomes away from the extremes of labour market dualism. The social pact experience is uneven, however, marred with failure in Belgium and Germany, conspicuous by its absence in Austria and France, at times prominent in the Netherlands, Italy, Spain and Portugal, and promising in Slovenia. In the Netherlands, social pacts, beginning with the Wassenaar agreement of 1982, have contributed to the renewal or re-institutionalisation of social partnership, first in the domain of wage setting and much later, after many years of conflict during well into the 1990s, in the domain of welfare reforms (Visser and Hemerijck, 1997). The major breakthroughs, in the areas of disability pensions, early retirement, unemployment insurance, activation and severance payments, came in the period 2003-2008, with a major agreement over limiting severance payments to ‘insiders’ as a quid pro quo for measures stimulating the employment chances for people furthest from the labour markets. This pact took its inspiration from a similar deal, in 2001, in Austria.

Remarkably, in Austria, Belgium and Germany social pacts are most conspicuous by their absence or, if they happen, their episodic nature and non-renewal. As in the Netherlands, social pacts or pact attempts in Austria, Belgium and Germany must be seen in the context of a social partnership tradition, extending into many areas of social policy making, including decision making in firms (co-determination). In Germany, like in the other countries of the “neocorporatist heartland” of continental Western Europe (including the Netherlands, Belgium and Austria), the state tends to formulate and implement policies in tandem with certain ‘privileged’ societal actors, mainly business and labour. Rather than acting through open policy networks, and exerting their influence through lobbying, as is the case in the liberal-pluralist model, these interests are organised in peak associations. Compared to the Netherlands with a unitary state, the state in federal Germany, Austria or Belgium is more encumbered by veto points and less effective in its bargaining with societal interests (see also Streeck, 2003). In Germany this weakness is partly compensated through a stronger legalism, especially in labour relations. This helps to reign in interest groups, but does not give the state the sticks and carrots needed in pact negotiations.

If successful, social pacts contribute to re-institutionalisation of social partnership. Arguably, this was the importance of social pacts in the Dutch case. If pacts fail, as was the case with the German Alliance for Jobs (1998-2002), the consequence may be de-institutionalisation. When

the German government did engage in social pacting it was without effective means in the wage setting domain and the pact disintegrated soon after its start. Its institutional consequences derive from the *failure* of this pact—the decision of the subsequent government to bypass the unions in a series of labour market and welfare reforms, hence to de-institutionalise social partnership and shrink its domain. Interestingly, similar pact failures in Austria (pensions) and Belgium (two comprehensive pacts in the 1990s and the “generation pact” of 2005) had different institutional consequences. In Austria the partnership institutions were surely weakened and bypassed on some occasions, in Belgium the state reclaimed a supervisory role over wage setting before allowing the social partners to influence social policy reforms through a repeated pattern of sponsored agreements, thus continuing a tradition that goes back to the 1960s.

The role of the state – as participant actor or external enforcer - can be extremely important in determining the emergence, continuation and demise of social pacts. The implementation, continuation and reiteration of social pacts may depend on state interventions that ‘reward’ cooperation and make alternative strategies costly for the actors. This presupposes that the state is powerful enough and has the capacity to credibly threaten the other actors in domains where it matters to them. As Streeck (2003) has argued, the evolution of the German wage setting system (which is increasingly considered problematic by most of the actors concerned) into a practice of neo-corporatist cooperation, linking wage setting with other policies, has not been possible, since it would have required legal prerogatives and political capacities which the post-1949 federal German state does not have.

This role of the state is particularly important in Southern Europe, where table 1 reveals an alternation of social pacts and sponsored agreements in both the wage and non-wage or social protection arena. Social pacts, where they emerge (Spain in the early 1980s and, more sporadically, in the 1990s; Italy in the 1990s, after previous experiences in the late 1970s and early 1980s; Portugal after 1986 and especially between 1995 and 2001; Greece between 1997 and 2002) are attempts to *establish* rather than renew a partnership approach. The same conclusion applies to Ireland, to France or Britain, had their been any serious social pact, or to the post-communist states of Central and Eastern Europe.

Following Schmidt (2002; 2006), I classify Italy halfway between the state-centred and corporatist model. In Italy, state and society do try to act together, but they tend to be weak on both sides and the state operates in a clientelistic rather than a corporatist manner. The corporatist approach in industrial relations was strengthened in the 1990s, for instance with the 1993 pact on collective bargaining, which was renewed in 1998 and still stands, even though it is contested from within the ranks of the employers and trade unions. The neo-corporatist basis for a partnership approach in Italy is probably weaker even than in Germany, ‘since the cooperative orientation of societal actors is of recent vintage, not backed up by public law, and much more dependent on action by a state that remains quite weak, despite changes for the better in the 1990s’ (Schmidt, 2006:147). Although sharing some of these features, the social pact experience tends to have more lasting institutional effects in Spain — among others from 2002 on a series of relative autonomous annual ‘wage orientation’ agreements as well as a few crucial pacts and agreements over employment legislation, training, contracting and pensions, intended to correct the extreme dualism in the Spanish labour market. The strength of the government, run by more united political coalitions, and the remarkable unity between Spain’s two main union federations, may have been instrumental in this degree of partial institutionalisation of the pact experience.

