Similar Structures, Different Outcomes:
Corporatism’s Surprising Resilience and Transformation

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abstract

The received wisdom about corporatism as a political economic model is that it was once an important institutional alternative to liberal capitalism, but that it essentially died due to the combined effects of globalization, European integration, technological change, and a generalized employer offensive. This paper challenges this received wisdom in three ways. First, based on a new measure of the phenomenon, it argues that corporatism as a particular policy-making structure did not die but experienced a surprising renaissance in the 1990s and 2000s. Second, although corporatism qua institutional structure survived, its political-economic outcomes became pointedly less egalitarian than those of golden age corporatism. The latter was a cornerstone of ‘negotiated capitalism’; the former became instead a policy process by which governments that for various reasons were unable or unwilling to engage in unilateral action (e.g. parliamentary weakness or fear of electoral retribution), managed to implement policy reforms whose fundamental orientation was neoliberal. Third, the new corporatist institutions became more participatory and democratic than those of the old days. Because unions were no longer rewarded for bargaining moderation through more generous social protection programs or other side payments, they strengthened procedural legitimacy as a way to promote rank-and-file compliance. The evidence buttressing these claims comes from quantitative data for 16 OECD countries between 1974 and 2005 and case study evidence of Ireland and Italy.
Similar Structures, Different Outcomes: Corporatism’s Surprising Resilience and Transformation

Twenty years ago corporatism was the subject of much discussion in comparative political economy and macrosociology. With its ability to combine good economic performance with a relatively egalitarian wage and income distribution, a large and activist public sector, and generous social protection policies, it was regarded as a viable institutional alternative to the model of liberal capitalism prevailing in the USA and other English-speaking countries, and perhaps even as a model towards which all countries ought to be tending (see in a very long list Goldthorpe 1984; Hicks 1988; Katzenstein 1985; Lange and Garrett 1985; Lehmbuch and Schmitter 1982; Przeworski and Wallerstein 1982; Western 1991).

Later, however, the tone of the discussion changed dramatically. Extrapolating from highly symbolic events like the demise of centralized bargaining in Sweden and its crisis in Denmark and other countries (Iversen 1996; Swenson 1991; Swenson and Pontusson 2000), several scholars came to the conclusion that corporatism was in a state of terminal crisis and that it would not be able to survive the blows of – depending on the observer’s particular perspective – globalization, European integration, technological change, and a generalized employer offensive (Gobeyn 1993; Hall and Soskice 2001; Iversen 1999; Iversen, Pontusson, and Soskice 2000; Locke 1995; Schmitter 1989; Streeck 1993; Streeck and Schmitter 1991; Thelen 1994: 387, 410 and passim).

Whatever happened to corporatism? Did it really die as the literature cited above would have us believe or, if it did not die, did it remain a cornerstone of an alternative and more egalitarian model of non-liberal capitalism?

This paper addresses these questions by combining a quantitative analysis of trends in 16 OECD countries between 1974 and 2005 with in-depth case studies of Ireland and Italy. It argues that corporatism survived as a policy-making structure but fundamentally altered its outcomes and internal processes. In particular, the paper makes three interrelated claims. First, based on a
new measure of corporatism, it argues that there is no sign of corporatist decline. That corporatism is not dead is witnessed by the recent mushrooming of ‘social pacts’ in various countries (Avdagic 2010; Baccaro 2003; Baccaro and Lim 2007; Baccaro and Simoni 2008; Compston 2002; Culpepper 2002; Culpepper 2008; Hamann and Kelly 2007; Hancké and Rhodes 2004; Hassel 2006; Hassel 2009; Molina and Rhodes 2002; Perez 2000; Regini 1997; Traxler 2004; Wallerstein, Golden, and Lange 1997). While this paper is consistent with the literature on social pacts, it is to my knowledge the first to document corporatism’s resilience by tracking its evolution over the last 30 years.

Second, the paper claims that although corporatism survived qua institutional structure, its political-economic outcomes changed (Kenworthy 2002), and in particular that they became pointedly less egalitarian than those of the corporatist golden age. The latter was dubbed a ‘superior economic system’ exactly for its ability to reconcile good economic performance with a more egalitarian and less divisive society (Brady 2003; Hicks and Kenworthy 1998; Hicks 1994; Lange and Garrett 1985; Pekkarinen, Pohjola, and Rowthorn 1992; Pontusson 2005; Wright 2000). Compared to the old, the new corporatism is instead a policy process by which governments that for various reasons are unable or unwilling to restructure unilaterally (e.g. parliamentary weakness or fear of electoral retribution), manage to implement policy reforms whose fundamental orientation is essentially neoliberal.

Third, the paper argues that the new corporatist institutions are more participatory and democratic than those of the old days. Unions, in particular, take great pains to democratically legitimate the outcomes of national bargaining through debates and referenda. This coexistence between market-conforming policy outcomes and democratic organizational features is not a coincidence. In the new political-economic regime, labor unions are no longer rewarded for bargaining moderation through more generous social protection programs or working-time reductions as they once were. Consequently, they seek to compensate for declining (or even absent) output legitimacy (Scharpf 1999) by strengthening procedural legitimacy.
The remainder of the paper is organized as follows: it begins with tracing the trajectory of corporatist policy-making over time. It then engages in an econometric analysis of corporatism’s outcomes, focusing on inequality. After that, it discusses the new corporatism as adaptation to a neoliberal political-economic regime. It goes on to provide a reconstruction of historical developments in Ireland and Italy, the two countries in which the corporatist renaissance was both most evident and most surprising. It concludes by considering the normative question of whether corporatism should still feature prominently in the agenda of ‘egalitarian capitalism’ (Kenworthy 2004).

Measuring Corporatist Policy-Making

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

Structure and process were thought to be strictly connected, if not logically then at least empirically (Cawson 1986). A corporatist organization of the interest group system was considered to provide the most hospitable institutional environment for the emergence and reproduction over time of corporatist (or ‘concertative’) policy-making. The reason was that the types of policies negotiated in corporatist forums required interest groups to have (or develop) a capacity to sacrifice the short-term interests of their constituents in exchange for long-term gains.
Only interest groups which were both monopolistic in their domain, i.e. insulated from competition from similar groups, and internally hierarchical, i.e. structured such that leaders could ignore members’ dissent, would be reliable partners in corporatist deals.

The early indicators of corporatism consisted of rankings of countries based on impressionistic assessments of interest group participation in policy-making, associational centralization, organizational density (capturing the extent of organizational *encompassassigness* (Olson 1982)), and centralized or coordinated bargaining structure (Bruno and Sachs 1985; Calmfors and Driffl 1988; Cameron 1984; Dell’Aringa and Samek Lodovici 1992; Lehner 1987; Schmitter 1981; Soskice 1990; Tarantelli 1986a). In addition, these indices were snapshots taken at a particular point in time. As such, they were ill-suited to the analysis of change.

Recently, however, a number of time-series cross-country databases have become available, permitting a detailed evaluation of the various dimensions implicated by the corporatist construct (Golden, Lange, and Wallerstein 2006; Kenworthy 2003; Visser 2009). Here I rely on these data, as well as others which I collected myself, to elaborate a time-changing measure of corporatist policy-making, which I then use to address the question of whether corporatism is in crisis or not.

