The Political Economy of Social Concertation

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1. Introduction

Only few years ago social concertation, namely the peak-level negotiation of public policy between governments and the main interest groups (labor and capital in particular), was widely regarded by social scientists as a relic of the past (Schmitter, 1989; Streeck, 1993; Streeck and Schmitter, 1991). In retrospect, the early pessimistic analyses about its decline and demise appear to have been overly influenced by the 1983 break-up of centralized collective bargaining in Sweden (Pontusson and Swenson, 1996; Iversen, 1996). With hindsight, the trajectory of Sweden (and, to a lesser extent, Denmark) turned out to be more the exception than the rule even among Nordic and Central European countries (Lange et al, 1995; Wallerstein et al., 1997). Since then the assessment has been reversed. The years 1990s witnessed a veritable explosion of quintessentially concertative policy-making in various parts of the world. Almost all European countries – the United Kingdom being the most notable exception – experimented with what came to be known as "social pacts," i.e. peak-level deals between governments, unions, and employer associations (Fejertag and Pochet, 1997 and 2000, Regini, 2000; Ebbinghaus and Hassel, 2000; Rhodes, 2001). Even countries like Ireland, Italy, and Spain, which lacked a previous tradition of negotiated policy-making, embarked in social pacts covering a variety of policy issues. Also, the social concertation phenomenon began to spread beyond its European homeland to developing countries like Korea, South Africa, and various Latin American nations (Fraile, 2007; Licha, 2003).

A large literature, accumulated over the course of several years, analyzes this particular mode of policy-making. Despite its massive size, this literature (at least in the opinion of the author of this paper) has failed to provide univocal answers to issues of prevalence and diffusion, determinants of government's demand for concertation, conditions in which concertation is supplied by the interest group system, and outcomes. The goal of this paper is not to address every issue conclusively (which would be unrealistic), but to combine separate answers to the most important questions (some more conclusive than others) into a coherent explanatory framework, focusing on the 1990s in particular.

The paper does so by proceeding as follows. First, it seeks to go beyond anecdotal evidence of rise or decline, and determine systematically how prevalent this form of policy-making really is, at least in Europe, and whether its cross-country diffusion has been growing or declining, or has remained stable, over time. Second, it analyzes the conditions in which governments may decide to share their policy-making prerogatives with (or delegate them to) private actors, rather than using them at full and operating unilaterally. Third, it revisits the vexed question of the institutional and organizational preconditions for stable and durable agreements. Finally, it examines what outcomes are attributable to social concertation and how they compare with those associated with alternative modes of policy-making.

Previous literature has devoted much greater attentions to questions having to do with organizational/institutional preconditions and economic outcomes than others. Much of the neo-corporatist literature of the 1970s and 1980s more or less took it for granted (based on functionalist reasoning about problems of governability in advanced societies) that governments would be willing to engage with labor and capital, and then went on to explore the interest group characteristics which allowed or prevented the emergence of durable agreements (see the articles in Schmitter and Lehmbruch, 1979; Lehmbruch and Schmitter, 1982; Berger, 1981; Goldthorpe, 1984). Another strand of research (by now probably larger than the former) dealt with the macroeconomic consequences of policy concertation, especially centralized or coordinated collective bargaining (for recent analyses, see Garrett, 1998; Iversen, 1999; Traxler et al., 2001; Kenworthy, 2002; Traxler, 2003; Mares, 2006).

This paper aims to be more balanced in its treatment of issues. In particular, understanding the determinants of government's demand for concertation – an issue that seems to have been curiously ignored, at least until recently – seems crucial for the overall comprehension of the phenomenon. After all, governments are democratically legitimated to take binding decisions. The constitutional standing and democratic legitimacy of mixed systems of policy-making (involving private actors' access to the public sphere) have always been considered dubious (see Lowi, 1979; Habermas, 1989; 1996), including by theorists of neo-corporatism itself (see Schmitter, 1983, for an example). That governments may decide in some cases (but not others) to refrain from unilateral action and involve private actors is something that should not be taken for granted but needs to be explained. Even when it treads familiar paths, for example on institutional preconditions or economic outcomes, the paper provides (at least in the opinion of the author) new answers to old questions. The evidence comes from a variety of sources, both quantitative and qualitative: the coding of standardized journalistic sources for 15 European countries between 1974 and 2003, field research in four countries (Italy, Ireland, South Africa, and South Korea), and econometric analysis of time-series cross-sectional institutional and economic data on OECD countries.

To preview the argument, social concertation is not a declining institutional arrangement, but a recurrent and, overall, stable characteristic of European societies. In the past few years, it has been extended to various developing countries, possibly as a way to soften the social impact of globalization (Fraile, 2007). Case-based evidence suggests that, at least in the 1990s, governments engaging in social concertation tend to be electorally weak or vulnerable governments seeking to ease the passing and implementation of potentially unpopular (neo-liberal) policies. The institutional and organizations conditions for social concertation seem today rather different from those the past corporatist literature focused upon, that is, concentrated and hierarchical interest groups, but such organizational preconditions may have changed over time. In particular, democratic decision-making procedures, ensuring procedural legitimacy and providing opportunities for the discursive reshaping of rank-and-file preferences may have become more important over time, possibly due to the reduced availability of material resources for side payments. Also, due perhaps to modifications in the typology of actors who can credibly threaten the smooth implementation of government policies (e.g. NGOs), and the emergence of new forms of social mobilization (e.g. media campaigns), social concertation has shown a tendency to move from a tripartite (government, labor, and capital) to a multipartite format, with the institutional involvement of multiple civil society organizations alongside the traditional "social partners." The assessment of concertation outcomes is limited by the limited availability of appropriate indicators, especially as far as welfare policies are concerned. However, the econometric evidence allows one to state with a reasonable degree of confidence that wage bargaining coordination (one of the outcomes of social concertation) is associated with more moderate wage growth. The other conclusion usually drawn by the literature, that it may also be associated with lower unemployment, seems instead much less robust. The remainder of the paper develops each of these points in turn.

2. The Trajectory of Social Concertation in Europe

To understand the persistence and diffusion of social concertation over time, this section plots two indicators of the phenomenon at hand, one (*government willingness*) capturing government's decision to involve the "social partners," i.e. capital and labor; the other (*social compacting*) capturing weather or not, contingent on the government's willingness to involve, a negotiated policy agreement is reached. The two indicators distinguish between attempted and actual concertation.

These indicators were created for two policy areas: wage policies (including income policies and centralized wage bargaining) and welfare policies (that is, spending policies aimed at providing social insurance of various kind) for 15 European countries between 1974 and 2003.[1] The measures were based on information reported monthly in the *European Industrial Relations Review*. For each country, year, and policy area, the government willingness index takes a values of 1 when: (a) there is textual evidence that, in the course of the year, the government publicly invites the social partners to negotiate a national agreement to set wage increases, or to design social security policies/welfare institutions; or that (b) the social partners are invited to design or implement

[1] The 15 countries include the EU15 except Luxemburg and including Norway.

autonomously, i.e. via bipartite agreements, any of the aforementioned policies.[2] If, instead, there is textual evidence that a government designs and/or implements policies without the formal involvement of social partners, the willingness score is 0. Contingent on a value of 1 on the *willingness* index, the *social compacting* indicator takes a value of 0 if concertation fails to produce an agreement; a value of 0.5 if it produces a partial agreement (for example involving only one of the social partners), and a value of 1 if perfect tripartism is achieved. It must be emphasized that a government could rely on the *implicit consensus* of one or more of the social partners when designing policy, and still receive a 0 score on the *willingness* index, since the construct of interest, policy concertation, refers to *formal involvement* rather than informal influence.[3]

Figure 1 on wage policies shows a pronounced cyclical component, thus providing some support for the thesis articulated by Schmitter and Grote (1997) concerning a cyclical pattern of policy concertation over time. The quadratic fit reveals a mild "U" shape of the curve, suggesting declining willingness up until the mid 1990s, and a rising trend since then.

Figure 1 about here

Figure 2, plotting data on welfare policy, is markedly different. The graph shows a clear growing trend since 1974, peaking in 2000 when, according to our information, all governments, except in Austria and the United Kingdom, were willing to adopt a participatory approach. After 2000 the share of governments declined slightly. It was 60 percent in 2003: in that year, the governments of Austria, Britain, Greece, Italy, Denmark, and Portugal took a unilateral approach to welfare policy. Like the wage policy graph, the welfare policy graph, too, shows a (mildly) cyclical component. Not surprisingly, both Figures 1 and 2 show a persistent gap between the governmental demand for policy concertation and its supply (social compacting). In the case of wage policies, the gap seems to have been closing from the early 1990s on.

Figure 2 about here

[2] In the absence of information, policy inertia is assumed. In other words, unless a change occurs in the process, the variable keeps the same score as in the previous year.
[3] The figures in this paper plot yearly values unless otherwise stated.

Some authors have proposed what can be called a *bundling hypothesis*, namely that changes in international macroeconomic conditions in the 1990s have pushed governments to seek coordination in multiple areas simultaneously as opposed to single areas, as a way to increase national competitiveness (Ebbinghaus and Hassel, 2000; Rhodes, 2001). Figure 3 plots the number of governments that are willing to engage in concertation in *at least one* policy area, and the number of governments that are willing to engage concertation in *both* policy areas at the same time (bars). The first curve is cyclical around a rather stable mean, suggesting no secular growth or decline in government willingness to involve. On average, slightly more than 12 European countries per year (out of 15) have attempted some form of policy concertation. The second curve is instead growing over time at a decreasing rate. This supports the bundling hypothesis, even though, contrary to expectations, most of the growth in bundling seems to have taken place in the 1970s and 1980s, rather than in the 1990s, as expected. Indeed, in the 1990s, the tendency of governments to approach both wage and welfare issues through policy concertation seems to have reached a plateau.

Figure 3 about here

Linked to the bundling argument, scholars have also suggested that specific external pressures, coming from the run up to and the establishment of EMU, have increased the propensity of governments to seek explicit policy cooperation with the major interest groups, especially for those countries in which the established thresholds for qualification were more difficult to reach (Crouch 2000; Hassel 2003; Schmitter and Grote 1997; Rhodes 2001). With regard to wage policies, our data do not confirm this hypothesis. Figure 4 distinguishes between EMU countries and non-EMU countries between 1985 and 2003. On average, the former want to engage in income policies more than the latter throughout the period, but there is no appreciable growth trend in the 1990s.

Figure 4 about here

The picture changes slightly when one considers welfare policies. Figure 5 again differentiates between EMU and non-EMU countries. It shows that in the Euro group there is a fairly clear increase in willingness as the Euro approaches, and a decrease after qualification. However, this graph must be read against the evidence presented in Figure 2, which shows a secular increase in willingness in European countries. Against this backdrop, the EMU seems to have reinforced a tendency that was already present.

Figure 5 about here

Overall, social concertation appears a stable feature of European politics in the last thirty years rather than an arrangement confined to the decades of the 'Keynesian consensus' (Goldthorpe 1984; Hall 1989). Our data show that government propensity to negotiate either wage or welfare policies has remained unchanged over time, with a strong rise in the propensity to negotiate both simultaneously. Even though no standardized source similar to the *European Industrial Relations Review* is available for non-European countries, case-based evidence suggests that several developing countries have recently adopted forms of peak-level *social dialogue* in response to macroeconomic crises or as a way of softening the negative social consequences of economic liberalization (see Fraile, 2007, for relevant case studies; ILO, 2004; Licha, 2003).

While the evidence presented above casts doubt on theories predicting the demise of concertative/corporatist models of policy-making and convergence on a pluralist model of interest intermediation, it has nothing say about the specific factors explaining government choice of cooperation vs. unilateralism, and the conditions in which interest groups may agree to stable and durable social concertation arrangements. To address these issues, the paper now moves to an inductive study of four countries. Based on an analysis of Irish, Italian, South African and South Korean developments, the next section aims to produce a theoretical account of how social pacts emerge and reproduce themselves over time in different background conditions.

3 . Why and How Does Social Concertation Emerge? The Cases of Ireland, Italy, South Africa, and South Korea

Ireland, Italy, South Africa, and South Korea all experimented with some form of peak-level tripartite bargaining in the 1990s. They did so in very different conditions. Nonetheless, despite multiple and far-reaching differences among the cases – in terms of history, culture, size, political development, institutional endowment, economic structure, industrial relations traditions, just to name a few – the process of social compacting followed a common path, illustrated graphically in Figure 6. Thus diversity in background conditions appears to work in favor of the argument presented here and to corroborate the *prima facie* plausibility of the explanatory framework.

