

**Similar Structures, Different Outcomes:
The Surprising Resilience of Corporatist Policy-Making in Europe**

Lucio Baccaro
Département de Sociologie
Université de Genève
Uni Mail – Bureau 4211
40 bd du Pont d'Arve
CH-1211 Genève 4
Switzerland
Lucio.Baccaro@unige.ch

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Until few years ago the consensus among political-economy and industrial relations scholars was that corporatist policy-making was if not dead at least seriously ill, and that it would not be able to survive the blows of (depending on the observer's angle) globalization, European integration, technological change, and a generalized employer offensive (Schmitter, 1989; Streeck and Schmitter, 1991a; Gobeyn, 1993; Streeck, 1993; Thelen, 1994; Locke, 1995; Iversen, 1999; Iversen *et al.*, 2000; Hall and Soskice, 2001).

Based on a variety of indicators, including a new measure of corporatist policy-making, this paper argues that these analyses were excessively pessimistic and that they unduly extrapolated from a few highly symbolic events like the demise of centralized bargaining in Sweden (Swenson, 1991; Iversen, 1996; Swenson and Pontusson, 2000). There is no sign of systematic decline in corporatist policy-making.

However, while corporatism has proven unexpectedly resilient *qua* institutional structure – as also witnessed by the recent literature on the emergence of social pacts in numerous countries and regions (Regini, 1997; Wallerstein *et al.*, 1997; Perez, 2000; Compston, 2002; Culpepper, 2002; Molina and Rhodes, 2002; Baccaro, 2003; Traxler, 2004; Hassel, 2006; Hamann and Kelly, 2007; Baccaro and Simoni, 2008b; Culpepper, 2008; Hassel, 2009; Avdagic, forthcoming) – the internal mechanisms that regulate the new corporatist deals, as well as the political-economic outcomes these deals lead to, are pointedly different from those usually associated with golden age corporatism.

The corporatism of the golden age represented an alternative to neo-liberalism, namely to a political-economic regime in which the market is main mechanism of economic coordination, and conscious, political intervention in the economy is kept to a

minimum. It was called a “superior economic system” for its ability to reconcile global economic integration, a large and activist public sector, and a capillary social protection system (Pekkarinen *et al.*, 1992; Pontusson, 2005). The new corporatism is instead a policy process by which governments which, for various reasons (e.g. parliamentary weakness or fear of electoral retribution) are unable or unwilling to unilaterally pass controversial and potentially unpopular policy reforms, find a way to do so by activating a parallel (union-based) channel of consensus mobilization.

Internally, the new corporatist institutions are much more participatory and democratic than in the old days. Unions, in particular, take great pain to democratically legitimate the outcomes of national bargaining through debates and referenda. This coexistence between market-conforming policy outcomes and democratic organizational features is not a coincidence – the paper argues – but a causal relationship. In the new political economic regime, trade unions are no longer rewarded for bargaining moderation through compression of market earnings and more generous social protection programs as they once were. The search for procedural legitimacy compensates for declining (or absent) output legitimacy (Scharpf, 1999).

The remainder of the paper develops the argument as follows: it begins with an overview of recent trends in corporatist policy-making. It then examines the outcomes of the new corporatism, focusing on income inequality and the wage share. It goes on discussing the role of the new corporatism as adaptation to a neo-liberal political economic regime. It illustrates the argument by considering developments in Ireland and Italy, the two countries in which the corporatist renaissance was both most evident and

most surprising. The paper concludes by pointing to implications of the argument for assessing the depth and significance of institutional change in advanced countries.

Measuring Corporatist Policy-Making and Its Evolution in Time

Neo-corporatist policy-making was originally defined as the combination of two elements (Schmitter, 1982): 1) a structure of the interest group system characterized by singular, monopolistic, and internally-hierarchical interest groups (Schmitter, 1974); and 2) a process of public policy-formation in which the above groups were systematically involved in the design and implementation of public policy (Pizzorno, 1978b; Lehmbruch, 1979; Streeck and Kenworthy, 2005). The label adopted, “(neo)-corporatism,” was meant to simultaneously draw attention to the structural similarities between the interest group systems of some modern democracies and those of the old (i.e. fascist) corporatist systems (Crouch, 1983), and to underscore that typical of the policy regime in question was the “incorporation” of interest groups into the machinery of government (Martin, 1983).

The two elements were thought to be strictly connected, if not logically at least empirically (Cawson, 1986). It was argued that only corporatist interest groups would allow for the emergence and reproduction over time of corporatist (a.k.a. “concertative”) policy-making. This was because the types of policies negotiated in corporatist forums required interest groups to have (or develop) a capacity to sacrifice the short-term interests of at least a portion of their constituents in exchange for gains that furthered the long-term interests of the organization, which in turn largely coincided with the general interest of the national economy as whole. Only interest groups which were both

monopolistic in their domain, i.e. insulated from competition from similar groups, and internally-hierarchical, i.e. with leaders that could ignore the members' dissent, would be reliable partners in corporatist deals.

In the early years various indexes of corporatism were produced. These were rankings of countries and were based on rather impressionistic assessments of not only interest group participation in policy-making and associational centralization, but also organizational density (capturing the extent of *encompassiness*) and collective bargaining structure (centralized or coordinated) (Schmitter, 1981; Cameron, 1984; Bruno and Sachs, 1985; Tarantelli, 1986a; Lehner, 1987; Calmfors and Driffill, 1988; Soskice, 1990; Dell'Aringa and Samek Lodovici, 1992). Also, the indexes were snapshots taken at a particular point in time. As such, they made it very difficult to explore changes, except in the form of changes in the relative standing of countries.

Recently, however, a number of cross-country time-series database have become available, providing for a detailed evaluation of trends in the various dimensions implicated by the corporatist construct (Kenworthy, 2003; Golden *et al.*, 2006; Visser, 2009). The data are usually based on the systematic coding of textual sources. I rely on these data, as well as others which I collected myself, to elaborate a time-changing measure of corporatist policy-making, which I use to address the question whether corporatism is in crisis or not.

The measure of corporatist policy-making focuses on the process dimension of corporatism, and then tests whether corporatism as policy process is empirically associated with corporatism as interest group structure. It focuses on two aspects: the degree of coordination of collective bargaining – which is what particularly the early

scholarship on corporatism focused upon (Cameron, 1984; Bruno and Sachs, 1985; Tarantelli, 1986b; Calmfors and Driffill, 1988; Rowthorn, 1992) – and a new index measuring the extent of tripartite involvement in macroeconomic, social, and labor market policy. These two components are weighted equally in the composite index.

For data on collective bargaining structure, I rely on the well-know index elaborated by Lane Kenworthy, updated to 2005. For the measure of tripartite policy-making, I rely on data that I jointly collected with John-Paul Ferguson of MIT. They are based on the monthly coding of articles from the *European Industrial Relations Review*, a practitioners' publication, supplemented with yearly data from the Visser's database (2009) for three non-European countries: Australia, Canada, and the US.¹ Among other things, the data record if and when a negotiated agreement was signed; the policy issues covered by such agreement (centralized wage regulation; labor market policy; welfare policy); the actors that signed it; and its duration. The data are recorded monthly and then aggregated in yearly averages.