The measure of corporatist policy-making proposed here does not include the structural dimension of singular, monopolistic, and internally-hierarchical interest groups and focuses instead on the process dimension of coordinated bargaining and tripartite policy-making (Katzenstein 1985; Korpi 1983; Lijphart and Crepaz 1991). The reason for not considering the structural dimension is that recent research has cast doubt on the proposition that such organization of interest groups is required for concertative policy-making (Baccaro 2003; Molina and Rhodes 2002; Perez 2000; Regini 1984; Regini 1997). As illustrated later in the paper, the new corporatism relies on organizational processes that are essentially non-corporatist in the structural sense as they rely on internal democracy and discussion.
The measure proposed is composed of two elements: on the one hand the degree of coordination of collective bargaining – the focus of early scholarship on corporatism (Bruno and Sachs 1985; Calmfors and Driffill 1988; Cameron 1984; Rowthorn 1992; Soskice 1990; Tarantelli 1986b) – and on the other a new measure of the extent of tripartite involvement in macroeconomic, social, and labor market policy. A factor analysis suggests that these two measures refer to a common underlying construct: the eigenvalue of the common factor is 1.42 and the factor loads highly on both wage coordination and tripartite policy-making (0.84 in both cases). Because the scale is the same, the index is constructed by adding the two sub-indexes, weighted equally. The corporatism index covers 16 advanced national economies (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, UK, and US) between 1974 and 2005.

The two components of the indicator complement each other. While wage bargaining coordination may be the result of purely bipartite (labor-capital) interaction, the second component focuses on negotiated public policy-making and does not record purely bipartite centralized agreements. In addition, because not all agreements are perfectly tripartite, the scores of tripartite policy-making are weighted by the extent to which unions and employer organizations buy into them. A country scores highly on the corporatist policy-making index when its bargaining structure is highly coordinated and its policy-making process in the macroeconomic, labor market, and social policy domains is explicitly tripartite. Details are provided in Appendix 1.

Figure 1 displays yearly averages of the corporatist index. The graph suggests that there was indeed a decline of corporatist policy-making from the late 1970s to the late 1980s, but that this decline was followed by a renaissance in the 1990s. Country-by-country scores suggest a declining trend of corporatism in Australia, Sweden, and the UK, decline followed by resurgence.

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1 The method used for factor analysis is principal component factor (Stata 10’s command `factor, pcf`), i.e. with communalities equal to 1 on the main diagonal of the residual correlation matrix (see Tacq 1997: ch. 9). Similar results are obtained with the method of principal component analysis.
in Spain, overall stability in Austria, Belgium, Canada, Denmark, France, Germany, Netherlands and the US, and growth in Finland, Ireland, Italy, and Norway. From the 1990s on corporatist policy-making became a peculiarity of (some) continental European and Scandinavian countries, having been abandoned in English-speaking countries except for Ireland.

Figure 1 about here

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

However, the ranking for 1990-2005 is rather different. Two countries, Italy and Ireland, considerably increased their scores and two other countries, Australia and Sweden, fell to the bottom of the table as a result of the dismantling of the Accord in Australia and the demise of centralized bargaining in Sweden.

Table 1 about here

A peculiarity of the new corporatism relative to the old is that it emerges in a context of generalized union decline (see Figure 2). This phenomenon did not just affect Anglo-Saxon countries, in which institutional protections for labor unions are traditionally less extensive than in Continental European countries, but was equally significant in comparatively union-friendly environments such as Austria, Germany, and the Netherlands. Even some Ghent countries (Denmark, Finland, and Sweden) were affected by it, although to a lesser extent than other countries, and beginning from the mid-1990s rather than earlier.

Figure 2 about here

In brief, the evidence reported above suggests that, despite frequent statements to the contrary, there has been no generalized crisis of corporatist policy-making: there was a decline in
the 1980s, but it was followed by a reemergence in the 1990s. Compared to the older incarnation, however, the new corporatism has reemerged in a context of generalized union decline. Interestingly, the countries that have been at the forefront of the corporatist renaissance have been Ireland and Italy, i.e. two countries that previous scholarship had qualified as particularly inhospitable to this kind of policy-making.

The next section examines outcomes through an econometric analysis. The goal is to investigate whether these have changed between the old and new phases of corporatist policy-making.

**Whither Corporatist Redistribution?**

One of the most robust findings in the quantitative literature is that the institutional characteristics of the industrial relations system, particularly union density and centralized or coordinated collective bargaining structure, lead to greater economic equality (Blau and Kahn 1996; Bradley, Huber, Moller, Nielsen, and Stephens 2003; Hicks and Kenworthy 1998; OECD 2009; Pontusson, Rueda, and Way 2003; Rowthorn 1992; Rueda and Pontusson 2000; Wallerstein 1999). One study even used wage compression as a proxy for corporatism (Freeman 1988). These analyses generally do not use a measure of corporatism,\(^2\) but focus on organizational correlates or proxies like union density and collective bargaining structure. In addition, they do not cover more recent periods. Does the new corporatism of the 1990s have similar leveling effects to the old?

The answer to this question is not straightforward, due to the absence of long, comparable time-series data on economic inequality for different countries. The OECD publishes a cross-national database with annual decile ratios of gross earnings.\(^3\) It is conceivable that the most direct distributional impact of corporatism would be on market earnings rather than incomes.

\(^2\) An exception is Hicks and Kenworthy (1998).
However, the OECD data are not homogeneous across countries.\textsuperscript{4} Also, they are entirely missing for Italy and not available until the 1990s for several additional countries in the sample (Austria, Belgium, Canada, Ireland, Norway, and Spain). In brief, they do not seem appropriate for an analysis aiming to investigate changes between the corporatism of the golden age and the one of newer vintage.

In what follows I rely on data on inequality of household disposable income from the Luxembourg Income Study (LIS). The LIS is a collection of micro datasets, which have been harmonized to increase their comparability both across countries and over time. Even so, the LIS data are far from ideal. They are only available at approximately five-year intervals beginning around 1980. Also, coverage of the 1980s is sparse (see Appendix 1). Nonetheless, they provide measures of inequality in the 1980s for all countries in the sample, so they are preferable to the OECD data for the purposes of this paper.

The dependent variable, a measure of inequality, is the first principal component of five highly correlated indicators in the LIS database: the gini coefficient, the $d_{9}/d_{1}$ decile ratio, the $d_{9}/d_{5}$ ratio, the $d_{5}/d_{1}$ ratio, and the relative poverty rate (with a threshold of 40 percent of median income). All these indicators refer to net disposable income (see Appendix 1 for details). They capture inequality both in the upper part of the income distribution, where according to some analyses (Atkinson 2007; Atkinson 2008) inequality has grown the most, and in the lower part.

Since the dependent variable is inequality of net disposable income, the role of the welfare state needs to be taken into account.\textsuperscript{5} The measure of welfare state size considered here

\textsuperscript{4} The earnings are hourly, weekly, or annual depending on countries. Also, they exclude some sectors in France and Spain (typically agriculture and the government or service sector). In two cases (Denmark and the Netherlands), they include both full-time and part-time employees, which are likely to have very different distributional profiles. In the case of France they are net of social security contributions, unlike the other countries.

\textsuperscript{5} A large welfare state is known to lead to a less disperse income distribution (Bradley et al. 2003; Kenworthy 2008; Kenworthy and Pontusson 2005; Smeeding 2002). This is mostly due to the impact of transfers, while the direct redistributive impact of taxes is estimated to be lower. Taxes contribute to redistribution primarily by financing generous transfers (Kenworthy 2008; Mahler and Jesuit 2006). The analysis here simply controls for the aggregate effect of the welfare state, and does not distinguish between the effects of taxes and transfers.
is a principal component of two variables: total public social expenditures as percentage of GDP, and the total tax wedge as percentage of GDP, including social security and indirect taxes (see Appendix 1). Inserting both corporatism and welfare state size in the same model implies a focus on the direct effect of corporatism on household incomes, presumably through the distribution of market earnings. It may be argued that besides directly affecting the distribution of market earnings, for example by compressing wage differentials, a corporatist system also indirectly impacts the distribution of post-tax, post-transfer income by providing political support for a large welfare state (Esping-Andersen 1990; Esping-Andersen and Korpi 1984; Korpi 1983; Korpi and Shalev 1979b; Rowthorn 1992; Stephens 1979). By conditioning on welfare state size, the econometric analysis presented below abstracts from this second, indirect channel. Figure 3 provides a graphic representation of the hypothesized causal relationship.

