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MONETARY INTEGRATION AND WAGE-SETTING COORDINATION IN DEVELOPED EUROPEAN COUNTRIES

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ABSTRACT

SUNG HO PARK: Monetary Integration And Wage-Setting Coordination In Developed European Countries
(Under the direction of John D. Stephens)

When the national economy performs poorly but recovery is a challenging task due to monetary austerity in an integrated Europe, there is an emerging pressure for tight cost control. This economic pressure has led to diverse outcomes in the industrial relations of developed European countries. In some countries the wage-setting process has been more coordinated, whereas it has not changed much in others. Among those countries with increasing coordination, there also have been various paths to the change, which have ranged from government unilateralism to voluntary pact building. In this study I explain these diverse dynamics of the European industrial relations by focusing on the interactions between the economic pressure and other non-economic causes, which are drawn from the national political party system and the social organizations of unions and employers. I test my claims mainly in a comparative historical analysis of eleven developed European countries, covering the period from the 1970s to the 2000s. Overall, my study suggests that both economic and non-economic causes are important in the adjustment processes of economic institutions, thus complementing an influential approach to the study of European political economy, which emphasizes the economic side of the causal mechanism.

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CHAPTER 1

INTRODUCTION

The wage-setting systems in developed European countries, which were mostly characterized by a relatively high level of coordination among unions, employers, or the government, have been under challenge in recent decades. European financial integration has been among the widely-cited causes for this challenge. Influential studies (Kurzer 1993; Scharpf 1991) argued that the integration process provides employers with greater mobility by allowing them to (re)locate their assets across the national borders. This freedom gives employers strong power resources vis-à-vis unions. If the employers have suffered from a poorly performing economy due to the failure of wage cost control, they would use this power to change the current wage-setting system to produce better control of wage costs.

The employers' choice, according to the previous studies, will be to de-coordinate the wage-setting process. In other words, they will weaken (or close) the bargaining units at more aggregate levels in order to give more freedom to the units at more individual level. For instance, if wages have been set under the guideline of nation-wide wage settlements, now wages are set only for certain specific industries or companies without any implications beyond their specific domains. The rationale behind is that employers make the wage-setting process more fragmented and then increase the market discipline against their unions to save more of wage costs (Crouch 1995; Soskice 1990).

A series of dramatic events in the European industrial relations, which were concentrated on the early 1980s, seemed to confirm the validity of this argument. In the

UK, the government-backed experiments with tripartite wage coordination, which had started in the second half of the 1960s, collapsed in 1980 and was replaced by a system of pure company-level wage negotiations. Similar changes took place in other countries. In 1981, the Irish wage-setting system, which had been centralized nationwide throughout the 1970s, collapsed to another system of company-level bargaining. In the same year the centralized government arbitration in Denmark also gave into the pressure for industry-level bargaining. Finally in 1984, the Italian wage-setting system --- which had been characterized by a company-level bargaining system coupled with tight legal/administrative regulations --- changed to a new system in which the company-level tier assumed a more prominent role in the wage-setting process. In all of these events, employers played a crucial role by taking a direct initiative to the change or by providing strong support for the government's attempt at the change (Due et al. 1995; Ferrera and Gualmini 2000; Hall 1986, pp.100-36; Hardiman 1988, pp. 80-120, 217-39).

Initially, these experiences seemed to have a European-wide implication. Leading scholars began expressing their concern that the coordinated wage-setting system in Europe would not survive the challenge of European economic integration (Streeck 1998). However, this prediction was contradicted by the empirical developments in many of European countries in recent decades. While the search for the flexibility became a universal phenomenon, permitting substantial wage differentials within and across companies and industries, there were no more cases of de-coordination, in which employers aimed at weakening or closing the bargaining units at more aggregate levels on behalf of those at lower levels. This was true even for the countries in which employers suffered seriously from the same poor economic conditions as those in the previous cases of breakdown. Belgium (since the 1980s), Finland (the mid-1980s to the mid-1990s), France (the mid-1980s to the 1990s), Ireland (the mid-1980s to the mid-1990s), Italy (the

1990s), and the Netherlands (the 1970s to the early 1980s) are among the best examples of this. Unlike the previous breakdown cases, the wage-setting systems in these countries either stayed with the status quo or became more coordinated.

Researchers in the European political economy have tried to explain how this unexpected development could happen. Some of them took a functionalist approach, emphasizing the economic necessity arising from monetary integration, the final stage of European financial integration. They noted that monetary integration puts macroeconomic policies of the member countries in tight constraints, which effectively exclude the option of flexible accommodation and stimulation. These constraints then facilitate unions and employers to build a consensus that wage costs must be tightly controlled to keep the national economy in good shape (Huber and Stephens 2005; Crouch 2000). This pressure will grow even greater if wage costs have been already out of control and thus the national economy has been under stress for a substantial period of time. In this situation, there will emerge a broad feeling of system crisis and vulnerability among all unions and employers. It will then dictate the industrial actors to search for an immediate solution for the wage problem (Pochet and Fajertag 2000; Visser and Hemerijck 1997).

The solution, according to the studies, will be to make the wage-setting process more coordinated. By letting the bargaining units at more aggregate levels --- in which wage negotiators may have a better idea on the macroeconomic consequence of the failure of tight wage moderation --- play a more prominent role in the wage-setting process, unions and employers will be better able to produce peaceful cost control in a more predictable way. Of course, this argument is counter-intuitive if seen from the viewpoint of the previous studies, which would predict that powerful employers will choose de-coordination to address the wage problem. But the rationale here is that the preference of employers change as the economic integration deepens. With a new stage of

integration, characterized by the Europe-wide fixed exchange rate regime, employers find that their government can no longer provide macroeconomic accommodation and stimulation for them. This means that they are put in a very vulnerable economic situation. Now even a short-term failure of wage cost control is likely to result in instantaneous profit squeezes. Thus, employers become more cooperative with unions to seek a more stable and predictable solution to their wage problems (Visser and Hemerijck 1997; Rhodes 2001).

While partly building on these recent studies, another group of researchers criticized the studies as being too much functionalistic. To be sure, the structural pressure --- created by the combination of monetary integration and poor economic performance --- would promote a certain direction of adjustment in the wage-setting process. However, this pressure alone may not be enough to determine the final outcome of the adjustment process. Instead, we should also look at other mediating factors, mainly non-economic, which will come into play between the economic pressure and the final institutional outcome.

For instance, unions and employers will need to have certain organizational capability of collective action to make the project of increasing coordination a real possibility (Baccaro 2003; Baccaro and Lim 2007; Hassel 2003; Regini and Regalia 1997). This is because such a change depends on how successfully the participating actors will be able to overcome their temptation for myopic self-interests on behalf of their long-term shared interests. Unless they are at least moderately organized, there will be no effective means which they can use to self-enforce the cooperative strategy.

My study builds on these recent innovations in the study of European industrial relations. More specifically, I join in the efforts to explore how non-economic domestic variables mediate the effect of the economic pressure on the wage-setting process. I focus

on the experiences of several European countries in which economic actors have suffered from the double constraints of monetary integration and poorly-performing economy. I then raise the following three questions to which existing studies have not paid close attention. In answering these questions, I will highlight how various non-economic variables, which are drawn from the national political party system and the social organizations of unions and employers, have played important roles in the adjustment process of industrial relations.

First, I ask why employers in this urgent economic situation have not chosen de-coordination as a means to take a tight control of their wage costs. Although the previous prediction for de-coordination has been contradicted by the experiences of many European countries, recent studies have not yet provided a clear answer for exactly why employers decided not to exercise their power to strengthen the market discipline. I provide an answer by focusing on the short-term costs of the institutional change. While the market discipline is likely to curb wage costs in the long run, its short-term effect is far from being satisfactory. This is because, as will be discussed in detail in Chapter 2, unions become increasingly militant during the period of the institutional transition. Furthermore, given that the process of monetary integration eliminates a possibility for the government to implement flexible macroeconomic policies to compensate for the rising wage militancy, employers find the strategy of de-coordination is too much costly for them. They thus decide to abandon this strategy, regardless of its potential long-term benefits. I test this hypothesis with a Boolean comparative analysis of eleven developed European countries, which covers mainly the period from the 1970s to the 1990s, along with some brief historical comparative accounts of the countries.

Once the path to de-coordination is made difficult to pursue, recent studies suggested that both employers and unions are likely to be interested in the option of

increasing coordination. By making the wage-setting process more coordinated, the economic actors expect that they will be able to produce peaceful cost control in a more predictable way. If provided with a proven or potential capability for collective action, the actors will find the cooperative project to be a real plausible solution for the national economic problems. My study does not deny the relevance of this explanation, but still argues that the organizational capability is not yet sufficient to produce the expected outcome in the wage-setting process. Rather, I introduce another mediating condition, which is the government's commitment to the cooperative solution, and emphasize that the organized industrial actors will be seriously interested in the solution only if their government also feels in the same way.

I argue that this government commitment is strongly influenced by certain characteristics of the national political party system. If political parties compete by making general programmatic appeals to voters, the government will be seriously committed to the coordinative solution. But if the parties compete via non-programmatic appeals such as clientelistic votes-buying or charismatic mobilization, the government will not be so much interested in the solution. These different preferences are because of different electoral concerns by the governing parties. If parties enjoy substantial mass supports from clientelistic or charisma-influenced followers, they may consider that the prospect of their reelection is not bad at least in the short run. They thus will not be seriously committed to dealing with the national economic problem, which is not only a demanding task but also will likely alienate their core voters for various reasons. If the parties rely on general programmatic appeals, however, the situation changes. Now they must tackle the problem because reelection will be very difficult without a successful performance in macroeconomic management. In Chapter 3, I provide more detailed arguments and empirical support for this hypothesis by looking at the Italian experience

in the 1990s. I also take a comparative look at the South Korean case in the late 1990s, in which a similar tripartite cooperation was experimented with under a similar economic difficulty.

In Chapter 4, I narrow my focus down to the countries in which the wage-setting process has been more coordinated. Here I am interested in the diversity in the paths to increasing coordination. In some countries the change took place via social pacts, voluntary or government-pushed, in which the government, unions, and employers reached tripartite agreements regarding wage moderation, job creation, and moderate reforms of welfare and the labor market. In other countries, the government imposed obligatory wage guidelines in a unilateral way, although the government still was careful to incorporate the unions' concerns for jobs and social protection in its final plan. Existing studies have been mostly silent on this issue, although some studies have begun to provide an explanation by looking at electoral politics. I provide an alternative explanation by focusing on the rivalry within the labor movement. I argue that the government chooses a negotiated solution only if the labor movement is relatively free of internal division and rivalry and, thus, is capable of producing a broad inter-union consensus for wage moderation. If this is not the case, however, the government has no other choice but to take a unilateral initiative to impose tight control of wage costs.

My dissertation is organized as follows. In Chapters 2 to 4, I provide and test my answers for those three questions in separate article formats. In Chapter 5, I summarize the findings of my study and discuss their broad implications for the literature of European political economy, especially in the context of the recent theoretical controversies regarding the so-called “varieties of capitalism” approach.

CHAPTER 2

CAPITAL OPENNESS, MONETARY INTEGRATION, AND WAGE-SETTING COORDINATION IN DEVELOPED EUROPEAN COUNTRIES

How capital openness influences the wage-setting process is a topic that has been dealt with extensively in the political economy literature of developed Europe. One well-known hypothesis suggests that high capital openness induces employers to de-coordinate the wage-setting process, if wage costs have been under poor control. Good examples include Denmark, Ireland, Italy, and the UK in the early 1980s, in which wage bargaining became more fragmented and individualized after a period of unsuccessful wage coordination (Due et al. 1995; Ferrera and Gualmini 2000; Hall 1986, pp.100-36; Hardiman 1988, pp. 80-120, 217-39). However, this hypothesis has been challenged by another development in the region. Poor performance in no other countries in Europe led to de-coordination in the wage-setting process. Even the countries with a previous experience with de-coordination did not repeat the same choice when they encountered the same economic problem in more recent years.

How could we reconcile these opposing experiences? First, we could abandon the hypothesis of capital openness, and ask what other causes could have led to the events of breakdown in the early 1980s. Alternatively, we could contextualize the hypothesis, and explore under what circumstance the effect of capital openness holds and under what circumstance it does not. This study takes the second approach. Focusing on the mediating role of European monetary integration, I argue that the hypothesis holds only if a country is not committed to the integration process.

The rationale for this argument is as follows. Employers adopt the strategy of de-

coordination to address a problem of excessive wage costs. By making wage bargaining more fragmented and individualized, employers expect that they will be better able to increase the market discipline in the wage-setting process and then save more of their wage costs (Crouch 1995; Soskice 1990). One problem, however, is that this disciplinary effect is realized only in the long run, while wage costs may even increase during the transition period. This is because de-coordination initially invites myopic militant responses from the major union actors. For instance, high-level union organizations, who have engaged in wage negotiations with broad coverage, may find that they are losing power in the wake of de-coordination. They thus may adopt a strategy of wage militancy as a quick recipe to prolong their influence on the national wage-setting process. Lower-level unions also become freer of the guidance of the upper-level negotiations. Especially for those with strong organizational power, this provides a golden opportunity for maximizing their short-term wage gains, without being constrained by the concern about the macroeconomic consequence of their wage-push.

Given this unsatisfactory performance along the path to de-coordination, I argue, employers' preference for the institutional change is strongly affected by the feasibility of government macroeconomic accommodation. When such an option is available, employers can adhere to their initial plan without encountering serious financial difficulties. This is because their government can provide flexible policy benefits, whenever necessary, to compensate for the rising wage costs during the transition period. The situation changes, however, when this option is not available due to the government's commitment to European monetary integration. Employers then become more sensitive to the short-term performance following the change, and ultimately abandon their attempt regardless of their expectation of the potential disciplinary benefits of the change.

Once the path to de-coordination is made difficult, employers will then have to

make a choice between the following two options: returning to the *status quo ante* or further increasing the level of coordination. Here, the natural questions to be asked include: which of the two options would they like and, if they choose to increase coordination, how would they make the change happen? While all certainly interesting questions, it is beyond the scope of this study to deal with them. Rather, interested readers should consult the flourishing literature on European social pacts to find various answers and debates (Baccaro 2003; Baccaro and Lim 2007; Fajertag and Pochet eds. 2000; Hamann and Kelly 2007; Hassel 2003).

In the next section, I provide a close definition of the dependent variable of this study. I then review the previous studies of capital openness, summarizing them in a conditional hypothesis. Next, I provide a theoretical discussion on why this hypothesis does not hold when a country is committed to monetary integration. My claim is tested in a Boolean historical analysis of eleven EU countries (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Sweden, and the UK), primarily covering the period from the 1970s to the early 2000s.

2.1. Definition Of The Subject

In the industrial relations literature, there are two competing approaches to capturing the defining characteristics of industrial relations. Both pay attention to how wages are set, but from different angles. One looks at *the level of centralization*, focusing on the extent to which industrial actors or the government can produce certain hierarchically-binding, solidaristic wage settlements (Iversen 1998, pp.47-57; Goden, Lange, and Wallerstein 2006; Traxler, Blaschke, and Kittel 2002, pp.113-9). The other approach pays attention to *the level of coordination*. Here, centralization is still considered important, but only as one of various ways in which wages are determined

collectively. Also, unions and employers who are involved in high-level coordination (that is, wage coordination with more encompassing coverage and influence) do not necessarily need to have the same degree of organizational development. Depending on the feasibility of pattern-setting, certain actors can assume a broader role beyond their direct organizational domain (Kenworthy 2001; Soskice 1990; Traxler Blaschke, and Kittel 2001, pp.149-61).

Which of these provides a better basis for research may not be answered unequivocally. Rather, the choice should be made depending on the purpose of any given study. In this study I adopt the coordination-based approach. This is because I am interested in the degree to which wages are negotiated beyond the boundaries of certain companies or sectors, which may not necessarily be predetermined by the level of centralization *per se*. However, the centralization-based approach is still a good choice if a researcher is interested in, for example, the egalitarian aspects of the wage-setting process (such as wage dispersion).

Traditionally, a high level of coordination meant an inflexible wage structure, in which wages were set relatively homogeneously across companies and sectors. However, this is no longer true today because the agreements reached at the aggregate levels, while focusing on the issue of overall wage increases, have left more room for flexibility for lower-level wage negotiators with regard to wage differentials, occasional opt-outs, etc (Rhodes 2001; Teulings and Hartog 1998, pp.25-54). Readers thus should not consider that this study suggests any implication for the flexibility side of wage-setting. The search for flexibility has been a universal trend across all European countries, whereas the level of aggregate wage-coordination is still an open question to be decided by the involved actors.

2.2. The Hypothesis Of Capital Openness

Many influential studies which explored the effect of capital openness on the wage-setting process were carried out in the 1990s. The term *capital openness* was broadly defined as the extent to which capital owners can (re)locate their assets freely across national borders, as exemplified by the liberalization of cross-border financial transactions (Quinn 1997). Among the questions that those studies asked was whether or not the traditional form of European wage-setting --- which had been characterized by a relatively high level of intra- and inter-industry coordination --- could survive the era of high capital openness. The increasing mobility on the side of employers provided them with great power resource vis-à-vis unions. They could use this power to de-coordinate the wage-setting process, anticipating that it would increase the market discipline on their unions and thus bring higher and speedier returns for their investments. After a period of heated debates (Garrett 1998; Kurzer 1993; Scharpf 1991), however, a consensus emerged among researchers that the final effect of capital openness would vary depending on specific domestic conditions (Soskice 1999; Traxler 1995). Several causal accounts were provided for these differential effects, which can be summarized in the following approaches.

In a performance-driven approach, the current performance on wage cost control was an important factor in mediating the effect of capital openness. Good performance would encourage employers to stay with the *status quo* of their wage-setting system, whereas poor performance would motivate them to use their power to abandon it. For instance, expert studies of Denmark (Due et al. 1995; Iversen and Thygensen 1998), Ireland (Hardiman 1988), Italy (Ferrera and Gualmini 2000), and the UK (Hall 1986, pp.100-36; Scharpf 1991) showed that the events of de-coordination in the early 1980s were mainly due to the poor performance on wage cost control throughout the 1970s and

early 1980s.

Why then did the employers choose de-coordination to deal with their wage problems? The answer begins with Soskice's seminal study (Soskice 1990). Building on a previous study by Calmfors and Driffill (1988), he presented a theory of an inverted U-shaped relationship between the degree of successful wage coordination and the level of aggregate wage costs. He argued that the costs will be the highest when wages are set in the zone of medium or mediocre coordination, whereas the costs will fall as the negotiations take place with no coordination or with very high coordination. This hypothetically suggests that employers who suffer in the zone of poor coordination are given two theoretically possible solutions; they can either decrease or increase the level of their engagement in wage coordination.

Crouch built on this formulation, and explained the employers' final choice by further looking at a specific context in which the employers were situated (Crouch 1995). I noted that the employers had taken a coordinative approach to the wage-setting process (although their commitment had never been strong). But this collective approach turned out to be a failure. The employers thus became less interested in continuing or even strengthening their failed approach. Instead, they were more attracted to an alternative approach in which they could tackle the wage problem in a more market-oriented way. By making wage negotiations more fragmented and individualized, they would be better able to increase the market discipline on their unions and thus save more of wage costs. Their enhanced power position over unions added more confidence to this solution because they could make the change happen even if unions would resist.

Focusing on the Nordic experiences and especially the Swedish breakdown as an ideal typical case, other studies provided different perspectives on the effect of capital openness. In one group of these studies, economic performance was still important but

from a different angle. Rather than focusing on the performance of aggregate cost control, they paid more attention to the issue of the functional fit between the wage-setting system and the production regime. From this perspective, Swedish employers favored the change from the solidaristic to industry-level bargaining because the new system would facilitate wage differentials across the industrial sectors with different productivities. This flexibility, they thought, would be very important for the success of a newly emerging technological paradigm, 'diversified quality production,' which was replacing the previous Fordist paradigm of standardized mass production (Pontusson and Swenson1996). Meanwhile, other studies took a more political approach to the Swedish breakdown. They highlighted the role of the power struggle between employers and unions, especially the ideological conflicts between the LO (the unions' national organization) and the SAF (the employers' national organization). In the 1970s, the LO initiated its challenge against the employers' prerogatives on the capitalist ownership and management. In the 1980s, the SAF --- whose power increased in the wake of internationalization --- responded with a series of counter offensives, which led to the decentralization of the solidaristic wage-setting system (Huber and Stephens 1998; Pestoff 1995; Wallerstein and Golden 2000).

Given the interest of this study to search for a more generalizable hypothesis on the effect of capital openness, I find that the explanation based on the performance of aggregate cost control has greater appeal. Its empirical references are drawn from various places in developed Europe, including Denmark, Ireland, Italy and the UK, as briefly alluded to above. But the alternative hypotheses, which are centered on the power struggle and the production regime, do not have such a merit. Their applicability is virtually limited to the Swedish experience up until the early 1980s. Looking at Ferner and Hyman's edited volumes on the European industrial relations (Ferner and Hyman eds.

1992; Ferner and Hyman eds. 1998), unions in no other countries have launched such frontal attacks against the fundamental interests of capitalist employers. In addition, high-level wage settlements in other European countries, even including Sweden after the early 1980s, also have been cautious to leave substantial room for lower-level flexibility when finalizing wage settlements (Rhodes 2001; Teulings and Hartog 1998, pp.25-54). All these considerations suggest that the Sweden-specific factors would not play an important role in the wage-setting process, if examined in a broad European context.

In light of the discussion so far, I now propose a general hypothesis of capital openness, that high capital openness motivates employers to de-coordinate the wage-setting process if ages have been set under poor control. In this study, however, I argue that this hypothesis is still *insufficiently* specified. We should consider another mediating variable for full specification. More specifically, I pay close attention to the role of European monetary integration. I then claim that the hypothesis will hold only if the government is not committed to the integration process. If committed, the hypothesis will not hold. The next section provides a theoretical explanation of why this would be so.

2.3. Capital Openness With Monetary Commitment

One notable feature of monetary integration is that it produces a strong pressure for tight cost control (Crouch 2000; Huber and Stephens 2005). With the commitment to a formally or virtually fixed exchange rate, the government places itself in a situation in which it does not engage in any active macroeconomic accommodation even in the short term. Arbitrary currency devaluation is automatically eliminated from the list of feasible policy options. Fiscal and monetary stimulation also is not considered, because these policies will make domestic inflation higher than in other countries, which first triggers the outflow of financial assets and then increases the pressure for currency devaluation.

What this all means for the wage-setting process is that shocks in wage costs can no longer be filtered via the government's flexible compensation. In the tradable sectors, this constraint means instantaneous loss of their price competitiveness (Martin 1999). Even in the sheltered service sectors, the situation is not much better. The low productivity inherent in these sectors will make it difficult for employers to deal with the cost-pushfulness without accommodating government policies (Iversen and Wren 1998).

In a country where wages have already been poorly controlled, the pressure for cost control will be even greater. There, any continued trend of high wage costs will further deteriorate the already fragile profit base for employers, which will also worsen the already insecure job situation of workers. Accordingly, as previous studies argued, there will be a broad consensus among economic actors that their economy is in a deep crisis and wage costs must be controlled tightly to get out of the crisis (Crouch 2000; Baccaro 2003).

2.3.1. The mediating effect of monetary commitment

How will employers respond to this urgent call for cost control? Here the hypothesis of capital openness will suggest that, if those employers are already mobile, then they will use their power to de-coordinate the wage-setting process to save wage costs. One problem with this, however, is that the hypothesis focuses only on the long-term potential benefits of the market-oriented reform (Calmfors and Driffill 1988; Crouch 1995; Soskice 1990). Depending on what happens during the period of transition, however, it is always possible that employers may have to re-consider their initial decision.

Of crucial importance are how long it will take before the expected disciplinary effect is realized and how costly the transition will be. If wage costs fall immediately or, even if not, employers can complete the transition without further increase in their wage

costs, they will find no problem with adhering to their initial choice. If the transition takes time and wage costs also increase during the period, however, employers will have to have second thoughts. This sensitivity to the short-term performance is because of their urgent economic situation. They have already suffered from the chronic problem of high wage costs. Now wage costs increase even further following the institutional change. Even worse, they have to bear all these costs by themselves because their government cannot provide any compensatory measures for them. Under this circumstance, employers will find they are in a really serious financial stress. They will thus be pressed to search for a quick solution to reduce their burden. One easy way to do this is simply to withdraw from their initial attempt and save the transition costs. They will then be able to search for a new solution to the chronic wage problem.

In the meantime, we have a quite different situation if the government can still provide flexible policies, such as currency devaluation and monetary/fiscal stimulation. True, the government's support can hardly be fully compensatory (Cukierman 1992). This is because any artificial policies aiming at macroeconomic accommodation will also facilitate inflation expectation among the public, which will weaken the effectiveness of those policies in the long run. Accordingly, even the employers with generous policy benefits will not be able to avoid a difficulty in dealing with their chronic problem of high wage costs. Government intervention, however, can make notable difference in the short-term management of economic turbulence, in which the government does have clear informational superiority over the public. In this study, I argue this effective intervention helps employers adhere to their initial decision for de-coordination.

Let's suppose that wage costs happen to fall, or at least do not increase during the transition. Then the employers' financial position will improve immediately or, even if not, will not worsen. No additional government accommodation will be even necessary in

this situation. But what if wage costs increase during the transition? Will the employers suffer from these additional costs? The answer is no. This is because their government can provide various compensatory measures to help them deal with the costs. These policy benefits will also be generous, regardless of government partisanship, given that any government is well aware that shrinking business activity will dampen its electoral prospect by worsening the national economy (Garrett 1998, pp.28-31). Under this circumstance, employers will find no compelling reason to reconsider their initial decision for de-coordination. They will maintain their stance as long as they believe in the long-term benefit of the market-oriented reform.