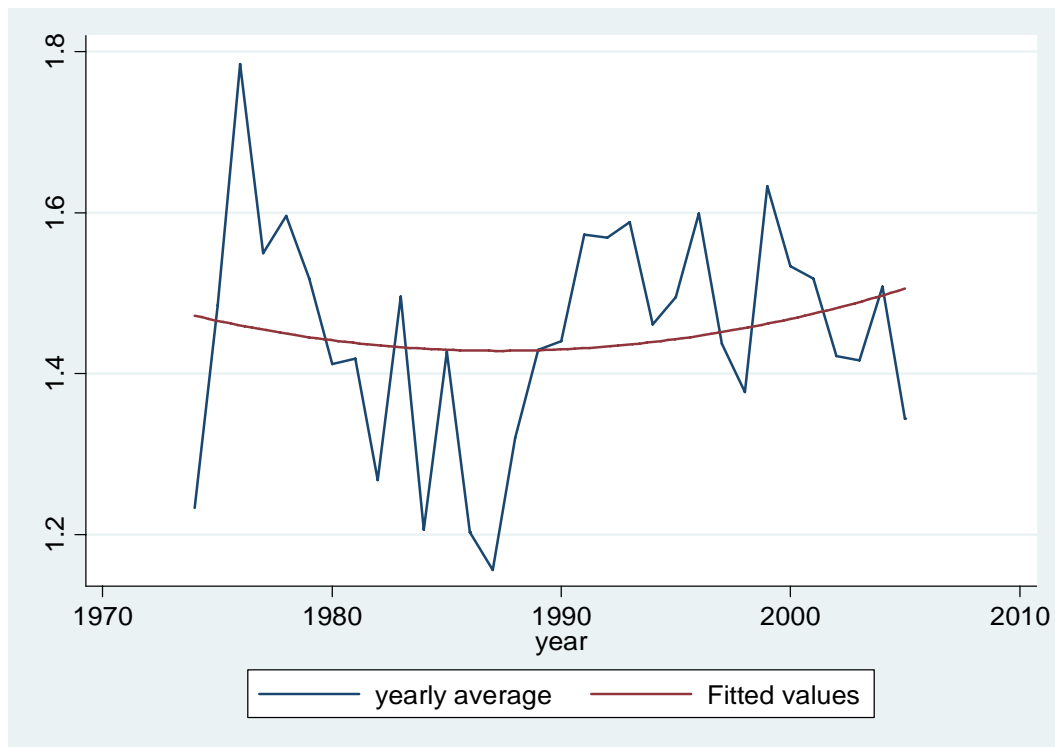
The two components of the indicator complement each other. While the first component focuses of the degree of collective bargaining of coordination, which may be the result of purely bipartite interaction, the second component targets negotiated public policy-making and does not record purely bipartite centralized agreements (rather common in Scandinavian and Northern European Countries), which should be captured by the first term. In addition, because not all agreements are perfectly tripartite, the scores of tripartite policy-making are weighted by the extent to which unions and employer organizations buy into them. A country is scored as high on the corporatist

¹ The coding of these countries is straightforward because, with the exception of Australia in the age of the Accord (1983-1992), they have no experience with corporatist policy-making.

policy-making index not just when its bargaining structure is highly coordinated, but also when its policy-making process is highly participatory and involves the social partners on macroeconomic, labor, and social policies.²

Figure 1 displays yearly averages of the index for 16 advanced countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, UK, and US) between 1974 and 2005. The graph suggests that there was indeed a decline of corporatist policy-making which lasted from the late 1970s to the late 1980s, but that the crisis was then followed by a rebound: corporatist policy-making experienced a renaissance in the 1990s, especially in Finland, Ireland, Italy, and Spain. Australia, Denmark, Sweden, and the UK were cases of decline. In the other countries there was stability (see Appendix 1).

Figure 1: Mean Yearly Index of Corporatist Policy-Making (16 Countries)



² An appendix with the coding scheme will be made available when it will be ready.

Figure 2: Mean Yearly Index of Collective Bargaining Coordination

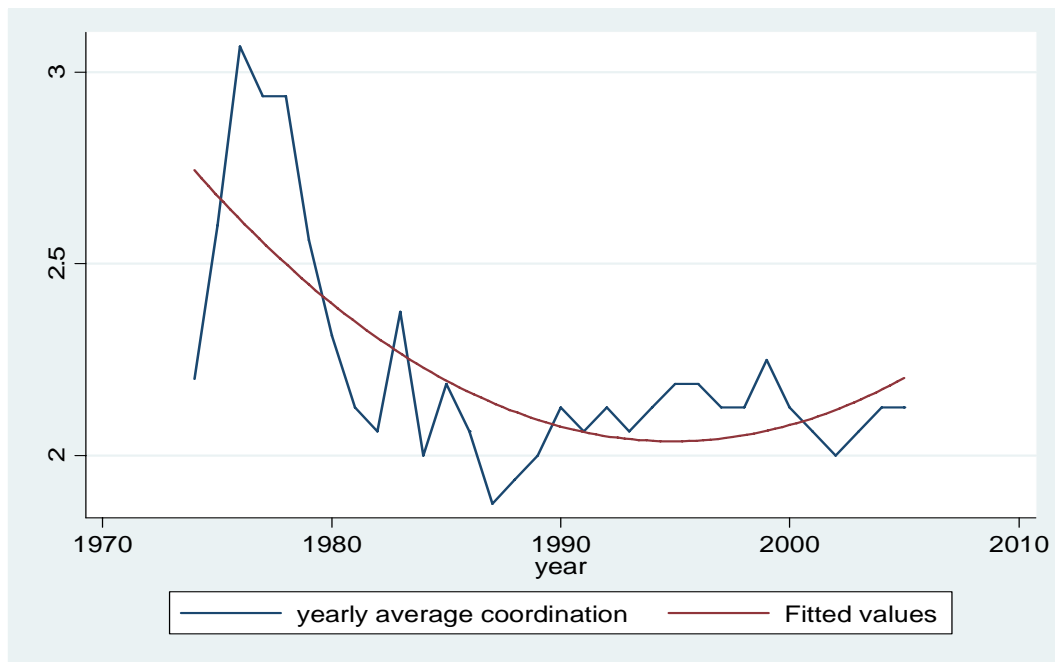
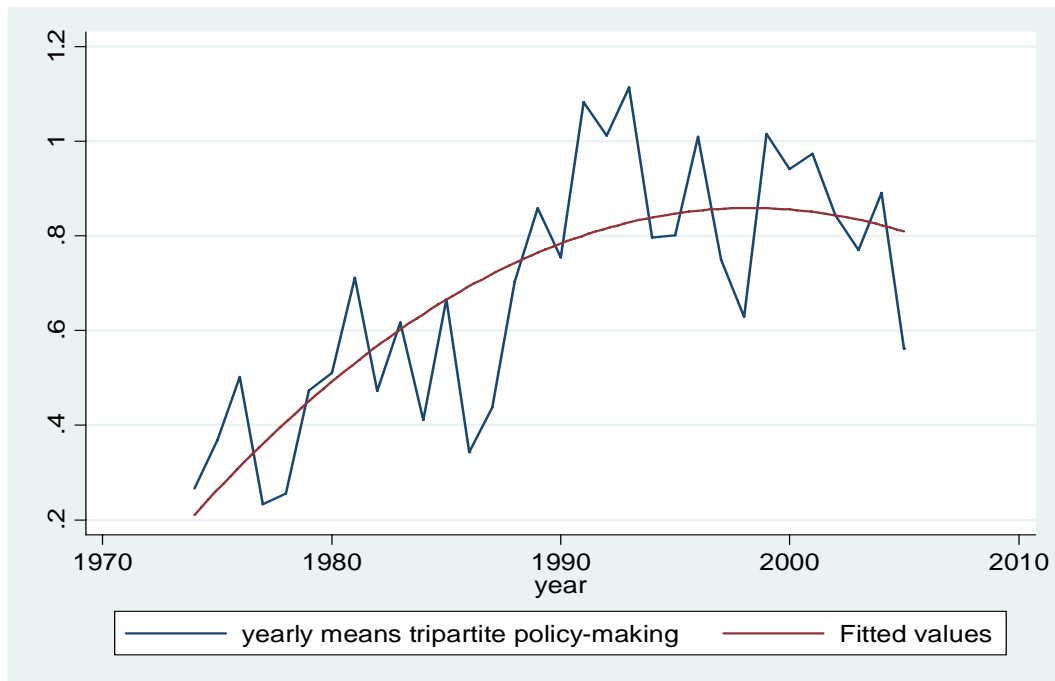


Figure 3: Mean Yearly Index of Tripartite Policy-Making



Figures 2 and 3 plot separately the two components of the index: collective bargaining coordination and tripartite policy-making. While the structure of collective bargaining experienced a deterioration between the late 1970s and the early 1980s (as

argued by the literature on collective bargaining decentralization (Locke, 1992; Katz, 1993; Locke *et al.*, 1995; Katz and Darbishire, 2000)), and then remained stable (Figure 2), tripartite involvement in policy making grew continuously throughout the 1980s and 1990s, albeit at a declining rate. This suggest that the corporatism that reemerged in the 1990s was of a particular kind: it combined a more decentralized organization of industrial relations than in the past with deeper involvement of the social partners in the political sphere (Katz *et al.*, 2004)

Table 1 displays rankings of countries based on the corporatist policy-making index described above. The index for 1974-1989 is similar to the various indexes produced in the 1980s as it places Belgium, Sweden, Austria, and other Scandinavian countries towards the top, US, Canada, France, UK, and Italy towards the bottom, and Germany somewhere in the middle (see Schmitter, 1981). Germany has never been considered a poster case for national-level macro-corporatism (Martin and Thelen, 2007).

