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1. Introduction[*]

Abstract: Based on an analysis of the Irish, Italian and South Korean cases, this paper argues that a social pact is a coalition of "weak and moderate," namely the result of a strategic alliance between an electoral weak government faced with a political economic crisis and the most moderate sections of the labour movement. We relax the assumption, upheld by most literature, of unions as unitary actors and argue that such strategic commitment only emerges as the result of an internal political battle inside the unions, when the moderates prevail over the radicals and shape the strategic stance of the labour movement as a whole. As illustrated by the Italian and Irish cases, decision-making rules bringing the preferences of the rank-and-file (and even non-union workers) to bear on the process of collective decision help the moderate faction to prevail. In contrast, when the process of collective choice is limited to middle-level leaders, the radicals are more likely to gain the upper hand, as suggested by the Korean case. The paper also argues that the employers' strategic commitment is not strictly necessary for a social pact to emerge, but becomes key for its reproduction and stabilization over time. Indeed, the difference in resilience and duration between the Irish and Italian social pacts can be explained by the divergent long-term strategic choices of organized employers. We check the robustness of this explanatory framework by examining briefly a number of counterfactual cases.

This paper is concerned with a peculiar institutional development of the last few years: the emergence of social pacts, that is, peak-level deals over integrated public policy packages negotiated between governments, trade unions and employer associations. This development looks surprising in light of the current trends of declining trade union membership, collective bargaining decentralization (if not outright dismantling in some nations) and neoliberal restructuring of the economy, yet has taken place in a number of countries, mostly, but not exclusively (as this paper will show) European. Based on an analysis of the Irish, Italian and South Korean cases, the paper aims to produce a theoretical account of how social pacts emerge and reproduce themselves over time in different background conditions. It does so by addressing three questions in particular: 1) under what conditions governments are willing to share their policy-making prerogatives with private actors rather than using them at full and proceeding unilaterally; 2) in what circumstances, contingent on government's willingness to involve the "social partners" (labour and capital), a stable pact emerges; and 3) in what circumstances a social pact ceases to reflect the contingencies and power balance of the time at which it was first struck and becomes institutionalized.

The multiple and far-reaching differences among the three cases – in terms of history, culture, size, political development, institutional endowment, economic structure, industrial relations traditions, just to name a few – provide fertile ground for a theory-building exercise such as the one proposed here. If the emergence of social pacts follows, as we argue, a common path in the three countries examined (despite very different background conditions), there are important differences in the degree of social pact institutionalization among the three cases.Social compacting is essentially a one-off event in Korea (limited to 1998); it covers most of the 1990s in Italy; and continues to be the medium through which all major public policy is processed in Ireland, 17 years after its inception. While investigation of the <u>similarities</u> in our

[*] Many thanks to Richard Locke and Tom Kochan, as well as other participants in the IWER Seminar Series, MIT, 20 September 2005, for comments on a previous version.

three cases should inform us about the process leading to institutional emergence, analysis of the differences promises to produce interesting insights about institutional stabilization.

Our argument begins by incorporating the key (functionalist) insight in the extant literature on social pacts (Regini, 1997; 2000; 2003; Rhodes, 1998; 2001; Hyman, 1999: 95; Ebbinghaus and Hassel, 2000; Fejertag and Pochet, 1996; 2000; Compston, 2002a, 2002b; Hassel, 2003; Hancke and Rhodes, 2005), namely that an external shock to the system provides the first impetus for a pact to emerge. Unlike a large portion of the literature, focusing either broadly on globalization or more specifically on the Maastricht convergence criteria, we show that the kind of shock in question can be of different nature – e.g., the macroeconomic crisis of the mid-1980s in Ireland, the financial-cum-political crisis of the early 1990s in Italy and the Asian crisis of 1997 in Korea – but involves in all cases a neoliberal policy response. Our framework then combines this functionalistic element with an actor-centred perspective.[1]

We argue that a social pact begins when a weak government, unable for electoral reasons to manage the crisis unilaterally, seeks to build a broad societal alliance around its adjustment policies. Our definition of weak government is purely electoral and does not take into account the impact of veto points on the policy process (see Immergut, 1992; Tsebelis, 1995; 2000). All the governments in our sample were either minority governments at the time of crisis (Ireland and Korea), or severely incapacitated for other reasons (Italy). In addition, they were faced with national labour movements that, while weakened by recent declines in membership rates, maintained in all three cases formidable capacities for social mobilization. We show through shadow case reference to Belgium, Indonesia and other Asian countries, that in countries facing similar external threats to those we examine in detail, but in which the government was not electoral vulnerable, the response was unilateral rather than negotiated restructuring.

An external shock, we also argue, only manages to generate short-lived consensus. For the social pact to become a stable institutional outcome, as opposed to an ephemeral occurrence, a 'coalition of weak and moderate,' namely an alliance between a weak government and the less militant trade union groups, needs to be established. In other words, trade unions have to reach internal consensus on the desirability of a negotiated solution. This is, however, neither inevitable nor automatic but results from an internal political struggle between moderates and radicals inside the unions. In Ireland and Italy the moderates prevailed; in Korea they lost. Rules regulating internal decision-making within trade unions influenced the outcomes of the internal struggle, depending on whether, as in Italy and Ireland, they allowed for the preferences of rank-and-file workers to be brought to bear on the process of collective decision formation, or whether, as in Korea, they limited the process of collective choice to top and intermediate leaders only.

If employer commitment is not strictly necessary for a social pact to emerge, it becomes key for its reproduction and stabilization over time. We explain the difference in resilience between the Irish and Italian social pacts by pointing to the divergent long-term choices of organized employers in these two countries. In Ireland, after a period of initial strategic uncertainty, organized employers got fully behind social partnership. They did so because the outcomes of social pact were remarkably favourable to business, especially in the thriving high-tech sectors (Baccaro and Simoni, 2004). In Italy, the results of social partnership were much less outstanding, both for organized business and for the economy as a whole. Consequently, employers never became fully committed to this particular mode of regulation and when, in 2001, an electoral change brought to power a centre-right government with the strongest electoral majority of the post-war period, they switched allegiance and began lobbying government for labour market deregulation (Baccaro and Simoni, 2003: 13-5).

The remainder of the paper develops the argument outlined above as follows. Section two provides an account of similarities and differences among the three cases. Section three

[1] See Advagic, 2005a, 2005b; and Culpepper, 2005, for different actor-centred approaches.

distils the evidence in a single analytical framework. Section four concludes by examining briefly a number of counterfactual cases.[2]

2. Why and how do social pacts emerge?

All three countries considered in this paper have seen the emergence of social pacts. In Ireland, the tripartite parties negotiated in late 1987 a Programme for National Recovery (PNR), which exchanged centralized wage moderation for income tax reduction. This agreement was later followed by five additional three-year deals, which last to date. The basic structure of the pacts has remained stable over time: against the backdrop of fiscal conservatism and monetary orthodoxy, the agreements have exchanged wage restraint for tax cuts, while targeting social inequalities and exclusion, first by keeping the real value of transfers constant, and then through more substantive measures. Also, the scope of the agreements has been progressively expanded to cover not just macroeconomic policy, but virtually all policy areas under government's remit.