2.3.2. Sources for the unsatisfactory performance in the transition periods

Are there any reasonable grounds for the concern for the poor short-term performance on the path to de-coordination? Here, previous studies do not help much because they are primarily interested in the long-term equilibrium performances of wage-setting institutions (See Iversen (1998, pp.17-38) and Traxler and Kittel (2000) for good summary). Because the short-term performance cannot be analyzed in the same way as the long-term performance is, we need a discussion that is dedicated to the specific issues that arise during the time of institutional fluidity.

Here I suggest that we should look at the reactions from the major union actors. First, there are high-level union organizations --- usually the peak union confederations, industry unions, or their cartels --- who have engaged in wage negotiations with broad coverage. Obviously, they lose power in the wake of de-coordination because the change reduces the room for their engagement in the national wage-setting process. Not only do their voices not draw as much attention from employers as before, but they also lose much of their previous control over lower-level unions. This, however, does not mean that they will soon disappear from the scene of industrial relations (Traxler 1995). Rather, they

will still function, desperately trying to resist the institutional change and also re-tighten their control over lower-level unions. To promote this goal, they will find the strategy of wage militancy to be attractive. If successful, they will be able to punish employers by increasing the financial burden for the transition. Lower-level unions will also be satisfied, finding that their wages can still be kept safe from the market discipline even after the change to de-coordination.

Next, for lower-level unions, the institutional change means more freedom from the upper-level guidance. Especially for large-sized unions with strong organizational power, de-coordination provides a golden opportunity to maximize their short-term wage gains. Previously, their potential for wage push was somehow underexploited because the upper-level negotiators --- regardless of how effective they were --- were concerned that the egoistic behaviours of these unions would easily trigger nation-wide wage inflation. In the new system, however, these unions are less constrained by this public-minded concern. They are just in a better position to focus on their short-term gains.

It is not difficult to understand that the interactions between those short-sighted union actors will result in a delay in peaceful wage moderation. The upper-level unions and/or other strong lower-level unions will take the initiative for tough wage bargaining. This militancy will then spread to other unions as a guideline for the given bargaining round. The situation will even worsen if the productive capacities are distributed unequally across the companies and sectors (Traxler and Kittel 2000), if the workers in certain companies or sectors possess scare specialized skills (Walsh 1993), or if there are sizable public sectors which are not exposed to the market competition (Garrett and Way 2000). Not only can unions in more productive, skill-scarce, or protected sectors or companies claim higher wages easily, but other unions are also pressed to keep up with the rising wage standard. Unless all these problems are resolved simultaneously, which

may be difficult in a short time, the wage-setting process will be put under serious stress.

2.4. Boolean Dichotomous Analysis

To test the claim developed so far, I adopt a Boolean comparative analysis technique. This choice is justifiable because the method allows us to deal with the necessary/sufficient types f causality in a larger than small-N setting. Designed for probabilistic causality, statistical analysis is generally not suited for testing these types of causality. Small-N analysis may do better, but one problem here is that it has strong restriction on the sample size. That said, there are a few more specific issues which support the use of the Boolean analysis. First, as discussed in detail in the measurement section, all variables are specified dichotomous in this study. Capital openness is high or not. Wage costs are controlled poorly or not. Monetary commitment is present or not. And the wage-setting process is de-coordinated or not. Also, the nature of the causality driven by those independent variables is *conjunctural*, in the sense that the variables produce an expected outcome only in a certain combination. Although the statistical analysis can deal with these challenges by dichotomizing the variables and introducing their various interaction terms in the estimation equation, a Boolean analysis can address these issues in a way that fits better with the nature of necessary/sufficient causality (Hicks, Misra, and Ng 1995; Mahoney 2007; Ragin 1987).

Usually a Boolean analysis begins with dichotomous measurements of the independent and dependent variables, which often cover more than several cases depending on data availability. It then presents a so-called truth table in which the presence or absence of the expected outcome is linked to various combinations of the independent variables. Checking that all these combinations are theoretically exhaustive and also do not produce contradictory outcomes (in other words, each combination must

produce only one of the dichotomous outcomes, not both), the analysis then moves to the next stage, where the empirical associations are summarized into certain necessary/sufficient types of logical relations. First, any redundant independent variables or their combinations --- whose presence or absence does not make difference in the logical relations with the dependent variable --- are eliminated. This will make the logical expression more parsimonious. Then, the final logical relations are derived by using the logical "*and* (×)" or "*or* (+)" terms. For instance, anytime we find a sufficient condition, we express it by identifying a single variable (if the outcome is caused solely by this variable) or a list of variables which are linked together with the logical "*and* (×)" terms (if the outcome is caused jointly by these variables). Should we find more than one sufficient condition, then we link them together with the logical "*or* (+)" term to reach a final expression of the necessary and sufficient relationship.

Note that in this study I do not search for multiple sufficient routes for de-coordination. Rather, I am interested in full specification of one sufficient route, without claiming that it is the only possible route to de-coordination. More specifically, I build on the previous hypothesis on the combined effect of capital openness and poor wage-coordination. I then show that this combination does not yet provide a fully sufficient route for de-coordination, unless further joined by the variable of European monetary commitment. To test this, I present all theoretically possible combinations of the three variables; produce a truth table in which these combinations are linked to the dependent variable in various ways; and derive a final logical expression which summarizes these associations. To compensate for this rather narrow use of the Boolean method, as well as to confirm the robustness of the empirical finding, I provide another Boolean analysis by utilizing several alternative variables whose effects are specified independently of those which were used in the original analysis. I show that none of these alternative variables,

individually or in combinations, produces the outcome reached by the original analysis.

The Boolean approach, however, is not without potential problems. First, the dichotomous measurement is not free of arbitrariness in determining specific cut-offs. Second, the truth table and its logical induction are still 'associational' in their nature, meaning that they do not fully reveal the real causal relationships among the variables involved (Rueschemeyer and Stephens 1997). To address these problems, I will complement the Boolean analysis with brief historical comparative accounts for the sample European countries. In doing so, I will show that the dichotomous measurements were not arbitrary and the relations among the variables also had real historical grounds.

2.4.1. Sample and coverage

To obtain a sample of developed European countries, two screening criteria are adopted here. First, they should have the EU membership in the 1990s. This reflects the fact that European integration up until those years was mainly an agenda within the developed Western Europe. Second, the countries also should be covered by the publicly available pooled time-series data which provide comparable measures for the dependent variable. Applying these criteria leads to the selection of eleven European countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Sweden, and the UK.

The analysis then covers these countries mainly from the 1970s to the 1990s, when the level of capital openness was high or began to be high in most of the countries (Eichengreen 2008). The pre-1970 and post-2000 periods are also examined, but only briefly due to the limited data coverage for some key variables. The earlier period is examined as a part of the main analysis, because it diversifies the sample by adding a few more cases of low capital openness. The recent period, however, does not bring such benefit because the previous periods provide enough examples for all the theoretically

possible combinations of the independent variables. Accordingly, this period is examined in a separate section after the main analysis is completed. There, I present various configurations of the independent and dependent variables in the early 2000s, using the same or other alternative sources of the data. I then show that my claim is supported even in this extended period.

Finally, it should be noted that the analysis covers the Swedish case only from the second half of the 1980s. This is because the Swedish breakdown in the early 1980s is not relevant for the hypothesis testing. This study is interested in the combined effect of high capital openness, poor wage coordination, and European monetary commitment. Yet, the Swedish breakdown is known to have been driven by different combinations of causes, as discussed previously.

2.4.2. Measurements

The dependent variable of the analysis is de-coordination of wage-setting, led by employers. This change should be long-lasting without being reversed during a given period of analysis. To detect such a change, I select one of the major quantitative indicators of wage coordination, and take the following steps for operationalization. First, I check if the data series exhibit only one unidirectional change toward de-coordination during the period of analysis. If so, I check with previous expert studies to confirm that this change was indeed led by employers. Even if there is no clear pattern from the data series, I still consider de-coordination to take place if expert studies report any substantial change toward the direction, although not captured by the chosen indicator.

There are two publicly available measures for wage coordination, which were developed by Kenworthy (2001) and Nickell, Nuniziata, and Ochel (2005).[1] Nickell et al.

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[1] Traxler, Blaschke, and Kittel (2001, pp.149-61) also provide a measure, but this is not considered here because the data structure is categorical and thus eliminates the possibility of ordered comparison.

created their data by focusing on the involved actors' commitment to collective wage coordination, in a continuous scale from 1 to 3. But a problem here is that this measure is not free of measurement errors because the data series were created by the authors' subjective judgments (Kenworthy 2001). Kenworthy avoids this problem by focusing on certain clearly institutionalized aspects of wage coordination. He pays attention to such characteristics as government arbitration, pattern-setting, peace clauses, etc., and produces a discrete date series which runs from one (as no coordination) to five (as the highest coordination). Appreciating this improved reliability, I adopt his data to measure a change to de-coordination.

Turning next to the independent variables, capital openness is measured by Quinn's index for foreign exchange liberalization (Quinn 1997). His measure runs from 0 to 4, reflecting the severity of taxation and legal/administrative regulations on foreign currency exchanges. More specifically, the score of 0 represents complete control of the exchanges, in which transactions are rarely approved and, even if so, all received foreign currencies are to be surrendered to the government authority. The score of 1 represents quasi-complete control, in which currency exchanges are approved occasionally but on the condition of surrendering all the receipts to the authority or paying heavy taxes. With a score of 2, the situation improves because exchanges are now frequently approved or free of regulation. But actual transactions are still under serious restriction due to heavy taxation. With the score of 3, the foreign exchange market is significantly liberalized. Now, currency exchanges are not subject to any approval as long as they are only moderately taxed. With a score of 4, approval is not required and there will be no taxation, either.

In light of this description of the data, I chose the score 3 as the cut-off for high capital openness. With only limited or no taxation on foreign currency exchanges, along

with no requirement of legal/administrative approval, capital owners will be able to (re)locate their assets freely across national borders. As shown in Table 1, a majority of the sample countries (Belgium, Denmark, France, Germany, Italy, and the Netherlands) have had their scores equal to or higher than the threshold point since the 1960s. Ireland (IMF 1976, pp.245-8) and the UK (IMF 1980, pp.420-2) joined them in 1975 and 1979, respectively, by further liberalizing outward direct investments; Austria reached the cut-off in 1977 by further liberalizing inward direct investments (IMF 1977, pp.51-5); and Sweden (IMF 1981, pp.393-7) and Finland (IMF 1990, pp.160-3) reached the point in 1980 and 1989 by liberalizing both their inward and outward direct investments.

Next, the commitment to European monetary integration is measured by a country's participation in an anti-inflationary transnational monetary regime in Europe, in which the currency of the county is formally or virtually fixed to a foreign base currency. Among the eleven sample countries, Austria, Germany, and the Netherlands began their commitment earliest by forming a core monetary group right after the Bretton Woods system collapsed in 1973. Belgium was also part of this group, but its commitment was steadfast until around 1980 (Hemerijck, Unger, and Visser 2000; Kurzer 1993, pp.159-63, 217-43). Note here that in none of these cases the monetary commitment was based on formal institutional arrangements. The Snake in the 1970s and the EMS in the 1980s, in which other EC countries also participated, were still soft and flexible in their coordination mechanism. That is, they allowed the exchange rates of the member currencies to change frequently via negotiation and renegotiation of their target rates as well as the bands of their permitted fluctuations. Under this circumstance, any successful monetary commitment had more to do with domestic policy preference for price stability within the participating countries. The unique economic situation shared by these countries, that their economies had already been deeply integrated into the German

regional economy, made their commitment even more stable (Hemerijck, Unger, and Visser 2000).

Entering the second half of the 1980s, many other European countries began to be seriously interested in the idea of anti-inflationary monetary coordination (Eichengreen 2008). Some countries, such as Denmark, France, and Ireland, did so in their explicit aspiration to join in the emerging EMU. Finland, Sweden, and the UK were outside the EMS, but still could coordinate their policies successfully with the EMS countries. Between 1987 (immediately after the coordinated ERM devaluation in January) and 1991(preceding the ERM crisis in 1992), there were no attempts at major devaluation by any of these countries (except for the Finnish devaluation in November 1991, which was precipitated by the exceptional pressures from the Soviet meltdown and the banking sector crisis (Kauppinen 2000)). Their currencies also remained stable within a narrow band of fluctuation. As attested in *World Development Indicators* (several years), their currencies fluctuated on average within the 3% margin against the German mark, which was not so different from the 2.25% margin for the currencies in most EMS countries. Lastly, Italy joined in the integration process in January, 1990, by tightening the margin for the lira's fluctuation from the previous 6% to the standard 2.25% (OECD 1991c, pp.11-8).

European monetary coordination continued to be successful in the 1990s, although temporarily disturbed by the 1992 ERM crisis. Here again, the formal EMU membership did not matter much for actual coordination. According to the *OECD Economic Outlook* (several years), both the insiders and outsiders of the EMU could manage their exchange rates tightly against the German mark. For instance, the currencies of eight EMU countries in the sample (Austria, Belgium, Denmark, Finland, France, Ireland, Italy, and the Netherlands) were depreciated on average only about 0.6% in the second half of the

1990s, as compared to the first half. The currencies of the two outsiders, Sweden and the UK, were even appreciated 2.2% during the same period.

Finally, the performance of wage cost control is measured by the real trend in the national wage costs. This trend is then evaluated by looking at the overall business climate in a given country. Here the rationale goes as follows. Suppose that businesses are running well in a country. Then, unions will tend to push for relatively high wages without worrying much about their job situations. Employers will also consider this militancy as acceptable because their businesses are still thriving. In this situation, we may not consider a trend of high wages as an indication of poor cost control. However, the situation changes if the business climate turns poor. Employers now are put under serious financial stress and can no longer afford high wage costs. In this situation, wages really need to be tightly controlled. Any failure in this will clearly indicate that wage costs are not in good control.

Building on this insight, I adopt two indicators for wage costs: the overall wage increases in all private sectors net of inflation and productivity, and the work days lost per 100 workers in a year. The former is drawn from several editions of *OECD Economic Outlook* and the OECD online database (http://stats.oecd.org/wbos/Default.aspx). The latter is drawn from Huber et al.'s *Comparative Welfare States Data Set* (Huber et al. 2004). These indicators are then evaluated in comparison with the real GDP growth (evaluated at the German mark) and the unemployment rates, which reflect the overall business climate in the national economy (all drawn from Huber et al.’s data). Here the point of interest is the movements of the cost indicators at a time when the growth is low and unemployment is high. This macroeconomic situation suggests that employers have serious problems in investing their resources and hiring workers --- due to whatever supply/demand-side issues in their economy. To deal with these difficulties, both the cost

indicators have to be controlled very tightly.

One challenge to this measurement, however, is how to define the threshold point for each of those indicators. How low should the economic growth be? How high should unemployment be? And, to deal with these economic difficulties, how low should wage increases and workday losses be maintained? All these questions must be answered in relative terms, and for this purpose I propose the following operational criterion. Wage costs should be in poor control if the macroeconomic indicators are worse than the European average but the cost indicators are not maintained better than the European average. In all other cases, the situation will be different. Those indicators may be in mixed shape (some being better and others being worse than the European average), all around the average, or all better than the average. In this situation, employers may not be strongly motivated for changing their wage-setting process. They will just consider that their wage costs are only under mild stress or even in good control, or somewhere in the middle.

2.4.3. The result of the Boolean analysis

Table 2 summarizes the outcome of the dichotomous measurements (detailed justifications for these are provided later in the comparative historical analysis sections.). From groups A to D, in which capital openness is high, a total of seventeen country cases are examined. Out of these seventeen, Austria and the UK drop out due to certain issues regarding the dependent variable (also discussed later). The country cases with low capital openness are examined in groups E to H, but not as extensively as the former groups. This is because, except for Finland, their periods are concentrated in the pre-1970 years, for which only limited data are available. Therefore, these countries are examined only briefly by relying on the judgments and findings of previous expert studies.

From this table, the variable of *High Capital Openness* is given the score of 1 if

Quinn's index of capital liberalization is equal to or greater than the value of 3. *Lack of Monetary Commitment* is given the score of 1 if the government is not committed to monetary integration. *Poor Coordination* is given the score of 1 if wage costs are controlled poorly. The dependent variable, *Decrease of Wage-Setting Coordination,* is given the score of 1 if employers succeed in decreasing the level of wage coordination.

Notice here that groups G and H are logically meaningless. This is because the combination of strong monetary commitment and low capital openness, as shown there, cannot last in the long run. Suppose that a government has decided to adopt a fixed exchange rate policy when there are still considerable restrictions on cross-border capital transactions. Then the government will find a good opportunity to keep the exchange rate safe even without constraining its temptation for macroeconomic accommodation. This is because although these expansionary policies will produce inflationary pressure, the restriction on capital mobility will still help the government defend its currency by constraining capital exit (Frieden 1991). In the long run, however, domestic inflations under a fixed exchange rate regime will produce an adverse effect on the balance of the economy by reducing exports and increasing imports. To address this problem, the government will have no other choice but to abandon the fixed exchange rate and devalue its currency. Where capital openness is high, however, the situation is quite different. There, any accommodating policies trigger capital exit and threaten the fixed exchange rate in no time (Frieden 1991). Disciplined by this instantaneous chain of pressure, the government will be better able to resist its temptation for accommodation and thus defend its currency.

Now summarizing the empirical associations in Table 2, the combinations of the variables in groups A to F are all theoretically exhaustive and empirically supported. They also do not produce any contradictory outcomes for the dependent variable. We then find

the change to de-coordination takes place only in group A, in which all the three independent variables have the score of 1 at the same time. If this is not the case, as shown by all the other groups from B to F, the change does not occur. Therefore, the final analytic expression for the sufficient effect is: *DECREASE OF WAGE SETTING COORDINATION = HIGH CAPITAL OPENNESS* × *POOR COORDINATION* × *LACK OF MONETARY COMMITMENT*, in which the variable names in upper-case letters denote the presence of the variables. Of course, this expression may not exhaust all other possible routes to de-coordination. However, it does provide good support for the hypothesis in this study, by showing that the combined effect of high capital openness and poor coordination holds only if the government is not committed to monetary integration.

2.4.4. Alternative hypotheses

To check the robustness of this finding, I now examine several alternative hypotheses in another separate Boolean setting. The focus here is to see if these hypotheses can add any alternative routes to the outcome reached by the previous Boolean analysis. If so, that previous analysis will be challenged. If not, it will be strengthened. The first alternative hypothesis is drawn from the neo-corporatism literature: strong left power, as shown by strong unions and/or leftist parties, leads to a high level of wage coordination due to their concern for compressed but moderated wages (Korpi 1983; Stephens 1979). The second hypothesis is an employer-centred one: the presence of well-organized employers leads to a high level of wage coordination as they attempt to promote diversified quality production or to take wages out of competition (Soskice 1999; Swenson 2002). The third is a hypothesis regarding trade dependency: a high level of trade dependency promotes concentration of national productions for the sake of specialization, which then encourages strong organization of employers and unions and, finally, leads to a high level of wage coordination (Katzenstein 1985). The

fourth hypothesis concerns the effect of public sector expansion: the growth of the public sectors which are less exposed to market competition makes it difficult to coordinate the wages between these and other more market-exposed private sectors, leading to a decrease in the level of collective wage coordination (Garrett and Way 2000; Pontusson and Swenson 1996).

Of these four hypotheses, note that only the last one deals with the change of de-coordination explicitly. The first three are more concerned with the historical origins and long-term duration of high-level wage coordination, which may not be directly related to the subject of this study. However, they still provide a reasonable implication by suggesting that any decrease in those variables would result in a decrease in the level of wage coordination.

With regards to operationalization, the power of the left is measured by the non-weighted sum of the standardized union density and the standardized left governing parties' share of the parliamentary seats. Trade dependency is measured by the trade ratio, which is the sum of exports and imports as a share of the GDP. The size of the public sector is measured by the share of public civilian employees in the total working population, aged between fifteen and sixty-four. All these data are drawn from Huber et al.'s dataset. Finally, employers' organizational power is measured by Traxler et al.'s data on the authority of business confederations (Traxler, Blaschke, Kittel 2001). In creating the data, they broke down various activities of employers' confederations into several distinct categories, ranging from formal representation to general consultation, coordination of collective bargaining, and signing of collective agreements on wage or other work-related issues. For the purpose of operationalization, I give the measure a score of 0 if employers' confederations play only the minimal roles as shown by formal representation and general consultation, 1 if the confederations actually coordinate

collective bargaining, and 2 if they can sign collective agreements on behalf of their members.

Table 3 provides summary statistics for these variables for the same countries appearing in groups A to D of Table 2. Those in groups E and F are not covered because of missing data. This, however, does not create a problem because the focus of analysis here is to check if the alternative variables can produce any new routes to the four breakdown cases as shown in group A in Table 2.

On the right side of the table, all the alternative independent variables are dichotomized for a Boolean comparison. The operational key is to compare the average scores of each variable between the first-half and second-half of the given period of analysis. If these scores changed in the hypothesized direction, then the variable is given a score of 1. If not, it is given 0. This way, the dummies of *Decrease of Left Power, Decrease of Business Power,* and *Decrease of Trade Ratio* are given a 1 if the averages of the left power index, Traxler's business confederation data, and the trade ratio decreased during the periods. *Increase in the Public Sector* is given a 1 if the average public employment increased.

Looking at the truth table in Table 3, we find the alternative variables fail in adding new sufficient routes for the four breakdown cases. Individually, only the variable *Increase in the Public Sector* has a necessary relationship with the dependent variable. *Decrease of Left Power* and *Decrease of Business Power* have neither a necessary nor a sufficient relationship with it. *Decrease of Trade Ratio* does not change from the score of 0, which makes it impossible to test its effect. Their interaction effects are also very weak. First, the combinations are far from being exhaustive, producing only six out of the sixteen possible paths. Among them, only group 4 produces a sufficient route to the Irish breakdown (Even then, the theoretical rationale for this combination is not clear.). Group

5 includes the rest of the breakdown cases, but this category is self-contradictory because the same combination of independent variables produces the two different results for the dependent variable. In these situations, any meaningful Boolean induction cannot be made.

2.5. Comparative Historical Analysis: Before Monetary Commitment

The results of the Boolean analyses so far have confirmed the claim of this study, that employers choose to de-coordinate the wage-setting process when the following three conditions are met simultaneously. Capital openness should be high, wages should be set with poor coordination, and the government should not be committed to European monetary integration. The comparative historical analysis in this and the next sections provides further support for this. More specifically, the analysis focuses on those cases from groups A to D in Table 2, in which the level of capital openness was all high. It then highlights the mediating role by European monetary integration in producing the outcome of de-coordination.

Before the main analysis, let us briefly discuss the cases appearing in groups E and H. In all these cases capital openness was set to be low. The government also was not committed to anti-inflationary monetary integration. The only source of difference among them was the performance of wage cost control. Wages were poorly coordinated in group E, which was shown by the case of the UK in the 1960s in which strong company-level unions took a militant approach in their wage negotiations (Hall 1986, pp.49-99; Scharpf 1991). But there was not yet a Thatcherite attack on the collective bargaining system in this period. Rather, industrial actors and the government searched for a collective solution and tried to address the problem of wage inflation by means of nation-wide wage guidelines. In group F, wage costs were controlled better. Among the good examples was

Austria until the 1960s which boasted one of Europe's best performances on wage moderation (Traxler 1992). Finland until the early 1980s also fell into this category. Although its wage costs remained high, they were still acceptable to employers given the health of the nation's macro-economy (Kauppinen 2000). As expected, there was no attempt at de-coordination in these cases.

2.5.1. Configurations of the variables

Let us now look more closely at the country cases in which the level of capital openness was high. We begin with those cases in which the governments were not seriously committed to European monetary integration. Good examples include Denmark, Ireland, Italy, the UK, and France from groups A and B in Table 2. In all these countries, the scores of Quinn's index were '3' or higher throughout the period (Denmark, France, and Italy), or had been lower but reached at least that level before their wage coordination systems changed (Ireland in 1975 and the UK in 1979).

With regard to the period of analysis, the countries were examined within the years of 1970 to 1985. The start year reflects data availability, and the end year reflects the fact that the governments in those countries began their earnest monetary commitment from the second half of the 1980s. Within this maximum range of period, the specific end years were determined by looking at whether or not a change for de-coordination happened during the period. If so, which was true in Denmark, Ireland, Italy, and the UK, the end years were when those changes took place. If not, e.g. France, the end year was 1985. This periodization helps highlight the constellation of independent variables which promoted the employers' decision for de-coordination.

The upper section of Table 4 provides summary statistics for Kenworthy's wage coordination index and other performance data on wage cost control in the five countries. We find that the level of wage coordination decreased from the *status quo* of the 1970s in

all the countries except France. In Denmark and Ireland, Kenworthy's data exhibit clear unidirectional changes which all took place in 1981. In Denmark, centralized government mediation broke down in that year, and was replaced by a new system of industry-level coordination (Due et al. 1995; Wallerstein and Golden 2000). The Irish wage-setting system, which had been centralized at the national level throughout the 1970s, also collapsed to the company-level in that year. Although there remained some weak characteristics of pattern-setting in the process of wage negotiations, the system remained basically company-based until it began to be re-centralized at the end of the 1980s (Hardiman 1988; O'Brien 1981).

The situations in Italy and the UK were more complicated because Kenworthy's data did not exhibit clear patterns of de-coordination. Here Kenworthy's scores for the beginning and the end years of the period were the same ('2' for Italy and '1' for the UK), although there were some notable spikes in between. For Italy, this reflects the fact that the traditional company-level bargaining, which had been coupled with strong legal/administrative regulation, was interrupted by two short-lived episodes of centralized wage coordination in the late 1970s and the early 1980s. In the UK, there were a series of governmental intervention and tripartite pact from 1966 to 1979, which were attempted as an alternative to the previous pure company-level bargaining (In this sense, the score of '1' in the beginning of the 1970s was exceptional for this experiment period.).

