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Social Corporatism: A Superior Economic System?
Edited by Jukka Pekkarinen, Matti Pohjola, and Bob Rowthorn

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CLARENDON PRESS • OXFORD

1992

Oxford University Press, Walton Street, Oxford 0x2 6DP
Oxford New York Toronto
Delhi Bombay Calcutta Madras Karachi
Petaling Jaya Singapore Hong Kong Tokyo
Nairobi Dar es Salaam Cape Town
Melbourne Auckland
and associated companies in
Berlin Ibadan

Oxford is a trade mark of Oxford University Press

Published in the United States
by Oxford University Press, New York

World Institute for Development Economics Research (WIDER)—
The United Nations University 42C, 00100 Helsinki, Finland

British Library Cataloguing in Publication Data
Data available

Library of Congress Cataloging in Publication Data
Social corporatism: a superior economic system? / edited by Jukka Pekkarinen, Matti Pohjola, and Bob Rowthom.
p. cm.—(Studies in development economics)
"A Study prepared for the World Institute for Development Economics Research (WIDER) of the United Nations University."
Includes bibliographical references and index.
1. Sweden—Economic policy. 2. Corporate state—Sweden. 3. Sweden—Politics and government—1905– 4. Scandinavia—Economic policy. 5. Corporate state—Scandinavia. 6. Scandinavia—Politics and government—1945– 7. Economic policy. 8. Corporate state. I. Pekkarinen, Jukka, 1947– . II. Pohjola, Matti. III. Rowthom, Bob. IV. World Institute for Development Economic Research. V. Series.
HC375.S6855 1992 338.9485—dc20 91–5027
ISBN 0–19–828380–6

Typeset by Alliance Phototypesetters, Pondicherry
Printed and bound in
Great Britain by Bookcraft (Bath) Ltd.
Midsomer Norton, Avon

FOREWORD

Post-war macro-economic management in OECD has long pursued what seemed an elusive 'Holy Grail'. This was a combination of high growth with low inflation and high levels of employment. For many OECD countries the reduction of inflation has meant the acceptance of socially and politically problematic levels of unemployment. Attention therefore has increasingly centred on a group of economies described as corporatist which had succeeded in the 1970s in reconciling these apparently conflicting objectives. What the so-called corporatist economies have in common is an annual central wage bargain involving an annual centralized process of wage bargaining with the employers as a group meeting labour unions as a group, with the whole process being mediated by the political system usually involving a coalition. Since growth in the developing world is still largely a function of successful recipes for growth in the developed world the corporatist experiment was a natural focus for WIDER research. Indeed the wage-bargaining process was a particular focus of the report of WIDER's World Economy Group.[1] The group asserts that: 'If EEC countries wish to return to full employment and stay there, they could do worse than look at Sweden.'

The present volume, taking the common feature of what may be described as social corporatism as a working definition, namely the centralized wage bargain, seeks to probe the conditions under which corporatism succeeds in actually finding the Holy Grail. There are corporatist success stories, notably the Scandinavian countries—Sweden, Finland, Norway, and Denmark—and there are the failures such as The Netherlands. The working definition that has been adopted for the purpose of this research permits the corporatist label to be extended to countries as diverse as Austria and Australia, and the extent to which these experiments have succeeded is also reviewed. The broad conclusion of the research is that the centralized wage bargain is a necessary but by no means sufficient condition for the successful reconciliation of otherwise incompatible objectives.

The Swedish experience is particularly instructive in that unemployment has never exceeded 3.5 per cent and now stands at under 1.5 per cent. In addition to centralized wage determination there are two other features common to the social corporatist success stories, namely unemployment benefits that run out after a year or so, and major training programmes for the unemployed. The Swedish labour market policy specifically has four main ingredients. First, a placement and counselling service operated by

[1] *World Imbalances,* WIDER World Economy Group Report (Helsinki, 1989), ch. 3: 'European unemployment'.

employment exchanges where each staff member has a case load of 15 unemployed compared with 375 for example in Britain. Secondly, there is provision for retraining of workers even before they become unemployed and about 1 per cent of the labour force are on training courses of this kind. Third, recruitment subsidies are given to employers for recruiting workers who have not been placed within six months. The subsidy is 50 per cent of the wage and lasts for six months. Fourthly, there is provision for temporary public employment and a right to work. The public sector, in effect chiefly local authorities, becomes the employer of last resort and work is available to anyone whose unemployment benefit entitlement has run out. While such policies are expensive and Sweden spends nearly 1 per cent of national income on them, there are substantial savings resulting from the resulting reduction in unemployment benefit. While unemployment benefit takes up 1.5 per cent of GNP in the EEC, it costs 0.7 per cent in Sweden. Overall, therefore, while Sweden may be spending 1.7 per cent of GNP on her full-employment programmes, or about as much as the EEC overall, the output gains of substantially lower unemployment mean that the programme is largely self-financing.

The WIDER study suggests that developing countries could do well to emulate the example of the successful corporatist countries in building the necessary institutions at an early stage of their development. Indeed as the pivotal centrally planned command economies of Eastern Europe move increasingly over to market solutions they will have the opportunity to profit from the lessons of the corporatist experience by incorporating the key elements in rebuilding structures that are now very much in the melting-pot.

Lal Jayawardena
Director, WIDER

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Acknowledgements

The papers published in this volume are the outcome of a research project on social corporatism carried out in 1988–1989 with financial contribution provided by the Ministry for Foreign Affairs of the government of Finland.

The project was organized under the joint auspices of WIDER and the Labour Institute for Economic Research in Helsinki. The authors would like to thank the staff of these institutes for their help and encouragement. We should also like to thank the participants in the various seminars and meetings organized in connection with this project, in particular, Tariq Banuri, Lal Jayawardena, Pekka Korpinen, Stephen Marglin, Juliet Schor, and of course all the contributors to this volume.

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Social Corporatism and Economic Performance: Introduction and Conclusions

Jukka Pekkarinen, Matti Pohjola, and Bob Rowthorn

1.1 THE CONCEPT OF SOCIAL CORPORATISM

The notion of corporatism as an economic system distinct from both classical capitalism and socialism has experienced a revival of intellectual interest since the mid-1970s. This was prompted by the diversification of the economic performance of different countries which called for an explanation. In the writings of modern social scientists various prefixes or adjectives, such as neo, liberal, social, or societal, are attached to the term to make a clear distinction between its modern and old meanings (for reviews see, for example, Pryor 1988 and Williamson 1989).

The old strand had its roots in nineteenth-century Roman Catholic social thought as well as in German romanticism and idealism. It first appeared as a response to the social problems arising from industrialization and maintained that class conflict is not an inherent feature of the capitalistic way of organizing ownership and production. Great emphasis was placed on the roles of semi-autonomous bodies representing all occupations in the organization of economic activities and the making of parliamentary policy. During the first decades of the current century various political movements—Fascists on the far right and Social Democrats and guild socialists on the left—developed their own variants of corporatism as an alternative economic system to either capitalism or socialism.

Leaders of the former movement saw corporatism as a means to support nationalism whereas those of the latter regarded it as a way of avoiding the excessive centralism of the Soviet type of socialism. After the Second World War, however, the papal interest in corporatism waned and the state corporatism of the extreme right was politically discredited.

What remains of this older tradition in the modern strand of corporatist theorization is the view that corporatism is a variant of co-ordinated capitalism in which interest organizations, especially those representing the interests of labour, play important roles in the organization of economic activities and, consequently, in the economic performance of a nation. The links with Social Democracy have also remained strong. But just like capitalism and socialism, the precise meaning of corporatism is hard to define. In Chapter 2 of

the present volume Göran Therborn writes under the title 'Lessons from "corporatist" theorizations' that the concept has become a bit like God: many people believe that it is an important phenomenon but nobody really knows what it looks like. This does not, however, mean that studying it is useless. In fact, his conclusion is that corporatist theorists have hit upon something which is very important but difficult to analyse because corporatism remains a moving target, being subject to various definitions and specifications.

Our project was set up to hit this target by defining corporatism in an explicit way and by exploring the explanatory power of the chosen definition. In doing this we deliberately put substantial emphasis on the recent contributions of those economists who have studied the operation of organized labour markets and their importance to macro-economic development (for a survey, see Matti Pohjola's essay in Chapter 3). Economists' interest was drawn to corporatism by Bruno and Sachs (1985), but they had a notable predecessor—John Maynard Keynes (1927), who advocated something similar to it but did not succeed in persuading his colleagues. The sociological and political aspects received less attention in our plans—not because we regarded them as unimportant but because we wanted to concentrate on the economic consequences of the operation of organized interest groups.

We started by defining corporatism in the narrow sense as meaning centralized wage bargaining at the national level between strongly organized employee and employer associations. But the inadequacies of this concept became evident in the course of the work of the project. It turned out that the degree of centralization cannot in itself explain the diversity of economic performance between countries. This is reflected in many essays in the volume. Corporatism has to be specified in greater detail. In summarizing the contributions, we now find it most helpful to use the more specific concept of social corporatism by which we mean an economic system whose labour market is characterized by two basic features. The first one is centralized wage bargaining. Besides wages, bargaining may also include government economic and social policies in which case the state is either formally or informally involved in die process.

Corporatism thus derives from associative action, in contrast to individual or commanded action, and, more specifically, from a particular kind of associative action: class organization by both labour and capital. As demonstrated by Therborn in Chapter 2, differences between countries in their historical experiences and legal traditions make some societies more likely than others to exhibit this type of associative action. In particular, the Germanic type of labour movement and the Nordic type of employer organizations are conducive to politico-economic deals. The former is characterized by either close co-operation with or guidance of political parties to make a common effort at class organization, while the latter has also transferred experiences from parliamentary politics and the civil service

in mobilizing the employer side. The Nordic countries and Austria come at the top of the list in various rankings of the countries according to the degree of centralization of the bargaining structure, while the United States and Canada are at the bottom (see the essays by Pohjola and Bob Rowthorn in the present volume).

The second central feature of social corporatism is its non-exclusive and egalitarian nature. By this we refer, first, to the non-exclusion of any social group from the labour market and, second, to a high degree of equality in sharing both the benefits of increasing economic welfare and the miseries of recession or the burden of adjustment. This feature can be seen as an extension of citizens' political rights to cover economic activities in order to achieve social order in industrial and labour relations. Solidarity is its natural concomitant.

A perspective on our refinement of the definition of corporatism is given by Therborn. In his essay he argues that peaceful industrial order can be achieved in two different ways: either through the institutionalization of partnership or consensus, as for example in Austria and The Netherlands, or through the institutionalization of conflict as in the Nordic countries. In the latter model labour and capital are organized from below according to the principles of democracy and are regarded as labour market parties whose autonomy and conflict rights are respected and not violated. Using economists' terminology, this means that their property rights are well defined. Using our terminology introduced above, organizing labour market relations on conflict bases is a way to institutionalize the non-exclusive and egalitarian feature of corporatism.

The institutionalization of partnership or consensus is different in the sense that industrial peace may be achieved at the expense of groups which are either economically or politically too weak to have any considerable bargaining power, that is by excluding them from the bargaining table. From the essays by Therborn, Rowthorn, and Alois Guger the conclusion can be drawn that Austria and the Nordic countries are different in the respect that only the latter, and even then in a varying degree, satisfy our second criterion of social corporatism.

1.2 LABOUR MARKET PERFORMANCE

The received view in the economic literature is that perfect competition between atomistic economic agents is a socially efficient way to organize the operation of product and factor markets. Given well-known qualifications regarding externalities and scale economies, private non-co-operative decision-making results in an efficient and effectively co-ordinated solution for wages and prices in the economy as a whole. According to this view,

which we may here call market liberalism, the lack of competition in output and factor markets is the reason for the poor economic performance of a nation. The enhancement of competition is seen as the desirable solution to unemployment, inflation, growth, and productivity problems. As regards the labour market and the view that unemployment results from excessively high wages, this policy prescription means that the power of organized labour should be reduced in one way or another. By such power is generally meant the ability of trade unions to push wages above the levels which would equalize the demand for and the supply of labour. As their paradigm the neo-liberals take the deregulated markets of countries like the United States and Canada in which, they argue, the labour market exhibits flexibility and ability to adapt to changing economic circumstances.

Paradoxically, however, the Walrasian ideal of full employment with approximately equal wages seems to have been best achieved in the social corporatist countries. This fact is considered in Chapters 3 and 4. First, Pohjola's survey 'Corporatism and Wage Bargaining' shows that full employment may be best achieved by countries having either completely centralized or extremely decentralized bargaining structures, while the intermediate economies are likely to do much worse. The basic explanation is the following. If labour markets are dominated by a moderate number of medium-sized organizations, each big enough to enjoy considerable market power but small enough to pass the costs of their actions on to the others, then they all face a kind of prisoner's dilemma. Although all employees would benefit from wage restraint in some circumstances, any individual group might be significantly worse off if it were to accept wage moderation while other groups were able to obtain large pay increases. Aspects of the public goods problem are also present: benefits of nominal wage restraint do not flow only to the employees bearing its costs but also to the whole society in the form of a reduction in inflation and an increase in output and employment. There are two basic ways to deal with these kinds of externalities and, consequently, to improve the employment performance: either internalize them by centralizing the bargaining structure or remove them altogether by decentralizing wage fixing. A number of reasons are given why the first alternative might be socially more desirable than the second.

Pohjola also shows that this analysis has to be qualified in one important respect. Even the countries with intermediate bargaining structures are likely to achieve good employment performance under the normal circumstances of stable economic growth. This is because the unions and employer federations are ongoing organizations: they confront each other from year to year and are thus induced to behave strategically. They can then achieve tacit or implicit agreement on wage formation without any formal arrangement if they understand that cheating and free riding will be punished by the others by their not adhering to the implicit agreement in the future. The conclusion

is that the bargaining structure may matter only in turbulent circumstances. Various essays in the volume support the view that the oil crises are concomitant with the divergent economic performance in the 1970s and 1980s of the countries with centralized and intermediate bargaining structures: the first group did much better.

Rowthorn's essay 'Corporatism and Labour Market Performance' adds a new and important aspect to the analysis, namely the role of wage dispersion. He shows that one of the most striking features of decentralized labour markets is the extremely large dispersion of earnings. Some workers earn very high wages and enjoy a high degree of job security, whilst others—mostly female workers—are crowded into low-paid, low-productivity, and often insecure forms of employment. This phenomenon is clearly visible in Japan and North America whose labour markets are segmented, having a highly paid formal sector and a badly paid informal sector. The resulting allocation of labour is inefficient and much of the employment in low-paid jobs should properly be described as underemployment or disguised unemployment. The employment performance of these countries, and to a certain extent of Switzerland as well, is also influenced by the fact that unemployment benefits are low, of short duration, and limited in coverage. In these circumstances measured unemployment is made lower as job seekers are compelled either to take low-paid jobs or to withdraw from the labour market altogether. This makes it preferable to use the employment rate (that is, employment as a percentage of working-age population) rather than the unemployment rate as an indicator of labour market performance.

Under centralized wage bargaining this inefficiency and injustice could be avoided by establishing broadly uniform wages across the whole economy with some allowance for skills, unpleasant working conditions, and the like. But as is shown by Rowthorn in his essay only the Nordic countries have been able to achieve both high employment and low wage dispersion. Among the corporatist countries, Austria's labour market performance is much worse: her employment rate has not been outstandingly high while wage dispersion has been rather large. The important conclusion is then that while centralized wage bargaining may be a necessary condition for good performance it is not sufficient. This brings our attention to the importance of the second criterion of social corporatism: to be successful corporatism has to be of the non-exclusive and egalitarian type.

Pohjola's and Rowthorn's essays can be seen as a commentary on recent developments in labour economics. Labour markets in real life are not perfectly competitive. There are many imperfections, like the externalities described above, which make the Walrasian theory inapplicable. Modern labour economics recognizes this fact and there nowadays exist a number of theories, such as implicit contract, insider-outsider, and efficiency wage theories, which explain why the labour markets even in the absence of any

trade unions may deviate from full employment with equal wages. Pohjola's and Rowthorn's essays show that if unions are brought into the picture in the social corporatist framework, then the economy is in fact likely to move towards the Walrasian ideal.

Not unexpectedly, the above general themes connected with corporatism have to be qualified on the level of the experiences of individual countries. This conclusion comes out in a clear way from the country studies 'Corporatism and Economic Performance in Sweden, Norway, and Finland' by Jukka Pekkarinen in Chapter 10 and 'Corporatism: Success or Failure? Austrian Experiences' by Alois Guger in Chapter 11. In fact, as far as economic performance since the mid-1970s is concerned, the corporatist countries display considerable variety. There are countries like Sweden, which over the period as a whole are quite generally considered as success stories. Some corporatist countries, like Austria and, in some respects, Norway, which often used to be praised as success stories have met difficulties in the course of the 1980s. As is shown by Rowthorn's labour market analysis, Austria never did particularly well as far as employment, wage dispersion, and the relative pay between men and women are concerned. Moreover, the recent difficulties of the Austrian, as well as of the Norwegian, economy partly reflect the fact that these countries did not manage very well in the restructuring of their economies after the oil crises (see Michael Landesmann's essay in Chapter 8).

On the other hand, Denmark, which is often regarded as a failure on the basis of its high rate of open unemployment alone, actually displays strong labour market solidarity: her employment rate has been among the highest and wage dispersion among the lowest. Finally, the Finnish economy has succeeded quite well after the deep recession in the late 1970s, and her corporatist structures have become stronger at the same time. But one may wonder whether enhanced economic performance has been due to favourable structural background factors or to corporatism—in fact, as is suggested by Pekkarinen in his essay, the strengthening of corporatism in Finland may well have been a consequence of a strong economy rather than the other way round. This reversal of causation and endogeneity of corporatism has also been discussed by Pohjola in his essay in the volume.

Wolfgang Blaas's country study on Switzerland in Chapter 12 entitled 'The Swiss Model: Corporatism or Liberal Capitalism?' demonstrates clearly how mistaken it is to regard it as a corporatist country. The Swiss model resembles more the paternalistic-liberal capitalism of the Japanese type. Although the business community is strong and concentrated, labour is rather weak. Wage bargaining does not take place at the national level, but instead at the enterprise or plant level. The state plays only a minor role in organizing social security which has traditionally been a matter of private initiative. As measured by unemployment Switzerland's labour market

performance has been excellent, and also rather good in terms of employment and wage dispersion. However, the Swiss system is of the exclusivist type. It has been able to maintain full employment and a considerable degree of wage equality among Swiss males through the exclusion of women from the labour force and by increasing the flexibility of labour supply by adjusting the pool of foreign workers. Blaas calculates that had the overall labour force participation developed in line with other European OECD countries and had the number of foreign workers remained at its 1973 level, Switzerland would have had an unemployment rate of 9.8 per cent in 1986 instead of the actual 0.8 per cent.

Corporatism has been in retreat in a number of OECD countries in the 1980s. There are various possible explanations for this fact, such as increasing economic integration, the introduction of new flexible production technologies, and the increasing importance of public and service sector employees. These emerging features tend to weaken the working relationship between labour and capital. Although there are differences between countries, described in various essays in the volume, the trend has been almost universal. There are, however, certain exceptions. Robin Archer describes in Chapter 13, entitled 'The Unexpected Emergence of Australian Corporatism', how Australia has recently established a Nordic-type centralized wage-bargaining system in an environment being shaped by industrial relations of the British type.

The essay is important in that it addresses the question whether different societies are free to accept or reject a corporatist system or whether they are bound by tradition to their respective industrial relations systems. The Australian experience has so far been promising and Archer is optimistic in his account of the future of corporatism. The new system has already been able to cope with the shift in policy-making from tackling stagflation by wage restraint to industrial restructuring. Ireland is another economy which has recently moved in a corporatist direction, following the establishment of a 'National Wages Agreement' between the government and trade unions as part of an austerity package for dealing with the country's gigantic foreign debt problem. However, the Irish case is not discussed in this book.

1.3 DISTRIBUTION OF CONSUMPTION AND SAVING

In Chapter 5 Andrew Glyn approaches the question of labour market performance from a somewhat different perspective. He analyses the process of 'consumption spreading', whereby a given volume of market sector output is shared out amongst the population. Some mechanisms for spreading consumption achieve their result by increasing the total number of people employed in the economy, which Glyn calls 'employment spreading'.

One method for spreading employment is simply to hold down labour productivity in the market sector, thereby increasing the total amount of work available in this sector. Another is to create additional work in the non-market (i.e. government) sector. A third method is to reduce the hours worked by the average employee, so that any paid work available in the economy is shared out more widely. All of these mechanisms spread consumption by increasing the total number of people in paid employment. Their effect is complemented by the impact of transfer payments, which weaken the links between consumption and paid employment.

