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Jelle Visser**

The Emergence and Evolution of Social
Pacts: A Provisional Framework for
Comparative Analysis

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*The Emergence and Evolution of Social Pacts: A Provisional Framework
for Comparative Analysis*

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Abstract

This paper provides the scientific framework for the NEWGOV project *Distributive Politics, Learning and Reform*. In Part I, we establish our own definition and conceptualization of social pacts. We distinguish four types of pacts with different scope and depth: shadow pacts, headline pacts, coordinated wage setting, and embedded pacts akin to neocorporatist concertation. Part II is concerned with *institutional formation*, i.e. how such social pacts come into existence. We outline some standard functionalist accounts of institutional emergence, and critically examine them before proposing an alternative bargaining model. Part III is concerned with *institutional development*, i.e. what determines the continuation and institutionalization of social pacts or their de-institutionalization and demise. Based on the taxonomy of social pacts presented in Part I, we define two alternative evolutionary paths for social pacts (institutionalization and de-institutionalization), and identify three types of trajectory along which social pacts develop (repetition vs. abandonment; integration vs. disintegration; and expansion vs. reduction). We then outline four alternative mechanisms that may potentially drive the institutionalization or de-institutionalization of pacts. Grounded in the four major approaches for analysing institutions, i.e. the functionalist, utilitarian, normative, and power-distributional perspectives, this section proposes four groups of hypotheses to be evaluated in our empirical research.

Keywords: comparative public policy, political economy, sociological institutionalism, corporatism, policy learning, policy networks, organization theory, interest intermediation

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1 Introduction¹

We now understand from a plethora of studies conducted in the 1990s how different social pacts of the last 10-15 years are from the neo-corporatist deals or political exchange that were characteristic of the Keynesian-era. These different features can be understood in terms of (a) the context in which they happen (i.e. a shift towards more liberal market policies and decentralization in industrial relations; the presence of new exogenous shocks, such as EMU); (b) the content of pacts (i.e. more regulatory than redistributive); (c) their aims (most notably, greater international competitiveness); and (d) a much stronger role for government. Due to this distinctiveness, they have been characterized as ‘competitive corporatism’ (Rhodes 1998; 2001), ‘supply-side corporatism’ (Traxler 2001; Visser and Hemerijck 1997), or even ‘post-corporatism’ (O’Donnell 2001).

The recent literature has not only pointed to the distinctive nature of the content, aims, and composition of the new social pacts, but also to the fact that they have often appeared in rather unlikely places, i.e. in countries without the organizational and institutional preconditions favoured by the neo-corporatist literature (see Regini 1997, 2000; Rhodes 2001; Baccaro 2002; Hassel 2003). This literature therefore argues that in order to understand these new social pacts, we have to shift our attention from pre-existing institutions and traditionally understood pre-requisites to actors’ strategies and the interactive games they play as the key to understanding these new forms of macro-concertation (in particular, Regini 2000; Baccaro 2002; Molina and Rhodes 2002). However, while the need to strengthen the focus on interactive processes when analysing social pacts is now widely accepted,² we still lack a rigorous analytical framework able to facilitate comparative analysis and generate more wide-ranging conclusions regarding the determinants of actors’ behaviour, and thus the likelihood that social pacts will emerge, and of the persistence and institutionalization of social pacts as a specific form of governance.

Hence, two main questions guide our analysis. The first is the question of *institutional formation*, i.e., how do social pacts emerge? To answer this question, we intend to examine the pre-conditions for, or motives behind, the formation of social pacts, but also to discern the dynamics of interactions during first-time negotiations of social pacts. The second is the question of *institutional development*, in which we try to understand how social pacts subsequently evolve, i.e. their continuation, reiteration and extension, or alternatively their termination. Here we aim to identify the determinants of their persistence, institutionalization, and a more solid embeddedness in different socio-economic contexts.

To answer these questions, we rely on the in-depth empirical analysis of eight European countries: Hungary, Ireland, Italy, the Netherlands, Poland, Portugal, Slovenia and Spain. The case selection is based on the following considerations: first, all of these countries have recently attempted social pacts and most of them lack a strong tradition of neo-corporatist policy making; second, they comprise a

¹ The authors would like to thank the participants in the 15 January 2005 NEWGOV project meeting for their comments and feedback on the original version of this paper.

² Indeed, a number of detailed case studies (e.g. Visser and Hemerijck 1997; O’Donnell 2001; Baccaro 2002 etc) and small-n comparisons (e.g. Culpepper 2004; Avdagic 2005) are focused on such interactive processes.

group of countries with different types and traditions of industrial relations systems; and finally, these cases provide sufficient variation with regard to the degree of success or failure of social pact negotiations and of more regularized political exchange.

Our empirical evidence is being collected and organized by respective country research teams around the common analytical framework outlined here, so as to ensure the comparability of empirical findings. Besides drawing on standard primary and secondary sources, the research teams will organize and conduct a number of structured interviews with the main participants of social pact negotiations in their countries.

This paper proceeds in the three steps. In Part I, we establish our own definition and conceptualization of social pacts, an essential preliminary task given the proliferation of analysis of the phenomenon in recent years, but the paucity of useful classificatory schema. On the basis of two dimensions, we distinguish between four types of pacts with different scope and depth: shadow pacts, headline pacts, coordinated wage setting, and embedded pacts akin to neocorporatist concertation. Regardless of the specific types and forms that social pacts assume, they generally provide the formal and informal rules, and define the responsibilities of the parties involved. Since social pacts represent rules that are supposed to guide interaction between socio-economic actors, they qualify as institutions of socio-economic governance. Thus, Part II is concerned with the question of *institutional formation*, i.e. how such social pacts come into existence. To analyse this question, we outline some standard functionalist accounts of institutional emergence, and critically examine them in relation to recent experiences with social pacts. As an alternative, we propose a bargaining model that is to be evaluated on the basis of our empirical material. This model presents the internal dynamics and outcomes of social pact negotiations as dependent on the perceptions of the changing relative power of actors within a particular context-specific set of constraints and incentives. In short, we seek not only to determine the general conditions that lead actors to consider building social pacts, but also to disclose the mechanisms behind their emergence and further our understanding of their success or failure. Part III is concerned with the question of *institutional development*, i.e. what determines whether the continuation and institutionalization of social pacts or, conversely, their de-institutionalization and demise.

Our task here is more complex, given the varied national experience and the lack of a generally accepted definition of the 'institutionalization of social pacts'. This is why – based on the taxonomy of social pacts presented in Part I – we first set out to define two alternative evolutionary paths for social pacts (institutionalization and de-institutionalization), and to identify three types of trajectory along which social pacts develop (repetition vs. abandonment; integration vs. disintegration; and expansion vs. reduction). The subsequent section then outlines four alternative mechanisms that may potentially drive the institutionalization or de-institutionalization of pacts. Grounded in the four major approaches for analysing institutions, i.e. the functionalist, utilitarian, normative, and power-distributional perspectives, this section proposes four groups of hypotheses to be evaluated against each other in our empirical material.

2 Defining and conceptualising social pacts

One of the first steps in the project is to identify social pacts and to develop a way of analysing their nature with a more or less standard measure to be applied across cases. There has been great terminological confusion in the literature on social pacts, and the first step towards a more effective analysis is a more precise and useful definition. We define social pacts as specific forms of macro-cooperation in relation to other related forms of macro-concertation or political exchange. Social pacts generally arise between representatives of government and organized interests who negotiate and coordinate policies across a number of formally independent, but actually related and interconnected policy areas (incomes, labour market, fiscal, and social policies) and levels (national, sectoral, regional, local) (cf. Fajertag and Pochet 1997, 2000; Siaroff 1999; Hassel 2003; Siegel 2004).

These forms of political exchange can assume various forms, depending on the nature of exchange, the number of policy areas, and the influence of social partners on policy reforms. For our purposes, we can classify these forms of macro-concertation (and the extent to which they are also accompanied by, or 'put down roots' (in the form of micro-foundations) along two dimensions: horizontal and vertical (Treu 1992; Molina and Rhodes 2002). The first, horizontal dimension refers to the *type and number of issues* dealt with in macro-concertation, ranging from regulatory reform to distributive politics. The vertical dimension – which, to varying degrees, will connect the macro to the micro-levels of policy-making – refers to the *levels of governance* (national, regional, local) and to the *nature of policy articulation* between them (the tripartite arena, bi-partite inter-associational bargaining, individual bargaining). Based on this two-dimensional definition, we can distinguish between four broad types of macro-concertation (see Figure 1).

Figure 1

Following Hancké and Rhodes (2005), one can identify four types of macro-concertation or 'pact'. These may vary greatly in terms of their horizontal and vertical characteristics and their degree of institutional 'embeddedness', but can usefully be characterized in the ideal-typical terms of the 2x2 chart above.

The first 'couple' are long-term, well-institutionalized forms of macro-concertation, typical of the neo-corporatist or highly coordinated market economies of northern Europe. They take the form alternatively of:

- (i) simple but powerfully-coordinated *wage setting*, anchored on institutionalized centrally coordinated wage-bargaining systems, and typically benefiting from a strong degree of articulation between national, sectoral and local company levels (quadrant III); and
- (ii) routinized *embedded pacts* (i.e. neo-corporatist concertation, characterized by high levels of political commitment and trust) which build on an existing almost permanent social dialogue between labour market parties and governments and frequently cover multiple related policy arenas (quadrant IV).

A different type of macro-concertation, with a different logic of construction, is found, for example, in those countries that had to conform quickly with specific narrow wage targets and deficit reduction targets during the EMU-convergence decade of the 1990s, but unlike countries with well-articulated incomes policies or embedded pacts could not benefit from well-established or routine mechanisms for managing these processes of adjustment. The second 'couple' are:

(iii) what we can call (see Hancké and Rhodes) *headline social pacts*, which address several related policy areas simultaneously, and do so in a declaratory manner in publicly announced forums and texts (quadrant II); and

(iv) the fourth and final type that we characterize as *shadow pacts*, in which consultation and negotiation takes place for political or functional reasons at separate tables without explicit (or often even implicit) links between them, but with effects that are very similar to those of headline pacts, e.g., disinflation, fiscal consolidation and coordinated reform (quadrant I).

If these pacts differ from each other along the key dimensions of institutionalization – as set out in Table 1 – they also differ in terms of their levels of trust. Thus, whereas coordinated wage setting and embedded pacts are both well-institutionalized, the first based on a degree of central coordination and articulation in firm and sectoral skill, production and employment policies, and the second on strong long-term commitments to tripartite collaboration, headline and shadow pacts are more likely to be non-routine responses to exogenous shocks, consisting of unstable relations of political exchange (in the form of policy package deals and trade offs) that compensate for the absence of mutual trust between the partners (Molina and Rhodes 2002).

