

Introduction

The last wave of social pacts in Europe: problems, actors and institutions

David Natali and Philippe Pochet

Introduction

The participation of social partners in the management of socio-economic variables has been a stable feature of European politics in recent decades, and it has been defined as one of the key aspects of the European Social Model (Jepsen and Serrano Pascual, 2005; Baccaro and Simoni, 2008). Yet their role has not been constant throughout the post-war period. It has changed during different cycles. The first period of neo-corporatist agreements – in the wake of Keynesian economic policy – ended at the beginning of the 1980s (Schmitter and Grote, 1997). After a more awkward phase of social dialogue, a (second) new wave of social pacts emerged – in the light of competitive forms of concertation (Rhodes, 2001). And European integration largely contributed to such a revival. The launch of the European Monetary Union (EMU) represented a decisive exogenous stimulus for the (re)emergence of social concertation between governments and peak-level social partners (Fajertag and Pochet, 1997; 2000).

This book aims at shedding light on the third and most recent wave of social pacts in the last decade in European Union (EU) countries. This is an attempt to address some of the ‘old’ questions that drove previous analytical efforts on social concertation in Europe in a changing context: What are the key determinants of social pacts? How stable are those agreements in Europe? Is there any convergence between EU member states in approaching consensual socio-economic policy reforms? What is the prospect for the future of social pacts? These questions are still of key importance for the study of social pacts. Yet they are largely shaped by new contexts and dynamics. In particular,

they are influenced by the participation of many European countries in a single currency area: the Eurozone.

This book was prepared during the emergence of the financial and then economic crisis. Thus the individual chapters do not deal with this aspect. Nevertheless, one of the key findings of the analysis both of the country chapters and of the more theoretically-inspired chapters seems consistent with recent trends in social partnership in the context of a huge economic downturn. Social pacts have seen neither extreme success nor a striking decline in the past decade, and this is confirmed by the most recent period. Governments' and social partners' reactions to the crisis have much more to do with the mobilisation of micro- and meso-level answers: collective bargaining at plant and/or sectoral level (Glassner and Galgóczi, 2009). In other words, policymakers have preferred micro or meso level solutions, rather than macro-level solutions like social pacts, to mitigate the crisis.

As far as social pacts in the 1990s are concerned, scholars have argued that EMU accession did play a key role in catalysing efforts to strike social deals, especially in those countries lacking the structural and institutional preconditions for more traditional neo-corporatist concertation (Ebbinghaus and Hassel, 2000; Fajertag and Pochet, 1997; Hassel 2003). This was argued in particular for countries likely to have difficulty in sustaining a monetary regime aiming for low inflation and a stable currency while keeping their public deficits under control (Pochet, 1998 and 1999). Other authors have stressed the proliferation of opportunities for social pacts through multi-dimensional compromises and the highly contingent nature of social pacts signed in the wake of EMU accession (Rhodes, 2001; Traxler, 2002; Hancké and Rhodes, 2005). And consequently, many outlined the plausibility of a general decline in social concertation practices afterwards. As concerns their further evolution, it was indicated at that time that a number of these agreements appeared to be unstable and linked with cyclical economic factors. What is more, the transition to the third phase of EMU would reopen a debate on suitable forms and content of concertation, no longer in the context of the strict Maastricht criteria establishing the single currency, but in that of a more relaxed unified monetary zone with no hard sanctions for countries not reaching key targets (Fajertag and Pochet, 2000; Natali and Pochet, 2009).

Some years later, the key questions on the opportunity for social pacts and their evolution are still at the core of the literature on industrial relations. The most recent dynamics provide new evidence for testing both old and new hypotheses and improving our understanding of social pacts. And further challenges and trends have emerged. Firstly, the globalisation of financial markets and international trade competition have hugely shaped wage-setting and tax and welfare policy at national level (see Schmidt, 2008; and Traxler, this volume). Secondly, socio-economic changes such as more flexible employment arrangements, the dualisation of labour markets, contrasts between sheltered and exposed sectors and increased migration flows have intensified. Thirdly, and in parallel with the full implementation of the Monetary Union, EU enlargement has represented a new focus for research. Peculiar socio-economic and political conditions, namely the transition from state-planned to market economy and from socialism to democracy, and the typical traits of industrial relations in Central and Eastern Europe represent a new set of challenges for social dialogue - and indeed for its analysis. And all this adds more complexity to the interaction of EU integration, EMU accession in particular, and social partnership (Bohle and Greskovits, 2007; Ost, 2000; 2005; Meardi, 2007).

Finally, the problematic link between social policy reforms and wage bargaining has re-emerged. Some authors have stressed the increased disconnection between the two areas and consequently the more limited scope for compromises. And, meanwhile, social partners and governments have seen changing interactions and evolving power resources. Their preferences have changed as a consequence of renewed challenges, evolving contexts and processes of mutual learning.

The core part of the book is based on country chapters shedding light on the recent evolution of social pacts across the Eurozone. Case selection has been firstly oriented to analyse those countries that participated in the first launch of the monetary union: Finland, Ireland, Italy, the Netherlands, Portugal and Spain. They represent an interesting case study for understanding the stability of social pacts and/or their evolution across the years. While some chapters show the progressive institutionalisation of early agreements (in particular the case of Ireland, Spain and to some extent Finland), some others provide evidence of the more problematic trajectory of national social partnership (as is the case

of Italy and Portugal). The Netherlands presents another path from bipartite social dialogue in the 80s and 90s to tripartite social pacts in the new century.

Other chapters are devoted to studying the second group of countries that joined the Eurozone later on, from both the western and eastern parts of Europe, or ones like Poland and Hungary which wanted to do so but have delayed their application. These chapters are focused on individual countries, proving the extreme variety of concrete forms of social partnership. Some of the countries under scrutiny have confronted huge problems to implement social pacts. Political, institutional and more policy-related tensions have thus prevented the emergence of social agreements at national level in some of these countries (Greece, Malta, Cyprus, Hungary). Some others have gone through the uneven evolution of their first experience of social pacts (to some extent Poland) and a highly accidental route to social deals (e.g. Slovakia). Slovenia is by contrast an example of long-standing social agreements. All the chapters, then, provide some insights into the effectiveness of social agreements and the prospects for their future reproduction.