After these experimental periods of centralized coordination, however, expert studies suggest that the wage bargaining process in both countries became more fragmented than in the pre-experiment periods. In the UK, Thatcher's victory in 1979 led to a company-level system in which the wages for un-unionized workers began to be determined via individual negotiations with managers, thus bypassing the system of union-based collective bargaining (Edward et al. 1988; Waddington 2000). In Italy, the

company-level tier in the national wage-setting system began to assume a more prominent role than before. Employers led this process, as illustrated by their repeated challenge to the *scala mobile* --- the national wage indexation formula which provided a nation-wide universal floor for wage increase (Regalia and Regini 1998). This trend of de-coordination in the private sectors then spilt over into the public sectors. Strong syndicalist movements, as illustrated by the Coba union group, emerged as the antithesis of established union associations. They invigorated the voices of grassroots unions at the workplace level and promoted decentralization in the public sector (Visser 1996).

In all of those four countries, previous expert studies suggested that the chronic problem of high wage costs throughout the 1970s was the primary factor that interacted with the pressure of capital openness to produce the change of de-coordination. This is clearly supported by the trends of the macroeconomic and wage cost data which are presented in Table 4. There, the GDP growth and unemployment in the four countries were all worse than the average of all sample European countries, as shown in parentheses. The Danish figures did not look too bad. But a problem with the country was that its economy was declining so sharply in the late 1970s. Growth and unemployment, which had been 0.5% and 2% in the first half of the decade, worsened to -4.8% and 7.5% in the second half.

Despite all these macroeconomic difficulties, however, wage costs in none of those countries were controlled tightly. Instead, wage increases and workday losses were all higher than average. Again, Denmark looked exceptional. Besides the workday losses, however, the low figure for wage increase was due to a series of real wage freezes in the late 1970s, which were imposed by Parliament after the unions' refusal to accept the state mediators' wage proposals. From the viewpoint of Danish employers, unions were still not cooperative enough (Iversen and Thygensen 1998).

2.5.2. Performances of wage cost control after de-coordination

An interesting question is what then happened after the attempt of de-coordination. The answer is that the movement of wage costs did not meet the employers' expectation. The economy continued to perform poorly (except for Denmark which will be discussed separately later), but wage costs were still on the rise.

Looking at the five-year periods after the change, the GDP growth and unemployment in Ireland, Italy, and the UK all continued to be worse than the European average. The Irish figures were -3.0% and 15% in 1982-1986, which were worse than the -1.7% and 8.4% at the European level. The Italian figures were 0.7% and 9.5% in 1985-1989, whereas the European figures were 1.9% and 7.8%. In the UK the situation looked better because the GDP growth in 1981-1985 did beat the European average (-0.4% vs. -1.6%), although unemployment still remained worse (10.9% vs. 8.1%). This performance, however, was due to the short-term stimulative effect created by the banking-sector liberalization in 1980 (Rhodes 2000). Banks began to expand their loans to private actors at an unprecedented scale, which then boosted consumer demand even without real improvement in the national employment. The growth rate in 1980 and 1981 was 7.6%, which was much higher than the European average of 0.7%. But this boom did not last long. The growth soon decreased to -2.1% between 1982 and 1985, which became lower than the European average of -1.8% during the same period.

Despite these poor economic climates, wage costs were not controlled tightly in the post-transition period. Apparently, there were some signs of improvement. As Table 5 shows, the non-standardized figures of wage increases and workday losses improved in all the three countries (Ireland, Italy, and the UK), when we compare the five-year periods before the transition. However, these figures were more misleading than revealing the truth because the European average was also improving during the periods. The

standardized figures will address this problem by controlling the common European trend out of the country statistics.

As it turns out, relative improvements took place in Ireland and Italy. Wage increases and workday losses were all moderated considerably. However, these results were mainly driven by a few years of good performance immediately following the change. Wage costs then were rising sharply in both countries. In Italy, 1987 marked the beginning of the renewed wage militancy. Strong public-sector unions played a leading role in the process, who were then under the strong pressure from militant grassroots organizations in the decentralized bargaining setting. They demanded rapid wage increase to compensate for the previous few years of real wage stagnation. This then became an effective guideline for private-sector negotiations for years to come (OECD 1987b, p.14; Perez 2002; Visser 1996). Between 1987 and 1990 (the last year before the Italian wage-setting system began to be re-coordinated under a new austerity-oriented policy regime), the standardized wage increases were 0.0, up from -0.3 in 1985-1986. In 1990 only, the increase was 0.8, which was higher than the average for the pre-transition period. The standardized workday losses also approached the previous level. It rose to 1.8 in 1987-1990, up from 0.2 in 1985-1985.

The situation was quite similar in Ireland. In the beginning, wage costs seemed to be under good control. Especially important was the government's intention to hammer out tight wage settlements in the public sectors and then use them as an informal guideline for private sector negotiations. This strategy worked well at first (Hardiman 1988; OECD 1982, pp.36-7). However, it soon became ineffective, as the ICTU (the peak confederation for Irish unions) continued to emphasize the strategy of real wage increase as a means to hold onto its influence on the national wage-setting process. De-centralized unions in the private sectors also were increasingly unwilling to comply with the

government wage guideline (Hardiman 1988; von Prondzynski 1992). Consequently, the private sectors developed a separate pattern of collective bargaining, in which those unions who happened to strike wage deals earlier set an informal tone for the entire bargaining round. Beginning in 1985, the situation became even worse. Being disappointed with the previous few years of real wage stagnation, public-sector unions began to push hard for compensatory wage increases. The government initially resisted, but ultimately succumbed to their militancy (OECD 1985, pp.16-23). Consistent with this historical development, the standardized wage increases in 1985-1986 rose to -0.1 from -0.4 in 1982-1984 (although workday losses did not change much). In 1986 only, the last year before the Irish wage-setting system began to be re-coordinated under a new austerity-oriented policy regime, the wage increases was 0.6, which was even higher than the average for the pre-transition period.

In the UK, the situation was clearer than the other two cases above. Although the government held tight control over the wages for public-sector workers, the wages in the private sectors were on the rise immediately following de-coordination (Hall 1986, pp.100-36). This was mainly due to the game of relative wage competition played by unregulated company-level actors (Brown and Walsh 1991; Traxler 1995). Especially, the unions and un-unionized workers in skill-scarce manufacturing sectors played an important role in this syndrome of wage push. Those in other sectors then were put under pressure from the call for fair wages, and had to join in the initiative for militancy (Walsh 1993). As Table 5 shows, both wage increases and workday losses worsened during the five years following de-coordination, when compared with the previous five years.

2.5.3. Governments' responses

Interestingly enough, in none of these three countries did the unsatisfactory performance lead employers to change their initial decision for de-coordination.

Employers had decided to change their wage-setting systems because they had been disappointed with their performances. They then held onto their decision even after they found wage costs were on the rise following the change. As claimed by this study, this attitude could prevail because their governments could provide them with various accommodating macroeconomic policies to compensate for the difficulties that they were encountering during the transition. Initially, governments adopted non-accommodating policies, which they crafted in response to their year-long problem of wage-pushed inflation. However, they gave up their tough position as they found that wage costs continued to rise and worsened business activity.

The UK is one of the best examples to illustrate this point, because its new conservative government which took office in 1979 seemed to have a really strong ideological commitment to monetarism. After her electoral victory, Thatcher adopted a package of austerity-oriented policies, consisting of stable sterling and fiscal/monetary restriction. Her purpose was clear --- fighting against the years-long problem of wage-pushed inflations. However, while successful in accomplishing this goal, her policies were certainly not helpful for employers. This was especially true for those in the tradable manufacturing sectors, in which the rising wage costs after de-coordination added a further problem to their already weak price competitiveness (Middlemas1991, pp.241; Pollard 1992, pp.380-1, 386). From 1980 to 1982, for instance, the growth of the net capital stock in these sectors turned negative. This was quite a notable development, given that the stock in the sectors had grown slowly (OECD 1983b, pp.41-7), despite the challenge of wage inflations throughout the 1970s. Meanwhile, domestic service sectors seemed to be in a better situation, especially after the banking-sector liberalization in 1980. Consumers' demand improved, which even led to an increase in investment and hiring in these sectors. However, this stimulative effect soon vaporized with rising wage

costs in the early 1980s. Then a period recession followed (Rhodes 2000). Under these circumstances, the CBI (the peak national confederation for British employers) pressed hard the government to change its hard-line position. The confederation even began to consider seriously the possibility of returning to the previous wage-setting system, hoping that it would help moderate the unions' militancy by means of national wage guidelines (Middlemas 1991, pp.249-50).

After passing through the short period of tension, the government decided to respond to the call for accommodation. More specifically, the government changed its position in the areas of monetary and exchange rate policies, although it continued to take a restrictive fiscal stance especially on the pays for public-sector workers (Hall 1986, pp.100-36). From 1981 to 1985, the sterling was devalued about 20% against the German mark, which was greater than 16% of the average of the sample countries. Given that the UK was not within the managed exchange rate system of the EMS, there was no official action for devaluation. The government simply let the sterling float freely without taking any defensive measures. The monetary policies also changed. Among the key issues here was the choice of a money target index, which would be used as the reference point for managing total monetary supply. Initially, the target was set with the M3, which included not only cashes in circulation but also all other credit instruments. Later until the mid-1980s, the focus shifted toward cash in circulation, allowing the credit side of the monetary supply to expand without government supervision (Pollard 1992, p.384).

In Ireland and Italy the situation was similar, although not as dramatic as in the UK. In Ireland, the new center-left coalition government which took office in 1981 implemented a series of disinflation policies aiming at fiscal scrutiny (via tight control of pay for public employees), monetary stability (via direct guidelines for foreign and bank borrowing), and exchange rate stability (O'Connor 2002; OECD 1983a, pp.24-31). This

policy initiative, however, produced serious tension for business activity at a time when wages in the country were still not properly controlled even after de-coordination (Roche 1994). Investments declined sharply in all major sectors in the first half of the 1980s. Tradable manufacturing sectors were hit even harder because the trend of weak sterling during the time led to informal appreciation of the Irish pound (OECD1983a, pp.15-9, 40-1; OECD 1985, pp.38-9).

In response to these problems, the government switched its policies toward accommodation. While continuing its emphasis on monetary stability, the government loosened its policies in other areas (Hardiman 1988; OECD 1985, pp.16-23). In1986, the Irish pound was devalued unilaterally against both the British sterling and all other EMS currencies. Fiscal scrutiny also weakened in order to prop up domestic demand. Beginning in 1985, for instance, the government allowed wages in the public sectors to rise at least at the same speed with those in the private sectors.

In Italy, the priority of government macroeconomic policies was again the fight against wage inflation. This had already been foreshadowed by the divorce of the Bank of Italy from the Treasury in the early 1980s (Ferrera and Gualmini 2000), and continued to be true even when wage costs began to rise sharply in 1987. The government reiterated its commitment to currency stability. It even announced a plan for budgetary consolidation, aiming at a substantial reduction of the debt/GDP ratio by the end of 1992. As for monetary policies, the government maintained high interest rates as well as its control over bank lending to private actors (OECD 1990b, pp.36-7, 44-52).

However, the trend of rising wage costs eventually forced the government to change its course (Perez 2002). The lira was then devalued unilaterally against all other EMS currencies in January of 1990. Fiscal scrutiny also loosened significantly as the government delayed the target year of the fiscal consolidation. The monetary authority

also began to take a more flexible approach to interest rate fluctuation and bank lending (OECD 1990b, pp.36-7, 44-52).

2.5.4. The Danish and French cases

In Denmark, another case of breakdown, the situation was quite different from the other three countries discussed so far. True, wage costs continued to increase after the de-coordination, as shown by Table 5. This was due to the wage competition among de-centralized bargaining units, mainly driven by the overheated construction sector and the public sector (Benner and Vad 2000; OECD 1986a, p.25; OECD 1988a, pp.27-8). However, the Danish economy at that time was recovering at the fastest speed in all of Europe (OECD 1986a, pp.20-2). For example, during the five-year period after de-coordination (1982 to 1986), Danish unemployment came close to the average of the European average (8.7% versus 8.4%) and GDP growth was even better (0.2% versus -1.7%). Under this circumstance, the trends in the wage costs did not pose a serious challenge to employers. The government also did not feel a strong need for active macroeconomic accommodation (Benner and Vad 2000; OECD 1984, pp.8-14; OECD 1986a, pp.9-19).

Finally, France was the case in which the *status quo* of wage coordination was preserved. The overall business climate of the country was not too bad, as shown by Table 4. The GDP growth and unemployment did not deviate much from the European average in the 1970s and the early 1980s. Wage increases also were near the average, and workday losses were even below average. Therefore, there was no strong need for the French employers to embark on the project of de-coordination. In fact, the sense of a French crisis became widespread only after the mid-1980s, when the inefficiency of the state-led economy had been evident but the socialist reflation policies failed to address it (Hall 1994; Levy 1999, pp.23-56).

2.6. Comparative Historical Analysis: After Monetary Commitment

Next, we deal with those cases where capital openness was high and there was also strong government commitment to monetary integration. We have twelve cases from groups C and D in Table 2. In all of them, the scores of Quinn's index were higher than or equal to '3.' As for the monetary commitment, Austria, Germany, and the Netherlands started the process in the early 1970s when the Bretton Woods system collapsed. Belgium joined them in around 1980. Denmark, Finland, France, Ireland, Sweden, and the UK joined in the second half of the 1980s with their preparations for the EU or EMU. Italy finally joined in 1990 when it narrowed the margin of the lira's fluctuation in the ERM, from the previous 6% to the standard 2.25%. Reflecting these different timings of monetary commitment, these countries will be analyzed with different start years. They all, however, will be covered until the 1990s.

2.6.1. Configurations of the variables: the cases of poor performers

Now we look at what happened in the countries where employers suffered seriously from poorly controlled wage costs. Here the point of interest is whether or not the employers responded in the same way as they did in the previous cases of breakdown. It turned out that they did not. The following historical analysis explains why they made different choices.

Beginning with Italy, Belgium, and France, all from the top of the lower section in Table 4, the GDP growth and unemployment were all worse than the European average, but the wage costs were not tightly controlled. In Italy, both wage increases and strike activities were higher than the European average. In Belgium, strike activities were fewer but wage increases were higher. France seemed to be in a better situation because both of these figures were lower than the average. Entering the 1990s, however, this advantage

weakened considerably. While strike activity continued to be lower (2.6 days vs. 6.2 days), the difference in wage increases became nil (-1.5% vs. -1.2%). When standardized, the wage figure in France was only 0.1 point lower than the average.[2]

In the Netherlands, the situation looked quite different because all the indicators were in good shape. But this was true only on the surface. The indicators began worsening sharply in the second half of the 1970s, which then became worst in around 1980. From 1979 (when the Dutch government realized its economic problems so seriously that it decided to respond with an ultra austerity-oriented policy package (Visser 1990)) to 1981 (the last year before the pact of Wassenaar), the averages for the GDP growth and unemployment were –0.7% and 6.1%, respectively. These were not only worse than the European averages of 0.5% and 5.8% during the same years, but were even worse than the country's previous averages in the 1970s, 2.8% and 3.4%. The Dutch wage costs, however, were not controlled well. Although it was true that strike activities remained low, wages increased sharply (Visser 1998). Here, the wage data for the same period of 1979 to 1981 are of little use to show this trend. This is because wages in these years were set via parliamentary direct interventions, which imposed wage freezes against militant unions. Instead, a comparison of wage trends between the first and second halves of the 1970s will provide a better perspective. During that time, the wage figure rose from –0.2% to 0.8%. This wasan even worse development, given that the European trend was improving from 1.5% to –0.2% during the same period (The Dutch case after the early 1980s will be discussed separately because its economy has improved significantly since then.).

In Finland (Kauppinen 2000), Ireland (Baccaro 2003), and the UK (Rhodes 2000),

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[2]Even if we consider France to be a successful case of cost control, this still does not contradict our hypothesis because after all, the French wage-setting system did not change.

the macroeconomic indicators were also in poor shape until the early 1990s, although they all recovered thereafter. In the UK, both growth and unemployment were worse than the European average. The Finnish figures had been good until the late 1980s, but worsened rapidly beginning in around 1990 due to the shocks from the Soviet breakdown and the banking sector crisis (Kauppinen 2000). GDP growth and unemployment, which had been 1.9% and 4.5% in the second half of the 1980s, became –4.7% and 13.3% in the first half of the 1990s. These were clearly worse than the European averages of –0.6% and 8.9% during the same period. In Ireland, unemployment was the worst in Europe, whereas the economic growth looked better. But this growth figure was partly inflated due to the superior performances of the expert-oriented foreign companies, which did not have a close tie with the Irish domestic economy (OECD 1983a, pp.15-9).

Despite all these economic difficulties, wages in none of these three countries were controlled tightly. As seen again from Table 4, the Finnish figures were just mixed. Even focusing on the first half of the 1990s, the situation was not much different; wage increases were lower than the European average (–3.8% vs. – 1.6%), but workday losses still were far above the average (21.2 days vs. 6.8 days). The Irish figures were also mixed. In the UK, both measures were not far from the averages.

A striking finding here is that the poor performance in those seven countries did not result in de-coordination. Instead, the wage-setting process either stayed at *the status quo* or was even more coordinated. In Italy, decentralized bargaining until around 1990 was re-centralized with a series of non-binding tripartite talks (Ferrera and Gualmini 2000; Regini and Regalia 1997). In Belgium, industry-level bargaining which had been mostly coupled with legal regulations and non-binding central bipartite guidance was replaced in 1981 by direct government intervention (Arcq and Pochet 2000). In France, company-level bargaining which was coupled with legal/administrative regulations

continued to be true, although with a trend of increasing flexibility in the system (Goetschy 1998). In the Netherlands, industry-level bargaining with strong legal/governmental intervention continued until 1982, when it was replaced by another industry-level system with non-binding central agreements (van Ruysseveldt and Visser 1996; Visser and Hemerijck 1997, pp.81-113). In Finland, the industry bargaining system with non-binding central guidance continued with a greater emphasis on peaceful wage moderation (Kauppinen 2000; Kauppinen and Waddington 2000). In Ireland, company-level bargaining with weak pattern-setting was re-centralized with a series of binding/non-binding tripartite social pacts (Baccaro 2003). Finally in the UK, the combination of union-based and individual negotiations at the company level continued without change (Waddington 2000).

2.6.2. Employers' reactions to poor performances

Why did employers choose not to push for de-coordination this time? From the perspective of the hypothesis of capital openness, this is a difficult question to answer. Employers were suffering from high wage costs. These costs were even more difficult to bear because the process of monetary integration eliminates the possibility of government accommodation to compensate for their financial burden. In this situation, the hypothesis would predict that employers would be seriously interested in the project of de-coordination to save their wage costs. The following analysis confirms that they did attempt such a change (unless their recent experiences had already demonstrated the unsatisfactory consequence of such a change). But they soon withdrew from this attempt, finding that wage costs were increasing after the change but their government was not in a position to help them out. They then either returned to the *status quo ante* or attempted more coordination as a second-best solution for wage cost control.

The Netherlands, Belgium, and Finland provide the best examples for this

reversion. Beginning with the Netherlands, the Dutch government began the monetary commitment in the early 1970s. At that time, the Dutch guilder was virtually fixed to the German mark. Domestic monetary supply was also put on tight restriction, although fiscal policies remained moderately flexible in order to soften the too strong deflationary bias of those austerity-oriented policies. Here the government's intention was clear: combating the wage-pushed inflation that the Dutch economy had suffered for a long time. This commitment also looked credible given the close economic tie between the country and Germany. The outcome of this initiative, however, was disappointing. With the continued failure in wage cost control, those policies led to further squeeze of employers' profits especially in the tradable manufacturing sectors (Hemerijck, Unger, and Visser 2000).

Dutch employers responded with an attempt at unilateral de-coordination. The key issue there was the automatic wage indexation formula, in which wages were guaranteed to increase at least at the speed of domestic inflation. Blaming this formula for the years-long problem of wage-inflation spiral, employers decided to abolish it unilaterally. They then made their intention clear at the annual national wage conference held in 1976 (Visser 1990). However, this offensive triggered fierce responses from unions. The national conference collapsed. Subsequent industry-level negotiations, which were called to determine sectoral wages without any national wage guideline, were fraught with tension. Strike activities soared, and wage increases were much higher than employers had initially proposed (OECD 1978b, p.17). Worse yet, employers could not solicit any policy compensations from their government. The government had already shown its commitment to macroeconomic austerity since the early 1970s. Beginning in 1976, it even strengthened its position by tightening its fiscal policies, which had been managed relatively flexibly to fend off the possibility of deflation (Hemerijck, Unger, and Visser 2000). With all these unfavorable developments, the employers withdrew from their

attempt at unilateral de-coordination (Visser 1990). They then began to take a more serious interest in nation-wide wage coordination. Aided by strong government support and also by unions' increasingly cooperative attitude, this led to the historic national pact of Wassenaar in 1982 (Visser and Hemerijck 1997).

The situation was similar in Belgium, except that it instituted its strong monetary commitment in the second half of the 1970s. Officially, the Belgian government had adopted the same Dutch-style policy package in the early 1970s. In real terms, however, it was more skewed toward Keynesianism because of its heavy reliance on fiscal stimulation. The cumulative public debt throughout the 1970s was on average 63.6% of the GDP, which was much higher than the average of the sampled European countries, 42.6% (Armingeon et al. 2004). Entering the second half of the decade, however, the Belgian government began to tighten its policy position with an explicit aspiration for exchange rate stability (OECD 1977, pp.24-32; OECD 1978a, pp.26-34; OECD 1979, pp.32-42). It introduced tight ceilings on public spending, along with tax increases. The monetary supply also became more restricted, with tight interest-rate management and other direct controls on credit and loans.

Because of the lack of effective wage moderation, however, these policies produced a serious tension for business activity. Belgian employers then responded in the same way as the Dutch counterparts did. In an effort to save wage costs, they launched a unilateral attack on the national wage-indexation system in 1976. Employers in the metal and steel sectors played a leading role in this offensive. They, however, failed to receive full support from their fellow employers in other sectors, who were threatened by fierce responses from unions. Strike activity soared and wages also increased higher than they expected. Employers then withdrew from the attempt, and joined in the government-led process of obligatory national wage coordination (Pochet 2000; Hermerijck, Unger, and

Visser 2000).

In Finland, the government instituted tight macroeconomic policies in the mid-1980s, after the 1982 massive devaluation and in the context of emerging EMU (OECD 1986b, pp.23-30). True, wage bargaining in the country did not adjust successfully to these disciplinary policies (OECD 1988b, pp.22-3; OECD 1989, pp.19-20), but this failure did not create an urgent problem because the Finnish economy was still performing well. A real challenge, however, came around 1990 when the Finnish economy was hit hard in the wake of the Soviet meltdown and the burst of the financial-sector bubble (OECD 1991a, pp.11-3; OECD 1992a, pp.11-8). The critical reference point was the 1991 national wage bargaining round, during which the Bank of Finland proposed a 3% wage cut for 1992 and 1993 to deal with the national economic crisis. But the unions rejected this proposal. This then led to a massive devaluation of the Finnish markka in November that year (Kauppinen 2000).

To employers, this event clearly indicated unions' unwillingness to adjust to the national crisis. Employers then made clear their intention to de-coordinate the wage-setting system. Although temporarily relieved by the national agreement of wage freeze for 1992 and 1993, which soon followed the devaluation, employers nonetheless continued with their plan. In 1993 they withdrew unilaterally from the national wage negotiations for 1994 and 1995, and forced pure industry-level negotiations on unions (Kauppinen and Waddington 2000). This experiment, however, only invited massive strikes and wage militancy (OECD 1996, pp.25-8). Employers then came back to the national negotiations in 1995. With unions' increasing interest in peaceful wage moderation, employers could continue to make successful wage deals thereafter (Kauppinen and Waddington 2000).

In Italy, the austerity-oriented policy regime began around 1990, when its

government narrowed the margin of the lira's fluctuation in the ERM (OECD 1991c, pp.11-8). In Ireland, the regime began in 1987 when the newly elected Fianna Fail government launched a strong stabilization plan (OECD 1988c). And in the UK, it began in the late 1980s when the reigning conservative government decided to join in the EMS (Rhodes 2000). As was true in other cases discussed above, all these choices were a response to previous failures of wage cost control, and were made credible with the help of a favorable external constraint --- the emerging EU and EMU. Also the same was that wages were not put under good control even after the shift of government policy, which then produced serious pressure on business activity. However, unlike the countries above, there were no explicit attempts by employers to de-coordinate the wage-setting processes. In Italy and Ireland, this was mainly because employers had already learned from their recent experiences that de-coordination could actually increase wage costs at least in the short run (Hardiman 1988; Perez 2002). In the UK, further de-coordination was simply not possible because its wage-setting process had already been fully de-coordinated.

Finally, in France the austerity-oriented policies began after the socialist experiment with Keynesian reflation in 1982 and 1983. This experiment was a catastrophic failure due to domestic inflation and subsequent job losses (Levy 1999, pp.23-56). Since then, the government's priority has shifted to price and exchange rate stability (Hall 1994). This change seemed to work well at first in curbing wage increases (OECD 1987a, pp.9-10; OECD 1990a, pp.12-4). But it faced a serious challenge beginning around 1990, when the unions in the construction and public sectors launched strong campaigns for wage militancy. Wages in the country then rose faster than productivity increases in the following several years (OECD 1991b, pp.22-7; OECD 1994, p.25).