Part II below focuses on the ways in which pacts emerge as a particular form of cooperation which actors perceive as either 'best case' or 'least bad' solutions for achieving their interests in a given situation. In all four of the cases in Figure 1, the relevant actors have agreed that payoffs from interdependence and cooperation outweigh the advantages of independence and going alone. What differs is the extent to which that commitment is routinized, underpinned by networks of interaction, sustained by mutual trust and social norms and/or reinforced by external constraints that limit exit options – in short, the degree to which pacts are institutionalized. Part III of this paper presents an extensive discussion of these different mechanisms of institutionalization.

A consequence of this differing degree of institutionalization is the likelihood that pacts will endure over time, be resistant to external shocks, or 're-constitute' the power and interests of the actors involved in them. To the extent that they do or do not have enduring, resistant and 're-constitutive' characteristics, we posit – following Alexander (2004) – that they will span the gamut of institutional types: from '*regulative institutions*' (having little impact on other existing processes or relationships between actors, leaving the balance of power between them largely unchanged, and thus remaining susceptible to rather costless breakdown for their participants), all the way through to strongly '*re-constitutive*' institutions that powerfully impact upon other such processes and relationships, re-order the interests and power capabilities of actors, and thereby set in train a host of self-reinforcing dynamics that elevate the costs of institutional failure. In terms of Figure 1, the spectrum from weakly institutionalized, 'regulative' pacts, through to strong 're-constitutive' pacts would follow the sequence I-II-III-IV.

On this basis, we can therefore also posit plausible trajectories for the development of pacts via processes of institutionalization, re-institutionalization and de-institutionalization. For there is no doubt that while some pacts suddenly flourish and then die, others ‘take root’ and consequentially become more embedded, routinized and ‘re-constitutive’ over time. The nature of their formation and the problems they purportedly address will to some extent determine their subsequent trajectory. Thus, while some ‘headline pacts’ emerge in distinctly unpropitious environments as ‘emergency’ responses to a domestic crisis of distributive politics or an exogenous shock (or most likely the concurrence of the two), others will emerge from within practices of neo-corporatist concertation at critical moments of redefinition or renegotiation, in response to new challenges, or the dysfunctioning or institutional sclerosis of extant practices. In principle, and referring again to Figure 1, their subsequent development could witness a shift (involving *institutionalization* and/or *re-institutionalization*) from quadrant II to I or even III, whereby a headline pact would limit its ambitions by taking on ‘shadow’ pact form, or alternatively become more focused by retaining only an incomes policy component. A rather different kind of trajectory (involving *de-institutionalization*) would involve a transition from neo-corporatist quadrant IV through to weaker or narrower forms of macro-concertation (as in quadrants II, III or I). To the extent that strong, ‘re-constitutive’ pacts of the neo-corporatist type require large events or shocks to generate this degree of alteration (Alexander 2004: 13), this second type of trajectory may be much less likely than the first.

In Part III we will specify some of the more likely trajectories of institutional evolution and outline the reasons, or hypothetical mechanisms, underpinning these trajectories. But first we initiate our in-depth discussion of social pact development by discussing the nature and conditions of their emergence.

3 The emergence of social pacts

3.1 Impulses and pre-conditions for social pacts

Moments of economic crisis and the need for adjustment are widely acknowledged as impulses that have led economic actors across many European countries to consider the option of social pacts as a viable institutional solution to their respective national problems. While their immediate aims might have been different – ranging from the need to fulfil the Maastricht criteria and prepare for EMU membership (Rhodes 1998; Fajertag and Pochet 2000), to the more general concerns of improving international competitiveness (Rhodes 2001; Traxler 2003) – it is the similar exogenous shocks faced by the respective national economies that are considered to be the catalyst of this institutional change. Recent accounts of attempts to conclude social pacts remind us of the utmost importance that actors form a shared understanding of the situation that will facilitate cooperation and the reaching of an agreement (e.g. Fajertag and Pochet 1997; O’Donnell 2001; Siegel 2004). Without such an understanding, their concentrated short-term interests cannot be overridden by the potential longer-term benefits to a greater number of actors across the whole economy.

While this precondition is certainly necessary, most accounts do not provide an analytically robust mechanism that would help us construct a clear explanation of how this shared understanding is actually built³, and why in some cases actors manage to build it while in others they fail. Indeed, while reading some descriptive academic accounts and especially policy papers on the cases of successful social pacts, one often gets the impression that social pacts are the product of socio-economic actors who in critical situations somehow suddenly and miraculously turn into pragmatic problem-solvers who cooperate on a range of issues. However, a number of attempted and failed social pacts indicate that while a critical situation might be necessary to build a shared understanding or promote a rapid process of 'institutional learning', it is certainly not sufficient. Put differently, a mere recognition of some of the impulses and pre-conditions for social pacts tells us little about the mechanisms that guide the process of institutional creation. A discussion of some general theories of institutional change enables us to identify alternative mechanisms that can drive the process of institutional creation, and to test their usefulness for our central question in Part I.

3.2 How do institutions come about?

Generally speaking, contemporary theories of institutional origin see institutions as consequences either of spontaneous, evolutionary processes or of intentional design. While a number of variants exist within each of these groups (see e.g. Knight 1992; Hall and Taylor 1996; Lichbach 1997; Nee 1998; Thelen 1999), we limit our discussion to those that seem most relevant and plausible for our central concern in this part, namely the emergence of social pacts as institutions.

3.2.1 Spontaneous, evolutionary emergence

Most accounts of the evolutionary emergence of institutions explain institutions in terms of their capability to satisfy functional needs of a society, most notably those of enhancing overall social efficiency. While such functional explanations come in various forms, they can be broadly distinguished according to the mechanisms of institutional selection that they employ.

Natural selection

One group relies on the mechanism of natural selection. Drawing on evolutionary biology – where specific components of an organism are explained in relation to the functions they perform, thus enhancing the overall fitness of that organism – these accounts perceive institutions as products of some sort of natural selection between different alternatives. The argument is that over time, less efficient institutional alternatives are eliminated and those that provide a better fit with regard to fulfilling the functional needs of a society will prevail (Coleman 1990; Faia 1986).

This idea has a certain resemblance to the concept of institutional complementarities outlined in the 'varieties of capitalism' literature (Hall and Soskice 2001). Institutions in this perspective are parts of a system, the functioning of which depends on a

³ Some exceptions include Baccaro (2002), Culpepper (2004), and Visser and Hemerijck (1997) who rely on different mechanisms to explain the emergence of cooperation in Italy, Ireland, and the Netherlands, respectively.

particular institutional combination. Stable and efficient systems, i.e. liberal and coordinated market economies (LMEs and CMEs), require a specific combination of several institutional elements (finance, skills, industrial relations). Hence, a specific form of industrial relations institutions is in a way 'pre-selected' to satisfy the requirement of systemic fitness. These accounts would thus posit that a coordinated system of centralized wage bargaining is not likely in an economy that has liberal systems of finance and vocational education and training. Even if such a solution materializes, it is not likely to persist or constitute a longer-term equilibrium. Yet, the Irish case, for example, presents a challenge to this hypothesis. Not only was centralized wage bargaining established by means of the 1987 social pact, but this solution has also proved to be rather stable since its inception, despite the liberal form of the other systemic components (Ornston 2004).⁴ The more general shortcoming of this interpretation is that its focus on the structural properties of the system may preclude a more dynamic analysis of internal struggles, ongoing interactions and intentional attempts to achieve policy innovation (Rhodes, Hancké and Thatcher 2004). As Regini argues, the risk of such accounts with functionalist premises is that they "tend to yield a static picture in which it is difficult to frame internal tensions and pressures for change and assess their importance and implications" (2000: 8). Given the centrality of intentional action in the recent attempts of many European economies to reshape institutions by means of social pacts, the usefulness of natural selection mechanisms for explaining institutional emergence may not be great.

Social conventions and focal points

Another approach also employs the assumption of the spontaneous, rather than intentional design of institutions. However, in contrast to accounts that rely on natural selection, this group of authors sees institutions as the products of social conventions that facilitate coordination and enhance socially beneficial outcomes (Sugden 1986). Conventions – defined as generally accepted customs, practices and beliefs – are unintended consequences of repeated social interactions. Relying on such conventions is beneficial for actors because it shapes their expectations with regard to actions of others, thus facilitating overall coordination. Hence, recognizing and developing conventions that would facilitate coordination is the key to understanding institutional emergence. The strongest mechanism here is that of the 'conception of salience' or 'focal points', developed by Schelling (1960). When faced with a problem, actors will try to coordinate their action by searching for "clues, or coordinators, or focal points' that seem to have 'some kind of prominence or conspicuousness" (Schelling 1960: 57). Once the crucial actors recognize those points, they will "establish a common action, a standard of behaviour that will

⁴ Note, however, that some authors question the stability of this institutional solution. For instance, Hancké and Rhodes (2005) argue that the Irish social pact – which falls into quadrant I of Table 1 – has failed to become 'rooted' and is therefore in need of constant reiteration and renegotiation. In line with the 'varieties of capitalism' literature, they argue that it is precisely the absence of CME-type micro-foundations in the Irish system that explains the weak embeddedness of the pacts. Given the strength of the 'varieties of capitalism' literature in explaining institutional stability (rather than change), its insights may provide important clues about the systemic constraints on the subsequent evolution of social pacts. This is why we more explicitly address this proposition in the second part of the paper, where we explore a number of mechanisms that can potentially further or hinder the institutionalization of social pacts.

eventually be emulated by the other members of the community” (Knight 1992: 100). In other words, the solution to the coordination problem (i.e. the choice between alternative equilibria) is achieved by relying on prominent environmental signals that become accepted beliefs or shared frames around which actors coordinate their expectations (Garret and Weingast 1993). This logic can be employed to analyse the emergence of the new wave of social pacts. For instance, Culpepper (2004) argues that the move to more coordinated institutional solutions in Italy and Ireland in the 1990s does not reflect simply changes in power, but rather a cognitive development in which actors cultivated a joint understanding of the situation by recognizing focal points that seemed credible. In Italy these points were the government’s inflation forecast for 1992 and the clarification made by Labor Minister Giugni on the role of firm-level bargaining. In Ireland, the focal point was the 1986 report of the National Economic and Social Council (NESC) that defined wage restraint as the main precondition for improving international competitiveness. (Note that in both cases these focal points were unintended consequences of action). Having accepted these focal points as credible and obvious, actors converged their actions and coordinated their efforts to recast new institutions.

While more plausible than the mechanism of natural selection, this argument also encounters serious problems of both conceptual and empirical validity. The underlying assumption is that ultimately actors’ interests coincide in that they believe that cooperation (rather than conflict) is the preferred outcome, while prominent focal points lead them to converge on one of the alternative coordination equilibria. Several problems emerge here. First, even if we assume a coincidence of interest among the actors (which is rather rare in social interactions), they might still prefer different coordination equilibria. Second, while non-cooperation might indeed make everybody worse off, it would not hurt everybody equally. Since the amount of ‘damage’ would depend on the distribution of power in a given context, it is reasonable to expect that this would have an influence on actions of the respective actors and their willingness to make compromises. For instance, it has been argued that the unwillingness of German unions to make compromises during the negotiations of the ‘Alliance for Jobs’ is related to their strong secondary power resources embodied in sectoral corporatist institutions (Traxler, Blaschke, Kittel 2001; Siegel 2004), as well as to social insurance institutions that long concealed the costs of high unemployment (Hassel 2003). Since the unions could rely on such resources, they had little incentive to promote macro-concertation by offering compromises. The focal points explanation, however, largely neglects the impact of such power distribution on strategic interaction. Third, while like in Ireland and Italy, coordination in some cases might seem to be related to certain focal points, this argument cannot explain why in other cases actors fail to pick up on prominent signals or are unable to recognize focal points that would direct them towards a coordinated solution. Finally, if conventions that arise from focal points facilitate coordinated and efficient outcomes, how can we explain a shift to less coordinated solutions in some cases?

