

European Journal of Industrial Relations

<http://ejd.sagepub.com>

The Evolution of Social Pacts in the EMU Era: What Type of Institutionalization?

David Natali and Philippe Pochet

European Journal of Industrial Relations 2009; 15; 147

DOI: 10.1177/0959680109103606

The online version of this article can be found at:

<http://ejd.sagepub.com/cgi/content/abstract/15/2/147>

Published by:



<http://www.sagepublications.com>

Additional services and information for *European Journal of Industrial Relations* can be found at:

Email Alerts: <http://ejd.sagepub.com/cgi/alerts>

Subscriptions: <http://ejd.sagepub.com/subscriptions>

Reprints: <http://www.sagepub.com/journalsReprints.nav>

Permissions: <http://www.sagepub.co.uk/journalsPermissions.nav>

Citations <http://ejd.sagepub.com/cgi/content/refs/15/2/147>

David Natali and Philippe Pochet

Università di Bologna-Forli, ITALY and ETUI-REHS, BELGIUM

The Evolution of Social Pacts in the EMU Era: What Type of Institutionalization?

ABSTRACT ■ This article examines the emergence and evolution of social pacts in European countries in the last 20 years. While the changing constraints related to the different phases of the Monetary Union and actors' interests and resources are usually interpreted as key variables, we add a more institutionalist perspective. We analyse four countries to trace the role of institutional dynamics: while in Ireland and Spain the first pacts have been stabilized, in Italy and Portugal we see a more limited or 'uneven' institutionalization. The dynamic interpretation of institutional trends and critical events helps remedy some of the limits of the traditional literature on social pacts.

KEYWORDS: concertation ■ historical and post-determinist institutionalism ■ Ireland ■ Italy ■ Portugal ■ social pacts ■ Spain

Introduction

Whereas many experts regarded tripartite forms of bargaining as out-moded and believed that economic integration would bring about an 'Americanization' of industrial relations in Europe, social concertation has undergone an astonishingly lively and broad-based revival. Many EU member states witnessed the emergence or re-emergence of such initiatives during the 1990s. Since then, several attempts have been made to account for this phenomenon (Ebbinghaus and Hassel, 2000; Hassel, 2006; Rhodes, 2001).

Previous works have focused on two key determinants: the interaction of actors' interests and the challenges related to European integration. For the former, the complex interaction of actors' strategies and their changing role in the context of economic transformation clearly explain the emergence of new social agreements (Regini, 2000). For the latter, the prospect of the Economic and Monetary Union (EMU) acted as a catalyst for social pacts, in particular in countries likely to have difficulty in sustaining low inflation and a stable currency while keeping their public deficits under control (Fajertag and Pochet, 1997, 2000).

It was further indicated that a number of these agreements appeared to be unstable and linked to cyclical economic factors. What is more, the transition to the third phase of EMU was expected to 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. Yet some countries have seen the progressive stabilization of social pacts despite changing economic and political conditions.

In this article we address the following question: why does the process of institutionalization of early social pacts differ so much in the 'post-EMU' phase? The aim is to improve the understanding of the emergence and evolution of social pacts, adding a more institutionalist perspective to the contributions mentioned above. The focus on institutional dynamics is added to the more traditional reference to actors' interests and socio-economic challenges. From a theoretical point of view, our framework is based on the cross-fertilization between the literature on industrial relations (Baccaro and Lim, 2007; Regini, 2000) and post-determinist institutionalism (Campbell, 2004; Crouch, 2005; Streeck and Thelen, 2005).

We first bring some conceptual precision to the definition of social pacts, then provide a theoretical framework for the evolutionary understanding of social concertation. Next, we assess the key traits of social pacts between the 1980s and the 1990s in four countries. Ireland, Italy, Portugal and Spain represent typical of countries with social pacts in the 'pre-EMU' phase despite the lack of the supposed institutional pre-conditions for peak-level social concertation. Then we consider what we call the 'post-EMU' conditions and the different developments occurring in the countries under scrutiny. While Ireland and Spain saw the progressive stabilization of social pacts, in Italy and Portugal early agreements have obtained an 'uneven' institutionalization.

Emergence and Evolution of Social Pacts: Some Conceptual Precision

The key role of social partners in socio-economic management has been defined as one of the key aspects of the 'European Social Model' (Jepsen and Serrano Pascual, 2005). Yet this role has not been constant over the post-war period; it has followed different cycles. The mutant forms of the interaction between social partners' representatives and national governments clearly represent a case of evolving institutions. In particular we refer to the last 15 years, when the resurgence of social concertation has been discussed in terms of (new) social pacts.

