

**THE EFFECTS ON POLITICAL LEGITIMACY OF INVOLVING EMPLOYEE AND
EMPLOYER ASSOCIATIONS IN PUBLIC POLICY MAKING**

Bernd Brandl
Senior Lecturer
University of York
York, UK

Email: bernd.brandl@york.ac.uk
May 2013

© 2013 Bernd Brandl
No written or electronic reproduction without permission

An Investigation of the Policies and Politics of Social Pacts: When the Time is Right

Abstract

Systematic analyses of the political effectiveness of involving employee and employer associations in public policy making via social pacts in terms of one central alleged function, i.e. raising political legitimacy, are lacking. The aim of this article is to assess the impact of involving employee and employer associations in public policy and their political effects. As regards the assessment of the impact of involvement via social pacts on political legitimacy, the article will focus on the impact on the electoral success of governments. The findings from time-series cross-sectional (TSCS) analyses on the basis of data for 20 countries from 1980 to 2003 show that involvement offers no superior electoral performance for governments.

Introduction

The involvement of employee and employer associations (i.e. social partners) in public policy making via the political instrument of social pacts is challenging standard reasoning, both theoretically and empirically. According to mainstream reasoning, social pacts are expected to disappear from the political arena because the socio-economic environment is seen as discouraging the involvement of social partners in policy making. This is mainly because after the shift to monetary conservatism in most industrialized countries governments have no particular reason to involve employee and employer organizations in policy making since monetary policy is designed to discipline pay bargaining (Brandl & Traxler, 2011). However, as shown in Figure 1 and as underlined by Baccaro (2006), contrary to these expectations social pacts remained alive and the conclusion and announcement of social pacts remained popular in many industrialized countries all over the globe. The mere existence of social pacts also challenges theoretical reasoning because the involvement of employee and employer organizations via social pacting does not match the dominant corporatist approach for policy concertation as encompassing, inclusive and centralized structures of interest intermediation are seen as a prerequisite for concertation (Schmitter, 1982; Lehbruch, 1984). The problem with this approach is that in contrast to that reasoning in many pluralist countries the involvement of social partners via pacts is constantly on the agenda. See Figure 2 on the number of social pacts in pluralistic and corporatist countries.

In response to these theoretical and empirical challenges research on social pacts has focused on the analyses of the necessary and sufficient prerequisites for the emergence of social pacts (e.g. Avdagic, 2010; Culpepper, 2002; Hancké & Rhodes, 2005; Brandl & Traxler, 2010). These analyses were able to identify certain socio-economic conditions and structures (e.g. certain strengths of social partners which are necessary) which prepare the ground for agreements between social partners and governments, i.e. for the conclusion of social pacts. In contrast to research on such necessary and sufficient conditions for the agreement between the actors involved, the question whether the involvement of social partners in policy making via social pacts is successful in achieving the publicly announced aims which social pacts usually have remained rather unexplored. This lack of research is astonishing as the question on the functioning and efficacy should be of fundamental importance. This paper aims to fill the gap by analyzing one important function of social pacts: increasing the political legitimacy of governments. Thus, this paper analyzes one important political effect of social pacts. This, however, does not mean that social pacts preclude other effects and no other aims are focused by social partners and governments. On the

contrary. The involved actors announce the aims of their joint agreements. Usually the announced aims of social pacts are: fostering the competitiveness of the economy, increasing employment, reform of the welfare state, pension system etc.

Apart from a few country case studies (e.g. Fajertag & Pochet, 1997; 2000) and one recent study by Brandl (2012), the question whether social pacts are effective instruments in meeting the publicly announced goals is a rather unexplored field. The problem with country case studies is that they cannot explain the effects social pacts have without risking over- or underestimating the effects of various other determinants on the achievement of these goals. Apart from studies which yield indirect evidence of the success of pacts in meeting their goals (i.e. Baccaro, 2006; Brandl & Traxler, 2005) only Brandl's study (2012) offers a systematic analysis in the sense that in this study the effects of social pacts with alternative governance mechanisms - under consideration and control of various other determinants - are addressed.

As regards meeting the publicly announced goals of social pacts, the findings of Brandl (2012) put standard reasoning on the success and functioning of pacts in perspective. The analysis concludes that pacts only meet their goals when they are accompanied by high governability, i.e. when social partners have statutory means of controlling lower-level pay-setting.¹ However, Brandl's analysis (2012) focuses on social pacts which concentrate on wage and incomes policies. This selection of social pacts is a limitation of the study even though it is argued in the study that almost all social pacts (since the 1980s) aim to increase competitiveness via wage moderation, i.e. almost all social pacts are wage pacts. Thus the aim of these pacts is to moderate increases in nominal wages and labour costs. On the basis of a 20 country sample for the period between 1980 to 2003 it is shown that indeed social pacts can be effective in meeting the goals. It is shown that the effects of social pacts are especially strong for nominal wage increases, which is one important indicator of the success and functioning of social pacts: wage pacts with high governability are associated with significantly lower increases in nominal wages compared to wage pacts with low governability. Furthermore, the analysis showed that an alternative pay-setting mechanism, i.e. exposed-sector pattern bargaining, performs even better than social pacts.

