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REPORT

# **From Coordination to Compensation? Social Dialogue in Europe's Inflation Crisis**

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### Deliverable 3.1. – From Coordination to Compensation? Social Dialogue in Europe’s Inflation Crisis

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## Abstract

The inflation crisis has been a stress test for industrial relations systems as it has placed again the wage conflict under conditions of weakened institutions and heightened fiscal and market constraints. Rather than witnessing a revival of encompassing tripartite incomes policy, the comparative evidence suggests the emergence of differentiated forms of crisis corporatism and social dialogue. In some countries, social dialogue has been used instrumentally to coordinate wage adjustments whilst in others, it has been deployed expressively to legitimise state-led compensation packages. Finally, in other countries it has played a marginal role and has even been hollowed out. This transformation reflects the long-term erosion of industrial relations institutions.

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## Contents

|  |           |
|--|-----------|
| <b>Introduction .....</b>  | <b>2</b>  |
| <b>1 – From classic to crisis corporatism? Explaining social dialogue's role in inflationary times .....</b> | <b>4</b>  |
| <b>2 – The role of social dialogue in managing the inflation crisis: cross-country differences .....</b>     | <b>8</b>  |
| 2.1 The role of social dialogue in shaping incomes policies.....   | 8         |
| 2.2 The intensity of social partners' involvement .....  | 9         |
| 2.3 The mode of social partners' involvement: Tripartite vs bipartite social dialogue .....                  | 10        |
| <b>3 – Social dialogue across policy domains .....</b>   | <b>11</b> |
| 3.1 Minimum wages.....   | 11        |
| 3.2 Public sector wage-setting.....  | 13        |
| 3.3 Compensation policies and price regulation.....  | 14        |
| <b>4 – Comparative discussion .....</b>  | <b>16</b> |
| <b>References .....</b>  | <b>21</b> |

## Introduction

The period between 2021 and 2024 marked a sharp break with more than a decade of low inflation, limited or negative real wage growth, in most EU countries. After the COVID-19 pandemic, European economies experienced an abrupt rise in prices, driven initially by supply-chain disruptions, bottlenecks in key sectors, and later intensified by the energy crisis triggered by Russia's invasion of Ukraine. Inflation accelerated rapidly across the EU, reaching levels unseen since the early 1980s, with particularly strong increases in energy, food, and housing-related costs. While headline inflation rates started to decline after 2023, price levels remained structurally higher, and core inflation proved more persistent than initially expected. This episode exposed structural vulnerabilities in European growth models, particularly the dependence on imported energy, the fragility of global value chains, and the limited resilience of low-income households to sudden price shocks. The literature broadly agrees that this inflationary episode was largely driven by external and cost-push factors rather than by domestic wage pressures, with high energy prices playing a central role in transmitting inflation across sectors and countries (Lübker and Janssen, 2022; Harr and Spange, 2023; Tassinari et al., 2024). Several studies also point to the role of firms' pricing strategies and profit margins in the persistence of inflationary pressures, especially in concentrated sectors, shifting the focus of analysis away from traditional wage–price spiral explanations (Weber and Wasner, 2023; Nikiforos et al., 2024; Uxó et al., 2025). This reconfiguration of the inflationary process has had profound implications for how governments and social actors have interpreted the crisis and the types of policy responses deemed legitimate and feasible.

Rising inflation posed major political, economic, and social challenges for EU member states. Beyond its macroeconomic implications, inflation has a strongly regressive character: low-income households spend a larger share of their income on energy, food, and housing, making them disproportionately vulnerable to price increases of these goods. As a result, the cost-of-living crisis translated rapidly into a distributive crisis. Empirical evidence shows that real wages declined across most EU countries during the peak of inflation, particularly among workers at the bottom of the wage distribution, while profit shares often remained stable or even increased (Eurofound, 2023; Nabernegg et al., 2024; Uxó et al., 2025). This combination of falling real wages and persistent inflation created new risks of in-work poverty, social discontent, and political instability.

In contrast to earlier inflationary episodes, international organisations and EU institutions did not primarily call for wage restraint. Instead, they increasingly emphasised the need to sustain real wages, protect vulnerable groups, and avoid demand collapses (OECD, 2022; European Commission, 2022). This shift reflected the weakening of classical wage–price spiral dynamics, the erosion of wage indexation mechanisms, and the declining capacity of trade unions to enforce economy-wide wage restraint or coordination (Koester and Grapow, 2021; Checherita-Westphal, 2022). At the same time, governments faced a difficult balancing act: cushioning households against rising prices without fuelling inflation further, maintaining fiscal credibility, preventing secondary inflation, and preserving international competitiveness. These tensions were reflected in the heterogeneous mix of policy instruments adopted across countries, combining energy price caps, tax reductions, direct transfers, minimum wage increases,

and adjustments in public sector wages, often under significant political pressure.

Against this background, this report analyses the role of social dialogue in managing the inflation crisis and its distributive consequences in Denmark, Germany, Italy, Poland and Spain. The central research question is: What has been the role of social dialogue in fighting and mitigating the impact of inflation between 2021 and 2024? To analyse this, we must consider the institutional conditions under which social dialogue can operate effectively: What implications has the erosion of industrial relations institutions since the austerity period had for the capacity to deliver coordinated responses to inflation? These questions reflect a broader transformation in the political economy of inflation management. Classic neo-corporatist literature from the 1970s to the 1990s highlighted how countries with encompassing unions, strong employer associations, and coordinated bargaining systems could internalise inflationary shocks through negotiated wage restraint and tripartite incomes policies. In these systems, social dialogue functioned as a macroeconomic governance tool, enabling collective actors to coordinate expectations and prevent wage–price spirals. However, decades of liberalisation, decentralisation of collective bargaining, declining union density, and fragmented employer representation have weakened the institutional foundations of such coordination, particularly in Southern and Eastern Europe. This has raised doubts about whether social dialogue can still play a steering role in macroeconomic crisis management or whether it has been relegated to a more symbolic, consultative, or legitimising function. The current inflationary episode provides a critical empirical testing ground for these questions, as governments were forced to act quickly under conditions of high uncertainty and social pressure.