The lack of unity, clearly, has prevented such modest institutional effects from materialising themselves in Greece and Portugal. In Greece most pact attempts have come to nothing; in Portugal many pacts were repeated only because of the previous one not being implemented.

France had only one half-hearted attempt at social pacting, in 1997, soon abandoned by the employers when the Socialist government proposed its 35 working hours law. France is a state centred society: policies are designed without the systematic input from societal actors, but actors are subsequently accommodated in a rather flexible implementation process, often based on derogation from the law. If this flexibility is not offered, actors will seek confrontation. No renewal here.

In the United Kingdom, too, the state is rather powerful and governments tend to formulate policies without significant societal input. After the “rejection of compromise” (Crouch, 1990) during the Thatcher years, the non-partnership approach remained unaltered during Labour. But because the state acts in a much more restricted sphere, far more is left to society or to the market. Rather than derogation from the law, as a possible space for sponsored agreements (like in France) or for social pacts (like in Southern Europe), there is simply less law in the socioeconomic domain and more left to the unequal powers of interest groups and markets.

Ireland presents a contrasting case. A practice of pluri-annual social pacts or ‘roundtable corporatism’⁶ has developed since 1987, covering a broadening range of policies and reforms — in 2006 the seventh such pact was signed. This is remarkable, because Ireland shares with Britain a voluntaristic and adversarial system of industrial relations and its welfare system combines a high degree of means testing in the Anglo-American way, with heavy reliance on family provision and voluntary (religious) organisation. The recent pact experience emerged under crisis conditions after a spell of decentralised bargaining with dire outcomes in terms of inflation, public sector spending and unemployment.

Social pacts, in Ireland, clearly emerged and then became repeated within the wage setting arena – which was key to investment, employment, inflation and public sector spending. Furthermore, the fact that the Irish system of social security was much less developed and unlike many continental European countries not managed or controlled by the social partners meant that government-negotiated or government-enforced alterations in the power of the unions, or the social partners, over welfare spending and social protection norms was not a feature of social pact negotiations (O’Donnell, Cahill, and Thomas, 2008). Yet, the institutionalisation of social pacts that did take place in Ireland established a partnership approach more in the domain of public policy and welfare state development, than in areas crucial for wage setting. Despite the creation of various new institutions, including a National Centre for Partnership and Performance to monitor and promote partnership at enterprise level, the articulation of Irish social pacts in company industrial relations was probably the weakest part. Paradoxically, this omission or non-articulation between national and company employment relations may have caused Irish governments and central organisations to regularly renew their social pacts, thus contributing to its institutionalisation and expansion into more domains of government policy (see Hancke and Rhodes, 2005).

Whether the transition economies of Central and Eastern Europe (CEE) form a separate regime or must be classified according to one of these arrangements is a matter of debate (see Bohle and Grecovic, 2006, for distinctions within the CEE). They tend to mix several elements. In a recent contribution, Kohl and Platzer (2007:617) argue that ‘based on the typology

⁶ The expression is of Walter Münchau, *Financial Times*, 23 June 2008.

proposed by Ebbinghaus and Visser (1997), no national CEE system of industrial relations can be unambiguously assigned to one of the western European models [...]. Only Slovenia exhibits reasonably close parallels with one of the Western European models — the Continental social partnership model, with a strong Austro-German flavour.’ Absence of sectoral collective bargaining and low bargaining coverage rates tend to orient the CEE economies towards the liberal or uncoordinated model. But the state and collective labour law play a much stronger role and this makes them more like the state-centred models of southern Europe. In the transition economies, generally, the state has continued to be a central and dominant actor in the governance of the economy; first, by virtue of its position in creating the legal basis for the transition into a market economy and, subsequently, by the need to transpose the *acquis communautaire* (Kohl and Platzer, 2007:615). In contrast to Southern Europe, the interaction between unions and management, and between unions and the state, tends to be less confrontational and more determined by the weakness of the union actor. With the exception of Slovenia and perhaps Slovakia, the transition economies do share the absence of sector level bargaining. Tripartite institutions are weak and the few social pacts that were signed were very limited in terms of commitments made and they remained without lasting institutional effects. With the exception of Slovenia, none of these pacts was repeated.

VI. Conclusion

During the 1990s social pacts, including attempts to reach social pacts, became widely diffused in Europe, affecting nearly all countries. As the same time, we find few cases of institutionalisation of *social partnership* in the sense of establishing a new behavioural maxim in wage bargaining and welfare reform. Ireland is our prime example — two decades of social pacts have left behind a set of behavioural ‘partnership’ norms, which are now taken as ‘valid’ in particular domains of public policy and macro-economic policy (including wage setting). In addition, the pacts led to the creation of new institutions for the purpose of monitoring and conflict regulation, the inclusion of new actors and the diffusion and application of its principles in public administration. Whether there is a legitimate expectation that deviance from the partnership norm will be sanctioned is not altogether clear; the fact is that all main political parties have embraced its principles. Slovenia is in my view the only case that comes close to the Irish example, but it may be too early to judge.