Social pacts can be defined as a set of formal or informal agreements between representatives of governments and organized interests, who

negotiate and implement policy change across a number of interconnected policy areas. This cooperation innovates the traditional neo-corporatist agreements of the 1960s and 1970s in different respects. The macroeconomic context where these social agreements have been signed has involved a process of 'liberalization' of Western European political economies, consistent with more decentralized collective bargaining and more flexible labour markets. The European context has seen the progressive economic integration of single states that led to the introduction of EMU in 1999. The content of these agreements also changed: instead of providing for redistribution of growing economic and financial resources, they have been signed in a context of 'permanent austerity' consistent with the need for more competitive economies. The role of single participants has shifted as well: governments have almost everywhere played a pivotal role, with a huge influence on the agenda and the content of agreements. Trade unions, by contrast, have exerted reduced weight in negotiations. And 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 three types of agreement (see also Avdagic et al., 2005; Hancké and Rhodes, 2005):

- *horizontal pacts* cover different policy fields at the same time, and thus consist of complex package deals simultaneously and explicitly agreed by the parties involved;
- *longitudinal pacts* consist of separate deals on a limited number of issues, agreed at different times, sequentially, with no explicit link between them but with similar effects to those of the horizontal pacts;
- more limited *ad hoc agreements* between two or more parties are focused, as well as single deals in the longitudinal pacts, on single or few policy issues; but compared to the latter they are not based on the *shared understanding* of social concertation as the effective instrument to deal with socio-economic challenges. Thus they are not social pacts *strictu sensu*.

A Historical and Post-Determinist Institutional Approach

The literature on social pacts usually focuses on two key determinants of their emergence and evolution: the convergence of actors' interests – which depends on the interaction between quite complex strategies and calculations (Regini, 2000) – and the presence of major socio-economic challenges (Fajertag and Pochet, 2000). The role of institutions in social concertation has been considered of minor importance. Even in countries (like those we examine) lacking neo-corporatist traditions and with

a profound institutional weakness, cooperation can be realized and then favour the attainment of important reform packages in economic, employment and welfare policies (Molina and Rhodes, 2002).

While these contributions have shed light on key traits of social concertation, they do not explain the regularities that have characterized the emergence and institutional evolution of social pacts. First, although reference to actors' interests (and their convergence) helps explain the emergence of peak-level agreements, this is not sufficient to explain their distinctive form. In some countries the shared understanding of common problems has led to broad *horizontal pacts* on the innovation of income and welfare policy and the renewal of collective bargaining (Ireland, and Italy and Portugal in the 1990s). Yet in other countries (in our sample, Spain) such a convergence has favoured *longitudinal pacts*, where specific deals on single issues are developed sequentially.

Second, interests are 'constructed' by institutions (Katzenstein, 1996; Knight, 2001). Norms and ideas play an independent role and shape individual behaviour and identities, and institutions may reinforce – or weaken – mutual trust. For instance, collective bargaining institutions in some countries have influenced actors' preferences and ideas and limited the opportunities for broad pacts. This is the case in Spain where industrial relations have been shaped by decades of authoritarian rule (Molina, 2005). The way governments and social partners reacted to new challenges at the end of the 20th century depended on prior institutions.

The hypothesis that socio-economic challenges (in particular the prospect of EMU) acted as a *catalyst* for the emergence of social pacts seems problematic as well. In some countries (such as Greece), it is hard to explain why social pacts did not develop despite huge domestic problems. At the same time, this approach can hardly explain the reproduction of social pacts in periods of a more favourable macroeconomic context. In Ireland the first pact signed in 1987 was shaped by economic stagnation and high unemployment, but later the government and social partners agreed on further pacts in the context of economic growth, increased productivity and low unemployment rates, before and after EMU accession.

The neo-institutionalist understanding of institutional reproduction and change provides key analytical tools to remedy these analytical shortcomings (Avdagic et al., 2005). We first refer to sociological and historical neo-institutionalism; 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, solutions are sought and instruments to solve the former and to implement the latter are agreed on. In other words, norms and rules of the game guide the structuring of organizations, 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 against 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). Actors' behaviour is not just instrumental but it is influenced by norms and institutions of the past (Knight, 2001).

Such a definition of social pacts leads us to analyse their emergence and evolution through a historical and diachronic approach. 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 institutionalization (Streeck and Thelen, 2005). Questions of timing, temporality and sequencing are thus central to understand the progressive stabilization (or de-stabilization) of this institution (Pierson, 2004).

Second, we refer to recent accounts of post-determinist institutionalism (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 on the persistent strategic role of actors to favour innovation. In this respect, social pacts can be defined as an institutional *bricolage* (Campbell, 2004). The term is used here with a twofold meaning: it is consistent with the innovation of past institutions by policy entrepreneurs through creative recombination of old instruments, but it also shows the complex nature of social pacts. In particular, *horizontal pacts* are a set of institutions related to different policy fields. The integration of different decisions can be difficult and needs efforts to increase their mutual complementarity.

Below we refer to three main policy domains: wage setting and welfare and employment reforms. On the base of the concepts introduced above, we define an analytical framework to trace the evolution of social pacts in the four countries under examination. Figure 1 summarizes the key determinants of the emergence and evolution of social pacts.

The emergence and initial development of agreements between governments and social partners was the result of common socio-economic challenges (economic stagnation if not recession; increased unemployment and the constraints of the Maastricht criteria), the convergence of actors' interests; and institutional dynamics (related for instance to the weakness of pre-pact collective bargaining, wage-setting and decision-making).