The comparative analysis developed in this report shows that social dialogue did not disappear from inflation management, but its role was fundamentally different from earlier high-inflation periods. None of the countries studied revitalised to classic, encompassing incomes policies based on binding tripartite agreements. Instead, social dialogue took more fragmented and uneven forms, shaped by national institutional legacies, political coalitions, and state capacities / strategies.

The report is structured in five sections. Section 1 reviews four relevant streams of literature. First, that of inflation and neo-corporatism; secondly, the erosion of collective bargaining. Thirdly, the literature on crisis corporatism and finally, that on the politics of inflation. Section 2 then provides an overview of social dialogue developments across countries. Section 3 shifts the focus to policy domains and explores the different involvement of social across them. Section 4 provides a comparative discussion and Section 5 concludes.

# 1 – From classic to crisis corporatism? Explaining social dialogue's role in inflationary times

This section reviews four strands of literature that inform the theoretical and analytical framework of this report. The first strand consists of the classic neo-corporatist and institutionalist literature on inflation management developed between the 1970s and the 1990s. This body of work conceptualised social dialogue, especially tripartite incomes policies and coordinated collective bargaining, as a macroeconomic governance tool capable of internalising inflationary shocks and preventing wage–price spirals. The second strand examines the long-term erosion of these coordination capacities following decades of liberalisation, decentralisation of collective bargaining, and declining union power, particularly in peripheral EU countries. The third strand engages with recent scholarship on crisis corporatism and the transformation of concertation under conditions of financialised capitalism. The fourth strand focuses on the specific features of the 2021–2024 cost-of-living crisis and how it has reshaped the distributive and political role of social dialogue.

## **Social dialogue and inflation management in the classic neo-corporatist literature**

The first systematic attempts to theorise the relationship between social dialogue and inflation management emerged in the 1970s and 1980s, in response to the breakdown of the Bretton Woods system, the oil shocks, and the stagflationary crisis that affected most advanced capitalist economies. This literature emphasised the macroeconomic role of labour market institutions and interest intermediation systems, arguing that countries with encompassing unions, centralised or coordinated collective bargaining, and strong employer associations were better equipped to deal with inflationary pressures (Schmitter, 1974; Lehmbruch, 1977; Cameron, 1984; Calmfors and Driffill, 1988). These institutional arrangements enabled collective actors to internalise the externalities of wage-setting and to align sectoral and firm-level behaviour with macroeconomic objectives (Streeck, 1994; Soskice, 1990; Hall and Soskice, 2001).

Within this framework, inflation was conceptualised as the outcome of distributive conflict between capital and labour (Hibbs, 1977; Korpi, 1983; Pizzorno, 1978). When wage bargaining was fragmented, unions had incentives to maximise nominal wage gains for their members, ignoring the inflationary consequences for the economy as a whole. By contrast, encompassing unions that represented large shares of the workforce, were more likely to internalise the macroeconomic costs of excessive wage claims, including higher unemployment and monetary tightening (Olson, 1982; Calmfors and Driffill, 1988). As a result, they could accept wage restraint in exchange for employment security, welfare state expansion, or other forms of social compensation (Cameron, 1984; Katzenstein, 1985; Goldthorpe, 1984). Social dialogue, and particularly tripartite incomes policies, provided the institutional arena in which these exchanges could be negotiated (Lehmbruch, 1977; Schmitter and Streeck, 1981; Molina and Rhodes, 2002).

Incomes policies were thus conceptualised as explicit (or implicit) social contracts between governments, unions, and employers, aimed at coordinating wage dynamics with fiscal and monetary policy (Flanagan, Soskice and Ulman, 1983; Tarantelli, 1986; Visser, 2000). Their effectiveness rested on the organisational capacity of social partners to discipline their members and enforce compliance (Streeck, 1994; Crouch,

1993). Crucially, this model presupposed high organisational density, centralisation, and a shared understanding of the macroeconomy and in particular, of the role of wages for growth (Olson, 1982; Schmitter, 1974).

Although developed in a different historical context, this literature conceptualised social dialogue not merely as a consultative process, but as a governing tool capable of coordinating expectations and stabilising capitalism under conditions of high inflation (Schmitter and Streeck, 1981; Streeck and Kenworthy, 2005). In this classical perspective, social dialogue aimed at disciplining wage dynamics to prevent destabilising wage–price spirals and safeguard competitiveness (Calmfors and Driffill, 1988; Hall and Soskice, 2001; Hancké and Soskice, 2003).

### **The erosion of collective bargaining and the weakening of social dialogue**

From the 1990s onwards, a growing body of literature documented the gradual erosion of the institutional foundations underpinning neo-corporatism and coordinated inflation management (Streeck, 2009; Crouch, 2004; Baccaro and Howell, 2017). Globalisation, financialisation, European integration, economic structural change (shift to services) and labour market deregulation contributed to decentralised bargaining structures, declining union density, and fragmented employer and trade union representation (Rhodes, 2001; Hassel, 2003; Thelen, 2014; Hancké, Rhodes and Thatcher, 2007). These trends intensified after the Great Recession and the Eurozone crisis (Marginson, 2015; Schulten and Müller, 2015; Clauwaert and Schömann, 2012). Austerity programmes and structural reforms weakened multi-employer bargaining, reduced extension mechanisms, and expanded firm-level flexibility (Glassner and Keune, 2012; Molina and Rhodes, 2011; Marginson and Welz, 2015). These reforms were often justified in terms of competitiveness and employment creation, but they also undermined the capacity of social partners to act as macro-level coordinators (Johnston and Regan, 2016; Baccaro and Benassi, 2017). Where bargaining became fragmented, unions lost the ability to negotiate collective agreements, while employers increasingly pursued decentralised strategies based on cost competition (Hassel, 2014; Thelen, 2014).