By comparing the corporatist countries with the EEC, USA, and Japan, Glyn shows that in the years of the golden age before 1973 the first group most clearly exemplified the process of consumption spreading through increased government employment, leisure, and transfers. These factors contributed to consumption spreading throughout the OECD, but their combined effect was greatest in the corporatist countries prior to 1973. Since 1973 world economic growth has slowed down and the relative importance of the various mechanisms for spreading consumption has altered somewhat. Government employment, leisure, and transfers are still important, and in most OECD countries growth in these items has continued to play a major role in spreading consumption. However, these are not the items which distinguish the corporatist countries since 1973. On average, the combined contribution to consumption spreading of increased government employment, leisure, and transfers has been about the same in the corporatist countries since 1973 as in the rest of the OECD. What distinguishes the corporatist countries over this period is a quite different item, namely the response of market sector productivity to slower output growth. All OECD countries have experienced a marked slow-down in the growth rate of market sector output since 1973. In many countries, labour productivity in the market sector has continued to rise quite rapidly, with the result that the total amount of work available in this sector has fallen dramatically. Labour shedding has also occurred in the corporatist countries, but to a lesser degree, primarily because of the slower growth of market sector labour productivity in these countries. Comparing Belgium and Sweden, for example, market sector output per head of population grew at an average rate of 1.2 per cent and 1.3 per cent p.a. respectively over the period 1973–86. The corresponding figures for hourly labour productivity were 3.5 per cent and 2.4 per cent. As a result of this differential growth in productivity, the total hours of work performed in the market sector (per head of population) fell by 2.3 per cent p.a. in Belgium as compared to 1.1 per cent p.a. in Sweden. Cumulated over such a long period, a difference of this magnitude has enormous social implications. In Sweden, the slow growth of labour productivity has helped to maintain the demand for labour in the market sector and thereby keep down unemployment and spread consumption more

widely in the population. In Belgium, by contrast, relatively fast productivity growth has meant a dramatic reduction of employment in the market sector, a massive rise in unemployment, and a marked contraction in the spread of consuming power. The slow growth of labour productivity in Sweden and certain other corporatist countries since 1973 is in part a deliberate choice., reflecting a conscious desire to maintain employment in the market sector as a way of preventing unemployment. It is a solidaristic mechanism for spreading employment and consumption, which is unnecessary in good times, but can play a vital role in bad times. Interestingly, though for somewhat different reasons, productivity has also grown very slowly in the market sector in the USA since 1973, which has been a major factor in that country's ability to generate so much employment in modern times. For slow productivity growth to be a viable means of maintaining employment and spreading consumption, it must, of course, be accompanied by a correspondingly slow growth in real wages, which has been the case in both Sweden and the USA.

An important aspect of labour market solidarity is the social security system. Katri Kosonen draws in her essay 'Saving and Economic Growth from a Nordic Perspective' in Chapter 6 a distinction between the Nordic type and the Continental or, as she calls it, a 'Bismarckian' type of a welfare state. She considers Austria as an example of the latter type. Historically, the Nordic welfare states have opted for a wide coverage and egalitarian thrust of the social security system. The public sectors in the Nordic countries provide more services in kind than the Continental countries which rely more heavily on transfer payments. The Nordic countries consequently have a bigger share of the labour force in the public sector, which in turn is partly reflected in their high participation rates for women.

A further distinctive characteristic of the Nordic countries, partly related to the financing of social security, is the role historically played by public sector saving in the 'Nordic model of accumulation' described by Kosonen in her essay. After plummeting into deficit during the 'bridge over' period in the late 1970s and early 1980s, the public sectors in the Nordic countries now each run a convenient surplus. On the other hand the contribution of the private sector to national saving in the Nordic countries is much lower than in Continental Europe, Austria included, and its share has greatly decreased recently. The possible reflections of the recent decrease in household saving on the current account deficits notwithstanding, the role of the public sector as a financial surplus sector is intimately connected with the traditional growth-orientated profile of state intervention in the Nordic countries.

The egalitarian thrust of the low degree of wage dispersion in the Nordic countries is further increased by the redistributive tax and social security systems. On the other hand, and this is emphasized by Glyn and Pekkarinen in their essays, the flexibility of the average real wage was rather high in the

Nordic countries in the late 1970s and real take-home pay was further decreased by the increasing burden of taxation. This is a further aspect of labour market solidarity characteristic to these countries. By reducing their standard of living those employed shared the burden of adjustment and made possible the creation of new jobs for those entering the labour force or losing their jobs in the sectors most badly hit by the crisis. In many countries with strong trade unions which failed to avoid the trap of high unemployment in the late 1970s and early 1980s, inflexibility of real wages and the consequent profit squeeze contributed to the increase of unemployment.

In an exclusive system, certain marginal groups—women, foreign workers, small enterprises, etc.—are discriminated against. They are rewarded more meagrely than the privileged groups while they often have to bear the heaviest burden of adjustment in the form of lower pay or exclusion from the labour force. It is our interpretation of the views expressed in various essays of the current volume that among the corporatist countries Austria displays certain features of an exclusive system to a considerable degree.

1.4 LONG-RUN PERFORMANCE AND INDUSTRIAL POLICIES

It is implied by several essays in this volume that exclusive attention to the relationship between corporatist institutions, the general level of wage settlements, and demand for labour, notwithstanding the fact that it has largely characterized economists' recent interest in the topic, misses an essential point. In the long run it is the capability of the corporatist countries to restructure their economies and to foster technical progress which is decisive for their abilities to combine full employment and equality with increase in the standard of living. Two of the essays of the book, i.e. 'Social Corporatism and Long-Term Economic Performance' by Michael Landesmann and Juhana Vartiainen (Chapter 7) and 'Industrial Policies and Social Corporatism' by Landesmann (Chapter 8), directly address this issue.

In these two highly complementary essays the connections between corporatism, industrial policies, and long-term economic performance are scrutinized at conceptual, empirical, and policy level. It is argued that due to a smooth process of 'natural' catching up and relatively fast economic growth, the awareness of the need for explicit industrial policies was weak in Austria until the early 1980s. But difficulties piled up gradually in the late 1970s, as heavy subsidies were used to maintain employment in existing industries and restructuring was at the same time largely neglected. Landesmann regards this as an important example of failure of corporatist arrangements. But most recently the awareness of the importance of industrial policy has greatly increased in Austria, the results of which are yet to be seen. Guger agrees with this interpretation in his analysis of Austrian developments.

The papers by Landesmann and Vartiainen and Landesmann and Pekkarinen amount broadly to the following interpretation of structural change and industrial policies in the three Nordic countries. Like Austria, Norway was also characterized by a defensive industrial strategy in the late 1970s. But a crucial difference was that Norway was able to rely on North Sea oil. It was not until the mid-1980s that the fall in oil prices and a dramatic weakening of the trade balance led Norway to move towards a more offensive industrial policy to secure competitive foundations in its non-oil tradable sector. As in the Austrian case, this turn has recently been favoured by the international upswing but its final results remain to be seen.

The open sector of the Swedish economy was very badly hit by the recessionary period of the late 1970s, but what we are witnessing now is a relatively successful survival of the Swedish model. The essays offer two explanations for this. First, for historical reasons, Sweden had a highly concentrated and internationally orientated corporate sector which was able to modernize its operations. Second, the state involvement in the restructuring process in the late 1970s, while defensive in character, facilitated the preconditions of restructuring through extensive labour market programmes etc.; moreover, various selective support schemes and labour market measures were promptly dismantled when the open sector started to recover in the early 1980s.

Finland's response to the international economic developments of the 1970s and 1980s represented a continuation of its attempts to promote industrial development and to broaden her export base. In this process, the role of state as producer and provider of educational, social, and technical infrastructure has been profound, although it has not performed as such a guarantee of full employment as in Austria, Norway, or Sweden.

A long-run point of view is also strongly present in Sixten Korkman's essay 'Exchange Rate Policy and Employment in Small Open Economies' in Chapter 9. A main thrust of his essay is an analysis of the relation of exchange rate policy to inflation and employment. The discussion is motivated by the policies of frequent devaluations the Nordic countries pursued in the late 1970s and early 1980s (and Finland still earlier). After surveying traditional views in macro-economics according to which exchange rate changes will have real effects only in the short or medium run, he gives an interpretation of the accommodative exchange rate policies of these countries in terms of their long-run growth policies. Here exchange rate accommodation is seen to act as an insurance system for the profitability of the open sector and to reduce Lancaster's famous dynamic externality resulting in excessive real wages.

Korkman assigns the accommodative exchange rate policies a pivotal role in the corporatist policies of the Nordic countries. He also gives an account of developments in individual countries. Towards the end of his essay he

draws attention to financial integration which tends to render these traditional policies unviable—a challenge the corporatist countries now face.

1.5 FURTHER REFLECTIONS ON THE CONCEPT OF SOCIAL CORPORATISM

As was indicated at the beginning of this introductory chapter, in the course of the work on this book the relevance of the distinction between exclusive and inclusive types of corporatism emerged as a central lesson of the project. This classification was developed at such a late stage that it is not reflected in all the essays. Many authors use their own definitions. Consequently some general concluding comments on the conceptual background of this distinction are in order.

Our usage of the term 'social corporatism' as referring to a centralized and non-exclusive system of industrial relations is more specific than, for example, the meaning originally given to it by Katzenstein (1985: 129) in his classification of corporatist countries into social and liberal ones according to the degree of centralization, the dominant social coalitions, and the political tendencies of the government. In fact, quite in contrast to the kind of approach adopted in various essays of this book, Katzenstein (1985: 127) regards the search for consensus as characteristic of corporatism, both social and liberal in his use of the term.

It seems that the distinction between conflict- and consensus-based systems of industrial orders has not been widely noticed in the corporatism literature. In generalizations on the basis of the Continental experiences, corporatism has rather been interpreted as a system based on consensus prevailing between the leaders at the top of the interest organizations and state bureaucracy while the internal conflicts among organizations are suppressed through a strictly hierarchical order (Schmitter 1982; Lehmbruch 1982). On the other hand scholars like Walter Korpi (1983) who have found this description unfitting to the Scandinavian, particularly Swedish, experience have rejected the notion of corporatism and instead referred to Sweden as a case of a democratic class struggle. It seems that this controversy is unnecessary and that the interpretation implied by this project, i.e. that these two industrial orders represent varieties of corporatism, opens new perspectives on the differences in the experience of different corporatist countries.

The fact that various articles in this volume emphasize differences in performance with respect to employment and equality between different corporatist countries raises the question whether it is the institutional structures or the goals adopted by interest organizations and economic policy makers which matter for differences in performance. The distinction between the

institutionalization of conflict and that of consensus as the basis for industrial order seems to imply that these two varieties of social corporatism are historically wedded to different kinds of goals, i.e. that the former gives more priority to the non-exclusive concept of equality than the latter. In fact the emphasis on the influence of corporatism on the setting of goals is strongly present in several articles of this volume. Therborn goes as far as to criticize the corporatism literature for the implicit assumption that objectives do not count. Certainly this criticism is not valid for this volume.

Rowthorn in turn suggests at the end of his essay that the institutionalization of conflict reflects a way to accommodate the struggle by Labour for democracy and equality. The acknowledgement of conflict as the basis for compromise has fostered the mobilization of Labour and its emphasis on inclusive and egalitarian ideology. This in turn has created, as Rowthorn notes, an inherent dynamic towards equality. On the other hand industrial orders based on consensus are more conservative and tend to preserve inequalities which were in existence when these orders were established. Managing of adjustment and sharing of burdens and rewards is controlled by elites at the top of the hierarchies of interest organizations with an exclusive thrust as a natural result. The conflicts are suppressed rather than acknowledged.

But this shift of emphasis from the institutional structures to goals in turn raises the question which is also dealt with in several of the articles of the volume: is centralized wage bargaining then obsolete as a characteristic of corporatism? It seems to be in the spirit of most of the essays that centralized institutions do matter in various ways and that they in a considerable degree account for the similarities between the countries of social corporatism. Centralization facilitates the achievement of at least certain types of objectives. In general a high degree of centralization of interest representation makes possible trade-offs and deals that may not be feasible in its absence. Thus even in the game-theoretical perspective centralization of bargaining may offer an institutional advantage in a turbulent situation where new, previously unknown changes take place and where there is little use for learning from experience. This may explain why the countries of social corporatism did not deviate much from other European economies until the mid-1970s when the economic turbulence started.

Apart from its appropriateness for co-operation, the centralized structure of interest representation also facilitates state intervention in the form of incomes policy and the like. For example, the notion of a general wage level would be unthinkable as a policy instrument in a completely decentralized system.

But it may be suggested that the importance and the rationale of centralization may be different in the inclusive and exclusive, or the institutionalization of conflict and consensus, types of corporatism. The former

seems to be historically associated with a strong thrust by strongly organized labour for democracy and equality. Centralization may not be as essential for the rise of consensus. Blaas gives in this volume an account of how a consensus-based, highly exclusive Swiss system has worked under conditions of highly decentralized bargaining. In fact it may well be that a high degree of unionization and centralization tends to undermine the working of a highly exclusive system in the long run. Temporarily at least, centralization may perform as a tool to enforce exclusion. But in the course of time the suppressive nature of such a system becomes more and more obvious. It causes dissatisfaction among those who feel themselves to be discriminated against. The result is either alienation with, for example, a sharp decrease in union enrolment and the consequent weakening of the institutions of social corporatism or a change in the union objectives to more egalitarian direction—that is to say, a shift from exclusive to inclusive corporatism. It is this suppressive aspect of (the exclusive type of) corporatism some social scientists, like Leo Panitch (1980), seem to have referred to when they analysed the social instability of corporatism (see also the discussion in Rowthorn and Glyn 1990).

Apart from the eventual social instability, there is another aspect through which the distinction between exclusive and non-exclusive systems may be relevant for the dynamic of corporatist societies. This concerns their capacity to adjust the production structure to changing circumstances. This consideration became especially important in the aftermath of the oil shocks which rendered much of the production capacities of the open sectors of the industrialized countries obsolete. It is implied by several essays in this volume that some of the corporatist countries were clearly more successful in restructuring than others. In this respect too the two extremes seem to be formed by Sweden and Austria: while the former had largely succeeded in solving by the mid-1980s the difficult structural problems that had met its manufacturing industries in the late 1970s, Austria had rather pushed the restructuring forward in time with a deepening structural crisis of many of the branches in manufacturing as a consequence by the early 1980s. Norway and Finland can be considered as special cases as far as restructuring is concerned: in the former case it was closely linked with the rise of the oil sector whereas the structural problems of Finnish manufacturing remained minor, partly due to its relative backwardness—or the gains from the catching up—partly due to the special link in the Finnish case between the price of oil and the Soviet trade. But both these countries face a more difficult challenge of restructuring in the years to come.

The fact that the ranking of countries with respect to their restructuring capacity correlates with the grouping of countries into exclusive and inclusive types of corporatism raises the question whether there is a causal relation between the two. In particular, is the inclusive and egalitarian nature of the

industrial orders based on institutionalized conflict conducive to a strategic, forward-looking type of industrial adjustment where problems are reacted to before they become really severe? And does the consensus based on the maintenance of the status quo in turn increase the likelihood of defensive strategies, where old structures are maintained by subsidies and preventive measures until the structural problems become unbearable with an acute crisis as a result? The inherent logics of the two systems may indeed give rise to such a difference. The implicit premiss of a high employment rate with fairly equal pay characteristic of the inclusive type of corporatism may cause a pressure to strategic, forward-looking behaviour in industrial adjustment, whereas the groups privileged in the decision-making in a corporatist economy of the exclusive type may well tend to preserve their own status and shift the burden of adjustment to others. Apart from differences in the capacity to adjust to new circumstances, this difference in the fundamental constraints of industrial adjustment may be reflected, for example, in the greater emphasis on active manpower policies prevalent in the inclusive corporatism of the Swedish type. This, together with a high level of general education, in turn reinforces the low degree of wage dispersion in an inclusive corporatism, whereas the tendency to an unequal sharing of the burden of adjustment inherent in an exclusive type of corporatism is concomitant with big wage differentials. At least during deep structural crises, an exclusive type of corporatism is more prone to adopt dualistic solutions ruled out by the solidarity principle adhered to in an inclusive system.

1.6 THE FUTURE OF CORPORATISM

The corporatist economies are in the process of change. Their relationship to the outside world is altering and their internal modes of operation are being transformed. These developments have already created considerable stress in some corporatist economies and will continue to do so in the future. Opinions differ about the long-term viability of the corporatist model, but all agree that it will face a serious challenge in the coming decades. The difficulties emanate from a number of sources. Externally, the barriers separating the corporatist countries from the rest of the capitalist world are breaking down, and their scope for economic autonomy is being reduced. Internally, some of these countries face difficulties because the trade union movement, which has traditionally been a force for coherence and order, has become more fragmented or weakened by the centrifugal tendencies of modern economic development. In response to such difficulties, the state in these countries is being drawn ever more actively into areas, like wage fixing, which previously were often the preserve of private bodies such as employers' and workers' organizations.

The integration of the corporatist economies into the capitalist world economy is nothing new. They have always had extensive foreign trade with other countries and their societies have been profoundly shaped by this fact. Indeed, corporatism itself can be seen as a particular kind of institutional response by small open economies to the requirements of competition in world markets (see Katzenstein 1985). What is new in the present situation is the rapid extension of integration into spheres which were previously rather insulated from the outside world. For example, in most corporatist countries, capital markets were until recently highly regulated, but have now been or soon will be almost entirely deregulated. There will be virtually no restrictions on the movement of funds across the frontiers of these economies, and the owners of funds, whether domestic or foreign, will be free to transfer their money to wherever they can obtain the highest return.

As Korkman points out in his essay in Chapter 9, such a development makes it very difficult to pursue the kind of low interest rate policy often used in the past to promote industrial investment in the corporatist countries. Any attempt to reduce real interest rates substantially below those available elsewhere will lead to an outflow of funds and to an eventual collapse in the exchange rate. Moreover, the freeing of capital movements greatly increases the danger of speculative panics, making economic policies a hostage to the opinions of international finance. To reduce this danger, most corporatist countries are now seriously considering joining the European Monetary System (EMS). Such a step will provide valuable external support against exchange rate speculation, but it will also mean a further decline in policy autonomy as the price of remaining in the EMS. In particular, membership of this system will make it more difficult to use devaluation as a deliberate policy for promoting competitiveness, as some of the corporatist economies have successfully done in the past. Thus, financial integration will reduce the scope for active interest and exchange rate policies designed to stimulate industrial investment and enhance international competitiveness.

Another area where integration has potentially major implications for national autonomy is the multinational corporation. In some corporatist countries, such as Finland and above all Sweden, national firms are rapidly extending their overseas operations and many of them will soon produce merely a fraction of their global output at home. Meanwhile, outside firms are investing in these countries. As a result, the importance of purely national firms is diminishing, and production and foreign trade are becoming increasingly dominated by multinational corporations. Such corporations differ from purely national firms in several major respects, connected with their greater freedom of action on a world scale and their different global priorities. The fate of the purely national firm is closely linked to that of its domestic economy. Since it produces only at home, any increase in its own production

contributes directly to national output, whilst an increase in its sales abroad adds directly to national exports. This will not automatically be the case for a multinational corporation, which may raise its global output or sales abroad by increasing production overseas, neither of which is of immediate benefit to the domestic economy. Moreover, a purely national firm will be proportionally more affected by a slump in the domestic economy than will a multinational corporation with extensive global interests to cushion it. For a variety of reasons, therefore, the interests of purely national firms are more closely tied to the fate of the domestic economy than are those of multinational corporations. As a result, national firms may be more willing than multinational corporations to enter institutional arrangements which involve sacrificing part of their autonomy in return for a better growth performance in the domestic economy. Multinational corporations can always 'exit' from a situation they do not like, whereas national firms are trapped and have no alternative but to seek a 'voice' in domestic affairs. The rise of multinational corporations may also weaken corporatist structures by creating a greater diversity of interest on the employers' side, thereby increasing the difficulty of forming stable coalitions amongst employers and undermining the authority of their central organizations.

Where it occurs, disintegration on the employers' side will make it increasingly difficult to maintain the kind of long-term working relationships between capital and labour which have typified the corporatist economies until now. Moreover, these difficulties may be compounded by a parallel disintegration on the workers' side. In most corporatist countries, economic developments are undermining the authority of the old centralized workers' federation, either because these organizations are fragmenting or else because their coverage of the work-force is declining. There are various forces making for fragmentation. The traditional leaders of the trade union movement, which gave it coherence and direction in the past, were the predominantly male, manual industrial workers who originally created the strong centralized trade union federations characteristic of the corporatist economies. The influence of these workers has declined rapidly over the past twenty years as the expansion of private and public services has given rise to a whole variety of new jobs and raised dramatically the proportion of women in the work-force. Workers in the private services are frequently not unionized, and even where unionization of private service workers is the norm, as in Sweden, there have often been serious problems in forging a common policy with traditional industrial workers.

In some countries, there has also been considerable friction between private and public sector unions, especially between private industrial workers and public service workers. In part, this is a male-female conflict, but it also reflects other factors. Public service jobs are usually more secure, and often less onerous, than private sector industrial jobs, so workers in the

latter quite reasonably expect higher wages in compensation. However, their case is frequently not accepted by public service workers, especially professionals, who have been traditionally privileged and expect to keep their privileges. The result has been considerable friction and the emergence of wage militancy by public sector professionals, fighting to preserve their traditional status. Another source of friction between workers in the public services and those in private industry has been the different basis of their financing. Workers in private industry exist in a world market environment and the ability of their firms to increase wages depends on the amount of competition they face abroad in export markets or at home from competing imports. Public service workers, however, are paid out of taxes and the ability of their employers to raise wages is determined in the first instance by the government's tax and borrowing policies. The latter are, of course, affected by general economic conditions, but only indirectly and often with a considerable delay. The insulation of public service workers from immediate economic conditions tends to make them less willing than those in private industry to accept wage restraint as the price of better economic performance.