The present introduction and two other chapters provide a more analytical and theoretical understanding of the evolution of social pacts in EMU. This chapter briefly summarises the literature developed so far on the key determinants of pacts. Franz Traxler in the second chapter undertakes a broad and diachronic study of social concertation in Europe. The focus is in particular on the interaction of different production sectors, exposed and sheltered ones, that face different sets of challenges. Their interaction seems to be important in shaping the scope for pacting and the content of social agreements. In the final chapter, Maarten Keune and Philippe Pochet provide a summary of the key findings of the country chapters and give some initial reflexions on the evolution and determinants of social pacts in Eastern and Western Europe.

In this introduction we aim to improve the understanding of the development of social pacts, through a multi-dimensional and diachronic approach. The latter is focused on the changing socio-economic context at both national and international level; the evolution of actors' roles, interests and preferences; and the renewed attention to the institutional dynamics somehow related to the pacts (the structure of collective bargaining, political institutions, tripartite bodies, etc.). This, we argue,

will favour cross-fertilisation between different strands of the literature: the neo-corporatist one of the 1970s and 1980s (see Schmitter and Grote, 1997; Molina and Rhodes, 2002 for a summary), the more recent and theoretically eclectic contributions on industrial relations (Ebbinghaus, 2004; Hancké and Rhodes, 2005; Avdagic *et al.*, 2005), and the strand largely inspired by neo-institutionalism (Pierson, 2001; Streeck and Thelen, 2005; Natali and Pochet, 2009; Teague, 2009).

In section one we define social pacts (see also Traxler in the next chapter for a further definition). This is followed by the basic theoretical framework for an evolutionary understanding of new forms of social concertation. In section three we assess the key traits of social pacts in the post-EMU phase and review the conditions and the different developments occurring in the countries analysed. Section four concludes with some insights that will be further developed in the next chapters.

1. Defining social pacts in the Eurozone

One of the main persistent problems in the industrial relations literature is the absence of a common definition of the concept of social pact. Many different - and partially contradictory - conceptualisations have been proposed so far. Elsewhere we have defined a social pact as:

“a set of formal or informal agreements between representatives of governments and organised interests who negotiate and implement policy change across a number of inter-connected policy areas” (Natali and Pochet, 2009).

In line with the above definition, social pacts are based on a tripartite relationship involving trade unions, employers and governments. Such a relationship may consist of a direct and/or indirect interplay. In the latter case, the government clearly indicates that if social partners agree, the government will act accordingly to reward the consensual approach, generally by using fiscal policies, taxes and/or welfare state policy. What is more, the interplay between the different parties is focused on the definition of an agreement and also on its implementation. It thus covers different phases of the policy cycle. As for the content of social pacts, they cover more than just wage policy. They deal with interconnected topics (see below for the various forms).

This cooperation is innovative compared with the traditional neo-corporatist agreements of the 1960s and 1970s in different respects. The macro-economic context where these social agreements have been signed has been characterised by a process of ‘liberalisation’ of western European political economies, consistent with more decentralised collective bargaining and more flexible labour markets. The European context, then, has been characterised by the progressive economic integration of single states that led to the introduction of EMU in 1999. The content of these agreements has also changed: instead of pacts based on a redistribution of growing economic and financial resources, new pacts have been signed in a context of ‘permanent austerity’ consistent with the need for more competitive economies. The role of individual participants has shifted as well: governments almost everywhere have played the role of *pivot*, with huge influence over the agenda and the content of agreements. Trade unions, by contrast, have seen reduced weight in negotiations. All these traits are usually identified as typical features of a new institution (Avdagic *et al.*, 2005: 4; Avdagic, 2010).

Moreover, the structure of these pacts has proved much more complex and flexible than in the neo-corporatist agreements of the 1970s. In that respect, we distinguish between two types of pacts:

- *horizontal pacts* are those that cover different policy fields at the same time, and thus consist of complex package deals simultaneously and explicitly agreed on by the parties involved;
- *longitudinal pacts* are those that consist of separate deals on a limited number of issues, agreed on at different times, one after the other, with no explicit link between them but with similar effects to those of horizontal pacts;

More limited are *ad hoc agreements* between two or more parties are focused, like the one-off deals in longitudinal pacts, on individual or just a few policy issues, but if compared to the latter they are not based on a *shared understanding* of social concertation as the effective instrument to deal with socio-economic challenges. For that reason, they are not social pacts *strictu sensu* (Natali and Pochet, 2009).¹

1. See Hancké and Rhodes (2005) and Avdagic *et al.* (2005) for a more comprehensive categorisation of social agreements. See also Traxler in this book for an alternative definition of social pacts.

2. Social pacts in the EMU era: some open analytical questions to address

As argued elsewhere (Fajertag and Pochet, 2000), we assume that European integration, and especially the EMU process, deeply influenced national actors to promote concertation. Yet they are not the sole variable leading to social agreements. Rather than a single direct link between the ‘irresistible force’ represented by Europe and the emergence of social pacts, we refer to a multi-dimensional process where a constellation of factors interacts, at different times, and leads to more or less favourable conditions for concerted action. Such an integrated perspective allows us to make reference to three main variables:

- the *problem-load* resulting from socio-economic (and political) challenges;
- the *role of actors* (and their interests, preferences and importance);
- and the *institutional dynamics* related to collective bargaining, political institutions and the stabilisation of early social agreements.

Such a multi-dimensional approach allows us to assess the complex interaction between different explanatory variables. No single dimension can determine by itself the fate of social pacts. By contrast it is the interplay of the three dimensions set out above that can explain the adoption and/or demise of social pacts.

Firstly, European monetary integration is investigated, together with the macro-economic conditions challenging national governments. Much has been written on EU integration and the consequent prospects for social agreements in Member States. While many have stressed the huge influence of the former process on the latter agreements, others have stressed the more nuanced incidence of supranational decision-making through time (Fajertag and Pochet, 2000; Rhodes, 2001; Hancke and Rhodes, 2005). Such influence thus still needs to be properly assessed.