Empirical research on peripheral and post-socialist EU countries has been particularly explicit in highlighting this erosion (Ost, 2000; Meardi, 2012; Bohle and Greskovits, 2012). Weak bargaining institutions favour unilateral state action over negotiated solutions (Feldmann, 2006; Guardiancich, 2013), pushing governments toward a stronger reliance upon statutory instruments such as minimum wages, tax credits, and transfers (Schulten, 2014; Vaughan-Whitehead, 2015). This strand of literature thus suggests that the institutional preconditions for tripartite agreements on inflation management have been significantly weakened, but that this kind of classic income policies was also rendered dispensable given the general weakness of trade unions to enforce substantial wage increases in the context of financialised and globalised markets. Governments may still convene social partners, but interactions are increasingly consultative rather than binding, reflecting the “hollowing out” or displacement of corporatist governance (Crouch, 2004; Molina and Rhodes, 2002).

### **Crisis corporatism revisited**

The literature on neo-corporatism has been revisited through the lens of successive crises and the liberalisation of industrial relations frameworks. Notwithstanding the general trend towards the structural weakening of neo-corporatist arrangements, empirical research has revealed diverging trends between

countries and sectors. Ebbinghaus and Weishaupt (2021) show that the financial crisis and austerity policies led to different trajectories of social dialogue: in some settings, social concertation proved resilient, while in others, corporatism was tested or eroded by political and economic pressures. Meardi and Tassinari (2022) show that the COVID-19 pandemic did not produce convergence toward a unified model of crisis corporatism; rather, it reinforced country-specific institutional patterns and frictions. More specifically, they distinguish between the form of interaction (tripartite or bipartite, formal or informal), its function (instrumental or expressive), and its outputs. In many cases, social dialogue played both an instrumental role in policy design and an expressive role in legitimising state action.

Similarly, Svalund et al. (2025) demonstrate that Scandinavian crisis corporatism during the pandemic followed pre-existing national trajectories. Social partner involvement varied in intensity, but patterns were largely path-dependent. Their framework emphasises not only the form and function of social dialogue, but also the importance of institutional legacies and actor interests in shaping crisis responses.

While these studies focus on the global financial crisis and the pandemic, the inflation crisis presents a different challenge. Unlike the financial crisis, that emphasised internal devaluation and fiscal adjustment, or the COVID-19 crisis, which centred on employment protection and production continuity, the 2021–2023 inflation crisis re-politicised distributive conflict over real wages, profits, and burden-sharing, because (failed) wage moderations was not seen as a primary cause, nor a primary solution. In this context, the focus of social partner involvement shifted away from classic income policies (wage moderation) because the crisis was framed less as a coordination failure and more as a distributive struggle (see next paragraph). Tassinari (2025) adds an important dimension by arguing that governments may activate or marginalise social concertation as part of strategies to reassure financial markets and external actors. Under financialised capitalism, concertation can function as a signalling device, demonstrating domestic consensus and reform capacity. Conversely, unilateralism may also signal executive resolve. This perspective helps explain why social dialogue may be activated symbolically even when binding coordination is absent.

Mailand's analysis of corporatism as political exchange further highlights that social partners can provide governments with legitimacy, information, implementation capacity, and even financial resources (Mailand 2020). Where these exchange resources remain valuable, corporatism can persist even under weakened organisational conditions. Conversely, Mrozowicki's (2024) concept of illusory corporatism captures contexts where tripartite institutions formally persist but exert limited influence, serving primarily to maintain the appearance of participation. This concept is particularly relevant for cases in which dialogue institutions are preserved but crisis management remains substantively unilateral.

### **Reframing the politics of inflation**

The third strand of literature focuses on the specific features of the 2021–2024 inflationary episode and its political / economic implications. Unlike the inflation of the 1970s, this episode was not triggered by domestic wage pressures or expansionary fiscal policies, but by a combination of external supply shocks, energy price spikes, and pandemic-related disruptions. Most authors agree that energy played a central role in transmitting inflation across sectors, both directly through household consumption and indirectly through production costs (Lübker and Janssen, 2022; Harr and Spange, 2023).

A central debate in this literature concerns the persistence of inflation. While orthodox interpretations initially emphasised the risk of wage–price spirals, more recent empirical work suggests that wage growth remained subdued throughout most of the crisis, and that real wages declined in many countries (Eurofound, 2023). Several studies have instead pointed to the role of profit margins, especially in concentrated sectors, as a key driver of inflation persistence (Weber and Wasner, 2023; Nikiforos et al., 2024). For instance, analyses of Spain and Germany show that firms were often able to pass increased costs onto consumers and even expand mark-ups in favorable market conditions (Uxó et al., 2025; Nabernegg et al., 2024).

This reconfiguration of the inflationary process has significant implications for social dialogue. In the classic neo-corporatist model, social dialogue aimed at preventing workers from pushing wages beyond productivity growth. In the current context, however, workers have primarily experienced losses in purchasing power, and unions have not been in a position to impose inflationary wage dynamics. As a result, the normative and political justification for wage restraint has weakened.

International organisations have increasingly recognised this shift. Rather than calling for wage moderation, institutions such as the OECD and the European Commission have emphasised the importance of protecting real wages and shielding vulnerable groups from the regressive effects of inflation (OECD, 2022; European Commission, 2022). The European Commission has also renewed its emphasis on social dialogue as a pillar of the European social model, framing it as a mechanism for inclusive crisis management and democratic legitimacy (European Commission, 2023).

At the same time, governments have relied heavily on compensatory policies—such as energy price caps, tax rebates, and lump-sum transfers—to address the immediate social consequences of inflation. These policies are typically designed and implemented by the state, with usually limited formal and direct involvement of social partners. This raises the question of the extent to which the social partners were involved by governments, how they were involved, and what the objective was. In line with the literature on contemporary crisis corporatism discussed above, we will analyse social partner involvement in the inflation crisis along three dimensions. First, the mode of involvement, including tripartite or bipartite forms but also the degree of formalisation. Secondly, its function, that can be instrumental (as an input in policy design), expressive (having just a legitimising role), or signalling (external credibility). Thirdly, the intensity would refer to outputs, and more specifically, to whether dialogue substantively shapes distributive outcomes.

