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## **Social Pacts as Coalitions of the Weak and Moderate: Ireland, Italy and South Korea in Comparative Perspective**

**ABSTRACT • This article examines the emergence and institutionalization of social pacts in Ireland, Italy and South Korea. It argues that pacts emerge as deals between a weak government faced with a political-economic crisis and the more moderate sections of the trade union movement, and are institutionalized when (and if) organized employers come to support them fully. The unions become strategically committed to a social pact if the moderate factions prevail over the radical. Decision-making rules bringing the preferences of the rank-and-file to bear on the process of organizational decision-making seem to help the moderate union factions. The robustness of the analysis is tested by examining briefly a number of counterfactual cases.**

Keywords: Social pacts, concertation, corporatism, Ireland, Italy, Korea

In recent years *social pacts*, that is, peak-level agreements between governments, trade unions and employers' associations over integrated public policy packages, have been negotiated in many countries (mostly, but not exclusively European). This has occurred despite declining trade union membership, collective bargaining decentralization and neoliberal economic restructuring. This article analyses the Irish, Italian and South Korean cases and offers a theoretical account of how social pacts emerge and are

reproduced over time. The empirical accounts draw on our research in each of the three countries, based on field interviews as well as additional (mostly secondary) sources.

We address 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) how, when government is willing to involve the 'social partners', a stable pact emerges; and 3) how a social pact ceases to reflect the contingencies and power balance of the time at which it was first struck and becomes institutionalized .

There are important differences among the three cases in the degree of institutionalization. Korea has had just one social pact, signed in 1998 under the auspices of a newly-established Tripartite Commission; this strengthened transparency in corporate affairs, increased labour market flexibility and provided previously unavailable trade union rights for teachers, government officials and the unemployed. In Italy, several pacts were negotiated in the 1990s: in 1992 abolishing wage indexation; in 1993 introducing a two-tier structure of coordinated bargaining at sectoral and company levels; in 1995 reforming state pensions; in 1996 introducing new forms of contingent work; and in 1998 confirming the two-tier bargaining architecture and institutionalizing government consultations with labour and capital on labour and social policy issues. Another peak-level agreement was signed in 2002, exchanging the promise of tax reductions for a less rigid regulation of individual dismissals; but the CGIL, the largest union confederation, refused to sign and called for workers to mobilize in opposition. The policy reforms stalled and three years after, the government declared that it would not implement the rules on dismissals included in the 2002 social pact. In Ireland, the 1987 Programme for National Recovery (PNR), which exchanged centralized wage moderation for income tax reduction, was followed by five consecutive three-year deals. A seventh agreement was expected to be approved at the time of writing. Peak-level agreements have become the medium through which all major public policies are processed in this country.

We argue that social pacts follow a common path in the three countries examined, despite very different background conditions, and hence that it is possible to construct a single analytic scheme to

capture their emergence and institutionalization. Below we provide an account of similarities and differences among the cases, then distil the evidence in a single analytical framework. We go on to examine a number of additional, mostly counterfactual cases, and conclude with a brief discussion of the inadequacy of existing structural theories when faced with the social pact phenomenon.

## **Economic Crisis**

In all three countries the process leading to social pact formation began as a response to an external shock. In Ireland, macroeconomic conditions had deteriorated considerably at the time the first social pact was signed in 1987, with growth grinding to a halt and unemployment climbing to double-figures. Ireland was ‘weeks away from the IMF taking over control’.<sup>1</sup> Simultaneously rekindling employment and growth (NESC, 1986) seemed a tall order, and nothing short of an ‘expansionary fiscal contraction’ (Giavazzi and Pagano, 1990) could reconcile these possibly contradictory goals.

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

In Korea, the catalyst for policy change was the Asian financial crisis, which reached Korea in late 1997. As in Italy, there was an exchange rate collapse; the Korean *won* lost over 60 percent of its value against the dollar in three months. However the crisis also reflected serious structural weaknesses, possibly linked to the untimely liberalization of financial markets in the early 1990s (Stiglitz, 2002: 89-90; You and Lee, 2000: 11-4). Cheap foreign loans had led large Korean conglomerates (*chaebols*) to over-

investments, and Korean banks to accumulate bad loans. When foreign creditors refused to extend their loans, the government asked the IMF for emergency finance. This was conditional on a tough structural adjustment program.