Once social agreements emerge, their development may follow two paths. Full institutionalization occurs when self-reinforcing dynamics help strengthen the cooperative approach between the parties. Favourable political events and socio-economic indicators may help to stabilize the initial pacts and reinforce mutual trust between the parties. This does not

FIGURE 1. Emergence and Evolution of Social Pacts

Emergence (and initial development)		Further evolution	
Socio-economic challenges	Ireland, Italy, Portugal and Spain Path 1	Socio-economic challenges	Ireland, Spain Path 2A Full institutionalization
Actors' interests		Actors' interests	
Institutional factors		Institutional factors	Italy, Portugal Path 2B 'Uneven' institutionalization
Pre-EMU phase		Post-EMU phase	

mean that social pacts are immutable; decline is still possible but increasingly costly for the partners. Conversely, de-institutionalization 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 (a new ruling coalition, economic shocks) may undermine the stabilization of the path and weaken mutual trust and shared understandings. New social pacts are not impossible. They can re-emerge but their long-term evolution is unpredictable.

This historical analytical framework helps explain the divergent trends in the countries under examination. The sequence of events and institutional dynamics is decisive. While all four countries had peak-level deals between the 1980s and 1990s (Path 1), Ireland and Spain have seen substantial stabilization (despite the instability expected by much of the literature) (Path 2A). But Italy and Portugal have experienced 'uneven institutionalization' (Path 2B). Adverse political events (the emergence of parliamentary majorities opposed to social dialogue) have led to the limited development of social concertation (despite persistent economic challenges). This problematic evolution has caused the failure of negotiation and/or the signature of more limited and unstable agreements.

Below we distinguish (with some approximation) two phases corresponding to emergence and evolution of the new institution: in the first (between the 1980s and the selection of the countries qualified for the monetary union in 1998) we see the emergence and initial development of social pacts. In the second (from the launch of the euro in 1999) early pacts have evolved with different degrees of stabilization.

Social Pacts in the 1990s (pre-EMU)

The 1990s saw the largely unexpected development of a new generation of social pacts across Europe. They emerged in a generally ‘fluid’ context, affected by profound socio-economic changes. Among the background elements which shaped this period, it is worth mentioning market globalization, monetary union and a fresh awareness of the likely effects of demographic ageing. Each of these factors had direct or indirect consequences for three different but intertwined policy issues: wage setting, welfare and labour market reform. In line with the analytical framework in Figure 1 we briefly review the key determinants of the emergence of social pacts (see Table 1).

Socio-economic Challenges

The internationalization of the economy, the liberalization 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 relationship between flexibility and security. The funding of social protection was likewise at the heart of the debate, from the point of view of overall labour costs. Demographic ageing raised questions about the financing of pensions and healthcare in particular. Furthermore, the increased budgetary impact of public pension schemes was difficult to reconcile with the budgetary discipline involved in the Maastricht convergence criteria (Fajertag and Pochet, 1997).

TABLE 1. The Emergence of Social Pacts before EMU

	Socio-economic challenges	Actors’ interests	Institutional dynamics
Ireland	Economic crisis + Maastricht Criteria	Convergence between governments and social partners	Weak collective bargaining
Italy	Economic crisis + Maastricht Criteria	Convergence between governments and social partners (with latent tensions)	Weak collective bargaining
Portugal	Economic crisis + Maastricht Criteria	Convergence between governments and social partners (with latent tensions)	Weak collective bargaining
Spain	Economic crisis + Maastricht Criteria	Convergence between governments and social partners	Weak collective bargaining

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 so that the system of pay bargaining would generate outcomes consistent with the competitiveness conditions of a unified monetary zone.

In the 1980s and 1990s many EU countries, including Italy and Portugal, experienced high public deficits, slow economic growth and high inflation. A major recession hit Europe in 1992–3. In some cases, as we have seen above, paradigm shifts of the socio-economic model were in progress and thus needed a strong social consensus to be implemented. And most pacts were initiated in a context of severe unemployment and with a clear determination to rectify it. An environment of acute tensions, whether economic or political, led countries to opt for a negotiated solution (Hancké and Rhodes, 2005), leading to a new type of social agreement. Unlike the pacts concluded during the 1960s and 1970s in an environment of sustained growth and full employment, the new agreements sought to accommodate the uncertainties associated with a difficult and unpredictable economic climate. That of 1986 in Portugal, for example, attempted to consolidate the economic changes already underway so as to make them irreversible. The aim was to cease being dependent on the textiles, clothing and footwear industry. By opting for the single currency and the monetary regime associated with it, the government and the social partners were obliged to ensure this rapid transition at the risk of being confronted by an asymmetric shock.

The Irish case is a particularly significant example of the desire to anchor a new model of production within a stabilized monetary framework. The five successive pacts concluded between 1987 and 2000 aimed specifically to facilitate the modernization of the national economy, incorporating a vast number of themes, ranging from support for macroeconomic policies to regional development, via complementary social measures and assistance for marginalized or disadvantaged groups (Baccaro and Lim, 2007).

Three major themes dominated social pacts in the 1990s. The pay discipline introduced within the Member States formed part of the new monetary regime, as a means to non-inflationary growth through a new coupling of wages and competitiveness (Fajertag and Pochet, 2000). Moreover, the sharing of productivity gains was a goal, to varying degrees, of all the agreements concluded (or approved) on guidelines for pay bargaining (Ireland, Italy and Portugal). The efforts to achieve flexibility must be viewed in parallel with the introduction of active policies for employment and vocational training as well as policies to re-regulate atypical work, in a certain number of cases such as Portugal. In respect of social security, the common theme was the search for negotiated solutions to the need for budget cutbacks in order to comply with the EMU

public deficit criteria. In Italy, for example, within the context of budgetary stabilization it was necessary to define ways of reforming one of Europe's most costly pension systems (Natali and Rhodes, 2007).