Secondly, we focus on the role of key actors (governments and social partners), their interests, importance and organisation. The balance

between the negotiating partners is largely assumed to be a determinant of social pacts (Hassel, 2006; 2009). Turning to the literature on industrial relations (IR), according to Regini (2000) cooperation between social and political interlocutors depends on the interaction between quite complex strategies and calculations, and not on formal prerequisites. Even in countries lacking neo-corporatist traditions and characterised by profound institutional weakness, such as Spain and Italy, cooperation can take place and favour the attainment of important reform packages in economic, employment and welfare policies. This has proved a key conceptual tool for analysis of the long-term evolution of social agreements, being flexible enough to take into account changing endogenous and exogenous dynamics. An open question relates to the changing interaction of governments and social partners and to their relative weight in negotiations, especially in very recent years.

Thirdly, we focus on institutional dynamics. Institutions have played a decisive role in the success and evolution of social agreements and have received growing attention in the industrial relations literature (Natali and Pochet, 2009; Teague, 2009). But a more precise assessment seems necessary. Three different institutions are at the core of our analysis. First of all, collective bargaining structures largely shape the costs and benefits each partner faces in order to participate to concertation. The power resources of unions and employers in the determination of wages depend on institutional preconditions such as the dominance of sectoral bargaining, the legislative tools for setting minimum wages, etc. Secondly, there are the political institutions and the consequent strength of governments as well as of tripartite bodies. Political institutional weakness is usually interpreted as a pre-condition for social pacts (Baccaro and Simoni, 2008), while active corporatist committees may play a role in easing peak-level concertation (Hassel, 2009). This has been the case in countries dealing with the transition from authoritarian to democratic regimes (southern and eastern European countries) and with particular political crises (the case of Italy from the First to the Second Republic). Thirdly, we make reference to social pacts as an institution. We have defined social pacts elsewhere as a set of *shared understandings* that affect the way problems are perceived and solutions sought (Natali and Pochet, 2009). Beyond the instrumental rationality assumption, social agreements are not just an instrument the parties agree on to face common socio-economic challenges. Rather, they are

embedded in concrete temporal processes that may lead to unintended consequences. Once institutions emerge, actors define their behaviour in order to reflect and reinforce that legacy in a process of circular institutionalisation.

The problem-load: challenges from European integration and much more

As stressed by Traxler in the next chapter, the economic policy regime and market internationalisation define the range of policy options for social partners and governments. The shift from Keynesianism to neo-liberalism fundamentally changed the way organised interests relate to the state and peak-level concertation. The shift from Keynesian to monetarist austerity budgets, the progressive deregulation of markets and trading and the increased flexibility of labour markets combined with further steps in European integration, and all these factors had an influence on national socio-economic policymaking. In the new neo-liberal context (and paradigm) corporatist income policy has consisted in moderating wages to reduce labour costs, increasing international competitiveness, and investing in the productive structure.

The internationalisation of the economy, the liberalisation of capital markets, the development of new forms of production and the information technology revolution were transforming the labour market, placing the emphasis on competitiveness and labour force skills, as well as introducing renewed tension into the flexibility/security pairing. The funding of social protection was likewise at the heart of the debate, from the point of view of overall labour costs (Schmidt, 2008). Population ageing raised questions about the financing of social protection systems, especially in relation to pensions and healthcare: it necessitated a certain number of fundamental adjustments with a view to ensuring the continuity of intergenerational solidarity mechanisms. Furthermore, the increased budgetary impact of public pension schemes posed the question of how to allocate the margins obtained by virtue of the budgetary discipline resulting from the stability pact, and that of the trade-off to be conducted between different social priorities (Natali and Pochet, 2009).

By creating a new monetary context and a shared discipline, EMU altered some of the fundamentals of economic competitiveness in the Member States. The search for ways of achieving non-inflationary growth led to a shift in wage determination policies and to confidence that the system of

pay bargaining will generate wage rises in keeping with the competitiveness conditions existing within a unified monetary zone (Pochet, 1998). The impact of EMU on industrial relations systems has been analysed in detail in several recent publications, so we do not intend to dwell on it any further here (Pochet, 1999; Martin and Ross, 2004). Yet it is necessary to stress that this has largely shaped the interlinkage between policy issues such as wage-setting, welfare reforms, and flexibility in labour market regulation. As suggested by Rhodes (2001), the co-existence of different priorities resulting from different strains on employment and social policies can increase the opportunities for innovation, and even for painful policies, including cutbacks. According to that approach, the rise of social pacts in the 1990s was interpreted as the effect of broad packages of measures affecting incomes, labour market flexibility, and welfare 'security'. Recent developments, in terms of both successes and failures, have been interpreted as resulting from the opportunities/problems of connecting different policy fields. As Hassel puts it: "(...) negotiation between government and trade unions on voluntary wage restraints and welfare reforms often took complex forms, because reform process in the two policy fields followed rather different dynamics" (Hassel, 2003: 716-730). Other authors (see Traxler 2000 and 2002; Johnston and Hanke, 2009) have stressed too that in the post-EMU phase, wages and fiscal policies on the one hand and welfare and labour market on the other have been increasingly disconnected. While the former prove more adaptable to the new macro-economic context, and to different balance of power resources for individual actors, the latter are more stable and thus need *ad hoc* agreements to be revised.

The actors' role, interests and preferences

In line with the definition proposed above, social pacts usually involve social partners and the state. The three parties aim at coordinating their own activity in the key policy fields which affect the main socio-economic variables: wages, employment relations, welfare benefits, productivity, etc.

The balance between the negotiating partners has shifted substantially as compared with the situation prevailing when the pacts of the 1960s and 1970s were signed. Trends towards both the reinforcement and the weakening of the state have contributed to the renewed logic of social pacts. On the one hand, tripartite negotiations were consolidated in the 1990s and, consequently, so was the relative role of the state within a

concertation process whose main axis had previously been the relations between the social partners. Governments appear to have been implicitly responsible for steering the bargaining process. A direct functional logic explains the reasons why governments have acquired increasing powers in the social arena: to gain control over wage determination in order to maintain pay rises deemed compatible with competitiveness and monetary stability, and to guarantee a minimum amount of support for planned reforms in the fields of social security and the labour market. The state has provided legitimacy to the bargaining process through the alternative activation of sanctions and compensation for the other parties (Fajertag and Pochet, 2000; Rhodes, 2001).

