

Parties, Elections, and Policy Reforms in Western Europe

Voting for social pacts

Kerstin Hamann and John Kelly



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Social pacts – policy agreements between governments, labor unions and sometimes employer organizations – began to emerge in many countries in the 1980s. The most common explanations for social pacts tend to focus on economic factors, influenced by industrial relations institutions such as highly coordinated collective bargaining. This book presents, and tests, an alternative and complementary explanation highlighting the electoral calculations made by political parties in choosing pacts.

Using a dataset covering 16 European countries for the years 1980–2006, as well as eight in-depth country case studies, the authors argue that governments' choice of social pacts or legislation is less influenced by economic problems, but is strongly influenced by electoral competition. Social pacts will be attractive when party leaders perceive them to be helpful in reducing the potential electoral costs of economic adjustment and wage restraint policies. Alternatively, parties may forgo negotiations with social partners and seek to impose such policies unilaterally if they believe that approach will yield electoral gain or minimize electoral costs.

By combining the separate literatures on political economy and party politics, the book sheds new light on the dynamics of social pacts in Western Europe. This book will be of interest to students and scholars of political science, economics, political economy, European Studies and comparative politics.

Kerstin Hamann is Professor of Political Science at the University of Central Florida. She is the co-editor of *Institutions and Democratic Development* and *Assessment in Political Science*.

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Reforms in Western Europe**
Voting for social pacts
Kerstin Hamann and John Kelly

Meinen Eltern
K. H.

To my mother
J. K.

Preface and acknowledgments

This book is the product of several years of collaboration and many discussions about the relationship between governments and trade unions. Our interest in explaining the recurrence of social pacts to reform welfare, labor market, and incomes policy across Western Europe was sparked by our different perspectives on pacts because of our backgrounds in Political Science and Industrial Relations, respectively. It was a small next step to combine these differences in perspective to construct an explanation that takes a political science lens to explain social pacts, and which grants unions a prominent role even in countries where much of their strength has been eroded over the last two decades or so. Social pacts, in our view, are worth studying because they form part of a political process that results in social welfare, labor market, and wage policies that are an integral part of the political economies of Western European countries and elsewhere. Who participates in these decision-making processes matters because it relates to whose interests are represented and thus ultimately concerns the quality of democracy. Therefore, it is important to understand the conditions that lead governments to offer pacts to unions and sometimes employers, as it is equally important to analyze the conditions that lead governments to prefer reforming crucial policy areas through legislation. We hope that our research makes a contribution to the debate on these issues and hopefully sparks debates that further our knowledge of the democratic processes in Western European countries.

While the book is the result of a collaborative effort between the authors, the network of collaboration is so much wider and includes many colleagues who made invaluable contributions that facilitated our work and improved the book through discussions at conferences where our ideas and findings were presented. Colleagues were also involved informally, by reading and commenting on portions of the manuscript, or by assisting with our research. In particular, we owe a debt of gratitude to Alexia Katsanidou, who was employed as a Research Assistant on the project and did invaluable work on the quantitative data that form the core of Chapter 4. We would also like to gratefully acknowledge funding from the British Economic and Social Research Council (RES-000-22-2149). Our sincere thanks also to Racine Altif and Kerri Milita, who provided outstanding research assistance.

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Kerstin Hamann, Orlando and John Kelly, London

Note

A much shorter, and early, version of a small section of some of the material on Ireland and Austria (around 6 pages) appeared in *Comparative Political Studies*, 40(8), 2007.