The results of Brandl (2012) show that social pacts which are not accompanied by high governability of lower-level pay setting are ineffective, i.e. these pacts fail to meet their goals systematically. However, as in many countries in which governability is low, social pacts can be observed and where these pacts are not of occasional occurrence but are a persistent phenomenon, the question of the reason and motivation for pacting arises (see Figure 1 and 2). Especially as in some countries (e.g. Italy, Portugal, Spain) the ineffectiveness of these pacts has a long history. This paradox clearly suggests that aside from the instrumental aim of social pacts of improving economic performance, they must be of some kind of expressive importance for governments (Hamann & Kelly, 2007a). The idea behind this is that social pacts offer governments a means of legitimizing their decisions: governments driven by electoral concerns seek to broaden support for their policies by involving powerful organized interests in public policy making. In this sense, the criterion of meeting the goal of pacting is derived from debates on governments as rational actors interested in increasing their success in elections. According to the literature on social pacts which tries to explain the emergence of social pacts, certain functional requirements are seen to be relevant to induce governments and/or organized interests to conclude social pacts. Since functions are anticipated effects (Luhmann, 1962), the criterion of effectiveness follows the range of functional requirements that the literature assigns to the emergence of social pacts. Parson's (1965) constituent classification of functional requirements which differentiates between instrumental functions (i.e. goal attainment and adaptation) and expressive functions (i.e. pattern maintenance and integration) offers a yardstick for mapping these functions. What the literature has emphasized as aims of social pacts can be grouped in line with these two functions: social pacts are defined as arrangements designed to improve economic performance and/or to enhance the legitimacy of the actors involved. Instrumental aims of pacts thus correspond with economic effects which were analyzed by Brandl (2012), and expressive goals with political effects which are the main object of interest here.

Thus, this paper concentrates on the electoral (i.e. political) effects of social pacts, reviewing the relevant theoretical accounts. After a summary of the theoretical literature on the presumptive contribution of pacts to political legitimacy their actual effects on electoral success are tested empirically on the basis of time-series data for 20 countries from 1980 to 2003.² The time period covered corresponds with the emergence of social pacts in the 1980s and the continued conclusion of pacts during the subsequent decades. The paper concludes by relating its findings to the mainstream debate on social pacts.

The political legitimacy of social pacts

Aside from instrumental debates about the economic performance or the success of social pacts, the literature has highlighted the expressive importance of social pacts especially for governments (Hamann & Kelly, 2007a). The basic argument is that pacts offer governments a means of legitimizing their decisions: governments driven by electoral concerns seek to broaden support for their policies by involving powerful organized interests.

The involvement of social partners in policy making via pacting can contribute to the legitimacy of government action by either exerting hierarchical control over their constituency or – as more recent studies suggest, in contrast to corporatist theory – by generating a process of social learning and consensus building (e.g. Baccaro, 2003; Culpepper, 2002). In line with the general focus on the emergence of pacts, this debate centres on the conditions which prompt governments to prefer pacts over unilateral legislation.

There are two main lines of reasoning for the emergence of pacts from the 1980s onwards. One points to the changes in the economy, such as the conversion to monetarism and market internationalization, which force governments to push through unpopular reforms and enhance the need for extra-parliamentary support (Ebbinghaus & Hassel, 2000; Hassel, 2000; 2003). The other is based on the declining legitimacy of competitive party democracy, as evidenced by fragmentation of the party systems, declining electoral turnout, increasing electoral volatility, and diminishing partisan identification (Hamann & Kelly, 2007b). It is argued and shown by Baccaro & Simoni (2008) that governments that are electorally weak are especially likely to favour and use pacts. There is no consensus in literature over the relative impact of these conditions on governments' choosing between pacting and unilateral legislation. However, they do not interest us here. What is important is the essence of the basic argument, as far as the *anticipated* expressive function of pacts is concerned: if governments opt for pacts then they do so because they expect pacts to enhance their political legitimacy.

The question is how realistic this expectation is. As Baccaro (2006) notes, the potential of policy concertation to contribute to political democracy has always been considered dubious. Liberal democratic theory rules out such potential. As Schumpeter (1950) already pointed out, victory in electoral competition vests individuals with legitimate power to take political decisions. From this perspective, incorporating organized interests into public policy is inherently incompatible with the democratic process of generating legitimacy since it means blurring the distinction between private and public realms and undermining popular sovereignty. The rise of corporatist practices therefore unleashed a discussion about what institutional design might reconcile them with the popular principle (Cawson, 1983).