On the other hand, governments that have invested in social pacts have proved to be electorally and politically weak. As argued by Baccaro and Simoni (2008), different sources of politico-institutional weakness may have increased the government's need for social partnership. In the countries under examination the political weakness of national governments clearly contributed to their interest in negotiations (Ireland, Italy, Portugal and Spain but also Poland). Institutional weakness (in the case of southern and eastern European countries in the transition to democracy) and political tensions (especially in the case of minority governments) proved the need for social cooperation (Baccaro and Lim, 2007; Hamann and Kelly, 2007) and a blame avoidance or blame sharing strategy (Pochet and Fajertag, 2000).

In parallel with the growing role of the state, trade unions have been weakened across Europe. Declining union density, rising unemployment and intensified international competition have all weakened the power position of the unions (Schmitter, 2008). The pay-off structure of corporatism has consequently been reversed: the disagreement utility of the unions has become lower than that of governments and employers' organisations (see Traxler, this volume). In the new economic context, the risk of union de-recognition by employers can be reduced only to the extent that the state encourages social dialogue. And employers have successfully pressed for bargaining decentralisation so as to arrive at more flexible employment terms. These pressures could be deemed compatible with the coordination requirements of corporatism, as they have taken the form of organised decentralisation in the course of which bargaining coordination has been maintained and re-designed to set a framework for local bargaining. An evident tendency towards

increasing conflict within the employer and union camps has been assessed. Disparities between exposed and protected sectors and between large companies and small and medium-sized enterprises have characterised conflicts and compromises between the different parts of national economies.

Recent articles (Traxler and Brandl, 2009; Johnston and Hancké, 2009) have analysed the dynamics of social pacts based on the diverging interests of sheltered and open sectors. This aspect is also underlined in various contributions to this volume (see Dornelaes; Ioannou, this volume). We will return to that important point in the concluding chapter (see also below).

The growing role of institutions

All the accounts mentioned above show, we would argue, that industrial relations contributions usually do refer to the interests and power resources of actors to explain both the successes and failures of concertation, but omit to pay attention to institutional regularities. In a broader sense, that literature lacks a deeper theoretical conceptualisation. Edwards (2005: 277) has suggested that it should be developed in increased connection with “mainstream” social science disciplines to tease out its theoretical potential.

As a consequence, the most recent contributions have rediscovered the role of institutions (Natali and Pochet, 2009; Teague, 2009; Teague and Donaghey, 2009). The neo-institutionalist understanding of institutional reproduction and change provides key analytical tools to face the analytical shortcomings mentioned above (see Avdagic *et al.*, 2005). Reference is made to three key aspects of the institutional scope for social partnerships: the one related to collective bargaining structures, the role of political institutions in shaping the role of political and social interests, and the institutional evolution of social pacts.

As to the first of these, many authors have stressed the key role of the bargaining context to define the role of different actors and their specific interest in being involved in social concertation (Johnston and Hancke, 2009). As argued by Traxler (this volume), the structure of collective bargaining conditions the genuine power of organised business and labour more than any other arrangement. The bargaining structure influences the propensity to conclude pacts. The power of the two sides

of industry to impose negative externalities on governments is contingent on collective wage bargaining, which may create manifold negative externalities such as growth of inflation, unemployment and public expenditure. Teague (2009) has provided evidence of the path-dependent evolution of conflict resolution systems in different European countries. Reforms introduced in different systems have been consistent with the original imprinting: voluntarism and self-regulation. Different industrial relations systems are based on contrasting institutional settings that contribute to shaping behaviours through lock-in mechanisms.

The second reference is to political institutions. The strength/weakness of national governments may be the consequence of specific institutions and of electoral results. While strong governments prefer more unilateral policymaking, governments with weak parliamentary majorities or in a process of transition - for instance from authoritarian to democratic governing forms - may need social pacts to increase consensus and legitimacy. In the words of Baccaro and Simoni (2008: 1339), social agreements are thus the result of a 'curvilinear' relationship between governments' strength and their willingness to engage in social pacts. Weak governments, but ones still able to impose losses on the social partners, are keen to involve weakened trade unions in broad concertation. Peak-level corporatist institutions such as tripartite consultative bodies may also contribute to the scope for social concertation. This is especially the case of countries dealing with the transition from authoritarian regimes to democracy (Hassel, 2009; Ost, 2009). Central corporatist bodies may enhance consensus on social and economic reforms while improving mutual trust through the setting up and repetition of bargaining techniques (see Stanojevic this volume).

The third dimension we look at concerns social pacts as institutions. As stressed by Natali and Pochet (2009), institutional dynamics help to trace the evolution of social concertation, well beyond any reference to actors' interests and economic constraints. In line with Katzenstein (1996) we can define social pacts as an institution in that they consist of a set of *shared understandings* that affect the way problems are perceived and solutions sought. In other words, norms and rules of the game guide the structuring of organisations, the coordination of socio-economic actors and the definition of cognitive frameworks to react to endogenous and exogenous critical events (Zambarloukou, 2006). And in doing so, institutions shape actors' identities and interests. Thus, and contrary to

the more rationalist approach of industrial relations studies, the definition of interests and objectives is created in institutional contexts and is not separable from them (Thelen, 1999: 375). Actors' behaviour is not just instrumental to reach an objective but is influenced by norms and institutions of the past (Knight, 2001). Social agreements are not just an instrument the parties agree on to face common socio-economic challenges. Rather, they are embedded in concrete temporal processes that may lead to unintended consequences. Once institutions emerge, the actors define their behaviour in order to reflect and reinforce that legacy in a process of circular institutionalisation (Streeck and Thelen, 2005). Questions of timing, temporality and sequencing are thus central to understanding the progressive stabilisation - or de-stabilisation - of this institution (see Pierson, 2004; and for the literature on social pacts see Baccaro and Lim, 2007).