French employers responded to this challenge in a quite distinctive way. Instead of

attempting de-coordination, they focused predominantly on the issue of flexibility within the system. This attitude reflected the fact that the French labor market was among the most tightly regulated one in all of Europe. There were strong indexation systems for general and minimum wages in which these wages were indexed to not only inflation but also general economic growth (Petit 1988). There were also strong government regulations on layoffs, part-time employment, fixed-term employment, work-time scheduling, and so on. According to the *OECD Employment Outlook* (2004), for instance, France stood highest on the employment protection index among all the eleven sample countries, as of the late 1990s and the early 2000s. Under this circumstance, deregulation even within the same regulatory framework meant significant savings of wage costs. Since the mid-1990s, governments have responded to this call for flexibility in a bipartisan manner (Ross 2004).

2.6.3. Configurations of the variables: the cases of better performers

Let us now move on to the remaining countries in Table 4, in which wage costs were better controlled than in the previous cases. In Denmark and Sweden, the macroeconomic and cost indicators were all mixed. The GDP growth and wage increases were worse, but unemployment and workday losses were better than the European average. Germany performed better than the two Scandinavian countries. During the years following the reunification, however, its performance worsened considerably. Except for the workday losses of 1.1 days, which still resoundingly beat the European average of 5.4 days, all other indicators came closer to the average level in the 1990s. GDP growth was 2.8% (a little higher than the average of 1.9%), unemployment was 8% (a little lower than the average of 8.7%), and the wage increases were –1.0% (a little higher than the average of -1.2%).

Expert studies of these countries agreed that these performances were far from

being satisfactory to employers, especially when compared with their past good performances. But the studies did not consider that the countries were in deep crisis (Benner and Vad 2000; Manow and Seils 2000). Consistent with this assessment, employers in none of the countries strove for a change to de-coordination. They tried instead to reap the benefits, proven or potential, of collective wage coordination.

In Denmark and Sweden, after the transition to industry-level bargaining was completed, employers did not attempt further de-coordination. Instead, they were more interested in searching for a way to encourage wage moderation in their new systems. Echoed by the unions, this concern led to various attempts at multi-industry (although not nation-wide) wage coordination, in which several industry bargaining units got together and discussed common informal guidelines for moderate wage increases (Dolvik and Martin 2000; Due et al. 1995; Scheur 1998). Notice that the Swedish figures from Kenworthy's index seen in Table 4 seem to challenge this evaluation. These figures, however, simply reflect the fact that the Swedish transition to industry-level bargaining took a relatively long time. After the initial attempt at decentralization in the early 1980s, wages in Sweden were set between a pure industry level and a non-binding central level until the industry-level bargaining was finally stabilized in the early 1990s (Kjellberg 1998).

In Germany, the association of metal employers began the 1990s by adopting a militant approach to the metal unions, which could have destabilized the traditional system of industry-level bargaining in the country. However, this offensive did not last long, because metal employers did not follow the guideline of their association, but rather chose "wild-cat cooperation" with their unions. Although not satisfied with their wage costs at that time, these employers were more concerned about the possibility of losing their trust-based industrial relations, which had been one of the most important sources of

the German industrial success (Thelen 2000).

Finally, in Austria and the post-reform Netherlands, the economic situations were even better (Traxler 1998). In Austria, all the indicators were better than the European average. The Dutch figures also were close to this pattern, except that wage increases stayed at the average level. Entering the 1990s, the Dutch economic situation further improved with its unemployment going down to 5.4% (The European average was still 8.4%). Under these circumstances, employers in neither the countries found a strong reason for attempting to change their wage-setting systems. Here again, the decreasing figures of the Austrian wage-setting index looks contradictory. This indeed correctly reflects the change of 1983 in which the previous centralized bargaining was replaced by a new industry-level bargaining system. However, this event is not relevant to our hypothesis testing because it was driven by the unions, not the employers. Traditionally, the monopolistic union confederation, the OGB, had led the national wage coordination through its direct guidance over member unions. Beginning in 1983, however, its role was significantly reduced as an outcome of internal debates, which then paved the way for the metal union association, the GMBE, to take a strong pattern-setting role in the wage-setting process (Kenworthy 2001; Traxler 1998).

2.7. The Trends Of The Variables In The 2000s

Before concluding the empirical analysis so far, recall that the analysis has covered only restricted periods up until the 1990s. This was because certain key variables, such as Kenworthy's wage-setting index and Quinn's financial liberalization index, did not cover more recent years. In this section I trace the trends of these and other variables for a more recent period of 2000 to 2005, relying on their original or alternative data sources. In doing so, I will show the claim of this study is supported even over this

extended time period.

Beginning with the international economic variables, the level of capital openness remained high in every country without a change from the *status quo* of the late 1990s. This could be confirmed from the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions*, the original source for Quinn's data (See Quinn (1997) for a more detailed discussion of his coding scheme.). As for European monetary commitment, eight out of the eleven sample countries continued to be inside the Euro zone. Denmark, Sweden, and the UK were outside, but these countries still could keep their exchange rates virtually fixed to the Euro. According to the *OECD Economic Outlook*, the Danish Krone and Swedish Krona stayed at around 0.1 Euro throughout the period. The British Pound was at the 1.5 to 1.6 level.

Next, the trends in cost control performance are summarized in Table 6. We first find Belgium and Italy continued to be the worst performers. But the situation in the other countries was better. In Finland, Austria, the Netherlands, and Denmark, the macroeconomic and cost indicators were all mixed. In France and Germany, the worse macroeconomic indicators were counterbalanced by better cost indicators. The Swedish indicators were overall around the European level. Finally, in the UK and Ireland, the situation was even better. Both the GDP growth and unemployment were better than the European average. The cost indicators were also either mixed (the UK) or all in better shape (Ireland).

Despite these varying performances, the outcome for the dependent variable was the same across all those countries. Seen from various country reports from the *European Industrial Relations Review* (EIRR), there was no major change toward a decrease in the level of wage coordination. Instead, notable changes were all about specific modes of high-level wage coordination. In Belgium, for instance, government unilateral

involvement until the late 1990s was replaced by a series of bipartite national negotiations. The Italian tripartite negotiation continued under Berlusconi's center-right government, but became more confrontational than before, along with government threats of unilateral intervention.

2.8. Summary

Throughout this study, I have explored the relationship between capital openness and wage-setting coordination in the developed European countries. I reviewed the previous literature, and summarized it into the conditional hypothesis that high capital openness motivates employers to de-coordinate the wage-setting process if wages have been set under poor control. I then demonstrated that this hypothesis holds only if a country is not committed to European monetary integration.

In a broader theoretical context, this study contributes to the studies on European social pacts in an important way. Responding to the pessimism about European corporatism (Streeck and Schmitter 1991; Streeck 1998), the studies have shown that this form of economic governance is still viable even in the context of European integration (Baccaro 2003; Rhodes 2001; Visser and Hemerijck 1997). The need for tight cost control in dealing with fierce competition and monetary austerity has been among the most important forces to support such an institutional arrangement. However, the studies have not provided an explicit explanation for why this pressure for cost control has to be handled in collective concertation (Molina and Rhodes 2002), rather than by means of the market discipline. Focusing on the area of wage-setting, I provide an answer: at a time when the government does not have freedom in macroeconomic and exchange rate policies, the option of de-coordination is not attractive even from the view point of employers.

CHAPTER 3

A POLITICAL CONDITION FOR COORDINATED WAGE-SETTING: THE CASES OF ITALY AND SOUTH KOREA

When the national economy performs poorly but the government cannot provide active accommodation policies, economic recovery becomes difficult without a tight control of wage costs. Focusing on the experiences of developed European countries, where governments have been under serious policy constraints from monetary integration, previous studies argued that the economic pressure makes the wage-setting process more coordinated, if unions and employers are capable of collective action. By increasing coordination, it was expected that the economic actors will be able to have tighter control of wage costs in a more predictable way (Baccaro 2003; Hassel 2003). The driving mechanism for this change was the tripartite political exchange among unions, employers, and the government. Here unions accept the idea of peaceful wage moderation, and the other participants reward them by committing to employment and avoiding any neo-liberal reforms on social welfare and the labor market (Molina and Rhodes 2002).

This study builds on these findings, but contributes to the literature by arguing that a change to increasing coordination also depends on another mediating variable, which is drawn from the national political party system. More specifically, I look at the patterns of party-voter linkage, which show how political parties appeal to voters in democratic elections. I then argue that the change occurs only if parties seek votes by providing voters with general programmatic benefits (ranging from the leftist to rightist ones). If parties compete mostly by making non-programmatic appeals, such as clientelistic vote-buying or charismatic mobilization (Kitschelt 2000), the change does not happen.

The rationale is concerned with the following question: under what circumstance the government and industrial actors will be seriously interested in finding a cooperative solution for their economic problem. Previous studies suggested that they will be generally so motivated if, first, they have suffered seriously from their economy and, second, the coordinative solution is likely successful given the industrial actors' capability of collective action. This suggestion, however, can still be challenged if any of those actors find a good way to promote their interests, even without tackling the economic problem. Here I argue that the patterns of party-voter linkage play an important role in exploring such a possibility. More specifically, the linkage pattern determines whether or not the government will be interested in resolving the national economic problem. This then determines the way that unions and employers will respond.

Suppose that all the major parties, or at least a significant portion of the governing parties --- which are here defined broadly as those parties whose support is crucial to the functioning of the government, regardless of whether they are inside or outside the cabinet --- compete mostly by making non-programmatic appeals to voters. Then the government will not be seriously motivated to deal with the economic problem, or simply not able to draw enough consensuses for the effort from the governing parties. This is because even without making real improvement in the economy, the parties can still survive elections at least in the short run, by relying on their charisma-influenced followers or clientelistic supporters. However, the situation changes if all major parties or, if not, the governing parties compete by making general policy proposals. Here poor economic performance hurts their electoral prospect seriously, because the economic situation puts broad voter groups into painful positions, but the parties cannot appease these people in a way that clientelistic or charismatic parties can do. The government thus finds no other way but to tackle the economic problem and search for a general policy-

based solution to it.

Once the government has made its choice, then unions and employers will make theirs. If the government is interested in dealing with the national economic problem, they will be also. If not, they will not be either. This hierarchy of preferences exists because, as will be discussed later in more details, the government decides what it wants by relying on the exogenous need from the electoral politics, whereas the industrial actors cannot promote their interests by going against the government's policy initiative.

Building on this theoretical elaboration, this study also provides an important empirical contribution to the literature of comparative industrial relations. Despite the fact that a national economic crisis, which is coupled with the government's inability of flexible accommodation, is a recurrent phenomenon in both developed and developing democracies, few studies have explored how the crisis impacts on the wage-setting process in a general perspective (cf. Baccaro and Lim (2007)). The European literature has dealt with the question primarily in the regional context of European integration. For the developing countries, there have not been even similar attempts at a regional-level generalization. Although a few studies have provided some preliminary analytic frameworks by exploring the prospect of corporatist economic governance in those regions (Evans 1995; Wiarda 2004), they have not yet provided concrete, testable hypotheses regarding the question of wage coordination, discussed here. This study fills in this lacuna. By focusing on the patterns of party-voter linkage, I suggest a hypothesis which could be applicable to both developed and developing democracies.

In developed Europe, political parties have competed mostly by making general policy proposals. This is because most voters tend to be affluent and well educated given the high level of economic development and modernization. Voters thus are not easily swayed by clientelistic benefits or any invocation of personal attachments to certain

supposedly charismatic leaders. (Austria, Belgium, and Italy were among the few examples with a strong tradition of mass-clientelism, but even they have moved to programmatic linkage-patterns since the 1980s or 1990s (Kitschelt 2007)). In many developing democracies, however, most voters are less affluent and less educated because of the intermediate level of development and moderanization. Accordingly, political parties, often supported by certain historical legacies from their authoritarian or transition periods, find more room for attracting voters with non-programmatic appeals (Choi 1996; Kitschelt 1995; Stokes 2005). In this study, I argue that this difference in the political environment is likely to produce a systematic effect on the outcomes of wage coordination, even if those countries share similar economic and organizational conditions.

In the next section, I discuss the theoretical background for my hypothesis. Then I provide empirical support for it in a comparative analysis of Italy and South Korea. Focusing on the period of the 1990s to the 2000s, I show these two countries shared similar economic and organizational conditions, but reached different outcomes due to their different political conditions.

The choice of these sample countries is justified by the following consideration. First, both had a *consolidated* democracy, which meant that there was no serious possibility of authoritarian or extra-legal intervention in the economic adjustment process. So, if governments liked to deal with the economic challenge, they could do it only in a certain legally or politically acceptable way. This should be noteworthy particularly for South Korea, in which the democratic transition was completed only recently in the late 1980s to the early 1990s. Despite this short history of democracy, elections were held competitively. Citizens also enjoyed basic civil/political rights, although the voices of powerful interest groups, such as big businesses and oligopolistic media, were over-

represented in pubic political discourses (Choi 2005).

Second, the two countries are also well suited to highlight the importance of the political condition in the course of tripartite political exchange. First of all, unions and employers in these countries had never (as in South Korea) or only rarely (as in Italy) been engaged in tripartite policy concertation. This was not surprising for South Korea, given its relatively brief period of democratic rule. But it was not so usual for a country in developed Europe, where unions and employers generally had more frequently participated in such cooperative practices (Ferner and Hyman eds. 1998). Despite this lack of previous experience, however, unions and employers in Korea and Italy joined in an unfamiliar experiment of tripartite policy coordination when their governments persuaded or pressed them to do so. Second, the countries shared similar experiences in which the tripartite coordination began in a context of extreme economic or political shocks, which produced an exceptional momentum for change. However, the outcomes were quite different. Italy could consolidate its initial success because it had reformed the old mass-clientelism by establishing a competitive multi-party system. But the South Korean experiment ended in failure because a significant portion of the governing parties still relied on charismatic vote-mobilization.

3.1. Wage-Setting Coordination In Hard Times

When a government faces a serious constraint on its macro-economic policy making, wage costs need to be tightly controlled to keep the economy in good shape. In Europe, for instance, monetary integration has kept governments from engaging in flexible macroeconomic accommodation. Currency devaluation is out of option. Economic stimulation is also virtually impossible, given that it makes domestic inflation higher than in other countries, which first triggers outflow of financial assets and then

increases the pressure for currency devaluation (Huber and Stephens 2005). Under this circumstance, shocks in wage costs can no longer be compensated for by government policy intervention (Iversen and Wren 1998; Martin 1999). Wages thus need to be controlled tightly without occurrence of major industrial disputes. If the national economy has already been performing poorly, then the call for tight cost control will be even greater, pressing the government and industrial actors to search for an immediate solution (Pochet and Fajertag 2000).

A similar story is found among developing countries, especially those countries which have been under tight policy supervision from international financial institutions. Typically, they have suffered from serious balance-of-payment problems, usually due to poor economic performance and declining international reputations. Finding that they can no longer finance or pay for their foreign transactions and liabilities, they have decided to ask for emergency loans from international financial institutions (e.g. the International Monetary Fund (the IMF)). These loans, however, are provided conditional upon the borrowers accepting shock therapies for stabilization. So, now all macro-economic policies are set to cool down domestic demand and reduce foreign imports. Spending cuts, reduction of monetary supply, high interest rates, and very high exchange rates are among the good examples of the policy initiative (Bird 1996; Killick 1995). These measures will surely be helpful to resolve the balance-of-payment problem as quickly as possible. But, they are costly in the sense that they entail high unemployment and economic stagnation. To minimize these costs and promote non-inflationary growth, wage costs must be tightly controlled. Any failure in this will not only lead to a longer period of economic hardship, but also invite even harsher austerity measures from the outside supervisors.

3.1.1. Previous studies

The literature of comparative industrial relations, focusing on the recent

experiences of developed European countries, argued that this economic pressure impacts strongly on the wage-setting process by promoting collective wage coordination. A broad sense of crisis shared by all economic actors is the underlying force for this pressure. Now the government, union, and employers all agree that their economy is in a deep trouble and wage costs must be tightly controlled to get out of the trouble. This consensus then increases a pressure for collective wage coordination, in anticipation that it will lead to more predictable control of wage costs (Rhodes 2001).

To turn this pressure into a reality, previous studies added that industrial actors need to have a certain capability of collective action. For instance, unions need to be organized enough to be able to act credibly at the collective bargaining table (Baccaro 2003). The employers' organization is also important because any collective coordination beyond the individual company level is not possible (Culpepper 2005) or unsustainable (Baccaro and Lim 2007) unless backed up by organized support from employers. An interesting point here, however, is that these organizational preconditions are specified only moderately, if compared with those by the neo-corporatist literature. Previously, industrial actors had to be highly centralized under a strong guidance from their peak organizations (Molina and Rhodes 2002). Today, however, unions and employers only need to be at least moderately organized. Then the shared sense of crisis will compensate for the lack of centralized hierarchy by encouraging them to cooperate with one another to address their common urgent economic situation (Baccaro 2002; Regini and Regalia 1997; Visser and Hemerjick 1997).

A centrist political exchange among unions, employers, and the government has been what drives the process of increasing coordination. Here unions accept the idea of peaceful wage moderation. The government then promises not to attempt radical neo-liberal reforms on social welfare and the labor market. Instead, they seek only moderate

reforms or, sometimes, even a small cost-efficient increase in social welfare if the benefit systems have been so underdeveloped. The government also promises to increase jobs by continuing or, if budget allows, expanding public spending on active labor market measures and other policies for human capital. Employers also join in the deal by committing to firing less and hiring more workers than they would do otherwise (Huber and Stephens 2001; Rhodes 2001; Scharpf 2000; Teulings and Hartog 1998).

Of course, this centrist compromise may not be the only conceivable path to a deal. In fact, there are two more logical alternatives. The first is the traditional neo-corporatist exchange, in which the unions' commitment to wage moderation is compensated for by greater social welfare, strong job protection, and expansionary macroeconomic policies (Regini 1984; Scharpf 1991). But this generous compensation is no longer possible for the following reasons. First, monetary constraint in an integrated Europe has eliminated the option of government macroeconomic accommodation (Rhodes 2001). The welfare state also has been under serious fiscal stress due to various socio-economic changes such as globalization, demographic change, and post-industrialization (Huber and Stephens 2001; Scharpf 2000). Labor market protection also has been increasingly in conflict with the goal of job creation at a time of post-industrialization and flexible production (Pontusson and Swenson 1996). To be worse, economic crisis has further increased the pressure for the welfare and labor reforms as a means to reduce the financial burden for employers. All these suggest that the economic grounds for generous compensation do not exist anymore.

In the meantime, the second alternative comes with neo-liberal reforms in which the government or employers take radical steps toward de-coordination of wage-setting, de-regulation of the labor market, and retrenchment of social welfare. These policies could enhance efficiency by strengthening the principle of market discipline, if

implemented consistently over the long run. However, a transition to this new policy regime is deemed difficult because of the resistance from relatively strong unions (Hassel 2003; Traxler 1995).

All these difficulties with the traditional leftist and the radical rightist solutions seem to suggest that any meaningful path to recovery must be found around the zone of moderate center, in which all economic actors share the burden of economic adjustment for the sake of their common good. This also explains why many observers have understood the process of current tripartite concertation as being relatively free of the substantive partisan constellations in the national politics (Monila and Rhodes 2002; Traxler, Blaschke, and Kittel 2001).

3.1.2. Party-voter linkage and the motivational condition for increasing coordination

In light of our discussion on the previous European studies, we now reach a conditional hypothesis: an economic crisis at a time of monetary austerity would motivate the government and industrial actors to search for a centrist political exchange, if the industrial actors are organized at least moderately. However, this hypothesis is not sufficiently specified yet because it is still possible that any of those actors find a good way to promote their interests, even without tackling the economic challenge. In this study, I address this possibility by introducing the role of the party-voter linkage in the adjustment process. I argue that the linkage pattern determines whether or not the government will be seriously motivated for the cooperative solution. Industrial actors will then have to make their choices consistently with this guideline, if they are interested in promoting their material interests.

Suppose that the major parties or the governing parties (or at least a significant portion of the governing parties) compete by making non-programmatic appeals to voters. Here parties could be linked to voters in a web of mass-clientelism, in which the parties

compete to provide particular benefits which are directly tailored to the voters' specific needs (Piattoni 2001; Stokes 2005). In the context of this study, this could mean that at least some segments of unions or employers would be given such special treatments. For unions and workers, these benefits could include targeted public work programs, selective public sector jobs, preferential social transfers, etc. For employers, the benefits may include preferential lending, targeted public contracts, tax benefits, and other measures of rent-seeking. In exchange for receiving these special rents, the beneficiaries will then deliver their votes and other necessary resources to their patron parties.

Meanwhile, political parties can also draw mass votes, based on the personal charisma of their leaders. If this is the case, parties do not even need to provide any meaningful policy benefits for their voters, whether general or particularistic. Instead, they garner votes based on the voters' reverence or empathy toward their leaders, who are believed to have some extraordinary capabilities and personal characters (Madsen and Snow 1991; Shils 1965; Spencer 1973; Weber 1968). Of course, these parties will still need to pay some concrete benefits to certain resource-rich supporters from whom they extract essential resources for their political activities --- financial, organizational, or other. Those supporters are in general better positioned to develop more independent preferences than other ordinary citizens, meaning that their loyalty cannot be secured simply by their emotional or psychological attachments to charismatic leaders. Also, given that these people are relatively small-sized and easily identifiable, the benefits should be highly tailored to their particular needs.

In all these political situations, the tripartite political exchange for economic recovery does not take place or, even if it is attempted, cannot end in success. This is because the government either does not have serious motivation for the solution or cannot draw enough consensuses for the effort from the governing parties. In mass-clientelism,

for instance, parties only need to continue their preferential treatment for selected clients, and monitor them to see if they keep their promises of delivering their support. True, this clientelistic practice will contribute to perpetuating the economy in trouble, which in the long run will possibly lead to exhaustion of the material resources necessary for the practice. However, to the extent that the patron parties can continue to provide clientelistic benefits at least in the short run, and can garner mass votes in exchange of these benefits, they will not be seriously interested in the project of recovery. This is simply too risky because it entails a substantial reform on their clientelistic networks, which will lead to alienation of their core supporters.

The situation is similar, although with a different reason, where parties rely mostly on their charismatic leaders to garner mass votes. Here the major voter groups may suffer from the poor economic situation, and thus are likely to be critical of the parties for the failure of macroeconomic management. When the election time comes in, however, many of them are easily swayed by the emotional or psychological rhetoric employed by their charismatic leaders. The voters either become blind to the real economic issues, or are bought into some perverted analyses which are provided by their leaders about the causes of and the solution to the problem. Under this circumstance, parties are not seriously motivated to tackle their national economic problem. The charismatic politics is still working, and the reform will only create unnecessary tensions by encouraging parties to engage in rational and realistic discussions on their troubled economy. This will not only contribute to disenchantment and de-mobilization of their charisma-affected mass followers, but also alienate their resource-rich supporters, who will be asked to forgo their special rents in the course of economic reform.

Now a natural question to be asked is how unions and employers would respond to these government preferences. My answer is that they will not act in a way to promote

economic recovery. Beginning with the case of mass-clientelism, unions and employers inside the clientelistic networks will obviously continue to solicit particularisitic treatments from their government. None of these benefits will be conditional on the beneficiaries paying due costs for addressing the national economic problem, meaning that the benefits are pure rents levied against the society. This in turn makes unions and employers outside the clientelistic networks less interested in the project of recovery. Although they do suffer from a poor economy, they are justly suspicious that their sacrifices would not make any meaningful difference, given the continued prevalence of mass-clientelism.

The situation is also similar for the case of charismatic politics. First, suppose that unions and employers (usually only certain small influential subsets of them) are inside the power circle. They usually provide the government with some essential resources for its charismatic politics, in exchange for receiving certain special rents. Here they are not interested in the project of economic recovery, because they do not want to forgo the rents in the process of collective burden sharing for recovery. Second, industrial actors, especially mass unions, could be ordinary supporters for the charismatic parties. Then, they will be ready for doing whatever they are called to do by the parties. Mass unions, for instance, can even make serious sacrifices by moderating their wage demands . These sacrifices, however, are not likely to promote recovery. They are simply wasted by various direct/indirect taxes to the government and also by various preferential rents given to the core supporters of the governing parties. Finally, unions and employers can be outside the reach of the charismatic politics. In this case, their choice will be similar to those who are outside the clientelistic networks above. Suspecting that their sacrifices will be just wasted away, they curtail their interest in any serious projects for economic recovery.

In the meantime, we have quite a different situation if all the major parties or the governing parties compete by making programmatic appeals to voters. Here parties cannot rely on either clientelistic vote-buying or charismatic mobilization. Instead, they must provide a general public-goods type of policy benefits for their voters (Kitschelt 2000). At a time of economic crisis, this means that the parties --- regardless of their partisanship --- really need to find a good way for economic recovery. None of profits, wages, jobs, and social protection will remain safe under a poorly performing economy, which will likely produce electoral setbacks for the governing parties.

The effort for recovery will also provide the governing parties with additional benefits: it will help them attract extra electoral support from non-partisan independent voters. These voters tend to cast their votes based on their rational reviews of competing policy proposals. Finding that economic recovery will improve their material conditions, directly or indirectly, they will appreciate the government's effort by delivering their votes.

Now it is time for unions and employers to decide whether or not they will cooperate with the government's initiative for a centrist tripartite deal. The answer is that, given that the government's commitment is steadfast and well grounded in the electoral politics, unions and employers will find no other way but to accept the initiative and join in the process of collective burden sharing. Refusal of cooperation will simply prolong the economic crisis and, especially from the viewpoint of unions, will further destabilize the already problematic system of social welfare and labor market protection.

