

The Role of Social Pacts in European Socio-Economic Governance

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1. Introduction

Social pacts proliferated in the 1990s Economic and Monetary Union (EMU) convergence decade and provided important new adjustment capacity to certain national governance systems. At their most effective they achieved critical policy objectives, including wage moderation, fiscal consolidation and welfare state reform. Some countries used these concerted policymaking devices, others did not; some countries attempted to forge social pacts but failed; in cases where they were achieved, social pacts were sometimes short-term phenomena; in others they were used repeatedly, although often in weakened form; in two countries – Ireland and Spain – they became regular and enduring modes of policymaking.

The key questions of relevance for policy makers are (1) why did some countries achieve pacts but not others, and what were the conditions for their emergence; (2) what were the advantages of such pacts for policy making, and what determined their persistence or failure; and (3) given new demands for economic adjustment 10 years after EMU began, does social pacting still offer a viable strategy for socio-economic governance?

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. The puzzle ever since has been why this new form of ‘lean’ or ‘competitive corporatism’ 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 Aus-

trian neo-corporatist archetypes (Molina and Rhodes 2002).

Explanations have tended to focus on single or multi-cause arguments, prioritizing, according to author, problem-load (high inflation, government debt or unemployment); union power (degrees of employee coverage and/or centralization), levels of government strength and political orientation (a weak incumbent, electoral pressures, left-party dominance). But there has been little attention to why some pacts survive and others fail (though see Hancké and Rhodes 2005), or the conditions under which they enable effective social and economic policymaking.

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The lack of consensus in this literature and the tendency to make generalizations based on too few cases has left us with numerous competing explanations, preventing either a robust academic account or clear lines of advice for policymakers. In order to move forward we have needed deeper empirical studies of particular country cases and their pacts, and new analytical approaches for comparison across them. We have engaged in both in this research project and the following summarises our findings to date.

2. Why did some countries achieve pacts and what were the conditions for their emergence?

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, 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.

One of the problems until now has been finding a means of appraising multiple causes and assessing exactly which variables are either necessary or sufficient for explaining this range of different cases. 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

Further reading

This policy brief is based on research carried out within the NEWGOV project no. 18a on “Distributive Politics, Learning, and Reform: National Social Pacts”. The project examines the reasons for the emergence of social pacts in certain European countries since the 1980s, seeks to understand the various forms that they take (broad, tripartite pacts, versus narrow bipartite agreements) and considers why some pacts become institutionalised and endure, while others fade away. The project has engaged in detailed country case studies, broad comparative analysis, and has innovated methodologically in the study of pacting, using game theory and fuzzy-set qualitative comparative analysis. Further information can be found on the NEWGOV Website in the [section](#) of project 18a.

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. 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 un-

ions failed to agree on an acceptable course of adjustment.

Overall, the presence of weak governments appears to have been a particularly important factor leading to successful concertation. Where governments have been strong enough to act unilaterally, they have preferred to avoid pacting and the costs of political exchange and trade-offs. By contrast, governments with small majorities have compensated for their weakness by mobilizing support from trades unions and employers.

3. What were the advantages of such pacts for policy making, and what determined the persistence or failure of pacting as a policy-making device?

The advantages of such pacts for policy making have been evident in the experiences of all the pacts mentioned above. But so too is a tendency for most of them to weaken or disappear in the 2000s, most notably in Italy and Portugal. 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 Portuguese 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.

Nevertheless, both countries have struggled to make their public finances sustainable and EMU-compatible, and pacting for social policy innovation has proven hard to resurrect. 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. In 2007 a new pact was signed by a very weak centre-left government and amidst considerable internal union dissent, as both sought to innovate in social policy before likely electoral defeat at the hands of the centre-right at in early 2008.

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, like Italy and Portugal, a country with high inflation and deficits in the 1990s with weak governments and intermediate trade union centralization, separate tables for welfare reform (unions + government) and labour reform (unions + employers), were achieved and an informal incomes policy was coordinated by the unions themselves to prevent a return to the state-governed industrial relations of the 1980s. The result was that reform was undertaken across adjacent policy areas – in the absence of an explicit, formal and all-encompassing pact – ensuring that wage moderation and low inflation were achieved. Major innovations in pensions have been followed by further social and labour market reforms in the 2000s.

The Irish pact – also a broad and tripartite – was not originally inspired by the challenges of EMU membership criteria, 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.

In both Spain and Ireland, pacting has become routine, although it has taken quite dif-

ferent 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, while also providing flexibility for the social partners, the Irish Pact has become a highly centralized system of decision making.

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. Roche (2007) points in particular to 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.

4. Does social pacting offer a viable strategy for contemporary socio-economic governance?

Although social pacting may be aspired to by many governments and many in the labour movement across Europe, 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 reveal the limits to the phenomenon.

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. 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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