The ranking for 1990-2005 is considerably different, with two countries: Italy and (especially) Ireland, strongly increasing their corporatist scores and two other countries: Australia and Sweden, falling to the bottom of the table. This corresponds to the dismantling of the Accord in Australia and the demise of centralized bargaining in Sweden.³ With the collapse of the Social Contract in the UK, and the Thatcher government's systematic dismantling of tripartite forums, corporatism disappeared from the Anglo-Saxon/Liberal Market Economies, with the notable exception of Ireland, and

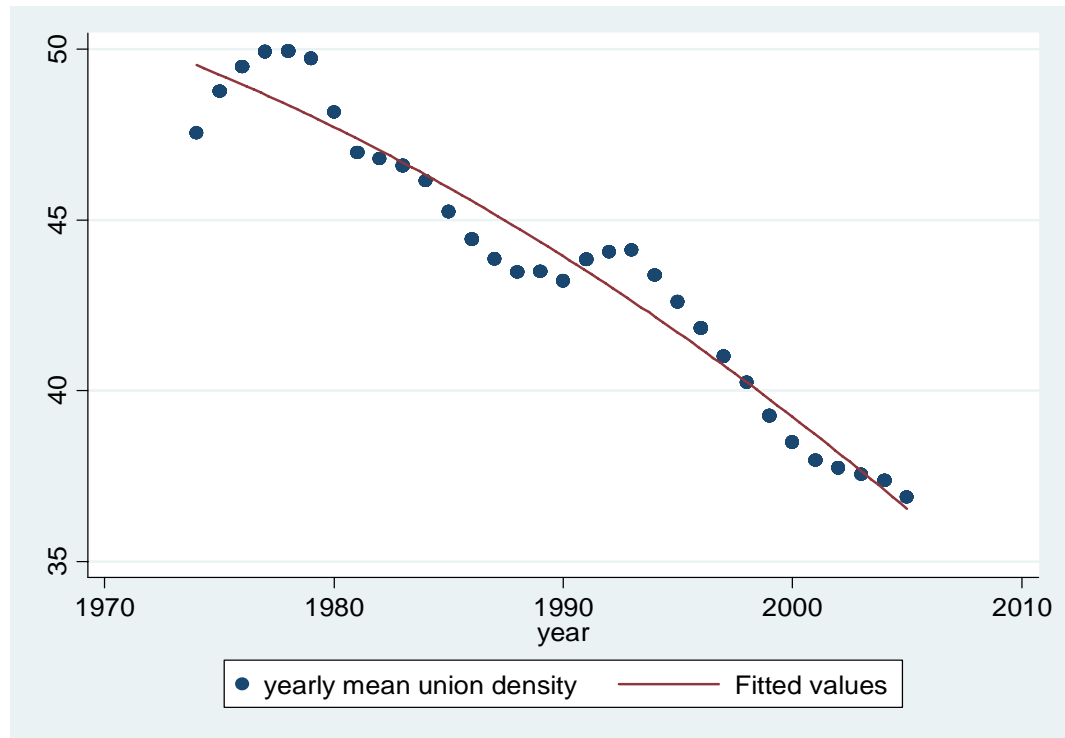
³ Spain also falls in relative terms between the first and the second period. The trajectory of Spain is U-shaped: in the early years of the democratic transition collective bargaining was centralized and the unions heavily involved in national policy-making. Then in the 1980s industrial relations were decentralized and tripartism ceased to play an important role. Both bargaining centralization and corporatist policy-making reemerged towards the end of the 1990s, relatively late compared to other countries.

became a peculiarity of some Continental European countries and some Scandinavian ones (Norway and Finland).

Table 1: Country Scores and Rankings

	1974-1989		1990-2005		Change in Ranking		Change in Score
Belgium	2.56	Ireland	3.76	Ireland	10	Ireland	2.44
Sweden	2.04	Belgium	2.89	Italy	7	Italy	0.85
Norway	2.03	Norway	2.82	Germany	2	Norway	0.79
Austria	2.00	Finland	2.70	France	2	Finland	0.72
Finland	1.98	Italy	1.90	Finland	1	Belgium	0.32
Spain	1.90	Austria	1.84	Netherlands	1	Netherlands	0.26
Denmark	1.56	Netherlands	1.79	Canada	1	Germany	0.19
Netherlands	1.53	Germany	1.69	Norway	0	France	0.01
Australia	1.52	Denmark	1.22	US	0	US	0.00
Germany	1.50	Spain	1.13	Belgium	-1	Austria	-0.16
Ireland	1.32	Sweden	1.13	Austria	-2	Denmark	-0.34
Italy	1.05	France	0.56	Denmark	-2	Canada	-0.38
UK	0.68	Australia	0.48	UK	-2	UK	-0.68
France	0.55	Canada	0.00	Spain	-4	Spain	-0.78
Canada	0.38	UK	0.00	Australia	-4	Sweden	-0.92
US	0.00	US	0.00	Sweden	-9	Australia	-1.03

Figure 4: Mean Yearly Union Density in 16 OECD countries



Another peculiarity of the new corporatism relative to the old is that it took place in a context of generalized decline in union strength (see Figure 4). This phenomenon did not just affect a handful of Anglo-Saxon countries in which institutional protections are traditionally less extensive than in Continental European countries, but was equally significant in traditional union bastions such as Austria, Germany, and the Netherlands (see Appendix 2). Even the Ghent countries (Belgium, Denmark, Finland, and Sweden) were affected by it, although to a lesser extent than other countries.

In brief, the evidence suggests that there has been no crisis of corporatist policy-making: there was a decline in the 1980s, but it was followed by a reemergence in the 1990s. Compared to the old, however, the new corporatism has been characterized by a less coordinated bargaining structure and a more explicit involvement of the social partners in national policy-making. Interestingly, the countries that have been at the forefront of the corporatist renaissance have been Ireland and Italy, i.e. two countries that previous scholarship had qualified as particularly inhospitable for this kind of policy-making. Finally, the reemergence of corporatist policy-making has taken place against the background of generalized labor decline.

The next section examines outcomes and internal governance mechanisms. The goal is to investigate changes between the old and new phase of corporatist policy-making. The section relies for this purpose on simple exploratory regressions.

From Redistribution to Internal Democratization

One of the most robust findings in the quantitative political economy literature is that the organizational attributed of corporatist systems (high trade union density and

centralized collective bargaining) are associated with lower economic inequality (Rowthorn, 1992; Blau and Kahn, 1996; Wallerstein, 1999; Rueda and Pontusson, 2000; Bradley *et al.*, 2003; Pontusson *et al.*, 2003). One study even used wage compression as a proxy for corporatism (Freeman, 1988). Does the new corporatism of the 1990s have similar leveling effects?

To address this question, I regress a measure of income inequality on the size of the welfare state, which is known to lead a less disperse distribution (Smeeding, 2002; Bradley and Huber and Moller and Nielsen and Stephens, 2003; Kenworthy and Pontusson, 2005), the indicator of corporatist policy-making described above, and various controls, including a measure of skilled labor supply (a higher supply of skilled labor should reduce inequality), measures of trade and capital liberalization accounting for the impact of economic globalization, as well as union density and the weight of social-democratic parties in government (Table 2).

The measure of Inequality is the first principal component of three highly correlated indicators: 1) the D9/D1 ratio of Net Disposable Income, 2) the D9/D5 ratio of Net Disposable Income, which captures inequality in the upper part of the distribution, where, according to some analyses (Atkinson, 2007, 2008) inequality has grown the most; 3) the Poverty Ratio as percentage of people with less than 50% of the median Net Disposable Income.