3.2. Italy: The Reform Of Mass-Clientelism And The Success Of Coordination

To provide empirical support for the hypothesis developed so far, I conduct a comparative analysis of Italy and South Korea, focusing on the period of the 1990s and

the early 2000s. The analysis will show that, controlling the economic and industrial organizational variables, the pattern of the party-voter linkage was a decisive factor in determining the success or failure of the tripartite political exchange. More specifically, I will establish the following factual arguments. First, the governments in both countries could be fully motivated for the cooperative solution only if the major parties or the governing parties relied on general programmatic appeals to voters. Second, this government choice was exogenous to the preferences of unions and employers, and these actors had to follow the guideline to promote their interests. Finally, certain economic or political shocks could create a momentum for a change to more coordination, but this effect was only temporary and thus needed to be backed up by a favorable political condition from the party-voter linkage.

3.2.1. Initial conditions

The Italian economy was performing poorly during the whole period covered in this study (Ferrera and Gualmini 2000). The unemployment rate, for instance, was as high as 10.2% from 1986 to 2002, which was clearly above the average of 7.2% for the 18 OECD countries of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the UK, and the USA (Huber et al. 2004). Despite the economic difficulty, however, the government was not able to provide flexible accommodating policies due to its firm commitment to monetary austerity. Italy joined in the project of European monetary integration in the second half of the 1980s, with its preparation for the EMU. Its commitment became steadfast from 1990, when its government decided to tighten the margin for the lira's fluctuation in the ERM from the previous 6% to the standard 2.25% (OECD 1991c, 11-8; Perez 2002).

Turning to the industrial actors, Italian workers were moderately organized. The

level of union density (the share of union members among the total wage and salary earners) was around 38% from 1986 to 2002, which was roughly close to the average of 41% for the 18 OECD countries (Huber et al. 2004). Peak-level unions also were actively representing member unions on the national stage, although they could not enjoy a strong hierarchical authority over their members (Visser 1996). The situation was similar with employers. The biggest employers' national confederation, *Confindustria*, did represent a vast majority of Italian employers, especially those from the manufacturing and construction sectors. Its membership coverage even expanded in the 1990s when it recruited new employers from the former public sectors, which were just privatized. But the power of *Confindustria* was still limited vis-à-vis member employers. This was especially true when it comes to the issue of wage setting (Regalia and Regini 1998; Visser 1996).

Under these circumstances, Italy became one of the ideal examples in which economic crisis made the wage-setting process more coordinated --- despite the lack of strong organizational hierarchy among unions and employers. A sense of vulnerability, shared by all economic actors, was considered as the primary force behind the change (Baccaro 2002; Negrelli 2000; Regini and Regalia 1997). However, I argue, these previous studies need to be further elaborated because they do not pay due attention to the motivational condition for the tripartite cooperation. Even with those favorable economic and organizational conditions, the government and industrial actors can still fail to agree on a cooperative solution. This is because, depending on situations, at least some of those actors can find a good way to promote their interests, even without improving the national economy. In this study, I deal with this possibility by introducing the pattern of the party-voter linkage produces in the adjustment process. The variable first affects the preference of the government for dealing with the national economic problem, which then affects the

preferences of unions and employers.

As will be discussed in greater details below, this hypothesis is well grounded in the Italian experience. The Italian politics until the early 1990s had been dominated by Christian democrats (the DC), who had stayed in power for decades only by switching their minor coalition partners. To continue in its power, the DC had developed an extensive web of patron-clientelism. Although it could not co-opt the leadership of unions and employers, who were more interested in general public policies and ideologies (Regalia and Regini 1998), the DC did co-opt some significant portions of workers and businesses especially from the South. It drew mass votes from them in exchange for various preferential treatments, such as public employment, social benefits, exclusive accesses to government projects and loans, and selective public spending (Hopkin and Mastropaolo 2001; Warner 2001). Under this circumstance, the DC's interest in tackling the national economic problems really depended on the crisis of mass-clientelism. Without this, the party still could attempt a solution, but only with a diminishing commitment. Industrial actors then had to make their choices in a way which was consistent with this government preference. It was thus only after the mass-clientelism was put into crisis in the early 1990s, that the Italian governments and the industrial actors became seriously committed to the cooperative project of recovery.

3.2.2. Mass-clientelism and the failure of an early attempt at coordination

Looking at the Italian experience more closely, national talks for wage-coordination began in around 1990. There was a growing pressure that wage costs, which had been relatively high due to the unions' wage militancy and frequent industrial disputes, should be put under tight control to deal with the poorly performing economy and monetary austerity (Perez 2002). Even the clientelist government bought this idea. It could even persuade the leaderships of the labor movement --- who were still deeply

divided by the ideological rivalry between the leftist CGIL and the Christian-democratic CISL --- to agree on the idea of tripartite political exchange to promote peaceful wage moderation (Negrelli 2000).

The 1990 negotiations marked the earnest beginning of all this government-led collective effort. There, the government agreed with unions and employers that their company-level wage-setting system --- which had been coupled with an automatic wage indexation formula, *scala mobile* (Visser 1996) --- should be replaced by an alternative one with more spirit of voluntary wage moderation. This change then should be backed up by various government policies which would promote workers' long-term interests, such as jobs and sustainable social protection.

More specifically, unions agreed to abolish the *scala mobile*, which had been blamed for the chronic problem of wage-inflations, by the end of 1991. In return, employers agreed to rationalize collective bargaining by institutionalizing a two-tiered wage negotiation system, in which the industry-level negotiators would produce basic wage guidelines by considering the nationwide trend of inflation, and then the company-level negotiators would finalize the wage settlements by adding some company-specific considerations in the guidelines (Regalia and Regini 1998). The government supported this compromise by promising jobs and other reform measures for social welfare, in which employers' contributions would be reduced but without radical cuts in benefits (EIRR 1990).

However, this initiative for tripartite policy concertation did not last long. In the follow-up negotiations in 1991, the participants re-confirmed abolishment of the *scala mobile*, but they also agreed to continue national talks to search for a nationwide compensatory measure to protect real wages. Implementation of the new collective bargaining system was also postponed without a specific time table (EIRR 1992a).

The prevalence of mass-clientelism in the electoral politics, I argue, was the primary reason for this delay and lack of progress. While recognizing the national economic problem, the government still continued its old clientelistic practices in order to maintain the electoral support from core clients. This is well-illustrated by the trend of government spending in the early 1990s (OECD 1991c, 11-8, 21-9; OECD 1992b, 56-60). After the lira devaluation in 1990, the government began to retighten the exchange rates as well as domestic monetary supply, as a means to restoring price stability. But it still continued a flexible approach to fiscal policies. Spending increased significantly in the areas of social securities (especially, public pensions) and the pays for public employees, which were among the primary loci of the Italian mass-clientelism (Ferrera and Gualmini 2000).

Not coincidentally, the government was increasingly losing its interest in the tripartite negotiations. It eventually decided to leave with the future government the task of implementing the 1990 agreement. This in turn made industrial actors, especially union confederations, increasingly pessimistic about the prospect of the tripartite negotiations in their country (Negrelli 2000). The socialist CGIL even decided to negate the 1990-1991 agreements by demanding that the wages in 1992 still should be determined by the previous *scala mobile*. It also proposed a new national wage-indexation system, as a functional equivalent to the old formula (EIRR 1992b).

3.2.3. Momentums for change: political and economic shocks

The state of insufficient motivation, however, changed dramatically with the series of political and economic shocks took place in 1992. The lira crisis in 1992 worsened the Italian economy to a stage of national emergency (Perez 2002). The DC-led government also was hit hard by the anti-corruption investigations led by the “clean hands” judges (Newell and Bull 1997). Finding itself in a perilous situation for the next election, then

the government was eager to strike a deal with social partners. It hoped to improve its reputation on macroeconomic management and also solicit votes from outside the clientelistic networks. This initiative eventually led to the 1992 emergency pact, which was finalized in 1993 under a new politically-neutral technocratic government (Baccaro and Lim 2007).

Throughout the negotiations, the DC-led government pressed still ambivalent social partners, especially the CGIL, by taking a "take it or leave it" approach (EIRR 1993b). Leaving the option of unilateralism wide open, it proposed a comprehensive deal which would not only reconfirm the issues which had been agreed on in the 1990 negotiations, but also include other important issues (such as pension reform and wage differentials) which were still in the beginning of serious discussion (EIRR 1992c, 1993a, 1993b).

Faced with this firm resolve, social partners had no other choices but to participate in the deal. Non-cooperation would only mean prolongation of the economic crisis and, especially for the unions, further challenges over the already problematic systems of social welfare and labor market protection. By participating in the deal, however, they could negotiate specific terms to their interests. For instance, the unions initially did not want to include the issue of pension reform in the deal, as illustrated by the general strike which was organized by all the major confederations in October 1992, but they decided to negotiate the issue and eventually could the previous pension benefits safe at least for public pensioners (EIRR 1992d, 1993a).

3.2.4. New party politics and the success of coordination

An interesting point here is that the renewed process of tripartite coordination continued even after the lira crisis and the political crisis were all over. The wage guideline set by the 1992/1993 deal continued to be effective, in which industry-level

negotiators set some industry-wide wage guidelines for a two-year period, and then company-level negotiators reached their final wage deals by further considering company-specific productivity issues at the bargaining table (EIRO 2001). Several other national agreements also followed to deal with such issues as job creation and welfare/labor reforms followed. For instance, the 1995 pension reform finalized the 1992/1993 reform in a phased manner, by allowing the benefits for current and near-future pensioners to reduce gradually (EIRR 1996a). The 1998 pact for development and employment also made significant progress in labor market flexibility and tax reductions for employers (EIRR 1999a). Entering the 2000s, the process of coordination became noisier, due to the CGIL's decision to establish itself as the main political opposition to Berlusconi's center-right government. The government also responded by a threat and limited use of unilateralism (EIRO 2003d). Nevertheless, nationwide talks continued. The 'Pact for Italy' in 2002 provided small-business employers with more freedom for hiring and firing, although in a still regulated fashion (EIRO 2002c). The 2004 pension reform widened the room for the supplementary, privately-managed tier of the national pension system (EIRO 2003b, 2004b).

Given that the previous attempt at the tripartite political exchange in 1990 and 1991 ended in failure and also that the subsequent success in 1992 and 1993 was mainly due to certain temporary political/economic shocks, the overall success of the tripartite deals since the mid-1900s warrants a careful examination. Here I emphasize the fact that the Italian political system changed from one in which the governing parties garnered mass votes by relying on mass-clientelism, to an alternative system in which all major parties competed by making general programmatic appeals. The anti-corruption drive led by the "clean hands" resulted in complete breakdown of the DC and its subordinate socialist PSI, who had been the core players in the clientelistic networks (Newell and Bull

1997). This political vacuum then was filled in by the social democratic PDS (the former communist PCI) and other new anti-clientelist center/right parties, which entered the national political scene in the 1994 election. Since then, the Italian party system has been characterized by a centripetal policy competition between broad center-right and center-left coalitions (D'Alimonte and Bartolini 1997).

In this new political situation, all governments had to pay serious attention to the challenge of their economy. Given that the clientelistic vote-buying was no longer a viable option, the only way to reward their supporters and also attract independent voters was to provide general policy benefits for them. Especially at a time of economic hardship, such attempt had to include any serious plan for economic recovery. Governments thus attempted a series of centrist political exchanges, although in a trial-and-error manner in which they initially adopted partisan approaches to recovery, but ended up tilting toward centrist ones.

For instance, Berlusconi's center-right government (elected in March, 1994) began its first year by pushing for a radical pension reform, which aimed at a swift fix for the troubled pension financing system (Natali and Rhodes 2004). Faced with massive protests by unions, however, the Northern League, the largest coalition partner for Berlusconi, began to worry about the electoral repercussions of the reform. This then provoked an internal dispute within the governing coalition, and eventually contributed to the collapse of the government in December of 1994 (EIRR 1994). The subsequent center-left government (elected in 1996) also took a similar approach, but this time by clinging to leftist policies. Among the best examples was the work-time reduction bill in 1997, which aimed at rapid reduction of weekly work-hours from 40 to 35 by 2001. This was pushed by the PDS, a left wing of the governing coalition. But, being faced with strong resentments from employers and also worried about potential electoral setbacks, the PDS

moderated its initial position and let the bill be a symbolic recommendation (EIRO 1997e; EIRR 1999c). Finally, Berlusconi's second center-right government (elected in 2001) also began with a strong partisan approach by pushing hard for easier lay-offs for small businesses and also mandatory facilitation of the private-tier of the national pension system. After a period of confrontation with the unions, however, it withdrew from the initial hard-line approach, and became more open for compromise with unions (EIRO 2002a, 2002b).

All these episodes provided unions and employers with credible signals that not only were their governments serious about fixing the national economy, but any possible solutions for recovery would have to be found around the zone of moderate center, in which all participants would share their due burdens for the sake of the common interest of recovery. Not coincidentally, major successes in the tripartite exchange took place after governments abandoned their partisan approaches and thus ended their strong confrontations with social partners. The 1995 pension reform came after the breakdown of Berlusconi's first government. The 1998 pact for development and employment accompanied the failure of the work-time reduction plan. And the 2002 'Pact for Italy' and the 2004 pension reform came after Berlusconi's second government softened its hard-line approach on labor market flexibility and pensions.

3.3. South Korea: Charismatic Politics And The Failure Of Coordination

South Korea provides another example for exploring the effect of party-voter linkage on wage-setting coordination. There, the initial conditions were as similar as in Italy. The economy was in crisis, but the government was not able to provide flexible accommodating policies. Industrial actors also were moderately organized. Lastly, an exogenous political shock facilitated national talks among the government, unions, and

employers. But the final outcome was different. While Italy could solidify its initial success by reforming its mass-clientelism, South Korea did not, because a significant portion of the governing parties still relied on charismatic vote-mobilization during the period of crisis.

3.3.1. Initial conditions

The economic crisis in South Korea started suddenly in the winter of 1997, when various short-term international funds led a series of speculative attacks on the Korean financial market, which triggered a crisis in the foreign currency reserves of the country. The government had to borrow emergency loans from the IMF to cover dollar shortage. Subsequent stabilization programs, which were conditional on the borrowing, produced a very tight macroeconomic environment. Among the most important measures was drastic currency depreciation. According to the Korean Statistics Office (http://www.kosis.kr/), one US dollar, as of 1996, was traded for 805 Korean won in the Korean foreign exchange market. But by the end of 1997, the dollar was traded for as much as 1,695 won. It then stayed high at the average of 1,251 won level until the end of the IMF guidance in 2001. Unlike usual currency manipulations which aimed at boosting economy, this drastic devaluation obviously was meant for a shock therapy, aiming at cooling down an economy which was highly dependent on foreign trades.

The government expected that these austerity measures would help addressing the problem in the financial market by reducing foreign imports and improving the balance of current accounts quickly. But the measures were costly in the sense that they sapped the potential for recovery. For instance, the overall investments, as measured by the total fixed capital investments, dropped significantly from the average of 10% increase in 1990-1997, to -0.5% decrease in 1998-2001. Unemployment, which had been around the 2.4% level in 1990-1997, was more than doubled to reach 5.4% in 1998-2001. If we focus

on the years of 1998 and 1999, when the national talks for the tripartite political exchange were experimented and then failed, the unemployment rate was around 7% (Korean Statistics Office, http://www.kosis.kr/).

Turning to the industrial actors, Korean employers were relatively moderately organized. True, there were no hierarchical organizations for employers at either the national or industry level, but the web of big business conglomerations (called the *Chaebols*), a variant of the Japanese *Keiretsu* system, provided an informal but effective medium for coordinating business activities in the major manufacturing and service industries. The network not only set the basic parameters for investment and employment in all major private sectors, but also played an important role in shaping the government's industrial and labor market policies (Wade 1990; Woo 1991).

Korean workers were also moderately organized. Notice that the absolute level of union organization was low, as shown by the 10% level of union density throughout the 1990s (Ministry of Labor, several years). This was mainly due to the legacy of the previous 'state corporatism,' in which authoritarian governments oppressed workers' self-organization at a time of industrial expansion, and also due to the relatively small size of the Korean public sector, along with still the illegal status for public-sector unions (Choi 1997; Deyo 1989). In the wake of the democratic transition in 1987, however, the Korean labor movement was mobilized to a level, which was far beyond what the numerical figures would suggest. For instance, unions could successfully organize mass protests and other political strikes in selective private and public sectors, when the government and big businesses attempted a neo-liberal labor-market reform in 1996 and 1997. The reform package included various measures for labor market flexibility, such as part-time employment, easy lay-offs, and flexible working hours, but eventually failed to pass legislation due to unions' resistance (Choi 1997; Im 2003; Kang 1998; Song 1999).

The newly organized unions in big business conglomerations led the process of union galvanization (Im 1999; Sun 2002). First, they played an effective role of pattern-setting, albeit informal, in the annual collective bargaining which was concentrated in the spring season. They also provided a key organizational support for the new peak confederation, the Korean Confederation of Trade Unions (KCTU), which emerged as an alternative to the Federation of Korean Trade Unions (FKTU), the former state-controlled confederation during the authoritarian period (Mah 1998).

Despite these favorable conditions, however, the path to coordinative wage-setting was deemed difficult in South Korea. This was because of the characteristics of the Korean political party system, in which the dominant party in the system relied heavily on charismatic mobilization of mass votes. The close relationship between the party and strong special interest groups, such as the *Chaebols*, added further difficulty to this path to change.

Throughout the 1990s, there were two major parties which competed with each other in the national assembly and presidential elections (South Korea adopted a presidential system in which the executive and legislative branches were selected in separate popular elections). Both parties had their own regional strongholds in the *Kyungsang* and the *Cholla* regions, respectively, but none of these supports were associated with any policy benefits, either particularistic or general-programmatic (Choi 1996; Park 1998; Kwon 2005). Instead, the regional voters threw their support because they had some strong emotional or psychological attachments to their leaders (Choi 1996; Im 2004). Overall, the *Kyungsang* party prevailed. It won in all of the two presidential elections (1987 and 1992), which were held between the 1987 democratic transition and the 1997 economic crisis. The party also continued to hold a near majority position in the national assembly throughout the 1990s.

An interesting point here is that to win or survive in national elections, the parties also needed to earn sizeable support from the metropolitan Seoul area, where voters were relatively free from charismatic mobilization. There, the *Kyungsang* party appealed to strongly-conservative voter blocs, whereas the *Cholla* party appealed to relatively liberal-reformist voters (Kang 2003). This, however, did not change the defining characteristics of the party-voter linkage because the dominant *Kyungsang* party still maintained its position by mainly relying on its regional support (Lee 1998). But the *Cholla* party had to invest more seriously on its general policy appeals to the metropolitan voters, given that the size of its regional voters was too small to compete with the *Kyungsang* party. According to the online database of the National Election Commission (http://www.nec.go.kr/sinfo/index.html), the size of votes cast by the *Cholla* residents were 43 to 45% of those by the *Kyungsang* residents throughout the 1990s.

The *Kyungsang* party also had a special relation with the *Chaehols*, the most powerful special interest group in Korea. In exchange for receiving massive financial donations, legal or illegal, as well as a strong support in the area of public opinions (Choi 2005), the party provided the *Chaebols* with a wide range of rents, including recognition of illegal or quasi-illegal practices in corporate governance, preferential access to bank loans and governmental assistance, etc. (Kang 2002).

All these discussions suggest that the powerful *Kyungsang* party would not be interested in addressing the national economic problem. Without this general policy initiative, the party still could maintain its preeminent position in the national politics by relying on its regional voters, on top of the strongly-partisan conservative voters in the metropolitan area. Furthermore, any serious plan for recovery would entail discontinuation of the rents for the *Chaebols*, the party’s core supporters. Not surprisingly, the party continued the electoral strategy of regional vote-mobilization along with its

conservative discourses, even in the 2000 national assembly election which took place in the middle of the crisis (Ahn 2001).

3.3.2. A momentum for change: the 1997 presidential election

In this political setting, a meaningful attempt to address the economic crisis took place only with a help of an exogenous shock. This shock came with the 1997 presidential election, in which the former opposition leader Kim Dae Jung from the *Cholla*-based National Congress for New Politics (the NCNP) defeated his rival Lee Hoe Chang from the *Kyungsang*-based Grand National Party (the GNP). Kim's victory was generally not expected, given the strength of the GNP. Nonetheless, his victory brought the country an extraordinary momentum for change. He was the first liberal, centrist president since the breakdown of democracy in 1960, which provided him with a great source of political legitimacy when he attempted various reform agenda. Furthermore, to stay in power despite his narrow regional base, his party really needed to expand and consolidate the support from liberal and independent voters in the metropolitan Seoul area. He had to show them some clear evidence of success in his centrist reforms. When it came to the economy, Kim's task was to persuade powerful big businesses and the recently-organized militant unions to agree on cooperative burden-sharing for economic recovery (Kang 1999).

In Korea, note that the deal had to include broader issues than in other European countries. First, there was a broad consensus that the economic crisis was aided by a failure of overall governance in the major business sectors. In other words, the financial market was so vulnerable to the speculative attacks because of corruptions in the business-finance networks, in which big banks pipelined cheap loans to the *Chaebols*, who used the money to finance uncompetitive companies in their domestic business empires (Kim 1998). Second, even after the democratic transition, the unions in South

Korea had not been given a full range of organizational and political rights. Unionization was still prohibited for public-sector workers and teachers; unemployed workers also could not join in unions; and no unions could engage in ordinary political activities (including financial donations) (Song 1999).

Under this circumstance, any serious plan for recovery had to include not only such general issues as cost control, jobs, the labor market, and social welfare, but also other specific measures for corporate governance and business restructuring, which would be necessary to correct the failure of the major businesses. Unions also needed to have full citizenship in the industrial relations before they could possibly join in a public-minded collective effort for national economic recovery (Kang 1999; Kim 1998).

At the beginning of the negotiations, unions and employers insisted on their partisan solutions to the economic crisis. Unions emphasized the need for corporate governance reform and business restructuring, while refusing to provide any specific plans for how to moderate national wage costs. Employers, on the other hand, emphasized on labor market flexibility (especially freedom to fire regular workers) as a means to cost control, while trying to avoid any serious discussions on the issues of corporate governance reform and business restructuring (Ryu 2003). However, this attitude changed as the new president showed his strong commitment to a centrist deal-making. He convened direct talks with unions and employers to discuss the reform issues. He also appointed key political figures from his party to engage in the negotiations with social partners (ESDC 2002). These efforts eventually led to a historic tripartite pact in February 1998, which was unprecedented in the history of the Korean industrial relations.

In this compromise, unions agreed on the idea of peaceful wage moderation. They also agreed on serious measures for labor market flexibility, giving employers freedom to fire regular workers although with some regulations. In response, employers promised to

take serious steps for corporate governance reform and business restructuring, which would target big banks and the *Chaebols*. The government also promised to improve labor rights by permitting unions' political activities and also legalizing unionization of public employees, teachers, and the unemployed. The government also increased unemployment spending, and promised moderate expansion of social welfare, which had been provided primarily by big businesses for their workers and families (ESDC 2008).

Among these agreements, those regarding the labor market flexibility and labor rights were the most significant ones. This was because those issues had been among the top priorities for employers and unions for years since the democratic transition (ESDC 2002). Unions worried that their activities had been threatened by serious restrictions on their legal rights. Employers thought that their profits had been challenged by regular workers whose jobs were so strongly protected. For instance, the EPL score (an OECD aggregate measure for the strictness of protection against dismissals) was 3.22 for Korean regular workers in the 1990s until the break of the 1997 financial crisis. The socre was not only higher than the average 2.12 of the 22 OECD countries (excluding the countries from Eastern Europe). But it also was among the highest of all the member countries. In this situation, the issue of the flexibility in the regular labor market became a functional equivalent to the issue of wage moderation in most other European countries.

3.3.3. Persistence of the charismatic politics and the failure of coordination

Unlike the Italian case, however, the initial success in Korea did not last long. First, the key agreements were implemented only selectively. The flexibility measures passed legislation immediately, but those for labor rights did not. In addition, there was no real progress on other issues which were broadly agreed in the February pact in anticipation that they would be further specified in the next stage of negotiations (ESDC 2002, 2008).

The GNP was the driving force behind the failure. True, its dominant position weakened after the defeat in the 1997 presidential election. However, the party still held a near majority position in the national assembly, meaning that the new government could not function without its support. Exploiting this veto power, the GNP began a strong anti-pact campaign as soon as the February pact was signed. In the legislative session, which was convened soon after the pact to provide a legal backup for the key agreements, the GNP passed all the measures for labor market flexibility, but expressed strong reservation on virtually every measure regarding labor rights (Kim 2000; Sun 2002).

With this strong anti-pact campaign from the legislature, the tripartite negotiations were put on hold. The government, however, was still eager to engage in the pact-building process. It continued to pledge to pass the measures for labor rights in the upcoming legislative session at the National Assembly, scheduled for September to December (*The Hankyoreh* 05 May 1998). Social partners then responded positively to the government's call by continuing their participation in the tripartite talks. Of course, unions took a more ambivalent approach, if compared with employers who had just obtained significant gains from the flexibility measures. For instance, the members of the KCTU rejected the February pact at their national convention called for right after the pact. All leaderships then had to resign, and new leaderships pledged immediate withdrawal from the negotiations. They even called two general strikes in the spring of 1998 to prove their firm opposition to the flexibility measures. However, the KCTU revoked both calls at the last minutes. They then came back to the national talks, eventually accepting the flexibility measures although reluctantly (*The Hankyoreh* 10 Feb. 1998, 13 Feb. 1998, 06 June 1998).