A final factor tending to fragment the trade union movement is the spread of plant-level bargaining and wage incentive systems in the private sector. In some cases, this is the result of new kinds of production process, as exemplified by the shift from standardized, 'Fordist' mass production methods to more flexible and heterogeneous 'post-Fordist' techniques in manufacturing industry, which are less amenable to centralized wage fixing. In other cases, it is an unexpected result of the industrial democracy movement of the 1970s, which gave workers new powers at the plant or firm level, which they have used to establish new forms of local wage determination, thereby reducing the influence of centralized bargaining. Thus, on the workers' side there are a number of factors tending to increase fragmentation. The rise of private and public services has reduced the influence of the traditional manual industrial workers and created new frictions within the organized labour movement, whilst the growth of new payments systems is undermining the unity of traditional industrial workers themselves. Thus, the tendency towards fragmentation on the employers' side is matched by an equivalent tendency on the workers' side.

One possible outcome of these tendencies towards fragmentation is that corporatist arrangements will simply collapse and the corporatist countries will become like countries in the European 'core', with stronger trade unions maybe, but with a similar incoherence in capital-labour relationships, especially wage determination. A more likely possibility is that the responsibility for coherence will move increasingly away from employers' and workers' organizations towards the state, which will replace, reinforce, or supplement private, centralized wage bargaining with various kinds of official

intervention. Indeed, the state already performs this kind of role on an extensive scale in some corporatist economies, such as Denmark and Norway where government incomes policies have been of great importance in recent years. Even where formal incomes policies are avoided, the state may still play a vital role in setting the agenda and orchestrating agreement between somewhat fragmented employers' and workers' organizations which are unable to reach agreement on their own. This role is also likely to be backed up with various sanctions to force dissidents to participate in the process or else abide by the outcome. None of this means that centralized workers' and employers' organizations will disappear altogether or become irrelevant. What it means is that economic development is tending to weaken or undermine such organizations, and that the state will find itself increasingly involved in shoring them up and, where required, supplanting or supplementing them. In some corporatist countries this involvement is already well established; in others it is merely a tendency. How successful such involvement will be is an open question. Whilst it may be effective in the short run, action by the state to shape or steer employers' and workers' organizations may be self-defeating in the long run, since it may simply undermine the legitimacy of these organizations and reduce their ability to mobilize support for government policies. Moreover, attempts to bypass or supplant these organizations may cause resentment and an eventual explosion of discontent, especially on the side of workers. Thus, the drift in corporatist economies towards greater state intervention in areas like wage bargaining faces certain inherent limits, and it may turn out that such intervention cannot adequately offset the tendency towards fragmentation in employers' and workers' organizations. Only time will provide an answer to this question.

As mentioned above, the corporatist economies are being integrated into the world capitalist economy through both financial markets and multinational corporations. This process is augmenting the threat potential of both financial and industrial capital over individual corporatist countries, and indirectly therefore over the workers in these countries. Since capital of all kinds can now move across frontiers with relative ease, the individual corporatist economies will be forced to provide conditions for investors which are competitive with those elsewhere. At the margin, and allowing for exchange rate and other kinds of risk, expected returns on both financial and real investment will have to be similar to those obtainable elsewhere. Otherwise capital will simply boycott the country concerned. The power of either workers' organizations or the state to reduce these rates of return through purely national action will therefore be limited. The individual corporatist country will have to pay capital roughly what is available elsewhere or face the consequences. Any substantial reduction in the return to capital will have to come through some kind of international action to reduce interest rates

or avoid competitive tax reductions. This raises more general questions concerning international co-operation and the evolution of political relationships between the corporatist countries and the rest of Europe. Most important here is, of course, the European Community. One corporatist country, Denmark, is already a member of the Community and over the coming decade certain others may join. Even those which do not formally join will move economically and politically closer to it and bring their own internal economic policies more closely into line with those of Community countries. This in itself, in addition to some of the developments described previously, will tend to reduce the differences between the corporatist and other West European economies. However, the convergence will not be only in one direction. Developments like the Social Charter, with its emphasis on workers' rights and the role of trade unions, suggest that neo-liberalism is on the wane and that the European Community may be moving in a broadly Social Democratic direction, taking on features which are traditionally associated with the corporatist countries. It is difficult to predict what will happen over the long term, but it seems likely that differences between the various Western European economies will decline over the next twenty years. Even so, the present-day corporatist countries may still have certain special features which mark them off from the rest; in particular they will almost certainly have much stronger trade unions than most of the rest of Europe, and they will probably have a greater degree of centralized wage fixing than elsewhere. Moreover, those corporatist economies in the Nordic group will continue to be significantly more egalitarian than most other West European countries.

1.7 ON THE TRANSFERABILITY OF THE CORPORATIST MODEL

A final intriguing question concerns the transferability of corporatist institutions between countries. There are obviously reasons why certain countries have developed such institutions, in particular centralized wage bargaining, whilst others have not. It is also clear that corporatist institutions cannot be arbitrarily transplanted between countries independently of local conditions. However, as the recent example of Australia indicates, there are conditions under which transplantation is possible. As Archer describes in his essay in this volume, Australia has recently developed a system of centralized wage bargaining which, although building on pre-existing institutions, has been consciously shaped in the light of Nordic experience.

Nordic-style corporatism also has many admirers in the Eastern Bloc, not least amongst Gorbachev's advisers, some of whom have explicitly taken Finland or Sweden as examples. The more optimistic, both in the Soviet Union and Eastern Europe, believe it is feasible to refashion the Communist

countries along corporatist lines, with a vigorous market economy, an activist state, a strong and independent trade union movement, together with a good welfare state and safety-net for the casualties of *perestroika.* One major difference perhaps would be in the realm of property rights, where some of the Eastern admirers of the corporatist model envisage a mixed economy where the mix has a greater public component than is normal in the West. 'Privatization' of industry, in their view, would mean transferring property rights to a variety of autonomous public and semi-public bodies, leaving individual shareholders with a less important role than they typically enjoy in the West. However, the difference should not be exaggerated. In certain corporatist countries, like Finland for example, the state and other public or semi-public bodies, such as co-operative banks, trade unions, and local authorities, are substantial shareholders in the nation's industry, and in these countries the mix already has a large public component and is not so very different from what Eastern admirers of corporatism would like to create.

The importation of some variety of Nordic-style corporatism has obvious attractions for the countries of Eastern Europe. It would be considerably more dynamic than what they have now, and probably more egalitarian as well. However, in most cases there are serious obstacles in the way of such a transformation, which make it seem unlikely, if not impossible. On the plus side, a number of countries in Eastern Europe have experienced political revolutions which have mobilized enormous popular enthusiasm for change. These revolutions, especially where they are allied with nationalist sentiment, have created a new mood of solidarity amongst the population and a willingness to accept personal sacrifice for the greater good. This democratic idealism provides just the kind of environment in which centralized workers' federations of the Nordic variety could be created, and a co-operative relationship established in each country between workers, the government, and the employers (whoever the latter might be!). Indeed, Poland, where Solidarity is actively collaborating with the government, already provides an example of such a set-up.

The real problem, however, lies not in the creation of centralized workers' federations, but in their effective long-term survival, and in the maintenance of a co-operative relationship between these federations and other economic actors. This is turn depends on what happens to the countries of Eastern Europe over the next few years. These countries are facing severe economic difficulties, their industries are antiquated, and most of them have gigantic foreign debts. To overcome these difficulties in a reasonably egalitarian and orderly fashion they require massive aid from the West. It seems improbable that such aid will materialize on anything like the required scale. Moreover, much of the limited aid they do receive will be conditional upon the implementation of economic policies which are brutal in their impact and profoundly divisive. For example, in return for IMF loans equivalent to less

than six months' interest on its foreign debt, Poland was compelled to implement a Latin American style 'stabilization' policy in late 1989, which it was officially predicted would lead to an increase of around 1 million in unemployment, together with a substantial reduction in real earnings.

One view is that these measures will quickly revitalize the East European economies, sweeping away outdated industrial structures and production methods in an orgy of creative destruction, clearing the decks for a dramatic economic recovery in the near future. If the Latin American experience of stabilization policies is anything to go by, this view is unduly optimistic. A more credible scenario is that these countries will face some years of travail and privation before they eventually emerge from the morass. Moreover, the economic policies they follow during this period will be highly in egalitarian. Some people will get rich, others will be impoverished, and the rest will somehow get by. Such developments will have an extremely divisive effect on the social fabric of Eastern Europe. It is difficult to see how the current enthusiasm and idealism in Eastern Europe can survive years of privation and growing inequality, and there is an obvious danger that the recent mood of consensus and restraint will disintegrate into conflict and bitterness, as the fruits of sacrifice do not materialize and disillusioned groups mobilize to pursue their sectional interests. This outcome would be the very antithesis of Nordic-style corporatism and the countries concerned would then have more in common with Argentina than Sweden.

Even if things never quite reach this stage, the present mood of economic quiescence in Eastern Europe is unlikely to last. The consensual arrangements established during the democratic revolution will come under increasing economic pressure in the coming years and a considerable amount of conflict and fragmentation seems inevitable. For most East European countries, the corporatist model, despite its obvious attractions, does not seem a viable option at the present time. One possible exception is Czechoslovakia, whose political traditions and better average economic situation may allow it to organize a relatively smooth and orderly transition to some variant of Nordic style corporatism.

A country not considered so far is the Soviet Union itself. Despite admiring remarks from some of Gorbachev's advisers, the likelihood of the Soviet Union transforming its economy into anything resembling Nordic-style corporatism in the foreseeable future is remote. The country is racked by ethnic and national conflicts, and the degree of social cohesion required for the creation of viable, independent corporatist institutions does not exist on a country-wide level, although it might conceivably exist in some of the individual republics should they break away from the Union and set up on their own.

[1] The figure for unemployment is an IMF estimate as revealed to Polish parliament's social affairs committee by the Minister of Labour, Jacek Kurom (*Guardian,* 5 Jan. 1990).

The general conclusion from all this seems to be that corporatist institutions can in principle be transplanted from one country to another, with appropriate modifications, but conditions must be right. With one or two possible exceptions, conditions do not appear to be right for such a transplantation in Eastern Europe or the Soviet Union, where economic life is likely to be relatively disorderly and conflictual in the foreseeable future.

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2

Lessons from 'Corporatist' Theorizations

Göran Therborn

2.1 THE 'CORPORATIST' PARADOX

'Corporatism' has become a bit like God. Many people believe it is an important phenomenon, crucially affecting social life. But nobody really knows what it looks like, so disagreement persists, apparently for ever, about what it is and about what it does. Everybody can lay claim to it for whatever purpose. Between believers and non-believers no criteria seem capable of settling the argument, which, however, does not render impossible a civilized and interesting discussion about such things as the meanings, the history, and the functions, and even the referent, of corporatism-belief.

The paradox of 'corporatism' is its wide attraction as a synthesizing designation and as an explanatory variable to scholars of several disciplines, political science, sociology, contemporary historiography, and economics, while at the same time remaining a moving target, accorded a number of different definitions and specifications. That 'corporatism' and its effects are being studied is clear, but what it is that is then being studied is not.

The two main subvariants of corporatism are still those drawn up by Philippe Schmitter and Gerhardt Lehmbruch (Schmitter and Lehmbruch 1979; Lehmbruch and Schmitter 1982), as centralized and monopolistic interest 'intermediation' and as public policy-making by concertation between the state and interest organizations, respectively. Each has a number of sub-sub variants. Economists have been attracted primarily to the former, political scientists and sociologists studying political economy to the latter (see further Therborn 1988 with extensive references).

Elsewhere (Therborn 1986: 98 ff.; 1988) I have argued that corporatism, in either main conceptualization, is not very fruitful to an explanation of cross-national differences in unemployment in the 1974–85 crisis, both because of the limitations of union-wage explanations and because of the conceptual unclarities of corporatism.

A recent addition to the attraction of corporatism has been the launching of a hypothesis of a hump-shaped relationship between corporatism and (un)employment in the latest crisis. Intermediately corporatist, in this case intermediately centralized, systems of wage bargaining are argued to be the worst performers in cross-country comparisons. A nag though, at least to some empirically minded social scientists, might be that the authors do not

find any 'clear evidence in favour of a non-monotonic relation between centralization and macroeconomic performance' with the help of price and wage equations, nor much relationship between their elaborated theoretical argument for a hump-shaped relationship and the actually existing world (Calmfors and Driffill 1988: 30, 41). While they do find (pp. 20, 22) that countries they classify as having an intermediately centralized system of wage bargaining generally performed worst, their empirical evidence does not include anything about wages. If it had, they could have found, for instance, that the three 'intermediate economies' for which data are available (Belgium, Germany, The Netherlands) in 1973–85 had after Japan, in the Belgian case also after Austria, the lowest wage increases in relation to labour productivity of the OECD area (OECD 1987: 48, 90).

However, it would be naive or presumptuous to assume that a paradox of enduring conceptual confusion and widespread analytical attraction among sophisticated social scientists could be dismissed as a deplorable error. More likely is that the corporatist theorists have hit upon something important, the full and precise implications of which have not yet been brought out, neither by them nor by their more or less heretical followers. Without any pretension to providing a solution to the paradox, this chapter intends to locate the 'corporatist' impetus into a broader context of social theory concerns and to put forward some argued ideas about relevant empirical relationships and processes of determination.

2.2 THREE 'CORPORATIST' CONTRIBUTIONS TO SOCIAL THEORY

The hard core of contemporary 'corporatism' can be summed up in: 'interest organizations are important, and they have a particular, variable relationship to contemporary states.' This simple sentence, seemingly banal to the point of, perhaps, invoking controversy for lack of subtlety, is not meant as a put-down, but as a baseline. The 'corporatist' contributions bring something to bear upon three central areas of social theory, social action, social order, and social steering.

'Corporatism' contributes to the theory of social action by asserting, implicitly or explicitly, the strength and the long-run consequences of associative action. Furthermore, 'corporatism' directs our attention to important variations in the settings and the forms of associative action. Secondly 'corporatism' has always implied a certain kind of social order, although originally more empirically delimited than theoretically elaborated. Recently, however (Schmitter 1985), a specific 'associative model of social order' has been spelled out, in contrast to market, state, and community.

'Corporatism' finally involves an argument about the steering of society, the guidance of a social (dis)order to certain goal states. This problematic is

there from the outset in Lehmbruch's subvariant, with its consistent focus on concerted policy-making. But it has also a home base in Schmitter's (1981) thesis of corporatist interest intermediation as a mechanism of governability.

The relative value of these contributions is difficult to pin down in any very precise manner. The corporatist theories of associative action assume or imply that the dilemmas and the problems posited by what has become known as the 'theory of collective action' (Olson 1965; Hardin 1982) are solved or irrelevant. Or, 'encompassing' or 'comprehensive' associative action is regarded as a solution to the disruptive effects of 'free-riding' less-than-encompassing organizations. The implicit assumption, then, is that (relative) organizational size is the main determinant of the forms of associative action, which in cross-national research or in the history of industrial relations can hardly be taken for granted. The relationship of the associative model of social order to die 'consensus' invoked by many corporatist theorists and analysts (Bruno and Sachs 1985; Katzenstein 1985; McCallum 1986; Schmidt 1982, 1986) remains unclear. Crude counterpositions with 'pluralism' apart, 'corporatist' steering has not been inserted into any explicit theory of steering or guidance (see e.g. Lehmbruch 1984, 1985; as a contrast cf. the overview in Kaufmann *et al.* 1986).

On the other hand, the ignorance of the 'corporatist' thrust among general sociological theorists is amazing. For instance, neither in Giddens (1984), in Giddens and Turner (1987), nor in Alexander *et al.* (1987) is there any discussion of corporatist action, order, and social steering. Neglect does not hold for the whole discipline, however. In Goldthorpe (1984), for example, 'corporatism' features highly when sociologists and their invitees try to come to grips with order and conflict in contemporary society. But clearly, the uncertainties of where 'corporatism' fits in and becomes important are not just to be blamed on the 'corporatist' theorists, but also, and perhaps more, on the non-responsiveness of general social theorists.

Anyway, our problem in this context is rather the continuing elusiveness of corporatism as an explanatory variable in cross-country studies of economic performance. The basic reason for that, this chapter will argue, is that corporatism, however defined, mainly refers to a pattern of strategic action. Only in limiting cases may the notion refer to an institution with certain fixed objectives and behavioural rules. What is usually referred to under the rubric of corporatism has a fluidity in time and social space, which makes for endless controversies about empirical indicators and about their values for any but a few countries. The objectives of the actors in socio-economic systems, corporatist or non-corporatist, are typically left implicit in the corporatist literature, which makes the outcomes of corporatist patterns of action largely indeterminate. In order to make any advances from the corporatist debate so far, advances in the direction of finding socio-political factors contributing to explaining variations of macro-economic outcomes, the notion

of corporatism should be unbundled and sorted out from the perspective of strategic action.

2.3 ASSOCIATIVE ACTION AND TYPES OF CLASS FORMATION

Corporatism, of whatever definition, presupposes, derives from, a particular kind of social action. That is from associative action, from people coming together in enduring formal organizations made up (predominantly) of members sharing a common purpose or interest. Associative action is a major variant of a broader category of collective action, which also includes more ephemeral or fleeting collectivities, such as informal insidership, with concomitant insider-outsider demarcations, crowds, and not formally bounded movements. Collective action stands in contrast not only to individual action, but also to commanded action determined by another, exterior actor, a patron, a sovereign, or a boss of one sort or another.

The distinction between associative action and commanded action was first systematically spelled out by Alexis de Tocqueville in 1848: 'Everywhere, where at the head of a new enterprise in France you would find the government and in England a grand seigneur, count on seeing an association in the United States' (Tocqueville 1986: ii. 155). Advanced countries still differ considerably in the amount of associative action by their citizens. A cross-national compilation of studies of associative membership shows, for the late 1950s and early 1960s, the highest density of associative action in Sweden, followed by the other Nordic countries, accompanied by the United States with regard to non-economic association and followed also by Austria as far as economic association is concerned. Low values of association characterized France and Italy, and rather low West Germany (Pestoff 1977: 168).

Now, corporatism is interested mainly in one basis of eventual associative action, by workers and, though sometimes more obliquely, employers. In other words, *sotto voce,* corporatism is about class organization, by labour and capital. This means that corporatist organization is hardly reducible to the anodyne variables of size—'encompassing' or not—and power locus, centralized or not, which economists have tended to focus on in their attempts at incorporating corporatist theorization into economic analysis, and at linking it up with Olsonian perspectives on collective action and/or game-theoretical views of strategic action. Without denying the great intellectual contributions of the two latter, the broader context of the referents of corporatism has to be brought forward and kept in mind.

Firstly, current forms of action and organization by the actors on the labour market are bound up with, crucially affected by, the historical outcomes of vast processes of social transformation, by the formation of the

classes of industrial capitalism. Secondly, as class organizations labour market organizations are intrinsically adversary, that is they were formed with a view to dealing with a known counterpart. This means, in turn, that the action of one (aggregate of) class (members) and its organization (s) strongly affects and is affected by the actions of the other. Thirdly, through their direct link to the always ongoing work and accumulation process, both capital and labour have a permanent capacity of serious social disruption and of financially disrupting the polity. Therefore, their mode of action has a special relationship to the state, to the ultimate guardian against social disruption and the sovereign claimant of the resources of the territory.

The connection of current labour market organizations to historical industrial class formation explains, for example, a large part of the affinity of Swiss, Austrian, German, and Nordic trade unions in spite of vast differences in size, associational monopoly, and organizational centralization. Or of the difference between US and French unionism, the two least encompassing among the rich OECD countries, both having unions competing with each other and both having union confederations with little central bargaining power.

The labour movements of the contemporary advanced capitalist countries have been formed in one of three basic moulds, plus the late, post-1945 Japanese form, with its characteristic importance of company unionism, among other things (cf. Shalev 1988). According to the locations of their historical origins, in the late nineteenth-early twentieth century, we may simply call them the Anglo-American, the Latin, and the Germanic kinds of labour movement. They differ in the approach to working-class organization, particularly to party-trade union relations, differences which in turn derive from cross-country differences in the relations between industrialization and state politics.

Anglo-American labour organization centred on trade unions, gradually developing with capitalist relations of production and industrialization. A, for its time, relatively open polity, and defeats for early, little-organized working-class politics (such as Chartism), postponed the issue of political organization till later, in the USA seemingly for ever. The trade union structure was enduringly engraved by the enormous variety of sites of immediate class confrontation, and union action has concentrated very strongly on wages and work-place conditions. The later added parliamentary representation, the Labour Party, has added a dimension of parliamentary politics, without much altering the trade union movement, however. Neither British-style parliamentary politics nor American presidentialism puts much emphasis on enduring political associative action.

Latin working-class politics developed in the course of the Great Revolution of 1789–93 and of the ensuing nineteenth-century revolutions. That is, well before any significant industrialization and in a context of trade union

prohibition. From this common revolutionary heritage, modern socialist politics came to set itself off from bourgeois radicalism in terms of ideology of ends but rather little in form of association, still much based on intellectual parliamentary notables. Trade unions came to develop later, with a great deal of suspicion of this sort of politics claiming to represent the working class. Trade unions often came to regard themselves as a kind of industrial, non-parliamentary working-class party, but also drawing upon revolutionary history. The latter meant that association as such was not overwhelmingly important. What also mattered, and to many Latin trade unionists much more, was the preparation and the preservation of militants and militancy for the right moment of radical action (for a recent illustration of this, French steel unions, see Rhodes 1985: 202). Put in other words, what mattered more were other forms of collective action than associative action, such as the revolutionary crowd or non-associated movement.

In the Germanic lands a persistent ancient regime type of polity and rather late but then rapid industrialization and capitalization provided the basis for a third kind of labour movement. Working-class parties—representing a new kind of political association, based on firmly structured mass organization—arose almost simultaneously with trade unions, as part of one common effort at class organization. The party had the upper hand, but co-operation was close.