The measure of Welfare State Size is also a principal component of two highly correlated indicators: 1) the total tax wedge as percentage of GDP, including social security and indirect taxes, which proxies for state intervention by measuring the extent to which a state is capable of extracting resources from its citizens for its activities; 2)

total public social expenditures as percentage of GDP, which directly captures social transfers.⁴

Table 2. Impact of Corporatism on Inequality

	(1)	(2)	(4)	(5)	(6)
<i>Dep. Var.</i>	<i>Inequality</i>	<i>Inequality</i>	<i>Inequality</i>	<i>Inequality</i>	<i>Inequality</i>
Size of the Welfare State	-1.038*** (0.16)	-1.011*** (0.16)	-1.054*** (0.17)	-0.970*** (0.16)	-1.018*** (0.19)
Corporatist Index	-0.809*** (0.17)	-0.937*** (0.16)	-0.830*** (0.17)	-0.796*** (0.16)	
Corporatism 90-02	0.573*** (0.16)	0.698*** (0.15)	0.586*** (0.15)	0.568*** (0.16)	
Education Years	-0.222** (0.100)	-0.174 (0.13)	-0.230* (0.11)	-0.247** (0.10)	-0.229** (0.10)
Trade Liberalization	0.145* (0.079)	0.132 (0.076)	0.148* (0.081)	0.119 (0.090)	0.136 (0.082)
Capital Liberalization		-0.202 (0.18)			
Union Density			0.00179 (0.0094)		
SD Government				-0.00855 (0.0082)	
Bargaining Coordination					-0.421*** (0.11)
Coordination 90-02					0.236* (0.12)
Tripartism					-0.255 (0.42)
Tripartism 90-02					0.180 (0.41)
Constant	-11.34 (7.93)	-10.06 (7.72)	-11.59 (8.12)	-8.280 (9.08)	-10.07 (8.25)
Observations	32	32	32	32	32
R-squared	0.83	0.84	0.83	0.84	0.84

*** p<0.01, ** p<0.05, * p<0.1; robust standard errors in parentheses

Estimated standard errors are adjusted for within-country correlation (Rogers, 1993; Williams, 2000).

The data span is 1978-2002. Because all indicators of inequality (drawn from the LIS database) are available at best every five years, the data are aggregated into 10-year averages: 1978-1989 and 1990-2002. The year 1990 was selected as a cut-off point because it divided the sample more or less in two. Substantially, the 1990s was also the decade in which the new corporatism made its appearance. To test whether the impact of

⁴ A data appendix will be provided with the next version of the paper.

corporatism on inequality has changed, I interact the indicator with a period dummy. If there has been a change over time, the interacted term should pick it up.

The regression coefficients are in line with expectations: the size of the welfare state has a strong and highly significant inequality-reducing effect. Corporatism also significantly reduces inequality, both only up to the 1980s. In fact, the interacted term for the 1990s is positive and significant, indicating that the new corporatism is much less redistributive than the old one. The supply of human capital is associated with greater equality, while trade liberalization is associated with a more disperse distribution. However, the latter effect is not especially robust. All other predictors are insignificant. Distinguishing between the two components of the corporatism index (Column 6), the redistributive effect is due to coordinated wage bargaining, not tripartism. As indicated by the interaction term, in the 1990s coordinated bargaining became much less redistributive than in the previous period.

Table 3 examines the impact of corporatism on the wage share. This is simultaneously a distributional measure and an indicator of economic competitiveness, because (as is well-known) it can be expressed as unit labor costs, i.e. labor costs divided by labor productivity. An economy in which the labor share is declining is one in which wages are growing less than productivity increases, and the economy is gaining in competitiveness relative to international competitors.

The wage share is regressed on the corporatism index and various other predictors, both political-institutional and economic, none of which emerges as significantly associated with the dependent variable. As was the case above, the models distinguish between the effect of corporatism up to the 1980s and the effect from the 1990s on. The

main result is that while in the early period corporatism had no impact on the wage share (the main effect is positive but insignificant), beginning with the 1990s it leads to a reduction in the wage share (the interacted term is negative and significant). Here, too, the effect is due to the changing role of coordinated bargaining, not to tripartite policy-making (Column 9).

Table 3: Impact of Corporatism on the Wage Share

Dep. Var.	(1) Wage Share	(2) Wage Share	(3) Wage Share	(4) Wage Share	(5) Wage Share	(6) Wage Share	(7) Wage Share	(8) Wage Share	(9) Wage Share
Corporatist Index	0.713	0.687	0.252	0.654	1.037	0.730	0.928	0.898	
	(0.84)	(0.83)	(0.93)	(0.82)	(0.72)	(0.78)	(0.90)	(0.76)	
Corporatism 90-02	- 2.407***	- 2.408***	- 2.012***	- 2.483***	- 2.724***	- 2.429***	- 2.478***	- 2.500***	
	(0.40)	(0.41)	(0.55)	(0.46)	(0.50)	(0.34)	(0.42)	(0.38)	
Size of the Welfare State		0.0453							
		(0.35)							
Education Years			-0.632						
			(0.40)						
Trade Openness				0.182					
				(0.21)					
Capital Openness					0.428				
					(0.73)				
Share of FDI						0.0431			
						(0.73)			
Union Density							-0.0158		
							(0.020)		
SD Government								-0.0258	
								(0.030)	
Bargaining Coordination									0.217
									(0.83)
Coordination 90-02									-0.815**
									(0.29)
Tripartism									0.468
									(1.28)
Tripartism 90-02									-1.532
									(1.11)
Constant	61.93***	61.97***	68.01***	44.71**	60.98***	61.82***	62.37***	62.71***	62.08***
	(1.02)	(0.99)	(3.88)	(19.9)	(1.64)	(2.01)	(1.06)	(1.54)	(1.86)
Observations	32	32	32	32	32	32	32	32	32
R-squared	0.39	0.39	0.46	0.40	0.40	0.39	0.40	0.40	0.41

*** p<0.01, ** p<0.05, * p<0.1; robust standard errors in parentheses

To correct for non-independence of the observations, estimated standard errors adjust for within-country correlation (Rogers, 1993; Williams, 2000).

Overall, the evidence suggests that the political-economic effects of corporatist policy-making have changed considerably: the new corporatism is much less redistributive than the former. Also, while the old corporatism focused on nominal wage restraint, but did not necessarily produce real wage moderation, i.e. wages that grew systematically less than productivity, the new corporatism reduces the wage share. These characteristics of the new political economic regime have been referred to as “competitive corporatism” (Rhodes, 1996; Rhodes, 2001).

We now move to another empirical test: that of the hypothesized linkage between corporatism as organizational centralization and corporatism as negotiated policy-making (Cawson, 1986). A few years ago I argued that the new corporatism no longer required organizational centralization as an institutional precondition and was better served by an internally democratic organization (Baccaro, 2003). To test this hypothesis, here I rely on an index of confederation democracy (contract ratification), which I jointly created with Marco Simoni (Baccaro and Simoni, 2007). I also use a measure of union centralization elaborated by Jelle Visser (2009), who drew on and extended previous work of Miriam Golden, Peter Lange, and Michael Wallerstein (2006) and Iversen (Iversen, 1999).⁵

The Visser’s measure of centralization combines the horizontal and vertical dimensions of corporatism as interest group structure (Schmitter, 1974), as it is composed by a concentration index capturing the degree of the trade unions’ monopolistic representation (Golden, 1993; Iversen, 1999), and an index of hierarchical control of peak-levels over peripheral structures, which proxies for the unions’ ability to discipline their members (Crouch, 1983). If corporatist theory is right, we should find a strong

⁵ The measure I rely on is the *CENT* variable in the Visser database (2009).

correlation between the measure of corporatist policy-making and that of organizational centralization. Table 4 presents two regressions of the corporatist policy-making index on the centralization measure and the contract ratification index at different points in time. The statistical model is clearly underspecified, so the results are not to be interpreted as anything more than partial correlations.

Table 4. Partial Correlation between Corporatist Policy-Making, Union Centralization, and Contract Ratification

	1974-1989	1990-2005
<i>Dep. Var.</i>	<i>Corporatist Index</i>	<i>Corporatist Index</i>
Union Centralization	5.837*** (1.08)	2.322 (2.23)
Contract Ratification	0.475 (0.68)	0.313*** (0.035)
Constant	-1.605* (0.78)	0.224 (0.99)
Country Fixed Effects	YES	YES
Observations	252	254
Number of countries	16	16
R-squared (within)	0.13	0.03

To correct for non-independence of the observations, estimated standard errors adjust for within-cluster correlation (Rogers, 1993; Williams, 2000).