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1 Introduction

The puzzle of social pacts

Social pacts are standing out as a prevalent mode of welfare, labor market, and wage reform since the early 1980s in Western Europe. Between 1980 and 2006, 110 pacts covered a total of 145 issues within these three domains in 16 Western European countries (EU15 plus Norway). In addition, trade unions (and sometimes employers) also rejected a sizeable number (47) of pacts that governments had offered, resulting in a total of 157 pact offers extended by governments to unions and employers. Unsurprisingly, given this empirical prominence, social pacts have become the subject of a growing body of scholarly research.¹ While much of this research addresses the question of why pacts emerged just when corporatism was perceived as declining, so far our understanding of this phenomenon remains patchy. Consider the following: Ireland has a continuous history of social pacts from 1987 despite the fact that as a liberal market economy it does not appear to possess the preconditions for effective tripartism; in Austria, with a long history of tripartism, agreements were repudiated by governments after 1999 as they opted instead for union exclusion and legislation; in Italy, successive governments have oscillated between a preference for pacts and a preference for legislation; and even in Scandinavia, where strong unions would seem to make some form of union involvement in policymaking highly probable, Danish and Swedish governments have at times opted for legislation while excluding unions. So far we do not have an encompassing explanation for why some governments sometimes prefer reforms through pacts, but at other times would rather legislate; why countries that have similar economic and industrial relations institutions or patterns of economic performance nonetheless vary significantly in the predominance of pacts; and why countries with strong histories of corporatism or union inclusion in policymaking occasionally abandon these paths and opt for legislation as their preferred mode of reform.

This book advances our understanding of the ways in which governments choose to implement reform policies by focusing on electoral pressures on governing parties. We show that governments' preferences for reforming contested policy areas through pacts or legislation correspond to pressures governments are exposed to in the electoral arena. Governing parties' reform

strategies for potentially unpopular policies respond to those pressures as they attempt to maintain electoral competitiveness. As such, social pacts are not merely responses to economic pressures, but are politically constructed.

The argument in brief

While building and expanding on the insights produced by existing research on the origins of social pacts, we also depart from this literature in two important ways. First, we take issue with the common assumption in this body of research that governments are primarily economic managers responding to economic pressures. Instead we develop and test the argument that governments and the political parties they are comprised of are also, and perhaps primarily, political actors, interested in promoting their electoral fortunes. To do so, they strategically and selectively employ social pacts when it seems that these might be electorally advantageous instead of passing potentially unpopular reforms via legislative procedure. We assume that political parties are concerned with winning votes and oftentimes office, both of which are usually necessary to pursue specific policy agendas (see Strøm and Müller 1999). Thus, when engaging in policy reforms, governments are conscious of the potential electoral consequences of their policies. Second, we depart from existing studies, most of which center their analysis only on pacts, by reasoning that governments have a choice in how they pursue reforms. They can either opt for social pacts, negotiated with either or both of the social partners, or they can use the legislative route towards policy reform. We thus understand pacts as an alternative to legislation, and therefore assume that variation in pacts within and across countries is best understood when compared with governments' resort to legislation. As we discuss in Chapter 2, in corporatist countries with highly coordinated or centralized collective bargaining institutions, governments presumably do not need to choose between pacts and legislation because existing institutions will deliver wage moderation. Yet both pacts and legislation are still found even in highly corporatist countries such as Belgium, Finland, and the Netherlands on both wage and non-wage issues, suggesting that social pacts exist independently of corporatist institutions. Our focus on governments' strategies as an attempt to bolster their electoral fortunes reflects the fact that we are primarily interested in governments' motivation to *offer* pacts rather than unions' willingness to *sign* pacts. In other words, we are less concerned here with whether governments succeed in working out deals with unions and employers and pact offers are accepted by the social partners or not, a question that is certainly interesting and important but distinct from our analytical focus. Hence, we use pact offers rather than signed pacts as the object of study in our analysis throughout the book unless otherwise stated.

To develop and test our argument we combine several literatures that have until now existed largely along separate lines: the political economy literature on state intervention in the economy, which has explored the economic and

institutional logic of government negotiations with the social partners; and the economic voting, welfare reform, and party politics literatures, which have explored the changing behavior of voters and parties and the ways in which parties implement contentious issues such as welfare reform. By combining insights from these literatures we construct a comprehensive explanation for the emergence and persistence of social pacts in Western Europe while simultaneously accounting for variation in the occurrence of social pacts across countries as well as within countries over time. We build our reasoning on the assumption that many government proposals to target welfare state cuts, attempt to limit wage growth, or reform labor markets, are potentially unpopular with the electorate. We further assume that parties forge social pacts not only to deal with economic problems but also in response to electoral calculations. Social pacts will be attractive when party leaders perceive them to be helpful in reducing the potential electoral costs of unpopular economic adjustment and wage restraint policies. Alternatively, parties may forgo negotiations with social partners and seek to impose such policies unilaterally if it appears probable that this approach may yield electoral gain or minimize electoral costs.