The Germanic labour movement is propitious to participation in 'corporatism arrangements for two fundamental reasons: (1) more than the others it tends to create a centralized and uniform trade union organization, as an expression of an effort at class unification; (2) because of the closeness of industrial and political association, it is easier for a Germanic labour movement to make politico-economic deals.

In Germanic countries with a polity significantly different from the German-Austrian model another ancient social force furthered a politico-economically unified labour movement with a broad societal vision: the Catholic Church, and to some extent also the Calvinist one. The very existence and strength of these forces of socio-political power meant a severe limitation to a liberal polity of the Anglo-Saxon or French post-Restoration types, and their vigorous response to beginning autonomous class organization by the workers carved up the working class into ideological 'pillars' of organizations, Social Democratic, Catholic, and Calvinist. Such was, to a large extent, the working-class formation in Holland, (German) Switzerland, and, via Flanders and Flemish influence, Belgium (cf. Righart 1986; Therborn 1989*a*).

The outcome was labour organizations of basically the same kind as in Germany, with the, in other contexts than this one certainly non-negligible, difference that the Social Democratic current had to coexist with a Catholic, and in Holland and Switzerland also with a Calvinist, one.

There is also another reason why 'corporatism' is alien, and therefore usually very controversial and/or fragile, to the Anglo-American world. That is the legal tradition. The common law tradition of these countries had great difficulties in dealing with 'combinations' in any positive way, geared to the safeguarding of individual freedoms as it is. The famous British Taff Vale Settlement of 1906 is an extreme case in point, making the unions exempt from the, otherwise restrictive, law (cf. Phelps-Brown 1983: ch. 11). The Continental tradition of public law could easily, and did in fact, positively provide unions and employers' organizations with public functions, rights, and duties. This is clear in particular in the cases of Austria, Belgium, Germany, The Netherlands, and Switzerland, either in public law institutions of collective bargaining and paritary co-operation (as in Austria, Germany, and The Netherlands) or in the explicitly formulated and sometimes used possibility of declaring a collective agreement legally binding for all concerned, organized or not. The latter is stipulated by Belgian (Slomp and Mierlo 1984: ii. 100) and Swiss (Katzenstein 1984: 145) law, of 1968 and 1947, respectively.

In addition the French legal and administrative traditions provide for an institutionalized trade union presence, which would hardly be expected from the limited and unstable membership of French unions and from the hostility of many French employers to collective bargaining, a resistance second only to that of American employers. There are regular 'professional' elections of personnel delegates, supervised by the judiciary, and in which the unions run slates of candidates. An old system of local arbitration leads to another system of regular industrial elections (*élections prud'hommales),* in which the unions operate like some kind of industrial parties (cf. Adam 1983).

Associative action by workers *qua* workers, i.e. trade unions, is a universal phenomenon of all democratic countries and of all countries that at least *de facto* tolerate autonomous associative action. At least in all democratic countries there is also a national, inter-trade union centre, and quite a number of countries have more than one such centre. Associations of employers as employers are usually derivative from workers' actions, and are not universal to the same extent. In the USA there is no central organization of employers at all, for instance. The reason, of course, is that workers are more dependent upon collective action as a source of strength than employers. For the latter, the enterprise is the prime organization (cf. Offe 1985). On the whole, employers' associations have developed to the extent that the owners/directors of enterprises have felt unable to deal with workers' grievances and demands on their own. National inter-industrial associations of employers have come into being and have been invested with representative authority only when employers have been confronted with a national challenge, either directly by working-class industrial organization or more indirectly via issues of governmental politics. Anglo-Saxon employers have

had neither, nor the Japanese, the West German, nor the Swiss, even though central organizations of employers do informally co-ordinate employers' collective bargaining in the latter countries (cf. Sisson 1987; Windmuller and Gladstone 1984; Katzenstein 1984). Labour government-union accords seem not to have been very successful in promoting national employers' unity in Australia, although associative action has increased among them (see further Archer in this volume).

Centralized employers' organizations divide into two subgroups, according to their historical origin. One subgroup comprises Denmark, Finland, Norway, and Sweden, the other Austria, Belgium, France (in so far as there is, intermittently, employer centralization), Italy, and The Netherlands. State politics has been decisive to both. Without involvement of national state politics, no employers' unification. But one route has been political-cum-industrial association, the other has been an imbrication of industrial association with structures and concerns of state.

The Danes were the pioneers of national employers' organizations. In 1898 they set up one that united a large number of small employers, mainly located in and around the capital (which strongly dominated the non-agrarian economy) and facing a vigorous labour movement. The initiator was a constructor-cum-Conservative politician. Upon his instigation the Norwegian Employers' Association was set up in 1900. Sweden had larger enterprises than these countries, and enterprises much more diversified and dispersed. But the Swedish employers were drawn together by the 1902 strike for universal suffrage. Originally started as an industrial arm of First Chamber political reaction, the SAF soon became an organization of purely employers' interests. Till it started producing its own house-apprenticed top functionaries, the Swedish Employers' Association was built and forcefully led by former civil servants, none of whom had ever had any private entrepreneurial or managerial experience (see further Therborn 1*989b)*. The Finnish employers came together in 1907, but Scandinavian patterns of collective bargaining date from the end of World War II in Finland.

Whereas the Nordic pattern is one of employers associating by transferring experiences and techniques of mobilization and organization-building from parliamentary politics and the civil service, the other one is employer centralization at state instigation. The Austrian Federal Economic Chamber is governed by public law and is a species apart and between a state body and a voluntary association. The Joint Commission, where the deals between capital and labour are struck, is an officious, though legally unregulated, body (Katzenstein 1984: 59 ff.). Belgian 'interprofessional' bargaining was brought about by the state, under intense working-class pressure for social change, in 1918 and in 1936, and was recognized by the employers voluntarily after World War II, but state direct intervention has remained important (Slomp and Mierlo 1984: ii. 208 ff.), and only the experience of the war

and the occupation brought the Wallonian and the Flemish employers together (Slomp and Mierlo 1984: i. 84 ff.). The French employers' confederation was first set up in 1919, at the behest of the Minister of Commerce (Bunel and Saglio 1984: 236). Neither on the side of business nor on that of labour has it been possible to establish any unity around broad collective bargaining, and only in particular socio-political conjunctures has nationwide top bargaining taken place, generally with the government involved one way or the other, in 1936, in 1968 and its aftermath, after Mitterrand's victory in 1981. The Italian Confindustria is perhaps the employers' organization most similar to the Nordic types, going back to 1910. The centralized pattern of collective bargaining and the powerful position of Confindustria derive from the organization's successful deal with the Fascist regime and from the legacy of the Fascist form of corporatism (Treu and Martinelli 1984: 265 ff.). The first Dutch employers' organization arose (in 1899) with a view to opposing an Industrial Accidents Bill, but no unity ensued. Major unification and centralization came only after World War II in the context of a process of politico-economic reconstruction, and centralized bargaining developed in a framework of legal labour market regulation (Voorden 1984).

Rather than relations to the world market or the form of trade union organization, it is relations to politics, political conjunctures, and concerns of state which have shaped the associative action of employers. So, on both sides of the class divide, the organizations of capital and labour are decisively shaped by different historical trajectories and by the relation of both to the national state. A small set of historically shaped and, by and large, still reproduced types of labour movements, and the relative power balance between capital and labour in society, emerge as the two most important general variables. When both labour and capital are centralized and all-encompassing or when there is little (successful) associative action and no central co-ordination, the popular variables of economic corporatists may yield some confidence-inspiring predictions of likely industrial and economic outcomes. But the variety of settings between the poles of Austria and the United States does not seem graspable with relative size and centralization. And, as we shall see below, the latter may even be insufficient in such cases too.

Historical forms and relations of power, historical or current, only set the stage. They do not determine action. They make certain courses more or less likely, difficult, or stable. Herein the two variables interact and should both be taken into account. The fact that what corporatist theorists refer to derives from patterns of associative action means that labour and capital action strategies and forms of bargaining, co-operation, or conflict are not fixed labels which can be easily stuck to the names of countries and then run in correlations and regressions. Between the more frozen poles of Austria

and the USA, labour market action varies considerably within the same country from one year or short period to the next (see further Armingeon 1983; Elvander 19886; and the yearly overview of collective bargaining in Western Europe, put out by the European Trade Union Institute in Brussels). The implication of this for empirical investigations into the wage outcomes of bargaining patterns is that annual (or other short-time periodic) data of the national bargaining format should be used as the independent variable. Such a procedure would also have another advantage, of considerably increasing the number of observations.

2.4 PATTERNS OF INDUSTRIAL (DIS)ORDER

In the corporatist literature patterns of associative action have often been conflated with their hypothesized ordering effects. Phrased in a different way organizational forms have been conflated with consensus. It is a merit of Calmfors and Driffill (1988: 24 ff.) that they take issue with that confusion. On the other hand, neither they nor the corporatist tradition have systematically addressed the question of different patterns or systems of industrial order or, for that matter, disorder.

One group of countries has an extensive pattern of procedural rules, also respected *de facto,* governing collective bargaining and possible industrial conflict. They are all countries with what we above called a 'Germanic' labour movement. Another pair of states has an elaborate system of public arbitration.

The world's first comprehensive national labour market agreement, the Danish September Agreement of 1899, ended a conflict in the construction industry that had broadened to an almost general lock-out in the urban trades. In working out the settlement, which provided the model for later ones in Norway and Sweden, not only the leaders of the employers' association and the trade union confederation were involved, but also the Conservative Prime Minister, representatives of the banking community, the liberal bourgeoisie, and the Social Democratic Party leadership (Bertolt *et at.* n.d.: 254 ff.).

Norway got its Main Agreement in 1935, Sweden in 1938, Switzerland got a pace-setting agreement in the export industries of watch-making and machine-making in 1937. In 1958 the same kind of agreement had reached the construction sector (Parri 1987: 46). During and in the immediate aftermath of World War II, as expressions of national solidarity, important capital-labour agreements were made in Finland, The Netherlands, and Belgium. The German Legien–Stinnes agreement of 1918 had broken down even before the breakdown of the Weimar Republic, and in the Federal Republic collective bargaining was institutionalized by law, in 1949. Austria,

whose centralized labour and capital organizations and conservative corporatism had gone to civil war in 1934, sealed its post-World War II understanding with the Raab–Bohm agreement of 1956, which, among other things, installed the famous Joint Commission.

The French have twice attempted something similar, without success. First there was the Matignon agreement of 1936, struck in the shadow of the electoral victory of the Popular Front and the wave of factory occupations in June 1936, and almost immediately disavowed by a dominant faction of the employers (Lefranc 1974: 216–17). A similar background, the May events, led in 1968 to the Grenelle agreement, which, although not repudiated, never stuck fully (Bunel and Saglio 1984: 241 ff.). In democratic Italy no industrial relations constitution has ever made it, either to the statute book or to a comprehensive collective agreement.

In the Anglo-Saxon world, a centralized legal system of arbitration was set up in New Zealand in 1894 and in Australia in 1904. It gives these countries a pattern of industrial order which is neither corporatist, in the usual varieties of that notion, nor decentralized or market-dominated. Its effectiveness in bringing about its official aim of conciliation has been limited, as appears from the high strike record, but it certainly orders industrial relations. In the USA (the Wagner and Taft–Hartley Acts), Canada (with provincial Wagner-type acts), Britain with the Thatcherite Employment and Trade Union Acts, and in post-World War II legislation in Eire, and in Japan, unionization and trade union action are given a framework of minimum protection, and, in the case of the Taft–Hartley and Thatcher Acts, certain legislated restraints. In neither of these later cases, however, is an industrial order of mutual class recognition and orderly conflict provided for (cf. Armingeon 1988: 168 ff.; Sisson 1987; Windmuller and Gladstone 1984).

Centralized peak-to-peak wage bargaining is not the same as a bargained order of negotiations. The former occurred nowhere before World War II. It started in Norway and in a state-guided form in The Netherlands right after World War II, and began in Sweden in 1952. In the Nordic countries it became a pattern in the 1950s and 1960s, as well as in Holland and Austria. Such patterns of centralized negotiations have not been rare in post-war Belgium, and they have occasionally occurred in Italy and France. Except for Austria, this pattern has come under increasing strain in the 1970s and 1980s. Such negotiations have never taken place nor have such agreements been made in Germany, Switzerland, the Anglo-Saxon countries, and Japan (Armingeon 1983; Elvander 1988*b*; Sisson 1987; Windmuller and Gladstone 1984).

The level at which negotiations take place, if at all, seems to depend mainly, though not exclusively, on employers' decisions under different conditions and considerations of power (cf. Sisson 1987). But national politics and national adaptations to world market competition can also

produce a sense of the nation as one field of negotiation. Post-war central negotiations in Sweden were pushed through by the employers' confederation, but there were demands for centralization also from the (export industry-dominated) metal workers' union, which wanted to hold back the wages of the best-paid domestic industry unions (Rehn 1980). Currently, after the failure of the big lock-out in 1980, the leading export industry employers in Sweden are strongly against centralized negotiations, which are now defended mainly by the unions and by the domestic industry employers. There is no universal political economy explanation of bargaining levels.

State-guided 'incomes policies' have been attempted, with varying success, in a number of countries, notably Anglo-Saxon and Germanic (Elvander 1988*b*; Flanagan *et al.* 1983; Archer in this volume). In centralized Sweden and in decentralized Switzerland, incomes policy is an official taboo, on the other hand (cf. Elvander 1988*a*; Katzenstein 1984).

Throughout the post-World War II period, six countries have consistently had fewer working days lost to industrial dispute than others: Switzerland, Austria, The Netherlands, Germany, Sweden, and Norway (Korpi 1983: 165; ILO 1986: tables 3 and 28; Shalev 1983). Two of these countries have competitive unions (The Netherlands and Switzerland), which between them organize about a third of the workers, one (Austria) has a single encompassing trade union movement, and the other countries fall in between. During most of the period Holland had ideologically multiple employers' organizations as well. In the mid-1970s–mid-1980s decade, Japan, which for the whole 1946–76 period had more industrial conflict than Britain, added itself to the very low conflict league, and so did Denmark, although at a level above that of Switzerland and Austria. All the time in the twentieth century Switzerland has been an ultra-peaceful case apart from the crowd (Korpi 1983: 165) (the defeated general strike of 1918 excepted), recently accompanied by Austria.

At the other end, as countries of persistently high volumes of industrial conflict in the twentieth century, are (non-Fascist) Italy, Australia, and France. Rather large amounts of industrial conflict have also periodically occurred in Finland, New Zealand, the UK, Canada, Ireland, and Japan. Occasional big and/or widespread conflicts have taken place in all the industrialized countries since World War II, except Switzerland, Austria, Holland, Germany, and Norway. No neat institutional explanation can be given to this pattern of industrial peace and conflict. The most peaceful countries all have Germanic-type labour movements, but relative peace ensued only after pre-World War II trials of strength between capital and labour. Latin and Anglo-Saxon labour movements and employers are the most conflict-prone, but the evidence also indicates that such countries with strong labour movements but no or brittle governmental influence on labour tend to have most industrial conflict.

The relatively peaceful industrial orders are structured in fundamentally two different ways. One is an institutionalization of partnership and consensus, with formalized bodies of joint decision-making and an extensive legal back-up. The Netherlands is the prototype of this industrial order, which had its days of glory from Liberation till the mid-1960s. A 'guided wage policy' governed, and the legal right to industrial conflict was severely curtailed. There was no associational monopoly, however. Both employers and employees were divided along legitimate ideological lines into three confederations each (cf. Windmuller *et al.* 1983).

Though much less legally formalized, Austria may be located on the Dutch (now considerably attenuated) side. Switzerland and West Germany also use the 'partnership' vocabulary, but Germany (at least) leans more to the other end of the peace-conflict spectrum. This second type is organized not in institutions of consensus and partnership but around an institutionalization, one might perhaps even say ritualization, of conflict. The Scandinavian countries, and since World War II Sweden in particular, have developed this regulation of conflict, which dates back to the Danish September Agreement of 1899. Here a 'guided wage policy' would have a ring similar to 'guided democracy'. Capital and labour are not 'social partners' but 'labour market parties', whose autonomy and principled conflict rights are held sacrosanct.

Conflict rights in the Swedish public sector are extensive, together with those in Finland, said to be the most extensive in the world (Elvander 1988a: 318), although the conflict right is bestowed only upon confederations (of manual workers, white-collar employees, and professionals). Sweden is probably unique in according the lock-out the status of a constitutional right (§ 17 of the 1974 Constitution), a weapon occasionally used and always considered possible and legitimate. The multi-employer lock-out also exists in Germany, but there it is more contested and legally hedged in. It is not alien to the industrial relations of the other Nordic countries, but it is rarely used, whether as a threat or as a practical move, outside Sweden and Germany (cf. Gladstone 1984:41; Bunn 1984: 194). What has kept Swedish industrial relations in peace has been a duopolistic balance of power between two major actors, both taking a rational long-term view, the manual workers' confederation, LO, and the employers' association, SAF. Since the mid-1970s this duopoly of two industrial superpowers has been broken up by the rise of new actors with an industrial *force de frappe,* the white-collar confederation and, in particular, its resourceful union of private industrial employees, and the public sector unions, both manual and white collar. This has led to a number of serious industrial conflicts in the last decade, and Sweden looks bent upon leaving the industrial peace club. Conflictual legitimacy and a very strong concern with distributive justice have led to this erosion of settlement by bargaining only.

By contrast, the Swiss industrial relations system has always harboured a

large number of actors while avoiding conflict. The latter appears to have less legitimacy in Switzerland, but probably more important are the weakness of the unions and the lesser concern with distributive justice.

There are, then, different kinds of industrial order. Centralized peak-level bargaining between capital and labour is not the key factor (cf. Pohjola in this volume). Such negotiations have never occurred in two of the six outstandingly peaceful industrial orders after World War II, in Switzerland (cf. Blaas in this volume) and West Germany. They have occasionally occurred, and led to agreement, however, in the most conflictual of all the advanced industrial nations, Italy. Nor is consensus very apt as a characteristic of all peaceful industrial relations systems, given the fact of two very different kinds of industrial cultural systems, one formed around partnership, the other around orderly regulated positive-sum (always potential) conflict.

What has mattered, it seems, is a socially broad-minded union movement—as a Germanic-type trade union is more or less from its origin—with a social vision which may be later acquired by political experience, a reaching of a power balance between labour and capital (which may occur at different points of relative power, depending upon the point of departure), and an experience on the parts of labour and capital of belonging to the same national culture, between the members of which some amount of trust is possible and between whom some aspects of destiny are common. The shadows of Fascism and/or foreign threat were decisive or at least significant in all the most successful and enduring peace settlements. National unity may be reached under less threatening circumstances, but no simple reshuffling of labour market institutions stands much chance of succeeding in bringing about new industrial relations. The latter are inextricably embedded in relations of class and nation.

2.5 ASSOCIATIONS AND SOCIAL STEERING: DO POLITICAL OBJECTIVE AND OTHER INSTITUTIONS MATTER?

Social steering is a concept for relating the political system to broad issues of social dynamics and refers to attempts by social actors, not only governments, to affect the dynamics of the development of a society, to steer the latter into a particular direction and/or at a particular pace. 'Corporatism' as concertation (Lehmbruch 1984) or as 'private interest government' (Schmitter 1985) implies a mechanism of social steering. Again implications of and alternatives to 'corporatism' have generally been left hanging. But much can be learnt from a large number of penetrating, often cross-nationally comparative studies of interrelation between interest organizations and state authorities on a local or industrial sector level that the corporatist impetus

has come to spawn (see e.g. Cawson 1985; Grant 1985). However, at the same time the general theoretical issues raised or implied need to be pushed further (cf. Cawson 1986).

The economic literature on corporatism, established as a legitimate disciplinary genre by Bruno and Sachs (1985) but on track in political science at least since Schmidt (1982), asserts that corporatism has a major, beneficial, effect on macro-economic steering. It is argued to lead to less unemployment and to better unemployment-inflation trade-offs, lower 'misery index'. Here we have reformulated the conflated corporatist problematic into one of strategic associative action and its consequences. Clearly, associations have played, and still play, an important role in twentieth-century social steering. The most general part is probably the one played in the monitoring and support of agriculture since the 1930s, where farmers' associations in all industrial countries constitute a crucial part of the public steering endeavour (cf. Peterson 1979).

The contemporary importance of associative action does not limit itself to involving states and private associations with each other. Associative action, of coalition-building, interest mediation, and bargaining, is also increasingly found to characterize the internal operation of public administrations. Such was, for instance, the conclusion of the Norwegian Power Study (NOU 1982: iii. 53) and of Hanf and Scharpf (1978). Even though there are good reasons not to forget that 'government is not just another organization' (Sharpe 1986: 177, emphasis omitted), to the extent that the former conclusions are correct, 'the associative model' reaches beyond the state–market–association distinction and points to politico-economic steering processes of an intricate complexity. Legal traditions make a difference between states in this respect. For example, the strong legal *Rechtsstaat* tradition in Germany leaves public authorities with considerably fewer discretionary powers and less room to manoeuvre in bargaining than, say, Sweden (labour market authority, Gösta Rehn oral communication) or the USA (regulation of toxic chemicals, Schneider 1985).