These concerns have strongly influenced corporatist theory which commonly proceeded from the assumption of a conflict between instrumental requirements of macroeconomic management and expressive needs for legitimation. There was a tendency to assign only instrumental value to corporatism. For instance, Lehbruch (1979) traces the involvement of organized interests in public policy to the insufficient ability of the party system to cope with the imperatives of macroeconomic management since political parties tend to produce irrational decisions as a consequence of their orientation towards

electoral competition rather than economic performance. More radically, Offe (1984) criticized corporatism for its inability to provide public policy with legitimacy and its tendency to even create severe legitimation problems for the political system because corporatist policy-making tends to bypass democratic institutions and public discourse. Schmitter (1985, p. 60) summarizes the point by stating that corporatism “has been so far a consumer, not a producer, of legitimacy, and that its supplier has largely been the state.”

One should add that empirical studies nevertheless drew attention to the benign effects of corporatism on legitimacy problems. For example, Cameron (1984) reports a significant dampening effect on strike activity. Schmitter (1981) found corporatism to be negatively associated with unrest and unruliness in society. These findings do not contradict the proposition on a conflict between corporatism and liberal democracy as far as they relate and confine the expressive capabilities of corporatism to its pacifying impact on the constituencies of functional interests. Such pacification does not necessarily translate into electoral support for governments.

However, hope for electoral support drives governments to engage organized interests according to the pacts literature. This assumption of a *positive* association between electoral support and concertation as a *motive* for pacts contrasts with corporatist theory which derives an adverse *effect* on democratic legitimation as a result of the *negative* relationship between the principles of corporatist compromise and electoral competition. This contrast has not become outdated: Neither have the economic problems been eased, nor has competitive party democracy changed so fundamentally that the criticism from liberal democratic theory or the scepticism of corporatist theory has become pointless. This underpins the need to test the effect of pacts on the legitimacy of governments.

Social pacts and the electoral success of governments

According to the above, i.e. that governments are driven by electoral concerns; the dependent variable used for assessing the effectiveness of pacts is the electoral success of governments, measured as the difference between the aggregate vote share of the governing parties at the parliamentary election at time t minus their aggregate vote share at the previous election (Armingeon & Giger, 2008).³ The focal independent variable is the conclusion of pacts. Pacts would prove politically effective if the electoral success of governments which signed pacts between elections significantly surpassed the electoral success of governments which did not. This research question implies that only pacts in the narrow sense (i.e. tri- or bipartite pacts where the government is party to the agreement) matter here.

Within this group, it is analytically reasonable to differentiate between pacts on incomes policy (models I) and pacts on other issues (models II). This is because the motives for governments for pacting may also vary with these two categories of pacts. In the case of incomes pacts governments usually have noticeable instrumental reasons to involve organized business (i.e. employers’ associations) and labour (i.e. trade unions) as a consequence of free collective bargaining which, conditional on its coverage, confers deterrent power on the two sides of industry, enabling them to thwart government policies by “deviant” pay settlements.

Free collective bargaining also implies that organized business and labour have to implement incomes pacts. Hence, they are probably held more accountable for incomes pacts than governments are held for, which act as “third parties” in such dealings. This makes incomes pacts distinct from pacts on other issues which in formal terms fall within the purview of state responsibilities. They make the legitimizing function of pacts an especially important motive for governments. This, of course, does not rule out the possibility that they conclude non-income pacts for reasons of economic performance also. Culpepper (2002) argues that the value of pacts lies in their simultaneously instrumental and expressive contribution

to governance. Unlike unilateral legislation, however, pacts require governments to negotiate and accept compromises which threaten to water down the instrumental merits of reforms, while pacts may increase the likelihood that reforms will go through (Baccaro, 2006). This suggests a trade-off between instrumental and expressive considerations.

In these circumstances, governments may prioritize expressive goals since their actions are primarily guided by their interest in getting re-elected. Since expressive motives are more relevant for non-income pacts than for income pacts, one should expect a more accentuated (i.e. greater) impact on electoral success of the former, as compared to the latter. Hence, it is differentiated in the following empirical analysis between pacts on incomes policy and pacts on other issues, and the political effects are estimated separately.

Empirical analysis, however, need not show a differential effect because there is no clear-cut distinction between incomes policy and other policies in practice. In many cases pacts combine provisions for incomes policy and other areas. Therefore a comparison is made between the impacts of pacts that exclusively regulate non-incomes issues with incomes pacts that often refer to other issues as well.

Aside from policy issues, two differentiations of the impact of pacts on the electorate are considered, which correspond with distinct specifications of the dependent variable. First, governments sometimes conclude more than one pact during their incumbency (i.e. the period between two subsequent elections). Since there is no theoretical clue as to whether electoral success increases with the number of pacts, two different predictors are used: a dichotomous variable which simply captures whether pacts were concluded or not (models a), and a metric variable which is defined as the number of pacts per incumbency (models b).

Second, one may argue that the legitimizing effect of pacts increases with the membership strength of organized interests. Membership strength is measured as density, i.e. actual to potential membership in terms of employees. Depending on their tri- or bipartite nature, pacts are weighted by either aggregate density of business and labour or density of the side involved in the pact (models c). This weight is not optimal since time-series density data are available only for unionization on aggregate and for the principal employer peak organizations. These data do not necessarily correspond with the signatories to a certain pact since in a few cases, not all existing union confederations had participated in the agreement. To control for this problem, the number of union confederations and peak employer organizations are introduced because the number of non-signatories tends to grow with fragmentation of the associational system.