Interestingly, the correlation between policy process and organizational characteristics changes over time: between 1974 and 1989 (model 2) there is a quantitatively large and strongly significant “elective affinity” (i.e. positive correlation) between centralization and corporatist policy-making, in line with corporatist theory, while the contract ratification variable is insignificant. The situation changes completely in 1990-2005, i.e. in the age of the new corporatism: the magnitude of the centralization coefficient is reduced by 50 percent and it is no longer significantly different from zero, while the proxy for union democracy became significantly associated with corporatist policy. It looks as though while monopoly and leadership power were key in the first

phase of corporatism, in the second phase the ability to generate legitimacy through democratic procedures became more important (Baccaro, 2003).

Let me now pull together the various threads of the argument so far. The preceding analysis has documented: 1) that corporatist policy-making did not die as predicted but experienced a surprising resurgence in the 1990s; 2) that the new corporatism was significantly less redistributive than the former; also, while the former aimed at nominal wage containment, the latter focused on real wage moderation, equivalent to a real devaluation; 3) that, internally, the new corporatism was much less monopolistic and hierarchical than its previous counterpart, and that it relied much more on democratic procedures of legitimation.

The next section seeks to make sense of these developments.

The Corporatist Renaissance as Adaptation to the New Neo-Liberal Regime

When scholars wrote about the “crisis,” or “end,” or “demise” of corporatism, their arguments rested on two types of evidence: the clear difficulties encountered by corporatism in symbol countries like Sweden (as well as others) in the 1980s, which are documented by the marked drop in the time graph presented in Figure 1, as well as the realization that the international macroeconomic context had changed dramatically. As is appropriate for the “owl of Minerva” (which, according to Hegel, spreads its wings only at the coming of dusk), scholarship reflected real-world developments with a temporal *décalage*: the literature on crisis reached its peak of popularity in the 1990s, when (as we now know with the benefit of hindsight) there were already considerable signs of regeneration; while the literature on the new corporatism (in the form of “social pacts”)

saw the light of day in the years 2000s, when the phenomenon might be declining again (Hancké and Rhodes, 2004).

Corporatism, so the argument went, had been a vital institutional arrangement in a forgone era of national control over the economy, Keynesian demand management, and “embedded liberalism” (Ruggie, 1982). It had helped advanced countries preoccupied with the “governability” of their societies (Schmitter, 1981) come to terms with the newly-found power of their national labor movements after the mobilizations of the late 1960s, as well as with the oil shocks of the 1970s. However, it was unclear that corporatist institutions still had a role to play in the new political-economic context.

For many political economists, corporatist policy-making (equated with centralized incomes policies) was essentially an institutional device specialized in the delivery of wage moderation (Flanagan *et al.*, 1983; Bruno and Sachs, 1985; Tarantelli, 1986a). This was deemed indispensable in a Keynesian political economy committed to full employment (Kalecki, 1943). For other scholars, however, corporatism had much broader significance, and represented nothing less than a systemic alternative to unbridled capitalism.

In a corporatist economy trade unions broadened their sphere of intervention from the labor market to the political sphere (Pizzorno, 1978b; Korpi and Shalev, 1979). Specifically, they refrained from using their power at full in the labor market, but in exchange accumulated political power, which they then used to expand public consumption, decommodify public services, and produce greater levels of economic equality than in other capitalist economies at comparable levels of development

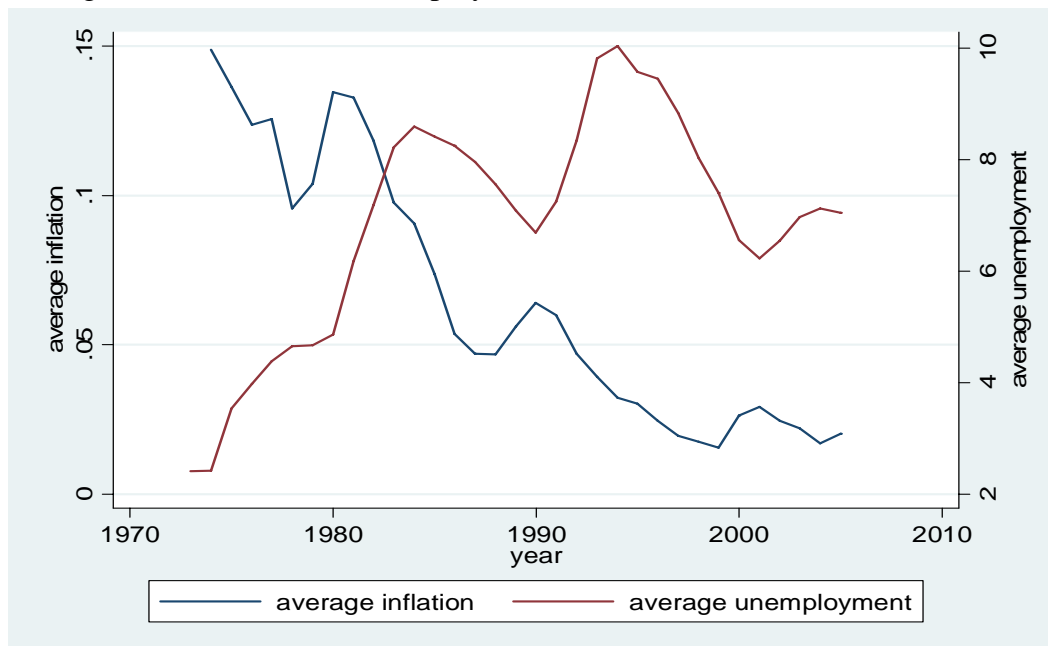
(Stephens, 1979; Korpi, 1983; Glyn and Rowthorn, 1988; Esping-Andersen, 1990; Streeck, 2006).

To be sure, some criticized labor incorporation as a sell-out, perpetrated by union leaders behind the back, and at the expense of, a potentially revolutionary working-class (Jessop, 1977; Panitch, 1979). For most scholars, however, particularly those of social-democratic leaning, corporatist institutions provided union organizations with opportunities to gain access and influence in areas that had traditionally been beyond their reach. The result was a *negotiated economy* in which the sphere of production remained solidly capitalist, because protected property rights were protected and management discretion at the workplace level generally guaranteed, but the sphere of distribution was largely politically-managed to labor's advantage, both through collective bargaining policies compressing market earnings and through redistributive policies promoted by an activist welfare state.

With the collapse of the Bretton-Woods regime and with the policy of high-interest rates of the Reagan government (which, combined with the progressive dismantling of capital controls, made it costly for governments to engage in profligate fiscal policies), the room of maneuver for any kind of economically-interventionist state, including those states in which policy decisions were negotiated with the unions, shrank dramatically. The widespread transition to a hard-currency regime, with independent central banks entrusted with the task of defending price stability (and nominal exchange rate parities), took care of inflation with no need for costly involvement of trade unions. By the end of the 1980s, the problem of inflation was largely under control in advanced countries, albeit at the expense of a large increase in unemployment (see Figure 5).

Incomes policies run into problems of their own: more often than not, centralized negotiations ended up being undone by wage drift at the workplace level, even in countries, like Sweden, in which unions supposedly had the ability to discipline their members. It soon became clear that the government's policy of full employment created perverse incentives for unions to renege on their commitments to deliver wage moderation (Scharpf, 1991), and that the goal of wage moderation was more effectively pursued when bargaining actors heeded the signals launched by inflation-conscious central banks (Hall and Franzese, 1998; Soskice and Iversen, 2000; Franzese, 2002).

Figure 5: Inflation and Unemployment in 16 Countries



Faced with this changing configuration (high unemployment, hard-currency policy, weakening trade unions), employers began to perceive union involvement in national collective bargaining and public policy no longer as the inevitable price to pay for social peace and economic stability, but increasingly as a costly and inefficient

rigidity that was no longer necessary and that could be safely disposed of (Streeck, 1984; Gobeyn, 1993; Soskice, 1999; Swenson and Pontusson, 2000).⁶

For some time it was hoped that the process of European integration would reconstitute state sovereignty at the supra-national level, and provide a new ground in which the corporatist exchange (by which unions ensured the conditions for capital accumulation in exchange for social policy and institutional recognition) could plant again its roots. It soon became clear, however, that the European project relied on “negative integration” (mutual recognition of national regulatory regimes with no plans for activist harmonization) and that it did not include a significant social dimension (Streeck and Schmitter, 1991b).

In brief, corporatist scholars could be forgiven for thinking that the institutions of the corporatist era had outlived their function and that they had been unequivocally dispatched to the dustbin of history.