Another direction into which steering issues of state-associations relations might take us is a perspective on the latter combining both economic and social policy and structure aspects. 'Corporatism' has primarily centred around macro-economics, labour markets, and industrial policy. On the other hand, imbrications of states and private associations are important phenomena and cross-national variables also in social policy and welfare state organization. In the Latin as well as in the Germanic countries of Europe, trade unions and employers' organizations are directly involved in social policy-making, and in many countries also in the implementation of public social policy, in the running of public social insurance systems, for instance. Trade unions run unemployment insurance, with mainly public finance, in some countries. Denominational organizations play a major part

in the running of schools and hospitals in some countries, in Holland and Belgium in particular. Help for the elderly and several other social services are sometimes run by private charity associations of various kinds, but largely financed by the state, the former constituting para-statal organizations. Such 'voluntary service' quasi-public organizations can be found not only in Europe but also in, for instance, the USA (cf. Franz *et al.* 1986: 533). A not insignificant social policy debate today centres around the question whether a hiving off of social services from the state to private associations should be promoted. From various ideological positions—religious, marketeering, Green—the latter looks like an attractive option. However, the implications of public services by private association are rather obscure and uninvestigated. The parallels with 'corporatism' or 'private interest government' in economic and industrial areas are obvious, once stated. But so far, they seem to have been little noticed.

Here, however, the issue is corporatism, or associative action and associative order, and macro-economic steering. Above we have already questioned the meaningfulness of the standard 'corporatist' variables of centralization, size, consensus, etc. In other words, the usual explanatory variables in institutional explanations of macro-economic performance have been called into doubt. But, from the perspective of steering the economy, the main question is another one. That is, do objectives count?

Corporatist explanations implicitly assume they do not. Only institutional arrangements, instruments of policy, are taken to count. The implicit assumption seems to be that all governments and major economic actors have the same socio-economic preferences. This assumption runs counter to capital-labour conflicts of interest and to the political manifestations of the latter. Elsewhere I have argued extensively (Therborn 1986) that the institutionalization or not of the objective of full employment was the decisive explanation for the maintenance of more or less full employment in some countries during the 1970s–1980s crisis. The goal was the same in the five persistent full-employment countries, but the means differed considerably, as did the motivations of the major political actors.

That the same sort of labour market institutions can have vastly different effects depending upon the objectives to which they are wedded is also underlined by the different outcomes of centralized wage bargaining in Sweden and Austria with regard to wage dispersion. In fact, Sweden and Italy, with very different systems of labour market institutions, are the two equalizers of wage differentials, whereas Austria rather increases differentials (Hedstrom and Swedberg 1985; Rowthorn, and Guger, in this volume). In stressing this difference between corporatist Austria and corporatist Sweden, Rowthorn departs from the usual framework of corporatist analysis.

The corporatist idea of macro-economic steering has an unwarrantedly narrow focus also in another respect. Corporatist economists assume that

only wages and union behaviour matter in setting levels of (un)employment. Other institutions are, tacitly, held unimportant. The empirical evidence against that assumption, and in favour of the importance of central banks, public employment leeway, and gender relations affecting women's behaviour with regard to the labour market, is overwhelming (cf. Scharpf 1987; Therborn 1988; and Glyn in this volume).

2.6 LESSONS AND FUTURES

In one sense, the lessons of corporatist theorizing are strong and straightforward. Most of it has run into a dead end of confusion and neglect of alternative perspectives. An nth rerun of corporatism and whatever variable between the OECD countries is hardly likely to add very much to our understanding of anything. Corporatism, in any of its usual variants of definition, is not an adequate variable capable of accounting for industrial order or macro-economic performance. On the other hand, corporatist theoretical endeavours do contribute to a social scientific understanding of reformulated issues of associative action, industrial order, and socio-economic steering. However, 'corporatism' does not deserve to survive as an explanatory variable. The major lessons of corporatist theorizations are their side effects.

The types of industrial associative action, which so far have characterized industrial relations of the industrial countries, have come under pressure from different trajectories of post-industrial development. The two polar types of industrial peace, the Dutch and the Swedish, have both already run into trouble. In Sweden, hitherto alone among the classical countries of industrial peace, a significant amount of industrial conflict is becoming endemic.

On the other hand, the legacy of industrial society is most likely to keep an enduring impact. In the foreseeable future, national post-industrial societies are likely to remain distinguishable by the form and order of the associative action of the given national industrial society. Relative de-industrialization has not (yet) meant any disaggregation of the industrial class organizations, in particular not in the countries which since World War II have had a successfully institutionalized industrial order, i.e. the countries most often called corporatist. But in the longer run, new, post-industrial settlements have to follow. Public service employment and public sector unions have already begun to rearrange the industrial order, not the least in Sweden. Though their impact is still limited in most countries, high-technology industries and private services pose a serious challenge to the unions everywhere. Industrial orders have so far been national (or sub-national). If and when major corporations become fully de-nationalized—with

trans-nationally composed and mobile headquarters—a new era of industrial relations has opened. However, we are not there yet, and it would be unwise to jump into far-flung speculation. The patterns we have discussed here are likely to remain for the rest of this millennium, and it is as strains and challenges to them that new tendencies had better be analysed and dealt with by politico-economic actors. And, like the present and the past, the future will be plural.

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3

Corporatism and Wage Bargaining

Matti Pohjola

3.1 TO CENTRALIZE OR DECENTRALIZE? ALTERNATIVE WAYS OF ORGANIZING THE BARGAINING STRUCTURE

Efficient wage-bargaining institutions operate so as to channel the self-interested behaviour of individual employer and employee organizations away from purely redistributive activities into well co-ordinated and socially productive ones. The success of an economy's bargaining structure in achieving this objective can be regarded as a major determinant of its employment, income, and inflation performance and, therefore, of social welfare. Its role in this task can be considered as equal in importance to well-designed economic policies on the part of the government. This chapter looks for such an efficient bargaining structure in the theoretical and empirical literature on trade union behaviour.

The traditional view of economists is that decentralized wage fixing and price setting promote competition and, hence, efficiency. Redistributive issues do not arise in a competitive economy because all agents are unable to affect and are not interested in affecting—directly or indirectly through their own actions—the decisions of others. Workers, for example, do not care about the decisions made by their employers because at prevailing market-determined wages each one of them is indifferent between his current job and the next-best job alternative. Given well-known qualifications regarding externalities and scale economies, private non-co-operative decision-making results in an efficient and effectively co-operative solution for wage and price decisions on the scale of the economy as a whole. Market wages and prices convey all relevant information when no agent can exert market power and everyone must react only to the aggregate decisions of others.

According to this view, which we may here call *market liberalism,* the lack of competition in the product and labour markets is the reason for poor economic performance. The enhancement of competition is seen as the desirable solution to unemployment, inflation, growth, and productivity problems. As regards the labour market and the view that unemployment results from excessively high wages, this policy prescription means that trade union power

Helpful comments from other participants in the project are gratefully acknowledged, as is financial support from the Jenny and Antti Wihuri Foundation. The usual disclaimer applies.

should be reduced in one way or another. By such power is generally meant unions' ability to push wages above market-clearing levels.

From this perspective the future of the union movement does not look at all promising if, as many argue, competition between firms in product markets is becoming more and more intense because of growing international trade and increasing economic integration.[1] The fact that product markets are monopolistic and labour markets have monopsonistic elements has traditionally been regarded as the basic economic justification for trade union organization. Under such circumstances employers always have incentives to restrict output and employment in order to reduce wage rates. Monopolistic power on the part of employees can restore their bargaining position.

But market liberalism immediately begs the question why it is not possible to bargain over wages and possibly prices centrally by mimicking decentralized markets whenever it is desirable and by even doing better in the case of market failures. Centralized wage bargaining has recently been praised for the economic success of so-called corporatist economies in a number of empirical studies (see Calmfors and Driffill 1988 for an excellent survey). The starting-point of these enquiries is the view that competition in the markets of real economies is not perfect. Rather, markets are dominated by the behaviour of rent-seeking organizations which waste resources in influencing other agents' decisions and try to distort allocations so as to generate outcomes with distributive effects favourable to themselves. As, for example, Olson (1982) claims, it may be more profitable for an interest group to fight for redistribution than to fight for the growth of output. Small interest groups with narrow interests are also more easily organized than large groups which pay attention to broader interests. Consequently, real economies do not consist of atomistic agents but of a large number of small and influential interest groups whose uncoordinated non-co-operative behaviour can be responsible for poor economic performance. If this is the case, then there are two obvious policy recommendations concerning the efficient design of bargaining institutions: either to centralize to such an extent that broader macro-economic interests come to be represented in bargaining or to decentralize even more to the extent that interest groups become uninfluential.

We shall here call an economy *corporatist* if its wage-bargaining structure is centralized, that is, if workers and employers are organized into a few powerful national federations negotiating wages and other terms of employment on behalf of their members, and if, in addition, the government is prepared to share some political space with these organizations. This can happen, for example, through participation in wage bargaining. Austria and

[1] Economic interdependence has certainly increased in recent years. The roots lie in improvements in international transportation and communication. Differences in comparative costs have most likely been reduced by the diffusion of production and management techniques. In addition, both firms and consumers are likely to have better knowledge about the opportunities of producing and buying abroad.

the Nordic countries (Denmark, Finland, Norway, and Sweden) are often regarded as examples of such societies (see e.g. Calmfors and Driffill 1988).

It is common in economic policy debates to regard centralized wage bargaining and competitive wage fixing as the only alternative and mutually exclusive ways of organizing labour market institutions. In surveying the recent economic performance of selected OECD countries and reviewing empirical and theoretical works on bargaining, we shall in fact see in sections 3.2 and 3.3 of this chapter that under certain circumstances both centralized and extremely decentralized (i.e. enterprise-level) wage bargaining generate equally good economic performance whereas intermediate degrees of centralization result in inferior outcomes. Consequently, an obvious policy recommendation is that countries with either centralized or decentralized bargaining structures should stick to their prevailing institutions while intermediate countries should either centralize or decentralize. There exist, however, realistic circumstances under which the centralized structure is even preferable to the decentralized one, in which case the policy adviser should recommend increasing centralization. This is because all-encompassing unions are likely to recognize the fact that in modern societies their members must support the unemployed, not directly but via income tax. This understanding serves to moderate excessive wage demands.

But what then explains the observed tendency towards greater decentralization even in the corporatist countries? Corporatism seems to be in retreat throughout the OECD, with the exception of Australia (see Archer in this volume). One possible explanation, offered in the concluding section of this chapter, is the ongoing restructuring of industrial production. According to Piore and Sabel (1984), Gustavsen (1986), Piore (1986), and many others, an increasing number of firms are abandoning Fordist mass production modes and Taylorist hierarchical work organizations in favour of flexible specialization, organizations, and job demarcation. Behind such a change of business strategy is the view that responding quickly to shifting market conditions and product demand has become more important in rapidly changing and uncertain market and technological environments. Flexible organization structures are regarded as being superior to the traditional highly integrated, hierarchical ones and also as requiring a new kind of labour market flexibility, i.e. the freedom to deploy labour within the enterprise.

In a series of papers Aoki (1986, 1988, 1989) has argued that the new mode of production has to rely more than the traditional one on workers' participatory information processing and communication capabilities. Such integrative skills generate informational rents and make workers constituent members of the firm entitled to sharing the rents through *participatory local bargaining.* This can serve as the new economic justification for trade union organization in the future if the old one is losing its relevance. But it may be that corporatist labour market institutions have to be adapted accordingly.

It is the aim of this paper to investigate which one—if any—of the proposed solutions to labour market institutions is desirable under either all or some specific circumstances. To keep the exposition within reasonable limits, we have to concentrate on the issue of centralized versus decentralized bargaining in the traditional production mode. It would also be premature to attempt to provide a comprehensive survey of the new participatory theory of the firm and its implications for the corporatism debate.

3.2 BARGAINING STRUCTURE AND MACRO-ECONOMIC PERFORMANCE: EMPIRICAL EVIDENCE

There exist a number of studies on the macro-economic performance of corporatist economies. Three of the most recent ones are Calmfors and Driffill (1988), Freeman (1988), and Jackman (1988). Corporatism is here narrowly defined as indicating a high degree of centralization of wage bargaining between workers and employers. This is rather restrictive because no attention is paid to the degree of co-operation or 'consensus' between the bargaining parties.[2] These issues have been dealt with empirically, for example, in Tarantelli (1986) whose work will be reviewed in the next section. However, bargaining structures do differ between countries in a distinct way, and these differences are easier to measure than those in the degree of co-operation. Consequently, we shall take a brief look here at the existing evidence on the macro-economic performance of selected economies with different wage-bargaining structures.

Figs. 3.1 and 3.2 illustrate differences in employment performance between seventeen OECD countries. The first figure displays the average unemployment rate and employment as a percentage of working-age population in the period 1980–5.

Both of these measures are needed in characterizing the unemployment experience because unemployment can be reduced by means which discourage participation in the labour force but which are then partly revealed as low employment. The south-east corner of this figure sets out the 'star' performers: Japan, Norway, Sweden, and Switzerland. Austria, Finland, and New Zealand have also performed well whereas Belgium, Italy, and The Netherlands have done rather badly. Fig. 3.2 presents the changes in these measures from their average values in the period 1968–73.

By considering changes we can eliminate some structural and cultural effects, like the size of the labour market and differences in employees' search behaviour. The effect of the bargaining structure remains if it displays itself as a smooth adjustment to the oil and other crises of the 1970s. The star performers are again found in the south-east corner: Norway and Sweden.

[2] See Therborn in this volume for various approaches to the definition of corporatism.

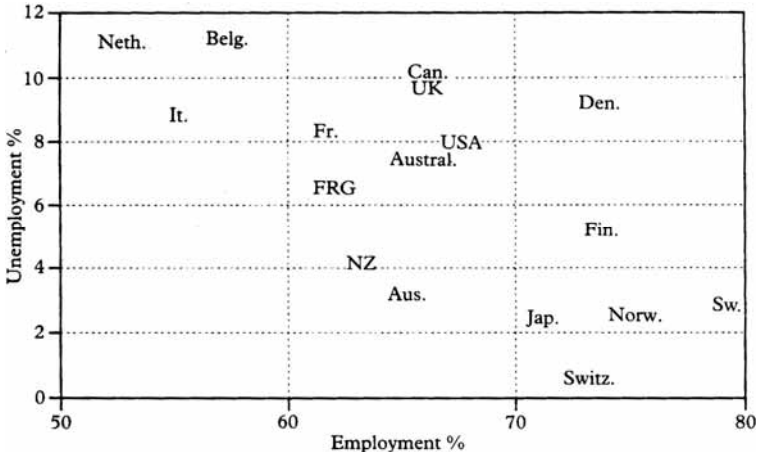

FIG. 3.1 Average employment and unemployment in 17 OECD countries in 1980–1985

Source: OECD (1987*b*)

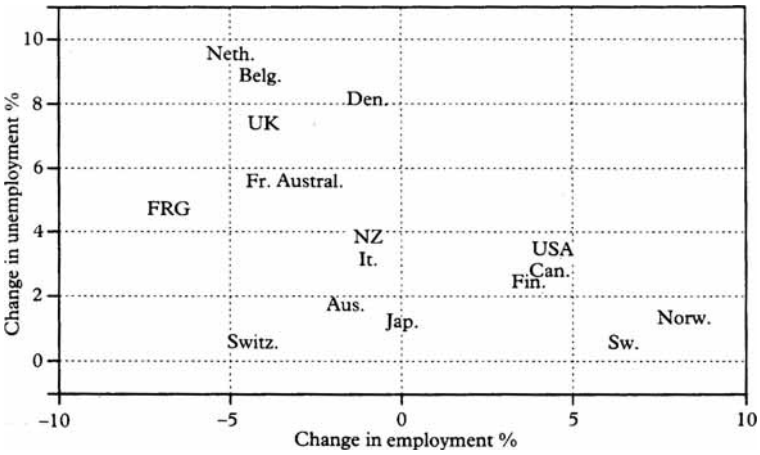

FIG. 3.2 Changes in average employment and unemployment rates between the periods 1968–1973 and 1980–1985

Source: OECD (1987*b*)

Austria, Canada, Finland, Japan, and the United States have also done rather well.

Our attention is drawn to the impact of the bargaining structure by the fact that Norway, Sweden, and—on looser criteria—Austria, Denmark, and Finland belong to the group of star performers. The relationship between centralized bargaining structure and good employment performance becomes even more distinct if the non-European countries are excluded from the comparison.

We can try to confirm the hypothesis that good employment performance correlates with the degree of centralization of the bargaining structure by examining the relationship between employment measures and various indices of centralization. Calmfors and Driffill (1988) have constructed one rather mechanically as the sum of two indices. The first indicates the levels of co-ordination within national union confederations and within national employer organizations (3 = national level, 2 = industry level, 1 = enterprise level, 0 = occupational level). The second reflects the number of existing central union organizations and the extent of their co-operation as well as the number of existing employer organizations and their co-operation (3 = one dominating union and one dominating private sector employer organization, 2 = 2–5 union and/or employer organizations, 1 = no central organization on one or both sides of the market). Table 3.1 shows the combined index on the basis of which the countries under consideration have been classified into three groups with centralized, intermediate, and decentralized bargaining structures.

The first category consists of countries with centralized wage bargaining at the national level. In each of these, both employees and employers have organized themselves into nation-wide unions, the rates of unionization are high among both white-collar and blue-collar workers as well as employers, wage negotiations take place centrally at the national level, and the outcomes of these negotiations also determine the wages of those workers who are not directly represented. As will be argued later in detail, this kind of bargaining structure can be conducive to the greater harmonization of private and social interests in wage fixing, and thus it can contribute to more successful economic performance. The second group of countries consists of those with bargaining mainly at the industry level. The last category is formed by countries with decentralized bargaining at the enterprise level. There is, of course, a certain element of arbitrariness in such a classification, but there is no need here to go into a detailed institutional description of the countries. The idea is simply to demonstrate that there may be a positive correlation, or even a causal relationship, between the degree of centralization of wage bargaining, as measured by the extent of both inter-union and inter-employer co-operation, and good macro-economic performance.

Figs. 3.3 and 3.4 bring out an interesting feature which has received

TABLE 3.1 Classification of countries according to their degree of centralization

Bargaining structure	
Centralized	
Austria	6
Norway	5
Sweden	5
Denmark	5–
Finland	5–
Intermediate	
Germany	5—
The Netherlands	4+
Australia	4
Belgium	4
New Zealand	4
Decentralized	
France	3+
Italy	3+
UK	3+
Japan	3
Switzerland	3
Canada	2

Note: The measure of the degree of centralization has been constructed as the sum of two indices. The first indicates the level of co-ordination of decision-making within the bargaining structure (3 = nation, 2 = industry, 1 = enterprise, and 0 = occupational level). The second measures the number of existing central union and employer organizations (3 = one organization on each side, 2 = 2–5 organizations on each side, 1 = no central organization).

Source: Calmfors and Driffill (1988).

considerable attention in the literature: the relationship between employment and the degree of centralization of bargaining may have a U-shaped form.[3] Figs. 3.5 and 3.6 indicate that the corresponding inverted U-shape between unemployment and the degree of centralization appears only when changes in the unemployment rates are considered (Fig. 3.6).

Both employment and unemployment performances are impressive in the countries with centralized wage bargaining. Unemployment was low in the early 1970s and still so in the early 1980s, with the exception of Denmark.

[3] The fitted curves are quadratic polynomials and should be interpreted as illustrations of the arguments raised, not as serious estimations. See Rowthorn (in this volume and 1990) for such estimations.

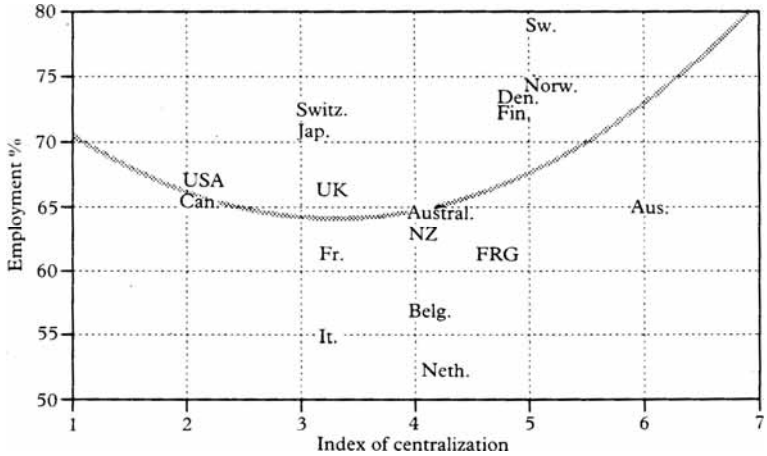

FIG. 3.3 Centralization of the bargaining structure and average employment in 1980–1985

Sources: Calmfors and Driffill (1988); OECD (1987*b*).

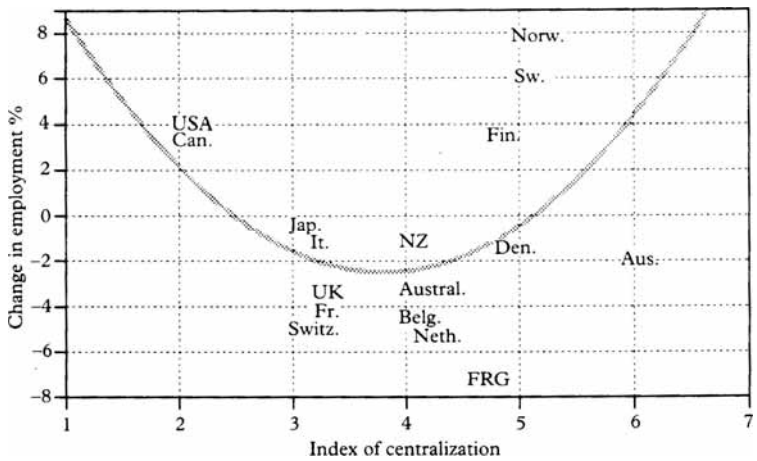

FIG. 3.4 Centralization of the bargaining structure and changes in employment between the periods 1968–1973 and 1980–1985

Sources: Calmfors and Driffill (1988); OECD (1987*b*).