Essentially, the case study evidence suggests that the process of social concertation is set in motion by an external shock to the system, in the form of a macroeconomic or financial crisis. In countries characterized by electorally or politically weak executives (but not in others), governments are more than happy to involve the major social actors with a view to producing a joint solution to the emergency. The element of crisis, however, only produces short-term consensus among the actors, and hence highly unstable and ephemeral forms of centralization, unless the union movement commits itself to a cooperative strategy. This is neither automatic nor inevitable, but depends on the outcomes of an internal political battle pitting moderate and radical factions. Only if the moderates prevail, and impose their own strategic vision to the labor movement as a whole, does a stable peak-level agreement emerge. Organized employers are not essential for an agreement to materialize but become crucial for institutionalization. Social concertation manages to escape the particular contingencies and balance of power prevailing at the time the deal is struck, as well as the vagaries of the economic or political cycle, when the employers become strategically committed to it – which they do when (and if) it becomes clear to them that social concertation delivers for them economically and is preferable to alternative policy-making modes.

Figure 6 about here

As it clear from the pictorial representation in Figure 6, there are important differences in the degree of institutionalization of the four cases, with Ireland and Korea being polar opposites in terms of resilience and duration of peak-level concertation, and Italy falling somewhere in the middle. South Africa is a case in which a socially concerted response to the crisis *could* have emerged, given institutional and organizational conditions, as well as the recent experience of the actors, but did not, for reasons that are perfectly compatible with the explanatory scheme developed here. The cases of South Africa, South Korea, and Italy, in sequence, provide counterfactual evidence at different stages of the argument, which only applies in its entirety to the Irish case.

3.1. Economic Crisis

In all four countries the process leading to social pact formation began as a response to an external shock. In Ireland, macroeconomic conditions had deteriorated considerably at the time the first social pact was signed in 1987, with growth grinding to a halt and unemployment climbing to double- figures. Ireland was 'weeks away from the IMF taking over control'.[4] Simultaneously rekindling employment and growth (NESC, 1986) seemed a tall order, and nothing short of an "expansionary fiscal contraction" (Giavazzi and Pagano, 1990) could reconcile these possibly contradictory goals.

In Italy, the crisis was both economic and political. Speculative pressure forced the *lira* out of the European Monetary System (EMS) in September 1992, resulting in a devaluation of about 15 percent in one month. A period of intense exchange rate instability lasted until 1995, at the peak of which the currency fell to less than half its former value against the *Deutsche Mark*. The government imposed a harsh fiscal stabilization package in 1993. Simultaneously the ruling political parties, including the Christian Democrats and Socialists, disintegrated under the impact of a wave of political scandals.

In Korea, the catalyst for policy change was the Asian financial crisis, which reached Korea in late 1997. As in Italy, there was an exchange rate collapse; the Korean *won* lost over 60 percent

[4] Interview with Brendan Butler, IBEC, September 2001.

of its value against the dollar in three months. However the crisis also reflected serious structural weaknesses, possibly linked to the untimely liberalization of financial markets in the early 1990s (Stiglitz, 2002: 89-90; You and Lee, 2000: 11-4). Cheap foreign loans had led large Korean conglomerates (*chaebols*) to over-investments, and Korean banks to accumulate bad loans. When foreign creditors refused to extend their loans, the government asked the IMF for emergency finance. This was conditional on a tough structural adjustment program.

In South Africa, a series of macroeconomic difficulties, culminating in early 1996 in a speculative attack on the currency and associated capital flight (Commission of Inquiry, s.d.) forced the government to abandon the early left-Keynesian macroeconomic program, the so-called Reconstruction and Development Program (RDP), and rush into passing a more mainstream neoliberal program of economic stabilization, known as the Growth, Employment and Redistribution (GEAR) strategy (Michie and Padayachee, 1998; Fine and Padayachee, 2001). The major goal of GEAR was to boost business confidence and attracting foreign direct investment (or at least preventing highly mobile domestic capital from moving elsewhere). To these ends, it emphasized fiscal conservativeness and inflation reduction, together with elimination of capital controls and privatization.

The political economy literature on policy change (see Gourevitch, 1986; Rodrik, 1996) argues that what seems unthinkable under normal conditions becomes possible when a country is struck by a shock that threatens the national interest and international prestige. Actors used to fighting each other ferociously rally around a shared cause. Consistent with this line of thinking, it is common to characterize peak-level concertation as a functional response to exogenous forces, linked either to the constraints of a globalized economy (Compston, 2002; Hyman, 1999: 95; Regini, 2000; Rhodes, 1998 and 2001), or, more specifically, to the Maastricht convergence criteria and the run-up to EMU (Hancké and Rhodes, 2005; Hassel, 2003; Meardi, 2005; Regini, 2003: 258).

An economic crisis does not wholly determine the policy response of a country, and certainly does not determine the process through which this response is elaborated (Regini, 2000), but does limit the range of options available to policy-makers. The crises in Ireland, Italy, Korea, and South Africa were certainly different in terms of timing, causes, and specific features, but had one key element in common: their resolution appeared to require the adoption of neoliberal policy responses: disinflation, public sector cuts and greater labor market flexibility. These measures were likely to be especially burdensome for workers (Regini, 2003: 260). Alternative policy responses, such as increased taxation or capital or price controls, while theoretically possible, were never seriously entertained except on the political margins. From the point of view of elected politicians, managing the crisis posed the problem of how best to mobilize the necessary popular and electoral consensus, or at least diffuse the blame (Hamann and Kelly, 2005; Pierson, 1994; 1996).

3.2. Weak Government

During the formative stages of the social pacts, the Irish, Italian, and Korean governments, unlike the South African, were in parliamentary terms weak. Unable to pass reforms on their own, they were active in trying to build a social alliance with the major societal forces, and especially the unions, as a source of legitimacy and societal support. This is consistent with the recent literature on party politics and welfare state reform, which seeks to explain a participatory rather than unilateral government approach by the structural and strategic features of the political party system (Bonoli, 2001; Kitschelt 2001; Pierson, 1997; Schludi, 2001; 2003). The consensus in this literature is that governments are especially disposed towards policy concertation when they are too weak to pass reform on their own; when a unilateral strategy risks provoking an electoral backlash from which the opposition is likely to benefit; when the government is unable to depoliticize the issue through the construction of a grand coalition involving the opposition; and when there is no better way to overcome trade unions' veto power.

The *Fianna Fail* government elected in February 1987 had only 48.8 percent of seats in the *Dáil* (Irish Parliament). Its weakness was compounded by the party's cross-class nature, which led to problems of internal discipline and made it difficult for the leadership to adopt policies that penalized some of the party's key working-class constituencies (Hardiman, 1988: 200-4). In 1989, when social partnership was still highly controversial, the party leadership called for general elections in an attempt to reach an overall majority; but the *Fianna Fail* vote fell slightly and it was forced to form a coalition with the *Progressive Democrats*. This government was still one vote short of a majority in the *Dáil*.

In Italy, the 1992-93 governments were particularly weak, even by national standards. The April 1992 general elections produced a four-party coalition (Christian Democrats, Socialists, Social Democrats and Liberals) with a slim parliamentary majority of 16 seats in the Lower Chamber and only one seat in the Senate (Ginsborg, 1998: 481). During its brief life, seven ministers were forced to resign by judicial corruption investigations, while almost 200 members of parliament (mostly members of government parties) were investigated for political corruption (Ginsborg, 1998: 481, 515, 525). The 1993 caretaker government, composed of technical experts and headed by the former Governor of the Bank of Italy, lacked a clear parliamentary majority. The government that followed in 1994, a three-party right-wing coalition, was considerably stronger. The new electoral system gave it 58.1 percent of seats in the lower chamber, and a narrower majority in the upper chamber (Ginsborg, 1998: 544). In line with theoretical predictions, it did not seek policy concertation, but tried (unsuccessfully) to impose unilateral reforms in the crucial domain of public pensions. In 1995 it gave way to another technocratic government with a narrow, time-bound mandate. The centre-left government elected in 1996 was a multi-party coalition that depended in the Senate on the votes of *Rifondazione Comunista*, which opposed some of the government's initiatives in the field of labor and social policy as too neoliberal.

The Korean government was atypically weak when the financial crisis struck. A new president, Kim-Dae-Jung, was elected in December 1997 at the onset of the crisis, with only 30 percent of the vote; his narrow victory over his main opponent was made possible only by a split in the other camp. The coalition supporting the president (a marriage of convenience involving a long-time outsider, Kim himself, and the former chief of the Korean CIA as well as heir of the authoritarian past) at first lacked a majority in parliament (Kim, 2002: 60). It was only at the end of 1998 that a majority was obtained, thanks to the defection of several opposition MPs. To add to the president's weakness, he often had to face open defiance by key civil servants and had trouble appointing his own supporters to top office. The Korean presidency desperately needed societal allies as it sought to redress the most serious financial crisis in the country's post-war history. It is not surprising that the new president, as one of its first official decisions, established a new tripartite institution, the Korea Tripartite Commission, and invited employers and unions to negotiate a social compact to pull the country out of the economic emergency.

Unlike the other countries in the sample, the African National Congress (ANC) government in South Africa was unusually strong. The party had obtained 63 percent of seats in the 1994 general elections and had a tight control on the vote of the black majority. Due to the history of apartheid, the major opposition party at the time, the National Party, was utterly discredited and was no threat for the government. Consequently, the GEAR reform package was passed by the government unilaterally. It could (and, as some would argue, should) have been discussed with the social partners. Indeed, a law of 1995 had established the National Economic Development and Labor Council (NEDLAC), which attributed to the social partners a right to be consulted on all policy issues pertaining to labor market, trade and industry, public finance and monetary policy, and development issues. Government, unions, and employers had struck several agreements within NEDLAC prior to the passing of GEAR, and continued to strike agreements after the macroeconomic turnaround (even though relationships became more difficult). However, faced a financial crisis in 1996 and the associated need to implement swiftly what has been referred to as a "home-grown" structural adjustment program, the government declared the reform program to be non-negotiable. Consequently, GEAR was not even tabled for discussion within NEDLAC.

3.3. The Struggle between Radicals and Moderates in the Union Movement

The evidence discussed so far suggests that, faced with a national emergency, a weak government, unable for electoral reasons to deal with the crisis unilaterally, is led to seek an alliance with the major social forces, especially those representing labor, whose active consent is necessary for successful implementation of potentially unpopular policy reforms. Whether the unions accept to collaborate with government is, however, a matter of internal politics.

In Korea, the key actor was the new union confederation, the KCTU, which had been central to the fight against the dictatorship. Indeed, participation of the other, larger and longer-established of confederations, the FKTU, could almost be taken for granted given the personal linkages that existed between the new Presidency and the top FKTU leadership, as well as the FKTU recent history of involvement in both peak-level and ministerial consultations. But a successful social pact without the KCTU was unlikely to succeed since the most militant enterprise unions, those in large *chaebols*, were affiliated to it. Indeed, a few months before the crisis, the KCTU had provided clear evidence of its ability to mobilize large-scale popular demonstrations and block a government proposal for labor law reform touching on what would later become one of the most controversial elements of the 1998 social pact, the legalization of economic lay-offs.

Interestingly enough, the KCTU was the first to propose a concerted approach to crisis management. In a country well-known for the close alliance between government and big business to the detriment of labor, its leaders believed that the financial crisis provided the Korean union movement with a golden opportunity to raise its profile, present itself as government partner, play a key role in policy-making, and gain both legitimacy and organizational resources. Their position found the support of two groups in particular within the confederation's ranks: white-collar unions and blue-collar unions in small and medium enterprises. The former had been urging KCTU involvement in social concertation practically since the establishment of the new confederal structure in 1987 and were now even keener to promote a cooperative approach because this would allow the KCTU to influence crucial portions of the structural adjustment package which involved public sector restructuring. Blue-collar unions in smaller firms were hard-hit by the layoffs and business shutdowns that followed the financial crisis, and felt unable to respond through collective action at the company level. This position also gained the acquiescence, if not support, of several big company unions at the time.

A more radical attitude prevailed among unions within large *chaebols*. On the one hand, the crisis allowed them to push for reform of the big conglomerates, knows as *chaebols*, an issue they had often emphasized in the past. On the other hand, they were not ready to accept the employment flexibility measures being proposed by the government (under pressure from the IMF). In addition, their key constituency, regular employees in large companies, were not as negatively affected by downsizing as temporary workers, or even workers in small firms. Given these conflicting considerations, the large company unions did not take a clear stance on the social pact proposal, at least initially.