One of the characteristics of the Italian social pacts is that, unlike in other countries, these target one policy issue at a time. In July 1992, in an (ill-fated) attempt to stave off expectations of a forthcoming devaluation of the Lira, the tripartite partners agreed to an emergency industrial relations reform that abolished wage indexation and temporarily banned enterprise-level bargaining. In July 1993, another centralized agreement confirmed the abolition of wage indexation, linked sectoral wage increases to the government's macroeconomic targets, and introduced a two-tiered structure of coordinated bargaining, at the sectoral and company level. In 1995, government and unions (but not the employers) negotiated a comprehensive reform of the pension system, which simulated a funded system as a long-term solution, but only marginally reduced acquired rights in the short- and medium-run. In 1996, a tripartite Pact for Work increased labour market flexibility by introducing new forms of contingent work. In 1997, another negotiated pension reform accelerated the transition to the new pension regime. Finally, in 1998, a tripartite agreement confirmed the existing two-tiered architecture for collective bargaining and institutionalized government consultations with the social partners on labour and social policies issues.[3]

The Korean social pact was in response to the Asian crisis of 1997. Under the auspices of a newly-established tripartite institution, the Korea Tripartite Commission, a wide-ranging agreement was reached in early February 1998. It contained three key elements. First, it increased transparency in corporate affairs and committed managers to share some of their decision-making power with unions. Second, it increased labour market flexibility, by allowing employers to engage in economic layoffs and introducing contingent employment for selected occupations. Third, it increased trade union rights for selected categories (teachers, government officials and the unemployed).

This paper argues that a single logic underlies the emergence of social pacts in Ireland, Italy and Korea, and that it is possible to construct a single analytic narrative to capture all three cases. While common factors account for social pact emergence, crucial differences across the cases explain the different degrees of social pact institutionalization in the three countries. The remainder of this section seeks to substantiate these claims.

[2] The empirical portions of the paper draw on our research in each of the three countries, based on field interviews as well as additional (mostly secondary) sources. On Ireland: see Baccaro (2003) and Baccaro and Simoni (2004); on Italy: see Baccaro (1999a) and (1999b); on Korea: see Lim (2002).

[3] Another peak-level agreement was signed in 2002, exchanging the promise of tax reductions for a less rigid regulation of individual dismissals. This time, however, the CGIL, the largest union confederation, refused to sign and called for workers to mobilize in opposition. This call was largely heeded and the policy reforms stalled. Three years after, the government officially declared that it would not implement the new rules on dismissals included in the pact.

a) Economic crisis

In all three countries considered in this paper, the process leading to social pact formation began as a response to an external shock. At the time the first social pact, the Programme for National Recovery (PNR) was signed in Ireland, in late 1987; macroeconomic conditions had deteriorated considerably relative to the recent past, with growth grinding to a halt and unemployment climbing to double-digit figures. To use the words of one of the people we interviewed, Ireland was "weeks away from the IMF taking over control,"[4] and there was a diffuse perception in the country that something drastic needed to be done to bring the economy back on track. In particular, there was an urgent need to rein in public sector expenditures, while simultaneously rekindling employment and growth. This was a tall order, and nothing short of an "expansionary fiscal contraction" (Giavazzi and Pagano, 1990) could reconcile these possibly contradictory goals.[5]

In Italy, the crisis was both economic and political. As a result of the combination of constant nominal exchange rates (due to the fact that the Lira was tied to the narrow band of the EMS) and positive inflation differentials between Italy and all major international competitors, the real exchange rate had experienced steady appreciation since 1985 (Modigliani et al., 1996: Fig. 2.2., p. 38). This dampened exports and increased import penetration, thus causing persistent current account problems. Financial speculations, spurred by perceptions of unsustainability of the Lira's nominal parity, forced the national currency (as well as other weak currencies) out of the EMS in September 2002 (Vaciago, 1993). The Lira lost about 15 percent against the D-Mark in one month. A period of intense exchange rate instability ensued and lasted until about 1995, during which the Lira reached a peak of devaluation against the D-Mark of more than 50 percent. The Italian government was forced to recur to harsh measures, including a fiscal stabilization package of 5.8 percent of GDP (between expenditure cuts and revenue increases) in 1993. Simultaneously, all major political parties, including the ruling Christian Democratic and Socialist Parties, were struck by a wave of political scandals, known as "clean hands" (mani pulite), which led to their disappearance in only few months.

In Korea, the role of catalyst for policy change was played by the so-called "IMF" crisis of 1997. This had both contingent and structural elements. As in Italy, its immediate manifestation was that of an exchange rate crisis. The Korean Won was tightly pegged to the dollar within a narrow trading band of 2.25 percent. Faced with international financial turbulence and capital flight, which originated in Thailand and reached to Korean peninsula in late 1997, the Korean monetary authorities were forced to float the currency, after an unsuccessful attempt at defending the parity. A massive devaluation ensued, with the Won dropping from 921 per US Dollar to 1,484 between September and December 1997 (-38 percent) (Lim 2002 7: 131). Behind the unsustainable peg were, however, serious structural weaknesses, possibly linked to the untimely liberalization of financial markets in the early 1990s (Park and Choi, 2002; You and Lee, 2000: 11-4; Stiglitz, 2002 89-90): availability of cheap foreign loans had led large Korean chaebols (conglomerates) to engage in excessive investments, and Korean banks, which were strictly linked to (and dependent on) chaebols, to accumulate bad loans. When foreign creditors refused to roll over their loans, the country was faced with a sudden plunge in foreign reserves

[4] Interview with Brendan Butler, Director of Enterprise, IBEC, Dublin: Sept. 3, 2001.

[5] Gross National Product (more relevant than GDP in the case of Ireland because it excludes the repatriated profits of multinational companies) had declined 0.1 percent per year on average between 1980 and 1985, compared with an average growth of 3.7 percent between 1975 and 1980. The unemployment rate had risen from 7.3 percent in 1980 to 17.3 percent in 1985. Jobs had been lost at a rate of 11,000 per year between 1980 and 1985. Net outward migration was on the rise: 75,000 people had left the country between 1981 and 1986. The situation of public finances was especially worrisome: public debt had increased from 94 percent of GDP in 1981 to 134 percent in 1985. The Exchequer Borrowing Requirement, a measure of budget deficit, had reached 13.2 percent of GNP in 1985. The cost of servicing the national debt was 12.9 percent of GNP in 1985 and was equal to one quarter of total current public expenditures. The figures are from NESC (1986: chapter 12, various pages).

and had to knock at the IMF's door for emergency finance. The IMF responded with a tough structural adjustment program, which involved tight monetary and fiscal policies, reform of corporate governance to reduce moral hazard, and labour market flexibilization.

The element of crisis is well-known to the political economic literature on policy change (Gourevitch, 1986). It has been hypothesized, for example, that "public perception of a crisis is needed to create the conditions under which it is politically possible to undertake extensive policy reforms" (Williamson, 1994: 25; see also Tommasi, 2003: 4-10; Rodrik, 1996: 26). What seems unthinkable under conditions of normal politics suddenly becomes possible when a country is struck by a shock to the system that threatens the national interest and international prestige. Actors that used to fight each other ferociously find themselves rallying around a shared cause. Consistent with this line of thinking, it is common for the literature on social pacts to characterize them as functional responses to exogenous constraints, linked to globalization (Rhodes, 1998; 2001; Regini, 2000; Hyman, 1999: 95; Compston, 2002b), or to the run-up to EMU (Hancke and Rhodes, 2005; Meardi, 2005; Regini, 2003: 258).