## 2 – The role of social dialogue in managing the inflation crisis: cross-country differences

This section maps how social dialogue featured in the management of the inflation crisis between 2021 and 2024, focusing on three dimensions: the intensity, form and function of social dialogue. The intensity of social dialogue refers to the extent to which social partners were substantively involved in shaping policy outcomes, as opposed to being just consulted or informed. By contrast, the mode refers to whether social dialogue was mostly bipartite (through collective bargaining) or tripartite (involving the state directly). The function refers to whether it was instrumental (as an input in policy formulation), expressive (having just a legitimising role), or signalling (external credibility). The objective is to describe the ways in which social partners were involved in crisis governance, and how this involvement varied across institutional contexts.

### 2.1 The role of social dialogue in shaping incomes policies

A first important finding is that none of the five countries developed a comprehensive incomes policy pact coordinating wage-setting, price regulation, and compensation measures. Even in countries with strong traditions of social dialogue, such as Denmark and Germany (or even Spain), crisis management did not rely on mechanisms of macro-level coordination.

This absence can be explained by contextual, institutional and political factors. First of all, wages were not considered the main trigger of inflation (though in some countries there were fears of wage-price spirals leading to persistently high inflation). Moreover, from an institutional point of view, collective bargaining has become increasingly decentralised in many European countries, limiting the capacity of a) sustaining real wage increases over long periods and b) committing peak organisations' members to binding agreements, or governments' willingness to rely on them. Politically, the distributive nature posed the problem of how to distribute the costs of the adjustment, particularly around wage indexation, corporate taxation, and fiscal expansion.

A case in point would be Spain, where there were failed attempts at incomes policy. From early 2022 onwards, the government repeatedly tried to reach a tripartite agreement aimed at protecting purchasing power while avoiding inflationary spirals. These negotiations failed due to disagreements between unions and employers over wage indexation and corporate taxation, with employers opposing both automatic wage adjustments and the government's windfall taxes on large firms. Another illustration is Germany where the revival of the *Konzertierte Aktion* (Concerted Action) initially suggested a return to corporatist crisis governance. However, the forum remained largely consultative and did not result in binding agreements on wage-setting or price coordination. Instead, it functioned primarily as a platform for information exchange and political signalling, while key decisions were taken unilaterally by the government.

In Denmark, the absence of incomes policies is part of the normality of a country with strong autonomous industrial relations institutions: wage adjustments and coordination take place through existing collective bargaining rounds rather than through extraordinary tripartite intervention. Finally, in Poland and Italy incomes policies were not even seriously considered. Both countries relied on state-led instruments,

reflecting weak collective bargaining institutions and limited traditions of macro-level social concertation, especially in the case of Poland.

The role of social dialogue has thus shifted away from macroeconomic steering and towards a more legitimising and consultative function. Rather than acting as a macroeconomic steering device, social dialogue increasingly functions as a political resource for governments supporting legitimation and conflict-management (see Mailand 2020, corporatism as political exchange), as in Spain in Germany. In other cases in our sample, i.e. in Italy and Poland, social dialogue largely played a symbolic role, primarily to maintain the appearance of participation. While in Poland, this was rather in continuity of previous practices (see Mrozowski 2024, illusory corporatism), this meant a change in Italy, where previous governments had relied on tripartist decision making in a more substantial and intense form. The Meloni government in particular abstained from consulting trade unions, but also employers, for different reasons. Trade unions pointed to the strong popular mandate as a possible reason (making trade union support dispensable), whereas in the case of employers, the unilaterally developed, tax-financed policies were still in line with employers' interests anyway and interviewed employer associations expressed their satisfaction.

## 2.2 The intensity of social partners' involvement

The intensity of social dialogue refers to the frequency and depth of social partner involvement in the design, implementation and evaluation of policies. Whilst measuring the frequency and scope of the involvement can be relatively easy, the depth of involvement is more difficult, as it is empirically hard to establish whether this involvement has been based on just consultations or it has also involved negotiation. When it comes to the intensity of social dialogue, there are significant differences across the countries compared. Spain and Germany stand out as the countries where there has been a greater reliance by governments on social dialogue, though in different ways. In Spain, the centre-left progressive coalition made of social dialogue a core feature of its government, though this didn't necessarily lead to a systematic involvement nor agreements. The coalition sought union (and to a lesser extent, employer) involvement, even when employer organisations withdrew or refused to sign agreements, especially in the case of minimum wage-setting. Although this dialogue did not produce formal agreements, it framed policy measures taken to mitigate or compensate for inflation. Unions played an important agenda-setting and legitimising role, particularly in relation to redistributive interventions and labour market regulation.

Germany has also been a country where the involvement of social partners has been significant. Social partners were consulted and involved in ad hoc crisis forums, most notably through the concerted action and the Expert Commission on Natural Gas and Heating. The Expert Commission was an exceptionally formalised approach to policy formulation, involving social partners and scientists to find a solution to a specific and urgent issue: the significant financial burden placed on companies and private households by spikes in energy prices. The government still retained control over the policy agenda, often announcing measures before consultations took place. Except for the Expert Commission, Social dialogue thus functioned more as a mechanism of political inclusion and consensus-building than as a mechanism to co-decide policies.

Denmark would also fall into the medium-intensity category, but for different reasons. Here, the government did not rely heavily on extraordinary tripartite intervention, except for a collective agreement

in the public sector which resulted in above-average wage increases for particular occupational groups (in health care, childcare, among others), thus breaking the norm of following the wage pattern in manufacturing. Apart from this, inflation was absorbed through the normal functioning of bipartite collective bargaining. Social dialogue remained strong, but primarily within the industrial relations system rather than through crisis-specific institutions

Finally, Italy and Poland represent low-intensity cases. In both countries, social partner involvement was limited and when it happened, it was largely informal. In Poland, tripartite bodies existed but were mostly used for information exchange rather than negotiation. No tripartite resolutions were adopted, and positions were articulated bilaterally by labour and employer sides. In Italy, social dialogue was marginal to crisis governance, which was dominated by unilateral fiscal and energy-related measures.