Actors' Interests

In the 1990s, the balance between the negotiating partners had shifted substantially compared with the 1960s and 1970s. One fundamental element which typifies the process of drawing up pacts was the emergence of a consensual analysis among the parties of the implications of a changing system of production and the formulation of joint preferences for low inflation and a stabilized exchange rate system. This form of *shared understanding* of problems, regularly cited by the actors themselves, in a sense marked a break with the traditions of 'classic' bargaining, where macroeconomic considerations had less of a bearing and where the medium-term economic prospects seemed more stable (Molina, 2005; O'Donnell, 2005). The degree of convergence varied between countries, thus influencing the further institutionalization of social pacts (Fajertag and Pochet, 2000).

The role of the State increased within a concertation process whose main axis had previously been the relations between the social partners. A direct functional logic explains why governments have acquired increasing interests in the social arena: to gain control over wage determination and to maintain pay rises compatible with competitiveness and monetary stability, and to guarantee a minimum of support for planned reforms in the fields of social security and the labour market. The political weakness of national governments in the countries under examination clearly contributed to their interest in negotiations. Institutional weakness (in the case of Portugal and Spain in the transition to democracy) and political tensions (especially in the case of minority governments) proved the need for social cooperation. This is the case of Portugal where the first agreement (*Recomendação sobre Política de Rendimentos para 1987*) was promoted by the minority right-of-centre government led by Cavaco Silva (Campos Lima and Naumann, 2005). In Ireland, the *Programme for National Recovery* (PNP) of 1987 was promoted by the minority government led by Fianna Fáil (FF) (Hamann and Kelly, 2007). In Spain the first Aznar government was also a minority government (Pérez and Pochet, 1999); while in Italy the first agreements were promoted by 'technocratic' governments (the first Amato government and the Ciampi government in 1992–3) after the collapse of the former party system (Natali, 2004).

Whereas it is easy to appreciate why such developments suited governments, this is less evident in the case of the trade unions. The results

achieved are by no means comparable with those of earlier pacts. Because of budgetary restrictions, governments were not in a position to 'oil' the wheels of negotiation, while the employers occupied a position of strength. The tendency of agreements to involve pay restraint, increased labour market flexibility and social security adjustments – in contrast to traditional demands – necessitated a re-reading of the situation by the trade union organizations. The need to participate in the bargaining process and to retain some influence over decision-making was clearly an important argument which helped bring them to the negotiating table (Regini, 2000). This is the case for the Irish Congress of Trade Union (ICTU), which aimed to prevent the liberalization of the economy and the isolation of trade unions along the lines of the Thatcher programme in the UK (O'Donnell, 2005). The same was true in Spain, where trade unions participated to the first social agreements in the 1980s with organizational and financial side-payments (Molina, 2005).

The signature of central social pacts by the employers likewise requires some analysis, given that rapid decentralization, along UK lines, might have appeared more profitable. On the basis of data available for Italy, Spain and Ireland, it seems that decentralized negotiations were viewed as difficult to control and hence risky (Hassel, 2006; Siegel, 2005). In the uncertain times of the transition to the single currency, predictable agreements were a safer option. In Ireland, the Federated Union of Employers (from 1993, Irish Business and Employers' Confederation) endorsed the PNP with little enthusiasm, but negotiations resulted in an excellent deal: wage moderation was agreed and the limited pay increases were not binding for the private sector (Baccaro and Lim, 2007). The employers' attitude can also be explained by a reappraisal of the concept of centralized negotiations. Since central agreements left increasing scope for the text to be interpreted at sectoral or even regional level, it was actually a matter not so much of centralization but of coordinated decentralization, whereby centralized agreements set a framework for decentralized implementation (Fajertag and Pochet, 2000).

Institutional Dynamics

From an institutional perspective, many studies have demonstrated the key role of labour market micro-foundations in promoting national social pacts. The weakness of collective bargaining institutions and the lack of the effective implementation of rules for wage moderation has been proposed as a precondition for their emergence (Hancké and Rhodes, 2005). Social pacts developed, not in countries where social dialogue was already anchored to the principle of wage moderation and monetary stability (especially in the *Deutschmark* area), but in countries with some form

of inter-firm coordination of wages and skills. In Italy and Portugal, for instance, the first pacts implemented a renewed framework for collective bargaining in order to strength wage moderation. In Ireland, moreover, the negative results of the decentralization of collective bargaining in the 1980s contributed to the emergence of central agreements at national level. In this case, the persistent weakness of inter-firm collective bargaining favoured the progressive reinforcement of national social agreements (O'Donnell, 2005).

Other authors have stressed the role of micro-institutions within the social partners' organizations. For Baccaro (2003), rules regulating their internal decision-making (on consultation, discussion and voting) had an influence on the articulation of actors' preferences and their strategies. In particular, the election mechanisms for plant representatives and the process of consultation of trade unions' membership seem decisive in reducing the risks of defection and of deep internal turmoil, hence legitimating unions' participation in the deals.