The controls cover associational, political and economic factors. As already outlined, the associational properties of organized interests include the number of unions and employer associations. An index of union participation in public policy is used to differentiate pacts from routinized consultation procedures in the course of which organized interests play merely an advisory role.⁴ The political controls refer to variables characterizing the party system and the incumbent parties, which are assumed to affect voting (e.g. Anderson, 2000; Armingeon & Giger, 2008; Powell & Witten, 1993): clarity of responsibility measured as government type (e.g. single party majority government, multi party minority government, etc.) conditions the ability of voters to trace policy measures to distinct parties in government; the number of effective parties which determines the range of voting options; the voting share at the previous election and the length of the term of office which may negatively correlate with electoral support. Finally, electoral success may correlate with economic conditions. Voters may make their choice contingent on economic performance especially in terms of economic growth and unemployment. Furthermore, economic constraints, as given by an independent central bank and economic openness, may intervene in the relationship between voting and economic performance. For further details on the variables (including sources and definitions) see the list in the appendix.

Empirical analysis

Table 1 summarizes the TSCS regression results. The models include country-fixed effects since no categorical slowly changing explanatory variables are included. Since their results highly converge they can be discussed together. Most essentially, the impact of pacts always remains insignificant regardless of whether this impact is captured by the sheer presence of pacts or as a score weighted by either their number or associational density. There are only two controls which consistently show a significant effect: previous voting share and government type. Both are negatively associated with electoral success.

The interpretation of this result is that the more votes governments had in previous elections, the more votes they lose in subsequent elections. The variable government type captures the ‘weakness’ of governments. The higher the score the weaker governments (the lowest score is given to single party majority governments and the highest to caretaker governments). The interpretation is that the weaker the government the lower the electoral success. As well as the significance of the previous controls in model (IIb), the variable central bank independence shows a significant impact. As this significance is not robust over all models further discussions are pointless.

- Table 1 about here -

Several further sensitivity and robustness checks were made. As an alternative to the independent variables the relevance of pacts weighted by *both* their number and associational density were also employed. All these measures were also applied to data which collapsed pacts on incomes policy and other issues into aggregate figures. Furthermore, all these differing specifications of the dependent variable were estimated by models including an additional control: the aggregate change in the replacement rates for minimum pensions, standard pensions, unemployment and sickness so as to disentangle the scale and direction of important social policy reforms from the mode of policy formation (i.e. pacts vs. unilateral legislation). These models do not cover Portugal and Spain for which the relevant data are not available. Finally, the models were estimated only for those countries recording at least one pact during the period under consideration. All models were also computed without fixed effects. None of these modifications which are not reported here for reasons of space changed the results substantially. Overall, the findings are clear. Pacts do not provide governments with a comparative advantage in attracting voters, as compared to governments refraining from pacts.

Conclusions

Previous literature on the involvement of employer and employee associations in policy making via social pacts has concentrated on the preconditions and necessary and sufficient institutional and structural conditions for their conclusion. In this strand of literature the positive effects of social pacts were usually taken for granted and every conclusion of a social pact was seen as success. However, as shown by Brandl (2012), the success of social pacts in meeting their economic goals cannot be taken for granted and there are many pacts which systematically failed to achieve their economic goals. However, it has been shown in this paper that social pacts are continuously agreed between social partners and the government independent of their success or failure to achieve their objectives. So, it has been argued here that enhancing economic performance cannot be the only explanation for the existence of pacts. Rather, social pacts must be used as an instrument to enhance the political legitimacy of policy-making. While the latter political function of pacts is nevertheless highlighted in literature as the reason why governments resort to pacts, theoretical reasoning suggests that the political success (i.e. increasing legitimacy of governments) is

at least questionable. Moreover, both liberal democratic theory and corporatist theory attribute a negative rather than a positive effect to pacts as instruments to increase legitimacy.

As regards the success of social pacts in raising or weakening political legitimacy, the findings do not fully corroborate liberal democratic theory and corporatist theory insofar as social pacts are not significantly detrimental to the electoral success of governments. Yet, their scepticism about the legitimizing input of organized interests into public policy must be taken seriously. Neither institutionalized forms of regular participation of unions in public policy nor pacts help governments to significantly improve their electoral fortune. This does not prevent competitive party democracy making governments so myopic that they try to use pacts as a vehicle for re-election.

Regardless of this, the findings of this study support the re-direction of the debate - as suggested by Brandl (2012) - on the expressive functions of pacts from governments to the two sides of industry. The argument behind this is that many social pacts can be observed in countries in which both employer and employee associations wield notable deterrent power, by means of membership strength or high levels of legally-backed bargaining coverage. This means that an expressive function other than electoral support which pacts have is “domestication” of social partners by sharing political space with them (Crouch, 1993). The difference between the economic and political function is caused by the fact that the domestication of organized interests by concertation policies cannot be systematically transformed into electoral success. Luhmann (1969, p. 48) offers an explanation for this by noting that the role of the voter is structurally disconnected from any other role a person has. This underscores once again the structural separation of the political and economic spheres (Caporoso & Levine, 1998).