### **2.3 The mode of social partners' involvement: Tripartite vs bipartite social dialogue**

As was mentioned earlier, differences in the mode of social dialogue, were also significant across countries. In line with its institutional configuration, Denmark represents the clearest case of autonomous bipartite collective bargaining and social dialogue, without the need for strong tripartite intervention. This reflects the high degree of coordination embedded in the Danish bargaining system and the institutionalised link between private and public-sector wage developments, that facilitates forms of coordination without explicit pacting.

Spain, Germany, and Italy all relied more heavily on tripartite formats, but with very different logics and degrees of success. In Spain and Germany, tripartite forums were activated as part of crisis management. However, these forums differed in their political function. In Spain, tripartite negotiations were repeatedly attempted but failed, leading to a form of crisis corporatism without pacts. In Germany, tripartite formats were partly used to build consent around government-led packages rather than to co-produce policy, whereas the Expert Commission was given a specific assignment and was expected to participate in the development of tangible solutions. Finally, in Italy and Poland, tripartite institutions existed but were weak and marginal. Crisis governance mostly consisted of unilateral government action, reflecting both institutional fragility and political preferences for executive discretion in countries governed by right-wing parties.

## 3 – Social dialogue across policy domains

The previous section showed that national patterns of social dialogue during the inflation crisis varied significantly in terms of intensity, mode and function. In this section we focus on how social dialogue varied across policy domains by disaggregating the analysis by policy scope, focusing on three domains that were central to inflation management: minimum wage-setting, public sector wage-setting and compensation policies and price regulation.

These three policy domains have played a key role in stabilising incomes and adjusting the impact of the energy crisis (Tassinari et al. 2025), but they differ significantly in their institutional embedding. While social partners play a prominent role in minimum and public sector wage-setting in many countries, compensation policies and price regulation have fallen primarily within the realm of the state and rarely become the object of social dialogue, even in countries with neo-corporatist institutions. Moreover, the distributive politics of inflation played out differently across these domains. While wage-setting involves direct conflicts between labour and employers, compensation policies involve broader questions of taxation, targeting, and public finance. As a result, governments tended to rely more heavily on unilateral instruments in the latter domain, even in countries with strong traditions of social dialogue.

### 3.1 Minimum wages

Minimum wage policies became a highly salient instrument during the inflation crisis, particularly in countries where there is a statutory minimum wage. Because minimum wages directly affect the lowest-paid workers, who are also the most exposed to inflation, they acquired a strong distributive and symbolic significance. To this we have to add the role of the EU Directive on Decent Minimum Wages, that placed this policy at the heart of policy discussions. However, the role of social dialogue in minimum wage setting varied substantially across countries, reflecting different institutional traditions and political strategies.

In Spain, the statutory minimum wage (NMW) became a central instrument of inflation management. Since 2019, successive centre-left governments have pursued an explicit strategy of using the NMW as a redistributive tool, especially after a long period of very limited increases. This approach continued during the inflation crisis, with repeated increases aimed at protecting low-wage earners from real income losses. However, compared to previous periods, the government relied on a committee of experts that have drafted a report to inform the decision about the increase in the minimum wage. This committee has taken the objective established in the European Pillar of Social Rights and the European Social Charter to achieve a minimum wage equivalent to 60% of the median wage. Hence, the first and largest ever increase in the minimum wage for 2019 was made after the recommendation made in this report, that also informs the negotiation with social partners.

According to the Labour Code, the government is formally endorsed with the task of setting the minimum wage every year, 'after consulting social partners'. There is accordingly no obligation to negotiate, but just a formal requirement to consult trade unions and employers. The intensity of social partners' involvement thus depends on government's initiative. In the case of the left-wing coalition, they've always been favourable to negotiate and have engaged with social partners to find an agreement. In practice, however,

the employer organisation CEOE withdrew from negotiations most of the times, leaving the government to negotiate primarily with trade unions. Despite this, the government maintained a commitment to social dialogue, regularly consulting unions and framing decisions as outcomes of (bi-partite) social dialogue. This produced a hybrid configuration. On the one hand, minimum wage increases were politically driven and ultimately decided unilaterally by the government, but with the active involvement of trade unions.

The German case presents some interesting differences in relation to Spain. The statutory minimum wage was introduced relatively recently, in 2015, and is normally adjusted by the Minimum Wage Commission, a bipartite body composed of social partners. This arrangement is often presented as a model of autonomous, depoliticised wage governance, where collective bargaining and more specifically negotiated wage increases, are taken into consideration. In 2022, however, the government imposed an extraordinary increase in the minimum wage, raising it to €12. This decision bypassed the commission and was justified by the objective to develop the minimum wage into a 'living wage' and had already been decided upon before the Ukraine war. While this increase had the effect of protecting low-wage workers from real income losses, it marked a clear shift towards state-led intervention. The intervention appeared necessary to close the gap to medium wages that social dialogue was unable or unwilling to achieve. The subsequent adjustment, which proceeded also in reaction to the inflation, returned to the commission, which set increases for 2024 and 2025 in 2023.

Poland also has a statutory minimum wage that has long been politicised. The government sets the minimum wage annually, following consultation with social partners, but without binding negotiations. During the inflation crisis, the government relied heavily on minimum wage increases as a redistributive and electoral tool. These increases were significant in nominal and real terms, but they were not the result of meaningful social dialogue. Tripartite bodies discussed the proposals, but the final decisions were taken unilaterally. This configuration reflects the broader weakness of social dialogue in Poland as the minimum wage policy was used as a political lever rather than as a negotiated outcome, reinforcing the pattern of state unilateralism.