An economic crisis does not entirely determine the policy response of a country – and certainly does not determine the process (unilateral vs. negotiated) through which the policy response is elaborated (Regini, 2000) – but does contribute to limit the range of options available to policy-makers. The crises in Ireland, Italy and Korea were certainly different in terms of timing and causes, but had one key element in common: their resolution seemed to require the adoption of neoliberal policy responses, in the form of disinflation, public sector cuts and greater labour market flexibility. These measures were likely to be especially burdensome for workers, as they implied, inter alia, cuts in public programs as well as the redefinition of entitlements (Regini, 1997; 2003: 260). Alternative policy responses, e.g. increased taxation, greater government intervention in the economy through capital or price controls, decommodification of social services, etc., while theoretically possible, were never seriously entertained except by fringe groups, possibly due to their technical inadequacy.[6] From the point of view of elected politicians, managing the crisis posed the problem of how best to mobilize the necessary consensus for policies that were more than likely to prove unpopular, or at least diffuse the blame that could be associated to them (Pierson, 1994; 1996; 2001; Hamann and Kelly, 2005)

b) Weak government

The three case studies present us with an interesting regularity. During the formative stages of the social pact, all three governments were remarkably weak in electoral terms. Unable to pass reform on their own, these governments were all especially active in trying to build a social pact as a way of procuring both the legitimacy and societal support they needed at a time of momentous policy change.

This element resonates with the findings of a recent literature on party politics and welfare state reform, which seeks to explain government's adoption of a particular policy approach, participatory vs. unilateral, by engaging in an analysis of the structural and strategic features of the political party system (Kitschelt 2001; Schludi, 2001; 2003; Bonoli, 2000; 2001; Pierson, 1997). The consensus in this literature is that governments take a negotiated approach to policy reform only in some circumstances and not all, and that governments are especially well-disposed towards policy concertation when they are too weak to pass reform on their own; when

[6] In Italy, during plant-level discussions over pension reform, some workers (and union leaders) argued that cutting the social security deficit did not necessarily imply cutting the workers' pensions: there were other ways of balancing the system, for example by increasing taxes on profits or fighting tax evasion more effectively (Baccaro, 1999a: 157). In Ireland, during discussions on the PNR, the largest trade union of distribution workers proposed to address the economic crisis by launching a massive job creation scheme financed by the state through increasing taxation on companies and by defaulting on foreign debt (Baccaro, 2003: 693). In Korea, trade unionists proposed that chaebol owners step down and contribute their own personal fortunes to repay foreign debts (Lim, 2002: 158).

a unilateral strategy risks provoking an electoral backlash from which the opposition is likely to benefit; when the government is unable to effectively depoliticize the issue (e.g., through the construction of a grand coalition involving the opposition); and when there is no better way to overcome the unions' veto power than by negotiating with them.

With 48.8 percent of seats in the Dáil (Irish Parliament), the newly-elected Fianna Fail government that initiated social partnership in Ireland in 1987 was a minority government. Additionally, its electoral weakness was compounded by the party's interclass nature, which led to problems of internal discipline and made it difficult for the leadership to pass policy decisions that penalized some of the party's key working-class constituencies. For a party like Fianna Fail it was easier to seek to diffuse social conflict than to confront it head-to-head (Hardiman, 1988: 200-4). In 1989, when social partnership was still highly controversial among the social partners, the leadership of Fianna Fail called for general elections in an attempt to reach an overall majority. This attempt failed: Fianna Fail lost a small portion of the vote and was forced to form a coalition government with the Progressive Democrats. This coalition government was still one vote short of majority in the Dáil.

In Italy, the 1992-93 executives were particularly weak, even by local standards, not just as a result of their coalitional nature and slim parliamentary support, but also, and perhaps more importantly, of the mani pulite scandals. The April 1992 general elections produced a four-way government coalition among Christian Democrats, Socialists, Social Democrats and Liberals. This government mustered a slim majority of 16 seats in the Lower Chamber and only one seat in the Senate (Ginsborg, 1998: 481). During its brief life, seven ministers were forced to resign by judiciary investigations (Ginsborg, 1998: 515), while almost 200 members of Parliament were investigated for political corruption (Ginsborg, 1998: 525).

The 1993 government was a take-care government without a clear parliamentary majority. It was composed of technical experts and chaired by the former Governor of the Bank of Italy. The government that followed in 1994 was instead considerably stronger. This was a three-way centre-right coalition. Thanks to the new, (semi-) majoritarian electoral law; it could count on 58.1 percent of seats in the lower chamber, and a narrower majority in the upper chamber (see Ginsborg, 1998: 544). Interestingly enough, and in line with theoretical predictions, the 1994 government did not seek policy concertation with the social partners, but (unsuccessfully) attempted to pass a unilateral reform in the crucial domain of public pensions.[7]

Readers accustomed to the literature on the developmental state (e.g., Amsden, 1989; Choi 1993, Evans, 1995; Woo-Cummings 1999) may take issue with the Korean government being qualified as "weak." The reality is, however, that the Korean government was at a critical (and possibly unique) stage at the time of the financial crisis. A new president, Kim-Dae-Jung, had been elected in December 1997, at the onset of the crisis. He had received only 30 percent of the vote, and his 1.5 percent victory over its main opponent had only been made possible by a split in the other camp. The coalition supporting the president – a marriage of convenience involving a long-time outsider (Kim-Dae Jung himself) and the former chief of the Korean CIA as well as heir of the authoritarian past (Kim, 2002: 60) – did not have a majority in Parliament. In early 1998, the president could only count on 121 seats, much less than the majority of 150 required. It was only at the end of 1998 that a majority was reached, thanks to the defection of several opposition MPs. To add to the president's weakness, he often had to face open defiance by key civil servants (who distrusted him due to his personal history of opposition to the dictatorship) and had trouble appointing his own supporters to top offices. In brief, the Korean

[7] The 1995 government was again a technocratic government, without a clear parliamentary majority and with a narrow, time-bound mandate. The centre-left government that ruled between 1996 and 1998 after national elections was also a multiparty coalition and had to rely on the crucial support of the Party of the Communist Refoundation in the Senate. This party did not agree with some of the government's initiatives in the field of labour and social policy (which it perceived as too neoliberal in their orientation). As a result, its relationships with the other parties in the coalition and with the government as a whole were less than smooth.

presidency desperately needed allies as it launched a package of emergency measures to redress the most serious financial crisis in the country’ post-war history.

c) The struggle between radicals and moderates in the union movement

The evidence discussed so far suggests that, faced with a national emergency, a weak government, unable for electoral reasons to deal with the crisis unilaterally, is led to seek an alliance with the major social forces, especially those representing labour, whose active consensus is necessary for successful implementation of policy reforms. In this sub-section we show, by contrasting the Korean experience with the Irish and Italian ones, that a solid alliance is formed when the unions agree to commit themselves to a strategy of cooperation.

i) *Korea*

At the beginning of the crisis, the Korean trade unions, and especially the KCTU (a new confederation that had played a key role in the fight against the dictatorship), were the first to propose a concerted approach. According to the KCTU, the economic crisis provided the Korean union movement with a golden opportunity to raise its profile: in a country well-known for the close alliance between government and big business to the detriment of labour, it gave trade unions a chance to present themselves as government partners, play a key role in policy-making, and gain both legitimacy and organizational resources.