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

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

## **Weak Government**

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

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

In Italy, the 1992-93 governments were particularly weak., even by national standards. The April 1992 general elections produced a four-party coalition (Christian Democrats, Socialists, Social Democrats and Liberals) with a slim parliamentary majority of 16 seats in the Lower Chamber and only one seat in the Senate (Ginsborg, 1998: 481). During its brief life, seven ministers were forced to resign by judicial corruption investigations, while almost 200 members of parliament (mostly members of government parties) were investigated for political corruption (Ginsborg, 1998: 481, 515, 525). The 1993 caretaker government, composed of technical experts and headed by the former Governor of the Bank of Italy, lacked a clear parliamentary majority. The government that followed in 1994, a three-party right-wing coalition, was considerably stronger. The new electoral system gave it 58.1 percent of seats in the lower

chamber, and a narrower majority in the upper chamber (Ginsborg, 1998: 544). In line with our theoretical predictions, it did not seek policy concertation, but tried (unsuccessfully) to impose unilateral reforms in the crucial domain of public pensions. In 1995 it gave way to another technocratic government with a narrow, time-bound mandate. The centre-left government elected in 1996 was a multi-party coalition that depended in the Senate on the votes of *Rifondazione Comunista*, which opposed some of the government's initiatives in the field of labour and social policy as too neoliberal.

The Korean government was atypically weak when the financial crisis struck. A new president, Kim-Dae-Jung, was elected in December 1997 at the onset of the crisis, with only 30 percent of the vote; his narrow victory over his main opponent was made possible only by a split in the other camp. The coalition supporting the president (a marriage of convenience involving a long-time outsider, Kim himself, and the former chief of the Korean CIA as well as heir of the authoritarian past) at first lacked a majority in parliament (Kim, 2002: 60). It was only at the end of 1998 that a majority was obtained, thanks to the defection of several opposition MPs. To add to the president's weakness, he often had to face open defiance by key civil servants and had trouble appointing his own supporters to top office. The Korean presidency desperately needed societal allies as it sought to redress the most serious financial crisis in the country's post-war history.

The 1998 social pact was a first in Korean (and Asian) history, but tripartite policy-making did not last long in this country. After the agreement, the trade union confederations and the employers repeatedly withdrew from and re-entered the Tripartite Commission. After the KCTU finally withdrew in February 1999, the tripartite structures formally survived, but their impact on policy-making remained limited at best (Baccaro and Lee, 2003).

## **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 consent is necessary for successful implementation of potentially unpopular policy reforms. We analyze the internal process by which unions commit themselves to a strategy of cooperation, or fail to do so.

## **Korea**

Participation of the larger and longer-established of the two main trade union confederations, the FKTU, could almost be taken for granted given the personal linkages that existed between the new Presidency and the top FKTU leadership, as well as the FKTU recent history of involvement in both peak-level and ministerial consultations. But a successful social pact also required the support of the KCTU, a new confederation which had been central to the fight against the dictatorship. A tripartite agreement without the KCTU was unlikely to succeed since the most militant enterprise unions, those in large *chaebols*, were affiliated to it. Indeed, a few months before the crisis, the KCTU had provided clear evidence of its ability to mobilize large-scale popular demonstrations and block a government proposal for 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.

In fact, the KCTU was the first to propose a concerted approach to crisis management. In a country well-known for the close alliance between government and big business to the detriment of labour, its leaders believed that the financial crisis provided the Korean union movement with a golden opportunity to raise its profile, present itself as government partner, play a key role in policy-making, and gain both legitimacy and organizational resources. Their position found the support of two groups in particular within the confederation's ranks: white-collar unions and blue-collar unions in small and medium enterprises. The former had been urging KCTU involvement in social concertation practically

since the establishment of the new confederal structure in 1987 and were now even keener to promote a cooperative approach because this would allow the KCTU to influence crucial portions of the structural adjustment package which involved public sector restructuring. Blue-collar unions in smaller firms were hard-hit by the layoffs and business shutdowns that followed the financial crisis, and felt unable to respond through collective action at the company level. This position also gained the acquiescence, if not support, of several big company unions at the time.