Denmark and Italy don't have a statutory minimum wage. In Denmark, wage floors are set through collective agreements, and coverage is high. This means that minimum wage dynamics are fully embedded in bipartite social dialogue. During the inflation crisis, the 2023 private-sector bargaining round delivered substantial nominal wage increases, including increases in wage floors. These adjustments were negotiated within the existing institutional framework, without extraordinary state intervention. This configuration stands out in two respects. First, it demonstrates that strong collective bargaining institutions can combine addressing inflationary shocks with wage moderation necessary for competitiveness, without the need for statutory intervention. Second, it shows that social dialogue can retain a substantive economic function when it is institutionally entrenched. However, as will be showed later, this bipartite strength did not extend to compensatory or price policies, which remained largely state-led.

Finally, wage floors in Italy are also defined by collective agreements, but coverage is more uneven and fragmented compared to Denmark. During the inflation crisis, debates about introducing a statutory minimum wage intensified, particularly as real wages eroded. Trade unions supported the introduction of a statutory floor, while employer organisations opposed it. Despite the salience of the debate, no reform was adopted. The government preferred to rely on fiscal instruments rather than intervening directly in

wage-setting. Here, social dialogue played a limited role. While unions articulated demands, they did not translate into institutional change. This reinforces the broader pattern of weak macro-level dialogue in Italy.

### 3.2 Public sector wage-setting

Public sector wage-setting (PSWS) constituted a key domain of social dialogue during the inflation crisis in most countries. Unlike minimum wages, which often involve statutory intervention, PSWS is typically governed by negotiated procedures, making it a testing ground to assess the resilience of social dialogue under inflationary pressure. Across the five countries, PSWS remained more strongly embedded in social dialogue than other policy domains due partly to the strength of trade unions. However, the extent to which it was able to compensate for real wage losses, and the degree to which social partners shaped outcomes, varied considerably. The spectrum ranges from classic collective bargaining in Germany to unilateral state decisions in Poland. In Denmark and Italy, public sector wages are object of negotiations, but the state pre-sets the available budget for increases. In Spain, the state consults trade unions, but decides unilaterally.

During the inflation crisis, negotiations between the government and public sector trade unions in Germany became a focal point for distributive conflict, as unions sought to compensate for real wage losses. The 2023 bargaining round resulted in an average nominal increase of around 11.5% over two years, with disproportionately higher increases for lower wage groups. This outcome was the result of intense collective bargaining, strike mobilisation, and public pressure. Although the federal government publicly emphasised fiscal prudence and warned against inflationary pressures, it did not override collective bargaining. Instead, PSWS remained one of the few domains where social dialogue had clear material effects on income distribution.

Denmark represents the most institutionally stable case among all those analysed. Public sector wages are formally linked to private sector wage developments through the so-called regulation mechanism. This mechanism ensures that public sector wages track private sector outcomes over time. During the inflation crisis, public sector wage agreements were delayed due to the pre-existing multi-year contract structure. When negotiations resumed in 2024, they delivered substantial nominal increases of 8.8% on average for a two year period. This was supplemented by targeted increases for specific occupational groups, such as nurses and childcare workers. These additional increases were not primarily justified by inflation, but by long-standing recruitment and retention concerns in a context of acute labour shortages as well as the revaluation of female-dominated labour.

Public sector wage-setting in Spain remained formally negotiated, but it was strongly shaped by political and fiscal constraints. In 2022 The government agreed on multi-year wage increases with trade unions, but these increases only partially compensated for inflation. While unions were formally involved in negotiations, their room for manoeuvre was limited by the government's broader fiscal strategy and by EU-level constraints. In 2025, negotiations about a new multi-year framework agreement for public sector employees, led the government and trade unions negotiate. In a first instance, the government reached an agreement with two of the representative trade unions in the public sector (UGT and CSIF), whilst CCOO refused to sign as it considered that the new agreement didn't help to recover purchasing power. The government resumed negotiations and some months later, CCOO finally accepted to sign it as the new

agreement incorporated higher wage increases.

In Poland, PSWS is only weakly embedded in collective bargaining. The government plays a dominant role in setting public sector wages, often through administrative decisions rather than negotiated agreements. During the inflation crisis, nominal wage increases were granted to some groups of public employees, but these were not the result of structured social dialogue. Trade unions articulated demands, but they had limited bargaining power and decisions remained largely unilateral.

Public sector collective agreements in Italy are often renewed with long delays. An indexation mechanism foresees the government to increase wages in the meantime based on an inflation index that excludes imported energy prices. As a result of delayed collective bargaining, PSWS systematically failed to compensate for the inflation surge. Therefore, the government increased public sector wages unilaterally beyond the indexation mechanism. Nonetheless, real wages in the public sector declined sharply, and unions were unable to secure adequate compensation. Although formal bargaining procedures exist, their effectiveness has been eroded by chronic underfunding, delayed renewals, and restrictive fiscal frameworks and shifted the locus of decision making to the state – a development that already started after the Great Financial Crisis in 2009.

### **3.3 Compensation policies and price regulation**

Compensation policies and price regulation constituted the core of crisis governance in all five countries. These included energy price caps, VAT reductions, lump-sum transfers, tax credits, and subsidies. Unlike wage-setting, these policies fall within the remit of the state. As a result, social dialogue is expected to play a much weaker role compared to minimum wage and PSWS.

Germany combined technocratic policy design with limited involvement of social partners. The German government developed an extensive package of compensation measures, including energy price brakes, lump-sum transfers, tax adjustments, and the inflation compensation premium. Social partners were involved mainly through consultative formats. The most substantive forum was the Expert Commission on Natural Gas and Heating, which proposed several key measures that were later implemented.

In Spain too, compensation and price regulation were central to the government's anti-inflation strategy. These measures included energy price caps, VAT reductions, rent controls, and targeted transfers. Similarly to the case of Germany, trade unions (and employer organisations) were consulted, but it's hard to assess the real impact of, in the design and sequencing of policy responses. Employer organisations, by contrast, often opposed these interventions. Here, dialogue primarily served to legitimate redistributive choices rather than to coordinate macroeconomic policy.