3.2.2 Intentional design through contracts: competition and learning

In contrast to theories that perceive institutional selection as a consequence of spontaneous processes and mostly unintended actions, contractarian analysis – despite relying on some evolutionary mechanisms (see below) – puts a much greater stress on actors’ ability to intentionally design institutions. In this perspective actors

are not passive observers, but active players with a capacity to learn how to increase the efficiency of institutions and thus their overall utility. Drawing on the transaction-costs theory of institutional change (North 1990; Eggertson 1990), this group of authors perceives institutions as contractual forms that minimize costs (say of production and exchange) and maximize collective benefits (such as wealth). Institutions in this perspective are the products of a voluntary agreement between social actors interested in avoiding the sub-optimal equilibrium of Prisoner's Dilemma situations. By crafting contracts (i.e. institutions), actors set the rules that facilitate the achievement of a Pareto-superior, mutually beneficial outcome.⁵ But how do actors select an institutional form that ensures such a beneficial outcome? Two key selection mechanisms can be distinguished.

The first selection mechanism is competition. This mechanism includes some evolutionary elements since it presupposes direct or indirect competition between different alternatives over time.⁶ As Axelrod put it, this explanation "is based on a simple principle: whatever is successful is likely to appear more often in the future" (1984: 169). In other words, the argument is that actors will choose a specific institutional alternative that proves to be the best in achieving socially beneficial outcomes. Because they choose among a set of pre-existing alternatives, this form of selection has been termed "direct biased transmission" (Boyd and Richerson 1985: 10). This argument would posit that if, for instance, existing wage-bargaining institutions can no longer provide beneficial outcomes, actors will introduce new rules by crafting a social pact if it is evident that such an institution has produced more beneficial outcomes in other countries, regions, or policy areas.⁷

The second selection mechanism is trial-and-error. Through a series of incremental steps, actors probe different institutional solutions, learning along the way about the drawbacks and benefits of each solution. Labelled 'guided variation' (Boyd and Richerson 1985: 10), this mechanism denotes a process through which actors create new institutional alternatives by relying on information derived from their previous experience and on their expectations about the payoffs of new institutions.⁸ Social

⁵ Such contracts, for instance, divide the responsibilities and define the actions that facilitate the achievement of the most efficient outcome, or even define penalties for non-compliance.

⁶ Since both the mechanism of natural selection and of competition rely on the evolutionary logic, they are considered to be very similar, and are often treated interchangeably (see Alchian 1950; Pierson 2004). We choose to consider them separately because the mechanism of competition outlined in this paper presumes a much greater role for actors than the mechanism of natural selection.

⁷ This mechanism has obvious similarities with intentional mimetic isomorphism or imitation that is recognized as an important mechanism of change in organizational analysis (see March and Olsen 1976; DiMaggio and Powell 1991).

⁸ Note that this type of learning, as a mechanism of selecting new institutions, differs from the learning that occurs in the process of institutionalization. The former focuses on institutional creation based on the calculation of the expected payoffs of an alternative institution. In other words, this mechanism usually presupposes the existence of coordination (or the absence of conflict), and stresses the computational ability of actors to choose more efficient institutions. In this sense, the first mechanism implies a high dose of functionalism. By contrast, learning during institutionalization does not exclude the existence of different and potentially conflicting interests. This process could be conceptualized as iterated games in which actors formulate their strategies by reflecting upon past plays and the strategies of others. Even though such interactions may gradually modify institutional arrangements or define a particular degree of institutionalization (see Part III), the ultimate goal here is not necessarily the achievement of socially efficient institutions..

pacts in this perspective do not come about through the importation of ready-made solutions tried elsewhere, but are rather a genuine *de novo* creation underpinned by knowledge accumulated during the previous experimentation with institutional alternatives. Thus, while both mechanisms invoke learning processes as a way through which actors select more efficient institutional alternatives, they differ with respect to the inventive capacity of actors.

In contrast to the spontaneous emergence interpretations that link the formation of institutions either to the criteria of systemic fitness or to conventions established through unintended salient acts, the intentional design interpretations bring *actors* to the fore of the analysis. By portraying actors as active agents of change, these interpretations seem to correspond better to the recent experience of European economies with social pacts. However, due to their reliance on some problematic assumptions, these interpretations also have several shortcomings. First, most of them explicitly or implicitly assume that in order to achieve Pareto superior outcomes actors calculate and compare the payoffs of alternative institutional arrangements. Yet, for the assumption of perfect calculability of actors to be valid, the requirement of complete information needs to be satisfied. Needless to say, in real social situations this is almost never the case. Periods of crisis and readjustment are always surrounded by uncertainty. In such situations actors cannot calculate with certainty the future payoffs of their actions because they might not know the exact preference ordering of their opponents. This is especially so because preferences in interactive processes often change in response to the new incentives and constraints provided by the actions of others. In such situations, actors modify their strategies along the way in accordance with what they believe to be feasible (rather than desirable) in a given situation. Hence, the final outcome will not necessarily be Pareto-superior.

Second, the interpretations that rely on the competition mechanism assume the ready availability of institutional alternatives. While this may or may not be true, the problematic inference here is that such alternatives will replace the existing institutions if they do a better job of producing collectively beneficial outcomes. The empirical validity of this interpretation, however, is far from obvious. While one might argue that the positive results of the Irish model of adjustment through social pacts might have served as a reference point to the Slovene social partners who successfully concluded a series of social pacts a few years later, two important questions remain unanswered: Why were such solutions not chosen everywhere where adjustment is needed? And how can we explain the breakdown of such solutions in some cases even though they seem most capable of achieving efficient social outcomes? For instance, the Polish experience reveals that despite similar adjustment needs (e.g. the preparation for EMU membership), actors fail to achieve a cooperative solution and continue to perpetuate sub-optimal outcomes. In short, the main shortcoming of the selection-by-competition interpretation is that its focus on objective efficiency criteria overlooks the impact that power asymmetries, vested interests, and established organizational practices have on the degree and direction of institutional change.

Finally, the assumptions related to learning are problematic in so far as they imply that the costs of a shift to another institutional alternative are low. If the rules of interaction can be modified at low cost, what ensures that actors will further long-term socially beneficial solutions rather than their immediate self-interest? Cooperation, in

other words, might not happen in the absence of external constraints or the 'shadow of hierarchy' (Scharpf 1993) provided by the state. Thus, even though actors draw lessons from their past experience, 'learning to cooperate' may not be simply a positive evolutionary process, but rather a response to a set of threats and incentives that actors come to face. For instance, even though policy learning and positive spillover effects between policy areas are evident in the Netherlands, it was the government's threats and incentives that at crucial moments ensured this cooperation (Regini 2000; Visser and Hemerijck 1997). Similarly, in Ireland, a combination of government threats (austerity measures) and promises (tax cuts) influenced the actions of social partners and facilitated a move to centralized bargaining among them (Baccaro 2002; Hardiman 2002).

3.3 Perceptions of power shifts: a bargaining model of institutional creation

The outlined shortcomings of the interpretations of spontaneous and intentional institutional creation form a basis for deriving a set of assumptions on which to base our comparative analysis of the emergence of social pacts.⁹

- (i) *Bounded rationality*. Adjustment moments and periods of institutional creation are always surrounded by uncertainty and murkiness that impedes the potential for fully rational action (White 1992; Fligstein 1999, 2001). In such situations, actors are not likely to be in possession of full information that would enable them to easily calculate in advance the expected payoffs of a set of possible strategies. While they might be able to gauge the general preferences of the other actors, they are unlikely to know their precise preference ordering and their exact capacity to achieve those outcomes. This, however, does not mean that actors will act irrationally. Rather, they are intentionally rational utility-maximizers who are unable to calculate *ex ante* the best means to achieve their desired goals (Beckert 1996; 2002). Thus, in the interactive processes of institutional formation actors' strategies are unlikely to be determined *ex ante*. Instead, strategies evolve (and get modified) as actors reflect upon and react to a set of incentives and constraints provided by other actors and by the existing institutions and practices. Put differently, we expect actors to formulate their responses not on the basis of some fully available objective information, but in accordance with their perception of the situation.
- (ii) *Context-specific preferences*. This assumption rests on a belief that a comparative analysis of interactions in the creation of social pacts has to refrain from the attempt to deductively establish a clear ranking of preferences for the main players. Since actors' goals, identities, and cognitive frames are influenced by the respective institutional and structural-historical contexts, their preference ordering cannot be established in isolation from that context. For in-

⁹ These assumptions liberally draw on the four pillars of the interactionist approach to institutional development proposed by Avdagic (2004).

stance, we cannot simply assume that public sector unions have the same preference ranking across all countries. Thus, we consider preferences to be context-bound rather than universally given, and recognize the possibility that preferences can change over time as actors react to a changing situation. (The latter point follows naturally from assumption (i) which rests on a reflexive model of agency – see Emirbayer and Mische 1998; Hay and Wincott 1998; Simon 1998).

- (iii) *Non-unitary actors.* This notion is related to assumption (ii) and is directly empirically observable. It rejects analyses of social pact negotiations that treat the main players as unitary actors. It postulates that any given group of actors – unions, employers, or government – consists of sections or constituencies with different and potentially conflicting interests and preferences. The degree and nature of intra-group divisions is likely to have a direct impact on the strategies of that group, and an indirect impact on the preferences and strategies of the other groups.¹⁰
- (iv) *Power distribution and perceptions of power shifts.* This assumption is directly related to the notion of intentionally rational, utility-maximizing actors who strive to defend or further their interests. When institutions are being crafted – i.e. social pacts negotiated for the first time – trust, habits, and norms are not likely to be the main mechanisms that structure interactions during the negotiation process. Due to the weakness of these mechanisms, power asymmetries and perceptions of power shifts are likely to influence strategic choices (Avdagic 2004, 2005). More precisely, actors choose their strategies on the basis of perceptions of their relative power and their expectations about the shifts of that power as the interactions proceed. It needs to be stressed, however, that the concept of power proposed here is much broader than those used either in the structuralist analysis of class conflict, or in the neo-corporatist literature. Rather than referring only to the organizational attributes of the collective actors (membership coverage, centralization, fragmentation, etc), this concept in general terms refers to the capacity to achieve desired goals. This capacity – while partly depending on organizational attributes – is shaped by three additional factors:
- *Existing institutional resources* refer to a set of secondary institutions, laws, and procedures that (directly or indirectly) protect interests of particular actors.
 - *Inter- and intra-sectional unity* refers to the degree of cooperation and coordination both between sections of a group, say between different unions (as in assumption (iii)), and within in-

¹⁰ Put simply, the higher the degree of divisions and conflict within a given group, the higher the likelihood that the negotiation strategies of this group are going to be less clear, unified or determined. This, in turn, puts the other group(s) of actors in an advantageous position since they are more likely to succeed in pushing through their demands in the absence of the unity of their opponents.

dividual sections, namely between different levels, e.g., shop floor and national. (This form of intra-sectional coordination comes close to what Crouch (1999: 348) term 'articulation', denoting a strong two-way communication flow within an organization that insures that agreements reached at the highest level are acceptable to and informed by lower levels as well.) The stronger the degree of coordination between and within sections of a given group, the higher the capacity of the group to achieve its ambitions in the negotiation process.