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

This strategic uncertainty did not last for long. As the crisis took its toll and firms began laying off workers massively --- unemployment increased from 2.6 percent in November 1997 to 6.8 in April-May 1998 --- a more militant approach prevailed within large company unions. Even some public sector unions joined the radical camp, arguing that industrial action would protect union members more effectively than participation in tripartite negotiations. In February 1998, three days after the ‘Tripartite Accord for Overcoming the Economic Crisis’ was signed, a special meeting of KCTU delegates voted by more than two to one to reject the tripartite agreement. The KCTU leadership then submitted its resignation and was replaced by a more radical group, mostly drawn from *chaebol* and public sector unions.

The new KCTU leadership did not immediately withdraw from national negotiations, and indeed agreed to join a renewed Tripartite Commission in June 1998. Public sector unions in the KCTU were now especially interested in negotiating the restructuring of public sector utilities and state-owned enterprises, and looked with interest at the experience of the FKTU financial sector unions, which used the confederation’s participation in the Tripartite Commission to influence the restructuring plans. Over time,

however, the strategic posture of the KCTU came to be dominated by the large *chaebol* unions, which opposed the centralization of collective bargaining and refused to transfer their collective bargaining privileges to sectoral federations. These unions even abandoned the long-standing commitment to *chaebol* reform, as this threatened to undermine employment stability and corporate welfare at the enterprise level (Lim, 2002).

## **Italy**

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

The radical faction coincided with those sections of the union movement that had been most active during the 'hot autumn' mobilizations of 1969, in particular the metalworkers' federations (especially within CGIL) and the factory councils in the largest industrial plants, concentrated in four cities: Turin, Milan, Genoa and Brescia (Accornero, 1976; Golden, 1988; Mershon, 1986; Pizzorno et al., 1978). Even at its peak, this faction was probably a numerical minority; but the struggle was based not so much on membership as on competing legitimacy claims. The key issue was which side best interpreted and represented the will of the Italian working class, including non-members. The higher the participation in strikes, the more legitimate a particular policy stance. Thanks to its superior mobilization capacity, the militant faction could block all the attempts in the 1970s and 1980s at union involvement in national policy-making.

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

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

## **Ireland**

The Irish Congress of Trade Unions (ICTU) leadership was also favourably inclined towards a social pact, fearing that the government might otherwise respond to the economic crisis by following the example of Thatcher in Britain and engaging in a massive attack on the unions. The new party of Progressive

Democrats, a breakaway from *Fianna Fail*, had won 11.8 percent of the vote in the 1987 elections on a neoliberal programme: a worrying sign that a Thatcherite solution might be on the cards.

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

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

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

## The Role of Employers

So far our focus has been on governments and unions, for we argue that organized employers are not essential for the emergence of a social pact. However, they become very important in later stages, contributing decisively to locking in social compacting as a viable mode of policy-making.

In Ireland, analysts generally agree that employers were not exactly a driving force behind the PNR (Hardiman, 1988 and 1992; Roche, 1997);<sup>2</sup> they appear to have been dragged into the deal by the staunch determination of government to achieve a social partnership agreement. Though the Federated Union of Employers (FUE, the major association at the time, which in 1993 merged to form the present Irish Business and Employers Confederation, IBEC) formally subscribed to the PNR there is little sign that employers wholeheartedly embraced the institutional configuration which was established. This not only centralized collective bargaining but also gave trade unions a key role in the design and implementation of national economic policy as a whole. The employers had been key actors in the process of decentralization in 1981, after a decade dominated by centralized bargaining; and in the period immediately preceding the negotiations, they had stated clearly and repeatedly that they wished to maintain decentralized bargaining (Hardiman, 1988). Even after signing the PNR agreement in 1987, *Business and Finance*, a publication close to the employer association, ‘made scathing criticisms of the agreement’ that had just been signed (Culpepper, 2005: 37).