Denmark adopted comparatively modest compensation measures, focused on energy costs and vulnerable groups. Social partners were consulted selectively, but policy design remained in the hands of the government.

In Poland, compensation policies were extensive and politically salient. However, they were designed unilaterally. Tripartite forums discussed these measures, but they did not shape outcomes. This reinforced the marginalisation of social partners

Italy relied heavily on energy price shields, tax cuts, and one-off transfers. Social partners were consulted episodically, but they did not co-design policies. This reflects the more general shift to unilateral decision making by recent governments.

## 4 - Comparative discussion

The analysis of the five countries included in this study shows some similarities, but above all, make clear the importance of national models and trajectories in explaining the role of social partners in the inflation crisis (see table 1). All countries share the absence of classic (tripartite) incomes policies. Even where governments explicitly attempted to negotiate such agreements, as in Spain, these efforts failed. In other cases, such as Germany, Denmark, or Italy, there was never a real aim to go for it.

Several factors contribute to explain this. First of all, the institutional preconditions of classic incomes policies are largely absent. Coordinated wage restraint requires encompassing unions, strong employer associations, and mechanisms to enforce compliance. These conditions have been eroded and no longer exist in most European countries, particularly in Southern and Eastern Europe. Another element to be considered is that the political economy of the current inflationary episode differs fundamentally from that of the 1970s. Wage increases have not been the drivers of inflation since real wages have generally fallen. This weakens the normative and political justification for wage restraint and undermines the logic of macro-level wage coordination. As a consequence, it hasn't been interpreted as a conflict around coordination capacities (of social partners), but as a burden-sharing issue.

**Table 1. Social dialogue in inflation management: comparative overview**

|                | <i>Intensity of social partner involvement</i> | <i>Dominant mode of social dialogue</i>                    | <i>Characteristics of social dialogue and function</i>   |
|----------------|--|--|--|
| <b>Spain</b>   | Medium-high                                    | Tripartite (with strong bilateral government – union axis) | Repeated attempts at incomes policy; strong consultation; failure of binding pacts; unions as key legitimising and agenda-setting actors |
| <b>Denmark</b> | Medium   | Bipartite  | Inflation absorbed through collective bargaining; limited tripartism; state-led compensation policies                                    |
| <b>Germany</b> | High-medium                                    | Tripartite (consultative)                                  | Revival of tripartite forums; strong executive control; social dialogue as both instrumental and legitimising mechanism                  |
| <b>Italy</b>   | Low  | Formally tripartite, substantively unilateral              | State-led compensation policies; weak macro-level coordination; fragmented consultation with social partners                             |

|               |     |   |  |
|---------------|-----|---|--|
| <b>Poland</b> | Low | Formally tripartite, substantively unilateral | Marginalised social partners; social dialogue mainly informational |
|---------------|-----|---|--|

Source: Own elaboration

Related to the previous point, all five countries compared share a pattern of functional transformation of social dialogue. In the classic neo-corporatist literature, social dialogue was conceived as a coordination device. In the cases studied here, it more often functioned as a mechanism of legitimation and conflict management, rather than as a policy-making mechanism. This is particularly visible in Germany. The revival of the Concerted Action carried strong symbolic weight, signalling continuity with corporatist traditions. However, its practical role was limited. Nonetheless, social dialogue played the most prominent role in managing the inflation crisis in Germany compared to other countries in the sample. The government retained agenda-setting power for compensation policies, and social partners were invited primarily to comment on, rather than co-design, policies. In contrast, trade unions were involved as usually in bipartist PSWS and the adjustment of the SMW in reaction to inflation was equally decided by social partners bilaterally. A similar pattern appears in Spain, where the government invested heavily in social dialogue, because it was politically valuable. It helped construct a narrative of inclusiveness and social justice, even when consensus failed. In Italy and Poland, the role of social dialogue was minimal, and it only played a legitimising role, if at all. Formal tripartite bodies existed, but their involvement did not meaningfully constrain executive discretion. Dialogue served primarily to maintain the appearance of consultation. Finally, the continued functioning of bipartite coordination in Denmark meant that social dialogue retained a substantive economic role in wage-setting. However, even in this case, its macro-political role was limited.

Section 3 has also shown that the role of social dialogue in managing the inflation crisis varied widely across countries and policy domains. From the analysis of social dialogue trends in the countries analysed in the project, two main patterns emerge. First, social dialogue is strongest in those policy domains where it is already institutionally embedded, that is, in wage-setting, particularly in the public sector and in Denmark's private sector. Even under inflationary pressure, these institutions continued to function. However, the overall contribution of social dialogue to adjusting the energy and cost-of-living crisis was limited because the core of crisis governance shifted towards domains where social dialogue is structurally weak: (regulation of) energy markets, taxation, and compensation.

**Table 2. Role of social dialogue by policy domain**

|              | <i>Minimum wage</i> | <i>Public sector wages</i> | <i>Compensation policies and price regulation</i> |
|--------------|---------------------|----------------------------|---|
| <b>Spain</b> | Medium–High         | Medium                     | Medium (consultative)                             |

|                |                   |      |                       |
|----------------|-------------------|------|-----------------------|
| <b>Denmark</b> | High (through CB) | High | Low                   |
| <b>Germany</b> | Medium-High       | High | Medium (expert-based) |
| <b>Italy</b>   | Low               | Low  | Low                   |
| <b>Poland</b>  | Low               | Low  | Low                   |

Source: Own elaboration

The comparative analysis also shows that the institutional capacity of industrial relations systems remains a crucial element to explain social dialogue dynamics. Where collective bargaining is highly coordinated and inclusive, as in Denmark, inflation could be absorbed through existing industrial relations institutions, though with some delay caused by the dynamics of renewal of collective agreements. Wage adjustments occurred through negotiations between employers and trade unions and were sanctioned through collective agreements at sectoral level. The strength of collective bargaining and the autonomy of social partners, contributed to isolate it from political conditions. In contrast, the weakness of collective bargaining institutions in Poland or the fragmentation of social partner organisations (as showed by the Italian case), limited the pressure on governments to seek the consultation and support of social partners, in particular of trade unions. Governments therefore relied almost exclusively on statutory and fiscal instruments.