*Figure 3 about here*

If the core statistical model is a parsimonious one in which income inequality is a function of corporatism and the welfare state, further specifications also control for the impact of the employment rate;\(^6\) demand and supply of skilled labor (*ceteris paribus*, higher supply of skilled labor should reduce inequality, higher demand should increase it);\(^7\) cross-country differences in trade and capital openness; union density; and the weight of social-democratic parties in government. Since the first data on inequality are available for 1978, the time span of the analysis is 1978-2005.

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\(^6\) The impact of the employment rate on household inequality seems theoretically indeterminate: an increase in the employment rate may reduce (increase) inequality depending on whether the additional jobs are taken up by members of poorer (richer) households. Independently, a high employment rate is important from the point of view of dynamic sustainability, as it permits to finance generous transfers (Kenworthy 2008).

\(^7\) The demand for skilled labor is proxied by the weight of ICT capital on total capital. The rationale is that because ICT is skill-intensive, a greater weight of ICT in capital composition should imply a greater demand for skills.
The econometric analysis begins with a time-series cross-sectional analysis of annual data using the Baltagi and Wu (1999) random effects estimator.\(^8\) This estimator seems *prima facie* appropriate given the characteristics of the data. Inequality data are highly inertial and previous analysis has found econometric models analyzing them to be characterized by high serial correlation of the error term (Baccaro 2008). In addition, the particular dataset analyzed here is not just unbalanced across countries but also unequally-spaced, in the sense that the inequality data in particular are available for different years for different countries (see Appendix 1). This makes estimation of the first-order autoregressive parameter problematic. The Baltagi and Wu (1999) estimator addresses simultaneously all three problems of autocorrelation of the error terms, unbalanced panel, and unequally-spaced observations through a GLS-type transformation of the data.

*Table 2 about here*

Table 2 reports the results of random effects models. Column 1 covers the entire 1978-2005 period. Columns 2 and 3 estimate the model separately for the 1978-1989 and 1990-2005 period, respectively. Since the model in Column 2 excluded Austria and Norway from the sample due to missing data, Column 4 re-estimates the model in Column 3 after excluding the same countries. The statistical properties of the models are worth discussing in greater depth than the substantive results.\(^9\) In fact, the models seem marred by several problems. First, the estimated autocorrelation coefficients are very close to one. This implies two things: first, that non-stationarity is a serious concern;\(^10\) second, that the additional information provided by each repeated measure of inequality is extremely limited – values at \(t+1\) largely reproduce values at \(t\). Also, the ‘within’ r-squared (squared correlation between predicted and actual values) is (not surprisingly) close to zero, whilst the ‘between’ r-squared is between 65 and 70 percent. Thus, it

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\(^8\) In Stata 10, the estimator is implemented by the *xtregar, re* routine.

\(^9\) F-tests on the corresponding fixed effects model always fail to reject the hypothesis that these are jointly equal to zero (the tests are available upon request). Apparently, controlling for fixed effects is not required.

\(^10\) To my knowledge, no reliable tests of stationarity and cointegration are available for this data structure.
looks as though not much is lost by ignoring the within-country variation and focusing only on the cross-sectional one.\footnote{It is worth recalling that the random effects estimator is a matrix-weighted average of the within- and between- ones (Greene 2003: 295)} Furthermore, an analysis of missing values reveals that, at least for the 1978-1989 period, the random effect model is \textit{de facto} largely cross-sectional as it relies on only one full observation for six countries out of 14, and on two observations for four additional countries.

Ignoring the statistical problems discussed above, the estimated coefficients of the random effects models suggest that the effect of the corporatism variable changes over time. The coefficient of this variable is negative and weakly significant in the 1978-1989 period, in line with all the literature emphasizing the egalitarian effects of corporatism (Column 2), whilst it becomes practically zero in the 1990-2005 period (Columns 3 and 4). The effect in the overall period (1978-2005) is also zero (Column 1). The coefficient of the welfare state variable is instead robustly negatively associated with inequality, suggesting that the larger the welfare state the lower the degree of inequality.

Rather than relying on a complex estimation procedure whose underlying assumptions seem questionable with these particular data,\footnote{One worrisome assumption is the one prescribing that the autocorrelation coefficient should be strictly less than 1 (i.e. that there is not a unit root): if this assumption does not hold the Baltagi and Wu (1999) estimator is invalid.} in the remainder of the analysis a choice is made to focus solely on the cross-sectional variation at two points in time. In other words, ‘between’ regressions on averaged data will be run for two periods, 1978 to 1989 and 1990 to 2005, and the coefficients will be compared to assess if effects have changed over time.

Although the choice of the cut-off point is somewhat arbitrary and largely dictated by data availability,\footnote{Should the cut-off point be moved back to 1985 – another plausible turning point, as inflation is defeated in advanced countries thanks to the transition to a new, ‘hard currency’ monetary regime (Notermans 2000) (which in Europe implies tightly linking the national currency to the deutsche mark), and international trade accelerates (Frieden 2006: 387, 410, and passim) – several countries (Austria, Denmark, Finland, Ireland, and Italy) would have to be left out of the analysis due to the unavailability of inequality data.} it can be argued that a new political-economic regime saw the light of day in 1990. With the collapse of the Communist block in 1989, capitalism became the only game in
town. International financial flows exploded in the early 1990s (Frieden 2006: 381). In Europe in 1991 the Maastricht process leading to monetary union began, and the internal market was completed in 1992. In the industrial relations sphere, a particular form of corporatist pact emerged in the early 1990s in countries such as Ireland, Italy, Finland, and later Portugal and Spain: the ‘social pact.’ There had been previous examples of social pacts in the 1980s – indeed, the first Irish social pact dates from late 1987 – but this particular form truly spreads in the 1990s.

Table 3 about here

Table 3 presents the results of cross-sectional regressions for the 1978-1989 period. With only 16 observations, additional controls to the core model with corporatism and the welfare state size as regressors are entered one by one in separate specifications. Higher levels of corporatism are robustly significantly associated with lower inequality. The point estimates suggest that an increase of one point in the corporatism index reduces the inequality measure by more than one standard deviation. As expected, the size of the welfare state also has a strong and highly significant inequality-reducing effect. These results hold when controlling for the employment rate (Column 2), for union density (Column 4), for the country’s openness to trade (Column 5), for a measure of tariff liberalization (Column 6), for a measure of capital openness (Column 7), for skilled labor supply (Column 8), for skilled labor demand (Column 9), and for the employment rate and capital openness together (Column 10).

The corporatism coefficient is not significantly different from zero at standard confidence level – although it is close – controlling for the presence of social democratic government (Column 3). Historically, corporatism and social democracy have frequently overlapped,

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14 A Breusch-Pagan / Cook-Weisberg test for heteroskedasticity of residuals does not reject the null of homoskedastic errors (chi2(1) = 0.25, p-value = 0.6179); hence OLS standard errors are used for hypothesis testing.