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

Only when it became clear that centralized bargaining did ensure wage moderation and thus greatly enhanced competitiveness, especially in the most dynamic sectors of the economy, did the organized employers become strong supporters of centralized institutions.<sup>3</sup> This support greatly strengthened Irish social partnership, facilitating the transition to very different economic and political conditions, with full employment and labour market shortages. Even in the midst of an economic boom, however, employer support remained conditional on economic outcomes. For example, when wildcat strikes and a spike in inflation led to renegotiation of national pay terms in late 2000, the employers wondered aloud whether the clock was back to 1981 and it was once again time for them to walk alone.<sup>4</sup>

The Italian employers were likewise more adaptive than proactive with respect to social pacting. *Confindustria*, the main 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 enterprise level. The 1993 protocol on collective bargaining was more controversial for them, as they preferred a single-tier, preferably sectoral bargaining system (Trentin, 1994). However they signed the agreement and seemed happy that the new system introduced greater predictability and order in Italian industrial relations. For example, the collective agreement in metalworking was renewed in 1994 without any strike action, for the first time in Italian history. The employers demonstrated their support on the eve of national elections in 1994 by joining the three main union confederations in signing a letter calling on the new government to respect the 1993 agreement and maintain concertation (Meardi, 2005: 13).

Employers’ attitudes began to change in 1995, when they withdrew from negotiations on pension reform and refused to sign the final agreement. During the Prodi government of 1996-98, they pushed strongly for a bilateral version of concertation, which they referred to as ‘subsidiarity.’ This meant that all matters of social and labour policy should be delegated to peak-level negotiations among the social partners, without government intervention.<sup>5</sup> This did not reflect a genuine commitment to concertation so much as a tactical response to the proposed law on the 35-hour week which was before parliament; they believed they could obtain better terms from negotiations with trade unions than from regulation issuing from a

government on which *Rifondazione Comunista* exerted crucial influence. In 2001, when the Berlusconi government was elected with the strongest majority of the post-war period, the law on 35 hours was shelved and the commitment to subsidiarity was soon forgotten. Concertation was dismissed as an obstacle to much-needed structural reform, and *Confindustria* pressed the government for legislation to relax the rules on dismissal for 'just cause'. The proposed liberalization was likely to affect only a limited number of firms and workers, but was viewed as a first step in a wider campaign aimed at labour market flexibilization and curtailing the unions' veto power.

In Korea, employers were in many respects victims of the crisis and of the ensuing IMF rescue package, especially in so far as this included corporate governance reform as one of its constitutive elements --- something they had managed to block before. They acquiesced passively in the tripartite negotiations, seeking to minimize the scope of corporate governance reform in particular. In this they were largely successful, as the changes eventually introduced only involved more transparent accounting reports and some sharing of decision-making power with the unions; despite the calls from the unions (and even the IMF) there was no dismantling of the big *chaebols*, with the exception of Daewoo.

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

## **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 article. First, governments are likely to involve the social partners rather than acting unilaterally when they lack the necessary electoral strength to face a potential popular backlash. The Irish and Korean governments were minorities at the time of economic crisis. The Italian governments were either *tecnici*, without a clear parliamentary basis, or as in 1992, deprived of legitimacy by political scandals. In the next section we show that in countries facing similar external threats but where governments were less electorally vulnerable, the response was unilateral rather than negotiated restructuring.

In addition, all three governments faced powerful national labour movements that, despite recent declines in density, maintained remarkable social mobilization capacities. In Ireland, ‘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’ (Hardiman, 1988: 215). In Italy, the unions had defeated the government’s attempt at unilateral pension reform in 1994. In Korea, collective mobilization by the trade unions only a few months before the Asian crisis prevented a legislative change to facilitate lay-offs.

The second question was under which conditions, should a government wish to involve the social partners, a stable centralized institution can emerge. A shared sense of crisis forces the actors to come together to explore the possibility of a joint solution to the problem; but the consensus thus generated is only short-lived. For a stable social pact, the unions (but not necessarily the employers at this point in the sequence) have to be strategically committed to a negotiated solution. This is, however, neither inevitable nor automatic, as the Korean case shows. By relaxing the assumption, found in most literature, of unions as unitary actors, we see that such strategic commitment emerges only 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. The difference between the Irish and Italian social pacts, with their stable institutional outcomes, and the ephemeral Korean pact, can be traced back to the fundamentally different outcomes of this internal political game.<sup>6</sup>