The Initial Development of Social Pacts

All the countries under scrutiny thus showed the progressive convergence of socio-economic challenges, actors' interests and institutional dynamics that contributed to the emergence of the first agreements. Yet differences at that time help explain the subsequent divergent institutionalization in the 'post-EMU' phase. In Ireland and Spain the first agreements were further stabilized. In the former country, the first pact of 1987 was followed by more encompassing deals consistent with the institutionalization of *horizontal pacts*. The *Programme for Economic and Social Progress* of 1991 widened the first agreement on wage policy to new fields, such as fiscal policy. With the *Programme for Competitiveness and Work* of 1994, agreements tended to become more comprehensive, covering quantitative aspects as well as introducing more qualitative measures, through a wide-ranging horizontal agreement. Mutual trust increased as a consequence of the *shared understanding* (of problems and solutions) and despite the changing economic context (rapid economic growth) and political conditions (a coalition government between FF and the Progressive Democrats with a clear parliamentary majority) (O'Donnell, 2005).

In Spain a climate favourable to social dialogue came about despite the absence of any agreement on wage policy. After the *horizontal pacts* of the 1980s and the failed 'state-imposed' decentralization of collective bargaining through the reform of 1994, informal wage policy was coordinated by the social partners (Pérez and Pochet, 1999). Centralized dialogue developed through *longitudinal pacts*. Under the first Aznar government the different parties decided to set up seven tables of negotiation. The first

agreement in 1996 concerned social protection (in the wake of the *Pacto de Toledo* of 1995). The subsequent agreement of 1997 linked the relaxation of certain conditions for dismissal to a reduction in temporary work. The government and the trade unions further agreed in 1998 on part-time work (Molina, 2005).

Yet in Italy and Portugal the early pacts experienced a more irregular or 'uneven' institutionalization. While in both countries *horizontal pacts* were agreed in the first part of the 1990s, later there were increasing tensions between government and social partners and within the labour movement. In Italy in 1992–3 governments and social partners agreed on the abolition of wage indexation, and the *Ciampi Protocol* revised collective bargaining structures and workplace representation. Yet in 1994 new tensions emerged between the first Berlusconi government (supported by a right-of-centre parliamentary majority) and trade unions on pension reform. This represented a first break in concertation. Later social pacts re-emerged under the first left-of-centre Prodi government with the pension reform of 1995 and the *Accordo per il lavoro* of 1996. The 1998 *Patto sociale per lo sviluppo e l'occupazione* (the 'Christmas Pact') adopted a broader-based approach to some major policy areas ranging from the labour market and employment services to the restructuring, rationalization and modernization of the civil service, reduction of labour costs and taxation, vocational training and education, infrastructural investment and economic development policies. As Ferrera and Gualmini (2004) put it, such an attempt to stabilize horizontal pacts failed. Mounting tensions between political parties and social partners contributed to the lack of *shared understandings* (Negrelli and Pulignano, 2008).

In Portugal, the exclusion of the most important union confederation (CGTP) from the major deals of the 1990s destabilized the first settlements. Relations between trade unions and employers deteriorated and blocked the full implementation of the 1996 pact. As the following section shows, both adverse political and economic conditions led to a lack of shared understanding of problems and solutions. The sequence of steps that in the case of Ireland and Spain reinforced mutual trust through the repetition of deals did not materialize in Italy and Portugal.

More Recent Evolution in the Post-EMU Phase

The selection in May 1998 of the 11 countries to join the third phase of EMU coincided with an economic recovery, and in some countries political conditions changed also. All this had a major influence on the processes of institutionalization of social pacts (see Table 2).

TABLE 2. The Evolution of Social Pacts after EMU

	Socio-economic challenges	Actors' interests	Institutional dynamics
Ireland	Economic growth + SGP	Convergence between governments and social partners	Shared understanding of problems and solutions
Italy	Economic crisis + SGP	Open conflicts between right-of-centre governments and trade unions (and between social partners)	No shared understanding of problems and solutions
Portugal	Economic crisis + SGP	Open conflicts between right-of-centre governments and trade unions (and between social partners)	No shared understanding of problems and solutions
Spain	Economic growth + SGP	Convergence between governments and social partners	Shared understanding of problems and solutions

Socio-economic Challenges

While the period between the Maastricht Treaty and the launch of EMU was marked by economic stagnation, high deficits and high inflation, all coupled with stringent obligations to converge with the Maastricht criteria, thereafter there was a more favourable macroeconomic climate in a number of European countries with higher growth, declining inflation and less severe financial strains. Moreover, as Hancké and Rhodes (2005) put it, the hard sanction (exclusion from EMU) disappeared and left room for softer procedures in the Stability and Growth Pact (SGP). Paradoxically, the institutional reinforcement of the EMU process was paralleled by weakened constraints on individual members. Moreover, in some Member States rising rates of growth and low unemployment figures contributed to stable public finances. This provided many governments with 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.