References

- Anderson, C.J. (2000). Economic voting and political context: A comparative perspective. *Electoral Studies*, 19(2-3), 151-170.
- Armington, K. & Giger, N. (2008). Conditional punishment. A comparative analysis of the electoral consequences of welfare state retrenchment in OECD nations, 1980-2003. *West European Politics*, 31(3), 558-580.
- Armington, K., Engler, S., Gerber, M., Leimgruber, P., & Beyeler, M. (2009). *Comparative political data set 1960-2007*. Institute of Political Science, University of Berne.
- Arnone, M., Laurens, B.J., & Segalotto J.-F. (2006). *Measures of central bank autonomy: Empirical evidence for OECD, developing, and emerging market economies*. IMF Working Paper 06/228.
- Avdagic, S. (2010). When are concerted reforms feasible? Explaining the emergence of social pacts in Western Europe. *Comparative Political Studies*, 43(5), 628-657.
- Baccaro, L. (2003). What is alive and what is dead in the theory of corporatism. *British Journal of Industrial Relations*, 41(4), 683-706.
- Baccaro, L. (2006). *The political economy of social concertation*. Working paper.
- Baccaro, L., & Simoni, M. (2008). Policy concertation in Europe: Understanding government choice. *Comparative Political Studies*, 41(10), 1323-1348.
- Beck, N. (2001). Time-series-cross-section data. *Annual Review of Political Science*, 4, 271-93.
- Brandl, B. (2012). Successful Wage Concertation: The Economic Effects of Wage Pacts and their Alternatives. *British Journal of Industrial Relations* (Forthcoming).
- Brandl, B., & Traxler, F. (2005). Industrial relations, social Pacts and welfare expenditures: A cross-national comparison. *British Journal of Industrial Relations*, 43(4), 635-658.
- Brandl, B., & Traxler, F. (2011). Labour relations, economic governance and the crisis: turning the tide again? *Labor History*, 52(1), 1-22.
- Cameron, D. (1984). Social democracy, corporatism, labour quiescence and the representation of economic interests in advanced capitalist countries. In J.H. Goldthorpe (Ed.), *Order and conflict in contemporary capitalism* (pp. 143-178). Oxford: Clarendon Press.
- Caporaso, J.A., & Levine, D.P. (1998). *Theories of political economy*. Cambridge University Press: Cambridge.
- Cawson, A. (1983). Functional representation and democratic politics. In G. Duncan (Ed.) *Democratic theory and practice* (pp. 173-184). Cambridge: Cambridge University Press.
- Crouch, C. (1993). *Industrial relations and European state traditions*. Oxford: Clarendon Press.
- Culpepper, P.D. (2002). Powering, puzzling and 'pacting'. *Journal of European Public Policy*, 9(5), 774-790.
- Cusack, T.R., Fuchs, S., & Müller, K. (2007). *Parties, governments, and legislatures data set*. Berlin: Wissenschaftszentrum Berlin für Sozialforschung.
- Ebbinghaus, B., & Hassel, A. (2000). Striking deals. *Journal of European Public Policy*, 7(1), 44-62.
- Fajertag G., & Pochet, P. (1997). *Social pacts in Europe*. Brussels: ETUI.
- Fajertag G., & Pochet, P. (2000). *Social pacts in Europe: New dynamics*. Brussels: ETUI.
- Hamann, K., & Kelly, J. (2007a). Party politics and the reemergence of social pacts in Western Europe. *Comparative Political Studies*, 40, 971-994.
- Hamann, K., & Kelly, J. (2007b). *Social pacts in Western Europe: The roles of European integration and electoral competition*. Montreal: Archives of European Integration, European Union Studies Association.
- Hancké, B., & Rhodes, M. (2005). EMU and labour market institutions in Europe. *Work and Occupations*, 32(2), 196-228.
- Hassel, A. (2000). Bündnisse für Arbeit. *Politische Vierteljahresschrift*, 41(3), 498-524.
- Hassel, A. (2003). The politics of social pacts. *British Journal of Industrial Relations*, 41(4), 683-706.
- Lehmbruch, G. (1979). Consociational democracy, class conflict and the new corporatism. In P.C. Schmitter & G. Lehmbruch (Eds.), *Trends toward corporatist intermediation* (pp. 53-61). London: Sage.
- Lehmbruch, G. (1984). Concertation and the structure of corporatist networks. In J.H. Goldthorpe (Ed.), *Order and conflict in contemporary capitalism: Studies in the political economy of Western European nations* (pp. 60-80), Oxford: Clarendon Press.
- Luhmann, N. (1962). Funktion und Kausalität. *Kölner Zeitschrift für Soziologie und Sozialpsychologie*, 14, 617-644
- Luhmann, N. (1969). *Legitimation durch Verfahren*. Neuwied-Berlin: Luchterhand.