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. These were not just subjective impressions, but were rooted in history and recent experience. In Italy and Korea, for example, the radical camp included the vanguard of their union movements: the factory councils and the metalworkers' unions in Italy, the *chaebol* unions in Korea. Past experience taught these groups there was no pressing need for peak-level compromise: 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 for the most part lacked the mobilization capacities of the other camp and favoured 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 shown that micro-institutions --- rules regulating internal decision-making within trade unions --- seem to influence the outcomes of the internal struggles (Baccaro, 2003). Electoral decision-making strengthened the moderate front and increased the legitimacy of social concertation in Ireland and Italy; but in Korea, the special KCTU conference of February 1998, in which delegates voted to reject the social pact, destabilized the whole social partnership process. Yet the decision-making procedures in the three countries were not at all the same. In Ireland and Italy, thousands of rank-and-file members expressed themselves on the desirability of centralized agreements; in Korea fewer than three hundred middle-level leaders had an opportunity to do so. There was no consultation of rank-and-file workers, nor any discussion of the complex issues covered by the Korean social pact and the various trade-offs contained therein. As argued by one of the protagonists, the economic situation was worsening by the day, creating a pressing need to come to an agreement as soon as possible. The KCTU leadership had to rush through the ratification process, convening the delegate conference 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.<sup>7</sup>

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 replaced by a ‘logic of representation’ (Pizzorno, 1978). Indeed, the key feature of the principle ‘one person, 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 no more than those of less militant and politicized groups of workers in determining union strategy. 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 help explain why the trade union opposition refrained from mobilizing against the agreements in Ireland and Italy.

As to the third question, the conditions under which a social pact is institutionalized and reproduced over time, the sequence of strategic lock-in by the various actors is crucial. Employers’ commitment is not essential for a social pact to emerge but becomes so for its reproduction and stabilization over time. In Ireland, after a period of initial strategic uncertainty, organized employers fully supported social partnership because its outcomes were remarkably favourable to business, especially in thriving high-tech sectors. In Italy, by contrast, social partnership never produced the same kind of economic outcomes. Consequently, organized employers came to regard it at best as a lesser evil, 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 right-wing government the strongest majority of the post-war period, employers chose the more confrontational strategy of lobbying government for labour market deregulation.

Figure 1 about here

We have refrained from introducing additional explanatory factors when these did not seem strictly necessary to account for variation in our cases. However, the framework could be made more comprehensive (and complicated) should the need arise. For example, in some cases one may need to drop

the unitary actor assumption for organized employers as well as unions. Even in the early stages of social pacting, some employers may regard centralized negotiations more favourably than others. In Italy the large industrial companies had the most to lose from a disorganized collective bargaining system at enterprise level, and fell into this category. Also, it is untrue that only minority governments have incentives to engage in tripartite negotiations; even those with parliamentary majorities may be vulnerable over policy reforms if the opposition is well poised to benefit electorally and may seek to diffuse responsibility for their actions by bringing the social partners on board, or may seek to depoliticize the issue by building a coalition with the opposition.

## **Social Pacts in Comparative Perspective**

This section provides 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). All other Asian governments were much less vulnerable electorally at the time of crisis, and faced much weaker and less militant labour movements. The most obvious example is Indonesia, a dictatorship when the financial crisis exploded. Here, the Suharto government did not even bother to go through the motions of societal involvement (MacIntyre, 1999). Its top-down policies proved extremely unpopular, however, to the point that widespread protest 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 and 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 through administrative action, even ignoring IMF advice and reintroducing capital controls. Half a year into the crisis, it established a National Economic Action Council and urged employers and unions to participate. Although the council had the form of a tripartite

body, it did not produce a social pact: partly because Malaysian labour law does not recognize union confederations. Indeed, the Malaysian Trades 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 crisis, a new government coalition managed to rally sufficient consensus in parliament to deal with the crisis autonomously. This was made easier by the extreme weakness of Thai organized labour.