As approaching the end of 1998, however, unions became increasingly doubtful about the government's commitment. Although the National Assembly had been in

session since September, no measures for labor rights had been passed as promised. To appease these complaints, the government attempted to pass the measures in the final days of the legislative session. But this effort turned out to be a catastrophic failure. For instance, the legalization of the teachers' unions, which was among the most salient issues at that time, could not pass legislation because, in addition to the well-known objection by the GNP, there was an internal dispute within the governing party which was led by those who were leaning to the GNP's position (*The Hankyoreh* 22 Dec. 1998). The bill for legalizing unemployed workers' unions, which was at the final stage of legislative proposal, was revoked at the last minute due to an objection from within the government bureaucracy (*The Hankyoreh* 18 Dec. 1998).

For unions, all these events clearly suggested that the idea of tripartite policy coordination would not be relevant in their country. After having been constantly checked by the GNP's objection, the government now appeared to be no longer able or willing to engage in the cooperative effort for economic recovery. The KCTU then announced its permanent withdrawal from the negotiations, and began focus on its previous hard-line approach. It publicly negated its concession on the issue of labor market flexibility, while demanding expansion of social welfare and work-time reduction (without pay cuts) (*The Hankyoreh* 25 Feb. 1999).

In response, the centrist FKTU, which was in competition with the KCTU, also began taking a tough approach at the negotiation table. The FKTU also became increasingly ambivalent towards the talks, alternating between participation and withdrawal. In response, employers also took a tougher approach to the unions and the government, especially on the issue of corporate governance reform. They also soon began to alternate between participation and withdrawal from the talks. The historic tripartite pact virtually collapsed in the middle of the economic crisis (ESDC 2002).

3.4. Summary

In this study, I provided a political explanation for the success and failure of coordinated wage-setting, in a general context which is applicable to both developed Europe and developing democracies. I built on the finding of the previous European studies, that the wage-setting process is more coordinated when relatively organized industrial actors meet a national economic crisis. But I argued that these actors are not sufficiently motivated for the solution unless the government is motivated in the same way. Relying on the literature of party-voter linkage, I then showed that the government chooses to deal with the problem *only if* parties compete by making general programmatic appeals to voters. If parties compete via non-programmatic appeals, the government does not deal with the problem seriously.

In a broad context of the corporatism literature, this study provides two substantial contributions. First, it enriches our understanding on the corporatism in the developing world. Most previous studies dealt with this topic in the context of authoritarian “state corporatism,” as opposed to democratic “societal corporatism” (Schmitter 1979). Recent studies, however, have begun to take a different look by exploring the conditions as well as challenges for societal corporatism in developing *democracies* (See Evans (1995) and Wiarda ed. (2004), among others, for the general framework of this approach). This study joins in this attempt by highlighting a political precondition for the societal corporatist wage-setting in these countries.

Second, the study also provides a critical assessment on the literature of European corporatism, especially on their understanding of the recent corporatist experiences in developed Europe. Unlike the traditional neo-corporatism literature, which emphasized government partisanship (Alvarez, Garrett, and Lange 1991; Korpi 1983; Stephens 1979)

or the consociational politics (Lehmbruch 1979; Lijphart and Crepaz 1991) as a precondition for the success of corporatist interest-intermediation or concertation, the new literature of 'competitive corporatism' tends to consider corporatism as being free of the substantive configurations of the national politics (Molina and Rhodes 2002; Traxler, Blaschke, and Kittel 2001). This approach is justified in part because, as discussed in this study, the terms of the political exchange these days are structured so narrowly around the zone of moderate center that neither strongly leftist nor neo-liberal solutions can provide a viable alternative. While recognizing this constraint, I argue that the national politics still play an important role in a way that the researchers have not paid attention to, namely, by determining the government's willingness to deal with a national economic problem. From this perspective, the reason why the governments in most developed European countries have been so serious about their economic challenges is because the major parties in those countries have been connected to voters by promising general policy benefits.

CHAPTER 4

INTER-UNION RIVALRY AND THE MODALITY OF POLITICAL EXCHANGE: THE EXPERIENCE OF FIVE COUNTRIES IN DEVELOPED EUROPE

The wage-setting process in Europe was characterized by a relatively high level of collective coordination among unions, employers, or the government. There, the participating actors were interested in how to reach a wage deal in which they could strike a good balance between sustainable profits and egalitarian wages. This generous system of corporatist coordination, however, has been under stress these days. One of the notable challenges came from the process of economic integration (Streeck and Schmitter 1991). Intense competition in the European product market increased a pressure for tight cost control. Monetary integration added further to this pressure by keeping government macroeconomic accommodation out of option and, thus, making wage moderation an indispensible means to macroeconomic management (Crouch 2000; Huber and Stephens 2005). If businesses had already been in a downturn but wage costs had not been controlled well, the economy would fall into a real crisis situation. The call for tight cost control would grow even greater (Baccaro 2003; Pochet and Fajertag 2000).

How would this economic pressure impact on the wage-setting process in Europe? Here conventional wisdom suggested that the wage-setting process would undergo a significant change to de-coordination. By making wage negotiations more individualized and fragmented, employers would be better able to increase the market discipline in the wage-setting process and thus save more wage costs (Streck and Schmitter 1991; Streeck 1998). But the actual developments in developed Europe were not supportive of this prediction. First, there was no case of de-coordination in developed EU countries,

although the degree of flexibility within the system has increased overall, as shown by the trends of wage differentials, occasional opt-outs, etc. (Rhodes2001; Teuling and Hartog 1998). In several countries, the wage-setting process was even more coordinated (Fajertag and Pochet eds. 2000; Ferner and Hyman eds. 1998).

This study is interested in these countries of increased coordination. There, nationwide wage settlements among the government, unions, or employers assumed a more prominent role than before in management of aggregate wage costs. Previous studies proposed a list of causes for this change, including monetary integration, poor macro-economy, and the organizational capabilities of industrial actors (Baccaro 2003; Hassel 2003; Pochet and Fajertag 2000; Rhodes 2001). They also found that the political exchange between unions and the government provided the driving mechanism for the change, in which unions agreed on the idea of tight wage control and then the government promised to promote employment and also avoid any neo-liberal reforms on social welfare and the labor market (Huber and Stephens 2001; Rhodes 2001; Scharpf 2000).

This study builds on these findings, and explores a relatively under-studied issue: the modality of the political exchange. The question has not been dealt with extensively, although there were notable differences in the ways that the exchange took place. These differences then produced significant impacts on economic performance, especially on the pattern of wage moderation (Traxler and Kittel 2000). In this study I fill in this lacuna in the literature by first identifying three patterns of the political exchange --- voluntary negotiation, government-pushed negotiation, and government unilateralism. I then present a causal explanation for this diversity by looking at the effect of inter-union rivalry.

More specifically, I begin by reviewing previous few studies that tackled the same question, but from a different perspective (Baccaro and Lim 2007; Hamann and Kelly 2007). Focusing on the electoral politics, they argue that the government negotiates with

unions when the governing party or coalition is electorally weak. This is because the government worries that a unilateral approach could trigger an electoral backlash by alienating many resentful workers. When provided with stable electoral support, however, the government becomes less sensitive to this possibility, leaning towards unilateralism as an easier, less-demanding way to secure tight control of wage costs.

While not denying this political consideration by the government, I argue that the final choice between negotiation and unilateral intervention is ultimately determined by another factor, that is, the degree of inter-union rivalry. If a labor movement is mired with deep rivalry, it becomes difficult for competing union actors to coordinate their wage demands to produce a moderate wage settlement. This makes even a weak government consider that unilateral intervention as the only possible way to secure wage moderation. If a labor movement does not suffer from deep rivalry, however, union actors will be in a better position to reach such an agreement. Then, even a stable government will consider negotiation as a more attractive and feasible path to cost control.

The focus on inter-union rivalry also permits us to improve the empirical coverage of theory. In the election-based studies, researchers were interested in only the dichotomy of negotiation versus government unilateralism. I improve on this typology by adding two sub-paths on the path to negotiation. I will show that while the hypothesis of electoral politics cannot even be applied to this new context, the alternative hypothesis is. Negotiation takes place with voluntary agreement when the labor movement is united or characterized by only weak rivalry. When the labor movement is characterized by a moderate degree of rivalry, negotiation still occurs, but only under notable threats or limited exercises of government unilateralism.

In the following sections, I discuss the theoretical background of these claims. I then provide supporting evidence for them in a comparative analysis of five European

countries (Belgium, Finland, Ireland, Italy, and the Netherlands), covering from the 1980s to the early 2000s. I will also challenge the alternative hypothesis of electoral politics by using the same empirical cases.

4.1. Electoral Politics vs. Inter-Union Rivalry

Until recently, there was widespread pessimism about the viability of the coordinative wage-setting systems in Europe, which had aimed at balancing between sustainable profits and relatively egalitarian wages. Increasing competition in the European product market created a strong pressure for tighter control of wage costs (Martin 1999). Monetary integration made this pressure even stronger by preventing the government from pursuing macroeconomic accommodation. Previously, the government had been able to provide a variety of flexible policies, ranging from exchange rate manipulation to fiscal/monetary stimulation, to compensate economic actors for any shocks in prices and costs. With the government being committed to monetary integration, however, none of these policy benefits remained available. Instead, the government's priority changed from macroeconomic accommodation to price stability (Crouch 2000; Huber and Stephens 2005).

Under this circumstance, wage costs needed to be controlled very tightly. A failure in this would instantaneously lead to loss of competitiveness and squeeze of profits. If wages had already been poorly controlled, the pressure for cost control would be even greater. Any continued trend of high wage costs would not only deteriorate the already fragile profit bases for employers, but also worsen the already insecure job situations of workers. In this situation, a broad consensus would emerge among all economic actors, that their economy would be in a serious crisis and their wages must be tightly controlled to get out of this crisis (Baccaro 2003).

Previously, it was widely expected that this economic pressure would motivate employers to decrease the level of coordination --- that is, the level (company, sector, nationwide, or somewhere in between) at which a target of aggregate wage increases would be set and negotiated (Crouch 1995; Streeck and Schmitter 1991). So, if wages had been set via negotiations with broad nationwide or inter-sectoral coverage, now they would be set for certain specific industries or specific companies without any implications beyond their respective domains. The rationale goes as follows. By making wage negotiations more fragmented and individualized, employers would be better able to increase the market discipline on the wage-setting process. This then would help them save more wage costs, because in the new system the wage-setting process would be less politicized and thus unions would pay more attention to the financial situations of their employers.

The experiences of developed European countries, however, have not been supportive of this prediction. There has been no clear case of de-coordination in the EU area, although the overall degree of flexibility within the system has increased, as shown by wage differentials and flexible opt-outs (Rhodes 2001; Teulings and Hartog 1998). In several countries, the wage-setting process has even been more coordinated (Fajertag and Pochet eds. 2000).

Researchers have tried to explain what might have led to this unexpected development. Among the widely-cited causes was a sense of economic crisis, shared by all economic actors. As discussed briefly above, poor economic performance in an integrated economy threatened not only the profits for employers but also the jobs for workers, producing a strong pressure for tight cost control. Unlike the previous prediction, however, this pressure did not work out in a way to strengthen the market rule in the wage-setting process. In an urgent situation of economic crisis, economic actors were

more interested in finding a more predictable solution to their wage problem. Rather than relying on a method of decentralized discipline (which could be unpredictable, at least in the short run, without a central authority), they preferred a more coordinative solution. By increasing the level of wage coordination and thus letting encompassing bargaining units --- which might have better understanding of the macroeconomic consequence of the failure of wage moderation --- take a more prominent role in the wage-setting process, they hoped that they could have more predictable control on national wage costs (Pochet and Fajertag 2000; Rhodes 2001). Where unions and employers already retained the organizational capability (proven or potential) for such collective action, this shared interest really galvanized the corporatist wage-coordination (Baccaro 2003; Hassel 2003).

The underlying mechanism of this enhanced coordination was the tripartite deal-making among the government, unions, and employers, in which the wage issues were linked to other broad issues such as jobs, welfare, and labor market protection. First, unions and the government made a political exchange in which unions recognized, voluntarily or by governmental direction, the necessity of tight wage restraint as a means to recovery. Then the government promised that it would avoid any neo-liberal reforms of welfare and the labor market and also implement various activation policies for job creation (e.g. active labor market policies and other human-development policies (Huber and Stephens 2001; Rhodes 2001; Scharpf 2000)). Employers then joined the deal by committing to more employment and training than they would have done otherwise.

Note that the actual processes of the tripartite interaction were more complicated than this. The interaction could take place simultaneously; unions and employers could lead the process and the government would join later; or the government could lead without explicit consultation with unions and employers. Despite all this diversity, however, the common prerequisite for success was that there should be at least an implicit

exchange between unions and the government before the whole process came to a conclusion. The rational was as follows. Economic recovery, the common goal of the tripartite interaction, hinged on the unions' acceptance of tight cost control, but the unions would like to trade their commitment not only for jobs but more fundamentally for continued (although moderately reformed) provision of welfare and labor market protection (see Regini (1984) and Scharpf (1991) for the original formulation of this idea). Unions existed primarily to improve the quality and security of workers' lives**.** They would fight for job stability, no 'race-to-the-bottom' competition in wages, and humane treatment for the workers out of jobs. Without these 'passive' concerns being taken care of by any means, they were not able to agree on other 'positive' issues like wage moderation and job creation. Even the studies that recognized the active role of employers in this tripartite interaction did not forget to add that the employers' commitment to cooperation would not be possible (Culpepper 2005) or sustainable (Baccaro and Lim 2007) unless unions were already ready for the cooperative deal.

4.1.1. The modality of political exchange

Building on these studies, I explore a relatively under-studied issue: the ways that the political exchange was struck between the government and unions. More specifically, I am interested in the ways that wages have been set at the national level, given the governmental promise for welfare, protection, and activation. The experiences of developed Europe suggest two broad paths here. In one, the government took a unilateral initiative against unions, and imposed certain measures for cost control without seeking explicit agreement from the unions. Typically, the government initially sought a negotiated solution. Passing a substantial period of stalemate, however, the government switched its position to unilateralism, introducing such measures as obligatory wage freezes/ceilings and restrictions on strike activities. As discussed in the country analysis

section later, Belgium in the 1980s and 1990s and the Netherlands around 1980 were among the best examples for this. In the second path, the government negotiated with unions, which resulted in a nationwide settlement for tight wage moderation. A typical sequence there was that the government urged unions to engage in a direct talk with employers and, sometimes, the government itself; unions responded positively to this call by joining a national wage settlement. As discussed later, Belgium since 1998, Finland and Italy since the early 1990s, Ireland since 1987, and the Netherlands since 1982 are among the best examples.

Within the path to negotiation, there also were two different sub-paths. In one, negotiation took place with a voluntary agreement from unions. Here the role of government was limited to providing a public-minded bargaining space for wage negotiators. In the other, wages were negotiated under a visible pressure from the government. A typical sequence was that union actors revealed some problem in coordinating their wage demands; the government responded with a threat or limited exercise of unilateral intervention. After a short period of tension, however, unions succeeded in coordinating their wage demands, paving a way toward a national wage settlement.

4.1.2. The hypothesis of electoral politics

How can we explain these diverse patterns of the political exchange? Previous studies have been mostly silent on this issue, except for the works by Baccaro and Lim (2007) and Hamann and Kelly (2007). Focusing on the role of the electoral politics, they provided a coherent hypothesis for the government choice between negotiation and unilateral action. They argued that governments choose negotiation with unions "when they lack the necessary electoral strength to face a potential popular backlash" which would likely be triggered by a unilateral approach (Baccaro and Lim 2007, p. 38). In

other words, they negotiate "when potentially unpopular policies are deemed necessary, when the governing party or parties are facing electoral pressures, when they believe incur heavy electoral costs from implementing some of their policies unilaterally and when they believe pacts would increase the legitimacy and popularity of these policies" (Hamann and Kelly 2007, p. 976). If the governments enjoy stable electoral support, however, they will not be so sensitive to this possibility of electoral backlash. They will consider unilateral intervention as an easier, less-demanding way to secure wage control.

While providing a plausible explanation for the government's choices, this hypothesis suffers from the following problems. First, it is not clear why a stable government should be so open to compromise its support base. Instead, hoping to stay in power stably, any government in established democracies will be attracted to the idea of negotiation as a better way to deal with its economic problem. It will be only when this preferred solution does not look feasible, that the government will begin to consider unilateral intervention seriously.

Second, the hypothesis is also criticized for its another implication, that the fear for electoral backlash will make a weak government choose non-action rather than doing anything else, once the path to negotiation is blocked. This, however, is too a strong argument. Despite the potential backlash from angry workers, unilateral intervention can still be an attractive option even to a weak government. This is because the intervention helps prevent further worsening of the economy, the occurrence of which would invite broader blames from the general public, enough to nullify the benefits of avoiding the concentrated blames from workers. Furthermore, if successful, the intervention will provide incumbents with a real performance record with which they can dilute blames of the workers and also demonstrate their capability of macroeconomic management to the general public.

All these criticisms, which will be confirmed empirically later in the country analyses section, suggest that the government's choice over the two paths may not depend on the electoral politics. Rather, it may depend on the exogenous feasibility of negotiation. The government will choose negotiation only if this looks feasible. If not, however, it will choose unilateralism. In this study, I argue that this feasibility is ultimately determined by the degree of inter-union rivalry.

4.1.3. Inter-union rivalry: an alternative hypothesis

More specifically, the new hypothesis goes as follows. When a labor movement is mired in deep inter-union rivalry, it becomes difficult for competing union actors to reach an agreement on how tightly their wages should be moderated. This difficulty then invites the government to bring some obligatory measures to the wage-setting process. If the rivalry is not that serious, however, unions will be better able to coordinate their wage demands toward a moderate wage settlement. Then negotiation becomes the main path for cost control.

Within this path to negotiation, there is a notable source of diversity (although this has been never considered seriously in the previous election-based studies). I argue that negotiation takes place with unions' voluntary participation if a labor movement is all united or only has weak rivalries. If a labor movement is under still moderate tension from rivalry, then negotiation takes place but only under the considerable threat of government unilateral intervention.

Before presenting a detailed justification for this claim, let me begin by elaborating more on the definition of the independent variable, the degree of inter-union rivalry. In this study, the rivalry varies depending on the following two criteria: distinctiveness of self-identities among competing union actors and the intensity of their competition. For instance, a labor movement is in deep rivalry if the major union actors

adopt distinctive ideologies and also compete with one another in all major economic sectors, without a clear demarcation of their respective organizational dominance. Among the European countries examined here, this was clearly the case with Finland up until the 1980s, in which communist and socialist unions fought each other for the support of ordinary middle/low income workers from all economic sectors.

Since the collapse of communism, however, this cleavage has moderated significantly because the communist-leaning SAK has re-established itself as a social-democratic confederation (Lilja 1998). Religion can also be a good source for such rivalry. In Belgium until the late 1990s (Vilrokx and Van Leemput 1998), Italy until the late 1980s (Regalia and Regini 1998), and the Netherlands until the early 1980s (Visser 1998), Christian democratic unions were in ideological competition with socialist ones to obtain mass support from various occupational groups of ordinary workers. Although the Christian unions toned down their strong religious colors in the wake of cultural secularization, they still remain loyal to the Christian idea of inter-class collaboration and co-determination, whereas socialist unions clung to the idea of class differences (Van Kersbergen 1995).

In the mean time, a labor movement would be in complete unity if unions share the same ideology and there is only one peak confederation which dominates all other unions. If this is too a strict requirement, we could allow a weak rivalry by relaxing one of these two criteria. In Ireland, several general unions (although under the 'non-binding' guidance from a peak confederation) competed to recruit ordinary workers from all economic sectors, but this did not lead to a centrifugal pattern or rivalry because unions were basically homogeneous in the sense that they shared the same ideology of moderate social democracy (Von Prondzynski 1998). In Finland after the collapse of Communism, union organizations were still clearly divided along the ideological cleavage of social

democracy vs. centrist reformism. But their rivalry remained quite mild because they did not have to engage in intense membership competition, given a clear pattern of respective organizational dominance across the major economic sectors (Lilja 1998).

Finally, the rivalry can be at a moderate level, somewhere in the middle of these two ends of the scale. There, the major union actors have typically adhered to distinctive ideologies. They also have competed intensively to solicit support from various groups of ordinary workers. But their rivalry moderates because, although their organizational competition continues, the ideological side of the rivalry weakens as hard-line unions have moved toward reformism. We thus no longer see the major unions fighting over fundamental ideological claims. However, this does not mean the marginalization of identity competition. Rather, the previous hardliners will still be eager to make their reformism as different as possible from others. Given the ongoing membership competition in the major economic sectors, this effort for differentiation will then keep the major union actors under considerable tension in their relations. As discussed in more details later, this was the case with Belgium since the late 1990s (Van Gyes, De Witte, and van der Hallen 2000) and the Netherlands since the early 1980s (Visser and Hemerijck 1997).

What will be the implication of these diverse patterns of rivalry for the political exchange? My answer is that the diverse patterns determine the degree to which unions can cooperate voluntarily. This then invites diverse responses from the government, ultimately producing diverse patterns of the political exchange. Beginning with the case of deep rivalry, typically there are hard-line union organizations who are in intense confrontation with other reformist competitors. Here the pivotal actors are the radical members in the hard-line organizations. They are given strong leverage in the internal decision-making process, because their claim for ideological clarity is considered

legitimate given the deep rivalry. If this demand is not accepted, they can also punish their organizations by threatening internal objections and defections. Fearing that this internal rupture could hurt the relative power position of the organizations in the labor movement, the leaderships find no other way but to listen to these radical voices (see Przeworski and Sprague (1986) and Kitschelt (1994) for the original discussion of this idea in the context of party politics).

Even in the context of this study, in which a national economic crisis at a time of deep economic integration motivates the hard-line union organizations to join in the bargaining process for reasonable policy trade-offs, those radical members still play. They continue to press their organizations to maintain a strong, ideologically-charged position at the bargaining table. Fearing the possibility of internal rupture, the leaderships of the organizations will have to listen to these voices. Typically, they will end up insisting that wages should still be allowed to increase to maintain real purchasing power. They will then justify this position by arguing that any employment-unfriendly effects from this demand should be counterbalanced by reducing the labor supply without pay-cuts (Vilrokx and Van Leemput 1998; Visser 1990).

It is not difficult to understand that this tough position put forth by hard-line union organizations will sap the possibility of voluntary agreement for tight wage moderation. Although not its first preferred solution, now the government begins to seriously consider unilateral intervention as the only feasible alternative to address its national economic problem. This move is further supported by the public opinion that the union rivalry has interfered with timely response to the national economic problem. Of course, the hard-line organizations will not welcome this development because government unilateralism will put in peril the very principle of workers' autonomy in industrial relations (Visser and Hemerijck 1997). However, faced with a tough choice between defending the autonomy

and saving their core support base, they choose the latter for the sake of organizational survival.

As economic difficulties continue, however, the considerations of the hard-line union organizations change significantly. Now all their members, even radicals, are more concerned about the fact that their workers have been losing jobs but the emphasis on real income maintenance has not been helpful for addressing the problem. This consensus then widens the room for reformism in the organizations and, ultimately, narrows the policy differences between them and their competitors. Now the labor movement is in a better position to produce a broad consensus for tight wage moderation. The government also welcomes this move, expecting that it will enhance the prospect of negotiated political exchange in which the possibility of electoral backlash is minimized.

From the viewpoint of the leaderships in the previous hard-line organizations, this new development provides a golden opportunity in which they can keep the industrial relations safe from government intervention without jeopardizing their organizational base. However, the process should be managed with great care, because the heirs of radicalism in their organizations will still be eager to make the new reformism as different as possible from others. To avoid the possibility of internal rupture, now the leaderships have to be very cautious about the formality of the negotiation process. Although they will eventually agree on a tight wage settlement, they need to show their members a seemingly-strong commitment to a generous wage deal. They will often have to delay the deal, even though this will invite public criticism and also increases the possibility of government unilateralism. Then they sign on a wage deal at a point when they can claim that they have done enough but when further stalemate would likely trigger wide repercussions in public opinion and eventually invite wholesale unilateralism from the government. Even after a deal has been made, they will have to be keen to show their

sympathy to those who were hit hard by the deal. They will have to allow these members to express their complaints freely in their organizations. Sometimes, they will even have to withdraw from the signed deal, although temporarily, to appease the mounting angers from those members.

In the meantime, if the labor movement has been unified or only vexed by weak rivalries, the negotiation process will be even smoother. Here the labor movement is placed in a best situation to produce a voluntary agreement for tight wage moderation. Union actors will have relatively homogenous ideologies, meaning that there will be no inflammable materials or their legacies which potential hard-liners can utilize to establish and politicize their claims. Even if the major union actors are divided ideologically, their competition will be mild. There will be a clear demarcation of their respective strongholds across the major economic sectors. This will then allow even the ideologically-divided unions to move on to a coordinative wage deal, without worrying much about the reactions from their dis-satisfied members. Under this circumstance, there is no strong need for the government to attempt unilateral intervention or even a threat of it. Rather, the role of the government will be limited to provide a public-minded bargaining space for social partners. The government may promote a non-partisan assessment of the national economy and possibly provide a certain recommended range of solutions, but it will leave with unions the freedom to reach a final wage settlement with employers.

4.2. Sampling

To provide empirical support for these claims developed so far, I examine the experiences of five countries from developed Europe: Belgium, Finland, Ireland, Italy, and the Netherlands. They are all among the widely cited examples in which the level of

wage coordination increased recent decades. Some Southern European countries, such as Portugal (Royo 2002) and Spain (Hamann 2001), should also have been included in the empirical analysis. But they were not, due to a data problem: these countries were not covered by all of the quantitative measures of wage coordination which were adopted in this study.

Table 7 provides a summary trend of wage coordination for the five sample countries. The periods of analysis were determined by the following considerations. First, the countries should have strong commitment to supra-national monetary coordination. Second, they also should have suffered seriously from the problems with their national economies. Finally, industrial actors should have been at least moderately organized. All these reflect the key conditions which have been specified for the path to increasing wage coordination, as briefly sketched previously (Baccaro 2003; Hassel 2003; Pochet and Fajertag 2000).