- *Interdependence* refers to beliefs that a given actor has with respect to the degree to which other actors need their cooperation (for either efficiency, legitimacy, or 'blame-avoidance' reasons) in the reform of a policy under negotiation, or in a related policy area. On the basis of these beliefs, actors estimate the 'limits' of others, i.e. how willing the other actors might be in accepting their demands. If they believe that their opponents are very eager to secure their cooperation, their own perceived power increases.

These four assumptions – bounded rationality, context-specific and altering preferences, the degree of intra-group cohesion, and perceptions of power – are the basis on which actors make strategic choices when considering and negotiating social pacts. These assumptions also indicate that our approach differs from the more simple 'problem-solving' accounts that directly link social pacts to situations of crisis or exogenous shocks, which somehow induce shared understanding among actors. While we agree that pacts are likely to be initiated in times of national economic distress,¹¹ we perceive the process of such an institutional creation to be characterized by tough *bargaining*, as well as deliberation, through which the understanding of the situation and preferences of the involved actors are gradually reshaped. The outcome eventually can be – but it does not necessarily have to be – a shared understanding and consensus. Our assumptions indicate that any signed social pact, as Lange (1984: 119) put it, is an agreement "into which each of the actors enters for his own reasons and in his own interests" (see also Przeworski and Wallerstein 1982; Regini 1984). Thus we expect shared understanding and agreements to be achieved only if actors can define such agreements as relatively beneficial – *in whatever way* – to their own interests.

In using such a broad formulation of interests, we wish to emphasize: first, that interests are not necessarily only material, but may also involve concerns about legitimacy and public standing; and second, that interests may not be only narrowly defined and short-term, but may also involve longer-term considerations about the functioning of the economy (i.e. indirect gains). The latter consideration draws on Olson's (1982) argument that encompassing organizations – such as unions and employers' confederations negotiating national-level social pacts – do not face the same incentives as small, e.g. enterprise- or even industry-based, organizations. Rather than being concerned exclusively with distributional issues and their own particular interests, encompassing organizations are large enough to affect the

¹¹ The proposition that a successful neo-corporatist wage regulation is more likely in difficult economic situations goes back to the arguments made by Schwerin (1980).

provision of public goods, and therefore have an incentive to act in the best interests of the society. As Olson (1982: 48) put it, such organizations “own so much of the society that they have an important incentive to be actively concerned about how productive it is; they are in the same position as a partner in a firm that has only a few partners.”

It is important to recognize that this line of reasoning goes neither against our interest-based account nor against the use of a bargaining model in the analysis of social pacts. As elaborated by Olson (*ibid.*, 42), an organization “can in principle serve its members either by making the pie the society produces larger, so that its members would get larger slices even with the same shares as before, or alternatively by obtaining larger shares or slices of the social pie for its members.” Choosing the first option – which eventually may increase social efficiency – does not mean that actors do not care about self-interest. Instead, it simply can indicate the longer-term horizons of the organization. By foregoing immediate gains and accepting some sacrifices, the encompassing organization can effectively further its own interests. However, as Olson himself notes (*ibid.*, 53), the incentives are not directly translated to the choices that the encompassing organizations make. Sacrifices, in other words, are accepted only to a point that is determined through the bargaining process. Whether and to what extent will the encompassing organization accept short-term sacrifices in this process depends on a number of factors, including the current and expected prospects of the economy, as well as the beliefs that the sacrifices would not only improve social efficiency, but also have a trickle-down effect that would be beneficial for the members of the organization. Thus, interests – however defined – are at the forefront of the analysis.

On the basis of these assumptions we can build a heuristic bargaining model of social pact creation, which corresponds to some general insights of formal bargaining theory (see Rubinstein 1982; Osborne and Rubinstein 1990). In particular, the model proposed here draws on Knight’s (1992) bargaining theory that links the emergence of informal institutions to asymmetries of power in a society, and especially on Luong’s (2002) transitional bargaining model, which explicitly addresses the role of the perceptions of power shifts in the creation of formal institutions.¹² Even though any negotiation of a social pact is a complex process involving multiple actors with different preferences, for simplicity reasons we sketch out a standard two-player bargaining model. Relying on such a simplified scheme does not mean that we analyse only negotiations between representatives of labour and capital, while neglecting the role of the state. Rather, we assume that the bargaining process, while potentially evolving more participants, is usually dominated by two key players representing either labour, capital, or the state.¹³ Indeed, many of the recent social pacts do in fact correspond to this assumption as they essentially represent agreements either between trade unions and employers’ organizations (with the endorsement of the government), or between the unions and the state. Thus, rather

¹² Both accounts rely on the strategic action approach and perceive institutions as outcomes of distributional conflict. A similar logic is employed by Libecap’s (1989) and North’s (1990) accounts of the creation of formal institutions.

¹³ Note, however, that none of these collective actors are treated as unitary. Assumption (iii) of our model allows for the existence of internal disagreements and different preferences. This, in turn, influences perceptions of power and the actual capacity of actors (see assumption iv), thus influencing the strategies and the outcomes of the bargaining captured by our model.

than excluding the state, our model accommodates its role in the analysis of the negotiations of social pacts by assigning it either a direct bargaining role, or an indirect role in which the state facilitates the bargaining between unions and employers by providing (positive and negative) incentives that may change their payoff structures. Although the proposed model abstracts a lot from what is going on in reality, it still provides a helpful tool for analysing the negotiation process, and deriving clear hypotheses that can be tested on our cases.

Following bargaining approaches, we can conceive of social pact negotiations as consisting of a series of rounds of offers and counteroffers proposed by the actors involved. Each actor enters the game at tn with their specific bargaining (or power) resources Δ . As outlined in our assumption (iv), these resources represent a combination of institutional, organizational, and cognitive factors. The value Δtn can also be considered their 'breakdown value' (Osborne and Rubinstein 1990), i.e. the payoffs actors walk away with if no agreement is reached. In other words, the value of Δtn reflects actors' relative bargaining advantages or disadvantages vis-à-vis other actors, and ultimately shapes their strategies in the negotiation process.

Commonly, the link between the value of resources and the choice of strategies in bargaining theory is provided by actors' attitudes toward risk and time. Actors with abundant resources are considered to be more likely to accept risks, while those with limited resources are likely to be risk-averse. Put simply, "a player who has less to lose from a breakdown is more likely to risk one" (Maynard-Smith 1982: 153). Since those with more resources have less to lose in the case of the breakdown of a bargaining process, they are more likely to be patient in this process and wait for a favourable outcome, than to accept a quick solution. In other words, if $\Delta A (tn) > \Delta B (tn)$, player A is more likely to wait for a favourable solution, thus risking a negotiation breakdown. This is in accordance to the standard view in bargaining theory that the actor with stronger bargaining power or resources gets a greater share of the pie (e.g. Maynard-Smith 1982; Osborne and Rubinstein 1990).

For our analysis of social pact negotiations, however, two further clarifications are needed. First, as specified under our assumption (i), in the absence of complete information and under uncertainty surrounding institutional creation, actors' strategies will not be fixed *ex ante*, but will rather evolve in the process of interaction as actors update their beliefs about their best responses. At the outset of negotiations at tn , each actor forms an opinion about their bargaining or power resources (Δtn) on the basis of factors outlined in the aforementioned assumption (iv). The value of Δtn , however, is not likely to stay constant during the whole negotiation process. As the interactions proceed, the values of Δ are likely to change depending on how actors perceive the overall situation. More specifically, in each subsequent round, actors will update their estimate of power by reflecting upon the specific dynamics of negotiations (incentives and constraints provided by others) and their expectations about the economic environment. Since according to our assumptions, the choice of strategies is influenced by actors' perceptions of their relative power, the fact that $\Delta tn+1 \neq \Delta tn$ is likely to have an impact on these strategies.

In Luong's (2002) model, the difference between the values of perceived power at two subsequent rounds of negotiations is captured as a shock to actors' reservation values or initial resources. Similarly, we can characterize the difference between Δtn

and Δt_{n+1} as a correction factor ε that literally presents actors' updated beliefs about their relative position or power at t_{n+1} in relation to their position at t_n , so that

$$\Delta t_{n+1} = \Delta t_n + \varepsilon, \text{ where } [-1 \leq \varepsilon \leq 1]$$

Thus, the correction factor can be either positive (when actors perceive their relative power to be increasing) or negative (when they believe that their bargaining position is getting weaker). If $\Delta t_{n+1} > \Delta t_n$, actors are likely to persist in pressing for their demands and continuing the negotiations to achieve their preferable outcome even at the cost of breakdown, rather than to settle for a quick, but less favourable solution. For example, employers might perceive their bargaining position as being strengthened at t_{n+1} if, say, divisions within their group are diminishing; the government promises tax concessions as an incentive to sign an agreement; and/or economic conditions deteriorate, thus signalling to the unions that non-cooperation might be rather costly as it is likely to come at the price of higher unemployment. The larger the employers' correction factor (provided that $\varepsilon > 0$), the more likely are they to try to press for payoffs as high as possible during the negotiations. If in addition to such developments the government threatens austerity measures if negotiations fail, the unions are likely to expect a weakening of their bargaining position at t_{n+1} (i.e. their $\varepsilon < 0$). In such a situation the unions might be willing to settle for a quick solution with smaller (but still positive) payoffs rather than to risk the considerable costs of a breakdown (i.e. the most likely negative payoffs associated with austerity measures).