These accounts overlooked the fact that the transition to the new (neo-liberal) regime could not be automatic but needed to be politically managed. The reforms European economies arguably needed to implement to stand the competition of the more dynamic Anglo-Saxon economies (Alesina and Giavazzi, 2006) were tough and potentially damaging from an electoral point of view for the governments that engaged in them. They included not just wage moderation as in the old days, but also fiscal rectitude (implying a “rationalization” of the public sector), labor market liberalization, and

⁶ The position of the varieties of capitalism literature on these issues is slightly different: only employers in liberal market economies wholeheartedly embraced deregulation. Instead, employers in coordinated market economies rejected the most extreme forms of union involvement (e.g. macro-corporatism), but maintained the institutions ensuring workplace cooperation – a functional prerequisite for the continued viability of “diversified quality production” (Streeck, 1991). Hence the idea that Scandinavian countries would converge on the German model as a new stable equilibrium (Iversen and Pontusson and Soskice, 2000).

welfare state reform. They reduced benefits, tightened eligibility conditions, and shifted risks from the state (or the employers) to workers and citizens. Not all governments had the institutional resources or political will needed to drive them through. Those governments that due to limited parliamentary strength or volatile electoral competition were unable or unwilling to impose unilaterally a series of reforms that were more or less imposed on them by international economic constraints found corporatist pacts an expedient way to activate an alternative, extra-parliamentary (i.e., union-based) mechanisms of consensus mobilization (Hamann and Kelly, 2007; Baccaro and Simoni, 2008b). Thus corporatist policy-making became one of the conduits (but by all means not the only conduit) by which neo-liberal policies made their way into the institutionally-dense political economies of some European countries (Rhodes, 1996; Streeck, 2000; Rhodes, 2001; Streeck, 2006).

To see what exactly is meant by neo-liberal policy, it is helpful to refer to what is often considered one of its clearest statements: John Williamson's now (in)famous "Washington Consensus" paper: *"What Washington Means by Policy Reform"* (Williamson, 1989). The document was meant to summarize the policy approach shared by Washington institutions such as the IMF, the World Bank, and the US Treasury when dealing with developing countries applying for international loans. It took a strong stance in favor of fiscal discipline: balanced budgets were to be achieved not through tax increases, but rather through expenditure cuts (see also Alesina and Perotti, 1997b, a; Alesina and Ardagna, 1998). Indeed, marginal tax rates should be reduced and the tax base broadened. Interest rates should be determined by the market, which ruled out bureaucratic allocation of credit, and the exchange rate should also be market-

determined, but kept “competitive” (i.e. undervalued) to favor export-led growth. Trade should be liberalized, policies should be put in place to attract foreign direct investment (and to ensure full-repatriation of foreign profits), state-owned enterprises should be privatized, and industries should be deregulated.

While some of the points raised in the document – for example about the importance of ensuring adequate protection of property rights, or about the need to shift public expenditures from subsidies to education and health care – were not especially relevant for European and advanced countries, most other points were absolutely pertinent. In fact I would argue that they expressed the consensus shared not just by the IMF and the World Bank but by other international organizations as well, such as the OECD and the European Commission.

The document did not mention, however, another policy reform that figured prominently in the European debate of the 1990s: the reform of the welfare state, particularly pensions and labor-market shock absorbers. In the case of pension reform the emphasis was on adapting European pension systems to changing demographic and economic conditions by increasing the retirement age, moving from defined benefit systems (in which financial risks are borne by the provider) to defined contribution systems (in which pension benefits are strictly proportional to contributions accumulated and risks are shifted on the pensioners’ shoulders), and introducing supplementary fully-funded private pension funds (Bonoli, 2001; Myles and Pierson, 2001; Pierson, 2001; Immergut and Anderson, 2007).

In the case of labor market reform, the consensus was that generous unemployment benefits were counterproductive as they sapped incentives to actively

search for jobs, encouraged long-term unemployment, and caused real wages to rise beyond productivity increases. The emphasis was therefore on reform initiatives that reduced both the level and duration of benefits, and that made benefit payment contingent on active search and willingness to accept available jobs. Employment protection was also targeted for reform. It was argued that by discouraging firm's hiring (as well as firing) it limited labor market mobility and strengthened the divide between labor market insiders and outsiders (Bertola, 1990; OECD, 1994; Nickell, 1997; Siebert, 1997; Blanchard and Wolfers, 2000; Saint-Paul, 2002; Layard *et al.*, 2005; Blanchard, 2006).

The corporatist agreements of the 1990s often dealt with issues of welfare state and labor market reform. In some cases these were deals between governments and unions. The employers could afford to sit on the sidelines and, if the opportunity arose, ask for more. Not all governments sought out union cooperation on these matters, and not all unions agreed to provide it. Also, even within the same country, not all policy reforms were negotiated; some were passed unilaterally (Regini, 2000). When a corporatist pact was struck, the unions often managed to soften the sharpest edges of mainstream neo-liberal policy, but not to reverse its main thrust.

Centralized control of wage dynamics remained solidly at the core of the new corporatist pacts. The goal this time was no longer disinflation – as argued above the nominal control of wages was no longer a pressing problem and could be kept at bay through restrictive monetary policies implemented by independent central banks – but real wage containment. In an environment of fixed exchange rates, and a fortiori in the age of the single European currency, real wage compression (relative to competitors) was tantamount to real exchange rate devaluation. Thus, wage increases were kept below

productivity increases as a way to bolster the cost competitiveness of the national economy (Baccaro and Simoni, 2008a). All of this was premised on a growth model in which exports are the most important and dynamic component of aggregate demand.

The model worked remarkably well in small open economies, such as Ireland or the Netherlands, where cost competitiveness spurred profit accumulation, which in turn led to employment and growth, but it did not work for countries characterized by larger domestic markets, where wage moderation ultimately depressed aggregate demand (Carlin and Soskice, 2009). Wages that grew more slowly than productivity also led to a decline of the wage share. Interestingly, the fall was greater in countries where collective bargaining was coordinated than in the more decentralized economies such as the US and the UK.

Given the type of policies the new corporatism dealt with, it is not surprising that its outcomes were no longer egalitarian. Even worse, corporatism began to be perceived in some quarters as positively anti-egalitarian, namely as an institutional device which served the interests (and further entrenched the privileges) of labor market insiders (middle-aged union members) at the expense of outsiders, i.e. younger workers and women (AAVV, 2002; Rueda, 2005; Alesina and Giavazzi, 2006; Boeri and Galasso, 2007).

The sword of justice was turned against the unions. These were constantly badgered for not conceding enough. While union-negotiated reforms were often perceived to move in the right (i.e. neo-liberal) direction, they were generally deemed sorely insufficient to bring about true structural change. Union-negotiated pension reforms were criticized for the long transition periods to the new regimes, and for overly

generous grandfathering rules (aimed at protecting aging workers, the unions' main constituency), which shifted most of the costs of reforms on the younger generations (Aprile, 1996; Castellino, 1996; Schludi, 2003; Ferrera and Jessoula, 2007; OECD, 2007). Labor-market reforms were also perceived as partial as they left levels of job protection virtually unchanged for workers on unlimited duration contracts, while they liberalized all other forms of contingent work, thus contributing to the worsening of labor market dualisms (Ichino, 1996; OECD, 1999; Baccaro and Simoni, 2004).

The new corporatist pacts presented unions with the unpleasant alternative of having to choose between consenting to macro-concessionary bargaining or refusing to do so. Political exchange as *quid pro quo* between wage moderation and more generous social protection (Glyn and Rowthorn, 1988; Mares, 2006) virtually disappeared as most governments' public budgets were too cash-constrained to allow for significant side payments. Where political exchange continued to be practiced (e.g. in Ireland and Finland), it traded wage moderation for tax reductions, that is, targeted private, not public, consumption. In general union virtue was its own reward.

The changes in the terms of engagement help to make sense of changes in organizational structures as well. While the explanation for why union leaders accepted the new corporatist game is overdetermined by considerations of leaders' self-interest (peak-level bargaining strengthened their role and visibility) (Pizzorno, 1978b; Sabel, 1981), organizational characteristics (for encompassing organizations group interests approximate general interests) (Olson, 1982; Lange, 1984), and rational consideration of alternatives (it is better to lose a little than to lose a lot), a more interesting question is why rank-and-file workers went along with the leaders' decisions.