In Europe, the case of Belgium is notable for the repeated failure to negotiate social pacts (Arcq and Pochet, 2000; Pochet, 1999; Van Ruysseveldt and Visser, 1996; Vilrocx and Van Leemput, 1998). In July 1993 the government initiated discussions on a social pact in order to redress the country's declining competitiveness. The socialist-oriented union confederation ABVV-FGTB soon left the bargaining table as it took issue with the government's interventionist approach; and the Dehaene government then acted unilaterally by publishing its own Global Plan which included a wage freeze, provoking the first 24-hour general strike since 1936. In the following year, the social partners failed to reach agreement on implementation of the Global Plan and once again the government proceeded unilaterally. In 1996, peak-level negotiations failed again because the ABVV-FGTB rejected the tentative deal. The government broke with the principle of free collective bargaining to impose by law a new wage system that constrained pay increases to the level in Belgium's three main trading partners (France, Germany and the Netherlands). In 1997 negotiations for a central agreement ended without results and again the government determined wage increases unilaterally.

Three elements in the Belgian case fit the theoretical framework illustrated above. First, there was no clear national economic emergency. The unemployment rate was stable; inflation was under control; and growth rates were positive every year between 1994 and 2000. Second, the immediate reason why various attempts at social pacting failed was that a key component of the union movement did not agree with the proposed negotiated solution. Third, and perhaps more important, the Belgian government needed a social pact much less than its Irish, Italian and Korean counterparts because it was much stronger electorally. The first Dehaene government, which ruled the country between early 1992 and mid-1995, was a grand coalition including both the Christian Democratic and Socialist parties; it controlled 80

percent of all parliamentary seats and could thus depoliticize the most controversial policy issues. The second Dehaene coalition was also a grand coalition; though less strong in terms of parliamentary control (55 percent of the seats) as well as public image, it could still act unilaterally. Using the Maastricht Treaty as an external constraint (Pochet, 1999), it could present the bargaining parties with a tight agenda; if they failed to endorse the government's plan, it proceeded regardless.

Other recent research also provides corroboration for our general argument. Hamann and Kelly (2005), for example, have recently provided a reinterpretation of the Dutch and Spanish social pacts, emphasizing government weakness and the need to build broad social consensus around controversial policies. Streeck and Hassel (2004) have suggested that the reason why Germany was unable to produce a social pact in the 1990s may well be that the German unions have become 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.

## **Concluding Remarks**

The coalitional argument developed in this article begins by incorporating the key functionalist insight in the current literature on social pacts, namely that an external shock to the system provides the first impetus for a pact to emerge; but we combine this thesis with an actor-centric perspective, focusing on politics both across and within organizations. Clearly, this argument needs to be tested against further evidence. Even at this stage, however, it underscores the inadequacy of purely structural explanations.

Consider neo-corporatist theory. In a nutshell, this argues that social pacts emerge and prosper in countries with encompassing, concentrated, centralized and internally hierarchical interest organizations (like the central and northern European countries of old) (Baccaro, 2003; Lim, 2002). Yet Ireland, Italy,

and Korea lack all these features: their interest representation and collective bargaining structures are all rather fragmented and decentralized. Interestingly enough, they have remained so even under a social partnership regime. Consider also the more recent distinction between coordinated and liberal market economies (Hall and Soskice, 2001), based on characteristics of both the industrial relations system (especially the organization of business interests) and of corporate governance. Ireland, Italy and South Korea are all mixed cases, with Ireland closer to the liberal ideal type, and Italy and South Korea closer to the German and Japanese models of coordinated economies, respectively. Yet their experiences with social compacting can all be captured by the same analytic scheme, as argued here. Conversely, two countries representing polar opposite ideal types, Britain and Germany, both stand out for absence of social pacts in the same period.

Social compacting is a quintessentially political phenomenon: 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 prisms of purely structural theories, as has so often been done in the past, is to neglect their most interesting features.

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## NOTES

<sup>1</sup> Interview with Brendan Butler, IBEC, September 2001.

<sup>2</sup> See however Culpepper (2005) for a different view.

<sup>3</sup> Interview with Patricia O'Donovan, former deputy Secretary General of ICTU, April 2001.

<sup>4</sup> Interview with Brendan Butler (see note 1).

<sup>5</sup> Interview with Innocenzo Cipolletta, General Director of Confindustria, May 1999.

<sup>6</sup> It needs to be said that the Korean government did little to favour a victory by the moderates. When it translated the 1998 social pact into various legislative drafts, pro-labour clauses were watered down.

<sup>7</sup> Interview with You-Sun Kim, former Chief Negotiator, KCTU, September 2003.

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Figure 1: Social Pacts: A Framework