The second consideration is related to time preferences. In addition to attitudes towards risk, bargaining theory postulates that actors' time preferences have an impact on their choice of strategies. Usually, time preferences are measured by a discount rate δ that affects the value of future bargains. The higher the discount rate, the more willing the actors will be to accept a less favourable solution quickly because bargaining is costly and the payoffs of subsequent rounds are diminished or discounted at a high rate. Alternatively, if δ is low, actors will be more willing to forego a smaller share now and wait for a possibly larger share later (see Knight 1992: 135). It follows then that if actors have different time preferences, this difference will affect their strategies and the distributional outcome of the game (see e.g. Rubinstein 1982). For the purposes of our analysis, however, we can assume that actors share a largely similar discount rate. Such a simplification is justified by the fact that the commencement of social pact negotiations usually occurs in times of economic difficulties where the discount rate for the payoffs of prolonged bargaining is likely to be high for all actors (see also Lange 1984). Because each actor is losing (say, employers from diminishing competitiveness, governments from wage hikes, and workers from higher job insecurity), they would prefer to reach an agreement rather soon. This does not mean, however, that all of them will accept any agreement as soon as possible irrespective of their perceptions of relative power. As aforementioned, the correction factor ε is likely to have a significant impact on actors' strategies and their willingness to persist in pressing for an agreement that corresponds best to their preferences. However, since actors can form perceptions only about short-term changes of the value of their Δ rather than foresee this value far ahead, this uncertainty is likely to affect their general time preferences and raise the

value of the discount rate, such that negotiations – while potentially lasting more than one round – are not likely to be significantly prolonged.

With the above outlined assumptions and clarifications, the proposed model departs from standard bargaining theory, where strategies and bargaining outcomes are thought to depend on asymmetries of power determined by some ‘objective’ measure of resource ownership. Instead, the principal idea here (as in Luong 2002) pertains to the relationship between actors’ perceptions of changes in their relative power and their subsequent negotiation strategies. Thus, the outcome of negotiation might not directly depend on some ‘objective value’ of resources held by the respective actors at the beginning of the game, but rather on actors’ perceptions of those resources which evolve through the interaction process.

In other words, if we could simplify the model and reduce the complexity of social pact negotiations to a two-player bargaining game, in a situation in which player A perceives an increase in its relative power (i.e. $\epsilon_A > 0$), while player B perceives a decrease in its relative power ($\epsilon_B < 0$), the negotiation outcome (i.e. a particular form of a social pact, as outlined in Table 1)¹⁴ is likely to favour the preferences of player A (because this player would be more persistent in pushing its demands), while player B would try to avoid risk and opt for a quick and less optimal solution. The exactly opposite result would occur if $\epsilon_B > 0$, while $\epsilon_A < 0$. It would be natural to expect that this prediction would hold especially in circumstances where correction factors ϵ are both large and of the opposite absolute value. It is, however, significantly more difficult to derive predictions about the outcome of negotiations that do not correspond to such clear-cut situations. The basic problem here is related to the fact that perceptions of the situation are subjective, rather than objective or universally given, so that both actors could perceive the same direction of change in their relative power. For instance, if both actors perceive their relative power as increasing ($\epsilon_A > 0$ and $\epsilon_B > 0$), their persistence in pushing through their respective preferences could ultimately lead to a collapse of social pact negotiations since long-drawn-out attempts to reach an agreement are ‘punished’ by a high discount rate (see above). If faced with a possibility of significantly discounted payoffs, actors might decide to withdraw from the negotiations. In this case, the achievement of a positive outcome (i.e. the crafting of a social pact, irrespective of its specific form) might only be possible if the negotiation is facilitated by a strong and active involvement of the state. In the absence of the latter condition, prospects for social pacts in such a situation are unlikely to be promising. As Streeck (2003a; 2003b) reminds us, the recent history of German industrial relations points to the dangers of a combination of a weak state and the traditionally strong organized interests. Similarly, external enforcement might also be needed when both actors perceive their power as decreasing. While both of them might opt for a fast agreement, such an agreement might not be stable or it might suffer from implementation problems unless propped up externally.

The proposed model thus has important implications for the study of the emergence of social pacts and, more generally, of institutional creation. The advantages of this approach over functionalist accounts of spontaneous and intentional institutional

¹⁴ If, for instance, player A prefers more encompassing agreements that strictly define actions and responsibilities, the negotiation outcome would potentially resemble a broad social pact covering a number of areas and levels, and giving social partners an influence in both policy formulation and implementation.

creation have been sufficiently discussed in the preceding parts of this paper. In addition, however, the proposed approach brings in some valuable 'corrections' of the more traditional power-based accounts. More specifically, the reliance on the perceptions of relative power (as defined under the above assumptions), rather than on some objective measures of power, presents an innovative way to account for both successful and failed social pact attempts. As indicated by some empirical examples, our approach might have a higher explanatory potential, especially in those cases where the more traditional power-based accounts seem to be impotent to explain the process and the outcomes of attempts to create new social pact institutions.

3.4 Summary of propositions and implications for field research

What is the relevance of this largely abstract discussion for our empirical analysis of the emergence of social pacts? The core assumptions of our approach and of the proposed model contain a number of hypotheses that we intend to test on our cases. While additional hypotheses might emerge in the course of our further empirical and theoretical inquiry, here we outline only the key hypotheses deduced from the above text. The purpose of this exercise is twofold. First, by concisely and clearly spelling out our hypotheses, we intend to distil some of the abstract theoretical constructions elaborated above. Second, the ensuing set of hypotheses is to ensure a common basis on which to organize our empirical research across countries. On the basis of the above discussion, we can derive the following hypotheses:

- H1: In the absence of a history of institutionalized concertation, social pacts are likely to be achieved only if actors can define such agreements as relatively beneficial (in whatever way) to their own interests.¹⁵
- H2: During the negotiations of such pacts, actors' strategies are likely to depend on their perceptions of their relative power (defined, as in assumption (iv), not only by organizational resources, but by the existing institutions, internal organizational dynamics, and perceptions of interdependence in a particular situation).
- H3: In the course of negotiations, actors adjust their strategies so to, first and foremost, optimise their responses to incentives and constraints provided by others; and second, to bring their strategies in line with their expectations about the economic situation.
- H4: The more the actors perceive their relative power as increasing, the more likely they are to persist and try to push through their preferences in the negotiation process. Alternatively, the more they perceive their bargaining power as decreasing relative to other actors, the more likely they are to settle for a quick and, from their standpoint, less preferred solution.
- H5: Institutional outcomes or, more specifically, particular forms or types of social pacts that emerge through such negotiations are likely to reflect by and large the preferences of those actors who perceived an increase of their relative power.

¹⁵ Note, however, that sometimes this 'realization' might not occur without external enforcement, i.e. the state that is willing and able to push through a 'there-is-no-alternative' argument.

The fact that the perceptions of (shifts in) relative power are at the core of these hypotheses has an important implication for our empirical inquiry of the emergence of social pacts. Since such perceptions represent the subjective views of the actors involved, the testing of the hypotheses would require not only secondary sources, but also a sufficient number of in-depth interviews with the main participants of social pact negotiations in the countries of this study. In order to ensure the comparability of our findings, each country-team would need to undertake a set of clearly structured interviews based on a common list of general questions. Since countries naturally differ with respect to many context-specific elements, these would need to be addressed in additional questions designed by the respective research teams. On the basis of our discussion during the last meeting in Florence, we expect that all country-teams would take into consideration the following template of general questions, as these are designed to facilitate the testing of our main hypotheses.

- What would you say is the main purpose of social pacts? Whose interests are they supposed to serve? Why did your organization decide to participate? What benefits, if any, did the pact bring to your organization as a whole or to its specific constituencies?
- How would you evaluate the relevant institutional infrastructure and practices at the time when the social pact was first initiated? What benefits and safeguards (e.g. institutional, legal, and policy), if any, did your organization have at that time? Has this changed since the signing of the (first) social pact?
- In your opinion, why and to what extent was a joint solution in the form of a social pact needed? What was a realistic alternative to the social pact?
- How would you describe internal dynamics within your organization at the time of the negotiation of the social pact? What were the main issues of controversy between different units of your organization? How would you evaluate the degree of support you received from the lower levels (e.g. shop-floor)?
- What were your demands/preferences at the outset of the negotiation process? On the basis of what concerns, needs, or evidence did you formulate your demands? Did you change them during the negotiations? If yes, why?
- In any bargaining process, actors try to push through their preferences. To what extent do you believe you succeeded in doing this? Did you feel that you could have done better? In your opinion, whose preferences/demands are most represented in the signed agreement, and why?

The outlined hypotheses and (the sample) of tentative questions provide a general guidance for our analysis of the emergence of social pacts. They are meant to facilitate our empirical inquiry and provide further insights into the key questions of how 'first-time' social pacts are negotiated and what explains the varied outcomes of these negotiations across our countries.

However, if institutions of social pacts are to persist and become embedded (or 'institutionalized'), they need to be regularly re-negotiated, supported, and often reconfigured and modified. Hence, the mechanisms that support institutional development (i.e. the further institutionalization of social pacts) might not be necessarily the same as those behind institutional creation (i.e. the emergence of social pacts). Part III of this paper addresses the question of the institutionalization of social pacts, and outlines four alternative mechanisms to guide our inquiry of institutional development.

4 The evolution of social pacts

4.1 The institutional development of social pacts

The social pacts that emerged in the 1990s were highly contingent and fragile constructions (Regini 2000). The traditional institutional and organizational underpinnings identified in the corporatist literature of the 1970s and 1980s (Schmitter 1974; 1981) seemed to be absent or irrelevant. What, then, made it possible for some of these pacts to become institutionalized? Why did they proceed from being one-shot bargains meant to solve a specific problem at a particular point in time, and become a more lasting form of concertation and governance, sometimes extending into other policy domains (outside wage bargaining, where most pacts seem to have had their origin) and used at other levels of government? How are we to explain such processes of institutionalization and expansion, or – the reverse – the de-institutionalization and diminution of these experiences?

This is the key question broached in this part of the paper. In Part I we have presented a taxonomy of social pacts defining them as specific forms of macro-cooperation involving governments and organized interests. To recapitulate, we distinguished between pacts along two dimensions – type of issues/number of policy areas and levels of governance/degrees of articulation. This classification produced four types of pact:

- I – narrow, exclusive/weakly integrated, shallow *shadow pacts*;
- II – wide, inclusive/weakly integrated, shallow *headline pacts*;
- III – narrow, exclusive/highly integrated, deep *incomes policies*; and
- IV – wide, inclusive/highly integrated, deep *neo-corporatist concertation*.

We also distinguished in Part I between the institutionalization, re-institutionalization and de-institutionalization of social pacts. The two alternative development paths are institutionalization and de-institutionalization, with re-institutionalization occurring to different degrees in each case, depending on the particular trajectory concerned. Thus, within these two broad paths, we can identify several plausible trajectories through which social pacts evolve (see Figure 2).