If participation of the other trade union confederation, the FKTU, could almost be taken for granted,[8] the KCTU’s active involvement was crucial for the success of the social pact. Even though this confederation only organized two fifths of total union membership at the time of the facts, a tripartite agreement without the KCTU was unlikely to go very far since the most militant enterprise unions, those of large chaebols, were affiliated to it. Also, just a few months before the crisis, in January 1997, the KCTU had launched a clear signal that its mobilization capacities enabled it to block unilateral reform. Indeed, large-scale demonstrations, largely orchestrated by the KCTU, had managed to stall a government proposal for labour law reform touching on what would later become one of the most controversial elements of the 1998 social pact: the legalization of economic lay-offs (Park, 2000).

The decision of the KCTU’s peak leadership to participate in tripartite negotiations was supported by two groups in particular within its ranks: white-collar unions and blue- collar unions in small and medium enterprises. The former had been urging the KCTU to get involved in social concertation since the establishment of a new confederate structure in 1987. Faced with economic crisis, these unions supported the cooperative strategy because, in their view, it would allow the KCTU to influence crucial portions of the structural adjustment package, for example the parts on public sector restructuring. Blue-collar unions at small and medium enterprises also took a cooperative stance. They were hard-hit by the layoffs and business shutdowns that accompanied the financial crisis, and perceived themselves as unable to respond through collective action at the company level. It is unclear what proportion of KCTU membership these two groups controlled.[9] However, their position also gained the acquiescence, if not support, of several big company unions at the time.

[8] The FKTU, who had explicitly supported the Kim-Dae Jung candidature to the Presidency, was ready to accept the invitation to participate in tripartite negotiations when it was presented in late December. Aside from personal links between the FKTU’s top leadership and the President, this organization had a history of involvement in both peak-level and ministry-level consultations, even though, since these took place at a time in which most trade union rights were not legally recognized, it would be difficult to qualify these consultations as genuine social dialogue (Lim, 2002: 86-9; Tae, 2002: 62-77).

[9] Data on membership composition show that public sector workers represented 22.6 percent of KCTU total

A more radical attitude prevailed among the majority of blue-collar enterprise unions within large chaebols. These unions had mixed feelings. On the one hand, the crisis brought to the policy agenda an element they, too, had often emphasized: that of management's strategic mistakes and the consequent need for chaebols' governance reform. On the other hand, they were not ready to accept the employment flexibility component in the policy package being proposed by the government (under pressure from the IMF). The extent to which different companies were hit by the economic crisis varied case by case. Those most affected by downsizing were temporary and daily workers, not regular workers in large companies – the chaebol unions' constituency (Yoo, 2005: 6). Faced with contradictory elements, the large company unions did not take a clear stance on the proposal of the KCTU leadership to enter into a social pact.

This situation did not last for long, however. As the crisis took its toll and workers began to be laid off,[10] a more militant approach prevailed within large company unions. Even some public sector unions joined the radical camp, arguing that collective mobilization through industrial action could protect union members more effectively than participation in tripartite negotiations. A special meeting of KCTU delegates was summoned on February 9, 1998, three days after the signing of the social pact (named "Tripartite Accord for Overcoming the Economic Crisis"). Here, the union delegates voted against the agreement (with 184 votes against and 88 in favour; see Lim, 2002: ft. 125, p. 191) and called for a general strike – which was later called off. After this episode the moderate peak-leadership of the KCTU submitted its resignation and was substituted by a new, more radical leadership, mostly drawn from chaebol unions and public sector. Small- and medium-sized manufacturing unions lost much of their influence on KCTU policy.

The new KCTU leadership did not immediately withdraw from national social dialogue. Indeed, under the pressure of massive layoffs, it agreed to join a renewed Tripartite Commission in June 1998. Public sector unions in the KCTU were now especially interested in negotiating the restructuring of public sector utilities and state-owned enterprises, and looked with interest at the experience of the FKTU's financial unions, which were able to use the confederation's participation in the Tripartite Commission to influence the financial sector's restructuring plan. Over time, however, the strategic posture of the KCTU came to be dominated by the large chaebol unions. These opposed the centralization of collective bargaining and refused to transfer their collective bargaining privileges to sectoral union federations. They even came to abandon the confederation's long-standing commitment to chaebol reform, as this reform threatened to undermine employment stability and corporate welfare at the enterprise level (Lim, 2002: 223; 240).

ii) Italy

In Italy, the formative stages of social partnership were as internally contested as in Korea. The outcome, however, was fundamentally different. At least since the late 1970s, the Italian labour movement had been the locus of an internal political struggle between radical and moderate factions. Behind the struggle were two alternative visions of what a union is and what it should do. One faction believed that the union should strive to promote fundamental social change by acting as an agent of social and political dissent. The other thought that the union was primarily an interest-based organization (although not apolitical); that the interests of workers in a capitalist economy were in many ways intertwined with those of firms and state; and that these

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membership in 1996 (496,908 members); private sector manufacturing workers 48.1 percent; and private sector non-manufacturing workers the remaining 29.3 percent. Within the FKCTU membership composition was as follows: public sector workers 27.5 percent of total membership (1,021,134 members); private sector manufacturing workers 49.6 percent; and private sector non-manufacturing workers 22.6 percent (Lim, 2002: 79).

[10] The unemployment rate increased from 2.6 percent in November 1997 to 6.8 in April-May 1998.

interests were often (but not always) better served through negotiation and cooperation than conflict.

While it is difficult to assess the weight and influence of the two factions in quantitative terms, as fault lines often cut across different confederations or even industry federations, one could say that the radical faction coincided with what in Italy used to be known as “sindacato dei Consigli” (union of factory councils). This included those sections of the Italian union movement that had been most active during the Hot Autumn mobilizations of 1969-73, i.e. the metalworker federations (especially within the CGIL) and the factory councils of some of Italy’s largest industrial plants, which were essentially concentrated in four cities: Turin, Milan, Genoa and Brescia (see Golden, 1988; Mershon, 1986; Pizzorno et al., 1978; Accornero, 1976). The moderate faction rotated around the union confederations.

Even at its peak, the radical faction was numerically a minority (see Baccaro 1999a: 11). However, the struggle was not based on membership as on competing legitimacy claims: both sides claimed to interpret and represent the will of the Italian working class, including non-affiliated workers. The test of consistency between a particular policy stance and the attitudes of the worker at large was worker participation in strikes (Pizzorno, 1978). The higher the participation in strikes, the more legitimate a particular policy stance. Thanks to its superior mobilization capacity, the sindacato dei Consigli was able to exercise a true and proper hegemony over the rest of the Italian labour movement for many years and to torpedo all of the early attempts (in the 1970s and 1980s) at union involvement in national policy-making.

In the early 1990s, radical and moderate factions fought hard over the decision to engage in national negotiations. The signing of the July 1992 agreement abolishing wage indexation caused deep internal turmoil, and the Italian unions went very close to splitting once again, as it had previously happened in 1984. The top union leaders were confronted violently in numerous Italian cities. These protests soon generated a vast organized movement, dominated by factory councils in various Northern cities. Many of the movement’s demands were purely procedural and aimed at promoting a democratic refoundation of the Italian labour movement. Indeed, the timing of the agreement, signed on July 31 – when most factories were about to close for summer holidays – and the fact that there had been no time for a proper debate on the issues, let alone a ratification vote, was regarded by participants in this movement as a trick to favour smooth approval of a deal whose content was fundamentally opposed to the workers’ interests.