A plausible answer is that what members want does not matter much: when organizational leaders are equipped with the appropriate institutional resources (e.g., a highly centralized organizational structure, compulsory membership, public recognition and resources) they can silence or ignore internal dissent (Schmitter, 1974; Crouch, 1983; Wolfe, 1985; Cawson, 1988; Streeck, 1988). The problem with this explanation is that it does not find a lot of support in the data. As shown in Table 4 above, the positive correlation between corporatist policy-making and organizational centralization disappeared in the 1990s, while a new positive correlation with organizational democracy emerged. In fact, trade union leaders relied on alternative organizational processes, based on democracy and discussion, to bring their constituents along (Baccaro, 2003).

The (growing) adoption of discursive democratic procedures by trade union confederations engaging in corporatist negotiations (Baccaro and Simoni, 2007) activated two mechanisms of consensus mobilization within trade unions, one purely aggregative (i.e. not implying the shaping or transformation of preferences) and the other with a transformative effect on preferences. The adoption of formal voting procedures (aggregative mechanism) altered the internal political game between moderate and radical factions within trade unions as a “logic of mobilization” (one in which the faction prevails that is better able to mobilize workers in strikes) (Pizzorno, 1978a) was replaced by an electoral “logic of representation” (in which the faction prevails that is better able to mobilize the largest number of votes). Because the principle “one head, one vote” abstracts from consideration of preference intensity, workers with very intense preferences, i.e. ready to mobilize in support of their claims, found themselves having

exactly the same impact on collective choices as other, more apathetic, but more numerous, workers (Dahl, 1956).

Additionally, organizational democracy did not just aggregate pre-defined preferences but contributed to shape them as well. The decision-making procedure was such that workers had ultimate decision-making power over collective agreements through a binding vote, but the vote was preceded by workplace assemblies in which leaders used various arguments, mostly pragmatic, but also ethical/moral, to explain why particular decisions were worth taking, and then debated with workers the appropriateness of the particular solutions proposed. This process of discursive democracy contributed to shape the preferences of a non-negligible portion of the unions' membership, and favored the emergence of consensus for unpalatable reforms.

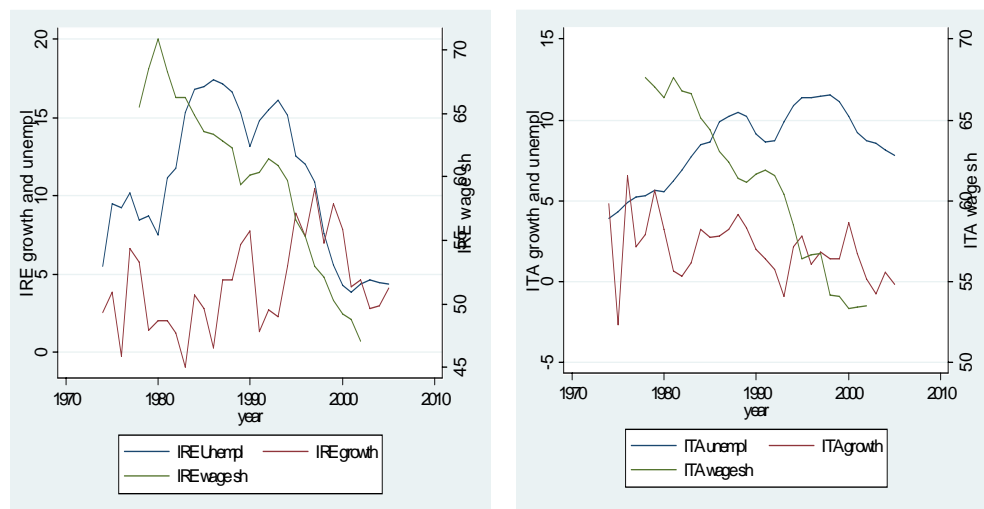
To summarize: this section has explained the correlational outcomes of the new corporatism – the withering away of redistribution and the transition from organizational centralization to internal democracy – by placing them in the context of a newly-emerging neo-liberal regime. The next section illustrates the argument through brief case studies of Ireland and Italy, the two countries in which the corporatist index increased the most.

Corporatist Renaissance in Ireland and Italy

The (re-)emergence of corporatist policy-making in Ireland and Italy in the 1990s shares many traits: in both countries the choice to engage in this type of policy was made by electorally-weak governments faced with deep economic crisis. In both countries the most important allies of government were unions that were willing to make sacrifices to strengthen national competitiveness. In both countries the union movement was rather

fragmented from an organizational point of view, and not particularly centralized: these labor movements relied on democratic decision-making procedures to silence the internal opposition and rallying consensus within their own ranks. Also, in both countries centralized wage regulation led to wages that systematically trailed productivity increases, thus producing a decline in the wage share. However, only in Ireland the gains in competitiveness translated in lower unemployment and faster growth. Italy's economic performance remained instead lackluster: unemployment continued to rise and growth stagnated (see Figure 6).

Figure 6: Growth, Unemployment (Left Axis), and Wage Share (Right Axis) in Ireland and Italy



When the first of seven three-year “social partnership” agreements was signed in Ireland in 1987, the country was in the midst of perhaps the most serious economic crisis of its post-war history. Public debt and deficit were skyrocketing,⁷ investments were stagnant, and, undeterred by migration of Irish workers to other countries (particularly the U.K.), unemployment was on the rise (NESC, 1986; Government of Ireland, 1987). The

⁷ According to NESC (1993, p.: 155), debt servicing consumed one third of tax revenues per year.

government that initiated social partnership was a one-party minority government led by the Fianna Fail party, holding 48.8 percent of seats in the Irish lower chamber (Dáil). Additionally, the weakness of the Fianna Fail government was compounded by the party's own interclass nature, which made it difficult for the leadership to pass policy decisions that penalized the party's labor constituency (Hardiman, 1988, pp.: 200-4).

In Italy, too, the government was pushed to engage in corporatist negotiations in the early 1990s by a highly volatile political-economic environment, characterized by the simultaneous occurrence of a serious financial crisis (which eventually pushed the Italian currency out of the European Monetary System (Vaciago, 1993)), and popular outrage at what the unfolding *clean hands* judicial investigation was divulging about corruption practices within all major political parties, particularly the Christian Democratic and Socialist ones. The 1992 government that initiated the season of Italian corporatism (by negotiating the 1992 abolition of national wage indexation) was remarkably weak, even by national standards: it was supported by a coalition of four parties, among which the Christian Democrats and the Socialists, both overwhelmed by scandals. This government had a majority of only one seat in the Senate (Ginsborg, 1998, p.: 481). Moreover, seven cabinet members had to resign between 1992 and 1993 because they became implicated in judicial investigations (Ginsborg, 1998, p.: 515). The government that followed in 1993 was a "technical" government, composed by experts in their fields, and did not have a clear parliamentary majority.

These electorally weak governments were faced by organizationally-weakened unions: union density declined from 64 to 56 percent between 1983 and 1987 in Ireland, and from 45 to 39 percent between 1984 and 1992 in Italy. The unions' mobilization

capacity remained however considerable. Sharing policy-making responsibility with the organizations representing those that were most likely to bear the brunt of policy changes, namely workers, protected these weak governments from popular discontent they may have been unable to handle otherwise.

Collaboration from the employers was instead more inconsistent, but also probably less essential than collaboration from the unions. The Irish organized employers were relatively happy with the decentralized collective bargaining, which they had been so keen to promote (Hardiman, 1988: 200, 221, 236). In December 1986 and then again in June 1987, the General Council of the major employer association “asserted that negotiations with the trade unions on pay and related matters should continue to take place at local level” (Hardiman, 1988, p.: 236, 1992, p.: 350). Government had to work hard to persuade them to stay at the bargaining table (Roche, 1997, p.: 200; Gunnigle *et al.*, 1999, p.: 206). It was only after social partnership became a clear success (i.e. from the mid-1990s on) that the employers became clear supporters. The attitude of Italian employers was similarly ambiguous: they agreed on the abolition of wage indexation in 1992 and the centralization of collective bargaining in 1993, but then withdrew from negotiations over pension reform in 1995 (Mascini, 2000).

Getting the unions to collaborate with government was not without problems. Within the unions there were powerful forces that for ideological or interest-based reasons did not agree with the corporatist strategy adopted by the confederations. In Ireland, the craft unions believed that decentralized bargaining would be more advantageous for them (Teague, 1995). In Italy, particularly the metalworking unions, which had blocked previous attempts at institutionalizing centralized wage regulation

through spectacular grass-root mobilization (Lange and Vannicelli, 1982; Golden, 1988), regarded the strategic shift towards centralization as illegitimate (Baccaro, 2000).