Figure 2

Regarding the *institutionalization* of pacts, that is, from ‘regulative’, weakly-institutionalized arrangements to more strongly-institutionalized, ‘re-constitutive’ arrangements), we suggest the possibility of several kinds of trajectory. The first is simply based on repetition:

- pacts beget pacts (e.g., II → II’). This could occur for any of the four types in our taxonomy – shadow pacts, headline pacts, coordinated wage setting, and neo-corporatist concertation. However, as we already indicated when making these distinctions, headline and shadow pacts, even where they are repeated, remain ‘regulative’, non-routine responses to emergencies consisting of unstable relations of political exchange that compensate, although imperfectly, for the absence of mutual trust and long-term commitments. They are therefore weakly institutionalized in two respects: they have little impact on parallel processes and relationships between their participant actors and therefore leave the power balances between the latter relatively unchanged. They are therefore also subject to rather costless breakdown.
- The second trajectory of institutional evolution is characterized by a process of integration or (see Crouch) of ‘vertical articulation’, in which “strong relations of interdependence bind different vertical levels such that the actions of the centre are frequently predicated on securing the consent of lower levels and the autonomous action of lower levels is bounded by rules of delegation and scope for discretion ultimately controlled by successively higher levels” (Crouch 1993: 54-55). Such processes of institutional evolution would include an evolution from a ‘regulative’ shadow pact into a system of coordinated wage setting, or the evolution of a headline social pact either into a narrow but deeply integrated practice of coordinated wage setting or a more embracing system of neo-corporatist concertation. In both cases, the greater the extent to which the social pact institution assumes ‘re-constitutive’ form, the more resistant it will be to institutional erosion.¹⁶
- The third trajectory of institutional evolution refers to the expansion from a narrow to a wider set of policies; in our scheme, from shadow pacts into headline pacts, or from coordinated wage setting into neo-corporatist concertation.

But we should also posit the possibility of ‘negative’ institutional trajectories in which *de-institutionalization* and/or *re-institutionalization* at another level or in an narrower policy domain reconfigure the processes and relationships within a pact in the opposite direction, with movement from a strongly institutionalized, ‘re-constitutive’ pact to a weaker, ‘regulative’ arrangement. Here again we suggest several kinds of trajectory:

¹⁶ Logically, an ‘institutional jump’ from shadow pacts (I) to full concertation (IV) is possible. However, given that neocorporatist concertation is characterized by a high degree of trust and coordination in several related policy areas, we believe that such an extraordinary development will nearly always ‘travel’ via ‘intermediary cases’ II and/or III.

- To begin with, we have the situation in which a pact breaks down and no further experiment of this kind takes place. We call this *abandonment* (e.g. II→[^]II; the pact is negated). This could in principle happen to any of the forms we distinguish. For instance, incomes policies can break down and powerful actors can withdraw from concertation without any successful reconstitution of the pact.
- In a second trajectory (i.e. *disintegration*), a coordinated wage-setting system is reconfigured to allow greater forms of sectoral- or local-level variation in wage outcomes. In some cases where this has occurred, a new equilibrium has been found which poses no threat to inflation targets, although wage-differentials are usually altered as a result. In other cases, where stability is not achieved or decentralization has eroded the capacities for coordination, we may witness a development towards a headline (III → II) or shadow pact (III → I) in an attempt to 'reconstitute' the system. Such attempts may or may not be successful, and will involve processes of de- or re-institutionalization. In addition, we posit the possibility that actors involved in concertation face increased disincentives to continue but instead of full withdrawal become involved in attempts of institutional change through engagement in headline pacts (IV → II).¹⁷
- In the third trajectory (i.e. *reduction*), actors involved in a headline pact or concertation spanning a multiplicity of policy areas encounter numerous disincentives for furthering such pacts or concertation, but nonetheless consider that there is still some utility in a more limited form of macro-concertation, or in pacting within specific policy arenas rather than across them. In such cases, the headline pact will diminish its array of policy engagements by becoming a 'shadow' pact (II → I), or concertation will focus solely on incomes policy (IV → III).

Having outlined these trajectories of institutional evolution, our primary aim in the remainder of this paper is to identify the hypothetical mechanisms on which these development trajectories are based.

4.2 Mechanisms of institutionalization

Explaining the emergence and evolution of institutions involves analytically different questions, and this is why we think that negotiating a social pact a second time may be different from the first. Following Greif (N.d.) and Greif and Laitin (2004), to explain the process of institutionalization is to identify the mechanism(s) that contribute to the self-enforcement and reinforcement of a particular behavioural pattern or social structure. To be more precise in our definitions, *institution* means a social order or pattern of behaviour that has attained a certain persistence or regularity; *institutionalization* denotes the process by which this occurs; *de-institutionalization* its weakening or disappearance; and *re-institutionalization* its

¹⁷ A direct transition from concertation to shadow pacts (IV→ I) is unlikely, because – in the absence of major shocks – the erosion of trust and coordination across multiple policy areas would almost always occur in a more gradual fashion, i.e. via 'intermediary cases' III and/or II.

change or reappearance (Jepperson 1991: 145). But what drives these different processes; what underlies institutional evolution, persistence and change? Arguably, the mechanisms of institutional production and reproduction may be grounded in uncontested actions aimed at ensuring system functionality; in a routine or procedure which is associated with utility considerations; in a pattern of interaction that has created significant interdependencies (and hence sunk costs) that are hard to change; in a set of norms or beliefs that orient behaviour toward cooperation and delegitimizes deviant behaviour; or in a particular power constellation that ensures institutional reproduction. An institution may be self-enforcing when it produces the mechanisms preserving its structure, directly in terms of *incentives*, or indirectly from *outcomes to incentives*, motivating actors to continue behaving in accordance with its principles. Although in reality all of these mechanisms or effects may potentially co-exist and contribute, to varying degrees, to institutional development, in this study we wish to separate out and render the variety of potential causal explanations distinct from one another. In order to facilitate that endeavour, and develop a series of alternative exploratory hypotheses for our cases, the variety of mechanisms and effects referred to above can be organized for heuristic and analytical purposes in terms of the four standard frameworks for institutional analysis in the political science, sociology and economics literatures: the functionalist, utilitarian, normative and power-distributional perspectives.

4.2.1 The Functionalist Approach

Functionalist accounts explain institutions in terms of their consequences for the overall system. In this perspective, institutions are reproduced as long as they successfully perform particular functions for the system, e.g. facilitating its adjustment to new conditions or assisting in its survival (e.g. Wallerstein 1974, 1980). In other words, once actors' manage to coordinate their actions around a particular institutional solution that seems to solve problems or fulfil the needs of the system, this solution is likely to become self-enforcing because actors would not have an incentive to depart from the coordination point *unless* external disturbances change system needs, thus requiring a different kind of adjustment (Shepsle 1986; Weingast and Marshall 1988). Hence, institutional change is almost exclusively exogenously induced, and mostly driven by systemic considerations. System functionality is ensured either through *institutional adaptation* when the existing institutions are altered to correspond to new systemic needs, or through *institutional replacement* when other (sometimes already existing) institutions 'take over' because they are better able to fulfil the desired functions.

The general logic of these arguments is of relevance for our examination of the institutionalization of social pacts. From this perspective, social pacts would serve a specific function for a given national system (e.g. fulfilling the Maastricht criteria or solving a high problem load). Any particular change (whether in the direction of institutionalization or de-institutionalization), while initiated exogenously, would also correspond to system needs, the fulfilment of which depends on the particular institutional configuration of that system. Many analyses of the western European social pacts of the 1990s interpreted them as functional responses to exogenous pressures (e.g. EMU, accentuated competition under the completion of EU's single market programme, the liberalization of international trade), but without succeeding in explaining why they became more institutionalized in some countries than in others.

In a recent analysis within this approach, Hancké and Rhodes (2005) argue that the smaller the 'problem load' or required adjustment, the less likely it will be that there will be a series of 'headline' social pacts. Moreover, referring to what they regard as the EMU-related' pacts of 1990s Europe, they argue that if 'headline pacts' succeed in adjusting the macro and micro foundations for wage setting, the external political and problem-driven motivation for negotiating further pacts – and consequentially the pay-offs for social partner cooperation – will also diminish, thereby reducing the likelihood that further experimentation with headline pacts will occur. Borrowing an expression of Selznick (1949: 260) describing organizational change, having done the job, the formal social pact can (and, according to Hancké and Rhodes, will) disappear in the "shadow land of informal interaction". In contrast, where such macro and micro foundations are failing or fragile, the motivation for such pacts is likely to remain strong and the pact experience is likely to be repeated.

The introduction of 'problem load' as a functional determinant explaining institutional evolution allows us to develop more specific propositions about the trajectories outlined in Figure 2. In the presence of strong macro and micro foundations for wage setting and skill formation, perhaps resulting from a specific intervention or correction due to a 'headline' social pact, we will see no more such pacts. In their absence, we may see the continued use of pacting on e.g. incomes policy issues and perhaps its deployment for resolving policy conflict in other related policy areas (labour market policy, pensions etc.).

The most general hypothesis derived from the functionalist approaches therefore is:

H1 Social pacts are likely to become institutionalized, if their institutionalization serves system needs. Or more specifically: The likelihood of the institutionalization of social pacts is higher, when a large problem load coincides with the absence of solid micro-foundations for problem resolution (e.g. with regard to wage setting and skill formation). Conversely, de-institutionalization is more likely, the smaller the problem load or the stronger the micro-foundations for problem resolution.

4.2.2 The Utilitarian Approach

The utilitarian perspective posits that institutions persist because rational actors ascertain that the benefits of their existence outweigh the costs of their potential abandonment or transformation (North 1990). While the early versions prevalent in economics assumed a strong calculative capacity of actors in weighing the costs and benefits of particular institutions, more recent versions of the utilitarian perspective – in particular in sociology and socio-economics – are much more sensitive to the issues of bounded rationality and uncertainty (see Greif et al. 1995; Hechter et al. 1990; Mantzavinos 2001, Mantzavinos et al. 2001; North 1990). Correspondingly, they often argue that institutions persist because the uncertain costs of institutional transformation may make actors stick to the known solutions that serve their interests or are satisfactory to them, even if they are not the most efficient or most preferred solutions. Notwithstanding more or less subtle differences in the mechanisms of reproduction and change (see below), the overall logic of the utilitarian explanations is interest-driven: institutions are reproduced when their reproduction is in the interest of actors, and they are likely to be changed when they no longer correspond to their interests. Institutional reproduction in this perspective is explained with reference to

several factors, most notably cost-benefit considerations, cognitive rationalization and adaptive expectations, coordination and learning effects, as well as large investments in dense networks, structures, and practices that support particular institutional arrangements (for a review of arguments, see Clemens and Cook 1999; Mahoney 2000; Pierson 2004, ch.5; Thelen 2004). Institutional change can be initiated either *exogenously*, when actors adapt to the changed parameters of the 'game', as induced, for example, by an alteration of economic situation or competitive pressures (Williamson 1993), or *endogenously*, when the main parameters of the game are largely stable, but actors try to alter institutions to solve new problems and spur innovation through network-based collective learning (Mantzavinos et al. 2001; March 1991; Powell et al. 1996). The remainder of this section draws on the utilitarian perspective to identify three mechanisms of potential relevance to the evolution (i.e. institutionalization or de-institutionalization) of social pacts.