- Offe, C. (1984). Korporatismus als System nicht-staatlicher Makrosteuerung? Notizen über seine Voraussetzungen und demokratischen Gehalte. *Geschichte und Gesellschaft*, 10(2), 234-256
- Parsons, T. (1965). An outline of the social system. In T. Parsons, E. Shils, K.D. Naeyele & J.R. Pitts (Eds.), *Theories of society* (pp. 30-79). New York, London: Macmillan.
- Powell, G.B., & Witten, G.D. (1993). A cross-national analysis of economic voting. *American Journal of Political Science*, 37, 391-414.
- Schmitter, P.C. (1981). Interest intermediation and regime governability in contemporary Western Europe and North America. In S.D. Berger (Ed.), *Organizing interests in Western Europe* (pp. 285-327). Cambridge: Cambridge University Press.
- Schmitter, P.C. (1982). Reflections on where the theory of Neo-Corporatism has gone and where the praxis of Neo-Corporatism may be going. In G. Lehmbruch & P.C. Schmitter (Eds.), *Patterns of corporatist policy-making* (pp. 259-279). London: Sage.
- Schmitter, P.C. (1985). Neo-corporatism and the state. In W. Grant (Ed.), *The political economy of corporatism* (pp. 32-62). Houndsmill: Macmillan.
- Schumpeter, J.A. (1950). *Capitalism, socialism and democracy*. New York: Harper and Row.
- Soskice, D. (1990). Wage determination: The changing role of institutions in advanced industrialized countries. *Oxford Review of Economic Policy*, 6(4), 36-61.
- Traxler, F., & Brandl, B. (2010). Preconditions for pacts on income policy: Bringing structures back in: A comparison of Western Europe, 1980-2003. *European Journal of Industrial Relations*, 16(1), 73-90.
- Traxler, F., Blaschke, S., & Kittel, B. (2001). *National labour relations in internationalized markets*. Oxford: Oxford University Press.
- Visser, J. (2009). *ICTWSS Database*. Amsterdam: University of Amsterdam.

Endnotes

¹ Brandl (2012) uses the concept of governability of Traxler et al. (2001): High governability is defined by legal enforceability of high-level (i.e. central-level) pay-setting in combination with either a general peace obligation or a special peace obligation imposed on workplace representatives. Low governability is defined by systems lacking both general and special peace obligations.

² The countries under investigation are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and the United States.

³ Changes in government may also be taken as an indicator of political legitimacy (e.g. Schmitter, 1981). However, in multi-party representational systems pacts cannot affect government composition directly since it depends essentially on coalition strategies.

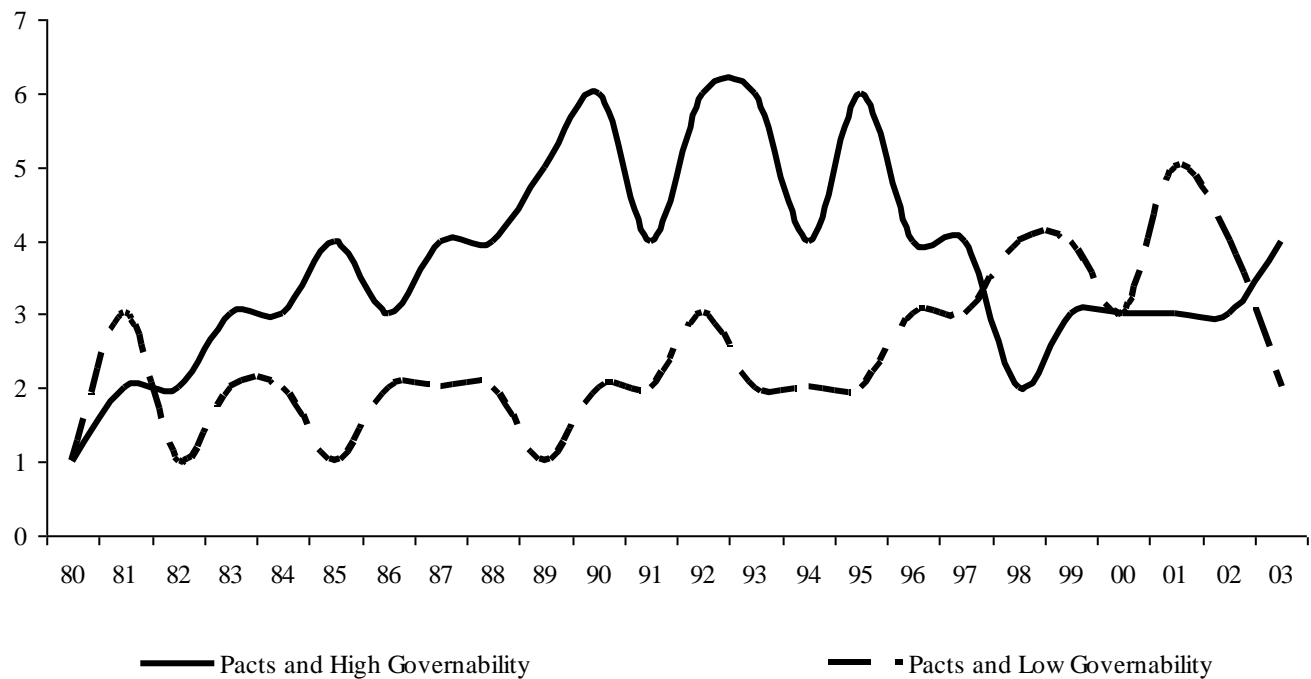
⁴ There is no need to take into account an analogous index for business since business participation is highly correlated with labour participation.