This strategic uncertainty did not last for long. As the crisis took its toll and firms began laying off workers massively – unemployment increased from 2.6 percent in November 1997 to 6.8 in April-May 1998 – a more militant approach prevailed within large company unions. Even some public sector unions joined the radical camp, arguing that industrial action would protect union members more effectively than participation in tripartite negotiations. In February 1998, only three days after signing the 'Tripartite Accord for Overcoming the Economic Crisis' (also knows as Korean social pact), a special meeting of KCTU delegates voted by more than two to one to reject the tripartite agreement. The KCTU leadership then submitted its resignation and was replaced by a more radical group, mostly drawn from *chaebol* and public sector unions. However, the social pact remained in place, and the various negotiated measures were implemented by government over the following months.

The new KCTU leadership did not immediately withdraw from national negotiations, and indeed agreed to join a renewed Tripartite Commission in June 1998. Public sector unions in the KCTU were now especially interested in negotiating the restructuring of public sector utilities and state-owned enterprises, and looked with interest at the experience of the FKTU financial sector unions, which used the confederation's participation in the Tripartite Commission to influence the restructuring plans. Over time, however, the strategic posture of the KCTU came to be dominated by the large *chaebol* unions, which opposed the centralization of collective bargaining and refused to transfer their collective bargaining privileges to sectoral federations. These unions even abandoned the long-standing commitment to *chaebol* reform, as this threatened to undermine employment stability and corporate welfare at the enterprise level (Lim, 2002).

Thus the 1998 social pact remained a one-off event in Korean history. After the agreement, the trade union confederations and the employers repeatedly withdrew from and re-entered the Tripartite Commission. When the KCTU finally withdrew in February 1999, the tripartite structures formally survived, but their impact on policy-making remained limited at best (Baccaro and Lee, 2003).

In Italy, the formative stages of social partnership were also internally contested, but the outcome was fundamentally different. The Italian labor movement has long experienced an internal struggle between radical and moderate factions with conflicting visions of what a union is and should do. The first believed that unions should pursue fundamental social change by mobilizing social and political dissent; the second that unions should primarily defend the interests of workers in a capitalist economy, which were in many ways intertwined with those of firms and state, and that these interests were often better served through negotiation and cooperation than conflict.

The radical faction coincided with those sections of the union movement that had been most active during the 'hot autumn' mobilizations of 1969, in particular the metalworkers' federations (especially within CGIL) and the factory councils in the largest industrial plants, concentrated in four cities: Turin, Milan, Genoa and Brescia (Accornero, 1976; Golden, 1988; Mershon, 1986; Pizzorno et al., 1978). Even at its peak, this faction was probably a numerical minority; but the struggle was based not so much on membership as on competing legitimacy claims. The key issue was which side best interpreted and represented the will of the Italian working class, including non-members. The higher the participation in strikes, the more legitimate a particular policy stance.

Thanks to its superior mobilization capacity, the militant faction could block all the attempts in the 1970s and 1980s at union involvement in national policy-making.

In the early 1990s, radical and moderate factions again fought over the decision to engage in national negotiations. The July 1992 agreement abolishing wage indexation (an ill-fated attempt to stave off a devaluation of the lira) caused deep internal turmoil, and the unions came very close to splitting, as they had previously in 1984 in similar circumstances. The union leaders faced violent confrontations in many Italian cities, which generated a large organized movement, dominated by factory councils in the north-western regions. The July 1993 deal also provoked widespread internal contestation. This time, however, the agreement avoided oppositional mobilization by including two important innovations. First, it institutionalized the regular re-election of plant representatives; second, it was ratified by an elaborate consultation of members. About 1.5 million workers participated and 68 percent of them approved the deal.

This unusual combination of centralized bargaining and large worker consultations continued in 1995. Pension reform was as unpopular among the Italian workers as the abolition of wage indexation had been, if not more. The 1995 agreement came one year after a victorious battle waged by the three confederal unions against the Berlusconi government's unilateral attempt to reform the system. The unions were well aware that they risked compromising their internal cohesion and credibility had they sought to impose reform from above, so they engaged in what is probably Italy's largest experiment with union democracy. The tentative agreement was discussed in company-level assemblies, followed by a secret ballot involving four and a half million voters, 64 percent of whom approved the reform.

In Ireland, the Irish Congress of Trade Unions (ICTU) leadership was also favorably inclined towards a social pact, fearing that the government might otherwise respond to the economic crisis by following the example of Thatcher in Britain and engaging in a massive attack on the unions. The new party of *Progressive Democrats*, a breakaway from *Fianna Fail*, had won

11.8 percent of the vote in the 1987 elections on a neoliberal program: a worrying sign that a Thatcherite solution might be on the cards.

ICTU leaders were also dissatisfied with the outcomes of the previous phase of decentralized collective bargaining between 1980 and 1987, when they had won high nominal wages increases yet wound up with lower real take-home pay because of the joint effect of high inflation and fiscal drag. A national agreement provided a welcome opportunity to negotiate gross pay and taxation levels simultaneously. The leaders of public sector unions found a negotiated solution particularly congenial since they feared their constituencies would fare especially poorly in free-for-all bargaining given the government's determination to cut public expenditures. However, unions whose constituencies were mainly in the private sector, like the craft unions, thought that decentralized bargaining was more advantageous for them (Teague, 1995: 262). The largest union among distribution workers, IDATU, also opposed the agreement, while the third largest general union, the ATGWU, was adamantly against.

ICTU affiliates use a block-vote system for conference decisions. Most of the 56 unions attending the 1987 special conference on the PNR voted against the agreement, but most public sector unions voted in favor, as did the second largest general union, the FWUI. Within the largest union, the ITGWU, an internal ballot showed a majority of 400 votes in favor of the PNR agreement. Had the majority been the other way, the agreement would have been defeated.

In 1989, when the inflation rate surpassed the 2.5 percent increase contemplated in the national agreement, the MSF (a craft union) and the ATGWU, both with headquarters in Britain, called for a special ICTU conference to decide on withdrawing from partnership. Their motion was rejected by 181 votes to 141. Once again, the favorable vote of the general union SIPTU (created by the merger of ITGWU and the FWUI in 1990) and of the public sector unions was decisive. The use of democratic decision-making procedures in Ireland (as in Italy) appears to have increased the legitimacy of social concertation and strengthened the moderate faction.

In South Africa unions were not involved in negotiations over the country's macroeconomic response to the financial crisis of 1996. We do not know, then, how the internal politics of the union movement would have played out. We do know, however, that just like in Ireland, Italy, and South Korea, different unions subscribed to different bargaining strategies, with the miners' union, for example, being less disposed to compromise than, say, the textile and apparel union (Buhlungu, 2001).

3.4. The Role of Employers

So far my focus has been on governments and unions, for I believe (based on the country cases I have studied) that organized employers are not essential for the emergence of a social pact. However, they become very important in later stages, contributing decisively to locking in social compacting as a viable mode of policy-making (Swenson, 1991; 2002; Hall and Soskice, 2001; Thelen, 2001; 2002; Culpepper, 2005).

In Ireland, analysts generally agree that employers were not exactly a driving force behind the PNR (Hardiman, 1988 and 1992; Roche, 1997);[5] they appear to have been dragged into the deal by the staunch determination of government to achieve a social partnership agreement. Though the Federated Union of Employers (FUE, the major association at the time, which in 1993 merged to form the present Irish Business and Employers Confederation, IBEC) formally subscribed to the PNR there is little sign that employers wholeheartedly embraced the institutional configuration which was established. This not only centralized collective bargaining but also gave trade unions a key role in the design and implementation of national economic policy as a whole. The employers had been key actors in the process of decentralization in 1981, after a decade dominated by centralized bargaining; and in the period immediately preceding the negotiations, they had stated clearly and repeatedly that they wished to maintain decentralized bargaining (Hardiman, 1988). Even after signing the PNR agreement in 1987, *Business and Finance*, a publication close to the

[5] See however Culpepper (2005) for a different view.

employer association, 'made scathing criticisms of the agreement' that had just been signed (Culpepper, 2005: 37).

Because they needed the agreement the least, the Irish employers could achieve an excellent deal. The PNR kept central wage increases low, guaranteed that there would be no extra increases at enterprise level, and even the limited provisions for flat-rate increases included in the agreement (intended to benefit low-paid workers) were not binding for the private sector. Thus the accord largely reflected the business agenda. What the employers feared (and had recently occurred) was that the unions would use national wage increases as a floor to be supplemented at company level. If that happened, however, they retained the option of a return to decentralized bargaining.

Only when it became clear that centralized bargaining did ensure wage moderation and thus greatly enhanced competitiveness, especially in the most dynamic sectors of the economy, did the organized employers become strong supporters of centralized institutions.[6] This support greatly strengthened Irish social partnership, facilitating the transition to very different economic and political conditions, with full employment and labor market shortages. Even in the midst of an economic boom, however, employer support remained conditional on economic outcomes. For example, when wildcat strikes and a spike in inflation led to renegotiation of national pay terms in late 2000, the employers wondered aloud whether the clock was back to 1981 and it was once again time for them to walk alone.[7]

The Italian employers were likewise more adaptive than proactive with respect to social pacting. *Confindustria*, the main association, was clearly in favor of the 1992 centralized agreement. Employers had nothing to lose and everything to gain from an agreement that eliminated a major source of inflation inertia – national wage indexation – while simultaneously "outlawing" compensatory wage claims at enterprise level. The 1993 protocol on collective bargaining was more controversial for them, as they preferred a single-tier, preferably sectoral bargaining system (Trentin, 1994). However they signed the agreement and seemed happy that the

[6] Interview with Patricia O'Donovan, former deputy Secretary General of ICTU, April 2001.
[7] Interview with Brendan Butler, cit. .

new system introduced greater predictability and order in Italian industrial relations. For example, the collective agreement in metalworking was renewed in 1994 without any strike action, for the first time in Italian history. The employers demonstrated their support on the eve of national elections in 1994 by joining the three main union confederations in signing a letter calling on the new government to respect the 1993 agreement and maintain concertation (Meardi, 2005: 13).

Employers' attitudes began to change in 1995, when they withdrew from negotiations on pension reform and refused to sign the final agreement. During the Prodi government of 1996-98, they pushed strongly for a bilateral version of concertation, which they referred to as 'subsidiarity.' This meant that all matters of social and labor policy should be delegated to peak-level negotiations among the social partners, without government intervention.[8] This did not reflect a genuine commitment to concertation so much as a tactical response to the proposed law on the 35-hour week which was before parliament; they believed they could obtain better terms from negotiations with trade unions than from regulation issuing from a government on which *Rifondazione Comunista* exerted crucial influence. In 2001, when the Berlusconi government was elected with the strongest majority of the post-war period, the law on 35 hours was shelved and the commitment to subsidiarity was soon forgotten. Concertation was dismissed as an obstacle to much-needed structural reform, and *Confindustria* pressed the government for legislation to relax the rules on dismissal for "just cause." The proposed liberalization was likely to affect only a limited number of firms and workers, but was viewed as a first step in a wider campaign aimed at labor market flexibilization and curtailing the unions' veto power.

In Korea, employers were in many respects victims of the crisis and of the ensuing IMF rescue package, especially in so far as this included corporate governance reform as one of its constitutive elements – something they had managed to block before. They acquiesced passively in the tripartite negotiations, seeking to minimize the scope of corporate governance reform in particular. In this they were largely successful, as the changes eventually introduced only involved

[8] Interview with Innocenzo Cipolletta, General Director of Confindustria, May 1999.

more transparent accounting reports and some sharing of decision-making power with the unions; despite the calls from the unions (and even the IMF) there was no dismantling of the big *chaebols*, with the exception of Daewoo.

Korean employers were especially opposed to the unions' demand for full compliance with international labor standards concerning freedom of association and collective bargaining, and indeed to any legal change that could even remotely threaten the existing regime of enterprise unionism. Later, as the crisis subsided and the Tripartite Commission started intervening on issues of corporate restructuring, for example at Hyundai Motor Company, the employers worked actively to sabotage the Commission. Here they found an unexpected ally in the big *chaebol* unions represented by the KCTU.