15 Aside from corporatism and the welfare state, the only other significant predictors are the employment rate and capital openness, both with negative signs. The former result suggests that boosting employment is an important contributor to inequality-reduction, at least until the 1980s (Kenworthy 2008); the latter result conflicts with previous results on the impact of globalization on inequality. For example, the IMF (2007) finds that financial globalization has increased inequality. If capital openness increases poorer households’ ability to borrow it may reduce inequality through this channel.
particularly in Scandinavian countries. Econometrically, this implies that it may be difficult for OLS to sort out their respective contributions to inequality.\textsuperscript{16}

*Table 4 about here*

Table 4 estimates exactly the same models as in the previous table for the period 1990-2005. The sign of the corporatism variable is still negative but it is no longer possible to reject the hypothesis of zero-coefficient. Judging from the magnitude of the point estimates, the inequality-reducing effect of corporatism is about three times smaller than in the previous period. Instead, the size of the welfare state remains significantly negatively associated with inequality and seems able to account for a greater share of the cross-country variation in the dependent variable. No other predictor is significant.\textsuperscript{17}

*Table 5 about here*

Table 5 examines the impact of corporatism on the wage share. This is simultaneously a distributional measure (as it represents the share of wages over GDP) and an indicator of economic competitiveness, because it can be expressed as unit labor costs, i.e. labor costs divided by labor productivity.\textsuperscript{18} An economy in which the wage share is declining is one in which wages are growing less than productivity, and the economy is gaining in competitiveness vis-à-vis international competitors. With regard to the wage share the situation is reversed relative to the previous tables: while there is no association between corporatism and the wage share in the 1978-1989 period, an association emerges in the 1990-2005 one: the absolute value of the coefficient grows considerably in the second period and the negative sign is (weakly) statistically significant. This would imply that the more corporatist a system in 1990-2005, the lower the

\textsuperscript{16} The results in Column 1 of Table 3 hold if the model is re-estimated excluding one country at a time (available upon request).

\textsuperscript{17} Again, the results in Column 1 of Table 4 hold if the model is re-estimated excluding one country at a time (available upon request).

\textsuperscript{18} Formally: \( \text{wage share} = \frac{wL}{Y} = \frac{w}{L} = \text{unit labor costs} \), where \( w \) (wage), \( L \) (labor), \( Y \) (product).
wage share and the greater the cost competitiveness of the country in question.19 The size of the welfare state is never significantly associated with the wage share.

Although the econometric results have to be taken with caution due to the data and statistical problems discussed above, they suggest a change in the political-economic effects of corporatist policy-making. The new corporatism seems less redistributive than that of the golden age. Also, while golden age corporatism had no relationship with the wage share, in the new corporatism wages tend to grow at a slower pace than labor productivity. It should be noted that the contrast would probably be starker if the data had allowed a comparison between the 1970s and the 1990s, rather than between the 1980s and the 1990s. Indeed, according to all qualitative accounts, the 1970s were the period in which corporatist policy-making pursued redistribution most consistently (see, for example, Flanagan, Soskice, and Ulman 1983; Gourevitch, Martin, Ross, Allen, Bornstein, and Markovits 1984; Lange, Ross, and Vanicelli 1982).

In synthesis, the analysis so far supports the following conclusions: 1) that corporatist policy-making did not die as predicted but experienced a surprising resurgence in the 1990s; 2) that the new corporatism is less focused on redistribution and more on economic competitiveness than the previous one. The next section puts these findings in broader theoretical perspective.

The Corporatist Renaissance as Adaptation to a Neo-Liberal Regime

a) The Corporatism of the Golden Age

Corporatism was an essential institution in a political economy characterized by extensive public sector intervention, Keynesian demand management, and ‘embedded liberalism’ (Ruggie 1982). It increased the ‘governability’ of advanced Western societies (Schmitter 1981). In particular it helped state and capital come to terms with the surge in labor power that had followed the collective mobilizations of the late 1960s-early 1970s, and with the political

19 The findings of Table 5 are reasonably robust to inclusion of the same controls as in Tables 3 and 4 and to re-estimation excluding one country at a time (results available upon request).
economic problems caused by the two oil shocks of the 1970s (Armstrong, Glyn, and Harrison 1991; Crouch and Pizzorno 1978; Sabel 1982).

A central feature of corporatism was its ability to deliver wage restraint through centralized bargaining or incomes policies (Bruno and Sachs 1985; Flanagan, Soskice, and Ulman 1983; Tarantelli 1986a). This ability was deemed indispensable in a Keynesian political economy committed to full employment (Kalecki 1943). By refraining from using their full market power in the sphere of wage determination, labor unions entered into a ‘political exchange’ with government (Pizzorno 1978b), which allowed them to bring about a number of structural reforms (e.g. expanded public consumption, decommodified public services) and achieve greater levels of economic equality than in other capitalist economies at comparable levels of development, particularly when their social democratic allies were in power (Esping-Andersen 1990; Glyn and Rowthorn 1988; Korpi 1983; Stephens 1979; Streeck 2006).

However, with the collapse of the Bretton-Woods regime and with the policy of high-interest rates of the Reagan government (which, combined with the progressive dismantling of capital controls, made it costly for governments to engage in discretionary fiscal and monetary policies), the room of maneuver for any kind of economically-interventionist state, including those in which policy decisions were negotiated with the unions, shrank dramatically. The widespread transition to a hard-currency regime, in which independent central banks defended price stability (and nominal exchange rate parity) through restrictive monetary policies, took care of inflation with no need for costly involvement of labor unions.

By the mid-1980s, the problem of inflation was largely under control in advanced countries, albeit at the expense of a large increase in unemployment. Incomes policies and centralized bargaining ran into problems of their own: more often than not, they ended up being undone by wage drift at the workplace level, even in countries, like Sweden, in which unions supposedly had the ability to discipline their members. It soon became clear that government commitment to full employment created perverse incentives for unions to renege on their own
commitment to deliver wage moderation (Scharpf 1991), and that the goal of wage moderation was more effectively pursued when bargaining actors heeded the signals launched by inflation-conscious central banks (Franzese 2002; Hall and Franzese 1998; Soskice and Iversen 2000).

Faced with a changing configuration of circumstances (high unemployment, hard-currency policy, weakening labor unions), employers increasingly began to perceive union involvement in national collective bargaining and public policy not as the inevitable price to pay for social peace and economic stability, but as a costly and inefficient rigidity that could safely be disposed of (Gobeyn 1993; Soskice 1999; Streeck 1984; Swenson and Pontusson 2000).

In brief, corporatism seemed to have lost its raison d’être and the various scholars writing about its crisis beginning with the late 1980s-early 1990s (Gobeyn 1993; Hall and Soskice 2001; Iversen 1999; Iversen, Pontusson, and Soskice 2000; Locke 1995; Schmitter 1989; Streeck 1993; Streeck and Schmitter 1991; Thelen 1994: 387, 410 and passim) could be forgiven for thinking that corporatist institutions had outlived their function and had been dispatched to the dustbin of history.

How did corporatism manage to survive then? In a nutshell, the answer is by transforming itself.

b) The New Corporatism

Everywhere in advanced industrial countries the market was taking a much greater role in regulating economic relations. However, the transition to the new neo-liberal regime could not be automatic but needed to be politically managed (Fourcade-Gourinchas and Babb 2002), particularly in European political economies. The reforms that European economies, it was argued, needed to implement to withstand the competition of the more dynamic Anglo-Saxon economies (Alesina and Giavazzi 2006) were unpopular and potentially damaging from an electoral point of view for the governments that engaged in them. They included not just wage moderation as in the old days, but also fiscal rectitude (implying a ‘rationalization’ of the public sector), labor market liberalization, and welfare state restructuring. These reforms reduced
benefits, tightened eligibility conditions, and shifted risks from the state or employers to workers and citizens. Not all governments had the institutional resources or political will necessary to drive them through. Those governments that due to limited parliamentary strength or volatile electoral competition were unable or unwilling unilaterally to impose a series of reforms that were more or less imposed on them by international economic constraints found in corporatist pacts a convenient way to facilitate the process of policy reform (Baccaro and Simoni 2008; Hamann and Kelly 2007). Thus corporatist policy-making became one of the conduits by which neo-liberal policies made their way into the institutionally-dense political economies of some European countries (Rhodes 1996; Rhodes 2001; Streeck 2000; Streeck 2006).