Eventually, 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. Reform of social security, and in particular of its funding, became a more central issue. European constraints on budgetary and inflation policy then lost much

of their relevance. The consensus on pay restraint was more disputed and there was the transition to a debate on overall wage costs which aroused fears of a process of ‘social dumping’. Another issue concerned equity, since prolonged pay restraint caused redistribution to the disadvantage of earned incomes.

Part of the literature has viewed the changed context as reducing the problem loads and thus creating fewer opportunities for negotiated pacts. Below, by contrast, we assume a less pessimistic interpretation. No generalized decline has appeared in the post-EMU phase. Rather, some countries have seen the progressive stabilization of earlier agreements through full institutionalization.

As shown in Table 3, the four countries under scrutiny can be distinguished into two groups with different socio-economic conditions: Ireland and Spain experienced high GDP growth from the mid-1990s, whereas growth was far more limited in Italy and Portugal. In the two former countries, social pacts were reproduced and stabilized. In the latter two, the less favourable economic conditions were paralleled by increasing disputes over the performance of early social pacts.

Actors’ Interests

The coincidence of EMU with a revival of growth seemed to ‘redistribute the cards’ among the main players. In several countries, tough negotiations took place over the allocation of budgetary surpluses. Whereas 20 years of austerity had united the union confederations in an attitude of resistance and participation, the decline in unemployment increased tensions.

But in two of our countries the social partners and political parties still 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 massive socio-economic problems) were re-oriented towards new goals in a context of economic growth: a typical case of institutional *bricolage*. In Ireland, the initial engagement of the FF government was then embraced by its political rivals (Hamann and Kelly, 2007). In Spain, both Socialists (PSOE) and the right-wing *Partido Popular*

TABLE 3. Trends in GDP per capita (€, 2005 prices)

	1990	1995	2000	2005	2007
Ireland	17,660	21,565	32,561	39,086	41,716
Italy	20,609	21,905	24,026	24,372	24,880
Portugal	10,774	11,653	13,961	14,136	14,524
Spain	15,058	16,068	19,221	20,941	21,810

Source: United Nations Economic Commission for Europe.

agreed at different times to develop the dialogue with trade unions and employers' organizations to deal with socio-economic issues.

What is more, in both countries high-level negotiation was perceived to be effective (Molina, 2005; O'Donnell, 2005). The sequence of negotiations reinforced the first steps along the path. In Spain, the first Aznar (minority) pursued the dialogue with trade unions and employers in a context of political weakness, but the second Aznar government continued dialogue though backed by a strong parliamentary majority. Socialist governments under Zapatero from 2004 formally accepted the logic of *longitudinal pacts* and thus modified their historical preference for horizontal agreements.

By contrast, in Italy the 21st century has seen the weakening of peak-level deals. One source of tensions was the implementation of the agreed decentralization of collective bargaining; employers – sometimes supported by the governments – have demanded a further decentralization of bargaining structures, against the opposition of the unions. Division has also re-appeared within the labour movement: CGIL, the major confederation, has defended sectoral bargaining, while CISL and UIL have favoured a more decentralized system. A further element of disagreement has concerned negotiated incomes policy. The second Berlusconi government (2001–06) criticized the experience of social concertation of the 1990s and proposed a leaner strategy of consultation (so-called 'social dialogue') (Ferrera and Gualmini, 2004).

In Portugal tension amplified over the whole period, but those between political parties and trade unions became particularly evident in 2002 when the right-of-centre coalition led by Barroso won the general election. The new government adopted a more unilateral approach to socio-economic reforms, consistent with a drastic austerity programme and a more confrontational attitude towards trade unions (Campos Lima and Naumann, 2005). Afterwards, horizontal agreements were replaced by more limited agreements in a context marked by the weakening of *shared understanding* of problems and solutions.

Institutional Dynamics

As stressed in the previous section, 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 full institutionalization of early pacts in some countries, and their 'uneven' institutionalization in some others.

In Italy and Portugal, social pacts have given way to more limited agreements if not open contestation among the partners of previous pacts.

The scope for pacting has been reduced as a result of the contradictory processes of evaporation of the *shared understanding* on the economic context, and of the internalization of wage-setting and fiscal policy. The partial institutionalization of particular patterns has concerned single (but not all) policies and 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).

In Italy, the first effect of these new dynamics has consisted of a leaner process of consultation coupled with narrow agreements on key specific issues. The second right-of-centre Berlusconi government (2001–06) did not share the perception of social concertation as an effective solution of economic problems. The *Patto per l'Italia* of 2002 did not concern 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 a very limited implementation. The *Protocollo su previdenza, lavoro e competitività* of 2007 agreed between the second Prodi government and the social partners proved the re-emergence of concertation but did not include collective bargaining and wage-setting.

In the case of Portugal, the tripartite *Acordo de Concertação Estratégica* signed in 1996 faced growing problems after 1997. Internal divisions within the trade union movement and the withdrawal of some employers' organizations from concerted action both led to the demise of social pacts. In 2000 and 2003, in a more stagnant economic context, the government tried to revive social contracts (on welfare policy, labour market regulation and incomes policy) but failed. Employers would have had no clear benefit from new pacts (including wage policies). Decentralization of collective bargaining and the wide room for firms to define their own rates of pay discouraged tripartite concerted actions. Yet 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-institutionalizing social pacts through a more adversarial approach to social dialogue.