Consistent with the argument developed here, South African employers supported the government's unilateral adoption of the GEAR strategy. Indeed, the GEAR document was remarkably similar in content and approach to an earlier document, Growth for All, issued by the South Africa Foundation, an organization reflecting the views of big business (South Africa Foundation, 1996). Yet South African employers (unlike Korean ones) were not prejudicially opposed to negotiating with unions at the national level. For example, they appreciated the role and contribution that an institution like NEDLAC has played in implanting a culture of consensus building and negotiation in a country that, until few years before, had been used to very deep levels of conflict and violence. The statement of Frieda Dowie of Business South Africa (interview) is representative of employer opinion in this respect: "If NEDLAC stops, we will have to create another one."[9] Yet, when it came to macroeconomic restructuring, the employers preferred the government's "decisionistic" approach to the prospect of lengthy negotiations with the unions which could dilute the reformist content of the government's policy package. Their preference for unilateralism does not come as a surprise. Indeed, a student of South African business associations finds that organized capital got more or less what it wanted with the passing of the GEAR strategy.

[9] Interview with Frieda Dowie, Secretary General, Business South Africa (BSA), March 2002

This, however, was, in her opinion, less the result of direct lobbying of the ANC government – for which the predominantly white racial profile of big business in South Africa was an obstacle – than of systemic constraints exercised by international financial markets, which severely limited the macroeconomic discretion of government (see Handley, 2005; see also Handley, 2003).

The explanatory framework illustrated above, focusing on government's electoral resources, union internal politics, and employers' strategic choices, is a parsimonious one. I have refrained from introducing additional explanatory factors when these did not seem strictly necessary to account for variation in our cases. However, the framework could be made more comprehensive (and complicated) should the need arise. For example, in some cases one may need to drop the unitary actor assumption for organized employers as well as unions. Even in the early stages of social pacting, some employers may regard centralized negotiations more favorably than others (Swenson, 2002). In Italy the large industrial companies had the most to lose from a disorganized collective bargaining system at enterprise level, and fell into this category. Also, it is untrue that only minority governments have incentives to engage in tripartite negotiations; even those with parliamentary majorities may be vulnerable over policy reforms if the opposition is well poised to benefit electorally and may seek to diffuse responsibility for their actions by bringing the social partners on board, or may seek to depoliticize the issue by building a coalition with the opposition.

4. Organizational Preconditions: The Role of Internal Democracy

The case studies illustrated above look puzzling when they are looked at through the lenses of corporatist theory, the main theoretical framework available in the literature to make sense of social concertation. Indeed, social concertation emerges in countries like Ireland and Italy, which have few, if any at all, of the institutional preconditions once considered necessary for this kind of deals to succeed, and fails in other countries, like South Africa and South Korea, for reasons seemingly having little to do with the absence of centralized organizational capacities.

One of the key themes in the corporatist literature was the emphasis on organizational concentration and hierarchy. It was argued that negotiated policy-making worked best, in the sense of internalizing various externalities, when there was a limited number of actors (ideally one) on each side of the bargaining table and when these actors were able to impose their will on their lower level affiliates, both at the industry and more importantly, at the workplace levels.

There were two dimensions to the problem of interest group coordination. One was horizontal. Multiple actors were bad because of their tendency to engage in *leapfrogging*, i.e. demand a bit more than the others had obtained. The other dimension was vertical. Lower level structures with ample operational autonomy were also bad because of their tendency to exceed (or worse, ignore) the terms negotiated by the peak levels. These dimensions of analysis made their appearance early on in the corporatist debate (see Schmitter, 1974) but they still inform more recent attempts at operationalizing various institutional and organizational features of industrial relations systems in OECD countries (see Lange et al., 1995; Wallerstein et al., 1997; Lange et al., 1998; Traxler et al, 2001).

In decentralized systems, the problems of horizontal and vertical coordination *de facto* coincided. In countries like Italy or other Mediterranean countries, however, where multiple confederations were present and where mechanisms of intra-organizational control were weak, the problem of horizontal coordination had to do with possible competition among different peak-level actors (as well as competition among industry-level unions within the confederations), while the problem of vertical coordination (at multiple levels) coincided with the lower level structures' undoing of the national deals (e.g. through wage drift).

In practice, achieving coordination meant limiting two kinds of workers' freedoms, freedom of association and freedom of expression within associations (see Lange, 1984). The workers' right to join or found alternative associations (*exit option*) in case they were dissatisfied with the policies pursued by the organization with which they were affiliated (or, along similar lines, the right of a lower level affiliate to secede from the confederation) had to be curtailed. Hence, the corporatist literature emphasized monopolistic associations and compulsory or semi-compulsory membership as solutions to the problems of organizational fragmentation. Also, the workers' right to shape the associations' policies through the *voice option* had to be reduced. The assumption behind this thinking was that rank-and-file workers were inevitably more myopic and/or short-term oriented than their peak-level leaders (Streeck, 1982; see also Bok and Dunlop, 1970; Barbash, 1967:129; Walton and McKersie, 1991: 287; Schumpeter, 1950: 260-1). Left free to shape union policy either through internally democratic mechanisms or by voting with their feet, workers would promote "irresponsible" demands and/or recreate the pluralist scenario of single purpose, competitive organizations. Ultimately, this would run counter to the workers' own (long-term) self-interests.

What this literature missed entirely is that concentration and hierarchy are only two possible mechanisms of coordination, perhaps even the most widely diffuse, but <u>not</u> the only possible mechanisms. Strangely enough, while this literature reached quite early the conclusion that wage coordination did not necessarily coincide with wage <u>centralization</u>, because there were other mechanisms (e.g. synchronicity of wage negotiations, pattern bargaining) which led to the same outcomes (Soskice, 1990), it never made the parallel step concerning the uncoupling of organizational coordination and centralization.[10] Democracy is a powerful mechanism of coordination and dispute resolution. Compared with hierarchy, democracy also produces legitimacy, i.e. a belief in the validity of a particular collective decision and a willingness to comply with it even in the absence of sanctions or material incentives (Weber, 1978: ch. 10).

The case studies presented above suggest that democratic decision-making rules within trade unions influenced the outcomes of the internal struggle between radicals and moderate. Absent centralized organizational capacities, both the Irish and the Italian labor movements relied heavily on democratic procedures of decision-making within their own ranks. This implied that the rank-and-file workers were the decision-makers of last resort. In other words, union leaders retained the privilege of proposing particular solutions to their constituents (agenda setting), but the

[10] Regini (1984) noted, however, that the problem of interconfederal fragmentation could be solved when the different confederations agreed on a policy of unity of action.

workers had the right to ratify or reject these solutions. These processes strengthened the unions' capacity to hold to their side of the bargaining in national negotiations through essentially two types of mechanisms, aggregative and deliberative (see Table 1).

Table 1 about here

a) *Aggregative Mechanisms*

A stream of research in social psychology, known as the "social psychology of procedural justice," shows that people make (and evaluate) their choices not just based on expected outcomes but also on the perceived fairness of the process (Lind and Tyler, 1988). In other words, people might get what they want and still remain dissatisfied for process-related reasons. Alternatively, they might not get what they want but believe nevertheless that the outcome is fair. A few examples will illustrate the relevance of this mechanism for the issues at stake here.

Suppose that a union confederation is composed of several small affiliate units and that it has no coercive powers over them. Suppose also that decisions in this union are taken by majority rule. Each affiliate aggregates the preferences of its members through a ballot. These preferences are then further aggregated at the confederal, inter-sectoral level. Alternatively, the branch-level aggregation is bypassed and a single vote involving union members in all sectors is taken. The policy that is supported by the majority of voters is approved and pursued. The unions that lose the vote comply with the will of the majority. They do that for a variety of possible reasons. They may share a normative belief in the importance of keeping the union movement united. They may consider that a united organization is in their own best long-term interests. Or they may believe that if they violate the principle of majority decision and secede from the confederation, dealing with competing factions within their own unions becomes very difficult. Even though internal concentration is low in this union and no mechanisms are in place to limit the workers' exit and voice options, the organizational cohesion of this union is nonetheless remarkably high. In highly stylized terms, this example captures the situation of ICTU, the major Irish trade union confederation.

The decision-making process is, indeed, highly proceduralized within ICTU. Prior to engaging in national talks, the confederation summons a convention of all affiliate unions. These unions generally do not ballot their members at this point. The executive of each union reaches a decision and then votes accordingly in the national convention. The number of votes is roughly proportional to the percentage of members. Normally, unions have little problem authorizing the beginning of negotiations but might have greater problems authorizing approval. When negotiations are concluded, the confederation summons another convention. This time the individual unions ballot their members. The executive of the union might also decide to send members a recommendation to vote in a particular way, favorable or negative. In some cases, however, no recommendation is made.

The electoral rule is very similar to the procedure used to elect the American president, i.e. the electoral college. In other words, if 50 percent plus one of voters in a union choose to support a particular option (endorsement or rejection of the agreement), all the delegates of that union vote for that option in the national convention. Similar to the American presidency, this rule implies that the confederation may democratically choose to pursue a policy that has obtained less than 50 percent of the aggregate vote if the larger unions approve by close margins while the smaller unions reject by larger margins. This may have happened in two cases, in 1987 and 1990 (when most unions voted against the national agreement), even though the data of the various union elections are not available to validate this claim. However, (and again, similar to the American case) this possibility does not seem to detract from the legitimacy of whatever decision is reached within the union convention. These electoral procedures were so important in Ireland that in a few cases, government stepped in and offered selective incentives to particular swinger unions to increase the likelihood of approval.

Let us now consider another stylized example intended to capture the situation of the Italian unions. Suppose the union is composed of two factions. One prefers a moderate bargaining policy, the other a more militant one. This difference is, at root, ideological. In other words, these two factions have fundamentally different visions of what a union is and what it should do. One believes that the union should act as an agent of social and political dissent. The other believes that the union should seek to govern the process of (capitalist) economic change. Assume also that the moderate faction truly represents the "median" worker (or union member) while the other does not. This state of affairs is, however, not known since no electoral mechanism for ascertaining and aggregating the preferences of workers is in place. In fact, rather than following a "logic of representation," the union pursues a "logic of mobilization" (Pizzorno, 1978), i.e. takes its clues for action from workers willing to engage in collective action. This mode of action is presented and justified as a superior form of participatory (as opposed to purely electoral) democracy.

Suppose now that pushed by changing circumstances, the union leadership decides to engage in corporatist policy-making with government and the employers. There is no way to know for sure whether this change in policy corresponds to the preferences of workers since the leaders' choice has not been validated by a worker vote. The more extreme faction organizes a protest movement against the moderate policies pursued by the other. Accusations of illegitimacy (e.g., the claim that the other party does not truly represent the "will of the working people") are themselves instrumental in making the collective mobilization possible (Snow et al., 1986; Moore, 1978). Workers with more intense preferences (a minority of the working population) participate in the protest, while the others (a majority) choose not to act on their preferences and stay at home. Because the union follows the logic of mobilization, this collective action is perceived as confirmation that the working population does not support moderation and the policy of corporatist bargain is abandoned.

A few years later, economic circumstances lead union leaders to engage in national negotiations again. This time, however, their decisions are preceded by a union referendum in which a majority of the workers approves. This simple procedural change serves to validate the "representativeness" of moderate union leaders and the legitimacy of their bargaining policies. The mobilization potential associated with the claim to truly represent the workers' will is, therefore, dispelled.

This example illustrates another important feature of democratic decision-making, i.e. that they radically change the internal game between moderates and radicals, as a "logic of mobilization" (one in which the faction prevails that is better able to mobilize workers in strikes) is substituted by a "logic of representation" (Pizzorno, 1978). Indeed, the key characteristic of the principle "one head, one vote" is that it abstracts from consideration of preference intensity and only takes into account the sign (positive or negative) of preferences (Dahl, 1956). In other words, workers with very intense preferences, i.e. ready to mobilize in support of their claims, have exactly the same impact on collective choice as other, more apathetic workers. In more concrete terms, the preferences of the Fiat workers (the vanguard of the Italian labor movement) count just as much as those of any equally numerous (but much less active and militant) group of public sector workers. Also, workers with very intense preferences (i.e. the activists, those for whom the organization is everything) are also the ones less likely to defect from the organization when the choices of the latter do not coincide with their own preferred choices. These are, in fact, the most <u>loyal</u> members of the organization, those for whom exit has the highest (psychological) costs (Hirschman, 1970: 76-105).

b) *Deliberative Mechanisms*

A growing body of research in political theory, the so-called theory of "deliberative democracy," argues that the democratic process does not just aggregate pre-packaged preferences but contributes to shape them (Habermas, 1996; Cohen, 1996; Gutmann and Thompson, 1996; Bohman, 1996; Elster, 1998). Much of this literature, with its stringent requirements of truthfulness, morality, and sincerity (Habermas, 1984), or, in other contexts, of reasonableness of participants in deliberation (Cohen, 1996; Rawls, 1993), seems hardly applicable to real-world situations, let alone the murky world of union affairs and collective bargaining. Yet in particular circumstances, deliberative mechanisms within trade unions contribute to reshape the workers' preferences and hence, increase vertical coordination between leaders and members.