Once social agreements emerge, their further development may follow two paths. On the one hand, full institutionalisation occurs when self-reinforcing dynamics contribute to strengthening the cooperative approach between the parties. Favourable political events and socio-economic indicators may help to stabilise the first pacts and reinforce mutual trust between the parties. On the other hand, de-institutionalisation consists of self-undermining dynamics that block the activation of reproductive procedures and contribute to the progressive weakening of cooperation. Critical political and economic events, such as a new ruling coalition or an economic shock, may undermine the stabilisation of the path and weaken mutual trust and shared understandings. This historical analytical framework helps us to explain the divergent trends in the countries under examination. The sequence of events and institutional dynamics is decisive.

This conclusion comes from the most recent neo-institutionalist literature too. Following accounts of post-determinist institutionalism (in the words of Crouch, 2007), institutions of the past shape actors' interests and behaviour but do not prevent alternative courses of action. The interest in path dependency is paralleled by that in the persistent strategic role of actors to favour innovation. In that respect, social pacts can be defined as institutional *bricolage* (Campbell, 2004). The term is used here with a twofold meaning. On the one hand, it is consistent with the innovation of past institutions by policy entrepreneurs through a creative recombination of old instruments. On the other hand, it shows the complex nature of

social pacts. *Horizontal pacts* in particular are a set of institutions related to different policy fields. The integration of different decisions can be difficult and needs efforts to increase the complementarity and non-interference between them (Natali and Pochet, 2009: 150).

3. Social pacts in the post-EMU context

The last ten years have seen rapid change in many different determinants of social concertation. In line with the analytical framework proposed above, we firstly refer to changing macro-economic contexts - from the Maastricht Treaty to EMU - and the parallel persistent global constraints such as trade competitiveness, migration, and population ageing. We then shed light on the actors' role, importance and preferences. Finally the focus is on broad institutional trends: the role of social partners in collective bargaining and wage-setting in particular, the evolution of political institutions (transition from authoritarian to democratic regimes, etc.) and the institutionalisation of social concertation.

In all these respects elements of both stability and change can be analysed. As for the macro-economic context, the selection in May 1998 of the eleven countries joining the third phase of EMU (subsequently joined by Greece in 2001 and by new acceding countries in the late 2000s) occurred at the same time as a turn-around in the economy. The post-EMU macro-economic context was largely different from that which prevailed in the first half of the nineties. The first period after the introduction of the Euro, from 1999 to 2001, consisted of a favourable macro-economic context with higher GDP growth, declining inflation, and less severe financial strains in a number of European countries. This combined with less stringent incentives (within the Stability and Growth Pact). As put by Hancké and Rhodes (2005), the hard sanction of non-entry into EMU disappeared and gave way to softer procedures. Quite paradoxically, the institutional reinforcement of the EMU process was parallel with its weakened constraints on individual members. Taking the Maastricht criteria as a yardstick, we note that between 1998 and 2005 inflation remained under control throughout most of the Eurozone. In the same period, overall government debt declined in all Member States apart from France and Luxembourg, but both of these

were below the 60% threshold set at Maastricht. At least five Member States had budget surpluses in 2000.

In the meanwhile, some Member States experienced rising rates of growth and low unemployment figures combined with stable public finances. This new context did allow many governments to enjoy greater budgetary margins which, while meeting the commitments contained in their stability or convergence plans, were generally earmarked for bringing down overall labour costs either through taxation or employers' social contributions. Reform of social security, and in particular of its funding, became a more central issue.

The coincidence of EMU with a revival of growth seemed to 'redistribute the cards' among the main players. In various countries, tough negotiations took place around the allocation of budgetary surpluses. Whereas twenty years of austerity had united the labour confederations in an attitude of resistance and participation, the decline in unemployment left them without a coherent strategy. Finally, the European agenda changed and the debate on the Maastricht criteria gave way to other social issues, including social security and particularly the question of how to fund pensions. In line with our second hypothesis, the post-EMU phase should be conducive to lower opportunities for social pacting.

In the same period, the actors' role has changed as well. Trade unions have been weakened across Europe, but their position in the bargaining process has been somewhat stabilised by the persistent need for their cooperation for wage-setting in particular. At the same time less stringent budgetary constraints have altered the interplay between social partners representing sheltered and exposed productive sectors. This partially new distinction has marked much of the trend in social dialogue, while at least in some countries it has reinvigorated the need for broad agreements to put wage policy under control. And social pacts have been stabilised through processes of institutionalisation. In some countries the repetition of social deals has increased mutual trust and the shared understanding of problems, along with solutions and techniques to link the two. In others, more contrasting trends have led to the alternation of periods of social pacts and phases of more limited and conflictual dialogue.

3.1 The changing problem load and content of social pacts

As stressed elsewhere, social pacts of the 1990s were based on a complex interconnection between pay bargaining, labour market and social security reforms, and changes in tax rates. These practices were constrained by the need for all countries to comply with the Maastricht convergence criteria (Fajertag and Pochet, 2000). In the post-EMU era the scope for pacting has largely changed. This was the result of both contradictory processes of evaporation of the shared understanding of the economic context, and of the internalisation of wage-setting and fiscal policy (see Avdagic *et al.*, 2005).

As for the key policy fields at the centre of social dialogue, the first change in the post-EMU era has been the emergence of new issues and their interaction with the new European agenda. In particular for those western countries belonging to the first group acceding to EMU, European constraints on budgetary and inflation policy have lost much of their relevance. In the past few years, therefore, more relaxed EU constraints have combined with mounting problems concerning Europe's economic competitiveness and financial stability. For eastern European countries, accession to the European Union and then to the single currency area have characterised the past years. But, as shown below, the interplay of exogenous constraints with peculiar institutional and social contexts have reduced the scope for striking deals (as shown by Bohle and Greskovits, this volume).