Appendix

Variable	Description and source
<i>Unit: period by government (incumbency)</i>	
<i>Dependent variable:</i>	
Electoral success	Electoral success of governments, i.e. the difference between the aggregate vote share of the governing parties at the parliamentary election at the end of incumbency and the previous election. (Source: Cusack et al., 2007)
<i>Independent variables:</i>	
Central bank indep.	Central bank independence index developed by Alex Cuckierman. (Source: Arnone et al., 2006)
Duration of gov.	Length of the term of office of governments in months (Source: Cusack et al. 2007)
Economic growth	Annual percentage growth of real GDP (Source: OECD National Accounts)
Employers system	Number of employer organizations (Source: Traxler et al., 2001)
Government type	Type of government: 1 = single party majority government; 2 = minimal winning coalition; 3 = surplus coalition; 4 = single party minority government; 5 = multi party minority government; 6 = caretaker government. (Source: Armingeon et al., 2009)
Number of parties	Effective number of parties (Source: Armingeon et al. 2009)
Openness	Economic openness, i.e. the sum of exports and imports as a percentage of GDP (Source: OECD National Accounts)
Previous votes	Voting share of parties at the previous election (Source: Cusack et al., 2007)
Unemployment	Unemployment rate, i.e. unemployed persons as a percentage of the civilian labour force (Source: OECD Economic Outlook)
Union activity	Activities of largest union confederation in public policy-making (Source: Traxler et al. 2001)
Union system	Number of trade union confederations (Source: Traxler et al., 2001)
<i>Pacts (definitions and operationalizations):</i>	
Incomes pacts (dichotomous)	Dummy variable which captures whether income pacts were concluded (= 1) or not (= 0)
Incomes pacts (metric)	Number of income pacts
Incomes pacts (weighted)	Number of income pacts multiplied by either aggregate density of employer associations or union density (Source: Traxler et al., 2001);

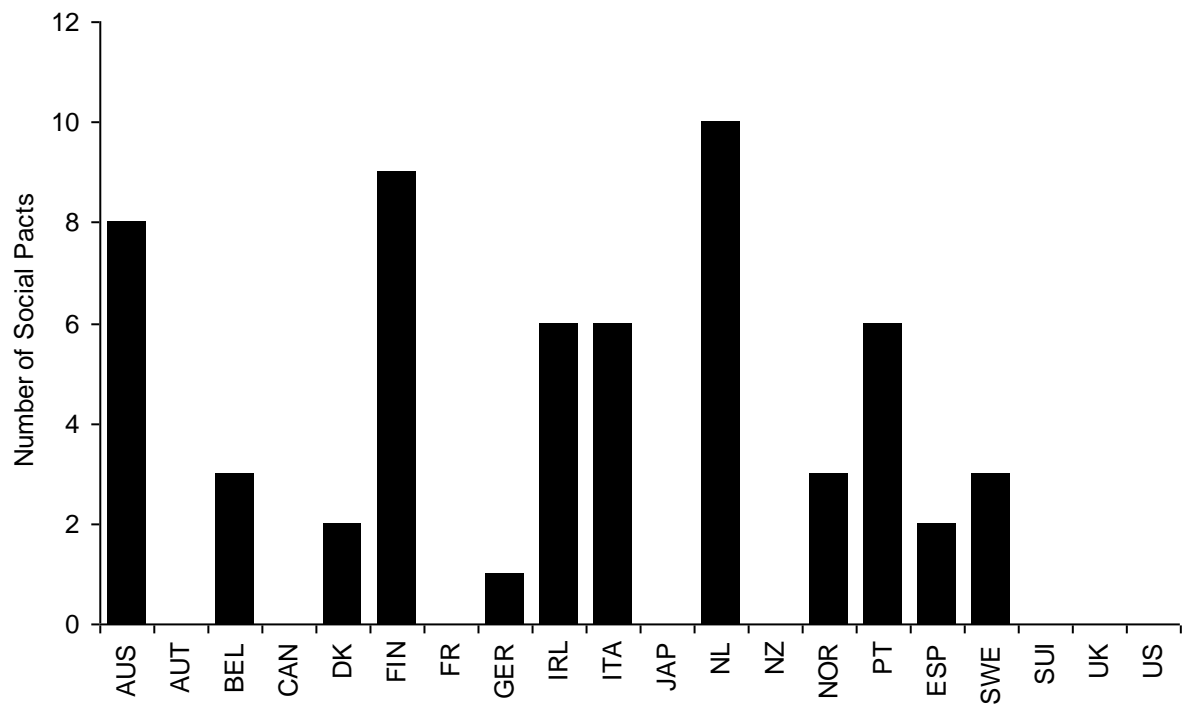
	dependent upon (Source: Visser 2009).
Other pacts (dichotomous)	Dummy variable which captures whether pacts (other than incomes pacts) were concluded (= 1) or not (= 0)
Other pacts (metric)	Number of pacts (other than incomes pacts)
Other pacts (weighted)	Number of pacts (other than income pacts) multiplied by either aggregate density of employer associations or union density (Source: Traxler et al., 2001); dependent upon involvement (Source: Visser, 2009).