In both Ireland and Italy, union leaders did not just ask workers to vote. They also sought to influence the way in which the workers voted. They did this mostly through union assemblies. In these assemblies, they explained the content of the various agreements and used various arguments, mostly pragmatic, but also ethical and moral (see Habermas, 1993, on this distinction) to justify why particular decisions were worth taking. An open debate then followed in which workers would ask questions or even challenge the speaker's point of view and present their own. Leaders replied with further clarifications.

These communicative processes gave union leaders an opportunity to shape the workers' process of preference formation. In many cases, both the Irish and Italian workers did not have well-defined (let alone fixed) preferences about alternative policy options, even though these options directly affected their material interests. They relied on leaders to evaluate the alternatives they were faced with and formed their opinions accordingly, especially when this evaluation required (like in the case of pension reform in Italy) expert, technical knowledge generally unavailable to the rank-and-file members.

When the interests of leaders and members are compatible (i.e., it is clear that workers and leaders want the same thing but, perhaps due to bounded rationality or imperfect information, are at odds with each other as to the means to reach it), preference change solely requires circulation of information. In these cases, leaders influence their members' preferences by diffusing private information available to them or explaining complicated causal relationships between means and ends (Fearon, 1998; Mackie, 1998).

There are other situations, however, in which simple circulation of information is not enough. Workers may have reasons to suspect a potential conflict of interests between themselves and the leaders. For example, a typical peak-level deal requires workers to incur short-term losses in exchange for uncertain future rewards or even in the name of ethical or moral values (e.g.

solidarity with the unemployed). In such circumstances, the leaders' attempt at persuasion may be in vain. Members may discard the arguments, no matter how truthful, as "cheap talk" (Farrel and Rabin, 1996; Crawford and Sobel, 1982). In other words, they may believe that the leaders have self-interested reasons to seek their consensus and ignore their advice. For example, they may believe that the corporatist deal is in the leaders' own self-interest as it allows them to acquire visibility at the national level and prepare the transition to promising careers in politics.

In similar circumstances, the process of persuasion may still take place. In a word of incomplete and asymmetrical information as well as bounded rationality, workers may trust their leaders to have their best interests at heart (as opposed to other, more self-interested reasons). They trust them when they know them well and have good reasons to expect that their behavior in the present circumstances will be in conformity with their past record. Consequently, local leaders are generally more effective than national leaders in shaping the preferences of union members. The latter lack day-to-day familiarity with the workers. Also, they have fewer chances to win the workers' confidence and influence their decisions. The former, instead, perform a more capillary work of information and persuasion, not just through general assemblies but also through department-specific assemblies and informal conversations. This implies that union movements like the Irish and Italian, characterized by active local representation structures, may possibly have a structural advantage vis-à-vis other, more centralized movements in this particular domain.

In some cases, however, not even trust is enough. In these cases, leaders need to provide concrete evidence that they are <u>not</u> manipulating their constituents in order to pursue their own private agenda but rather are seeking to reach understanding on what is the best possible course of action for everybody (Habermas, 1984: especially pp. 273-337). To prove sincerity of their intent, union leaders need to go outside discourse and demonstrate that they do not stand to gain anything (in material terms) from the collective actions they advocate. If they are able to provide such evidence, they stand a good chance of being able to change their members' preferences.

In Ireland, union leaders spent a lot of time discussing the contents of the national deals with their members. They also noticed that when (like in 1996) they failed to allow enough time to organize assemblies and involve their lower level structures in brokering the deal to the membership, the results of the workers' vote were much less positive than they expected.[11] The Italian unions also paid a lot of attention to the communicative processes preceding the vote. One union leader argued that union assemblies had the capacity to move about 20 percent of the vote.[12] There is also evidence in Italy that local leaders were more persuasive than national leaders. In fact, the workers of structurally similar plants approved or rejected particular reform projects based on the way (positive or negative) in which the reform project was presented to them by workplace leaders.

Democratic decision-making procedures were also used in Korea and yet, it can be argued, they led to the collapse of social concertation. Indeed, the special KCTU conference of February 9, 1998, in which delegates voted to reject the social pact, ended up destabilizing the whole social partnership process. Yet the decision-making procedures used in the three countries were not at all the same. While direct democratic procedures were adopted in Ireland and Italy, in Korea only indirect electoral procedures were used. In other words, while in Ireland and Italy thousands of rank-and-file members expressed themselves on the desirability of centralized agreements, in Korea less than three hundred middle-level leaders had an opportunity to do so. There was no consultation of rank-and-file workers. Equally importantly, there was no discussion of the complex issues covered by the Korean social pact and of the various trade-offs contained therein. As argued by one of the protagonists, due to an economic situation that was worsening by the day, there was a pressing need to come to an agreement as soon as possible. Consequently, the KCTU leadership had to rush through the ratification process. The delegate conference was called only three days after reaching a tentative agreement; hence there was no time to organize member consultations and

[11] Interview with John McDonnell, Secretary General of SIPTU, Dublin: Sept. 6, 2001.
[12] Interview with Carlo Spreafico, Regional Secretary of the FIM-CISL Lombardy, Milan: June 16, 1997.

explain the content of the proposed deal. Apparently, some union leaders were not even aware that the unions had managed to obtain legal recognition of trade union rights for teachers.[13]

One important question that cannot be addressed with the available evidence is whether there has been a shift over time, between the "old" and "new" forms of social concertation, in terms of institutional preconditions, i.e. whether, for reasons to be explored, the early corporatist pacts of the 1970s and 1980s worked best with a hierarchical and internally undemocratic structure of unions whereas the most recent ones are better suited to more open and participatory arrangements (see Regini, 1997). Since there seems to be a qualitative difference between the pacts of the 1970s/1980s and those of the 1990s – in the sense that the former were based on a *quid pro quo* between unions and governments (for example, wage moderation was exchanged with more favorable welfare provisions) while the latter are much closer to a model of macro-concessionary bargaining – reliance on legitimating procedures and on the leaders' capacity to persuade their constituents that the "sacrifices" are just and equitably distributed may have become more important now than it was in past, when it was enough for the leaders to deliver the goods for their members.

This hypothesis seems plausible. However, I am not totally convinced that the unions' internal processes, even in countries like Norway or Sweden, really ever resembled the corporatist ideal type. Much of the corporatist literature seemed to suffer from an ideological prejudice when it dealt with these issues. Many authors believed that union restraint was a functional prerequisite for the socioeconomic stability of advanced capitalist societies. Yet this prerequisite could never be voluntarily accepted by the working class and could only be implemented if the union leaders found ways of circumventing the inevitable protest of their members. The sheer fact that there was restraint implied that there also was coercion. That members could voluntarily accept restraint was not even considered by this literature. Perhaps, more detailed historical accounts of the internal process inside corporatist organizations are necessary to understand whether even the countries

[13] Interview with You-Sun Kim, Deputy Director, Korea Labour & Society Institute and former Chief Negotiator, KCTU, Sept. 1, 2003.

traditionally included in the corporatist core were really as corporatist as they are often depicted to be.

5. The Outcomes of Social Concertation

Having dealt with issues of prevalence and diffusion, emergence and institutionalization, and organizational prerequisites, the paper now moves to the outcomes of social concertation. A comprehensive assessment is limited by the lack of appropriate indicators. For example, a common argument among politicians suggests a trade-off between political expediency and efficacy. It seems that a socially concerted approach to welfare reform increases the likelihood that reform will go through, rather than be shot down, while simultaneously watering down its content. In the absence of a measure of welfare reform effectiveness I am unable to evaluate this claim. What I can do, however, is to assess the impact of collective bargaining coordination (one of the dimension of concertative policy-making) on two key measures of macroeconomic performance: real wage growth and unemployment. Indeed, in this domain there are both reliable measures of the constructs at hand and a long-established literature to guide the search.

The literature on the impact of bargaining coordination on unemployment is somewhat divided. Most authors argue that there is a negative relationship between coordination and unemployment, because of the tendency of coordinated bargaining to internalize the externalities of wage bargaining and lead to lower real wage settlements than uncoordinated bargaining (see Tarantelli, 1986; Soskice, 1990; Layard et al., 1991; Flanagan, 1999: 1157ff.; Hall and Franzese, 1998; Franzese, 2001; Nickell et al, 2005). Other, more mainstream economic literature, however, posits a positive relationship because it considers that coordination enhances the monopoly power of unions (see IMF, 2003: Ch. 4; Saint-Paul, 2004: 51; Traxler and Kittel, 2000: 1156).

If one looks at the evolution of unit labor costs and unemployment in Ireland (the clearest case of economic success in Europe in the past 20 years), the argument that wage coordination reduces unemployment by moderating wage growth (corrected for productivity growth) is amply corroborated. Indeed, Figure 7 shows that real unit labor costs declined dramatically in this country after the introduction of social partnership in late 1987, and unemployment declined dramatically as well.

Figure 7 about here

If one looks at other cases, however, the relationships are no longer as clear cut as in the Irish case. Italy is the country in which the degree of bargaining coordination increased the most during the 1990s.[14] As shown in Figure 8, unit real wages slowed down considerably in Italy after the introduction of social concertation in 1992. Unemployment, however, continued to rise.

Figure 8 about here

In the Netherlands, another country in which increased collective bargaining coordination is credited for employment success (Visser and Hemerijck, 1997), unit real wages fell briefly after the introduction of the Wassenaar agreement in 1982, but then grew again, while unemployment went down (Figure 9). In brief, qualitative evidence suggests that wage coordination is overall successful in moderating real wage growth, but that such wage moderation does not always translate in unemployment reductions.

Figure 9 about here

A large-N econometric analysis of 18 OECD countries between 1960 and 1998 tests this tentative conclusion.[15] I draw on the theoretical framework elaborated by Layard, Nickell, and Jackman (1991), which hypothesizes that the unemployment rate depends on a series of labor market institutions determining the equilibrium level, and on a series of macroeconomic variables explaining short terms deviations from the equilibrium level (see Layard et al., 1991; Nickell et al, 2001; see also Blanchard, 1999: 9; Nickell et al., 2001: 2-4). The model which is tested below is arguably better specified than in most other tests of the effects of bargaining coordination, as it

[14] Between the second half of the 1980s and the second half of the 1990s, the index elaborated by Lane Kenworthy (2003), measuring bargaining coordination, increased from 2 to 4 in Italy (on a five-point scale), from 2.3 to 4 in Ireland, and from 3 to 4 in the Netherlands. Information on the various measures can be found in the Appendix to Baccaro and Rei (2006).

[15] The countries included in the analysis are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, and United States.

includes a series of additional institutional factors that are hypothesized by theory to impact the equilibrium unemployment rate either by leading to higher wage settlements or by reducing the willingness and capacity of the unemployed to bid down the wage of the employed. Since institutions vary little over time, data are averaged over five-year periods. Consequently, macroeconomic controls like changes in the inflation rate, changes in productivity growth, or terms of trade shocks, which are generally included in models with yearly data, are not included here as they are unlikely to affect the equilibrium unemployment rate in the medium- to long-term period.[16]

The model tested is the following:

$$u_{i,t} = \beta_0 + \gamma r_{i,t} + \sum_n \eta_n z_{n,it} + hBC_{i,t} + \delta_i + \alpha_t + \varepsilon_{i,t}$$

where u_{it} is the unemployment rate in country *i* at time *t*, *r* is the real interest rate, the *z*s are *n* institutional variables, BC is a bargaining coordination index elaborate by Lane Kenworthy (2003), the δ_is are (N-1) fixed effects, capturing country-specific, but time-invariants, unmeasured determinants of unemployment, the α_ts are (T) year dummies, accounting for time-varying annual shocks affecting all countries simultaneously, and $\varepsilon_{i,t}$ is the stochastic residual.[17]

The vector of institutional variables is the following:

$$\sum_n \eta_n z_{n,it} = \eta_1 EP_{i,t} + \eta_2 UD_{i,t} + \eta_3 BRR_{i,t} + \eta_4 TW_{i,t} + \eta_5 CBI_{i,t}$$

where *EP* is an employment protection index, *BRR* is the benefit replacement rate, *UD* is union density, *TW* is the tax wedge, and *CBI* is an index of central bank independence.[18]

Table 2 about here

[16] Econometric tests not reported here show that, when included, these additional macroeconomic controls are neither individually nor jointly significant.