Even the July 1993 deal was internally contested. This time, however, the radical union faction did not mobilize (unlike the past). It did not because the agreement included two important methodological innovations, largely in response to the self-summoned movement’s critique. First, it included an organizational reform that institutionalized the regular re-election of plant representatives. Second, for the first time in Italian labour history, it was accompanied by the promise of a binding consultation among the workers. The confederal unions set up approximately 30,000 assemblies in all major plants and offices throughout the country. About 1.5 million workers participated in the vote and 68 percent of them approved the deal.

This unusual combination of centralized bargaining and large worker consultations continued in 1995. Pension reform was as unpopular among the workers as the abolition of wage indexation had been (if not more). The 1995 agreement came one year after a victorious battle waged by the three confederal unions against the centre-right government’s unilateral attempt at reforming the system. The unions were well aware that they risked compromising their internal cohesion and credibility had they sought to impose reform from above. So they engaged in what is probably Italy’s largest experiment with union democracy so far. The tentative agreement was first thoroughly discussed with the rank-and-file through a wave of company-level assemblies. The process of consultation was then completed with a secret ballot referendum involving four and a half million voters, 64 percent of which approved the reform. Overall, the organization of binding referenda showed clearly that the majority of the Italian workers supported a moderate bargaining policy.

iii) Ireland

Similar to Italy and Korea, in Ireland, too, the confederal leadership favoured centralized negotiations with government and the employers. These leaders were afraid that the government might respond to the economic crisis by following the example of Thatcher's Britain and engaging in a massive attack on unions. The emergence of the new party of Progressive Democrats, a split-off from Fianna Fail, and its remarkable electoral performance in the 1987 elections (11.8 percent of the vote) was regarded by the union's peak leaders as a worrisome sign that a Thatcherite solution might indeed be brewing in the country.

Moreover, the ICTU leaders were dissatisfied with the outcomes of the previous phase of decentralized collective bargaining between 1980 and 1987, when they had pushed for high nominal wages increases, managed to obtain them, and yet wound up with lower real take-home pay because of the joint effect of high inflation and fiscal drag. The opportunity provided by the social pact to negotiate gross pay and taxation levels simultaneously was more than welcome in this respect. The leaders of public sector unions found a negotiated solution to be particularly congenial since they feared their constituencies would fare especially poorly in free-for-all bargaining given the government's determination to cut public expenditures.

While the peak confederal leadership was favourably inclined towards a social pact, the feelings of the various unions affiliated to the confederation were much more mixed. The unions whose primary constituencies were in the private sector, like the craft unions, thought that, given the high profitability of firms in this sector (especially in the case of foreign firms), decentralized bargaining would be more advantageous for them (see Teague, 1995: 262). IDATU, at that time the largest union among distribution workers (generally low paid), also opposed the agreement. The third largest general union, the British-based ATGWU (23,000 members), was adamantly against.[11]

The electoral rule within the ICTU confederation was very similar to an electoral college system. In other words, if more than 50 percent of members within a particular union chose a given option, all the delegates of that union voted for that same option in the national convention. Most of the 56 unions attending the 1987 special conference on the PNR voted against the agreement. Most public sector unions voted in favour, instead, and so did the second largest general union, the FWUI. Within the ITGWU, the largest general union, a union ballot showed that the difference in favour of the PNR agreement was of 400 votes only. With 48 delegates, the vote of the ITGWU was decisive. Indeed, the PNR was approved with a majority of 181 votes to 114. It can thus be argued that 400 votes of ITGWU members turned out to be decisive for the future of social partnership in Ireland.

As in Italy, the losing faction decided to fight its battle inside the trade union congress rather than outside. In 1989, when the inflation rate surpassed the 2.5 percent increase contemplated in the national agreement, the MSF (a craft union) and the ATGWU, both British-based (i.e. with headquarters in Britain), called for a special ICTU conference to decide whether the confederation should withdraw from partnership. Since talks were already underway for a renewal of the PNR, this vote would de facto also decide whether or not the experience of national bargaining would be continued in the future. The motion to withdraw was rejected with 181 votes against and 141 in favour. Once again, the favourable vote of the general union SITPU (resulting from a merger between the ITGWU and the FWUI in 1990) and of the public sector unions was decisive. In brief, the adoption of democratic decision-making procedures in Ireland (as in Italy) appears to have increased the legitimacy of social concertation and strengthened the moderate faction.

[11] The ATGWU's position is generally explained by reference to its ideological/cultural background. Because this is a British-based union, its attitude towards bargaining is typically adversarial (see Roche, 1997: 179; Hardiman, 1992: 342-3).

d) The role of employers

So far, the analysis has emphasized the role played by government and unions, but left employers aside. Indeed, in contrast with a recent literature (Swenson, 1991; 2002; Hall and Soskice, 2001; Thelen, 2001; 2002; Culpepper, 2005), this paper argues that organized employers are not key to the formative stages of a social pact, which emerges essentially as a deal between a weak government faced with a tall policy order and a trade union movement in which the moderate faction prevails over the radical. However, the role of employers becomes very important in later stages, when it contributes decisively to lock-in social compacting as a viable mode of policy-making. In this regard, the crucial difference to be examined is the one between Ireland and Italy, both cases of stable social pact but of different duration and resilience.

As to Ireland, analysts generally agree that the Irish employers were not exactly a driving force behind the PNR (Roche, 1997; Hardiman, 1988; 1992; see, however, Culpepper, 2005, for a different view). Indeed, employers appear to have been dragged into the deal by the staunch determination of government to have a social partnership agreement. Obviously, the fact that FUE, the major employer association at the time, formally subscribed to the PNR deal is a sign that the employers ultimately found the agreement to be in their interests. There is a difference, however, between wholeheartedly embracing a particular institutional configuration – one which did not just centralize collective bargaining but also gave trade unions a key role in the design and implementation of national economic policy as a whole – and embracing an attitude of "studied trust" (Sabel, 1993), namely engaging in an experimental exploration of a cooperative strategy, while watching closely the counterparts' every move, ready to reassess one's strategy and withdraw from the deal.

The behaviour of Irish employers at the time of the PNR seems closer to the latter than to the former. In the period immediately preceding the negotiation, the employers had stated clearly and repeatedly that they were happy with decentralized bargaining. Indeed, they had been key actors in the process that had brought back a decentralized collective bargaining structure in 1981, after a decade (the 1970s) dominated by centralized bargaining (Hardiman, 1988). In December 1986 and then again in June 1987, the general council of FUE "restated the policy position it had held since the early 1980s: it asserted that negotiations with the trade unions on pay and related matters should continue to take place at local level" (Hardiman, 1988: 236; see also Hardiman, 1992: 350). Even after signing the PNR agreement in 1987, Business and Finance, a publication close to the employer association, "made scathing criticism of the agreement" that had just been signed (Culpepper, 2005: 37).