To see what exactly is meant by neo-liberal policy, it is helpful to review the common wisdom on economic policy at least until the global financial crisis of 2008-2009, also known as ‘Washington Consensus’ (Williamson 1989). This consensus was shared not just by Washington-based institutions such as the IMF, the World Bank, and the US Treasury, but by other international organizations as well, like the OECD and the European Commission.20 The Washington consensus involved a tough stance on fiscal policy (Alesina and Ardagna 1998; Alesina and Perotti 1997a; Alesina and Perotti 1997b), a commitment to reduce marginal tax rates, and to trade and financial liberalization. In addition, it included a series of ‘second generation’ reforms, those pertaining to pension systems and to labor-market shock absorbers, which figured prominently in the European debate of the 1990s.

In the case of pension reform the emphasis was on adapting pension systems to changing demographic and economic conditions by increasing the retirement age, moving from defined benefit systems (in which financial risks are borne by the provider) to defined contribution systems (in which pension benefits are strictly proportional to contributions accumulated and risks are shifted on the pensioners’ shoulders), and introducing supplementary fully-funded

20 In the words of Dani Rodrik, ‘the Washington Consensus … became the marching orders for economic policymakers all over the world.’ (Rodrik 2010: 35, fn. 3)
private pension funds (Bonoli 2001; Immergut and Anderson 2007; Myles and Pierson 2001; Pierson 2001; World Bank 1994).

In the case of labor market reform, the consensus was that generous unemployment benefits had undesirable side-effects as they sapped incentives to actively search for jobs, encouraged long-term unemployment, and caused real wages to rise to the detriment of employment. In this case the recommended policy changes aimed to reduce both the level and duration of benefits and to make payment of benefits contingent on active search and willingness to accept available jobs. Employment protection was also targeted for reform. It was argued that by discouraging firm’s hiring (as well as firing) it limited labor market mobility and strengthened the divide between labor market insiders and outsiders (Bertola 1990; Blanchard 2006; Blanchard and Wolfers 2000; Layard, Nickell, and Jackman 2005; Nickell 1997; OECD 1994; Saint-Paul 2002; Siebert 1997).

Issues of welfare and labor market reforms often featured prominently in the corporatist agreements of the 1990s. In some cases these were deals between governments and unions as opposed to tripartite deals. In fact, the employers could often afford to sit on the sidelines and, if the opportunity arose, ask for more. Not all governments sought out union cooperation on these matters, and not all unions agreed to provide it. Also, even within the same country, not all policy reforms were negotiated; some were passed unilaterally (Regini 2000). When a corporatist pact was struck, however, the unions generally managed to blunt the sharpest edges of mainstream neo-liberal policy, but not to reverse its main thrust (Fraile 2009).

Although welfare and labor market restructuring played an important role, centralized control of wage dynamics remained solidly at the core of the new corporatist pacts. The goal of these pacts was no longer disinflation as in the corporatist golden age, because as argued above the nominal control of wages was no longer a pressing problem and could be kept at bay through restrictive monetary policies implemented by independent central banks. However, real wage containment remained an important objective. In an environment of fixed exchanges rates, and a
fortiori in a system characterized by a single European currency, keeping real wage growth below productivity growth was tantamount to real exchange rate devaluation: it bolstered the cost competitiveness of the national economy (Baccaro and Simoni 2010).

Given the type of policies the new corporatism dealt with, it is not surprising that its outcomes were no longer egalitarian. The unions were faced with the unpleasant alternatives of either consenting to macro-concessionary bargaining or refusing to do so. Political exchange as *quid pro quo* between wage moderation and more generous social protection (Glyn and Rowthorn 1988; Mares 2006) virtually disappeared as most governments’ public budgets were too cash-constrained to allow for significant side payments. Where political exchange continued to be practiced (e.g. in Ireland and Finland), it traded waged moderation for tax reductions, that is, targeted private, not public, consumption.

These changes in the availability of side payments help to make sense of changes in the organizational structures of the new corporatism as well. A number of theoretical arguments could potentially explain why union leaders accepted the new terms of engagement. First, leaders’ self-interest: peak-level bargaining strengthened their role and visibility (Pizzorno 1978b; Sabel 1981); second, the organizational characteristics of labor unions: for encompassing organizations group interests approximate general interests (Lange 1984; Olson 1982); third, the rational consideration of alternatives: it is better to lose a little than to lose a lot. However, explaining why rank-and-file workers went along with their leaders’ decisions seems more difficult.

A plausible answer is that what members want does not matter much after all; institutions are more important. When organizational leaders are equipped with the appropriate institutional resources (e.g., a highly centralized organizational structure, compulsory membership, public recognition and resources) they can silence or ignore internal dissent. This is the classic answer to the problem of compliance in the corporatist literature (Cawson 1988; Crouch 1983; Schmitter 1974; Streeck 1988; Wolfe 1985). The problem with this explanation is that it does
not find a lot of support in the available evidence. It is simply not the case that the new corporatist pacts succeeded in countries with corporatist institutions, and failed elsewhere. On the contrary, pacts emerged in countries like Italy, Ireland, Portugal, Spain, and others, which had traditionally been seen as lacking the corporatist preconditions.

As illustrated in greater detail below, in countries like Ireland and Italy labor unions relied on democracy and discussion to bring their constituents along (Baccaro 2003). In particular, prior to signing the corporatist deals they organized workplace assemblies and worker referenda, and committed themselves to abide by the outcomes of majority voting.

This activated two mechanisms, one purely aggregative and the other with a transformative effect on preferences. The adoption of formal voting procedures (aggregative mechanism) altered the internal political game between moderate and radical factions within labor unions. A ‘logic of mobilization’ – one in which the faction that is better able to mobilize workers in strikes prevails (Pizzorno 1978a) – was replaced by an electoral ‘logic of representation,’ in which the faction that is able to mobilize the largest number of votes dictates the line of the confederation. Because the principle ‘one head, one vote’ abstracts from consideration of preference intensity, and only considers the sign, positive or negative, of preferences, workers with very intense preferences, i.e. ready to mobilize in support of their claims, found themselves having exactly the same impact on collective choices as other, less strike-prone, but more numerous, workers (Dahl 1956).

Additionally, it is also likely that democratic procedures did not just aggregate pre-defined preferences but contributed to shaping them as well. The vote was preceded by workplace assemblies in which leaders used various arguments, mostly pragmatic, but also ethical/moral, to explain why particular decisions were worth taking, and then debated with workers the appropriateness of the particular solutions proposed. This process of discursive democracy contributed to shaping the preferences of a non-negligible portion of union members, and favored the emergence of consensus for unpalatable reforms.
To summarize the discussion so far, the preceding sections have sought to bring home two of the three claims of this paper: first, that corporatism did not go away but by the 1990s and 2000s was still alike and kicking; second, that different from the early corporatism, the corporatism that reemerged in the 1990s had no clearly-recognizable redistributive features. Both phenomena have then been analyzed against the backdrop of the neoliberal transformation of advanced political economies. This analysis has suggested that corporatism survived because, in a remarkable example of institutional ‘conversion’ (Streeck and Thelen 2005; Thelen 2004), far from being an alternative to liberal corporatism, it could be used as a way to make liberalism more palatable and manageable.

The third claim of the paper, concerning the democratic transformation of corporatist structure, receives empirical corroboration in the next section, which illustrates the whole argument through case studies of Ireland and Italy, the two countries in which, according to Table 1, the corporatism indicator increased the most.

**The Trajectory of Corporatism in Ireland and Italy**

For many years, Ireland and Italy were considered problem cases with regard to corporatist policy-making. In Ireland, collective bargaining had been centralized in the 1970s (Roche 1997). Yet employers had been dissatisfied with it, as centrally-negotiated wage rates had often been supplemented by ‘above the norm’ wage increases negotiated at the enterprise level. Consequently they had promoted the return to decentralized bargaining in the 1980s. In Italy, too, several attempts had been made in the late 1970s and early 1980s to introduce national-level corporatist pacts, but these attempts had been defeated by grassroots mobilizations promoted particularly by the metalworking unions (Golden 1988; Lange and Vannicelli 1982).