[17] It is worth mentioning that the bargaining coordination index is a less than perfect proxy for the social Concertation construct. Indeed, while peak-level social concertation is one of the ways in which wage bargaining is coordinated, in countries like Germany, Japan, and Switzerland, for example, negotiations are coordinated across bargaining units informally by employer associations, with no need for the explicit involvement of unions and employers in peak-level negotiations (Soskice, 1990).

[18] Some specifications also include *BENOECD* instead of *BRR*. *BENOCED* is a measure elaborated by the OECD summarizing the overall generosity of unemployment benefit entitlements. The advantage of this variable is that, unlike *BRR* which is limited to the first year only, it considers both the dimension of duration and the dimension of income replacement. Its disadvantage is that it does not distinguish between the two.

Table 2 compares fixed effects and random effects specifications. The fixed effects specification is preferable on both theoretical and methodological grounds: the model is better specified when country dummies are inserted. Indeed, country dummies seem to capture a large share of the variation in the unemployment rate. In a random-effects model it is assumed that the countries are random draws from a population, about which inferences are being made – an assumption that does not seem especially realistic in this case.[19] Results suggest that substantive conclusions regarding the impact of wage coordination on unemployment depend heavily on the particular estimator selected. Indeed, the greatest changes in coefficients and significance levels across models concern the coordination variable, which is negative and significant with random effects (consistent with most literature, see the review in Aidt and Tzannatos, 2002), but not with fixed effects. Interestingly enough, the estimated coefficients of other institutional predictors (employment protection, generosity of unemployment benefits, and the tax wedge) are not only insignificant, but often even wrongly signed, i.e. negatively rather than positively, with both fixed and random effects, with the exception of the union density rate, which is robustly positive and significant across models. The coefficients of the real interest rate and central bank independence variables are positively signed and significant. While a discussion of these findings is beyond the scope of this paper, they cast doubt on the vastly popular view that equilibrium unemployment is caused by institutional rigidities, and provide support for an alternative view which identifies restrictive macroeconomic policies as the main culprits.

I also estimate a model in which the dependent variable is a measure of real wage growth controlling for productivity. Indeed, if labor institutions have an impact on unemployment, such impact should work its way through wages: in an imperfect market scenario, in which wages are determined as the outcome of bargaining between firms and workers, labor market institutions should raise equilibrium unemployment by increasing the bargaining power of workers and

[19] I tested for fixed vs. random effects through a Hausman test. The random effect specification appears borderline acceptable for the model with the summary measure of benefit entitlements (column four). However, non-randomness of the sample and better specification still make one prefer the fixed effects model to the random effects one.

reducing the willingness of the unemployed to bid down the wages of the employed. Bargaining coordination should instead behave in the opposite way by favoring the internalization of externalities. The model tested is:

$$\Delta WEU_{i,t} = \beta_0 + \sum_j \gamma_j x_{j,it} + \sum_n \eta_n z_{n,it} + hBC_{i,t} + \delta_i + \alpha_t + \varepsilon_{i,t}$$

where ΔWEU is the 5-year average of the annual percentage change of the wage expressed in efficiency units in country *i* at time *t* (roughly, a measure of permissible real wage increases given total factor productivity gains attributable to labor, see Blanchard, 1997; Blanchard and Philippon, 2004). The vector of institutional variables ($\sum_j \gamma_j x_{j,it}$) includes Employment Protection, Union Density, Benefit Replacement Rate or the Benefit Generosity measure, Change in the Tax Wedge (see Layard et al., 1991: 33, for this modeling choice), and Central Bank Independence. *BC* is the bargaining coordination index. The vector of macroeconomic controls ($\sum_n \eta_n z_{n,it}$) includes the Unemployment Rate (instrumented with the real interest rate and other variables in the model) and a change in terms of trade variable. The alphas (α_t) are time dummies; the deltas (δ_i) country dummies.

Table 2 about here

Results from the wage growth model (in Table 2) are largely compatible with those from models estimating the direct effects of institutions on unemployment. Wage change in efficiency units responds negatively (as expected) to unemployment and terms of trade shocks. Benefits replacement rate and tax wedge are not significantly associated with higher wage increases, consistent with the unemployment models. Benefit generosity is (surprisingly) even significantly negatively associated with wage growth (in line with previous results). Central bank independence per se does not seem to lead to wage moderation (in contrast with arguments in Scharpf, 1991; Streeck, 1994; Hassel, 2003). Consistent with the unemployment models, union density is significantly positively associated with wage growth. The main peculiarities of the wage change models concern the wage coordination index and the employment protection. Bargaining coordination is significantly associated with lower wage growth, even controlling for country fixed effects. Hence coordination seems effective in bringing about wage moderation, but wage moderation does not necessarily translate in lower unemployment, on average, as suggested by the lack of a robust direct effect of bargaining coordination on unemployment in previous models. This finding, combined with the ones above on real interest rates and central bank independence (which does not significantly affect wages, but does seem to lead to higher unemployment), points to the importance, in future research, of understanding how the various predictors affect different components of aggregate demand. Indeed, it is possible that the lower growth of wages in efficiency units brought about by wage coordination only translates into lower unemployment in countries (like Ireland) in which foreign demand is a more important component of aggregate demand than domestic demand. In countries with larger domestic markets, like Italy, the impact of wage moderation on labor demand may be counterbalanced by lower aggregate demand.

Also, it looks as though employment protection does lead to higher wages in efficiency units even though this does not seem to translate into increases in unemployment (probably because employment protection simultaneously reduces flows into unemployment). Interestingly enough, employment protection seems to have no significant impact when the dependent variable is change in unit labor costs (model not shown). This may be due to the fact that the higher wages induced by employment protection spur capital-labor substitution processes which, in turn, generate productivity increases that compensate for them, such that unit costs are unaffected (see Blanchard, 1997; Blanchard and Philippon, 2004).

Overall, the impact of bargaining coordination on unemployment is, according to the models presented above, ultimately the result of modeling choice. If fixed effects are included in the model, then this variable does not seem to have a significant impact on unemployment. If, however, fixed effects are not included (for example, in random effects models), the coefficient of the coordination variable is negative and significant. It is possible that with better-specified models we could in the future be able to dispose of country dummies (which are nothing more than labels) and be able to appreciate the cross-sectional effect of the wage coordination variable. For the time being, however, a model without fixed effects is likely to suffer from omitted variable bias. I conclude that the effects of wage coordination that seem to matter most for unemployment are the cross-sectional ones, while the within-country variation in wage coordination does not significantly reduce unemployment. Cross-sectional differences probably reflect the rest of the institutional structure (e.g. social democracy and associated economic policies) in which wage coordination is often embedded. From a policy perspective, simply increasing the level of bargaining coordination, in the absence of parallel changes in the rest of the institutional and policy structure, would probably not reduce unemployment, according to these results.

6. Concluding Remarks: From Social Concertation to Associational Democracy?

This paper has examined the political economy of social concertation, addressing in particular issues of prevalence and diffusion, origin and institutionalization, institutional and organizational preconditions, and political economic outcomes, and focusing on the 1990s. Drawing on a variety of sources and research methods – coding of journalistic sources, field research in four countries, secondary sources, and econometric analysis – it has argued that social concertation is a recurrent and, overall, stable feature of European political economies between 1974 and 2003, and that it has recently made its appearance in developing countries as well. Also, the paper has proposed a conceptual framework to explain the emergence and institutionalization of peak-level concertation, based on the experience of Ireland, Italy, South Africa, and South Korea in the 1990s. It has argued that the process of social concertation begins as a response to an external shock, namely a serious financial or macroeconomic crisis which threatens national prosperity and international prestige. While the nature and causes of such external shocks may vary, what is common to all cases considered is that policy responses reflect a neoliberal orientation and involve fiscal correction, disinflation, or labor market liberalization. Alternative policy solutions, for example, introducing capital controls or increasing taxation, were not seriously considered except by fringe groups. Electorally weak governments are keen to build societal alliances with the major social groups, and especially with trade unions, which represent those most likely to be negatively impacted by the policy response to crisis, namely workers, and are therefore well positioned to increase the legitimacy of potentially unpopular policies. Other governments, like the South African one, which feel less vulnerable politically, prefer to proceed unilaterally. A social pact emerges if the moderate factions within the union movement win the internal battle and lead the organization to embrace a cooperative strategy. While organized employers are often reluctant in the early stages of social pact formation, they become decisive later on. Indeed, a social pact only becomes institutionalized, i.e. able to navigate safely both the political and economic cycle, if the employers become strategically committed to social pact reproduction – something which they do when, as in Ireland, this institutional arrangement delivers for them economically.

The assessment of concertation outcomes is limited by availability of measures of policy effectiveness, especially as far as welfare reform is concerned. For this reason, the papers has focused on the consequences of collective bargaining coordination only and has argued that, while coordination leads unions to moderate wage growth (taking into account productivity increases), such wage moderation translates into unemployment reductions only in countries like Ireland, which are heavily dependent on external demands, but not overall. On average, wage coordination does not seem to affect unemployment significantly.

The organizational characteristics undergirding social pact emergence and stabilization seem, at least in the 1990s, to have little in common with those corporatist theory focused upon, having to do with concentrated interest groups and internally hierarchical governance systems allowing for centralized control of leadership over both peripheral structures and rank-and-file mechanisms. The paper has illustrated how democratic decision-making procedures tilted the internal balance of power within unions in favor of moderate strategies in Ireland and Italy, and helped organizational leaders to shape the preferences of at least a portion of their membership, thus facilitating acceptance of policy solutions that imposed short term losses in exchange for (uncertain) long-term gains. It is not clear whether organizational preconditions have changed over time, due to reduced availability of monetary resources for side payments, which may have increased the importance of rational persuasion and decision-making procedures which could be perceived as procedurally legitimate, or whether the presumed internally corporatist structure of interest groups in social concertation countries in the 1970s and 1980s was exaggerated by previous theory, with little correspondence with empirical reality.

Aside from internal democratization, the new social concertation pacts are different from the old because they increasingly tend to move beyond a purely tripartite structure and to include representatives of other civil society organizations as well. In Ireland, for example, social partnership initially involved the tripartite constituents plus the farmers' associations. This core group of actors dealt primarily with the traditional theme of centralized control over wage increases. During the 1990s, however, the core was progressively enlarged to include a variety of new actors (e.g., organization of the unemployed, women's league, community workers cooperative, youth council, religious organizations, people with disability, association of the older people, gay and lesbian associations, traveler movement, etc.) and practically all other policy areas, e.g. urban regeneration, housing policy, tax policy, the fight against poverty and social exclusion, social protection, child care, equal opportunity, skill development.

Similar development have taken place in South Africa as well. The NEDLAC Act of 1995 instituted a statutory consultative structure, composed of various social actors, with the task of submitting proposals and of reviewing all legislation in particular fields prior to approval. NEDLAC is composed of four chambers: Trade and Industry, Labor Market, Public Finance and Monetary Policy, Development (Webster et al., s.d.; Gostner and Joffe, 2000). At least in theory, these chambers deal with the whole gamut of economic policies. The first three chambers are tripartite. The fourth is open to the so-called "Community Constituency," which is composed of umbrella organizations representing civic associations, disabled people, women's movements, youth organizations, and cooperative associations. Also, the community constituency is represented in the management structure of NEDLAC. Recently there have been discussions to extend its participation to all other chambers as well.

This dimension of enlarged civil society participation has been interpreted through new analytic grids which are much closer the emerging literature on participatory governance than to the literature on traditional tripartite social concertation. In particular, a research program known as "associational democracy" (Cohen and Rogers, 1995a and b; Hirst, 1994; Cohen and Sabel, 1998; Fung and Wright, 2003) emphasizes completely different reasons and motivations for civil society involvement in public policy-making. Whereas the literature reviewed so far, including the argument developed in this paper, underlines the political expediency of civil society involvement and, associated with this, the social control capacities of involved groups – involvement reduces the likelihood of a popular backlash against unpopular policies – the literature on associational democracy focuses on learning and knowledge: civil society involvement is desirable because it brings in new information about the nature of problems to be resolved as well as the feasibility and practicality of possible solutions.[20]

Also, whereas the literature on social concertation focuses on various groups accommodating their diverse interests through bargaining, the literature on associational democracy emphasizes, in half-prescriptive, half-descriptive mode (see O'Donnell, 1998, on Ireland) that not just intra-organizational coordination but also inter-organizational coordination is shaped by deliberation. In other words, the representatives of different interest groups persuade one another to engage in a joint search for the common good, and in so doing transform their preferences from purely self-interested in other-regarding, or at least more long-term oriented.