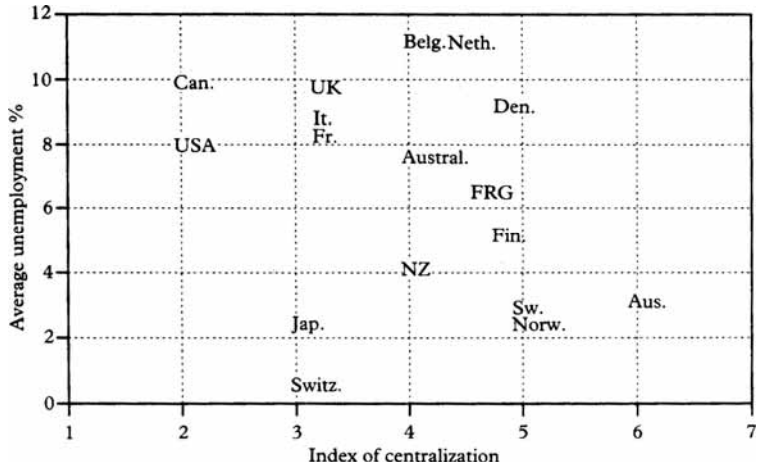

FIG. 3.5 Centralization of the bargaining structure and average unemployment in 1980–1985

Sources: Calmfors and Driffill (1988); OECD (1987*b*).

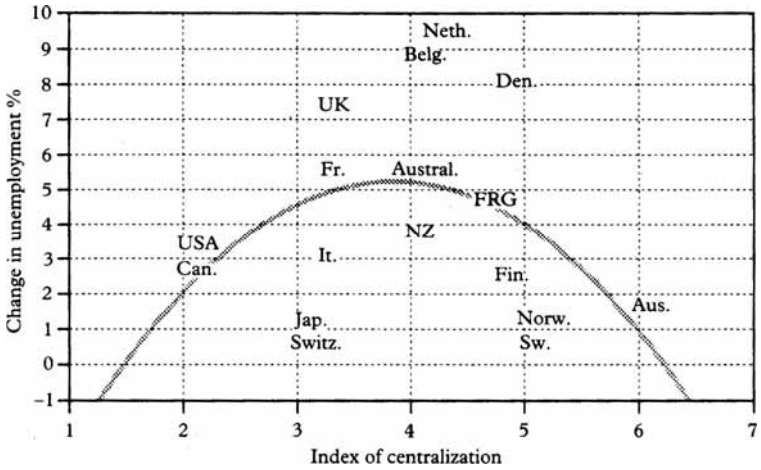

FIG. 3.6 Centralization of the bargaining structure and changes in unemployment between the periods 1968–1973 and 1980–1985

Sources: Calmfors and Driffill (1988); OECD (1987*b*).

The employment rates, as measured here by the ratio of employment to working-age population, are high and have been either steady or rising in the period under consideration, Austria being the exception. This performance can only be matched by a few countries in the other groups. Switzerland has done particularly well in terms of unemployment but not so well if employment is used as the criterion. Japan's record is outstanding and New Zealand's good in terms of both indices. Canada and the United States have been able to increase their employment rates over this period, but the levels of both visible and hidden unemployment are still relatively high in both countries.

Now, if non-European countries are excluded from the analysis, as for example in Jackman (1988), on the basis that European countries are more similar to each other, the conclusion is reached that good employment performance and the centralization of wage bargaining go together—the celebrated U-shaped relation disappears. According to Figs. 3.3–3.6, there is no significant difference in the records of the intermediate and decentralized countries. However, if the non-European countries are included, as in Calmfors and Driffill (1988), then good performance can also be interpreted to be consistent with the decentralization of wage bargaining. Freeman (1988) reaches a very similar conclusion from a cross-country regression analysis by using wage dispersion as the indicator of the labour market structure: employment performance is good in the countries with either low or high dispersion but poor in those where dispersion is moderate. Consequently, a more detailed examination is needed to unravel the relationship between bargaining structure and macro-economic performance although if low wage dispersion is a desirable policy objective in itself then the centralized countries clearly outperform the rest (see Rowthorn (in this volume and 1990) for more detailed arguments).

The next possible step might be an analysis of the inflation record of the countries under investigation. This is justified on the grounds that unemployment over a finite period can be seen as an investment in reducing the inflation rate. Such an examination is not, however, attempted here because previous analyses have reached the conclusion that there is no clear difference between the groups in terms of either inflation or the misery index (see Calmfors and Driffill 1988 and Jackman 1988). The differences in inflation records can be better explained by the nature of exchange rate policies than by bargaining structure (Jackman 1988). Instead, we shall look more closely at the growth performance of these countries to find out whether a good employment record is obtained in the centralized group at the expense of investment for the future. Some Scandinavian economists (Calmfors 1982 and Lindbeck 1979, for example) have been critical of the centralization of bargaining because they see it as eroding economic efficiency and competitiveness and resulting in an excessively large public sector.

These outcomes follow if unions push up real wages and if the government acts as the employer of last resort.

Fig. 3.7 shows the scatter diagram representing real GDP growth in the period 1973–84 and the centralization index. Although there are cross-country differences, the economies with centralized wage bargaining have not done any worse than the rest—indeed, their output performance is better than that of the other European countries. There again, the non-European countries have kept up with the centralized ones although there seems to be no hump-shaped relationship between output performance and the degree of centralization of bargaining. The records of the Nordic countries and Austria look even better if the comparisons are made in terms of GDP per capita growth rates because of their relatively low population growth rates.

Jackman (1988) has also compared the major European countries in terms of productivity growth, and capital formation and exports as proportions of GDP. His conclusion is that countries with centralized wage bargaining do not differ in any significant way from others. Consequently, the Nordic economies and Austria have been able to achieve and sustain better employment records than the rest of Europe without having to sacrifice other aspects of economic performance.

The kind of casual empiricism of Figs. 3.3–3.6 does not, of course, prove that centralized or decentralized wage bargaining is the cause of lower unemployment in any of the countries. Testable hypotheses and more refined

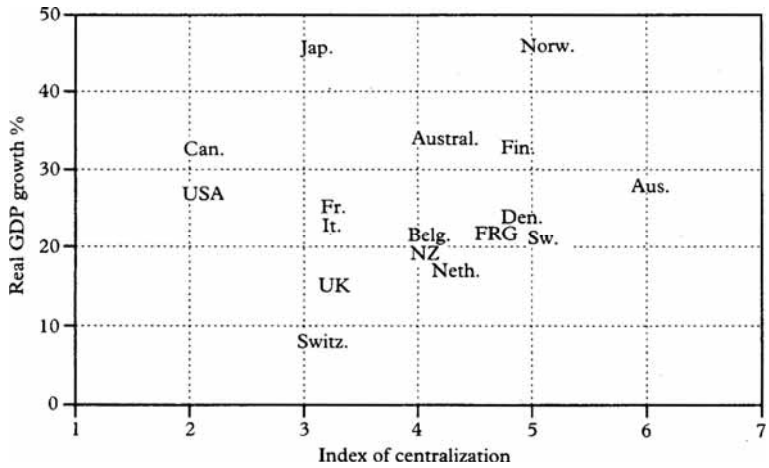

FIG. 3.7 Centralization of the bargaining structure and the growth of real GDP in 1973–1984

Sources: Calmfors and Driffill (1988); Freeman (1988).

techniques of analysis are needed. There already exist a number of econometric studies testing the specific hypothesis that corporatism is conducive to real wage restraint and, consequently, to good employment performance. The basic explanation for the unemployment problems experienced in the OECD countries is the large and unexpected increases in the 1970s in the relative prices of raw materials produced outside the region, requiring reductions in standards of living in the economies importing these commodities. But real wages, as measured in terms of consumption prices, have been inflexible downward, thus lowering the demand for labour and increasing unemployment. International differences in real wage flexibility can therefore be considered to be a major reason for international differences in employment performance.

Fig. 3.8 shows the differences in a measure for real wage rigidity which has been constructed by the OECD for the year 1986 using econometric wage equations for individual countries.[4] The measure is simply formed by dividing the short-term (single year) price elasticity of the nominal wage rate by the sum of its short-term elasticities with respect to productivity and unemployment. These three factors are thus used as indicators of the ability of the labour market to react to disturbances and emerging disequilibria. Real wages are rigid if nominal wages react quickly to changes in the price level. This adjustment is complete in the long run but there are considerable

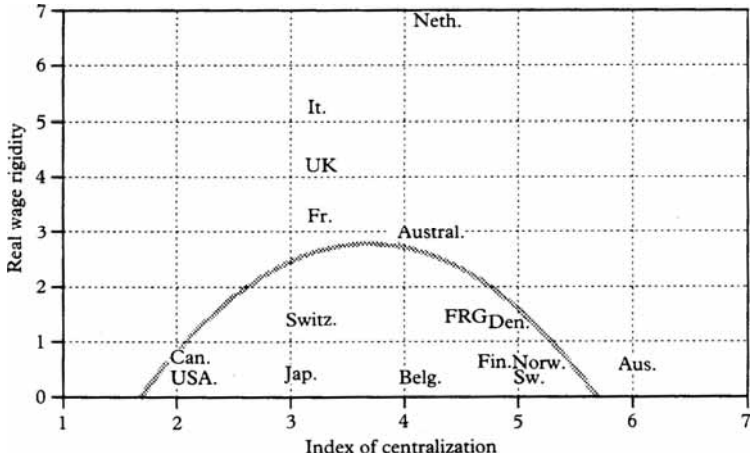

FIG. 3.8 Centralization of the bargaining structure and real wage rigidity

Sources: Calmfors and Driffill (1988); OECD (1987*a*).

[4] I am grateful to Seppo Leppanen for providing me with this unpublished material. See also OECD (1987*a*) for similar calculations.

differences in the speed of adjustment. According to OECD (1987a), the proportion of total adjustment in the first year is 67 per cent in Finland, 28 per cent in the USA, and 100 per cent in Germany. A slow reaction of wages to prices may contribute to labour market stability, for example, in the case of rising prices as a result of raw material price shocks. Real wages are also rigid if nominal wages react sluggishly to changes in labour productivity and unemployment. Rapid reactions would enhance labour market stability. The proportion of total adjustment in the first year to changes in productivity is 61 per cent in Finland, 27 per cent in the USA, and 65 per cent in Germany. The corresponding responses to unemployment are 49, 60, and 6 per cent, respectively. The value of the real wage rigidity is consequently 0.67/(0.61 + 0.49) = 0.61 for Finland, 0.28/(0.27 + 0.60) = 0.33 for the USA, and 1.0/(0.65 + 0.06) = 1.4 for the Federal Republic of Germany.

The hump-shaped relation appears again in Fig. 3.8, implying that both decentralized and centralized bargaining are conducive to real wage flexibility and, therefore, possibly to labour market stability. Given this correlation and those of the previous figures, it is rather surprising that no clear evidence has been found for the significance of the bargaining structure in econometric studies proper.

Bruno and Sachs (1985) and McCallum (1983, 1986) have estimated cross-country Phillips-type price equations using a measure of corporatism as one of the explanatory variables. Bean, Layard, and Nickell (1986) and Newell and Symons (1987) have estimated wage equations on time-series data for individual countries. In general, corporatism turns out to be strongly significant. In these studies, however, corporatism is defined in a more general way than merely as a measure of the degree of centralization of wage bargaining. In particular, a measure of consensus between labour and employers is used in one way or another. But as Calmfors and Driffill (1988) rightly point out, there are a number of problems associated with such vague measures of corporatism. In their re-estimation of these models, the results turned out to be very sensitive to the corporatism index and no clear evidence was found for either a monotonic or hump-shaped relationship between good employment performance and the degree of centralization of wage bargaining.

Freeman's (1988) study can be used as an example of the problems involved. Using the cross-country data, he regressed the change in employment on changes in real GDP and on changes in real wages. The conclusion was reached that, conditional on the growth of output, there is a clear negative correlation between employment changes and real wage changes across the countries. A 1 per cent increase in the real wage rate induces an approximate 0.5 per cent decline in employment. He further concluded that, because the cross-country differences in GDP growth are smaller than those in real wage growth, the latter can be taken to explain the diversity of

employment performance. The problem here is the fact that both employment and real wages are endogenous, and in no sense can the latter be viewed as the cause of the former. As Nickell (1988) points out, the key correlation is the strong positive one between real wage changes and productivity changes. Thus, for given output, employment and real wages must be negatively correlated. As for the analysis of the bargaining structure, the problem now is that this negative correlation can arise in almost any kind of economy: it appears in a perfectly competitive environment as well as in the case where wages are fixed and prices marked up on average costs. It can be argued that unions have a more significant effect on the persistence than on the level of unemployment. This is likely to be the case if unions restrict job turnover by making the job-separation rate inefficiently low. If this also affects the job-finding probabilities through more selective employment policies on the part of firms, then the gross labour turnover rate goes down making unemployment more persistent but having an indeterminate effect on its average rate. But it can also be argued that unionization does not result in labour turnover restrictions, if bargaining takes place centrally so that the resulting externalities can be internalized. In a recent paper, Barro (1988) has tested these hypotheses using aggregate unemployment data from nineteen countries. His analysis supports the view that unionization has a positive effect on the persistence of unemployment among economies that lack a centralized wage-bargaining structure.

There also exist a number of studies in political science testing Olson's (1982) theory about the rise and decline of nations (see, for example, Wibe 1987 for a survey). As was mentioned in section 3.1 above, Olson argues that there is a tendency for the number of small and narrow interest groups to increase in stable, democratic societies. Such distributional coalitions distort the allocation of resources and, consequently, reduce economic growth by pushing for special interests, thus bringing about national decline. The conclusion is thus reached that the mere existence of trade unions has a negative impact on economic growth and, thus, on employment. The larger the number of unions, the greater the adverse effect. Olson, however, qualifies the conclusion by adding the reverse hypothesis that encompassing unions promote economic growth. Accordingly, there should exist a U-shaped relationship between economic growth and the degree of unionization or centralization of wage fixing.

Olson's theory has been tested in a number of ways. The most relevant one for the topic of this paper is the study by Lane and Ersson (1986). They tried to explain the differences in GDP growth rates among the OECD countries (like those shown in Fig. 3.7) using a number of both economic and political variables. Of these variables, an index of institutional sclerosis turned out to have the largest explanatory power. As for unionization, the results indicate that, when the initial level of development and the

institutional sclerosis are controlled, union membership has a negative impact on growth, whereas centralization contributes to growth. The effects are, however, statistically insignificant.

3.3 CONSENSUS AND ECONOMIC PERFORMANCE

The analysis of the preceding section can be criticized on the grounds that in concentrating on the role of centralization it excludes all other relevant features of the industrial relations system. Corporatism is a broader concept than a centralized wage-bargaining structure. As defined in the introductory section, a corporatist system is one in which the interest organizations either share a vision of economic policy similar to that of the government or, through interest intermediation, reach outcomes which are essentially similar to the ones obtainable under the sharing of objectives. Centralized bargaining structure may be necessary to enforce such outcomes, but centralization without consensus is not likely to work. For example, the results of Newell and Symons (1987), referred to above, indicate that the economic performance of the same bargaining structure may be quite different when consensus prevails from the way it is under conflict.

As will be argued in greater detail in the next section, the basic theoretical argument in favour of the centralized bargaining structure includes elements of both the prisoner's dilemma and the public goods problem. A kind of prisoner's dilemma arises in wage setting if individual unions bargain over wages with employers independently from other unions. Although all employees would benefit from wage restraint in some circumstances, any individual group might be significantly worse off if it were to accept wage moderation while other groups were able to obtain large pay increases. The public goods problem arises because the benefits of nominal wage restraint do not flow only to the employees bearing its costs but also to the whole society in the form of a reduction in inflation and an increase in output and employment. Both problems can be successfully solved by co-operation which can be enforced via a centralized bargaining structure. But, as Tarantelli (1986) argues, wage stability can be considered to be a public good only in so far as the relevant interest groups broadly agree on the distribution of income. If not, then attempts by any union to change, say, the wage structure trigger wage increases aimed at re-establishing the relative differentials. In this case wage stability is no longer a public good in itself because instability is considered a way of changing income distribution.

Tarantelli (1986) has attempted to capture the effects of these other aspects of the industrial relations system by constructing an index measuring centralization, consensus, and arbitration rules. The scale used ranges from 1 to 5 for each of the three dimensions. The centralization measure differs

from Calmfors and DriffilPs (1988) in that Tarantelli also accounts for factors like the existence of government institutions designed to assist collective bargaining. His consensus index is a rather subjective one designed to measure the degree to which there is not only a high degree of ideological and political consensus (e.g. in the USA) but also a high integration of interest groups with the economic and political machinery of the government (e.g. in Austria, Japan, and Germany). The arbitration index accounts for the actual process of labour dispute settlement in the case both of conflicts of interest and of conflicts of right. The aggregate measure is reported in Table 3.2, which also classifies the countries into high, intermediate, and low corporatism groups.

The most striking difference compared with the classification used by Calmfors and Driffill (Table 3.1) is that Tarantelli regards Japan as the third most corporatist country. Its ranking is high along all three dimensions. The

TABLE 3.2 Classification of countries according to their degree of corporatism

Degree of corporatism	
High	
Austria	15
Germany	14
Japan	13
Denmark	12
Norway	12
Sweden	12
Intermediate	
Australia	10
Finland	10
The Netherlands	10
Belgium	9
Canada	9
USA	9
Low	
New Zealand	8
France	7
UK	5
Italy	4

Note: The index has been constructed by ranking the countries according to three criteria: centralization of wage bargaining, degree of ideological and political consensus, and existence of arbitration rules. The scale ranges from 1 to 5 for each dimension of corporatism.
Source: Tarantelli (1986).

relative positions of Canada and the USA are also better here than in Table 3.1 because of the high degrees of ideological and political consensus in these countries. It comes as no surprise, therefore, that the U-shaped relationship between employment and corporatism or the hump shape between real wage rigidity and corporatism can no longer be detected in Figs. 3.9 and 3.10.

Employment performance correlates positively with the degree of

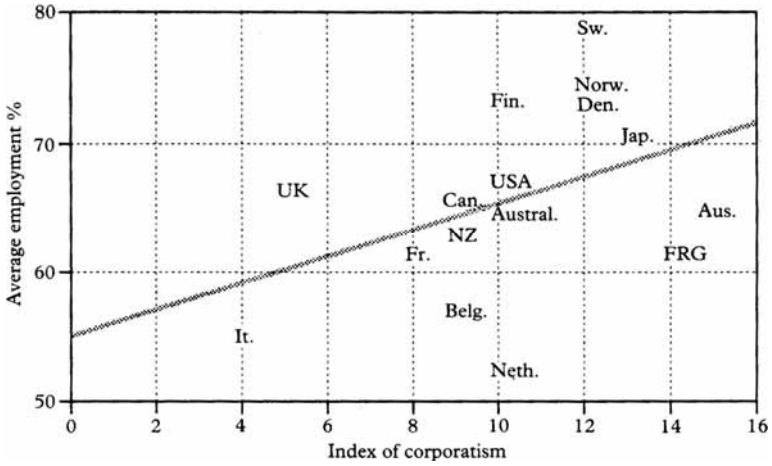

FIG. 3.9 Corporatism and average employment in 1980–1985

Sources: Taranteli (1986); OECD (1987*b*).

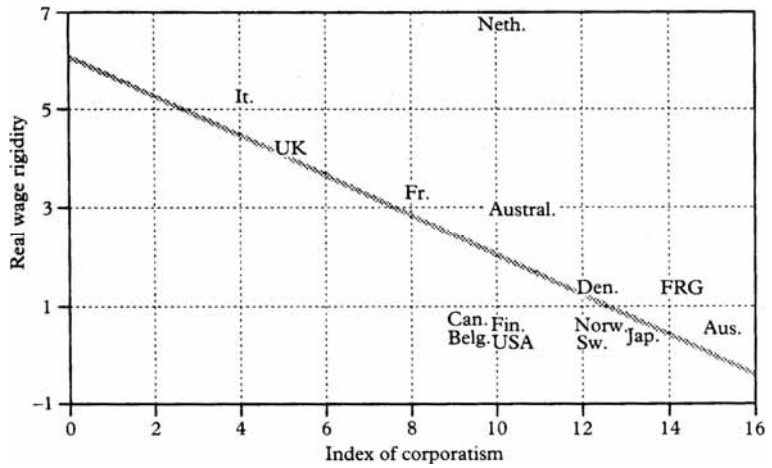

FIG. 3.10 Corporatism and real wage rigidity

Sources: Leppänen (1988); Tarantelli (1986); OECD (1987*a*).

corporatism. Tarantelli (1986) finds equally clear relationships between his index and the misery index (i.e. the sum of unemployment and inflation rates) in the periods 1968–73, 1974–9, and 1980–3. What is interesting here is that in the post-first and second oil crisis periods the relationships between these two indices shifted in a way implying a higher misery index for any given degree of corporatism. But the slope changed so that the comparative advantage of the most corporatist countries became increasingly greater. Corporatism seems to matter most when things get worse.