By contrast, Ireland and Spain have shown more stability. The first has confirmed the favourable attitude to *horizontal pacts* (despite the changing macroeconomic 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 Irish social dialogue, through the creation 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, 2005). In Spain the institutionalization of social pacts has been pursued through the isolation of single tables of negotiation within *longitudinal pacts*.

To sum up, some countries have experienced the full stabilization of social pacts. Governments and social partners have reinforced their mutual trust through the *shared understanding* of problems, solutions and instruments. They have learned to use the institutions and rules of concertation, and to reorient them in a changing political and economic environment. In Ireland, the stabilization has happened through the repetition of horizontal pacts and their widening to new policies and new actors. In Spain, the strategy of isolation of single issues has been pursued through longitudinal pacts. In the other countries, the sequence of pacts has proved much more irregular: peak-level agreements have been followed by moments of decline, narrow agreements and the re-emergence of broader pacts in an ongoing 'up and down' process.

Conclusion

This article has argued that the emergence and evolution of social pacts in Europe are directly related to three key determinants: exogenous constraints, actors' roles and institutional dynamics. In particular, the multi-dimensional approach we have proposed adds more emphasis to institutional regularities. The combination of traditional neo-corporatist insights with historical, sociological and post-determinist institutionalism proves the potential for the more accurate assessment of the evolution of social pacts.

Our analytical framework leads to some preliminary conclusions that if further developed could significantly help improve the understanding of social pacts. First, the influence of European integration has been contextualized. In the 'pre-EMU' phase, all the countries under scrutiny experienced major socio-economic challenges related to the need to joint monetary union. Policy-makers introduced social pacts affecting all the most important policy fields (incomes policy, welfare state and labour market reforms). Horizontal and longitudinal pacts have been developed on the base of the *shared understanding* of problems, solutions and instruments. Yet in the following 'post-EMU' phase, the hypothesis that less stringent constraints on budgetary policy and less acute socio-economic problems should have led to the generalized decline of social pacts has not been confirmed. In Ireland and Spain, which enjoyed rapid economic growth, social pacts have been fully institutionalized; while in Italy and Portugal, which had less impressive growth, there has been a process of 'uneven' institutionalization.

Second, actors' interests have proved an important variable. The convergence of political and social actors (and in particular of left- and right-wing parties) to promote social pacts has contributed substantially to the stabilization of early agreements. By contrast, where tensions increased

between political parties and/or social partners, the stabilization of social pacts has proved much more difficult.

The reference to the convergence of actors' attitudes has been further developed through the diachronic approach consistent with historical and sociological institutionalism. In line with that literature, we have defined social pacts as an institution in that they consist of *shared understandings* that affect the way problems are perceived, solutions are sought and instruments to solve the former and to implement the latter are agreed on. Such common perceptions have increased mutual trust between governments and social partners and the legitimacy of tripartite negotiation as an effective tool to face socio-economic challenges. Our reference to institutional dynamics has helped trace the evolution of social concertation, advancing beyond references to more contingent interests and economic constraints. The institutionalization of social pacts in Ireland and Spain occurred despite the weakening of socio-economic pressures and changing political conditions. In both cases, the shared interpretation of problems and solutions and the increased trust in peak-level negotiations have contributed to shape actors' interests and thus to stabilize their dialogue. By contrast, in Italy and Portugal the shared understanding of macroeconomics has 'evaporated'. Such an 'uneven institutionalization' has been consistent with the irregular sequence of concertation, unilateral action and more limited agreements.

A focus on institutional dynamics has not led us to underestimate the active role of actors and the importance of their strategies. Through reference to post-determinist institutionalism we have assessed the role of players in re-inventing old institutions under new economic and political conditions. This is a typical case of institutional *bricolage*. When practices of the past are well stabilized, the changing context does not weaken them.

Summing up, the stabilization of social pacts is the result of a long sequence of events and critical moments. A change of government and political majority is the first test for the institutionalization of social pacts. The shift in dominant economic trends (from stagnation to growth and vice versa) is the second test. If social pacts institutions are re-oriented to deal with such changes, stabilization can progress.

REFERENCES

- Avdagic, S., Rhodes, M. and Visser, J. (2005) 'The Emergence and Evolution of Social Pacts: A Provisional Framework for Comparative Analysis', Eurogov working paper, No. N-05-01.
- Baccaro, L. (2003) 'What is Alive and What is Dead in the Theory of Corporatism', *British Journal of Industrial Relations* 41(4): 683-706.
- Baccaro, L. and Lim, S.H. (2007) 'Social Pacts as Coalitions of the Weak and Moderate: Ireland, Italy and South Korea in Comparative Perspective', *European Journal of Industrial Relations* 13(1): 27-46.