In both countries, the way union confederations went about overcoming the internal opposition was by relying on the legitimating power of democracy. Worker referenda preceded by workplace assemblies were organized, and workers were given binding power to decide through their vote whether or not they accepted the agreements. Because the majority of voters approved, the union leaders could then sign the agreements with full legitimacy (see Baccaro, 2003 for more on this). In Ireland the practice of balloting on major national agreements already existed; it was strengthened and generalized. In Italy, this practice was introduced for the first time in 1993 and applied to all the most controversial national agreements, like those on pension reform in 1995 and 2007.

In both the Irish and Italian cases, corporatist policy-making centered on a solid core of centralized wage bargaining. One important difference between the two cases was in the scope and breadth of the agreements: in Ireland social pacts covered all major policy-making issues simultaneously; in Italy there was instead a succession of single issue deals: on the abolition of wage indexation, on collective bargaining structure, on pension reform, on labor market flexibility, on the reform on employment protection, etc. Another important difference was in the type of exchange involved: while in Ireland there was a clear *quid pro quo* between wage moderation and lower personal income tax rates, in Italy (where the government was more fiscally-constrained) no such exchange was visible. The only reward for the unions was participation itself (Molina and Rhodes, 2002).

In both countries corporatism and wage moderation came with none of the compensations usually associated with it: no statutory gains or special recognition procedures for unions were introduced; no attempts were made centrally to reduce wage differentials; public expenditures were kept well under control and social programs were attentive not to sap work incentives. However, the consequences for the two national economies were dramatically different.

In Ireland centralized wage regulation was the lynchpin of a very different regulatory model from the social corporatism model of the past (Pekkarinen and Pohjola and Rowthorn, 1992). This new model focused on making the country attractive for mobile international capital and on strengthening the cost competitiveness of exports by systematically reducing unit labor costs, i.e., decreasing the labor share of output. Beginning from the mid-1990s, this model began to pay off, as it led to increased investments, economic growth, and lower unemployment.

In Italy, instead, despite substantial wage restraint and repeated reforms of both the welfare state and labor market regulation, economic performance lagged behind other advanced countries, including European. Obviously not all Italian problems stemmed from the industrial relations sphere. Riccardo Faini and André Sapir (2005) have offered an interesting analysis of Italy's predicament focusing on comparative advantage and sectoral specialization. Italy – goes their argument – has been hit in the face by globalization, which implies greater economic integration with developing countries, particularly China. Unlike other European countries, Italy is specialized in labor-intensive sectors, and thus competes head-to-head with China and other developing countries. Also, while other European countries have upgraded their productive structure

in the 1990s and moved towards higher value-added markets, Italy is the only country to have become even more specialized in traditional sectors.

These developments point to some historic weaknesses of the Italian economy: e.g. low investments in R&D, prevalence of small firms, inefficient public services. However, they also hint at a role that the collective bargaining system could have played and did not play: that of acting as a “beneficial constraint” (Streeck, 1997). If unit labor costs fall dramatically, if the low road is not sealed off, managers and entrepreneurs probably have fewer incentives to upgrade.

The diverging economic fortunes of Ireland and Italy suggest that the economic success of the new corporatism may depend on the country’s growth model: in an economic like the Irish, in which foreign demand is much more important than domestic demand, the gains in competitiveness associated with centralized wage regulation may be an unequivocal boon. Instead in an economy like the Italian, just as in every large country, the export-benefiting effects of cost competitiveness may be dominated by the recessionary effects of shrinking domestic demand (Carlin and Soskice, 2009).

Concluding Remarks

The argument of this paper is one of *institutional conversion* (Streeck and Thelen, 2005): corporatist policy-making did not disappear as widely anticipated in the late 1980s, but experienced an unexpected resurgence in the 1990s. However, while corporatism managed to survive *qua* institutional structure, it began to operate in ways that were rather different from the past: while it was still able to soften the sharpest edges of mainstream neo-liberal policy, it no longer provided a fundamental alternative to it.

Specifically, it helped national economies to adapt to the hard constraints of the new international economic regime (requiring fiscal rectitude, welfare state reform, and labor market liberalization), but lost the redistributive and decommodifying features of the corporatist golden age.

Internally, the new corporatist institutions developed different, and probably more attractive, organizational features than their predecessors. They became more participatory and democratic than in the old days. Unions, in particular, began to go to great lengths to democratically legitimate the outcomes of national bargaining through debates and referenda.

In the new international economic regime, side payments were no longer available. Consequently, trade unions felt the need to invest in democratic mechanisms of decision-making much more heavily than in the past. These were necessary to persuade the unions' constituents that the choices leaders make were acceptable and legitimate. Procedural legitimacy became necessary to compensate for declining (or absent) output legitimacy.

This story of resilience and transformation suggests a reconsideration of the effects of economic integration on the institutional structures of advanced countries. A large and influential literature emphasizes the resilience of national institutions in the face of broad transformative trends such as globalization and European integration (see for example Berger and Dore, 1996; Garrett, 1998). The empirical material presented in this paper suggests that a more nuanced interpretation is probably in order: it is true that the labor market and policy-making sphere of European countries remained corporatist and did not converge on the Anglo-Saxon model of decentralized bargaining and arm's length

relationship between government and interest groups. Continuity in institutional structure masks, however, discontinuity in institutional outcomes. The way these same institutions now work is profoundly different from the past. Corporatism was once the main institution of a *negotiated economy*. It has now become one of the conduits – not the only one – by which neo-liberal policy makes its way in institutionally-dense European political economies.

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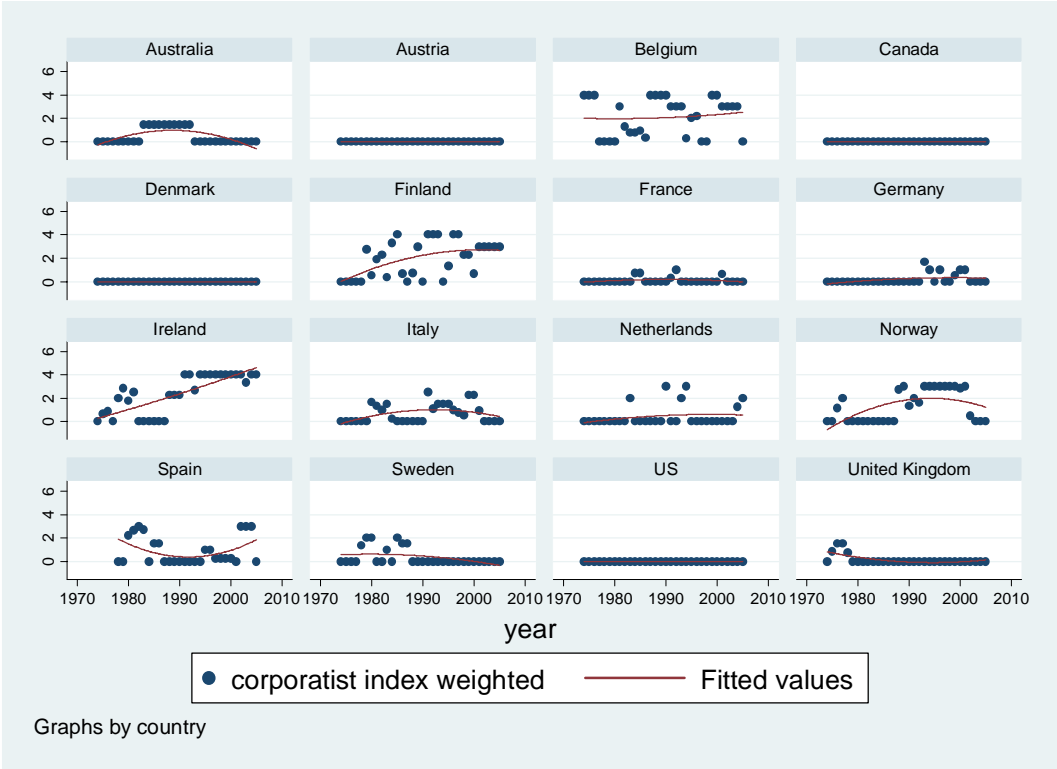
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Appendix 1: Corporatist Policy-Making by Country



Appendix 2: Union Density by Country