By way of a conclusion, we can say that the empirical evidence presented in this and the previous section in support of centralized bargaining or, more generally, of a high degree of corporatism is suggestive but so far too weak to be taken as conclusive. This is hardly surprising since there is no reason to expect that just a few variables would explain the differences in performance of such a number of countries. What is needed, therefore, is theoretical, preferably empirically testable frameworks to identify the channels through which the degree of centralization of wage bargaining and, possibly, the degree of consensus between the bargaining parties affect employment.

3.4 THEORETICAL INSIGHTS

3.4.1 *Short-run analyses*

There exist a variety of partial or general equilibrium arguments claiming that centralized wage fixing is associated with better or worse employment performance than decentralized wage bargaining. It is the purpose of this section to take stock of them. The analysis is first confined to the case of a fixed capital stock.

We borrow a simple model from game (or oligopoly) theory to illustrate the arguments. Suppose that there is an economy consisting of two industries having identical production structures. Each one is assumed to be dominated by a monopoly union, i.e. by a union able to impose the nominal wage rate on the firms. The latter choose employment levels so as to maximize their profits. The unions have identical preferences over real wages and employment:

$$U^i(w_1, w_2) = U(w_i/p, L_i) \tag{3.1}$$

where w_i denotes the wage rate of the members of union i, $i = 1, 2$, L_i, the demand for labour in industry i and where p is a consumer price index. Now it is evident that the choices of the two unions become interdependent through p and L_i—the consumer price index and the labour demands are generally functions of both w_1 and w_2. The union utility function $U(\cdot)$ is assumed to be increasing and concave in its arguments.

Viewed in isolation, each union i—being in a strong enough bargaining

position—would set its nominal wage rate w_i so as to maximize (3.1) for any given choice of w_j subject to the labour demand equation:

$$L_i = (w_i/p_i), \tag{3.2}$$

where p_i is the price of the product of industry i. It is here assumed that there are no intermediate products. The demand side could be modelled to determine how prices depend on wages, but there is no need here to go into the details. This relationship can be kept in an implicit formp, $p_i = p_i(w_1, w_2)$. It is well known from the monopoly union theory of the trade union that for realistic preference characterizations unemployment results in industry i if the marginal productivity of labour is diminishing, in which case $\partial L_i/\partial w_i < 0$.[5] Unions 'cause' unemployment by creating real wage pressures, i.e. by pushing wages above the market-clearing levels.

This prediction survives a number of extensions concerning assumptions about wage setting and conditions of production. First, unions are seldom in a position to set nominal wages. These are normally bargained over with employers. However, unemployment follows even under bargaining if the firms can unilaterally set the levels of employment (Nickell and Andrews 1983). Second, a qualitatively similar conclusion is obtained when unions can bargain over employment as well as wages, as in the efficient bargain model of McDonald and Solow (1981), if the labour supply constraint is taken into account in a proper way (Layard and Nickell 1987).[6] Third, competitive labour markets can be introduced by assuming that industry i is unionized whereas j is not. Then a wage differential in favour of the unionized workers is likely to arise. Unemployment is created if the other sector is not able to take up the slack because of, say, unemployment insurance preventing wages in the non-unionized sector from declining sufficiently. Finally, the assumption concerning the diminishing marginal productivity of labour can be replaced by the view that firms' marginal revenues are diminishing when firms operate in imperfectly competitive markets without any need to revise the neo-classical conclusion that unit labour costs have to decline for employment to increase. It is not, however, immediately clear what happens to real wages in such a 'New' Keynesian world as that of Meade (1982), Layard and Nickell (1985), Solow (1986), and others because price formation is endogenous.

Armed with the conclusion that wage fixing plays an important role, at least in the short run, in the explanation of unemployment, we can turn to consider the effects of the bargaining structure. Although the significant correlation between high real wages and large unemployment seems undeniable,

[5] See e.g. Oswald (1985) and Farber (1986) for more extensive surveys.

[6] The over-employment result of McDonald and Solow (1981) is obtained in a partial equilibrium framework and cannot be realized at the macro-economic level simply because employment cannot exceed labour supply.

it is incorrect to accept the naive view that real wages are exogenous and determine unemployment because both are outcomes. Even if prices are exogenously determined in the world markets, money wage rates are influenced by labour market conditions either through competition or through union behaviour. Consequently, the bargaining structure affects wage determination and thus employment. It—rather than real wage rates—can be regarded as the exogenous factor.

Decentralized bargaining is considered first. This case can be analysed by the Cournot–Nash equilibrium of the non-co-operative game between the two unions, which is obtained by assuming that each union maximizes the preference function (equation 3.1) with respect to its own wage rate, taking the other union's wage as fixed. As illustrated by point N in Fig. 3.11, the resulting equilibrium pair of wages, $(\overline{w}_1, \overline{w}_2)$, is defined by the intersection of the reaction functions:

$$R_i\,(W_j) = [\; w_i \setminus \partial U^i(w_1, w_2)/\partial w_i = 0 \;] \tag{3.3}$$

for $i, j = 1,2$. Here, $\overline{w}_1 = \overline{w}_2$ because of the assumed symmetry of the model. It is clear that this kind of non-co-operative behaviour is not optimal for the unions from the viewpoint of their common interest. This is because there is an externality involved here. When each union sets its wage rate independently of the other, it ignores the effect of its choice on the welfare of the opponent. Such externality can be internalized only through

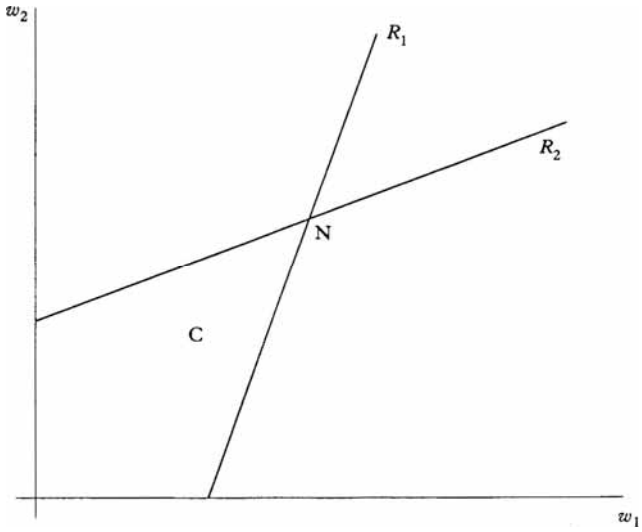

FIG. 3.11 Co-operative (C) and non-co-operative (N) solutions to union rivalry

co-operative behaviour—by choosing w_1 and w_2 jointly to maximize a weighted sum of the union welfare functions. As the problem is assumed to be symmetrical, the symmetrical Pareto solution (w_1*, w_2*) for which w_1* = w_2* can be chosen as the relevant co-operative solution. This outcome can be enforced if the two unions amalgamate into one centralized organization.

It is obvious that the internalization of the described externality through the centralization of wage fixing can improve the welfare of both unions. But does centralization result in lower or higher wages and, thus, in higher or lower employment? That is, does point C corresponding to (w_1*, w_2*) in Fig. 3.11 lie to the south-west or north-east of the equilibrium point N? The answer depends on many unspecified characteristics of the model. Union preferences, production, labour demand, and competition in the product markets should be specified in greater detail. It is not possible to do all this here, and we have to be content with a brief survey of more extensive studies.

First, Calmfors and Driffill (1988) have argued that both a completely decentralized (i.e. firm-level unionization) and a totally centralized (one national union) system are likely to be conducive to wage restraint and, consequently, will result in equally good employment performance. They use the utilitarian preference function (see, for example, Oswald 1985):

$$U(w_i/p)L_i = u(w_i/p)L_i + v(b)(N_i - L_i) \tag{3.4}$$

Here $u(\cdot)$ is the utility function of an individual union member who is employed, whereas $v(b)$ is the utility function of a member who is unemployed and receives an alternative wage (e.g. unemployment benefit) b. N_i is the total number of members of union i and L_i, the number of them who are employed. All members are assumed to be alike and to supply a fixed amount of labour when employed. Calmfors and Driffill further assume perfect competition to prevail in all industries and characterize the output demand function on the basis of consumer preferences. Employment is determined by equation (3.2) and is randomly allocated among union members. Output demand and supply then determine prices as functions of wage rates: $p_i = p_i(w_1, w_2)$.

The outcomes of centralized and decentralized bargaining are identical if unemployment benefits are financed out of a profits tax. The explanation is that in both cases the unions effectively choose consumption real wages w_i/p under the constraint that the relative prices p_i/p_j are constant. In completely decentralized bargaining this result follows because the output price is given for an individual firm, whereas in complete centralization all wage and, consequently, price increases are equal in all sectors of the economy because of the symmetry of the model.

It is more difficult to obtain any definite conclusions about the effects of changes in the degree of centralization. Calmfors and Driffill demonstrate that if $dU^j/dw_i = dU^i/dw_j < 0$ at the non-co-operative equilibrium point

($\overline{w}_1$, $\overline{w}_2$) of the model, then co-operation between the two unions (i.e. centralization of bargaining) results in lower wages and higher employment than in the non-co-operative (i.e. decentralized) system. The sign *of* dU^j/dw_i is thus critical. There are two forces here that work in opposite directions, as can be seen from equation (3.4). First, an increase in w_i raises p_i by an amount which depends on how close substitutes the goods i and j are in consumption. This price effect increases production in sector j and, therefore, employment L_j. Second, an increase in w_i results in a higher value of the consumer price index p, and thus it has a negative effect on the utility of union j. The net effect may go in either direction. The overall outcome is very much an empirical question. Calmfors and Driffill, therefore, resort to numerical simulations in their analysis and demonstrate for detailed structures of consumption, given total nominal demand, and for plausible production function parameters that both extensive centralization and decentralization can be conducive to wage restraint and, therefore, to high employment. If nothing else, their results must be taken as evidence for the view that the relationship between employment and the degree of centralization of bargaining is not necessarily monotonic, but may be hump-shaped.

The second theoretical conclusion concerning the effect of the bargaining structure is that the symmetry between centralized and decentralized bargaining breaks down when fiscal externalities are considered. These arise if unemployment benefits are financed by an income tax which is also paid by the employed workers. Unions now recognize that, even if their members are not called directly to support the unemployed, they must do so indirectly via the income tax. This understanding serves to moderate the unions' wage demands. It increases employment and the tax base, reduces expenditure on unemployment benefits, and may even increase the *net* consumption real wage in the case where the consumption real wage is falling. Such fiscal externalities can be internalized through higher degrees of centralization in wage fixing, meaning that employment is likely to be higher in the centralized than in the decentralized system. This outcome is confirmed by the simulations of Calmfors and Driffill (1988) as well as by the theoretical analyses of Kemp, Leonard, and Long (1987) and Mulder (1988).

The view that income taxes are taken as endogenous by centralized and encompassing unions is the most convincing argument found so far in our survey for the claimed success of corporatist economies. Besides the described theoretical support for it, there exists some empirical evidence in Bean, Layard, and Nickell (1986). Rowthorn and Glyn's (1990) praise for the success of the Swedish economy can also be interpreted by applying this argument.

The third theoretical result is another plausible and theoretically sound argument in favour of centralized bargaining. It is obtained if the model is extended to cover imperfect competition between firms. Perfect competition

was assumed to prevail above, implying that firms cannot individually change their output prices when wages change. In the case where firms have such market power, industry-wide or enterprise-level unions can take advantage of this fact and set wages at higher levels than are optimal for a completely centralized union. This kind of an economy has been studied by Strand (1987) by applying the monopoly union theory. Assuming production functions to be linear and firms to be able to set output quantities, he demonstrated that centralized, encompassing unions pursue the least aggressive wage policies and industry-wide unions the most aggressive policies, while enterprise-level, local unions were found to use intermediate strategies. Thus, again both centralized and decentralized bargaining structures do well in terms of employment performance, the former being likely to outperform the latter.

Jackman (1988) has also examined the role of imperfect competition in a framework similar to Calmfors and DriffiU's. He modelled an open economy with only one domestic producer in each sector facing monopolistic competition only from abroad and setting prices as mark-ups over wages. In contrast to Calmfors and DriffiU's results, Jackman obtained a monotonic relationship between employment and the degree of centralization of wage fixing, centralized bargaining being a force for wage moderation. This monotonicity, however, breaks down once more domestic firms (or plants of the same firm) are introduced in each sector (Calmfors and Driffill 1988).

The conclusions obtained here can be criticized on the grounds that the bargaining power of trade unions has been treated as constant and independent of the level of bargaining. In applying the monopoly union model, for example, it was assumed that unions can impose wages on firms at any given level of aggregation. It may be that in the real world of imperfect competition decentralization of wage fixing reduces workers' relative bargaining power whereas centralization increases it. The effects of variable bargaining power, however, escape the analysis at the current stage of modelling because there is no adequate theory for it. It is also possible that union preferences are not independent of the level of aggregation. Centralized unions may pay more attention to unemployment problems than local unions do in which case unemployment is less persistent in centralized economies. Finally, the role of asymmetric information has not been studied. It is well known in bargaining theory that, together with individual rationality constraints, this kind of information may hinder efficiency. Contracts would not be signed even if they turned out to be efficient *expost,* i.e. after all private information has been revealed. Individual rationality means that no one can be forced into signing an agreement if it is not in his or her best interests to do so. Under such circumstances centralization of decision-making can

[7] See also Davidson (1988) for similar results in a bargaining framework.

improve efficiency even if the higher-level decision makers do not have as good information as the individual bargaining units (Farrell 1987).

It is tempting on the basis of the analysis of this section to draw the following policy conclusion. The countries with a centralized bargaining structure should stick to it, the countries with decentralized bargaining should preserve their systems, especially if product markets are competitive, while the intermediate countries should abandon theirs in favour of centralized bargaining. Such policy prescriptions are, however, premature because they are based on short-run considerations obtained by assuming the capital stock to be fixed. Unions may have little impact if capital is mobile. In fact, as Jackman (1988) emphasizes, there is a unique equilibrium real wage for a small open economy where output prices are given by world markets, where capital is supplied elastically at a constant world rate of interest, and where production takes place under constant returns to scale. Consequently, there is nothing unions can do in the long run if they are not able to restrict capital mobility. In any case, the choice between bargaining structures should not be based solely on short-run considerations, but long-run factors have been much neglected in the literature on this topic.

There is, however, an additional issue on which a short-run analysis of the bargaining structure can shed some light—that is, the relationship between economic policy and wage setting. This has received considerable attention from some Scandinavian economists (for example, Hansen 1958; Johansen 1977; Soderstrom and Viotti 1979; Calmfors 1982; Calmfors and Horn 1985, 1986; Hoel 1987). The argument is simple. Suppose that government policy reacts to aggregate wages and/or employment. In a decentralized bargaining system, each union will regard the impact on aggregate variables of its wage claims as negligible. Consequently, unions view macro-economic policies as independent of their wage claims. In a centralized bargaining structure, however, the union movement is assumed to perceive this feedback and to act accordingly. The lesson learnt is that the effects of macroeconomic policy vary with respect to the degree of centralization of bargaining. Consequently, the differences in employment behaviour shown in the figures of sections 3.2 and 3.3 may be better explained in terms of economic policies. It can be recalled here that most European economies pursued high budget deficit policies in the late 1970s, but reduced deficits in the early 1980s. If such policies were conditioned on bargaining outcomes in the way that deficits are reduced in the case of 'excessive' wage increases,

[8] It is interesting to observe that, for example, in Finland, which is one of the most strike-prone European countries, most strikes are associated with local (i.e. enterprise- or plant-level) bargaining. The asymmetry of information is a possible explanation for this. Its role is important at the local level and strikes may be necessary instruments for information revelation. At the national or industry level, the union negotiators have to use public information which needs no revelation mechanisms.

then the relative success of the Nordic and Austrian economies can be attributed to their centralized bargaining structures.

There is also another reason for the need to study the relationship between wage setting and economic policy. As has been demonstrated in the foregoing, wage stability is a kind of public good: the benefits in the form of higher employment and lower inflation do not accrue exclusively to those who provide it. But it is also a very special kind of public good in the sense that, while everyone may benefit from it, its provision depends on the behaviour of a particular group of society: the employees and their organizations. The workers, however, are not only interested in wages and employment but also in 'macrogoods' like unemployment benefits, pension funds, retraining schemes, health insurance, labour legislation, taxes, etc. The supply of such goods is under the control of the government. This fact serves as the basis of government involvement in wage fixing as a bargaining party. There does not exist any theoretical work on this topic, but common sense suggests that bargaining between the government and the labour movement is much easier if the bargaining structure is centralized than if it is decentralized. In addition, agreeable outcomes are easier to achieve when the parties share common objectives than in the case where they represent opposing political views.

3.4.2 *Long-run considerations: instability of consensus*

As was demonstrated in the preceding section, co-operation between trade unions results in greater welfare for their members than is obtainable under rivalry. Such co-operation, however, requires commitments, i.e. binding agreements, preventing the parties from cheating each other. Each union has an incentive to raise its wage if the opponent is known to adhere to the co-operative solution. But such considerations then lead the players to choose the Cournot-Nash strategies instead of the co-operative ones. The commitments required can be obtained by centralizing the bargaining structure, i.e. by joining the two unions into one encompassing organization. This is the method used by Calmfors and Driffill (1988), Jackman (1988), and Strand (1987) who, consequently, do not discuss the stability issue.

It is, however, well known in oligopoly theory that binding contracts are not necessary to enforce co-operative solutions if the game relationship is a repeated one. The unions do, in fact, confront each other as well as the employers from year to year. Even if there exist a number of independent unions, they may then achieve tacit or implicit agreement on co-operation without binding, formal arrangements. All that is needed is a mechanism, included in the efficient equilibrium strategies, which deters an individual union from cheating. Such a mechanism can be constructed by adopting punishment strategies designed to be used against the defecting union in periods following cheating. If punishments inflict large enough welfare losses

on the defecting players, they prevent cheating and, thus, make co-operation sustainable.

By applying this idea to the union rivalry model, it is possible to show that the co-operative solution (w_1*, w_2*) (point C in Fig. 3.11) can be sustained as an equilibrium. The following trigger strategy pair (Friedman 1971), for example, yields this result if the discount rates of the unions are not too high:

$$w_i(t+1) = w_i^* \text{ if } w_i(t) = w_i^* \text{ for } i = 1, 2,$$
$$= \overline{w}_i \text{ otherwise for a fixed punishment interval.} \qquad (3.5)$$

Here t denotes the time period. The discount rates play a role because the benefits of cheating are obtained in the current period, whereas the welfare costs of punishments fall on the players in the future. The unions are here assumed to be maximizing the discounted sum of the single-period utilities:

$$U^i(w_1, w_2) = \sum_{t=0}^{\infty} \frac{1}{(1+\delta)^t} U_t^i(w_1, w_2),$$

δ being the discount rate.

An interesting conclusion can be drawn from this extension of the basic one-shot game: bargaining structure may not matter at all, but the 'mode of play' is important. If the unions possess complete and perfect information and if they are not too myopic, then they should be able to reach consensus on wage policies and obtain efficient outcomes without any binding contracts. Consequently, if co-operation between unions is conducive to wage restraint and good employment performance, then even the countries with a moderate number of industry-wide unions—the intermediate group of Table 3.1—should be able to display good macro-economic performance at least in stable environments such as those which prevailed in the growing world economy of the 1960s.

It is, however, often claimed (see, for example, Newell and Symons 1987) that there exist variations in the observed modes of play between the unions and, possibly, other organizations. Countries may experience alternating periods of consensus and conflict. Endogenous changes in the degree of co-operation between the unions can be explained by the aid of the model described above if informational imperfections are included in it. Suppose that union i cannot directly observe the wage rate set by union j, but has to rely on indirect observation obtained through the price level p. This may be the case if the contracts between employers and employees are so complicated, as they are in real life, that it is very hard for an outsider to measure their impact on labour costs. Suppose further that the price level is also influenced by some other factors which can be regarded as random from the

unions' viewpoint. Thus, when a union observes an increase in the price level or inflation rate, it cannot be certain whether this rise is caused by random factors or by an increase in the wage set by the opponent. This uncertainty may cause the union to switch from an initial co-operative mode of play to the non-co-operative one for a fixed period during which the punishments of equation (3.5) are executed. As demonstrated by Green and Porter (1984) in an oligopoly model, this happens if the observed price or inflation shock is large enough. Given that positive inflation shocks are more likely during economic booms than recessions, we obtain the empirically testable conclusion that corporatism, i.e. a co-operative wage restraint, is much harder to achieve and sustain when economic activity is high than when it is low. And, inversely, corporatism is likely to emerge when activity is slack.

This conclusion is very similar to Tarantelli's (1986) view that under stable and low inflation a large wage request made by an individual union is easily noticed by others and, therefore, deterred by a mechanism like the one presented in equation (3.5). But if the initial inflation rate is high and considered to be uncertain in the future, then any high wage demand by a particular group of employees is less likely to be observed. There is, thus, a greater incentive for free riding because the expected costs of cheating are considered to be lower. Consequently, price shocks, like those created by the oil crises of the 1970s, increase the likelihood of non-co-operation between the interest organizations.

The conclusion of this section is that bargaining structure may matter only in turbulent environments. Under 'normal' circumstances of stable economic growth and inflation, countries with a number of strong unions should also be able to achieve good macro-economic performance. The oil crises may then explain the divergent performance in the 1970s and 1980s of countries with centralized and intermediate bargaining structures. The economic history of the intermediate countries should also exhibit endogenously alternating corporatist and non-corporatist periods during these two decades. Hence, we are likely to learn more about corporatism by investigating the experiences of individual countries than by making direct cross-country comparisons.