- Campbell, J.L. (2004) *Institutional Change and Globalization*. Princeton, NJ: Princeton University Press.
- Campos Lima, M. and Naumann, R. (2005) 'Emergency and Institutional Evolution of Social Pacts in Portugal', country paper for NEWGOV project.
- Crouch, C. (2005) *Capitalist Diversity and Change*. Oxford: Oxford University Press.
- Crouch, C. (2007) 'How to Do Post-determinist Institutional Analysis', *Socio-Economic Review* 13(1): 1–41.
- Ebbinghaus, B. and Hassel, A. (2000) 'Striking Deals: Concertation in the Reform of Continental European Welfare States', *European Journal of Public Policy* 7(1): 44–62.
- Fajtag, G. and Pochet, P. (eds) (1997) *Social Pacts in Europe*. Brussels: European Trade Union Institute and Observatoire social européen.
- Fajtag, G. and Pochet, P. (eds) (2000) *Social Pacts in Europe – New Dynamics*. Brussels: European Trade Union Institute and Observatoire social européen.
- Ferrera, M. and Gualmini, E. (2004) *Rescued by Europe? Social and Labour Market Reforms in Italy from Maastricht to Berlusconi*. Amsterdam: Amsterdam University Press.
- Hamann, K. and Kelly, J. (2007) 'Party Politics and the Re-emergence of Social Pacts in Western Europe', *Comparative Political Studies* 40(8): 971–94.
- Hancké, B. and Rhodes, M. (2005) 'EMU and Labor Market Institutions in Europe: The Rise and Fall of National Social Pacts', *Work and Occupations* 32(2): 196–228.
- Hassel, A. (2006) *Wage Setting, Social Pacts and the Euro*. Amsterdam: Amsterdam University Press.
- Jepsen, M. and Serrano Pascual, A. (2005) 'The European Social Model: An Exercise in Deconstruction', *Journal of European Social Policy* 15(3): 231–45.
- Katzenstein, P.J. (1996) *Cultural Norms and National Security: Policy and Military in Postwar Japan*. Ithaca, NY: Cornell University Press.
- Knight, J. (2001) 'Social Norms and the Rule of Law: Fostering Trust in a Socially Diverse Society', in K.S. Cook (eds) *Trust in Society*, pp. 354–73. New York: SAGE.
- Molina, O. (2005) 'Political Exchange and Bargaining Reform in Italy and Spain', *European Journal of Industrial Relations* 11(1): 7–26.
- Molina, O. and Rhodes, M. (2002) 'Corporatism: The Past, Present and Future of a Concept', *Annual Review of Political Science* 5: 305–31.
- Natali, D. (2004) 'Europeanization, Policy Arenas, and Creative Opportunism: The Politics of Welfare State Reforms in Italy', *Journal of European Public Policy* 11(6): 1077–96.
- Natali, D. and Rhodes, M. (2007) 'The New Politics of Pension Reforms in Continental Europe', in C. Arza and M. Kohli (eds) *The Political Economy of Pensions: Politics, Policy Model and Outcomes in Europe*, pp. 25–46. London: Routledge.
- Negrelli, S. and Pulignano, V. (2008) 'Change in Contemporary Italy's Social Concertation', *Industrial Relations Journal* 39(1): 63–77.
- O'Donnell, R. (2005) 'The Case of Ireland', Country report in The Emergence and Evolution of Social Pacts – Country papers, research deliverable for NEWGOV – New Modes of Governance, FP6 integrated project.

- Pérez, S. A. and Pochet, P. (1999) 'Monetary Union and Collective Bargaining in Spain', in P. Pochet (ed.) *Monetary Union and Collective Bargaining in Europe*, pp. 121–60. Brussels: PIE/Peter Lang.
- Pierson, P. (2004) *Politics in Time*. Princeton, NJ: Princeton University Press.
- Ragini, M. (2000) 'Between De-regulation and Social Pact. The Responses of European Economies to Globalization', *Politics and Society* 28(1): 5–33.
- Rhodes, M. (2001) 'The Political Economy of Social Pacts: "Competitive Corporatism" and European Welfare Reform', in P. Pierson (ed.) *The New Politics of the Welfare State*, pp. 165–96. Oxford: Oxford University Press.
- Siegel, N. (2005) 'Social Pacts Revisited: "Competitive Concertation" and Complex Causality in Negotiated Welfare State Reforms', *European Journal of Industrial Relations* 11(1): 107–26.
- Streeck, W. and Thelen, K. (2005) 'Introduction: Institutional Change in Advanced Political Economies', in W. Streeck and K. Thelen (eds) *Beyond Continuity: Institutional Change in Advanced Political Economies*, pp. 1–39. Oxford: Oxford University Press.
- Thelen, K. (1999) 'Historical Institutionalism in Comparative Politics', *Annual Review of Political Science* 3: 369–404.
- Zambarloukou, S. (2006) 'Collective Bargaining and Social Pacts: Greece in Comparative Perspective', *European Journal of Industrial Relations* 12(2): 211–29.

DAVID NATALI is Researcher at the Centre for the Analysis of Public Policy at the University of Bologna-Forli.

ADDRESS: Centro per l'Analisi delle Politiche Pubbliche, Università di Bologna, Facoltà di Scienze Politiche, Via Giacomo Della Torre 1, Forli, Italy. [e-mail: david.natali@unibo.it]

PHILIPPE Pochet is General Director of the European Trade Union Institute for Research, Education and Health and Safety, Brussels.

ADDRESS: ITUH, Boulevard du Roi Albert II, 1210 Brussels, Belgium. [e-mail: ppochet@etui-rehs.org]