Beginning with the monetary commitment, the Netherlands was an early starter, who pegged its currency to the German mark from the early 1970s as soon as the collapse of the Bretton Woods system (Kurzer 1993). Belgium joined the process around 1980 when the EMS was started (Kurzer 1993; Hemerijck, Unger, and Visser 2000). Finland, Ireland, and Italy joined in the late 1980s with their preparation for joining the EMU. When it comes to economic performance, all of these countries suffered from sluggish growth, high unemployment, and poor control of wage costs from or even before the beginning of their monetary commitment. In Belgium and the Netherlands, the poor performance dated to the 1970s; this improved in the Netherlands from the early 1980s after the 1982 pact of Wassenaar, but poor performance continued in Belgium until the 2000s (Arcq and Pochet 2000; Visser 1998). The Irish and Italian economies were also in poor shape in the 1980s, but the Irish economy improved significantly in the late 1990s,

while the Italian recovery lagged until the 2000s (Ferrera and Gualmini 2000; O'Donnell and O'Reardon 2000). In Finland, its economy had been good until the late 1980s, but worsened sharply from the early 1990s in the wake of the collapse of the Soviet Union and the crisis in the banking sector (Kaupinnen, 2000). Finally, in all five countries unions and employers were organized at least moderately, as reported in such volumes as Ferner and Hyman (1998) and Ebbinghaus and Visser (2000).

Consistent with these background conditions, the level of wage coordination increased in all five countries. In Table 7, this was measured by looking at the institutionalized characteristics of coordination as well as the participating actors' real commitments for it. Given that these two reflect different aspects of wage coordination and thus may not necessarily go together all the time, an increase in either side was considered to indicate an increase in wage coordination, unless the other side decreases. Among the three pooled time-series data which are publicly available from Kenworthy (2001), Nickell, Nuniziata, and Ochel (2005), and Traxler, Blaschke, and Kittel (2001), I use Kenworthy's data to deal with the institutional aspect of wage coordination. Focusing on such characteristics as pattern setting, government arbitration, and peace obligation, he provides five discrete levels of wage coordination which runs from no coordination (one) to poor (two), intermediate (three), and high coordination (four and five). Traxler et al. also deal with the institutional aspect of wage coordination, but they only provide a non-ordinal, categorical typology. Meanwhile, Nickell et al. provide a measure for the behavioural aspect of wage coordination, based on their subjective judgments of the participating actors' voluntary commitment to concerted wage moderation. Their data ranges from a low score of one (no coordination) to a high of three (nation-wide coordination).

4.3. Test Of The Hypothesis Of Electoral Politics

The empirical analysis begins by testing the hypothesis of electoral politics against these five country cases. The hypothesis suggests that in the course of the political exchange, a government will seek negotiation with unions if it has a weak electoral base, but it will choose unilateral intervention if it enjoys a stable electoral base. As it turns out below, this hypothesis is well supported by the cases of Finland, Ireland, and Italy, but contradicted by the cases of Belgium and the Netherlands.

Table 8 summarizes the trend of the governmental electoral base for each of the five countries, covering the sample periods defined by Table 7. All data are drawn from Muller and Strom's edited volume (2000) and various annual political reports in the *European Journal of Political Research*. To make qualitative judgments on the government's electoral power from these data, I adopt the following operational criteria. The government has a stable electoral base if the governing parties (or their core) survive most of several consecutive elections without frequently changing their coalition partners. Otherwise, the government has a weak base. Within the category of stable electoral base, the government is considered dominant if the seats of the core governing parties or their coalitions are close to or higher than 50% of the total parliamentary seats.

Beginning with Belgium, Christian Democrats were in a dominant position until the early 1960s. From the 1950 to the 1961 elections, the CVP/PSC (Christian Democrats) held about 48% of the total parliamentary seats and remained in power most of the time (73%) as either the virtual, single governing party or a leading party in the coalitions with the BSP/PSB (Social Democrats) or PVV/PLP (Liberals). After the 1965 election, however, their power began to weaken significantly. From then until the 1981 elections, they held approximately 35% of the total parliamentary seats. Although the CVP and PSC could continue to stay in power, they had to switch their coalition partners

very frequently among the Social Democrats, Liberals, and Regionalists. Passing the early 1980s until the end of the 1990s, however, their electoral base stabilized again. With the average share of 30% of the parliamentary seats, they certainly were not a dominant party coalition, but they managed to stay in power by forming relatively stable electoral coalitions throughout the period (with Liberals for the 1981 and 1985 elections and then with the Social Democrats for the 1988, 1991 and 1995 elections). Beginning in the late 1990s, however, their electoral base weakened again. There has been no stable governing coalition since that time. Instead, power has been alternating among various coalition alternatives, including the two non-CVP/PSC coalitions of 1999 and 2003 (De Winter, Timmermans, and Dumont 2000).

In Finland, the SDP (Social Democrats) led stable center-left coalitions with the CE (a centrist party with agrarian origins) and the SW (Swedish People's Party) from the 1966 election to the late 1980s. The party was never dominant with the average share of 27% of the parliamentary seats, but it nevertheless stayed in power throughout the period as the largest party in Finland. Entering the 1990s, however, its electoral base weakened dramatically. The decade started with a center-right coalition in 1991 --- for the first time since 1966, which was then followed by various governing coalitions among social democrats, centrists, and rightists (Nousiainen 2000).

In Ireland, the nationalist catch-all party, Fianna Fáil, dominated the government until the late 1970s. From the 1950s to the 1970s, the party retained about 50% of the parliamentary seats and remained in power in about 77% of the period. Its hegemony, however, began to fall in the early 1980s when a coalition of Labour and the relatively liberal Fine Gael won the 1981 election and stayed in power for roughly six years. Thereafter, coalition building became the norm of government formation. Except for the brief period of Fianna Fáil's sole rule from 1987 to 1988, various coalition alternatives

were experimented with among Fianna Fáil, Labour and other liberals (Mitchell 2000).

Italy represents a case of Christian Democrat dominance until the late 1980s. From the 1953 to the 1987 elections, the DC (Christian Democrats) occupied about 41% of the parliamentary seats and stayed in power by forming coalitions with Social Democrats, Liberals or Republicans as minor partners. However, the party system changed dramatically in the early 1990s in the wake of the political big bang, which led to re-foundation of the former communist PCI into the social democratic PDS, and also total collapse of the DC and the PSI (the former socialists). Since then, no dominant party or stable governing coalition has been formed in the electoral politics. General elections have been very competitive, resulting in an alternation of power between broad center-left and center-right coalitions. In the years of 1993 and 1995, the major political parties even agreed to devolve power to politically-neutral technocrats for the sake of crisis management (Verzichelli and Cotta 2000).

In the last country, the Netherlands, the KVP (Catholics) led a dominant right-wing coalition with the CHU (orthodox Protestants) and ARP (Anti-revolutionary Party) until the early 1960s. From the 1952 to the 1963 elections, they held more than 50% of the parliamentary seats and only occasionally invited the PvdA (Social Democrats) and VVD (Liberals) as their minor coalition partners. From the 1967 to the 1982 elections, however, the situation changed significantly. Not only did their combined seat share fall to the mid-30%, but they also had to switch their coalition partners frequently among the PvdA, VVD, and D66 (newly-established Liberals) to stay in power (Timmermans and Andeweg 2000).

Do these patterns of government electoral base fit in the patterns of political exchange in these countries? As can be seen in Table 9, the answer is not entirely positive. For Finland, Ireland, and Italy, there was a good fit. The political exchanges in these

countries occurred all via negotiation. Their governments were also all weak, alternating either among various coalition alternatives as in Finland and Ireland, or between broad center-left and center-right coalitions as in Italy (more detailed discussions on these and other country cases are provided shortly in the country analyses section).

However, the Belgian and Dutch cases tell us different stories. In Belgium, the dominant pattern of political exchange between 1981 and 1997 was unilateral government direction, but the government entered the period with a weak coalition base (although stabilized thereafter). It is not clear how the weak government of the early 1980s could adopt such a strong approach, despite the fear of electoral backlash from angry workers. Also, since the 1998 pact, the Belgian political exchange has proceeded mostly with negotiation. But the Christian Democrats was in a stable government with the Social Democrats at least until 1999, when they lost power to a secular coalition government for the first time since 1958. The electoral defeat also was never widely expected, being mainly triggered by some unanticipated political scandals around the election year (Rihoux 2000). It is not clear why the government who still thought to enjoy a stable electoral support decided to discontinue its previous unilateral approach in 1998.

The Dutch case provides another challenge to the hypothesis. The Dutch government implemented a series of unilateral measures from 1980 to 1982, but then changed its approach to join in the accord of Wassenaar in late 1982, which later turned out to be the beginning of negotiated pact-building in the country. Both choices, however, were made under the same political condition that the government suffered from a weak coalitional base. It is not clear how the same electoral weakness could lead to these two different outcomes. Both these empirical contradictions suggest that the hypothesis of electoral politics may not specify either a necessary nor sufficient condition for the path to negotiated political exchange. Government stability could lead to successful

negotiation, as shown by Belgium in 1998, whereas government weakness could lead to government unilateralism, as shown by Belgium and the Netherlands in the early 1980s. The next section addresses these problems by loyoking at the alternative hypothesis of inter-union.

4.4. Test Of The Hypothesis Of Inter-Union Rivalry

To establish the hypothesis of inter-union rivalry, recall that we began with a context in which a serious economic crisis in the context of European integration called the government and social partners to engage in nationwide wage coordination to achieve better control of wage costs. As previous studies suggested, the political exchange between unions and the government provided a key mechanism for this by making unions more attentive to the idea of tight wage moderation, in exchange for the government's promises of activation and avoiding neo-liberal reforms of welfare and the labor market. Then I suggested that the pattern of the political exchange was determined by the unions' ability to coordinate their wage demands toward tight moderation, which was ultimately an outcome of the degree of inter-union rivalry.

If a labor movement was characterized by deep rivalries, it became difficult for competing union actors to agree on the zone of wage restraint, which invited the government to impose obligatory measures to break the stalemate. If a labor movement was relatively united or there were only weak rivalries, union actors were best able to produce such an agreement. The government felt no need for unilateral direction. The process of political exchange also was smooth, following voluntary negotiation. Finally, if a labor movement was characterized by moderate rivalry, negotiation still took place because unions were eventually able to produce an agreement. The process of negotiation, however, was full of tensions among rival union actors, which invited government's threat

or limited exercise of unilateral intervention.

As summarized in Table 9 and also discussed in detail below, this hypothesis is well supported by the experiences of all five countries. In Belgium and the Netherlands, the change from governmental unilateralism to government-pushed negotiation was associated with the change from a high to a moderate degree of inter-union rivalry. Voluntary negotiations in Finland and Ireland took place in the context of weak rivalries. In Italy, the change from voluntary to government-pushed negotiation was associated with the change from a low to a moderate rivalry.

The following comparative analyses provide real empirical grounds for these associations by focusing on the Belgian, Dutch and Italian cases. The first two provide critical cases which contradict the hypothesis of electoral politics, but confirm the alternative hypothesis. The Italian case extends the coverage of theory by providing a new empirical context which the latter hypothesis can be applied to (although the former has never been attempted so). Finland and Ireland, however, do not add much strength to the analysis because they are consistent with both the hypotheses, so their experiences are examined only briefly.

In Finland, the labor movement was characterized by relatively weak rivalries in the 1990s. True, the major unions had been differentiated along deep ideological cleavages until the late 1980s; the largest SAK had been clearly leftist, whereas the smaller unions, such as STTK and AKAVA, had been more centrist or liberal. After the collapse of communism, however, the distance among them narrowed. This was because the internal struggle in the SAK between communism and moderate social democracy, which had been the primary source of union militancy in Finland, was resolved in favor of the latter. The fact that there was already a clear pattern of confedral dominance across different economic sectors, further weakened the rivalry. The SAK was undisputedly

dominant among all workers in the private sectors and male workers in the public sectors; the STTK was dominant among female workers and technicians in the public sectors, and the AKAVA was dominant among well-educated workers in the public sectors (Kauppinen and Waddington 2000; Lilja 1998). Consistent with these configurations, the political exchange in Finland took place via voluntary negotiation. Under the leadership of the SAK, unions were able to reach broad agreements on tight wage restraint, which were then fully incorporated in the tripartite negotiations for social pacts (EIRO 1997d, 1998a; Kaupinnen 2000).

In Ireland, the inter-union rivalry was also weak. Organizationally, union actors were under competitive pressure. Although all Irish unions were formally united under the ICTU (the peak confederation of Irish workers), real decision-making powers spread to several "general unions," who were in competition for recruiting their members from virtually all economic sectors (Hardiman 1988; Von Prondzynski 1998). However, this did not develop into a centrifugal pattern of union rivalry because the Irish unions were ideologically homogeneous and endorsed moderate social democracy. Historically, the only major source of substantive divides was nationalism, over which the Irish-based and the British-based unions fought each other. This, however, was resolved successfully in 1959, when the Irish-based CIU merged with the British-based ICTU (Hardiman 1988). Consistent with all this configuration, the political exchange in this country also took place in voluntary negotiations. From the late 1980s on, the leaders of the ICTU and other general unions took a deliberative initiative towards tight wage moderation, which was then complied with by company-level unions (Baccaro 2003; O'Donnell and O'Reardon 2000).

4.4.1. Belgium

In Belgium, the nationwide negotiations between unions and employers had

produced encompassing wage guidelines, albeit non-binding, for most of the 1960s and 1970s (Vilrokx and Van Leemput 1998). Their performance regarding wage moderation had never been good. But, faced with an economic downturn at a time of macroeconomic austerity in the late 1970s (due to a strong monetary commitment to the German mark), the government was eager to strengthen this tier of wage negotiations. It hoped that nationwide wage-coordination, if backed up by committed participants, still could provide a predictable way for tight cost control and economic recovery (Hemerijck, Unger, and Visser 2000). This initiative produced a wave of interactions with social partners, resulting in a series of obligatory wage guidelines in the early 1980s to late 1990s, and then government-pushed social pacts thereafter.

More specifically in the late 1970s, the Belgian government, which was then backed by fragile Christian-led coalitions, initiated a project of centrist political exchange with unions. It urged them to engage in a nation-wide talk with employers for tight wage moderation, while showing no intention of radical restructuring of social welfare and the labor market (Balpain 1985; Dancet 1988). Unions responded positively by participating in a series of national talks to discuss these issues. But, after a stalemate in the negotiations (in fact, unions and employers had not been successful in the national wage negotiations since 1975), the government switched to unilateralism. In 1981, it legalized a right to issue a mandatory wage guideline in case of a failure of bipartite national agreement. This was then applied to the wage-setting process in the country for the next several years to come (Balpain 1984; Dancet 1988). Entering the 1990s, the same pattern of government intervention reappeared. In 1993, for instance, the failure of voluntary tripartite negotiations for the so-called Global Plan led to a legislative response by the government, in which the previous wage indexing system was revised to constrain the minimum rate of wage increase (Vilrokx and Van Leemput 1998). In 1996, another failure

of negotiation led to the Law on Safeguarding the Competitiveness of Enterprise, through which a legal ceiling of wage increase was introduced; it could be no higher than those of Germany, France, and the Netherlands (EIRR 1996b).

The ABVV/FGTB, the socialist confederation, was the main trigger of all these dynamics toward government unilateralism. Preoccupied with the issue of real income maintenance, the confederation made no voluntary wage agreement possible during most of the years, ultimately inviting a series of unilateral interventions from their governments (Arcq and Pochet 2000; ETUI 1983; Hemerijck, Unger, and Visser 2000). The intense rivalry between the ABVV/FGTB and ACV/CSC was the background for this militancy. The ACV/CSC had been oriented to Christian Democracy with an emphasis on class compromise and co-determination, whereas the ABVV/FGTB had been skewed strongly toward working-class egalitarianism (Vilrokx and Van Leemput 1998). Also organizationally, these two confederations were engaging in a tough membership competition. True, the ABVV/FGTB did better in the traditional manufacturing and public sectors, whereas the ACV/CSC was stronger in light manufacturing, new knowledge-intensive manufacturing, and the service sectors. But neither party had clear organizational dominance in any of these sectors. They just had to recruit their members from all these sectors (Ebbinghaus and Visser 2000).

It is not difficult to understand that this strong pattern of inter-union rivalry put the radical members of the ABVV/FGTB in a good position to press for wage militancy. By threatening internal opposition or defection, which could hurt the power of the confederation *vis-à-vis* its competitor, those members could make their leadership pay more attention to their strong demand. In Belgium, this pressure for radicalism was even stronger because of its traditional regional cleavages. Although the ABVV/FGTB drew members from both prosperous Flanders and declining Wallonia, its radical members

were more concentrated in the latter, the home of out-dated heavy industries such as mining and steel. This then bolstered the voices of these radical members in the following ways. First, the idea of trading wages for jobs was not realistic in Wallonia because businesses in the region were in structural decline and thus did not have meaningful capacity for job creation. Second, the Walloon members were also given their own communicative space, isolated from Flanders, in which they could easily solidify their common pessimism on the coordinative wage deal (Arcq and Pochet 2000; Van Ruysseveldt and Visser 1996).

Under these circumstances, the Walloon members of the ABVV/FGTB could exert an effective veto on their confederation's participation in the negotiated deals. The 1996 negotiations were clearly illustrative of this. Following a lengthy process of negotiations with other unions, employers, and the government in the year, the leadership of the ABVV/FGTB finally signed on a comprehensive deal, covering such broad issues as wage restraint, working time reduction, and moderate reforms of welfare and the labor market. The Walloon members did not express their explicit opposition during the negotiations, but began to galvanize their dissatisfaction at a rank-and-file referendum that was called to approve the deal. Although the leadership wanted to keep the deal alive, it chose to keep silent in an effort to appease the anti-pact sentiment of the members. The result was a disapproval, and the government intervened to break the stalemate (EIRR 1996b; Vilrokx and Van Leemput 1998).

Since the end of the 1990s, however, a new pattern of political exchange has emerged in which successful negotiations have replaced the previous unilateralism. The 1998 national bargaining, which produced a negotiated wage settlement for 1999 and 2000, was the beginning of this new process. The position of the government was the same as before, despite the fact that it was then backed up by a more stable coalition than

in the early 1980s. It continued to promise not to engage in radical restructuring of welfare and the labor market, and urged unions to strike a voluntary agreement on wage moderation with employers. But this approach could be successful this time, because the ABVV/FGTB changed its position toward reformism and supported a bipartite deal of wage restraint and cost-neutral work-time reduction (EIRR 1999b, 1999d). This success was then repeated in most of the early 2000s (EIRO 2003f; EIRR 2003).

As widely cited, the continued squeeze of the job market was the primary reason why the ABVV/FGTB began to embrace the new idea of reformism (Van Gyes, De Witte, and van der Hallen 2000). The abortive 1996 negotiations already harbingered this change, during which its leadership began to display a readiness for wage moderation. In the following national talks, which were convened to negotiate the wages for 1997 and 1998 but also failed, the leadership repeated the same idea. They suggested an exchange of wage moderation for work time reduction, job creation by employers, and a moderate increase in the minimum wage. This time, even the Walloon wing supported the idea (EIRR 1996c).

The new process of negotiation since 1998, however, has never been a smooth one. Every bipartite wage agreement was struck only after a tedious process of negotiation. In the 2004 national bargaining, the ABVV/FGTB even refused to renew the previous national wage agreement of 2002 (although it returned to an agreement in the next bargaining round in 2006). The government responded by imposing obligatory wage guidelines, which then triggered a general strike organized by the ABVV/FGTB for the first time since the mid-1990s (EIRO 2005c).

Arguably, this continued tension and toughness by the ABVV/FGTB was because of the still considerable rivalry between the two confederations. Despite the narrowing of policy differences, their organizational competition continued. This can be easily

confirmed if we look at the issue of union merger in the country. Despite the serious financial difficulties in recent decades which both confederations suffered from general membership decline, there was not even a single discussion of merger between them (Vilrokx and Van Leemput 1998). The same pressure, however, has led to rapprochement among competing unions in other countries where the rivalries were relatively low, such as Finland in the recent past (EIRO 2003g, 2006b). In addition, the Belgian 'social elections,' in which unions competed for various posts in company-level workers' organizations, continued to be among the noisiest in all of Europe (EIRO 2004a; Van Ruysseveldt and Visser 1996). Even in 1998, the beginning year of the negotiated political exchange in the country, the government had to delay the social elections in a fear that the confrontation between the confederations would trigger a wave of militancy in the sectoral wage negotiations which coincided with the elections (EIRO 1998b; EIRR 1998). With this continued rivalry, the Walloon unions could easily continue their critical voices inside the ABVV/FGTB. The failure of the nationwide wage negotiation in 2004, for instance, was mainly due to their internal objection (EIRO 2005a).

4.4.2. The Netherlands

By the late 1960s, the Dutch wage-setting system had undergone a gradual change from a system of strong government mediation to one of industry-level coordination by unions and employers. The process of de-pillarization, which had made industrial actors freer from government influence, was the underlying force for this change (Hemerjick, Unger, and Visser 2000). From the 1970s, however, the Dutch government was eager to reverse this trend. Facing a poorly performing economy in a context where its commitment to the German mark made macroeconomic accommodation out of option, the government thought that nationwide wage coordination would be a good way for getting out of the crisis (Van Ruysseveldt and Visser 1996). This initiative then resulted in

a series of government-imposed wage guidelines in the early 1980s, which was soon followed by tripartite social pacts thereafter.

In the late 1970s, the Dutch government, which relied on a fragile Christian-Liberal coalition, attempted an austerity-oriented wage deal with unions. In a series of policy initiatives, which were best illustrated by the publication of "Blueprint 1981" in 1979, the government urged unions to join with employers in a bipartite national agreement for wage moderation. As rewards, the government promised unions that it would not attempt major cuts in public employment and other social security benefits (Visser 1990). Unions were attracted to this idea, but their problem was that they were not able to coordinate their wage demands toward the deal --- which had been a decade-long problem in the Dutch labor movement. The FNV, the largest confederation, took a tough policy stance, whereby it insisted on the maintenance of real wages along with work-time reduction without pay cuts. However, the CNV, the second-largest confederation, was more flexible on these issues. They emphasized wage moderation. They also recognized the necessity of cost-neutral work-time reduction, by which work hours would be reduced in exchange for concomitant pay reductions (ETUI 1980). These continuing disagreements on the part of the unions then pave a way for government unilateralism. In 1980 and 1982, the Dutch government directly intervened to break the stalemate, and imposed unilateral wage ceilings against which no strike activity was considered legal (ETUI 1981, 1982).

Why did the FNV take such a strong policy stance and end up inviting government intervention? As was true in Belgium, this was because of its deep rivalry with the CNV. First, the FNV endorsed different ideologies from the CNV. The FNV was rooted in the socialist NNV, which had a strong class-based ideology. Even after joined by the Catholic NKV in a 1976 merger, it still could maintain its distinctive socialist

orientation because by the time of the merger, the NKV was inclined toward egalitarian fundamentalism. The CNV then reacted to this radicalization of the labor movement by adhering more staunchly to its moderate Christian doctrine (Visser 2000). Second, the two confederations were also in intense competition for membership. Although overall the FNV was more successful than its competitor, both confederations had to recruit their members from all economic sectors without a clear pattern of respective organizational dominance (Van Ruysseveldt and Visser 1996).

Under these circumstances, the radical members of the FNV could veto their confederation's participation in the negotiations, by threatening an internal rupture. In 1977 and 1980, for instance, there was an attempt at a moderate wage settlement in the FNV, mainly backed by the IB-FNV (the metal workers' association within the FNV). In 1980, there was another initiative for a cost-neutral plan for working hours reduction, which was also backed by the IB-FNV. However, all these efforts turned out to be failure because of the strong objections from food and other low-paid service sectors (Visser 1990; Visser and Hemerijck 1997).

After this experience of failure, however, the situation changed in favor of negotiation. Again, the government continued to hold the same position; it promised not to engage in neoliberal reforms of welfare and the labor market (a promise it kept, as shown by the moderate welfare and labor market reforms implemented in the mid to late 1980s after the Accord of Wassenaar (Visser 1992)). In return, the government urged unions to join in a voluntary agreement with employers for tight wage moderation. This time, this approach was successful because the FNV changed its policies. The confederation dropped its demand for real income maintenance and also accepted the idea of cost-neutral reductions in work-time. Thanks to this change, the Dutch unions could effectively coordinate their wage demands, which then contributed to a success in the

bilateral wage deal with employers (Visser 1998).

As was true in Belgium, the continued squeeze on jobs was what led to the spread of reformism in the FNV. The FNV unions became increasingly concerned that their members had been losing jobs. Although failed due to dedicated objections from radical minorities, the previously mentioned reformist initiatives led by the IB-FNV in 1977 and 1980 earned broad support from other member unions, resulting in the official backing by the FNV leadership. The initiatives also received warm responses even from outside the FNV. The IB-CNV (the IB of the CNV), for instance, fully supported the project from the beginning, in a hope that this could facilitate a unified approach to various labor issues among the major unions (Visser 1990; Visser and Hemerijck 1997).