As is typical in negotiations, because they needed the agreement the least, the Irish employers were able to get an excellent deal. The PNR agreement kept central wage increases low, provided a guarantee that there would not be extra increases at the enterprise level, and even made the (limited) provisions for flat increases included in the agreement (intended to benefit low paid workers) not binding for the private sector, as per employers' request. According to one of the protagonists, the accord pretty much reflected the business agenda.[12] There was no reason why employers should not give it a try. What the employers feared (and their fears found corroboration in the country's recent past) was that the unions would use national wage increases as a floor to be topped up at company level. If that happened, however, the Irish employers would still be able to turn back and return to decentralized bargaining. Only later, once it became clear that centralized bargaining effectively ensured wage moderation and that, by keeping wage costs down, it allowed for formidable competitiveness gains to be reaped, especially in the most dynamic sectors of the economy (Baccaro and Simoni, 2004), did the Irish organized employers really get on board and become strong supporters of centralized

[12] Interview with Brendan Butler, Director of Enterprise, IBEC (Dublin: Sept. 3, 2001).

institutions.[13] Their support greatly strengthened the Irish social partnership. This managed to navigate the transition to very different economic and political conditions. Introduced to deal with macroeconomic stabilization at a time when unemployment was a two-digit figure, it was later successfully adapted to the new era of full employment and labour market shortages. Even in the midst of an economic boom, however, the employer support remained conditional on outcomes. For example, when wildcat strikes and a spike in inflation led to renegotiation of national pay terms in late 2000, the employers wondered aloud whether the clock was back to 1981 and it was once again time for them to walk alone.[14]

Similar to their Irish colleagues, the Italian employers were more adaptive than proactive with respect to social pact. Confindustria, the main employer association, was clearly in favour of the 1992 centralized agreement. Employers had nothing to lose and everything to gain from an agreement that eliminated a major source of inflation inertia – national wage indexation – while simultaneously "outlawing" compensatory wage claims at the enterprise level. The 1993 protocol on collective bargaining was more controversial for them, as they preferred a bargaining system based on a single level, preferably the sectoral one (Trentin, 1994), and not two. At any rate, they signed the agreement and seemed to be happy with the way the new system introduced greater predictability and order in Italian industrial relations, for example by causing a metalworker contract to be renewed with zero hours of strike in 1994 – a first in Italian history. The best sign of employer support was a joint letter, co-written with the three union confederations on the eve of national elections in 1994, asking for the new government to respect the 1993 agreement and continue the experience of concertation (Meardi, 2005: 13).

Employers' attitudes began to change in 1995, when they withdrew from negotiations on pension reform and did not sign the final agreement. During the Prodi government (1996-98), the employers pushed strongly for a bilateral version of concertation, which they referred to as "subsidiarity." This meant that, in their view, all matters of social and labour policy should have been deferred to peak-level negotiations among the social partners, and government should abstain from acting unilaterally on these issues.[15] This position did not reflect a long-term commitment to concertation but a more tactical one, linked to the proposed law on working time reduction to 35 hours per week, which was being discussed in Parliament at the time (Baccaro, 1999b). In other words, the employers believed they could obtain better conditions from negotiations with trade unions than from regulation issuing from a government in which the Party of the Communist Refoundation was a crucial coalition member. When the government majority changed in 2001, from centre-right to centre-left, and the law on 35 hours was shelved, the commitment to subsidiarity was soon forgotten. Concertation was dismissed as "consociational" (in the negative sense), i.e. as a way of blocking much-needed structural reform. The employers sought to obtain from government, through legislative reform and largely against the unions' will, the relaxation of rules on "just cause" dismissals (Baccaro and Simoni, 2003). Even though the proposed liberalization was likely to affect only a limited number of firms, the employers strongly pushed for these legislative changes as a first step towards a wider campaign aimed at labour market flexibilization and at curtailing what was now perceived as the unions' veto power.

In Korea, employers were, in many respects, victims of the crisis and of the ensuing IMF rescue package, especially in so far as this included corporate governance reform as one of its constitutive elements. They were unable to resist the government's request for tripartite negotiations, even though these included the crucial issue of corporate governance reform, which they had managed to block before (Chang, 1997, Kwag, 1997). They did not initiate the tripartite negotiations, but passively acquiesced in them, seeking to minimize the scope of corporate governance reform – something they were largely successful in, as the changes only involved

[13] Interview with Patricia O'Donovan, former Secretary General of the ICTU, Geneva: April 9, 2001.
[14] Interview with Brendan Butler, cit.
[15] Interview with Innocenzo Cipolletta, General Director of Confindustria, Rome: May 20, 1999.

more transparent accounting reports and some sharing of decision-making power with the unions, but (in contrast with the unions' and even the IMF's requests) no dismantling of the big chaebols, with the exception of Daewoo.

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

While the 1998 social pact was a first in Korea (and Asia's) labour history, tripartite policy-making did not last for long. After the agreement, the social partners (both the two trade union confederations and the employers) repeatedly entered and exited the Tripartite Commission. In February 1999, the KCTU made a final decision to withdraw from the Commission. In the following years, Korea's tripartite structures formally survived, but, without the participation of an important portion of the labour movement, and with the ever more lukewarm support of employers and government, their impact on policy-making remained limited at best (Baccaro and Lee, 2003).

3. Explaining social pacts: An analytical framework

We now have all the elements we need to address the three questions raised in the introduction to this paper. In response to the first question, why are governments willing to involve the social partners, rather than acting unilaterally, we have argued that this is likely to happen when governments lack the necessary electoral strength. The Irish and Korean governments were minority governments at the time of crisis. The Italian governments were either "technical," i.e. devoid of a clear parliamentary majority, or as in the case of the 1992 government, severely delegitimated by political scandals.

In addition, all of these governments where faced with powerful national labour movements that maintained in all three cases remarkable social mobilization capacities. In Ireland, as argued by Hardiman (1988: 215), "the trade union movement possessed considerable labour-market power and disruptive capacity, and governments generally acted on the assumption that if ICTU perceived that the vital interests of trade unions were under threat, it would have the capacity to make such a strategy very difficult to implement." In Italy, the unions had caused the failure of the government's attempt at unilateral pension reform in 1994. In Korea, collective mobilization by the trade unions stalled a labour law reform containing the crucial element of legalization of lay-offs only a few months before the Asian crisis.

The second step in the argument had to do with the conditions under which, contingent on government's willingness to involve the social partners, a stable centralized institution emerges. Our answer has been that a shared sense of crisis exercises a centripetal impulse on the actors. However, the consensus it generates is only short-lived. For a social pact to be a stable outcome, as opposed to an ephemeral occurrence, the unions (but not necessarily the employers at this point in the sequence) have to be strategically committed to a negotiated solution. By relaxing the assumption, upheld by most literature, of unions as unitary actors, we have argued that such strategic commitment only emerges as the result of an internal political battle inside the unions, when the moderates prevail over the radicals in shaping the strategic stance of the labour movement as a whole. As showed above, the difference between the Irish and Italian social pacts, which are stable institutional outcomes, and the Korean pact, which is not, can be traced back to the fundamentally different outcomes of this internal political game. In Ireland and Italy the moderates won; in Korea they lost.[16]

In all three countries, the two factions had different perceptions of their power and ability to protect themselves by relying solely on their own resources and mobilization capacities (Advagic, 2005b). These were not just subjective impressions, but were rooted in the history and recent experience of the three countries. In Italy and Korea, for example, the radical camp included the vanguard of the respective union movements: the factory councils and the metalworker unions in Italy and the chaebol unions in Korea (see Table 1). Past experience taught these groups there was no need for peak-level involvement: as in the past, collective action would suffice to block labour-unfriendly policy reforms. The moderate camp included organizations like the public sector unions in Ireland or unions organizing white collar workers and small and medium-sized companies in Korea, which lacked, for the most part, the mobilization capacities of the other camp and looked with favour to a negotiated solution that would enable them to influence some of the policy responses, especially (in Ireland and Korea) the outcomes of public sector restructuring.