In both countries corporatist policy-making re-emerged in the 1990s. This occurred despite apparently inhospitable institutional environments, at least according to prevailing scholarly views. In 1988, an Irish scholar wrote that ‘the organizational and political conditions
which would tend to be conducive to sustaining corporatist agreements were not well developed in Ireland’ (Hardiman 1988: 3). Similar judgments were often expressed about Italy, which was constantly ranked at or near the bottom of the various indexes of corporatism.

a) Origins

In both cases corporatist resurgence was a response to an external shock. When the first of eight three-year ‘social partnership’ agreements (negotiated every three years) was signed in Ireland in 1987, the country was in the midst of one of the most serious economic crises of its post-war history. Public debt and deficit were skyrocketing, investment was stagnant, and, despite the high level of migration of Irish workers to other countries (particularly the U.K.), unemployment was on the rise (Government of Ireland 1987; NESC 1986). The government that initiated social partnership was a minority government of the Fianna Fail party, which held 48.8 percent of seats in the Irish lower chamber (Dáil). Additionally, the weakness of the Fianna Fail government was compounded by the party’s own interclass nature, which made it difficult for the leadership to pass policy decisions that penalized the party’s labor constituency (Hardiman 1988: 200-4).

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

In Ireland and Italy, the most important allies of governments were unions. Union density had declined from 64 to 56 percent between 1983 and 1987 in Ireland, and from 45 to 39 percent between 1984 and 1992 in Italy. Yet the unions’ capacity to mobilize workers in strikes remained considerable. Sharing policy-making responsibility with the organizations representing those that were most likely to bear the brunt of policy changes, namely workers, protected these weak governments from popular malcontent they may otherwise have been unable to withstand.

Employer collaboration was less consistent, but also probably less important than that of the unions. Irish employers’ organizations were relatively happy with decentralized collective bargaining, which they had been keen to promote (Hardiman, 1988: 200, 221, 236). In December 1986 and then again in June 1987, the General Council of the major employers’ association ‘asserted that negotiations with the labor unions on pay and related matters should continue to take place at local level’ (Hardiman 1988: 236; Hardiman 1992: 350). It was only after social partnership became a clear success (i.e. from the mid-1990s on) that the employers became clear supporters. The attitude of Italian employers was similarly ambiguous. They agreed on the abolition of wage indexation in 1992 and the centralization of collective bargaining in 1993, but then withdrew from negotiations over pension reform in 1995 (Mascini 2000).

Getting the unions to collaborate with government was not without problems. Within the unions there were powerful forces which for ideological or interest-related reasons did not agree that a corporatist strategy was the way to go. In both countries, union confederations went about overcoming the internal opposition by relying on the legitimating power of democracy. Workers were given binding power to decide through their vote whether or not they accepted the agreements. Worker referenda were preceded by workplace assemblies. Because the majority of voters approved the proposed agreements, the union leaders could then sign them with full
legitimacy. This is illustrated below by examining the formative moments of corporatism in Ireland and Italy.

b) Organizational Processes

In Ireland the first centralized pact, the *Programme for National Recovery* (PNR), was the most politically contested of the lot. The leaders of the Irish Confederation of Trade Unions (ICTU) were favorably inclined towards the pact: the country faced a macroeconomic crisis, and they were concerned that government might respond in Thatcher style with an all-out attack on labor unions. In particular, public sector unions were afraid they would fare especially poorly in free-for-all bargaining, given the government’s emphasis on cutting public expenditures.

However, the various other unions affiliated to the ICTU had mixed feelings. In particular, the craft unions (representing skilled workers in the private sector) were against the PNR as they perceived decentralized bargaining as more advantageous for them. Among the general unions, the two largest – ITGWU and the FWUI – supported the deal. The third largest general union, the ATGWU (with headquarters in Britain) was adamantly opposed. Public sector unions also generally favored the agreement.

Aware of the controversial status of the proposed PNR pact, the ICTU engaged in a highly proceduralized decision-making process, which relied on very similar electoral rules to those used to elect the American president: if 50 percent plus one voters in a union chose to support the option of endorsement or rejection of the PNR agreement, all the delegates of that union voted for that option in a national convention especially summoned. Similar to the American presidency, this rule implied that the ICTU could end up pursuing a policy that was supported by less than the majority of workers if the larger unions approved by close margins (as they did) while the smaller unions rejected by larger margins. However, this possibility did not detract from the legitimacy of the collective decision to support the PNR: the unions that lost the

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21 Interviews with Bill Attley, former General Secretary of the FWUI (first) and SIPTU (later), Bundoran: July 3, 2001, and David Begg, General Secretary of the ICTU, Bundoran: July 4, 2001.
22 Interview with Peter McLoonne, General Secretary of IMPACT, Bundoran: July 4, 2001.
vote did not secede or mobilize to pursue their own independent wage policy, choosing to abide by the will of the majority.

A majority of the 56 unions attending the special conference on PNR voted against the agreement. The largest unions conducted ballots to decide how to allocate their votes. The ITGWU, the largest union of all, had 48 delegates and its votes were crucial. The ITGWU ran a ballot of its members and the PNR passed by only 400 votes.\textsuperscript{23} The union convention then approved the agreement with 181 votes to 114.

In Italy, too, the union decision to engage in centralized bargaining was highly controversial, and the internal process was remarkably similar to the Irish case, as in Italy, too, the unions relied heavily on organizational referenda to mobilize consensus among the workers. The 1992 tripartite agreement provoked a major crisis in the unions, especially within the largest confederation, the CGIL. In the fall of 1992 numerous factory councils mobilized against the abolition of the popular wage indexation mechanism (scala mobile). Interestingly enough, protesters focused just as much on the content of the agreement (which, of course, they rejected) as on the decision-making process. Because the agreement had not been preceded by a consultation among the workers affected, they claimed it was illegitimate and unrepresentative of the workers’ will.\textsuperscript{24}

Italian union leaders learned the lesson: the 1993 agreement, which confirmed the 1992 abolition of wage indexation, was preceded by a binding referendum among the workers – a first in the history of the Italian labor movement. Remembering the grassroots mobilizations that had taken place one year earlier, the confederation leaders asked for and obtained from their bargaining counterparts sufficient time to organize a ballot among the rank-and-file workers. Although the tentative agreement between government, employers, and union leaders was

\textsuperscript{23} Interview with Bill Attley, cit.
\textsuperscript{24} Interview with Tino Magni, Secretary General of the FIOM Lombardy, Sesto S. Giovanni: June 3, 1997; interview with Edoardo Bano, Head of Organization, Labor Chamber of Bergamo, Bergamo: June 9, 1997; Savino Pezzotta, Secretary General of the CISL Lombardy, Milan: June 10, 1997.
reached on July 3, 1993, the actual agreement was not signed until July 23. In the intervening 20 days, the confederation unions set up approximately 30,000 assemblies in the country’s major plants and offices to explain the agreement. About 1.5 million workers participated in the vote and 68 percent of them approved the agreement.

The history of the Italian labor movement features several examples of rank-and-file mobilization against union policies that were perceived as too moderate. In the past, similar mobilizations had all but quashed analogous attempts at collective bargaining reform (Lange and Vannicelli, 1982; Golden, 1988). This time, however, the dissenting groups did not openly mobilize, although their inaction did not reflect approval of the agreement. The agreement contained two important changes to procedure introduced as a response to the objections previously raised by the dissident factions. First, it institutionalized the regular election of workplace representatives. Second, it was accompanied by a binding consultation among the workers. Although they clearly frowned on the agreement’s content, the dissident groups concentrated their energies not on organizing grassroots protest but rather on dissuading the workers in the assemblies from approving the agreement.