Figure 1. Number of social pacts over time; 20 countries



Note: X-axis: years (1980-2003); Y-axis: frequency of occurrence of social pacts differentiated by governability of wage bargaining system by social partner confederations; 20 countries.

Figure 2. The number of social pacts; 20 countries



Note: Number of pacts - years (1980-2003).

Table 1. The effects of incomes pacts on electoral success, 20 countries, 1980-2003

	Unit of time (frequency): incumbency (period by government)					
	Dependent variable: electoral success					
	(Ia)	(Ib)	(Ic)	(IIa)	(IIb)	(IIc)
Constant	13.5438** (3.2293)	13.8154** (3.2290)	13.6583** (3.2272)	13.8091** (3.3129)	14.0327** (3.2912)	14.0274** (3.2876)
Previous votes	-0.3174** (0.0448)	-0.3179** (0.0446)	-0.3141** (0.0442)	-0.3173** (0.0447)	-0.3189** (0.0446)	-0.3147** (0.0442)
Economic growth	-0.2862 (0.2855)	-0.3136 (0.2799)	-0.3018 (0.2794)	-0.3073 (0.2879)	-0.3260 (0.2840)	-0.3222 (0.2796)
Openness	0.0366 (0.0208)	0.0364 (0.0205)	0.0381 (0.0208)	0.0371 (0.0207)	0.0389 (0.0208)	0.0383 (0.0205)
Unemployment	0.0236 (0.1481)	0.0173 (0.1477)	0.0199 (0.1479)	0.0092 (0.1539)	-0.0015 (0.1524)	0.0015 (0.1511)
Union system	0.6878 (0.4578)	0.7033 (0.4597)	0.7266 (0.4557)	0.7088 (0.4604)	0.7215 (0.4608)	0.7553 (0.4590)
Union activity	-1.6302 (2.4421)	-1.9647 (2.4766)	-1.5212 (2.4044)	-1.8029 (2.4662)	-2.0816 (2.5231)	-1.6932 (2.4125)
Central bank indep.	6.6369 (3.4098)	6.7571 (3.4172)	6.3537 (3.3808)	6.6358 (3.4125)	6.7938* (3.4147)	6.3867 (3.3829)
Employers system	-0.0922 (0.2977)	-0.1144 (0.2969)	-0.1289 (0.2888)	-0.1115 (0.2975)	-0.1134 (0.2931)	-0.1562 (0.2908)
Government type	-0.9637* (0.4557)	-0.9477* (0.4576)	-0.9997* (0.4537)	-0.9628* (0.4563)	-0.9555* (0.4565)	-0.9909* (0.4530)
Number of parties	0.1435	0.1504	0.0832	0.1285	0.1267	0.0542

	(0.4303)	(0.4308)	(0.4235)	(0.4305)	(0.4285)	(0.4261)
Duration of gov.	-0.0323 (0.0306)	-0.0355 (0.0308)	-0.0326 (0.0305)	-0.0341 (0.0308)	-0.0366 (0.0311)	-0.0351 (0.0306)
<i>Variable pacts:</i>	<i>Incomes pacts (dichotomous)</i>	<i>Incomes pacts (metric)</i>	<i>Incomes pacts (weighted)</i>	<i>Other pacts (dichotomous)</i>	<i>Other pacts (metric)</i>	<i>Other pacts (weighted)</i>
Pacts	0.1078 (1.1795)	0.4613 (0.6845)	0.0014 (0.0123)	0.5175 (1.3370)	0.5885 (0.8281)	0.0082 (0.0149)
<i>Fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.3847	0.3865	0.3813	0.3854	0.3869	0.3829
<i>Adjusted R²</i>	0.3252	0.3271	0.3219	0.3260	0.3275	0.3236
<i>N × T</i>	137	137	138	137	137	138
<i>F(total)</i>	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Note: Pooled time-series cross-section analysis, OLS with panel-corrected standard errors in parentheses (see Beck, 2001). Fixed effects: a full set of country dummies (not shown for reasons of space) is used. *F*-test: probability. $**\alpha \leq .01$; $*\alpha \leq .05$. *N × T*: number of observations (missings excluded). For abbreviations and variable definitions, see appendix. Row “Variable pacts” indicates the operationalization and definition of the independent variable “Pacts”.