As for EMU, it seems evident in many countries that the Eurozone is based on an asymmetric structure of macro-economic and monetary policymaking. As stressed by Johnson and Hancké (2009), owing to the overall transfer of authority to the European Central Bank EMU provides a centralised monetary policy in parallel with - at best - a decentralised national wage policy. As a consequence, national wage-setters are no longer constrained by national central banks, with a potential increase of tension over labour market costs and inflation across EMU. In fact, some country chapters illustrate the divergence between countries where wage moderation has been fully accomplished (see Finland) and others which have proved much less effective (see the case of Portugal and the Netherlands). Another aspect we will focus on in the next section concerns the difficult coordination between exposed sectors keen to exploit wage-setting to increase the margin for competitiveness in global

markets, and sheltered sectors - especially public sector employees - trying to push for more generous wage increases.

The key challenge of international competitiveness has persisted for all EU countries. As far as pay is concerned, this debate has been shaped by various elements. First of all, what is the precise link between pay restraint and job creation? And if such a link exists, how can it be kept under control? This is a similar debate to the one on the reduction of labour costs and its consequences for employment. One difficulty to be taken into account is the lapse of time required to judge the effectiveness or otherwise of a measure (Fajertag and Pochet, 2000). Another aspect concerns equity. The outcome of prolonged pay restraint in various countries has been a distribution which is to the disadvantage of earned incomes. And a huge debate has arisen in many countries on pay differentials between exposed and more protected sectors (see Finland, Greece, and many eastern European countries). This dual challenge - pay restraint which does not necessarily create jobs and weaken overall demand, and the increased tensions between sectors - has led to a reappraisal of what had seemed to constitute a consensus: the sharing of productivity gains and wage moderation (Johnston and Hancke, 2009).

This situation has been consistent with two contradictory developments. On the one hand, it has challenged the shared diagnosis and led in several cases to tension between, and within, trade unions and employers as to what is the appropriate pay norm in a context of economic globalisation and of still high unemployment, especially in the light of atypical forms of employment, exclusion from the labour market, and regional disparities. This is the case in Italy, Spain and Finland. On the other, wage-setting has become a more institutionalised, internalised and rules-based process. With reference to the Eurozone, in various countries wages are set by a small group of experts who define common norms which represent the target for incomes policy.² Meanwhile, employers' attempts to decentralise wage bargaining have increased (see again the case of Finland). Hence, incomes policy has been decoupled from labour market issues and especially welfare reforms.

2. In Finland, for example, the Income Policy Commission (composed of social partners' and government experts) the norm for wage increases is equal to the sum of the inflation target and the average increase in productivity (see Kuusisto, this volume).

Consequently, in some countries narrower negotiations between political and social actors have focused on single policies or on more limited packages affecting labour market flexibility, active employment policies, and local development, as in the case of Italy, with the Pact for Italy of 2002 (Ferrera and Gualmini, 2004). In this and other cases, more than the breakdown of social pacts, we see their evolution through processes of partial institutionalisation coupled with the weakening of macro-cooperation. As Hancké and Rhodes (2005: 22) put it, ‘due to institutional inertia, (...) the architecture of social pacts persists in certain countries as a forum for punctual ad hoc negotiations on particular issues’.

3.2 The actors' role and preferences

As argued elsewhere (Natali and Pochet, 2009), the coincidence of EMU with a revival of growth seemed to alter the power distribution among the main social players. In various countries, tough negotiations took place around the allocation of budgetary surpluses. Whereas twenty years of austerity had united the labour confederations in an attitude of resistance and participation, the decline in unemployment increased tensions (see the case of Italy). But in some other countries the social partners and political parties pursued negotiations. In Ireland and Spain, consensus on social dialogue spread across the political spectrum and institutions inherited from the past (and originally related to huge socio-economic problems) were re-oriented towards new goals in a context of economic growth: a typical case of institutional *bricolage*. In Ireland, the first undertaking of the *Fianna Fail* (FF) party was subsequently agreed on by other political competitors (Hamann and Kelly, 2007). In Spain, both the Popular Party (PP) and the Socialists agreed at different times to develop the dialogue with trade unions and employers' organisations to deal with socio-economic issues. What is more, in both countries high-level negotiation was perceived to be effective (see O'Donnell *et al.*, this volume). The sequence of negotiations reinforced the first steps along the path.

In the case of Spain, the first Aznar government, a minority government, pursued dialogue with trade unions and employers in a context of political weakness. The second Aznar government pursued the dialogue even though it was backed by a strong parliamentary majority. Socialist

governments in the 2000s formally accepted the logic of *longitudinal pacts* and thus modified their historical preference for horizontal agreements. The Spanish government clearly supported social dialogue as a central tool for good governance, (which was much less clear under the Socialist governments of the 1980s, see Perez, 2000).

At the opposite end of the scale, in Italy and other countries the beginning of the 20th century marked a shift in the previously shared understanding of the necessary reforms to macro-economic and social policies. On different issues, employer and employee representatives and governments had different if not opposite points of view. In many EU members (e.g. Finland, Italy), employers – sometimes supported by governments - have demanded a further decentralisation of bargaining structures, against the opposition of labour confederations. In a few cases, divisions have appeared within the labour movement too: for example in Italy, the major union confederation has defended sectoral bargaining, while the other two have been in favour of a more decentralised system. A further element of disagreement has related to income policy. In some countries, the government and social partners have agreed to freeze wages to improve comparative competitive advantages, as is the case of the 2004 national tripartite agreement in the Netherlands. In other countries, however, more intensive demands for pay rises arose (again the case of Italy, and Finland). As a consequence of mounting divergences, the experience of social concertation had come under stress.

This is the case in Portugal, where the tripartite economic and social agreement signed in 1996 had faced growing problems since 1997. Internal divisions within the trade union movement and the withdrawal of some employers' organisations from concerted action both led to the demise of social pacts. In 2000 and 2003, in a context of economic stagnation, the government tried to revive social contracts (on welfare policy, labour market regulation, and incomes policy too) but failed. The employers would derive no clear benefit from new pacts, including in respect of wage policies. Decentralisation of collective bargaining and the wide scope for firms to define their own rates of pay discouraged tripartite concerted action.