The fact that both in Italy and in Ireland the radical factions did not mobilize against the outcome of the vote may reflect a ‘procedural justice’ effect as described by social psychologists, i.e. an increased willingness to go along with unfavorable outcomes when the process that has generated them is perceived as procedurally fair (Lind and Tyler 1988).

In addition, there is also evidence that the democratic process did not simply register a majority that was already in re, but contributed to its creation. A companion paper examines the democratic process around the 2008 Italian pension reform using micro data from a nationally-representative sample of workers and pensioners both participating and non-participating in the democratic process (Baccaro 2010). It suggests that even when the issue is highly salient, such as in the case of pension reform, about 30 percent of workers are uncertain about the options at stake. They form their preferences during the ratification process. In other words, leaders may
have been able to convince at least some workers that wage moderation was in their ‘best interests’ by using the force of argument and persuasion (Habermas, 1984).

c) Outcomes

In both the Irish and Italian cases, corporatist policy-making centered on centralized wage bargaining. In contrast to earlier experiences of centralization, however, wage negotiations did not have a redistributive intent, as wage increases were set as a percentage of previous wages and not as lump sums (which would have favored those on lower pay) (Baccaro and Simoni 2007). In Italy, the 1992 abolition of wage indexation eliminated a mechanism which automatically compressed wage differentials, because it increased wages by a lump sum for each percentage increase in the consumer price index (Erickson and Ichino 1995).

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

In both countries corporatism and wage moderation led to a sizeable decrease in the wage share of GDP. In Ireland, no statutory recognition procedures for unions were introduced, and union recognition by employers remained purely voluntary (D'Art and Turner 2003). The Irish unions did not fare particularly well under social partnership. They experienced a dramatic decline in density: from 53 percent in 1987 to 35 percent in 2007 (32 percent according to survey-based data) (Walsh and Strobl 2009). The declining trend was even larger than for unions in the
UK (from 44 to 29 percent over the same period), despite the much greater institutional embeddedness of the Irish unions than their British counterparts.

In addition, the Irish unions were unable, and perhaps even unwilling, to use the social partnership format to move the Irish welfare state away from its liberal, ‘residualist’ tradition characterized by heavy reliance on means-tested provisions and flat subsistence rates (Cousins 1995 ; Esping-Andersen 1990). Public social expenditures as a percentage of GDP declined from 21 percent in 1987 to 16.7 percent in 2005 (OECD various years). As part of the social partnership model, the ‘social partners’ jointly elaborated a model of the ‘developmental welfare state’ which was supposed to reconcile the imperative of economic competitiveness (deemed vital for a small open economy) with the need for a social safety net (NESC 2005). With its emphasis on activation and human capital development the Irish model drew inspiration from the Danish and Dutch systems of flexicurity (Auer and Cazes 2003 ; Wilthagen 1998), with one important difference: unemployment insurance replacement rates were much lower in the Irish than in the Danish and Dutch cases (24 percent vs. about 90 percent) (Kirby 2008 ; Murphy 2007).

Thus, the Irish social partnership became the lynchpin of a very different regulatory model from the social corporatist model of the past (Pekkarinen, Pohjola, and Rowthorn 1992), which was nonetheless remarkably economically successful, at least until 2008. This new model focused on making the country attractive for mobile international capital and on strengthening the cost competitiveness of exports by systematically reducing unit labor costs. This model began to pay off from the mid-1990s on, and led to increased investments, economic growth, and lower unemployment, turning a former economic basket case into a ‘Celtic Tiger.’

In Italy, in each of the corporatist pacts the unions provided concessions and received in exchange the right to participate, and thereby to stave off even worse outcomes for them. Following the 1992 abolition of wage indexation and the 1993 accord on collective bargaining structure, in 1995 government and unions (but not the employers) negotiated a comprehensive reform of the pension system, which made benefits proportional to paid contributions (as opposed
to wages at retirement) in the long run. In 1996, the tripartite ‘Pact for Labor’ introduced a moderate flexibilization of the rules regulating flexible and contingent forms of labor. In 1998, a new agreement confirmed the bargaining structure established in 1993 and introduced a contractual obligation for government to consult with the social partners on all social policy issues.

Despite substantial wage restraint and repeated reforms of both welfare state and labor market regulation, Italy’s economic performance lagged behind other advanced countries, including the other European economies. Riccardo Faini and André Sapir (2005) have offered an interesting analysis of Italy’s economic predicament focusing on comparative advantage and sectoral specialization. Italy – goes their argument – has been hit hard by greater economic integration with developing countries, particularly China. Unlike other European countries, Italy is specialized in labor-intensive sectors, and thus competes head-to-head with China and other developing countries. Also, while other European countries upgraded their productive structure in the 1990s and moved towards higher value-added markets, Italy is the only country to have become even more specialized in traditional sectors.

Clearly not all Italian problems originate from the industrial relations sphere. Some historic weaknesses of the Italian economy play an important role, e.g. low investments in R&D, prevalence of small firms, inefficient public services. However, there is also a role that the collective bargaining system could have played and did not play: that of acting as a ‘beneficial constraint’ (Streeck 1997). If unit labor costs fall, as they did in the 1990s, but if the ‘low road’ is not sealed off, managers and entrepreneurs probably have fewer incentives to upgrade.

In both Ireland and Italy, corporatist institutions were rather unceremoniously set aside when the global financial crisis of 2008-2009 hit. Emergency measures aimed to defend the respective national economies from international speculation. The Irish economy was hard hit by the puncturing of a huge real estate bubble in 2008 and then by the collapse of international trade. In 2009, many private sector companies used the ‘inability to pay’ clause of the national
agreement to either freeze wage increases or even implement nominal pay cuts. For the public sector, however, no such clause was available and government first imposed a 7.5 percent special pension levy, amounting to a unilateral pay cut of an equivalent amount, and then nominal wage cuts (Sheehan 2010), thus officially closing the era of Irish social partnership.

In Italy corporatism began its descending trajectory earlier than in Ireland. Already in 2002, the major labor union confederation, CGIL, refused to sign a tripartite agreement exchanging the promise of tax reductions for a less rigid regulation of individual dismissals, and called for workers to mobilize in opposition. This call was largely heeded and the policy reform stalled. Nonetheless, the parties continued to negotiate national-level agreements on various issues throughout the decade (pension reform, reform of collective bargaining structure), following what became a predictable pattern: when the centre-left coalition was in power all three confederations shared responsibility for the final agreement; when the government was in the hands of the centre-right coalition the CGIL refused to sign while the other two confederations did.

In 2010 fears spread that Italy’s public debt had become unsustainable and that the country might be forced to default. This led in turn to financial speculation and induced the government to hastily assemble an emergency adjustment package, which included cuts in public sector wages (Parente 2010). Just like in Ireland, the adjustment package was not negotiated with the labor unions and was implemented in the face of their opposition.

**Concluding Remarks**

Based on qualitative and quantitative sources and methods, this paper has analysed the trajectory of corporatism in the last thirty years. It has challenged the received wisdom, i.e. that corporatism was once a key institutional alternative to liberal capitalism but was later rendered obsolete by shifts in the international political economy and in employer strategies, and has offered instead the more nuanced argument that corporatism did not disappear but began to
operate in ways that were different from the past. It was still able to blunt the sharpest edges of mainstream neoliberal capitalism, but it no longer provided a fundamental alternative to it. In Faustian terms: corporatism did not die but to escape death had to sell its (egalitarian) soul.

How should we evaluate the new corporatism in normative terms? In particular, is it still useful to the cause of ‘egalitarian capitalism’ (Kenworthy 2004) or would it be better to abandon it?