The institutional arrangements emerging in Ireland and South Africa, as well as in Brazil, Nicaragua, and other Latin American countries (see Ayala, 2003; Licham 2003), are new and their

[20] This dimension of problem solving was not the central dimension of corporatist theory (which was mostly concerned with social control exercised by leaders over members), but was not unknown to corporatist theory (see, for example, Streeck and Schmitter, 1985).

assessment is premature. However, field interviews with actors involved in these processes in Ireland and South Africa suggest that discarding the old explanatory frameworks to make room for completely new ones would be hasty. Both in Ireland and South Africa the main motivation for civil society inclusion at the national level was political expediency. In the early 1990s the Irish tripartite constituents got a lot of negative publicity as a result of a media campaign, orchestrated by the main NGOs dealing with the poor and socially excluded, which depicted the Irish social partnership as an insider deal. The government responded eventually by broadening participation to some of the social actors that had organized the media campaign. In South Africa, too, the creation of a community constituency within NEDLAC was in recognition of the role played by some civil society organizations in the liberation struggle and in the United Democratic Front (UDF) which brought down the apartheid regime. It was felt that these long-term allies of the ANC needed to be repaid in some ways.

In both countries, the contribution of civil society organizations to peak-level concertation is marginal and largely symbolic. The South African civil society associations have very basic problems of financial survival that severely limit their contribution to problem-solving (see also Heller and Ntlokonkulu, 2001). The associational democratic model takes it for granted that citizens' groups have more detailed knowledge of problems and solutions than public bureaucracies, including the decentralized arms of the latter. Yet, whether such knowledge is there or not is an empirical question. Following transition to democracy, many international donors shifted their funding priorities from civil society organizations, which they had been supporting during the apartheid regime (since they were the only legal political opposition), to the democratic state (Hearn, 1999). With no money to pay for their telephone bills, let alone engage in those decentralized consultations through which detailed knowledge and monitoring capacities are constructed, the contribution of these organizations can only be symbolic.

The question of whether civil society organizations really have important problem-solving capacity to contribute often surfaces in Ireland as well (see O'Donnell, 2001). Indeed, the one element of social partnership that seems to be working well in Ireland is the centralized control over nominal wages. Many actors, both among the traditional social partners and the new civil society actors, are dissatisfied with recent developments. The reaction of the major Irish employer federation is interesting in this regard. For this organization, the most interesting part of social partnership is the incomes policy component. They support the extension and deepening of social partnership to other domains to the extent that it does not interfere with this crucial function.

Once they enter the public-policy sphere and obtain official recognition as "social partners," the new civil society actors struggle ferociously to be included in all bargaining tables, including the ones for which they have no clear competence. So far, no attempt has been made at dismantling some of these tables, but it would be easy to predict that were these attempts to be made in the future, they would be staunchly resisted.

Negotiations, let alone deliberations, are often very difficult as groups struggle to make sure the one issue (concerning women, disabled, youth, travellers, etc.) which concerns them is dealt with at the bargaining table. Even when coordinating bodies negotiate in lieu of single organizations, these bodies do not have clear bargaining priorities. They present the counterparts with a laundry list of demands and then struggle to obtain satisfaction of as many of these demands as possible. Given their loose organizational structure, they have to show they were attentive to the needs and interests of each of their different constituents and were able to bring something home for everybody. Because of these constraints, their effectiveness is impaired, as is acknowledged by representatives of the organizations themselves.

One interpretation of developments is that, at a time in which trade unions are not the only agents that can credibly threaten the smooth implementation of government policies – NGOs can be equally effective threats through their media campaigns and appeals to public opinion – governments find it expedient to involve other civil society organizations, not just the social partners, in peak-level negotiations. Obviously, one cannot exclude that, especially at the local level, where local partnerships involving a plurality of actors have been emerging to deal with problems of long-term unemployment, local development, social exclusion, and regulation of contingent forms of employment (see Sabel, 1996; Teague and Murphy, 2004; Regalia, 2006), new logics and modes of actor coordination may be emerging. Only time will tell whether these new forms of governance, which may be emerging at the local level, will diffuse at the national level as well. For the time being, it seems too early to state that the movement from tripartism to organized multipartism, which is clearly visible in several countries, is due to something like a fundamental shift in the motivations for civil society involvement.

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Figure 1 – Government Willingness To Engage in Concerted Wage Policies

Three-years moving averages

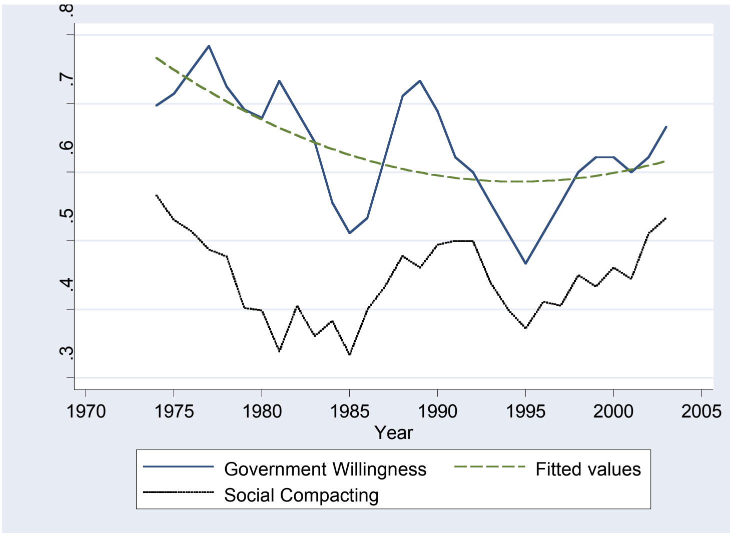


Figure 2 – Government Willingness to Engage in Concerted Welfare Policies

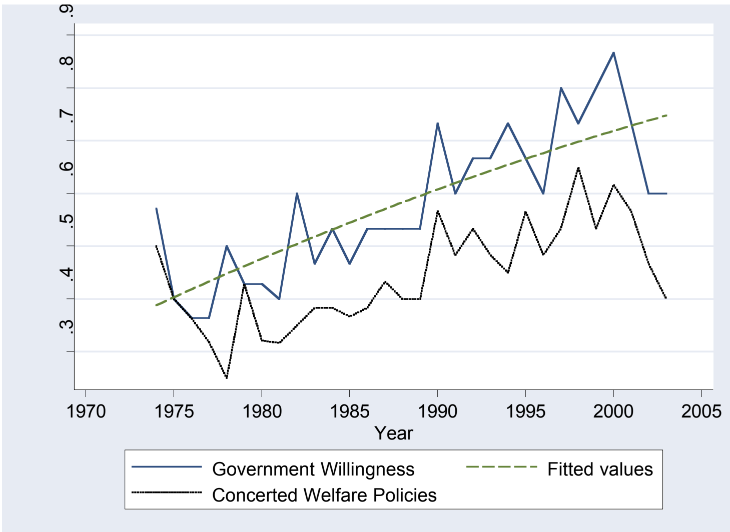


Figure 3 – Bundling of Policy Issues Over Time

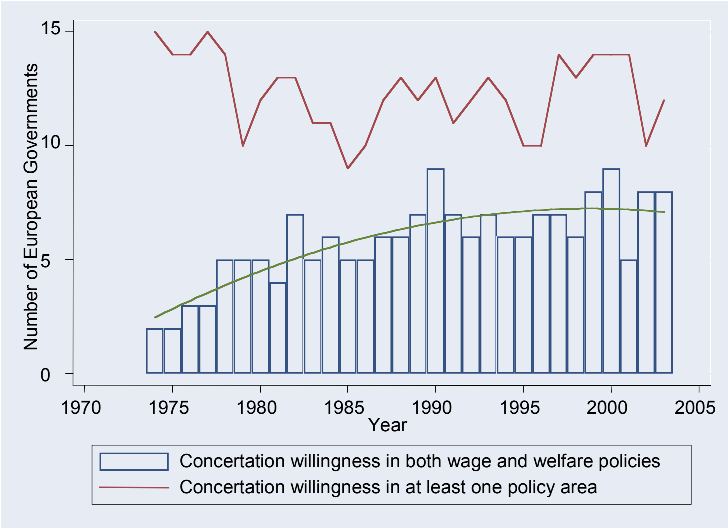


Figure 4 – Government Willingness to Engage in Concerted Wage Policies: EMU vs. non-EMU countries