We have also argued, based on previous work (Baccaro, 2003), that micro-institutions – rules regulating internal decision-making within trade unions – influence the outcomes of the internal struggle. Electoral decision-making appears to have strengthened the moderate front and increased the legitimacy of social concertation in Ireland and Italy, but not in Korea. Indeed, the special KCTU conference of February 9, 1998, in which delegates voted to reject the social pact, ended up destabilizing the whole social partnership process. Yet the decision-making procedures used in the three countries were not at all the same. While direct democratic procedures were adopted in Ireland and Italy, in Korea only indirect electoral procedures were used. In other words, while in Ireland and Italy thousands of rank-and-file members expressed themselves on the desirability of centralized agreements, in Korea less than three hundred middle-level leaders had an opportunity to do so. There was no consultation of rank-and-file workers. Equally importantly, there was no discussion of the complex issues covered by the Korean social pact and of the various trades-offs contained therein.[17]

[16] It needs to be said that the Korean government did little to favour the victory of the moderates. For example, when government translated the 1998 social pact in various legislative drafts, several pro-labour clauses were watered down. For example, trade union rights were granted only to displaced workers, and not to the unemployed as a whole; constraints on the use of dispatched workers were eliminated; and the employer's obligation to rehire the laid-off was reformulated as "effort to re-hire." See Lim, 2002: 201.

[17] As argued by one of the protagonists, due to an economic situation that was worsening by the day, there was a pressing need to come to an agreement as soon as possible. The KCTU leadership had to rush through the ratification process. The delegate conference was called only three days after reaching a tentative agreement; hence there was no time to organize member consultations and explain the content of the proposed deal. Some union leaders were not even aware that the unions had managed to obtain legal recognition of trade union rights for teachers (interview with You-Sun Kim, Deputy Director, Korea Labour & Society Institute and former Chief Negotiator, KCTU, Sept. 1, 2003).

Table 1: Attitudes of Union Groups vis-à-vis Peak-Level Involvement

	In Favour	**Against**
Ireland	Union confederation, Irish-based general unions, public sector unions	Craft unions, British-based general union
Italy	Union confederations, public sectors unions, all industry federations except CGIL metalworkers	Factory councils of large manufacturing firms, particular territorial confederations (e.g. Brescia, Milan), CGIL metalworkers
Korea	Union confederations, unions representing workers in small and medium companies, white collar workers unions, public sector unions	Large company unions (chaebols)

The introduction of electoral mechanisms for collective decisions involving rank-and-file workers radically alters the game between moderates and radicals, as a "logic of mobilization" (one in which the faction prevails that is better able to mobilize workers in strikes) is substituted by a "logic of representation" (Pizzorno, 1978). Indeed, the key feature of the principle "one head, one vote" is that it abstracts from consideration of preference intensity and only takes into account the "sign" of preferences, positive or negative (Dahl, 1956). With electoral procedures, the preferences of the vanguard count just as much as those of any other equally numerous (although much less militant and politicized) groups of workers in determining union strategy. In other words, very intense preferences, i.e. those of workers or trade union leaders ready to mobilize in support of their claims, have exactly the same impact on collective decisions as less intense preferences. In addition, the social psychological literature on procedural justice has shown that actors are more willing to accept an unfavourable outcome when the process that produces it can be perceived as fair (Lind and Tyler, 1988). This may contribute to explain why the trade union opposition refrained from mobilizing against the agreements.[18]

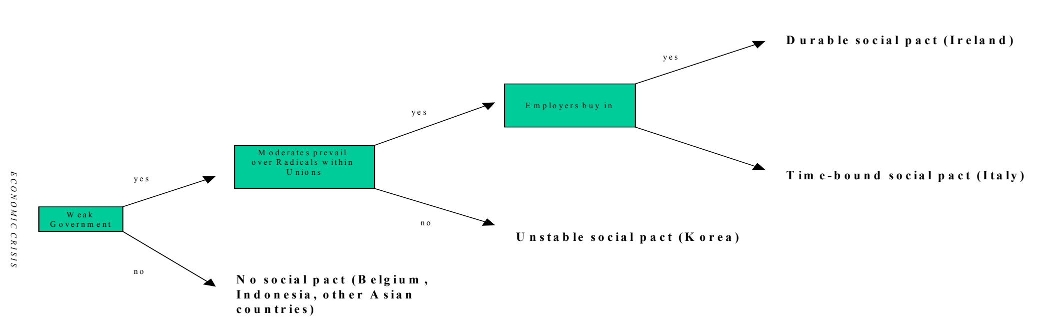
As to question number three, under what conditions is a social pact reproduced over time and institutionalized, our argument has been that the sequence of strategic lock-in by the various actors' matters and that, if the employers' commitment is not strictly necessary for a social pact to emerge, it becomes key for its reproduction and stabilization over time. In Ireland, after a period of initial strategic uncertainty, organized employers fully supported social partnership. They did, we have argued, because the outcomes of social pact were remarkably favourable to business, especially in thriving high-tech sectors, where the combination of moderate economy-wide wage increases and booming plant level productivity led to huge competitiveness gains, which in turn translated into growing exports, investments and employment (Baccaro and Simoni, 2004). In Italy, instead, social partnership never produced the same kind of economic outcomes as in Ireland. Consequently, organized employers regarded it, as best, as a lesser evil,

[18] Democratic decision-making procedures did not just "register" worker preferences but also played an important preference-shaping role. Called upon to decide whether they should accept or reject collective bargaining agreements that entailed complicated trade-offs, workers often relied on union leaders to make sense of the alternatives they were faced with, to understand complex causal relationships between means and ends, to assess the likely responses of collective bargaining counterparts, and to evaluate the impact of background conditions on possible outcomes (Baccaro, 1999a). In other words, the worker assemblies that preceded the ballots provided union leaders with a giant opportunity to influence the process of preference-formation.

i.e., a mode of policy-making to be entertained when an overly interventionist government threatened to pass regulations fundamentally at odds with employer interests. When, the 2001 elections gave a centre-right government the strongest electoral majority of the post-war period, the Italian employers chose the more confrontational strategy of lobbying government for labour market deregulation (Baccaro and Simoni, 2003).

Figure 1 provides a pictorial illustration of the argument. We have used Occam's razor and refrained from introducing additional explanatory factors, which did not seem strictly necessary to account for variation in our cases. However, the framework could be made more complicated should the need arise. For example, in some cases one may need to drop the assumption of unitary actor for organized employers as well. It is possible, and perhaps even probable, that even in the early stages of social pact, a portion of the employers may look favourably upon centralized negotiations. In Italy, the large industrial companies, those had the most to lose from a disorganized collective bargaining system at the enterprise level, fell into this category (Baccaro 1999b). Also, it is probably not true that only minority governments have incentives to engage in tripartite negotiations. Even governments with parliamentary majorities can be electorally vulnerable to policy reforms. Much depends on the strategic configuration of the party system (Kitschelt, 2001). A government may be unwilling to engage in a unilateral policy reform if it thinks the opposition, while in a minority position in the current Parliament, is well placed to capitalize on the issue in the next election. In a case like this, the incumbent parties may seek to defuse responsibility for their actions by bringing the social partners on board, or may seek to depoliticize the issue by building a coalition with the opposition.