Spain offers an example of institutionalisation, not of social partnership but of *compromise*. This has manifested itself in a narrower domain – wage setting and some aspects of labour market contracting – and the role of social pacts has been more irate. In Italy there was a major – constitutive – social pact redrawing the rules for wage bargaining and there were several attempts to negotiate welfare reform. Yet, these pacts did at best institutionalise a norm of *bargaining*, not of partnership or compromise. Various governments in Portugal did return to social pacts as an instrument, but they are weakly institutionalized in two respects: they have little impact on parallel processes and relationships between their participant actors and therefore leave the power balances between the latter relatively unchanged. Like the Italian pacts they are subject to rather *costless breakdown*

Scandinavia is at the other end of the spectrum. Here developments point a re-institutionalisation of coordination in wage setting and business as usual in welfare reform – i.e. consultation and a large measure of social partner autonomy. Based on bipartite agreements rather than tripartite pacts, the trajectory of institutional evolution in wage bargaining is characterized by deeper *articulation*, in which “strong relations of interdependence bind different vertical levels such that the actions of the centre are frequently predicated on securing the consent of lower levels and the autonomous action of lower levels is bounded by rules of

delegation and scope for discretion ultimately controlled by successively higher levels” (Crouch 1993: 54-55). Finland is the exceptional case, with coordination of wage setting possible only with help of the state, thus necessitating social pacts based on a logic of *political exchange* which is dictated by contingencies and unstable.

The Netherlands is a case, not of institutionalisation but of *re-institutionalisation* of social partnership, with social pacts playing the role of ‘switchboards’, first in wage setting and employment relations, later extending to non-wage cost, social protection and labour supply policies. Political opposition against social partnership has turned out to be marginal, in spite of the rise of populist parties, and attempts to deviate from the partnership and compromise norm has large costs in terms of reputation, legitimacy and public approval. In terms of content, the Dutch pact history is probably the most prominent example of *correcting the dualist bias in the labour market*. Political resolve and state interventions rather than social pacts were used to modify outcomes in Belgium, Austria and Germany.

The lesson is that a norm of cooperation can emerge from a history of social pacts, or agreements, through mutual learning, interaction and reputation building between actors with conflicting interests, if outcomes are perceived as successful and just. If an institution is associated with successful outcomes, however defined, this tends to provide information about the quality of the rules and interactions on which it is based. According to Knight (2001: 357), of all the factors contributing to the stabilization of a cooperation norm, “the existence of past success may be the most important, because it provides both information about past cooperation and a focal point for the type of behaviour that can produce mutual benefits in the future.” Analysing a quarter century of social partnership in Austria, Marin (1982) identifies ‘*Legitimation durch Erfolgsaneignung*’ (legitimacy by success claiming) as a key mechanism of social partnership once it has started – allowing its self-enforcement and reinforcement in the sense of Greif’s explanation of institutional evolution (Greif, 2006), in the practice of everyday politics in Austria its diffusion to nearly every area of social-economic policy, without any formal recognition in the law.

This expansion was supported by the creation of inter- and intra-organizational ties, networks and investments made to support these arrangements. Such investments in interdependency tend to have cognitive effects on how the actors define their interests. Schmitter (1983) has argued that through interaction and increased interdependency organised interest groups become ‘better informed about each other’s intentions’ and ‘more respectful of each other’s capabilities’. They learn to know what *not* to ask. The representation of interest must go through the needle’s eye of what can be accepted. Marin calls it a lesson in ‘self-denial’ (*Selbstdemotierung*) and ‘learning towards realism’.

Outcomes need not only to be perceived as successful, in whatever terms, they need also to be seen as distributional fair or just. If not just or fair in its consequences, the norm will not be stable, because the disadvantaged actors will not believe that others comply. Consequently they will lower the value of their contribution and the norm will disintegrate (Knight, 2001: 346). Moreover, “learning towards realism” through often divides representatives the people they represent. Both points are crucial for understanding the institutionalisation or non-institutionalisation of social pacts and agreements involving large membership organisations like trade union and employers’ associations. I have not dealt with these aspects here, but in the seven in-depth case studies in social pact dynamics of the *NewGov* project, on Ireland, Italy, the Netherlands, Poland, Portugal, Spain and Slovenia (Avdagic, Rhodes and Visser, forthcoming) there is attention to these issues.

Social pacts, I conclude are one institutional conduit to social partnership and learning, and as it turns out a rather exceptional one if we consider its lasting effects. Other institutional formats for partnership and learning are based on coordination games, through peak level associations, trend following and vertical articulation, and on processes of consultation. My conclusion, based on the data for a large number of countries, presented here, is 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.

VII. References

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