The first mechanism is based on the *perceptions of costs and benefits* involved in institutional transacting. Once institutionalized, a social structure, compromise or practice such as a social pact, may be accepted by its actors as an appropriate solution for a particular class of coordination problem (usually relating to wages, employment, and social protection). These rationally bounded actors save time and costs if they need not solve social problems each time anew, but can apply a rule or solution to a new situation when that situation is sufficiently similar to an older one for which they have a solution that was felt to work reasonably well (Mantzavinos 2000; Vanberg 2000). Under such conditions actors need not calculate or search, but apply a routine based on past performance.¹⁸ They will apply the same type of solution *unless and until* they are unhappy with the results and experience or expect some major changes in their environment, in the power configuration or in the strategic choices of rival actors.

A second related mechanism, that blends some elements of the utilitarian and functionalist logic, is based on *perceptions of institutional performance*. If an institution is associated with successful outcomes, however defined, this may provide information about the quality of the rules and interactions on which it is based. According to Knight (2001: 357), of all the factors contributing to the stabilization of a voluntary cooperation norm, "the existence of past success may be the most important, because it provides both information about past cooperation and a focal point for the type of behaviour that can produce mutual benefits in the future." The importance of success attribution has long been recognized in the literature on concertation and 'generalized' political exchange. When reviewing a quarter century of social partnership in Austria, Marin (1984) refers to its dominant principle as '*Legitimation durch Erfolgsaneignung*' (legitimacy by success claiming) that allowed its gradual and nearly unquestioned expansion even where there was no backing from the law. Visser and Hemerijck (1997) for the Netherlands and O'Donnell and O'Reardon (2000) for Ireland have shown how initial agreements became associated with success (job creation and investment, in particular) and then became a reference point in later negotiations. The Wassenaar agreement of 1982 in the Netherlands, although surprising and tentative at the time of its conclusion, gained in status only with the passing of time: ten years later it became celebrated as 'the

¹⁸ We follow the definition of a routine by March and Simon (1958: 142) as "choice without search".

mother of all accords' (Hartog 1998; van Ours 2003; Visser and Hemerijck, 1997: 81; 109-110).

These two utilitarian mechanisms provide a basis for the following hypothesis:

H2A Social pacts are likely to be institutionalized if they are associated with satisfactory outcomes for the actors. Conversely, the likelihood of their institutionalization is expected to be lower (and of de-institutionalization higher) if actors do not perceive pacts as satisfactory.

A third mechanism is based on the creation of inter- and intra-organizational ties and *networks and investments made to support these arrangements*. Institutional reproduction is usually underpinned by 'investments' or 'specific assets' in a particular arrangement – relationships, expectations, privileges, knowledge of procedures – all tied to the institution concerned (Gourevitch 2000). Social pacts as routine strategies may find expression in a series of tangible procedures and institutions such as information gathering and forecasting organizations, joint councils in which actors digest and select information together, standard operating rules regarding consultation with the government (national or local), representation and recognition, and so on. For agreements need to be implemented, and this usually means more negotiations and meetings. Conflicts of interpretation are bound to arise. Actors thus become involved in joint procedures for monitoring and conflict resolution. Pacts may also implicate activities and interactions at other levels. All this may contribute to the development or, where they exist, the reinforcement of personal and inter-organizational networks tying actors to each other. These organizational and procedural developments may even turn social pacts into a *standby* governance mechanism that can potentially be mobilized across a wide set of problems, especially those that require that precautionary policies are initiated before social problems fully manifest themselves as political problems (Calmfors et al. 2001; Visser 1998a).

This development, which needs time, has been highlighted by writers in the tradition of neo-corporatism who view 'generalized' political exchange as an independent contributory factor explaining institutionalization. Marin (1990), in particular, stressed the role of personal ties and informality for understanding the flexible expansion of social partnership, though much of the evidence was limited to Austria. Schmitter (1983) emphasized inter-organizational interdependence: "Through frequent, protracted and multiple exchanges, the participating organizations are likely to become better informed about each other's intention, respectful of each other capabilities, and willing to trust each other's commitments." They should also become better informed about each other's breakdown values and it should become easier for them to avoid conflict and actual breakdowns. This should in itself have a stabilizing influence on social pacts, contributing to their longevity. In case of actual breakdown, stalemate or conflict, the presence of network ties crossing different actors, interests and policy domains should make it easier to limit the damage and restore relationships. When such issue-linking agreements are also vertically articulated, acceptable to and informed by decision makers at lower levels, the stability of concertation is greatly enhanced – and we are clearly in the lower-right quadrant of neo-corporatist concertation or embedded social pacts in Figure 1.

Drawing on these considerations, we derive the following hypothesis:

H2B The likelihood of the institutionalization of social pacts is higher, the higher the investment in supporting arrangements and the stronger (and more extensive) inter- and intra-organizational ties and networks. Conversely, the weaker and the more fragmented the networks and the smaller the investments in the supporting arrangements, the less likely the institutionalization of social pacts.

4.2.3 The Normative Approach

The third perspective of institutionalization is associated primarily with the new institutionalism in organizational analysis (see Powell and DiMaggio 1991, Scott 2001). In contrast to the functionalist and utilitarian frameworks in which institutions satisfy either system functionality or utility considerations, institutions in this perspective reflect actors' "self-understanding about what is the right thing to do" (Mahoney 2000: 523). In other words, institutions persist when they embody norms and beliefs that are shared, widely accepted, appropriate and just. The stronger and the more widespread these norms, the more stable the institution will be. A particular kind or pattern of social behaviour is institutionalized if the basic idea or set of expectations on which it is based has acquired a particular 'validity' for the actors and is chosen "because it is in some appreciable way regarded by the actor as in some way obligatory or exemplary (*verbindlich* oder *vorbildlich*) for him" (Weber 1985 [1922] 15). De-institutionalization will occur when these norms weaken. Institutional change can be induced either *exogenously* when a shift in economic conditions challenges (or alternatively strengthens) the norm of cooperation, or *endogenously* when in the absence of exogenous disturbances actors' subjective beliefs about the fairness of the norm change.

Regarding the persistence of social pacts, the notions of trust and reciprocity norms have long been central to the literature. In some theories of 'generalized' political exchange (e.g., Marin 1990; Muti 1990) it is hypothesized that trust or trustworthiness makes it possible to forego a high degree of formalization and specification of rules, thus making the system more flexible for dealing with new problems and situations. But how might trust operate? Can mutual trust be the result of the pact-making experience itself and thus a part of an endogenous explanation of institutional development? Contextual factors found in experimental research and associated with varying degrees of trust and trustworthiness are individual preferences towards payoffs and instant gratification, prior experience with 'cooperative games', the capacity to learn more about the personal characteristics of each other, and the ability to build reputations of trustworthiness (Ostrom and Walker 2003: 5). But the danger of opportunistic behaviour and seeking short-term advantages remains, especially in three-player games in which the governmental actor is often changing and bound by electoral cycles, as is frequently the case with social pacts.

Opportunism may be less of a problem and trust more easily explained, if there is a strong reciprocity norm or shared expectation that a benefit granted now will be repaid in the future, no matter what – even if it damages the interests of the repaying party. Such a norm would clearly act as a contract enforcement device. In experimental research Fehr and Gächter (2000) find that a significant number of people do observe such a norm even in situations where they cannot expect future encounters and there is a price to one's own interests. If the norm were dominant, people would clearly have an "incentive to acquire a reputation for keeping promises and performing actions with short-term costs but long-term benefits" (Ostrom, 2003:

ing actions with short-term costs but long-term benefits” (Ostrom, 2003: 43). But how likely are such strong reciprocity norms in the case of social pacts? The ‘we meet again’ argument may count in collective bargaining, but social pacts usually involve actors that change quite often, especially the political ones.

A weaker norm of cooperation might emerge from a history of social pacts, strong interdependencies and the perception that defection may bring the risk of worse outcomes for oneself. Various studies have argued, for example, that the organizational and administrative centralization of wage bargaining may be less important in achieving beneficial outcomes in wage policies than a ‘cooperative mood of play’ and trust among the major players (Tarantelli 1983; Calmfors et al. 2001). If actors, motivated by social responsibility, give greater weight to longer-term interests rather than immediate (self-) interests, then even moderately coordinated bargaining may yield such socially beneficial outcomes as low inflation and employment growth. Such cooperation norms may well exist and emerge after a particular history of mutual learning, interaction and reputation building between actors with conflicting interests.

But can such norms survive in times of adversity and explain actor choices that may seem to go against their (short-term) interests? While a ‘cooperative mood of play’ can produce good results with any bargaining structure, in the face of protracted economic difficulties actors are tempted to revert to less cooperative forms of behaviour in order to protect their benefits (and win the consent of core constituencies), which in systems with weak coordination can have serious negative consequences. The erosion of the cooperative norm is especially likely when previous interactions are perceived to have generated unequal or unfair outcomes. In such circumstances, as Knight (2001: 364) argues, the perceived unfairness lowers the probability that “non-instrumental motivations will affect the decisions of disfavoured social actors to comply with social norms.” In other words, as uncertainty about compliance increases, norm-motivated compliance is likely to decline. The lower the overall confidence in compliance, the lower the probability that actors attach to the likelihood that others will cooperate and, consequently, the lower the value of their own compliance. In the end, the costs of upholding the norm will have to be borne entirely by those who profit from it – which means, in effect, the end of the norm.

Put differently, this would indicate that in the absence of major exogenous disturbances, pact-accommodating cooperation norms could be self-enforcing only if the perceived asymmetries in outcomes associated with these pacts are within accepted limits. In line with these considerations, we identify the following hypothesis:

H3 The likelihood of the institutionalization of a social pact is higher, the stronger beliefs are that the previous pact has generated just outcomes. Such beliefs, in turn, are likely to strengthen pact-accommodating cooperation norms. Conversely, the likelihood of de-institutionalization is higher, the stronger the beliefs of unjust outcomes and the weaker the cooperation norms.

4.2.4 The Power-Distributional Approach

The distributional perspective on institutions was developed as a critique of both the functionalist and the utilitarian approaches. Advocates of this perspective criticize functionalist analyses for their neglect of power relations (Knight 1992). Institutions in

this perspective are not responses to the needs of the system, but rather the outcomes of political games between differently endowed actors who strive to secure institutions *most favourable to their interests* (Knight 1992; Krasner 1991; McFaul 1999; Tsebelis 1990). While the distributional approach also incorporates cost-benefit calculations, it departs from the utilitarian perspective in claiming that *institutions distribute costs and benefits unevenly*, thus generating conflicting interests over institutional reproduction (Mahoney 2000). Hence, institutions in this perspective are reproduced because they are supported by actors who have an interest in preserving them *and* who are strong enough to be able to do so. Institutional change (i.e. either transformation or abandonment) can be induced either *exogenously* when external shocks change power constellations, or *endogenously* when the preferences of the powerful actors change, or alternatively when the prolonged interactions gradually change the accepted power balances, thus opening some avenues for institutional transformation.

This perspective is of particular relevance for our examination of the institutionalization of social pacts. While pacts are often portrayed as voluntary solutions to particular coordination problems, their distributive element is the reason that both their negotiation and institutionalization are typically characterized by conflict and an array of contesting proposals. Put differently, designed as they are to overcome or attenuate social conflict, these institutions can also be the sources and subject of conflict.