In Italy, the first effect of these new dynamics was a leaner process of consultation coupled with narrow agreements on key specific issues.

The *Pact for Italy* of 2002 did not concern two of the main domains of the previous experience of concertation: wages and pension reforms. Rather, it was about local development, activation policies, and more flexible regulation of the labour market. In the Netherlands, the Balkenende government used reinforced potential for sanctions to convince trade unions to accept tripartite agreements mainly based on wage freezes. In 2002, 2003, and 2004 it announced major retrenchments in social protection, disability and other welfare domains as well as in the labour market field. Then it offered to soften these proposals in exchange for lower wage demands by the unions (Siegel, 2005). By contrast, Ireland has confirmed the favourable attitude to broad horizontal social pacts despite the changing macro-economic conditions. In all these cases, with the exception of Ireland, the divergent interests of key actors went hand in hand with unfavourable institutional trends.

The evolution of social pacts has thus been related to a new equilibrium between governments and social partners. Trade unions, in particular, have lost much of their power for negotiation. As mentioned above, wages have been more and more disconnected from labour market and welfare policies. That dynamic has been reinforced by increasing demands from both governments and employers for a decentralisation of collective bargaining. Both tendencies have reduced the need for labour representatives' consent at the national level. The same has happened in the other key domain: that of welfare reforms. As argued elsewhere (Natali and Rhodes, 2004), political decision-makers learned from the first wave of innovations in the 1990s to organise social consensus. In Italy, the Berlusconi government voted through the last pension reform, in 2004, despite a huge mobilisation of trade unions. There, policy-makers learned to reduce the potential threat of social conflicts through a light form of consultation, and compensation, implemented in a long three-year reform phase. But when weaker governments reappeared, most notably the second Prodi government between 2006 and 2008, a new round of social concertation emerged again (see Negrelli and Pulignano, this volume).

Organisational weakness has had a particular impact on the opportunity for striking social deals in eastern Europe. With the exception of Slovenia, social pacting was not a precondition for entering EMU. History, actors and institutional differences are often presented as the main explanation for this diverging trend. Nevertheless, these

aspects are not so different when - as in this volume - we compare these countries with Portugal, Greece, Spain and Italy which also had weak institutions and often weak and/or fragmented actors (see Keune and Pochet in the concluding chapter). The cases of Poland, Hungary and Slovakia demonstrate the limited role of the renewed labour organisations, often further weakened by their politicisation. An unequal balance of power between governments, employers and labour unions has been aggravated by the key role of multinational companies, identity issues (e.g. the case of the Roma minority in Hungary), and the increased political success of populist parties (see Bohle and Greskovits, this volume). Growing migration flows have played a similar role in increasing labour market flexibility, wage moderation and economic competitiveness in Cyprus and Malta too, albeit with no social pacts.

At the opposite end of the scale, an interventionist state, coupled with influential (export sector) employers and strong trade unions have largely followed the social pact strategy in Slovenia. The social and political partners have tried to reduce uncertainties and protect their own interests in the context of an extremely intense exogenous political and economic shock, through more stable national concertation. As argued by Stanojevic (this volume), Slovenian pacts have systematically occurred under broad coalition governments and during the second parts of coalition government mandates, suggesting that their set-up was strongly conditioned by the lowering of negotiating power and the legitimisation of governments.

3.3 The role of institutions

Social pacts of the 1990s were based on a complex interconnection between pay bargaining, labour market and social security reforms, and changes in tax rates. These practices were constrained by the need for all countries to comply with the Maastricht convergence criteria. The post-EMU era has seen two different trajectories: the 'uneven' institutionalisation of early pacts in some countries, and their 'full' institutionalisation in others.

In countries like Italy and Portugal, social pacts have been replaced by more limited agreements, if not by an open challenging of previous pacts by the parties. The scope for pacting has been reduced. This was

the result of both contradictory processes of evaporation of the *shared understanding* of the economic context, and the internalisation of wage-setting and fiscal policy. The partial institutionalisation of particular patterns has affected individual policies but not all, and has thus led to a *de facto* reduction of the topics under scrutiny in social concertation. Narrower negotiations between political and social actors have focused on single policies, or on more limited packages (Hancké and Rhodes, 2005: 22).

This is the case in Portugal, where the tripartite economic and social agreement signed in 1996 faced growing problems from 1997. Both internal divisions within the trade union movement and the withdrawal of some employers' organisations from concerted action led to the demise of social pacts. Decentralisation of collective bargaining and the wide scope for firms to define their own rates of pay discouraged tripartite concerted action. Nevertheless, more limited tripartite ad hoc agreements were signed on training, working conditions and social security reforms in 2001. The Barroso government elected in 2002 further contributed to de-institutionalising social pacts through a more adversarial approach to social dialogue and the first unanimous bipartite agreement (2005). The situation has again changed with the election of the Socialist government. Various agreements have been reached, among them a second bipartite agreement (2006), the first unanimous tripartite agreement on wage-setting (2006), four ad hoc tripartite agreements (2007) and a new social pact on industrial relations, employment and social protection (2008). As Dornelas in this volume underlines, one hypothesis capable of explaining the evolution of social pacts in Portugal is that the industrial relations system is the result of the institutional *bricolage* of elements inherited from previous phases of development, which has produced, so far, an incoherent system of rules.

In Italy, the first effect of these new dynamics has been a leaner process of consultation coupled with narrow agreements on key specific issues. The second right-of-centre Berlusconi government (2001-2006) did not share the perception of social concertation as an effective solution for economic problems. The *Pact for Italy* of 2002 did not encompass two of the main domains of the previous negotiations, wages and pension reforms; it was not signed by the major trade union, the post-communist CGIL; and it saw very limited implementation. The *Welfare*

Protocol of 2007, agreed on by the left-of-centre Prodi government and the social partners, proved the re-emergence of concertation but did not include collective bargaining and wage-setting.