Together with the institutional framework governing industrial relations, the political orientation of government also played a role in explaining social dialogue developments. Governments play a key role in opening spaces to involve social partners. In Spain, the centre-left coalition relied on social dialogue as a political resource. Social dialogue not only served to co-design policies, but also to build a narrative of fairness, inclusion, and social justice. Even when pacts failed (as was the case of the tripartite incomes policy agreement in 2023), the process itself had a political value, showing the government commitment to it.

In Germany, the “traffic light” coalition adopted a more technocratic style of crisis governance. Social dialogue was revived but kept under executive control and served to signal continuity with entrenched corporatist traditions while preserving policy autonomy. In Denmark by contrast, political intervention was minimal because strong industrial relations institutions could deliver compromises between compensating inflation and maintaining fiscal austerity. This reduced the need for visible tripartite coordination, but the role of social partners in non-wage aspects like price regulations or subsidies remains limited. Finally, governments in Italy and Poland showed little interest in meaningful macro-level dialogue. In Poland, this reflected a broader political culture of executive dominance. In Italy, it reflected the limited commitment of the right-wing government towards social dialogue but also the concerns about fiscal credibility of policies negotiated with social partners.

An interesting transformation observed in social dialogue during the recent inflationary crisis compared to the 1980s episodes has been a shift in its objectives, that have shifted from coordination to compensation.

Classic incomes policies à la 1980s aimed to coordinate expectations of actors (including trade unions and employer organisations, but also companies and citizens), discipline wage dynamics, and prevent inflationary spirals. In the current episode, by contrast, governments focused primarily on compensating households and firms for external price shocks.

This shift has two consequences. First, it structurally marginalises social partners, because compensation policies are typically state-led. Even in neo-corporatist countries, these policies have historically stayed out of the realm of co-productions with unions and employers. Secondly, the shift also redefines the role of social dialogue, that is no longer expected to deliver (macroeconomic) coordination but becomes a forum to debate distributive implications as well as a tool to provide legitimacy.

Taken together, these findings suggest that social dialogue has not disappeared from European political economies during the most recent inflationary period, but its function has changed. It has been mostly limited to core functions of social partners like collective bargaining, or SMWS. On the macroeconomic level, however, rather than acting as a steering mechanism, it increasingly serves as a legitimising device for executives. According to this, social dialogue (in particular in its tripartite incomes policy form) becomes an arena for debating and containing distributive tensions. This does not mean that social dialogue has become irrelevant. On the contrary, its political importance has increased in contexts of distributive stress, like the one during the energy crisis. But its economic coordinating function has weakened. This transformation probably reflects the erosion of institutional capacities, but also deeper shifts in the nature of inflation itself.

### **Concluding remarks**

This report has analysed the role of social dialogue in five countries during the recent inflation crisis. The findings provide a variegated picture, but the analysis suggests that compared to the Covid crisis, that witnessed a resurgence of (crisis) corporatism, the inflation crisis hasn't triggered a stronger involvement of social partners in the design or implementation of policies aimed at mitigating or compensating for the impact of the inflation.

A first general finding is that no country returned to a classic model of encompassing incomes policy, understood as a binding, economy-wide tripartite agreement coordinating wages and prices, and eventually, fiscal measures. Even in cases where tripartite formats were formally activated, they did not function as steering mechanisms for macroeconomic coordination. Instead, social dialogue took more fragmented, ad hoc, and policy-specific forms. Its most prominent remained in public sector wage setting. This pattern is consistent with the longer-term erosion of corporatist capacities discussed in Section 1. While the inflationary shock initially triggered attempts to revive concertation in countries like Spain, these efforts were constrained by political disagreements over distributional issues.

Among all five countries, Germany and Spain stand out as the most dialogue-intensive cases. Germany revived tripartite formats such as the Concerted Action and established expert commissions but largely using them to legitimise state-led compensation packages rather than to negotiate binding wage coordination. In Spain, the government repeatedly attempted to negotiate an incomes policy agreement with social partners, but ultimately relied on consultation, symbolic inclusion, and unilateral action when consensus failed, particularly around wage indexation and taxation of corporate profits. Denmark represents a case of continuity, where social dialogue remained strong, but primarily through bipartite

collective bargaining, allowing inflation to be absorbed within existing wage-setting practices. Poland illustrates the weakest form of social dialogue, with inflation management dominated by unilateral state action and tripartite institutions playing only a marginal, informational role. Finally, Italy also relied mainly on government-led instruments, particularly fiscal measures and energy subsidies, while social partners remained weakly integrated into macro-level decision-making.

Across policy areas, social dialogue played a more visible role in wage-setting (including minimum wages and public sector wages) than in compensatory or price-regulatory policies, which were largely state-driven. Overall, the findings suggest that tripartite social dialogue has shifted from a coordinating and disciplining device towards a more fragmented, domain-specific, and often legitimising function, shaped by the long-term erosion of collective bargaining institutions and by the distributive nature of the current inflationary shock.

The findings also point to a re-scaling of social dialogue. Rather than operating as an economy-wide coordination mechanism, it has become increasingly fragmented across policy domains. In most countries, social dialogue remained strongest where it was already institutionally embedded, namely, in wage-setting, especially in the public sector and, in Denmark, in the private sector. By contrast, in the domains that dominated crisis governance, energy policy, tax policy, lump-sum transfers, dialogue was weak or absent. This re-scaling reflects a broader transformation of industrial relations: from macro-level coordination to domain-specific consultation. It also explains why governments could simultaneously claim to value social dialogue while governing unilaterally in the most consequential policy areas.

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