A fully-fledged answer is beyond the scope of the paper, but a few considerations seem in order. Corporatism’s normative credentials have always been contested. Early on, some Marxist scholars criticized corporatist collaboration as a sell-out, perpetrated by union leaders behind the back and at the expense of the working-class (Jessop 1977; Panitch 1979). However, I would agree with most social-democratic scholars that the corporatist system of the golden age was never just a sell-out. In fact it provided union organizations with opportunities to introduce far-reaching structural changes both in the labor market and in social policy (Hicks 1994; Korpi 1983; Korpi and Shalev 1979a). The result, most clearly visible in Scandinavian countries, was a negotiated economy in which the sphere of production remained capitalist, because property rights and management discretion at the workplace level were guaranteed, but the sphere of distribution was largely politically managed, both through collective bargaining and through redistributive policies promoted by an activist welfare state.

The new corporatist institutions have developed different and probably more attractive internal organizational features than their predecessors. They have become more participatory and democratic than in the old days. Unions, in particular, have gone to great lengths to win democratic legitimation for the outcomes of national bargaining through debates and referenda. These organizational transformations have been linked to the changing terms of the political exchange between governments and unions. In the new international economic regime, side payments have been much less available than in the past. Consequently, labor unions have felt the need to invest in democratic mechanisms of decision-making much more heavily. These have
been necessary to persuade the unions’ constituents of the acceptability and legitimacy of the leaders’ choices.

Recently, however, corporatism has begun to be perceived in some quarters, including left-of-center, not just as distributionally-neutral but as positively anti-egalitarian, namely as an institutional device which further entrenches the privileges of labor market insiders at the expense of outsiders (AAVV 2002; Alesina and Giavazzi 2006; Boeri and Galasso 2007; Rueda 2005).

So for example pension reforms negotiated with the unions have been criticized for the long transition periods to the new regimes, and for overly generous grandfathering rules which have shifted most of the costs of reforms onto the younger generations (Aprile 1996; Castellino 1996; Ferrera and Jessoula 2007; OECD 2007; Schludi 2003). Labor-market reforms have also been criticized for leaving levels of job protection virtually unchanged for workers on unlimited duration contracts while liberalizing all other forms of contingent work, thus contributing to labor market dualisms (Baccaro and Simoni 2004; Boeri and Garibaldi 2007; Ichino 1996; OECD 1999).

There is some truth to these allegations: as the price for their collaboration unions have demanded and often obtained to protect themselves as institutions. This has implied that the unions’ main constituency, aging (male) workers, has been less affected by retrenchment and liberalization, but at the expense of pushing the costs onto other categories, i.e. younger workers and workers on contingent jobs. This strategy seems unable to stop, let alone reverse, the unions’ organizational crisis. Thus one wonders whether union talent and resources would be better spent trying to organize the outsiders and to build solidarity links. Labor unions remain important actors in any plan to revive egalitarian politics. However, they are unlikely to live up to their egalitarian potential unless they are able to rebuild their power where it counts most, among the workers.
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Table 2: Determinants of Inequality, Baltagi and Wu (1999) random effects estimation

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Table 3: Determinants of Inequality (1978-1989) (OLS)

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T-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Table 5: Impact of Corporatism on the Wage Share (OLS)

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t-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Figure 1: Mean Yearly Index of Corporatist Policy-Making (16 Countries)
Figure 2: Mean Yearly Union Density in 16 OECD countries
Figure 3: Hypothesized Relationship between Corporatism, Welfare State, and Inequality
Appendix 1

Data

Inequality

Time-span: 1978-2005 with gaps (see Table below)

Construction of the variable: first principal component of gini coefficient, d9/d1 decile ratio, d9/d5 ratio, d5/d1 ratio, relative poverty rate (threshold of 40 percent of median income). All indicators are relative to post-tax post-transfer household income.

Factor loadings: inequality = .45gini + .47d9d1 + .43d9d5 + .45d5d1 + .43poverty.


*The LIS data are top- and bottom-coded to eliminate the extreme portions of the income distribution, where measurement error is more likely. Also, the household is “equivalized” (i.e. divided by the square root of family size) to account for possible economies of scale within the household.

LIS: Available Country Years

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Wage share

Time-span: 1974-2005

Source: adjusted wage share, Ameco database (http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm, accessed 4/7/10)
Corporatism

Time-span: 1974-2005

Construction of the variable:
\[
\frac{\text{tripartite policy-making index} + \text{wage bargaining coordination index}}{2}
\]

1) Tripartite policy-making index

Based on Lucio Baccaro and John-Paul Ferguson’s coding of monthly articles from the *European Industrial Relations Review* for Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, and the UK.

Based on the Visser (2009) database (various variables) for Australia, Canada, and the US. The coding of these countries is straightforward because, with the exception of Australia in the age of the Accord (1983-1992), they have no experience with tripartite policy-making.

Coding rules: for each country, year, and month:

Tripartism = 0 if there is no pact in place
Tripartism = 1 if there is a pact in place on (labor market OR welfare issues)
Tripartism = 2 if there is a pact in place on (labor market AND welfare issues) OR a national tripartite pact on wages
Tripartism = 3 if there is a pact in place on (wages AND welfare issues) OR (wages and labor market issues)
Tripartism = 4 if there is a pact in place on (wages AND welfare AND labor market issues)

The following weights are used:

1 if (ALL unions AND ALL employer organizations) have signed the pact
0.75 if (ALL unions AND SOME employer organizations) OR (SOME unions AND ALL employer organizations) have signed the pact
0.5 if (SOME unions AND SOME employer organizations) OR (ALL unions) OR (ALL employer associations) have signed the pact
0.25 if (SOME unions OR SOME employer associations) have signed the pact

Monthly scores are averaged on an annual basis

2) Wage bargaining coordination index

Index of collective bargaining coordination elaborate by Lane Kenworthy (2003) and updated to 2005 by the author. The index is coded as follows:

0 = Fragmented wage bargaining, confined largely to individual firms or plants.
1 = Mixed industry- and firm-level bargaining, with little or no pattern-setting and relatively weak elements of government coordination such as setting of basic pay rate or wage indexation.
2 = Industry-level bargaining with somewhat irregular and uncertain pattern-setting and only moderate union concentration.
3 = Centralized bargaining by peak confederation(s) OR government imposition of a wage schedule/freeze, without a peace obligation OR informal centralization of industry- and firm-level bargaining by peak associations OR extensive, regularized pattern-setting coupled with a high degree of union concentration.

4 = Centralized bargaining by peak confederation(s) OR government imposition of a wage schedule/freeze, with a peace obligation OR informal centralization of industry-level bargaining by a powerful, monopolistic union confederation.

**Size of the Welfare State**

First principal component of social expenditures and taxes.

Factor loadings: welfare_state_size = .71social_expenditures + .71 taxes.

Sources: 1) OECD, Social Expenditure Database, Total Public Social Expenditures as % of GDP, coverage: 1980-2005; 2) OECD, Total Tax Revenue as % of GDP, coverage 1974-2005.

**Employment Rate**

Source: OECD, Civil Employment as % of Population Aged 15-64, coverage: 1974-2005

**Social Democratic Government**

Source: Armingeon et al. (2009), variable gov_left: social-democratic and other left parties in percentage of total cabinet posts, coverage: 1974-2005.

**Union Density**

Source: Visser (2009), variable: UD, coverage: 1974-2005

**Trade Openness**

Imports + exports as % of GDP, coverage: 1980-2005

Source: courtesy of Patrick Hettinger and Subir Lall of the IMF Secretariat (see IMF 2007)

**Trade Liberalization**

100 – Tariff Rate, coverage: 1980-2005

Source: courtesy of Patrick Hettinger and Subir Lall of the IMF Secretariat (see IMF 2007)

**Capital Openness**

Schooling Years

Barro and Lee (2000)’s estimates of the average number of schooling years in the population aged 15+, coverage 1974-2000, extrapolated to 2005

ICT Capital

Source: courtesy of Patrick Hettinger and Subir Lall of the IMF Secretariat (see IMF 2007)