Figure 1 - Social Pacting: A Framework



4. Concluding remarks

This section seeks to provide a "robustness check" by examining briefly a number of other cases. Korea's negotiated approach to the Asian crisis was unique in the region (Campbell, 2001). Not surprisingly, all of the other Asian government were much less electorally vulnerable than the Korean at the time of crisis (and had much weaker and less militant labour movements than Korea). The most obvious counterexample is Indonesia, a dictatorship when the financial crisis exploded. Here, unlike in other countries, the Suharto government did not even bother to go through the moves of societal involvement (MacIntyre 1999, Jeon 2002). Its top-down policies turned out to be extremely unpopular, however, to the point that widespread popular demonstrations led to the collapse of the regime and the establishment of democracy. In the Philippines, the government was politically stable at the onset of the financial crisis. Hence it could tighten monetary policy autonomously with no need for cooperation from organized capital and labour (IMF 2000). In Malaysia, another country with stable government (Gomez and Jomo, 1999), the Mahathir government initially responded to the crisis through administrative action. This government even ignored IMF advice and reintroduced capital controls. Half a year into the crisis, the government established a National Economic Action Council (NEAC) and urged employers and unions to participate in it. Although the council had the shape of a tripartite body, it did not produce a social pact. One of the reasons why there was no social pact in this country had to do with the fact that Malaysian labour laws do not recognize union confederations. Indeed, the Malaysian Trade Union Congress is not a union but a NGO (Lee, 2005). Even in Thailand, where the Chavalit government was forced to resign in November 1997 as a result of the economic crisis, a new government coalition managed to rally sufficient consensus in parliament to deal with the crisis autonomously.[19] Indeed, no social pact emerged in Thailand, also due to the extreme weakness of Thai organized labour (estimated trade union density was only 1 percent; see Campbell, 2001: Table 10.1, p. 430).

In Europe, the case of Belgium is interesting, as social pacts failed repeatedly in this country at the same time as they succeeded elsewhere (Van Ruysseveldt and Visser, 1996; Vilrockx and Van Leemput, 1998); Pochet, 1999; Arcq and Pochet, 2000; various issues of the European Industrial Relations Review).[20] In July 1993, the social partners began discussions on a social pact for employment, competitiveness and social security reform. Discussions were framed by a report of the Central Council of the Economy, which was subscribed to by both unions and employers. This report argued that the country was losing market share in international trade more rapidly than its competitors and that its wage costs were increasing faster. While agreeing on the diagnosis, the parties failed to reach an agreement. One of the union confederations, the FGTB (socialist-oriented), left the bargaining table as it took issue with the government's interventionist approach in an area traditionally reserved to collective autonomy, and with the employers for tolerating such interventionist stance.

The other union confederation, the CSC (Catholic-oriented), declared instead that it was willing to continue negotiations. The government, however, ignored this offer and decided to act unilaterally by releasing its own Global Plan. The unions responded by organizing the first 24-hour general strike since 1936. The employers clearly showed that they preferred unilateral state intervention to a negotiated approach. The 1993 episode was not unique: in 1994 the social partners failed to reach agreement on implementation of the Global Plan. Once again, the government decided to proceed unilaterally. In 1996, new peak level negotiations for a social pact on employment and wage moderation failed again because the FGTB refused to approve the tentative deal. Government used the legislative channel to introduce, among other things, a new wage system that, breaking with collective bargaining autonomy, constrained wage growth to mimic wage increases in Belgium's three main partners (France, Germany and the Netherlands). In 1997 negotiations for a central agreement ended without results. Once again, the government intervened by unilaterally determining wage increases.

Three elements in the Belgian case resonate with the theoretical framework illustrated above. First, there was no clearly perceptible national economic emergency in this country. The unemployment rate grew by 0.7 percent between (8.6 percent) 1993 and 1998 (9.3 percent) and then declined at the end of the decade. Both the level and the change in unemployment were hardly impressive in comparative perspective. Inflation was under control. Growth rates were positive every year between 1994 and 2000, with a peak of 3.7 percent in 1997 and 2000. Second, the immediate reason why various attempts at social pact failed was that a portion of the

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[19] This new governmental coalitions was made possible by the defection of 12 MPs from the former governmental camp, hence it was less than electorally solid. However, at the time of the facts the Economist Intelligence Unit noted the following: "Despite the uncertain loyalties of some of the small parties, especially the Prachakorn Thai group, the coalition is probably more stable than its small majority suggests." (EUI, 4th Quarter 1997: 11). This was because the parliamentary opposition had been utterly discredited by the economic crisis.

[20] Many thanks to Roy Gava for his help in researching the Belgian case.

union movement, as in Korea, did not agree with the contents of a negotiated solution. Third, and perhaps more important, the Belgian government needed a social pact much less than its Irish, Italian and Korean counterparts because, electorally, it was much stronger. The first Dehaene government, which ruled the country between early 1992 and mid-1995, was an oversized grand coalition, including both the Socialist and the Christian Democratic Party. It controlled 120 seats out of 150 and could, for all purposes, depoliticize the most controversial policy issues. The second Dehaene coalition was also a grand coalition between Socialists and Christian Democrats. It was less strong in terms of parliamentary control (82 seats out of 150) as well as public image, but nonetheless largely able to pass policies. Using the Maastricht Treaty as an external constraint (Pochet, 1999), it fully used its strength: the bargaining parties were presented with a tight bargaining agenda. If they failed to endorse it, government would proceed unilaterally. As remarked by the European Industrial Relations Review (245: 28), in 1993, for example, "the social partners were asked only to negotiate on how to implement the prime ministerial plan, and were not permitted to discuss its principles."

In brief, it seems that the Belgian case, as well as other Asian cases, supports a contrario the argument developed in this paper. Other recent research also provides corroboration for the argument. Kerstin Hamann and John Kelly (2005), for example, have recently provided a reinterpretation of the Dutch and Spanish social pacts, which emphasizes government weakness and the need to build broad social consensus around controversial policies. Wolfgang Streeck (2002) and Anke Hassel (Streeck and Hassel, 2002) have suggested that the reason why Germany was unable to produce a social pact in the 1990s may have to do with the fact that the German unions have become over time less and less able to represent of the preferences of the median worker. Hence, increasing the representativeness of the bargaining negotiators, for example through direct democratic procedures, may help redress the balance between radicals and moderates in the German union context.

Clearly, the coalitional argument developed in this paper needs to be tested against further evidence. Even at this stage, however, it brings to the fore that social compacting is quintessentially political: the government's decision to involve the social partners is shaped by the electoral and strategic configuration of the political system, while the actors' decision to commit themselves to a negotiated solution is the result of an internal political struggle. Approaching these phenomena through the prism of structural theories focusing on particular features of the interest group or industrial relations systems, as it has often been done so far, may imply failing to grasp fully the phenomena at hand.

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