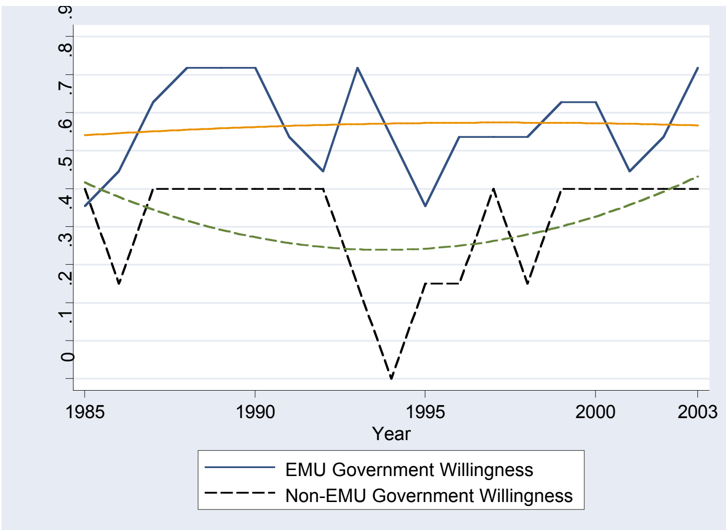


Figure 5 – Government Willingness to Engage in Concerted Welfare Policies

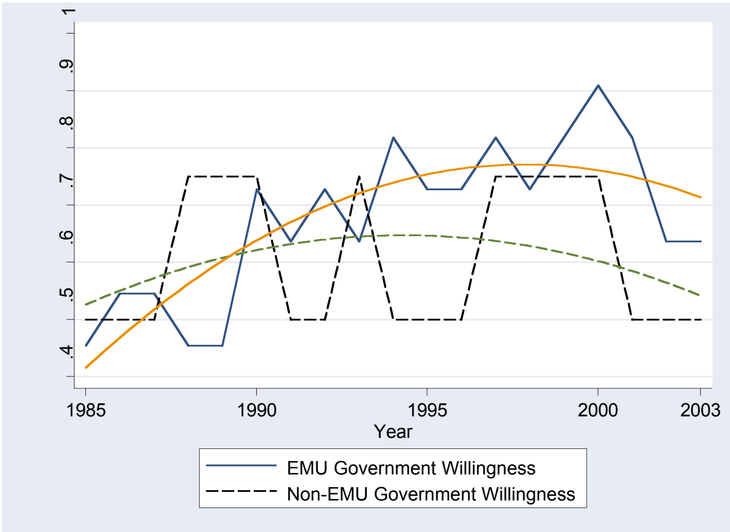


Figure 6: The Process of Social Compacting

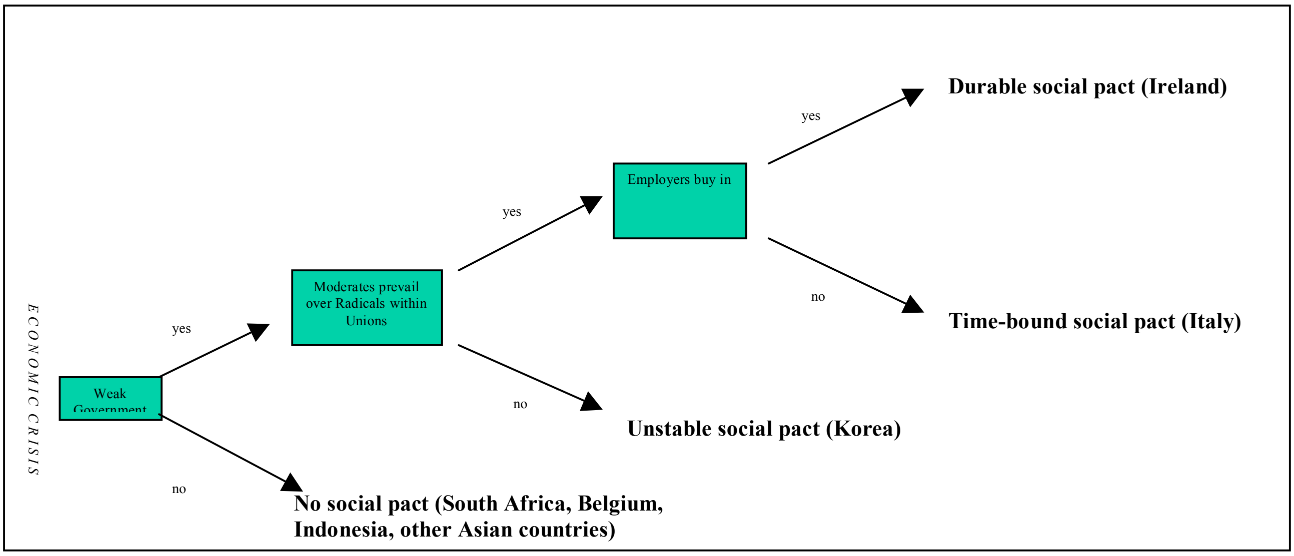
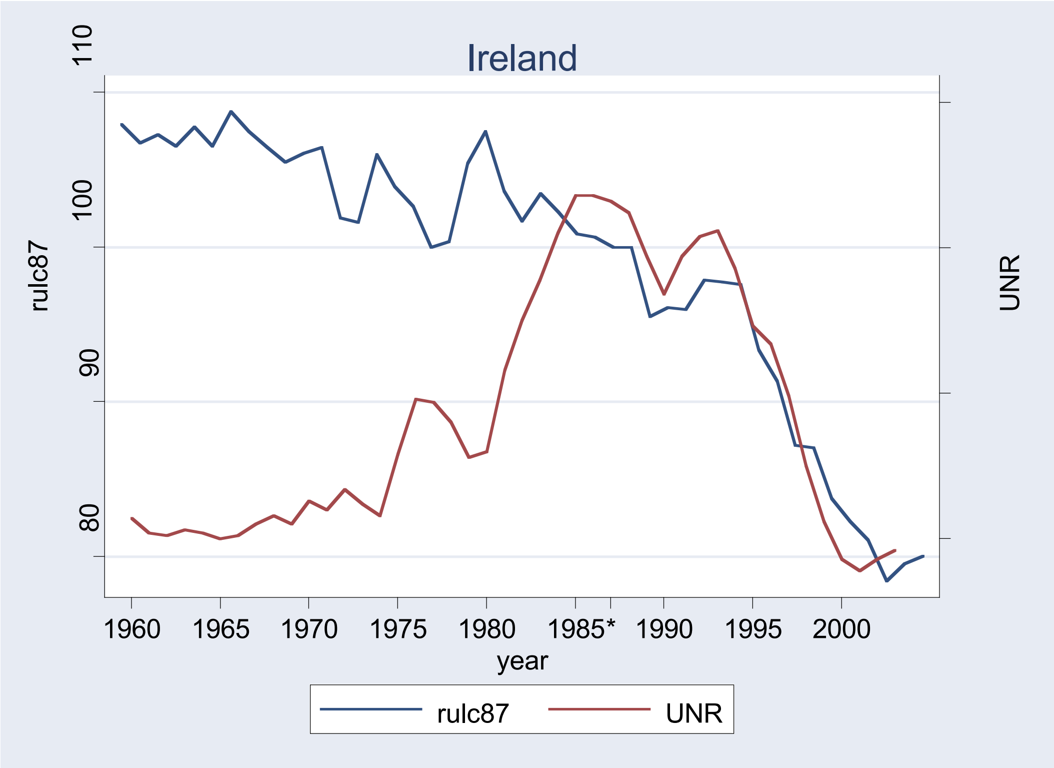
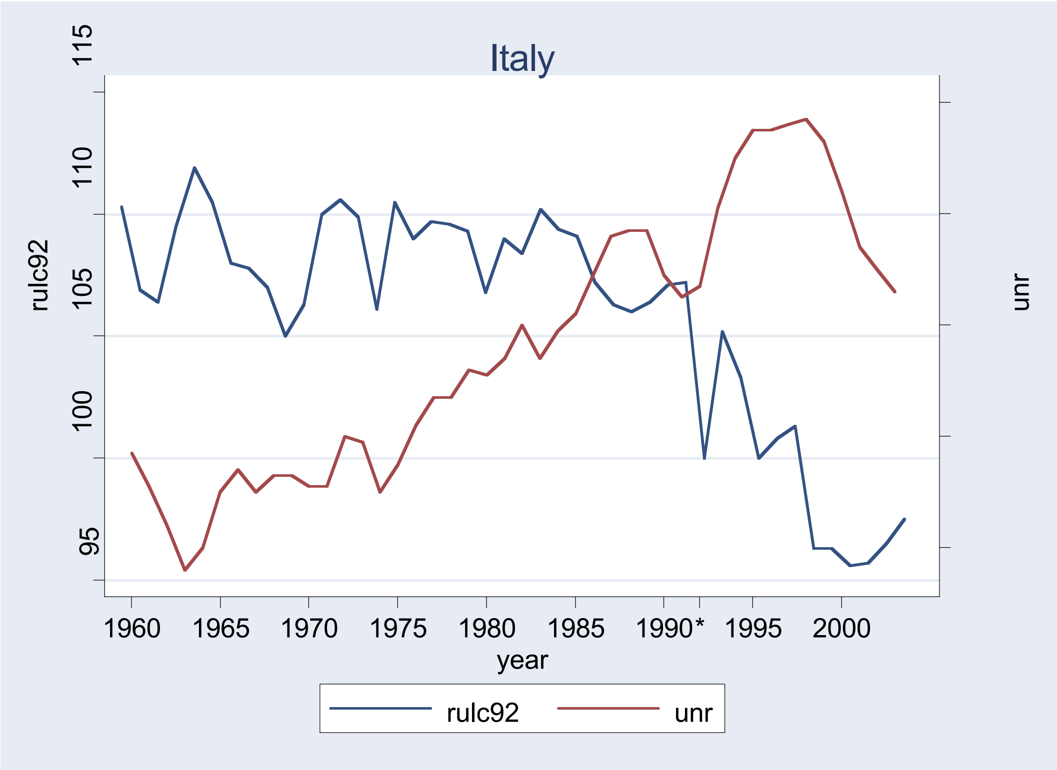


Figure 7 – The Evolution of Real Unit Labor Costs (left axis) and Unemployment (right axis) in Ireland



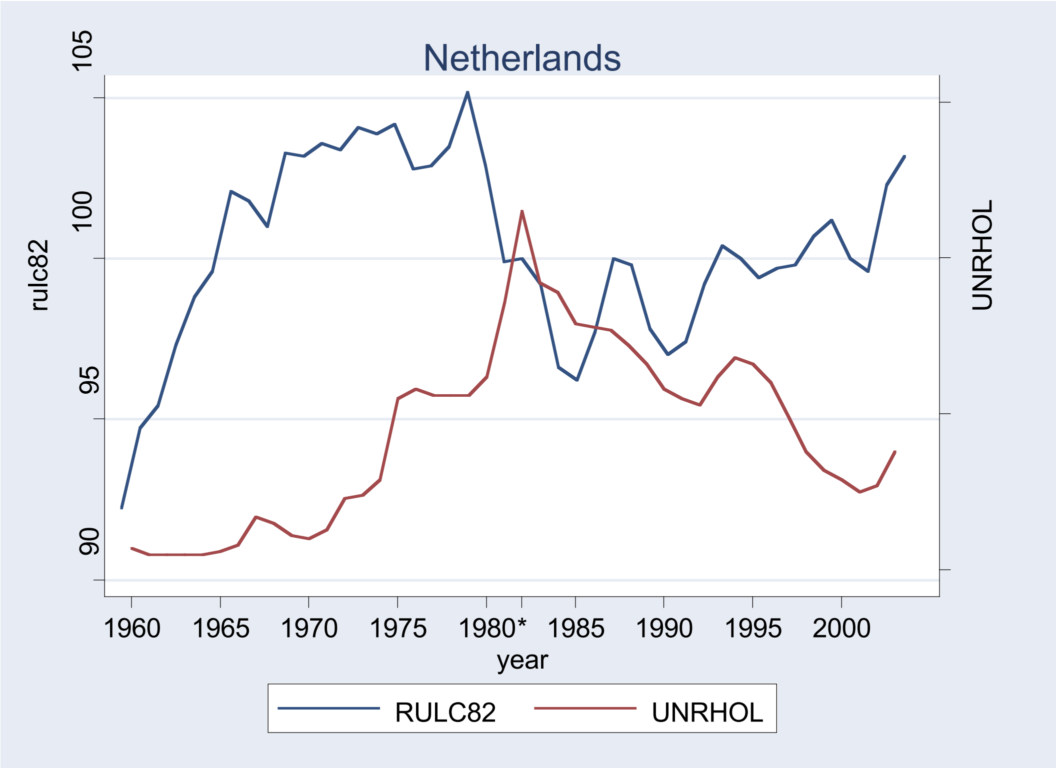
Source: Ameco database

Figure 8 – The Evolution of Real Unit Labor Costs (left axis) and Unemployment (right axis) in Italy



Source: Ameco database

Figure 9 – The Evolution of Real Unit Labor Costs (left axis) and Unemployment (right axis) in the Netherlands



Source: Ameco database

Table 1 - Aggregative and Deliberative Mechanisms of Union Coordination

	Horizontal (Inter-Union) Coordination	Vertical (Intra-Union) Coordination
Aggregative Mechanism	Unions losing the vote accept the will of the majority	Plants or worker groups losing the vote accept the will of the majority
Deliberative Mechanism	(Unions influence the position of other unions through the force of the better argument) (Not observed empirically)	Leaders influence the position of union members through the force of the better argument

Table 2. Institutional Determinants of Unemployment. Five-Year Data. Fixed and Random Effects in Levels (Intercept, Country dummies, Time dummies omitted)

	Fixed Effects (OLS Newey-West s.e.)	Random Effects	Fixed Effects with benefit entitlements measure (OLS Newey-West s.e.)	Random Effects with benefit entitlements measure
Dependent Variable	Unr	unr	unr	unr
Real Interest rate	0.252 (3.31)**	0.234 (2.69)**	0.255 (3.38)**	0.239 (2.72)**
EP	1.518 (1.47)	0.480 (0.76)	1.452 (1.31)	0.506 (0.79)
UD	0.103 (3.28)**	0.055 (2.71)**	0.105 (3.21)**	0.055 (2.68)**
BRR	-0.020 (1.20)	-0.019 (1.39)		
BENOECD			-0.028 (0.97)	-0.020 (0.89)
TW	-0.044 (0.89)	-0.022 (0.65)	-0.046 (0.89)	-0.030 (0.90)
CBI	4.286 (2.49)*	2.925 (1.84)♦	4.261 (2.36)*	2.889 (1.81) ♦
BC	0.015 (0.08)	-0.465 (2.35)*	-0.014 (0.08)	-0.485 (2.44)*
Hausman Test results. Ho: difference in coefficients not systematic	$\chi_{(15)}$ = 21.56 P-value = 0.11		$\chi_{(15)}$ = 24.77 P-value = 0.05	
Observations	134	134	134	134
R squared	.76	.49	.76	.48

Absolute value of z statistics in parentheses.♦ significant at 10%; * significant at 5%; ** significant at 1%

Table 3. Institutional Determinants of Wage Growth in Efficiency Units. 2SLS. Intercept, Country, and Time Effects not Shown

	2SLS, Newey West standard errors	2SLS, Newey West standard errors
Dep.Var.	WEI	WEI
Unr	-1.166 (2.30)*	-1.103 (2.29)*
Terms of trade shocks	-1.001 (1.88) ♦	-1.249 (2.39)*
EP	2.694 (2.38)*	2.530 (2.44)*
UD	0.100 (2.01)*	0.111 (2.36)*
BRR	-0.022 (1.01)	
BEOECD		-0.073 (2.30)*
ΔTW	0.000 (0.66)	0.000 (1.40)
CBI	0.928 (0.27)	0.521 (0.14)
BC	-0.589 (1.69) ♦	-0.638 (1.97)*
Observations	121	121
	Exogenous instrument for Unr is the real interest rate.	Exogenous instrument for Unr is the real interest rate.
Absolute value of z statistics in parentheses.♦ significant at 10%; * significant at 5%; ** significant at 1%		