The success of Wassenaar in 1982 will not be understood without considering this widening reformism in the Dutch labor movement. Note, however, that the negotiations even in that successful year were far from being smooth. The final agreement could b reached only with considerable tensions created by the FNV's tough bargaining strategy and the government's threats of unilateralism (Visser and Hemerijck 1997). Obviously, this procedural toughness of the FNV leaderships was due to the still considerable rivalry between the two confederations. Despite the narrowing of policy differences, organizational competition with the CNV persisted (Visser 1992). As was in the Belgian case, there was no discussion for inter-union merger despite the general trend of membership decline and subsequent financial difficulties. Furthermore, their competition continued to be infused with political motives even in the post-1982 period (Visser 1998). As well illustrated in the 1993 negotiation of the "solidarity pact," which was called to renew the previous 1982 pact, the FNV and CNV aligned themselves strongly with the partisan approaches presented by the PvdA (Socialists) and CDA (Christian Democrats). The CNV even showed its conditional willingness to embrace the CDA's proposal to

abolish the minimum wage law. This was not only antithetical to its core value of the Christian social-market economy, but also pushed the FNV to an even more dedicated opposition during the negotiation. Although the two could finally get together on a joint position, this political confrontation pushed the negotiation process almost to a failure (EIRR 1993c, 1993d).

Under this still considerable rivalry, the radical groups in the FNV could better hold their critical stance. Worrying about the possibility of internal rupture, the leaderships had no other choice but to be attentive to their voices. A few years after the 1982 pact, for instance, there were some growing voices for compensatory wage increases inside the FNV, which were led by radical public-sector unions. The leaderships did not support this idea, but acquiesced in these voices. This then triggered similar militant reactions from other member unions. Even the IBFNV, who had led the reformist movement in the FNV, joined in this stream of wage push, putting the national wage settlement in real stress (Visser and Hemerijck 1997).

4.4.3. Italy

In Italy, wages had been set mostly by company-level bargaining until the 1980s, albeit under relatively strict administrative and legal guidelines (Regalia and Regini1998). There had been a few attempts at direct national talks on wages in the late 1970s and early 1980s, none of which was successful in terms of the duration of cooperation and the performance of wage control (Regini 1984). Facing a long period of economic recession at a time of the EMU-driven monetary austerity, the Italian government in the 1990s began its attempt to re-vitalize national wage coordination as a key measure for retightening national wage costs (Perez 2002; Regini and Regalia 1997). This initiative then led to a series of voluntary social pacts until the late 1990s. Since then, the pact building process has continued but with considerable tensions and government pressure.

The years 1992 and 1993 marked the beginning of all these processes. The Christian- Socialist government of 1992, which was in a very fragile position due to the anti-corruption drive, initiated a series of national talks that eventually led to the so-called 'emergency pact' of 1992. This was then finalized in the July Pact of 1993 under a new technocratic government which was led by a former governor of the Italian central bank. Both pacts were narrowly focused, only covering the issues that were directly related to wage-setting, such as abolition of the *scala mobile* and rationalization of the wage bargaining structure (EIRR 1992c, 1993b). After this success, however, a series of social pacts followed to deal with other important issues, e.g. welfare reform, labor market reform, and activation (Ferrera and Gualmini 2000).

Note here that the negotiation process initially was full of tension. In the 1992/1993 pacts, union actors were not yet in harmony regarding their opinions. Governments thus had to push hard for the success of the negotiations by adopting a "take it or leave it" approach. Once the tripartite agreements were signed, the CGIL, the major leftist confederation, also faced serious internal disputes waged by hard-liners, which then led to resignation of its general secretary (EIRR 1992c, 1993b). Passing this transition period, however, the process became more smooth and voluntary (except for a brief period of the full-scale confrontation in 1994 that was triggered by Berlusconi's abortive neo-liberal pension plan (Natali and Rhodes 2004)). All major unions took a common reformist approach to the wages and other policy issues. Governments responded positively to this development by more recognizing the autonomy of their social partners in the negotiation process (EIRO 1997a, 1999a; EIRR 1996a).

All these developments were quite surprising, given the deep ideological cleavages that had characterized the traditional Italian labor movement until the late 1980s. Since the late 1940s, when the united anti-Fascist Labor Front collapsed, the

communist CGIL and the Christian- Democratic CISL had maintained their ideological distinctiveness in close affiliations with their supportive political parties (other confederations, such as the reformist UIL, are not examined here because of their limited influence). They also had been engaged in a fierce membership competition. Although the CGIL had been relatively more successful among industrial workers and CISL among service workers, they each had recruited their members from virtually all economic sectors (Regalia and Regini 1998; Visser 1996).

This rivalry began to thaw around 1990 in the wake of economic crisis. The change was not dramatic in the beginning. As illustrated in the 1990/1991 national wage negotiations, which took place right before the historic 1992/1993 pacts, the inter-union rivalry was still deep enough to keep the CGIL maintaining its opposition to abolishment of the *scala mobile* (an automatic wage indexation system which had provided a floor of minimum wage increase), although the CISL was flexible on this (EIRR 1990, 1992b). The rivalry, however, dissolved significantly after passing through a series of political shocks --- such as the re-foundation of the PCI (the former Communist Party) into the PDS (the new Socialist Party) and the total collapse of the DC (the dominant Christian Democratic Party) and PSI (its subordinate Socialists). These events freed the confederations from their previous linkages to the ideological politics, and thus fostered a reformist spirit in the labor movement (Negrelli 2000). Following the CGIL's adoption of "a new realism" at the 1991 Congress (EIRR 1991), both confederations began to coordinate all activities closely under the new principle of "unity of action." In 1997, they even officially endorse a plan of inter-confederal merger that was planned to be completed by 2000 (EIRO 1997b,1997c).

Since the early 2000s, however, Italy has diverged from this smooth path to voluntary negotiation. True, the government still encouraged unions to stay in the course,

except for a brief period of abortive unilateralism that came right after the return of Berlusconi to power in 2001(EIRO 2002a, 2002b). The CGIL and CISL, however, began to express different opinions on various issues regarding the labor market. On the matter of wage-setting, for instance, the point of disagreement was on the framework of wage negotiations. The CISL insisted on staying with the status quo, in which the industry-level bargaining set a broad wage standard by considering the overall trend of inflation and then company-level bargaining finalized the wage deal by considering some company-specific factors, such as productivity increases. However, the CGIL suggested that the industry-level bargaining should also take the average trend of productivity increase into consideration, hoping that this would further strengthen the industry-level tier of the national wage-setting system.

This disagreement was never considered to be fundamental, but it nonetheless caused ruptures in the wage-setting process. In 2001 and 2003, for instance, the CGIL-FIOM (the metal union association of CGIL) decided not to join in the wage agreements for the metal sector (EIRO 2003e, 2006a; EIRR 2001), which was quite a notable development given the importance of this sector in the Italian economy. The CGIL-FIOM then carried out a series of offensives by organizing nation-wide strikes and also encouraging its members not to abide by the sectoral agreements reached by other unions and employers. Employers reacted by urging the government to intervene, e.g. by imposing an anti-strike measure which would allow individual employees to continue working despite the calls for strikes from their unions (EIRO 2003e, 2005b). This pattern of offensive and counter-offensive continued until the CGIL-FIOM finally returned to its sectoral bargaining in 2005.

How can we explain this increased toughness on the side of the CGIL in the 2000s? As proposed by this study, it was due to the re-emerging rivalry between the CGIL

and CISL. Despite the success of the “unity of action” approach throughout the 1990s, their commitment to collaboration weakened in the late 1990s. This was partly because the sense of economic crisis in the early 1990s was softening as the Italian economy satisfied the EMU criteria (Hancke and Rhodes 2005), and also partly because the memory of the political shocks faded away. In 1998, the CSIL began to visibly distance itself from the unification project (EIRO 1998c). The CGIL followed by declaring the failure of the project all but officially. The CGIL then resumed its rhetorical emphasis on union activity as “workers’ movement,” as opposed to CISL’s vision of “workers’ association” (EIRO 1999b).

It is not difficult to understand that all these developments provided radical members of the CGIL with a golden opportunity for re-vitalization. Given the persistence of sluggish economy (Ferrera and Gualmini 2000), they did not attempt total reverse of the established trend of wage concertation. Determined to establish the CGIL as a main political opponent of Berlusconi’s new government (EIRO 2003d), however, the radical members pressed their organization to take a tougher stance at the negotiation table. Fearing the possibility of internal rupture, moderate members in the CGIL had no choice but to be attentive to these voices. In 2002, for instance, the radical members, backed by strong support from the CGIL-FIOM, pushed hard for a national referendum to oppose a national pact in that year which introduced a series of new measures for labor market flexibility. The leaderships of the CGIL were initially opposed to the move, but they ended up providing organizational support for it (EIRO 2003a, 2003c).

4.5. Summary

This study began from a context in which nationwide wage coordination was called for to deal with a serious economic crisis. Building on the previous finding that the

political exchange between unions and the government was the key mechanism for such change, I explored why the deal making has taken different forms across countries. Focusing on the experiences of developed European countries, I provided and tested a causal hypothesis that was centered on inter-union rivalry, in an explicit comparison with the previous hypothesis of electoral politics. Belgium, the Netherlands, and Italy provided the key empirical cases to support the former against the latter hypothesis.

CHAPTER 5

CONCLUSION

Throughout this study, I discussed various issues regarding the recent changes in the European industrial relations. I focused on the wage-setting process of the developed European countries, especially in the context where the national economy was performing poorly mainly due to the failure of wage cost control, but the government was not able to provide compensatory macroeconomic policies due to the policy constraints from an integrated Europe. This was where the pressure for tight cost control was the strongest and, not coincidentally, many recent works in the European industrial relations motivated their research. I also attempted to extend some of my hypotheses to the context of a developing democracy which shared a similar economic challenge with the European countries.

I began by noting the unexpected resilience of coordinated wage-setting in developed European countries. I then asked the following important but neglected questions. I first asked why employers in such an urgent economic situation did not choose the option of de-coordination in order to take a tight control of wage costs. I found that employers indeed attempted de-coordination, but they soon withdrew from their efforts. This was because the cost of the institutional change was too high at least in the short run, given that unions became increasingly militant during the transition period but the government was not able to provide generous macroeconomic measures to compensate for the rising militancy.

Second, I asked why then the wage-setting process was more coordinated in some countries but not in others. To provide an answer, I began with recent studies which argued that the wage-setting process would be more coordinated at a time of economic emergency, if unions and employers are organized at least moderately. However, I showed that these economic and organizational conditions alone were not yet enough to produce the expected outcome, unless the government was also interested in the coordinative solution. My argument was that the change to further coordination depended on the success of tripartite political exchange, in which the unions' commitment to tight cost control would be rewarded for by various measures for job creation and moderate reforms on welfare and the labor market. Such a deal, however, could not be made unless the government was seriously committed to playing an active supporting role. That said, I showed that the government's commitment was a function of the patterns of the party-voter linkage.

My final question focused on the country cases in which the wage-setting process was more coordinated. Noting that there were various paths to this change, which ranged from voluntary negotiation to unilateral government intervention, I asked what led to this diversity in the adjustment processes. Previous few studies tackled the question by highlighting the government's electoral concerns, but I provided an alternative answer by focusing on the rivalry within the labor movement. I showed that the degree of inter-union rivalry had a systematic effect on the different paths to coordination, by making the negotiation process exogenously easier or more difficult. This effect was true even after considering the effect of the government's electoral power.

Overall, my study provides a broad implication for the literature of European political economy. More specifically, it adds a critical look at an influential approach, called the "Varieties of Capitalism" approach, to the study of European political

economies (Hall and Soskice, eds. 2001). In this approach, the institutions of economic governance are considered as a product of strategic interactions among economic actors, especially led by employers who try to react to the challenges of structural economic changes, such as globalization, production regime shifts, and post-industrialization. But they do so under tight constraints from the previous institutional forms of economic governance, which then provide them with a strong set of institutionalized payoffs.

One of the main criticisms to this approach has been that it neglects the role of other relevant actors, such as unions and the government, who also play important roles in the formations and changes of economic institutions. Relatedly, the approach also does not fully explore the process of the institutional dynamics, in which various non-economic variables and considerations come into play in addition to economic pressures (Amable 2003; Hanke, Rhodes, and Thatcher eds. 2007; Howell 2003; Streeck and Yamamura eds. 2001).

The approach also has a static view on the institutional dynamics, as implied by its understanding that once a certain institution is established, there will be only a bounded process of innovations, constrained by the previous institutionalized payoffs. This, however, is too a strong view of path-dependence (Crouch 2001). Instead, there will be various sources of profound institutional changes, which may be originated from the structural economic changes (Yamamura and Streeck eds. 2003) and other changes in politics and society (such as the changes in sociopolitical coalitions and political institutions (Jackson and Deeg 2006; Streeck and Thelen eds. 2005)).

My study follows the lead of these criticisms. Focusing on the industrial relations of developed European countries, I highlight the role of political and social organizational variables in the adjustment process. More specifically, I show that the process has gone beyond previous institutional arrangements, and explain how it has been influenced by

the organizational/political interests of the major unions and also by the dominant electoral strategies of political parties.

Table 1: The Trends Of Capital Openness In Sample European Countries

Countries	Quinn's Index of Capital Openness[a)]			
	1960s	1970s	1980s	1990s
Austria	2.2	2.6	3.1	3.5
Belgium	3.0	3.0	3.0	3.9
Denmark	3.0	3.0	3.2	4.0
Finland	0.7	1.9	2.2	3.8
France	2.8	3.0	2.9	3.6
Germany	4.0	3.9	4.0	4.0
Ireland	2.0	2.5	3.0	3.7
Italy	2.9	3.0	3.2	3.9
The Netherlands	3.0	3.0	3.7	4.0
Sweden	2.5	2.4	3.0	3.5
The UK	1.8	2.4	4.0	4.0

Sources: a) Quinn 1997

Table 2: The Boolean Truth Table For The Main Conditional Hypothesis

Country Group	Countries	Periods	Independent Variables			Dependent Variable
			High Capital Openness	*Lack of Monetary Commitment*	*Poor Coordination*	*Decrease of Wage Setting Coordination*
A	Denmark	1970 - 1981	1	1	1	1
	Ireland	1970 - 1981	1	1	1	1
	Italy	1970 - 1984	1	1	1	1
	The UK	1970 - 1980	1	1	1	1
B	France	1970 - 1985	1	1	0	0
C	Belgium	1980 - 1999	1	0	1	0
	Finland	1986 - 1995	1	0	1	0
	France	1986 - 1999	1	0	1	0
	Ireland	1986 - 1995	1	0	1	0
	Italy	1990 - 1999	1	0	1	0
	The Netherlands	1970 - 1981	1	0	1	0
	The UK	1986 - 1995	1	0	1	N/A
D	Austria	1970 - 1999	1	0	0	N/A
	Denmark	1986 - 1999	1	0	0	0
	Germany	1970 - 1999	1	0	0	0
	The Netherlands	1982 - 1999	1	0	0	0
	Sweden	1986 - 1999	1	0	0	0
E	The UK	The 1960s	0	1	1	0
F	Austria	Until the 1960s	0	1	0	0
	Finland	Until the early 1980s	0	1	0	0
G	N/A	N/A	0	0	1	N/A
H	N/A	N/A	0	0	0	N/A

Table 3: Measurements And The Boolean Truth Table For The Alternative Hypotheses

Country Group	Countries	Periods	Left Power[a)] From	Left Power[a)] To	Traxler's Business Confederation Index[b)] From	Traxler's Business Confederation Index[b)] To	Trade Ratio (%)[a)] From	Trade Ratio (%)[a)] To	Public Employment (%)[a)] From	Public Employment (%)[a)] To	The Boolean Truth Table: *Decrease of Left Power*	*Decrease of Business Power*	*Decrease of Trade Ratio*	*Increase in the Public Sector*	*Decrease of Wage Setting Coordination*
1	Sweden	1986 - 1999	2.6	2.5	1.7	1	59.7	73.7	24.6	21.5	1	1	0	0	0
2	Austria	1970 - 1999	1.9	1.0	2	2	66.3	77.5	10.0	12.3	1	0	0	1	N/A
	France	1986 - 1999	-1.5	-2.2	2	2	42.4	45.3	12.9	13.8	1	0	0	1	0
	The Netherlands	1970 - 1981	-0.9	-1.3	1	1	92.1	98.2	5.6	6.2	1	0	0	1	0
	Germany	1970 - 1999	0.1	-1.7	1	1	47.3	52.8	7.9	8.3	1	0	0	1	0
3	The UK	1986 - 1995	-1.4	-1.8	0	0	51.2	51.7	13.4	10.9	1	0	0	0	N/A
	Finland	1986 - 1995	1.5	0.9	1	1	49.6	57.4	13.9	13.6	1	0	0	0	0
4	Ireland	1970 - 1981	-0.5	-0.4	2	1.8	80.4	104	6.3	7.3	0	1	0	1	1
5	Denmark	1970 - 1981	0.7	2.2	2	2	57.8	62.3	13.9	18.6	0	0	0	1	1
	Italy	1970 - 1984	-0.9	-0.8	1	1	37.8	45.8	6.4	7.6	0	0	0	1	1
	The UK	1970 - 1980	-0.5	1.0	0	0	47.6	55.7	12.5	14.0	0	0	0	1	1
	France	1970 - 1985	-2.6	-1.0	2	2	35.4	43.8	10.8	11.8	0	0	0	1	0
	Belgium	1980 - 1999	-0.3	0.7	2	2	133	137	9.3	9.6	0	0	0	1	0
6	Italy	1990 - 1999	-1.0	-0.5	1	1	40.0	48.8	8.4	8.2	0	0	0	0	0
	Ireland	1986 - 1995	-0.8	-0.4	1.8	2	108	124	7.1	6.8	0	0	0	0	0
	Denmark	1986 - 1999	0.3	2.2	2	2	65.3	67.3	21.4	21.4	0	0	0	0	0
	The Netherlands	1982 - 1999	-2.0	-0.9	1	1	107	107	6.2	6.0	0	0	0	0	0

Sources: a) Huber et al. 2004; b) Traxler, Blaschke, and Kittel 2001.

Table 4:The Summary Of The Quantitative Indicators For Selected Variables

Countries	Periods	Kenworthy's Wage Setting Coordination[a)]		Economic Growth (%)[b)]	Unemployment (%)[b)]	Wage Increases (%)[c)]	Workday Losses[b)]
		From	To				
Without the Monetary Commitment							
Denmark	1970-1981	5	3	-2.3 (-1.0)	4.8 (4.3)	-1.8 (0.5)	25.2 (38.1)
Ireland	1970-1981	4	1	-4.0 (-1.0)	7.4 (4.3)	0.7 (0.5)	71.3 (38.1)
Italy	1970-1984	2,4,5	2	-6.0 (-1.5)	6.5 (5.1)	1.1 (-0.2)	132.3 (36)
The UK	1970-1980	1,4,5	1	-5.4 (-1.1)	4.5 (4.1)	1.1 (0.7)	56.4 (39.4)
France	1970-1985	2	2	-2.1 (-1.3)	5.5 (5.3)	0.0 (-0.2)	15.5 (35.3)
With the Monetary Commitment							
Italy	1990-1999	2	4	-0.9 (1.9)	10.5 (8.4)	-0.6 (-1.2)	15.7 (6.2)
Belgium[1)]	1980-1999	3	4,5	0.7 (1.0)	9.4 (8.0)	-0.5 (-1.0)	3.9 (13.8)
France	1986-1999	2	2	1.7 (1.9)	10.6 (8.2)	-1.5 (-0.7)	3.0 (8.0)
The Netherlands	1970-1981	3,4,5	3,4,5	1.9 (-1.0)	4.1 (4.3)	-0.6 (0.5)	3.6 (38.1)
Finland	1986-1995	3,4	3,4	-1.4 (0.6)	8.9 (8.2)	-1.5 (-0.7)	31.3 (9.7)
Ireland	1986-1995	1	4,5	1.9 (0.6)	15.2 (8.2)	-1.5 (-0.7)	17.2 (9.7)
The UK	1986-1995	1	1	-2.4 (0.6)	9.2 (8.2)	-0.8 (-0.7)	8.1 (9.7)
Denmark	1986-1999	3,5	3,5	1.0 (1.9)	7.3 (8.2)	-0.5 (-0.7)	4.8 (8.0)
Sweden	1986-1999	3,4	3	-1.0 (1.9)	5.8 (8.2)	-0.4 (-0.7)	7.0 (8.0)
Germany	1970-1999	4	4	3.0 (0.3)	5.3 (6.7)	-0.1 (-0.5)	3.1 (22.6)
Austria[1)]	1970-1999	5	4	2.9 (0.3)	2.9 (6.7)	-0.7 (-0.5)	0.6 (22.6)
The Netherlands	1982-1999	4	4	2.2 (1.1)	6.7 (8.3)	-1.0 (-1.0)	1.9 (11.8)

Sources: a) Kenworthy 2001; b) Huber et al. 2004; c) *OECD Economic Outlook* (several years), The OECD Online Data Base, http://stats.oecd.org/wbos/Default.aspx.
1) The wage increase data for Austria and Belgium does not cover the years before 1977, due to missing data.
Notes: The figures in parentheses are the averages of the eleven sample European countries during the same periods of analysis.

Table 5: The Wage Cost Indicators For The Four Breakdown Countries

Countries	The Year of Change	Periods	Wage Increases (%) [a]		Workday Losses[b]	
			Un-standardized	Standardized	Un-standardized	Standardized
Denmark	1981	1976-1980	-2.5	-0.9	9.3	-0.6
		1982-1986	-1.9	-0.4	24.8	0.1
Ireland	1981	1976-1980	-0.1	0.1	92.0	1.0
		1982-1986	-1.7	-0.3	44.8	0.5
Italy	1984	1979-1983	0.1	0.6	120.8	2.1
		1985-1989	-0.5	-0.3	30.0	1.2
The UK	1980	1975-1979	0.0	0.0	50.9	0.3
		1981-1985	-1.4	0.3	44.6	0.4

Sources: a) *OECD Economic Outlook* (several years), The OECD Online Data Base, http://stats.oecd.org/wbos/Default.aspx; b) Huber et al. 2004.

Table 6: The Performances Of Wage Cost Control, 2000-2005

Countries	Economic Growth (%) [a]	Unemployment (%) [a]	Wage Increases (%) [a], [b]	Workday Losses [c]
Belgium	2.0	7.7	-0.9	7.5
Italy	1.2	8.7	0.2	7.9
Finland	3.0	9.0	-1.0	8.1
Austria	1.7	4.3	-1.5	5.8
The Netherlands	1.7	3.5	-0.7	0.9
Denmark	2.1	4.9	-0.3	3.4
France	2.0	8.9	-1.0	3.2
Germany	1.1	8.9	-2.8	0.3
Sweden	2.5	5.8	-0.8	5.0
The UK	3.4	5.0	0.9	2.3
Ireland	6.0	4.4	-2.3	3.1
The Average	2.4	6.4	-0.9	4.4

Sources: a) *OECD Economic Outlook* (several years); b) the OECD Online Data Base, http://stats.oecd.org/wbos/Default.aspx; c) *OECD Employment Outlook* (several years).

Table 7: The Summary Trends Of Wage-Setting Coordination In Five European Countries

Countries	Periods		The Level of Wage Setting Coordination	
	From	To	Kenworthy[a)]	Nickell et al.[b)]
Belgium	The early 1980s	The early 2000s	Increase	No Change
Finland	The early 1990s	The late 1990s	No Change	Increase
Ireland	The late 1980s	The late 1990s	Increase	Increase
Italy	The late 1980s	The early 2000s	Increase	Increase
The Netherlands	The early 1970s	The early 1980s	No Change	Increase

Sources: a) Kenworthy (2001); b) Nickell, Nuniziata, and Ochel (2005)

Table 8: The Trends f Government Electoral Bases In Five European Countries

Country	Election Years		Characteristics of Electoral Base						
			Stable						Weak
			Dominant			Not Dominant			
			Leading Party or Coalition		Years in Power (%)	Leading Party or Coalition		Years in Power (%)	Characteristics
	From	To	Name	Seats (%)		Name	Seats (%)		
Belgium	1950	1961	Christian Dem. (CVP/PSC)	47.5	73				
	1965	1981							The CVP/PSC (separated in 1968) staying in power, but only with frequent changes of coalition partners among Liberals, Social Democrats, and Regionalists.
	1981	1995				CVP, PSC	29	100	
	1999	2003							Changes of government among various coalitional alternatives, excluding the CVP and PSC
Finland	1966	1987				Social Dem.	27.2	100	
	1991	1995							Changes of government among various coalitional alternatives
Ireland	1951	1977	Nationalists (FF)	49.9	76.7				
	1981	1997							Changes of government among various coalitional alternatives
Italy	1953	1987	Christian Dem. (DC)	41.3	100				
	1992	2006							Changes of government between center-right and center-left coalitions, along with short-lived technocratic governments in the early 1990s
The Netherlands	1952	1963	Conservatives (ARP), Christian Dem. (KVP, CHU)	53.3	100				
	1967	1982							The three previously-dominant parties (merged into CDA in 1977) staying in power, but only with frequent changes of coalition partners among Liberals and Social Democrats.

Sources: Muller and Strom (2000) and annual political reports in the *European Journal of Political Research*

Table 9: The Modality Of Political Exchange And Its Determinants In Five European Countries

Country	Sample Period	Political Exchange		Government's Electoral Base	The Degree of Inter-union Rivalry
		The Modality	Years		
Belgium	The early 1980s – the early 2000s	Unilateral governmental direction	1981-1997	From weak to stable	High
		Government-pushed negotiation	1998-2005	From stable to weak	Moderate
Finland	The 1990s	Voluntary negotiation	1991-1999	Weak	Low
Ireland	The late 1980s – the late 1990s	Voluntary negotiation	1987-1999	Weak	Low
Italy	The late 1980s – the early 2000s	Voluntary negotiation	1992-1998	Weak	Low
		Government-pushed negotiation	1999-2005	Weak	Moderate
The Netherlands	The early 1970s – the early 1980s	Unilateral governmental direction	1980-1982	Weak	High
		Government-pushed negotiation	1982	Weak	Moderate

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