In Greece, there have been several attempts but no successes at all. Ioannou (in this volume) underlines that the failed attempts to build and operate social pacts in Greece are related to the difficulties in sharing a common understanding of the need for what was considered by the trade union as ‘social-liberal’ pacts, in the ‘pre-EMU’ period and mainly in the ‘post-EMU’ period. The latter period has coincided with relatively strong economic growth which has reduced the pressure for change. This case also highlights the role of diverging ideas about good policies in the Monetary Union.

By contrast, Ireland, Finland (at least until 2008), the Netherlands and Spain have shown more stability. The first of these countries has confirmed its favourable attitude to *horizontal pacts* despite the changing macro-economic conditions. Wage-setting has always been at the core of central negotiations between social partners and the government (Hancké and Rhodes, 2005). At the same time, new institutions have been set up to reinforce the institutional foundations of the Irish social dialogue, through the establishment of the *National Economic and Social Forum* and the *National Centre for Partnership*; while participation in the *National Economic and Social Council* was widened (O'Donnell *et al.*, this volume). In Spain the institutionalisation of social pacts has been pursued through the successive separate tables of negotiation which have contribute to build *longitudinal pacts*.

In the case of eastern European countries, the transition from state socialism to a market economy and democracy have often weakened the trade unions in two respects, as shown by the cases of Hungary and Slovakia: falling membership, concentrated in the public and semi-public sector; and in terms of function, by accompanying the process of restructuring the economy more than protecting the workers (Ost, 2009). In these countries, formal tripartism through corporatist institutions has played something of a role in the past few years but it has not helped to provide the institutional pre-conditions for a broad experience of social pacts. Yet the case of Poland (see Gardawsky and Meardi, this volume) proves that tripartite commissions are not a completely ‘sterile’ exercise: they have great potential for improving

social learning. What is more, the transition to a market economy has often led to the increased role of multinational companies with a more liberal and decentralised form of industrial relations.

Conclusion

This chapter has argued that the evolution of social pacts in the last 15 years in Europe is directly related to three key determinants: problem-load, actors' role and institutional dynamics. None of these factors can totally explain the fate of social pacts in EMU. But their combination has proved much more important in explaining social deals.

Challenges from European integration, and especially from the launch and stabilisation of EMU, have exerted their influence but cannot explain everything. In the first part of the 1990s European constraints were decisive for the emergence of new forms of macro-concertation in EU Member States. Moreover, despite the internal divisions within trade unions, these constraints favoured the development of functional equivalents, for example programmatic convergence and shared agendas.

Yet, in the 'post-EMU' phase, the hypothesis that less stringent constraints on budgetary policy and less acute socio-economic problems should lead to a generalised decline in social pacts has not been confirmed. In countries that have experienced more favourable economic trends, for instance Ireland, Spain and to some extent Finland, social pacts have been institutionalised. And this has happened irrespective of the changing economic context (from economic constraints to growth). In other countries with less impressive growth (Italy, Portugal) there has been a process of 'uneven' institutionalisation. Moreover, with particular reference to the case of new EU members, such as Hungary and Slovakia as well as Cyprus and Malta, EU constraints have not forced national policy-makers to agree with social partners on social and economic policy reforms.

The actors' role has proved a second important variable to assess such a complex picture. The convergence of political and social actors, and in particular of left- and right-wing parties, to promote social pacts has largely contributed to the stabilisation of early agreements. By contrast, where tensions have increased between political parties and/or social

partners the stabilisation of social pacts has proved much more difficult. As for the role of social actors, trade unions seem to have lost some of their veto power. Forms of strategic learning (division, compensation, stop-go strategies) have allowed policy-makers to circumvent their potential for opposition. Somehow, the first wave of reforms and cutbacks introduced in the last decade has opened more scope for further intervention to redesign the welfare state and consequently a less urgent need for legitimisation through the corporatist arena. While the EU has proved to have a more limited influence, at least for countries in the Eurozone, the persistent challenge of international competitiveness has had an ongoing impact on the scope for social agreements. The mounting disparity between 'exposed' and 'sheltered' sectors seems to predict a persistent need for broad agreements to coordinate their wage-setting strategies.

The multi-dimensional approach we have proposed adds more emphasis on institutional regularities to the traditional industrial relations literature. A more precise assessment of the interests and resources of social and political actors makes traditional accounts of neo-institutionalism more dynamic. Hence, the combination of traditional neo-corporatist insights into the role of actors' interests and resources and a more precise focus on institutions proves the potential for a cross-fertilisation of IR and new-institutionalism for the study of stability and change in social concertation.

The strength/weakness of governments is a key explanatory variable for striking deals. And an institutional interpretation of social agreements has proved important too. We have defined social pacts as an institution, in that they consist of *shared understandings* that affect the way problems are perceived and solutions are sought. Such a common understanding has increased mutual trust between governments and social partners and the legitimacy of tripartite negotiation as an effective tool to face socio-economic challenges.

The reference to institutional dynamics has helped to trace the evolution of social concertation, well beyond references to interests and economic constraints. The institutionalisation of social pacts in Ireland and Spain has happened despite the weakening of socio-economic challenges and the changing political conditions. In these cases, a shared interpretation of problems and solution and increased trust in

peak-level negotiations have contributed to stabilising the dialogue. By contrast, in Italy and Portugal the shared understanding of macro-economics has ‘evaporated’. Such an ‘uneven institutionalisation’ has been consistent with the irregular sequence of concertation, unilateral action and more limited agreements. The focus on institutional dynamics has not led us to underestimate the active role of actors and the importance of their strategies. By referring to post-determinist institutionalism we have assessed the role of the players in re-adapting old institutions to new economic and political conditions. This is a typical case of institutional *bricolage*. When past practices are well stabilised, the changing context does not weaken them.

Summing up, social pacts represent a key part of European politics for the management of socio-economic variables. Social agreements of various kinds have contributed employment, wage and welfare reforms over the last two decades. The persistent role of social concertation in many countries, even in a context of both successes and failures, leads us to think of social pacts in terms of changing institutions which policy-makers and social partners may use for dealing with evolving socio-economic and political challenges. Yet their nature is extremely fragile. The complex interplay of constraints, actors’ strategies and importance, and of institutions may lead to long period of social collaboration but this complexity still reduces the scope for full stabilisation.

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