Research design and data

We define a social pact as a national agreement between government and unions, and sometimes employers, intended to regulate wages or reform welfare or labor markets.² Thus, we exclude bipartite agreements between unions and employers that are concluded without government participation even if the government has encouraged the social partners to sign such an agreement. We therefore exclude the famous 1982 Wassenaar agreement between unions and employers – although the government had threatened the social partners with legislation, it was not actually involved in the negotiations.³ We also exclude the 1977 Moncloa Pacts at the outset of democracy in Spain because they were signed between political parties and did not directly involve the social partners in the negotiations.

To test our core propositions, we follow Tarrow's (2004) advice to embrace both quantitative and qualitative methods. Thus, our research design embraces two methods of data collection and analysis. We first employ quantitative analysis of a pooled time-series dataset of social pact offers and legislation and a series of variables related to electoral factors across 16 West European countries for the time period 1980–2006. Multivariate analysis allows us to establish associations between variables and assess the general validity of our core argument for all cases. However, it is also important to explore the causal mechanisms underlying our hypotheses to establish whether variables related to electoral pressures really are salient for the political actors at the heart of our argument. We thus supplement our quantitative analysis with qualitative case studies exploring eight countries. Such cases can also uncover the conditions under which our argument has more or

less validity and illustrate the contextual conditions that modify the operation of our central variables.

Our database spans the years 1980–2006, beginning when pacts first began to emerge and covering over a quarter of a century of continued pacts. This timeframe is also long enough to allow us to test rival hypotheses extant in the literature. The dataset comprises all pact offers in the EU15 countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom) as well as Norway. We included Norway in common with many other studies in West European comparative political economy and comparative politics (e.g. Fajertag and Pochet 2000; Huber and Stephens 2001; Immergut *et al.* 2007; Iversen 2005; Katzenstein 1985; Mares 2006; Müller and Strøm 2003; Swank 2002). Several of these studies also include Switzerland, the other major West European country outside the EU. However, as two of our main data sources on social pacts, the *European Industrial Relations Review* and the *European Industrial Relations Observatory*, do not provide any data at all on Switzerland, we decided to omit this case to ensure consistency and comparability of data across all cases.

Given our theoretical focus on governments' motivation to offer pacts rather than the success of pact negotiations, we recorded not only formal, signed pacts, but also instances of social pact offers that were not signed because they were rejected by unions, employers, or both. Our data comprise wage pacts and interventions covering other labor market reforms – such as work-time, training, and industrial relations institutions – in addition to welfare state reforms, including pension reforms. The focus on wages (and, to a much lesser extent, on welfare) prevalent in the existing literature makes sense as much of the existing research has been based on the assumption that pacts are motivated by European Monetary Union (EMU). However, if we consider the possibility that pacts may be driven by factors other than EMU, there is no reason to restrict the scope of pacts to wages and wage-related issues.

The premise of our argument is that pacts may prove to be an electorally attractive way for governments to implement unpopular reforms. However, we acknowledge that not all welfare reforms are unpopular. For instance, when particular aspects of welfare policies have become delegitimized or publicly criticized, as was the case with aspects of unemployment benefits in Denmark and Sweden, voters might largely support rather than oppose welfare reforms (Klitgaard 2007). Where our sources indicated that unions agreed on proposed reforms we did not include those in our database. However, given the absence of systematic survey data on the popularity of specific reforms, we are aware that we were probably unable to identify all the reforms that had widespread support in the electorate. We thus erred on the side of caution and included all reforms unless there were clear indicators that they enjoyed union or popular support. The comparative country chapters will discuss some of these cases in more detail.