Where the institution and the rules and compromises it embodies remain deeply contested, it is hard to see how a social pact might become a routine affair. In the cases of Italy and Spain, for example, it has been shown that further attempts at pacting were dominated by conflicting views and interests over how to change the original terms of what was considered a temporary compromise originating in a particular constellation of political and external conditions (Molina 2005). This may help explain not only the breakdown of these pacts or their very punctuated existence, but also their shrinkage over time in terms of their main participants (in the case of Italy) and policy issues (in the case of Spain).

Moreover, in many situations, the institutionalization of social pacts does not fully reflect the voluntary choices of labour and capital, but rather their respective reactions to what are perceived as credible threats, constraints or inducements provided by the state. The role of the state – either as a participant actor or an external enforcer – can be extremely important in power games influencing the institutional persistence or demise of social pacts. Indeed, as elaborated in Part II, cooperation may not happen at all in the absence of external constraints or the ‘shadow of hierarchy’ (Scharpf 1993) provided by the state. The continuation and reiteration of social pacts, especially during periods of a prolonged recession is likely to depend especially on such constraints and state intervention that ‘reward’ cooperation and make alternative strategies costly for the actors. The authoritative rules of the state can provide “sanctions to make opportunistic behaviour from reciprocal obligations highly unlikely or factually impossible” (Streeck 1997: 202) by foreclosing exit. In this way, the actions of the state may alter the original power configuration, and directly or indirectly enforce institutional reproduction. Naturally, this scenario assumes that a state has a capacity to enforce the institutionalization of

social pacts.¹⁹ However, as repeated state intervention is generally perceived to be incompatible with a practice of independent neo-corporatist bargaining (Crouch 1993), it is less likely that prolonged state intervention would facilitate the institutionalization of re-constitutive social pacts (type III and IV). Where the role of the state is likely to be much more crucial is in the institutionalization of regulative pacts (type I and II). Such pacts might be more easily institutionalized if state intervention affects power configurations and payoff structures in such a way that is conducive to their reproduction. When a lack of a strong commitment to a social pact is compounded by a weak capacity of the state to enforce cooperation between social partners, it is very unlikely that a regulative social pacts will be institutionalized.

In short, the most general proposition derived from the power-distributional approach and applicable to social pacts is that institutions will be reproduced when actors – in particular those with more power – support their reproduction. These actors are motivated with the general concern to support these institutions because they serve their interests, or because they believe that they can adapt these institutions in a way that would better serve their interests (e.g. ensure more favourable distributional outcomes for them). In the case of the institutionalization of social pacts, however, the cooperative attitude of the more powerful actors (e.g. very often actors who have exit options, such as mobile capital) often needs to be secured by government intervention.

Drawing on the power-distributional approach, we put forward the following hypothesis:

H4 Social pacts are likely to become institutionalized when actors – in particular those with more power – support their reproduction. Conversely, de-institutionalization of pacts is likely to occur when powerful actors lose interest in supporting their reproduction, or alternatively when power shifts towards those who do not support pacts.

4.3 Implications for field research

In the preceding pages we have identified some key mechanisms and hypotheses for understanding social pacts, which we intend to test on our empirical material. The first task is to carefully distinguish between the several types of pacts and concertation as defined in Part I and classified in Figure 1. In order to achieve this we first need to produce hard and comparable evidence concerning both the number of issues/policy areas subject to pacts and concertation and the procedural and other governance arrangements that allow for articulation between levels. Second, we need to identify which trajectory of institutional evolution as outlined in Figure 2 applies (if appropriate) in specific cases and at specific times. This descriptive task should be based on a variety of sources, including official material (documents, statements, etc.), reports by analysts and researchers, and interviews.

¹⁹ Not all states possess such capacity. As Streeck (2003a) has argued, the evolution of the German wage setting system (which is increasingly considered problematic by all or most of the actors concerned) into a practice of neo-corporatist cooperation, linking wage setting with other policies, has not been possible, since it would have required legal prerogatives and political capacities which the post-1949 federal German state does not have.

The empirical chapters should evaluate and compare the hypotheses derived from the four approaches presented above. While some of these hypotheses are clearly contradictory, others might be complementary. Moreover, a detailed empirical analysis might reveal that a particular hypothesis corresponds well to a specific period in a country's experience, but that it needs to be complemented with, or replaced by, another hypothesis to account for another period of time. Given that our analysis comprises eight country-cases that display significant variation on several dimensions (e.g. institutional, organizational, historical, and socio-cultural aspects), we do not expect to find a clear cut general explanation of the institutionalization of social pacts that corresponds to a single approach or hypothesis. Our purpose is to examine the strengths and weaknesses of the alternative approaches and hypotheses in explaining specific degrees of institutionalization. Once we have evaluated the outlined hypotheses against the empirical material, we will be able to compare the extent to which the four different perspectives explain the institutionalization of social pacts across countries. While we may not find a single explanation of institutionalization, we can establish whether or not there is a dominant mechanism that explains the degree to which social pacts become institutionalized (or de-institutionalized) across our cases. Moreover, in the process, we hope to arrive at conclusions about the scope conditions under which the different perspectives are most useful.

For hypothesis testing we rely on several sources of data and methods of data gathering, combining objective and subjective data. With respect to *hypothesis H1*, the critical issue is whether the micro-foundations for problem resolution, in particular wage setting and skill foundation, are seen to be problematic or working well. For this information, we suggest two sources: interviews with relevant actors (in which they express whether they view the system as problematic, how and why) and official and academic research reporting on the system. It would be extremely helpful if there exist surveys on how employers or union representatives view these issues (of course, this cannot be done by us, but such surveys should be used where they exist).

Hypotheses H2A and H2B, again, require objective data on socio-economic and institutional outcomes, supplemented with data on supporting arrangements, intra- and inter-organizational ties and (personal) networks. Data on growth, productivity, employment and unemployment, wages, distributional issues, etc. will be collected on a comparative basis by the Florence team, but it may need to be checked and complemented with national data. For a part of the institutional data – unionisation, bargaining coverage, conflict resolution, joint councils, etc. – we will also have some comparative data collected in Florence, but for this kind of data we must be able to rely on more detailed accounts from the national teams as well. This is obviously even more the case with regard to the assessment of the nature of networks and the ways in which they may enable or constrain actors. However, in addition to objective data on socio-economic and institutional outcomes, it is important that we also get a feel for how the actors themselves judge these outcomes and in particular whether they see these outcomes as satisfactory for their organization and constituency. This part requires interviewing – e.g. “how do you judge ... <various issues>?”; “how, on balance, has the pact worked out for your organization?”; “what are the critical issues for your organization which determine the continuation or abandonment of major renegotiations?”; “where does your organization draw the critical line between ‘yes’ or

‘no’ for such decisions” – as well as consultation of public statements, communications to members, internal documents or discussions.

With regard to fairness (‘just outcomes’) and norms – *hypothesis H3* – we may have some secondary sources, but it is crucial to interview the actors on whether they think pacts did or do produce just outcomes and whether they think they and their counterparts feel bound by cooperation norms. It is very important to ask them how they would describe such norms and ask for examples of how and where they might have applied in concrete cases, or, alternatively, to ask them to describe situations in which such norms were violated and became an obstacle for, or even prevented, further cooperation. Special attention should be paid to the relation between cooperation norms and conceptions of fairness. By asking our interviewees to give examples we may get a more concrete picture of how norms interact with and contribute to institutionalization.

Finally, for *hypothesis H4*, we need an assessment of power resources and the distribution of power across the actors. (Note, this distribution needs not be the same and is probably not the same across all policy domains – thus governments may be more powerful vis-à-vis the other actors in social security than in, for example, wage setting). For our purposes, it is important to assess which actor is the most powerful (has the best exit options, etc.) and how that actor behaves. As has been argued in Part II, for this we need also subjective data – i.e., how do these actors perceive the power distribution among themselves? In this case, it is important to ask two questions in interviews: first, whether, and in what direction and ways, actors perceive a change in power distribution occurring as a result of the pact or concertation experiences; and, second, how that change has affected, in their opinion, the choices of others and those of themselves towards continuation, change or whatever has happened in their particular concrete experience. In enquiring into subjective assessments of power distribution and change, it is essential to ask our respondents to give their evidence, based on organizational or other data, for what they claim. Where it is feasible, researchers should try to supplement this evidence with data of their own, based on other sources (other research, official or semi-official data, etc.) concerning the changes in the distribution of power. In this connection, particular attention should be given to the law (labour law) as this defines what are credible threats and exit options, and also constrains the particular actions or interventions of the government.

In conclusion we wish to make a final point about the ‘significance’ of social pacts. We would wish to define ‘significance’ in the following terms:

- (i) integration into or divorce from broader policy processes;
- (ii) contribution to or irrelevance for achieving policy objectives;
- (iii) a high degree or low degree of utilization by actors for achieving their goals;
- (iv) a weak or strong ‘re-constitutive’ effect on the power relations between those actors; and
- (v) the extent to which the pact is judged to be successful in achieving its aims.

Note that we do not include in this list policy *outcomes* (e.g. the link between a social pact and the evolution of unemployment, as opposed to the link between a pact and

changes in unemployment *policy*) since such causal links are notoriously difficult (and probably impossible) to establish.

In principle, therefore, and to use the terminology adopted earlier on in this paper, the significance of a pact could range from being a central, re-constitutive part of a policy process or processes, all the way through to symbolic value and total irrelevance. It is highly probable that pacts in the form of neo-corporatist concertation will have greatest significance in the above senses, whereas headline and shadow pacts will have weaker impacts. Thus form is likely to be linked to function and effect. It is also likely that while investigating the country cases, especially when assessing the utility of the functionalist, utilitarian and power-distributional perspectives, the issue of the 'significance' of the social pact will logically arise. Nevertheless, it is important that in addition their focus on the emergence and institutionalization of pacts our country studies also consider and assess the extent to which this particular institution 'matters'.

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List of Figures

Figure 1: A Taxonomy of Social Pacts

		Type of issues/number of policy areas	
		Low	High
Levels of governance/ degrees of articulation	Low	I - narrow/exclusive weakly integrated/shallow (<i>shadow pacts</i>)	II - wide/inclusive weakly integrated/shallow (<i>headline social pacts</i>)
	High	III - narrow/exclusive highly integrated/deep (<i>incomes policies</i>)	IV - wide/inclusive highly integrated/deep (<i>neo-corporatist concertation</i>)

Figure 2: The evolution of social pacts: paths and trajectories

PATHS OF INSTITUTIONAL EVOLUTION		
	Institutionalization	De-institutionalization
Trajectory 1	Repetition I → I' II → II' III → III' IV → IV'	Abandonment I → ^I II → ^II III → ^III IV → ^IV
Trajectory 2	Integration/vertical shift I → III II → III II → IV	Disintegration/vertical shift III → I III → II IV → II
Trajectory 3	Expansion/horizontal shift I → II III → IV	Reduction/horizontal shift II → I IV → III