3.4.3 *Economic growth and the bargaining structure*

Let us now turn our attention to long-run analysis. It can be argued that the choice of the bargaining structure should be based on considerations which are of longer-term nature than those examined in the preceding sections. These issues have been much neglected in the literature on the economic consequences of trade unions. Most studies have been carried out in a

[9] See Rowthorn (1990) for further developments of this argument.

framework that is very different from the union-firm set-up studied earlier—that is, in the context of two-class growth theory. There do exist a few attempts to generalize the monopoly union or the union-firm bargaining model to cover investments and the demand for labour over time (see, for example, Ploeg 1987), but these partial equilibrium studies do not much improve upon our understanding obtained from static analyses of the relationship between bargaining structure and economic performance. Consequently, only studies in the growth theory tradition will be surveyed here.

A striking new conclusion catches the eye immediately: it may be the case that unions do not have any power in the long run—the best they can do is to set the real wage rate at the competitive level equalizing the demand for and the supply of labour. This result is obtained by Kemp and Long (1987) for a two-class, constant returns-to-scale neo-classical growth model in which the workers (i.e. the all-encompassing union) set the minimum rate of real wages so as to maximize a discounted sum of the wage bill over time, firms set employment levels so as to maximize profits, and only the capitalists save and automatically invest part of their income (i.e. profits). The conclusion is rather intuitive if the elasticity of substitution between labour and capital is equal to or greater than one. In this case, a rise in the real wage rate above the free market level must both reduce output (by creating unemployment) and decrease (or leave unchanged) labour's share of it. By forcing down the return on capital and, hence, saving, such a real wage pressure also reduces wage shares in the future. Therefore, a rational union will not set the real wage rate above the market-clearing level.

A more elaborate model is needed to prove the result for the case in which the elasticity of factor substitution is less than one. But we can understand the Kemp-Long result without going into the details if it is recalled from growth theory that the capital-labour ratio k maximizing worker consumption in balanced, full-employment growth is obtained as the solution to $f'(k) = n/s$, where /(·) denotes the production function in its intensive form, n is the natural growth rate, and 5 the capitalists' savings rate. It is this steady state level of k, if any, which is optimal for the union to aim at in the long run.

A very similar result was obtained by Hamada (1967) for a model in which the labour market is assumed to be competitive, but where the workers can set lump-sum transfer payments from capitalists to workers so as to maximize the sum of discounted worker consumption over an infinite horizon. He showed that the workers cannot be made better off by a positive or a negative income transfer in the long run if their discount rate is zero. For positive transfers to be optimal, it is essential that they indicate some time preference or impatience.

According to these studies, it is optimal for the union movement not to exercise its market power in the long run. Similar conclusions were already

hinted at in the preceding sections when allocational distortions were discussed. If capital is mobile, unions may not be able to extract any rents. This outcome of the dynamic models corresponds to the U-shape hypothesis of the static analysis: economies with strong union movements are likely to perform as well as those with competitive labour markets.

A number of qualifications are, however, needed before unions are dismissed in favour of free competition. First, it was assumed that the union movement can set the real wage rate. This is questionable even in the case where there is a strong and unified union movement, and the outcome may turn out to be worse in the case of no unions if the product market is not perfectly competitive. Trade unionism may be necessary for the equality of the wage rate with the marginal productivity of labour to be achieved in the long run. Second, the conclusions refer only to the steady state. Unions have power in the short run. In the Kemp and Long model, the union sets the minimum real wage at a level exceeding the competitive real wage, thus causing unemployment. In the Hamada model, it is optimal for the workers to suppress their consumption at an initial state of development, by transferring wages to capitalists, in order to attain the desired capital-labour ratio in the most rapid way. Thus, the achievement of steady state outcomes is likely to depend, among other things, on the number of unions and the degree of co-operation between them. In this sense the bargaining structure or corporatism matters in the long run as well. The final qualification concerns production technology. Unions may have power even in the very long run if returns to scale in production are variable, rather than constant. Palokangas (1989) has made some initial experiments with this modification to the Kemp and Long model. Production and organizational technologies are also likely to be a function of the bargaining structure and not exogenous as was assumed in the studies mentioned. Thus bargaining and participatory systems have an impact on technical progress.

Let us illustrate the importance for economic growth of the bargaining structure or co-operation between unions by considering the transition to steady state growth. Let us simplify the Kemp and Long model by assuming that only one production technique exists. Thus, the elasticity of factor substitution is zero, and the firms can be left out of the model—the demand for labour is proportional to the capital stock. Suppose that initially labour supply is not binding, i.e. the economy is of the labour-surplus type. Then, if the working class can set real wages and if the capitalists' savings rate is fixed, the workers can control accumulation and employment. They do this so as to maximize a discounted sum of worker consumption over time. Now it is possible to show by applying dynamic game theory that growth is sub-optimal from the workers' viewpoint if they do not act as a single decision-making unit but rather organize themselves into a number of non-co-operating trade unions (Pohjola 1984). Slow growth, large unemployment, and high

real wages are the consequences of such decentralization of bargaining. It is interesting to note that the correlation between labour costs (i.e. high wages) and slow growth (and large unemployment) can be explained in terms of the institutional structure or the mode of play between the unions. High real wages do not here 'cause' unemployment.

This outcome can be explained in terms of a dynamic externality. One union's decision to save for the future by adopting moderate wage increases is affected by the fact that the accumulated amount may be expropriated by other unions by their increasing the wages of their members. This analysis can be interpreted as a dynamic extension of Sen's (1961, 1967) isolation paradox. He has demonstrated how private saving versus consumption decisions are fundamentally different from collective ones and how individual decisions may result in an insufficient amount of investments for the future. Assuming that, given the decisions of others, each individual would be better off by not saving an additional unit whereas all would be better off by saving collectively, it follows that no one will save although everyone would have preferred one more unit of saving by each individual. Because of the external effects between individuals' decisions and the lack of influence on others' actions, nobody wants to invest himself, although each individual would like to see others invest, i.e. all try to shift the burden of saving on to others.

Pohjola (1984) has further demonstrated that the inefficiency described above becomes more severe as the number of independent unions grows. There is no U-shaped relationship here between the degree of centralization and economic performance. It is possible that decentralization or the lack of co-operation between unions can prevent the economy from ever reaching the full-employment steady state.

The dynamic externality described above can be internalized by centralizing the bargaining structure. But can the same result be achieved if the unions retain their independence but co-operate voluntarily? It was suggested in the preceding section that, in the absence of informational imperfections, co-operative outcomes can be supported as equilibria in repeated games by the aid of trigger strategies that threaten to revert to non-co-operative play when one of the players deviates from co-operative behaviour. Things are, however, different if the game relationship is structurally dynamic. A repeated game consists of the repeated play of a particular one-shot, i.e. static, game. The repetitions are structurally independent, meaning that in each period players' pay-offs depend only on their actions in the current period. Structurally dynamic games are different in the sense that these pay-offs also depend on the whole history of the game. The basic difference lies in the fact that the sustainability of a co-operative policy at any given time now depends on the values of state variables summarizing the history. Since the states evolve over time as functions of the players' controls and the states

themselves, it may happen that co-operation between players breaks down endogenously in the course of the game when a previously sustainable policy becomes unsustainable or that co-operation emerges from a non-co-operative mode of play when state variables achieve some critical levels. Consequently, it is possible to observe endogenous variations in the degree of co-operation between players even in the absence of informational imperfections.

These kinds of phenomena are not yet well understood even in game-theoretic literature, but there already exist two preliminary applications to the modelling of growth and distribution (Haurie and Pohjola 1987, Kaitala and Pohjola 1990). As these ideas have some relevance to corporatism, we briefly summarize the Kaitala-Pohjola paper. It is based on the Hamada (1967) model described earlier. The working class is one of the players. It is assumed to be able to set income transfers from capitalists so as to maximize a discounted sum of workers' consumption over time. Only the capitalists save, and the original model is extended by assuming that capitalists also optimize dynamically. They choose their saving strategy so as to maximize a discounted sum of capitalist consumption over time. Non-co-operation between these players has the most drastic consequences: the economy does not grow. Instead, the capital stock decays at a constant rate. A similar outcome can be obtained for the corresponding game formulation of the Kemp and Long (1987) model (see Kemp and Shimomura 1987). Consequently, both social classes have strong incentives to devise mechanisms which would sustain some form of co-operation.

Kaitala and Pohjola (1990) assume that workers and capitalists are induced to use trigger strategies which specify that co-operative policies are followed as long as both sides comply but that the non-co-operative equilibrium strategies will be used for the rest of the game once cheating is detected. They demonstrate that efficient equilibria exist in such a game if the natural growth rate is positive. Thus, growth is essential for redistribution. They further show that an expanding economy is likely to be less conflict-ridden than a stagnating one, and that sustainable co-operation is likely to imply income transfers from capitalists (i.e. the rich) to workers (the poor) in the long run.

These predictions are not very strong, but they may shed some light on the nature of economic policies in countries, like the Nordic ones, where redistribution through taxation and collective bargaining has been at the centre of policy-making. In particular, the connection between economic development and the nature of sustainable policies is an interesting one for the following reason. As discussed in the preceding sections of this chapter, the received view in the literature on social corporatism is that centralized bargaining in a co-operative (consensus) framework is the best institutional arrangement in terms of economic performance. Causation here runs from

co-operation and centralization to performance. The conditions under which such an institutional arrangement would emerge have not been explored. Kaitala and Pohjola show that for co-operation to emerge and to be sustainable it has to imply income redistribution in favour of the working class in the long run, although both workers and capitalists benefit as compared to the non-co-operative mode of play. Admittedly, however, the capitalists' relatively weak position is explained by the specific feature of their model that investment is irreversible.

Schott (1984) has also discussed the corporatism issue in the Lancaster (1973) model in which workers control die wage share and capitalists the share of investments in output. She defined working-class power by means of a model parameter (the upper limit on the wage share) and showed that countries may differ from each other in terms of economic performance because of differences in labour power. The Kaitala and Pohjola analysis is different in the sense that they have not regarded class power as an exogenous parameter but have instead examined how it arises endogenously as a function of economic development.

The possibility of class conflict over income distribution does not necessarily imply that capitalist societies are dynamically inefficient in the sense of Lancaster (1973). The fact that either of the social classes can, at any time, impose the conflict outcome on the economy only affects the set of sustainable efficient equilibria by making it smaller. All co-operative policies are not agreeable because they are not sustainable as equilibria of the game. A social contract, precommitting both sides to a particular solution, is not, therefore, a necessary institution for obtaining efficiency. Here the conclusions differ from, for example, Mehrling's (1986) views on the role of government in enforcing a social contract. No enforcement mechanism is required if the contract belongs to the set of efficient equilibria.

Although this analysis was performed in the context of a worker-capitalist game, similar conclusions should be obtainable for the case of union rivalry. The implication for empirical studies is again that we are likely to learn more about corporatism by investigating the experiences of individual countries rather dian by making direct cross-country comparisons.

3.5 CONCLUSIONS

In this chapter we have surveyed empirical and theoretical literature on corporatism viewed either as a centralized wage-bargaining structure or as an industrial relations system in which consensus prevails. The study leads to the following conclusions. First, empirical evidence for the traditional view that centralized wage fixing contributes to more successful economic performance is suggestive but so far too weak to be taken seriously—the

econometric results obtained do not survive standard stability tests. This fact may, however, reflect more the weakness of the empirical models than the non-existence of the hypothetical relationship. Most studies have, for example, concentrated on the relationship between the level of unemployment and a measure of centralization, whereas it can be convincingly argued that the persistence of unemployment could be a more relevant measure of unemployment performance.

Second, even theoretical studies do not support the view that there exists a monotonic relationship between the degree of centralization of wage bargaining and some measure of economic performance—extensive decentralization can also be a route to full employment. However, most authors seem to agree that intermediate degrees of centralization are harmful. But this view was challenged in section 3.4 above where it was argued that it is not die bargaining structure as such that matters but the degree of co-operation or 'consensus' between the parties involved. In normal circumstances, they should be able to reach an implicit agreement on the nature of wage-fixing strategies without any binding agreement or centralization of the bargaining structure. It seems clear that the degree of centralization is at best a poor predictor of economic performance. For this reason it was suggested that more could be learnt about corporatism by examining the experiences of individual countries—alternating corporatist and noncorporatist episodes—instead of making direct cross-country comparisons.

Third, given the reservations made, if the policy makers of an intermediate country were to make a decision about changing the degree of centralization, the analysis of sections 3.2–3.4 would advise them to go for greater centralization. There are two empirically relevant factors which make centralization preferable to decentralization. The first one is the existence of fiscal externalities and the second the role of imperfect competition in output markets. Fiscal externalities arise if unemployment benefits are financed by an income tax which is also paid for by the employed workers. Taxes are thus endogenous, and their level depends on the policies pursued by the unions. Such externalities can be internalized through higher degrees of centralization of bargaining, meaning that wage fixing is likely to be more conducive to high employment in a centralized than in a decentralized system. Imperfect competition on the other hand provides employers with incentives to hold wages back by restricting employment. This fact can be regarded as the economic justification for the existence of unions. This policy conclusion must, however, be qualified in the sense that it is based on the assumption of a fixed capital stock. In addition, the analysis of section 3.4 says that the beneficial effects of greater centralization should be obtainable without any change in the bargaining structure if the mode of play between the unions can be made more co-operative.

Fourth, it was suggested that government policy effects are dependent on

the bargaining structure or the degree of co-operation between unions. More specifically, it was argued that the effects of contractive policies are not so harmful to employment in the centralized system as they are in the decentralized system. These policy connections have not been explored much in the literature, and they would merit more attention.

The final conclusion concerns the long run. It was argued that the bargaining structure may not matter in the very long run—the best the workers can do is to set the real wage rate at the competitive, full-employment level. However, the very long run is far away, and the transition to a particular steady state growth path is certainly influenced by the structure of bargaining. It was pointed out that it may be impossible to achieve full employment growth without a union movement. In the long run, corporatism is also endogenous, but the circumstances under which it is likely to arise or decay have not been much explored.

The analysis of this chapter was based on a set of rather restrictive assumptions and needs to be qualified in a number of respects. First, it was assumed that the relative bargaining power of the interested parties is independent of the degree of centralization. It maybe the case that workers are in a weaker position in a decentralized system than in a centralized one. Second, information has been assumed to be public knowledge. It is well known in bargaining theory that the existence of private information and the 'freedom to choose' (i.e. to walk out of negotiations) can hinder efficiency. Under such circumstances centralized decision-making may result in socially desirable outcomes even if bureaucrats cannot induce the bargaining parties to reveal their information but have to rely on imperfect public knowledge (Farrell 1987). Third, co-ordination also pays in the case where information is imperfect in the sense that some relevant facts are not yet known when decisions have to be taken. Cremer (1988) has demonstrated how the whole organization composed of independent decision makers benefits from common information (i.e. measurements) on such uncertain events if they care sufficiently about the variability of their decisions (or rather outcomes). Thus, even a decentralized union movement would benefit from a centralized co-ordination of information if labour market solidarity is an objective shared by the independent unions. In typical circumstances, individual unions know less than would be optimal were they perfecdy rational, and union organization finds it beneficial to co-ordinate the limited knowledge of its members. By 'corporatist culture' we mean the generation of such common knowledge and the sharing of solidaristic objectives. In such culture it is not necessary for an individual union to know other unions' decisions in order to be able to predict the outcomes because it knows the way decisions are taken and because information is common.

All these qualifications are arguments in favour of some form of centralization. But is centralization compatible with the ongoing industrial

restructuring towards flexible specialization and work organizations?[10] What has been said in this chapter about bargaining structure and macroeconomic performance was based on analysing their relationship via the average or aggregate real wage. Nothing has been said about the wage structure, i.e. about relative wages, or about other conditions of work.[11] Casual empiricism suggests that there exist pressures towards greater inter- and intra-industry wage dispersions as well as greater flexibility in the deployment of labour which are associated with decentralized wage setting. Bargaining at the level of the firm does indeed allow greater scope for firm- or industry-specific factors than can be taken into account in a more centralized structure. These pressures are likely to grow in the future if competition between firms is becoming more intense, as some have argued. But does the possible erosion of monopolistic competition mean that unions lose the economic justification for their existence? In a series of interesting studies, Aoki (1986, 1988, 1989) has studied the foundations of the bargaining theory of the firm. He claims that more intense competition between firms leads them to adopt new forms of organizations which rely more on workers' participatory information-processing and communication capabilities than the traditional hierarchical organization structure. Emerging, new participatory modes of production generate information rents which can be bargained over by the parties involved—the owners who supply capital, the management who provide the organization framework, and the employees who offer their information-processing capacities. Although Aoki does not regard the generation of these rents as a justification for union representation, it makes the workers entitled to their share of such rents. We may, therefore, give a negative answer to the above question, and conclude that there is a role for the union movement in the participatory mode of production as well. Information rents are firm-specific but collective and cannot, therefore, be written into individual wage contracts. But wage bargaining has to take place at the level of the firm for conditions for an efficient generation of such rents to arise. If Aoki's view is correct, it is the most relevant argument in favour of decentralized bargaining. The question then arises which form of corporatism, if any, can survive in this new environment. Is the corporatist system flexible enough to be able to face these new challenges or will it be buried along with the old production methods and forms of organization?

[10] See e.g. Piore and Sabel (1984) and Piore (1986) for descriptions of the changing models of production.

[11] Rowthorn (in this volume and 1990) has taken up the wage dispersion issue.

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4

Corporatism and Labour Market Performance

Bob Rowthorn

4.1 INTRODUCTION

The present chapter is concerned with labour market performance in corporatist economies. The term 'corporatist' has many different meanings, but in this chapter it will be used to denote capitalist economies in which there are strong, and relatively centralized, employers' and workers' organizations. The economies which readily fit this description, and to which the chapter is primarily devoted, are Austria and the Nordic countries—Denmark, Finland, Norway, and Sweden.[1] In recent years, the corporatist economies have attracted increasing attention from social scientists, especially Sweden, about which there is now a voluminous literature. Amongst the reasons for such interest are the success exhibited by some of these economies in responding to external shocks during the turbulent years since 1973, and the apparently good labour market performance they have displayed over this period.

Labour market performance can be measured in a variety of ways. At one time, international comparisons focused mainly on unemployment rates as the simplest and most readily available index of performance. However, it is now accepted that this measure has major drawbacks which seriously undermine its usefulness in international comparisons. For example, Switzerland experienced a huge loss of jobs in the crisis of the mid-1970s, but because of the way Swiss statistics are compiled, there was virtually no rise at all in the official unemployment rate, and the country was widely, but mistakenly, praised for its handling of the crisis.[2] Denmark, on the other hand, is often classified as a failure because of its high unemployment rate (8 per cent in 1987). Yet in terms of jobs, the country's record has been quite good by international standards, and the high rate of unemployment in Denmark is partly due to a high rate of labour force participation. Because of these limitations,

I should like to thank the participants of this project for their helpful comments, especially Andrew Glyn, Jukka Pekkarinen, and Matti Pohjola.

[1] In addition to the countries just listed Australia has also recently developed a centralized system of labour market institutions, whose features are described in a companion essay by Robin Archer elsewhere in this volume. However, the Australian system is still in its infancy and has not been in existence long enough to produce a noticeable impact in the time period covered by this chapter, which ends in 1985. Special attention will not therefore be devoted to Australia.

[2] For a discussion of the Swiss case see Schmidt (1987), Therborn (1986), Rowthorn and Glyn (1990), and Wolfgang Blaas in the present volume.

the use of unemployment statistics for international comparisons has been increasingly questioned, and attention is shifting towards alternative indices of labour market performance, such as the level or growth rate of employment.[3]

However, even these newer indices of performance are seriously flawed, since they are primarily concerned with the total number of jobs in existence, and take little or no account of what kind of jobs are involved. In particular, they ignore variations in pay between one kind of job and another. Some countries have achieved high levels of employment in recent years, but many of the jobs in question are very badly paid, with workers receiving only a fraction of the national average. The result is now a large underclass of 'working poor' in these countries. In certain other countries, employment is just as high—or even higher—but wage rates are comparatively uniform and even low-paid workers earn a wage fairly close to the average. Such international differences in wage dispersion are extremely important in human terms, and also to some extent in efficiency terms. They should clearly be taken into account when comparing labour market performance.

In the present article evidence on both employment and wage dispersion is examined, and the performance of the corporatist economies is evaluated taking both of these variables into account. The picture revealed by our analysis is in some ways rather surprising, both confirming and refuting certain common beliefs. It also reveals a clear division within the group of social corporatist economies. The main findings can be summarized as follows. Austria, which has been frequently admired for its labour market performance since 1973, does badly and emerges with a rating which is at best mediocre by international standards. This is explained primarily by the fact that employment opportunities for women are severely limited in Austria and their pay is on average well below that of men. In addition, wage dispersion amongst men is considerable and there is a substantial body of low-paid male workers. Conversely, all of the Nordic countries, without exception, do well and enjoy a clear lead over the rest of the OECD during the period since 1973. All of them have managed to achieve, or maintain, comparatively high levels of employment for both men and women, and as a rule wage dispersion is relatively low; in particular, the earnings gap between men and women is smaller than in most other countries. Thus, in terms of employment and wages, the Nordic countries are strikingly more egalitarian than Austria. This points to a fundamental difference between social corporatism of the Nordic variety and that which obtains in Austria. Later we shall speculate briefly on what is responsible for this difference.

Before considering at length the evidence on wage dispersion and employment, some preliminary remarks on the subject of centralization will be useful. These will clear the ground for the later discussion.

[3] See Bruno and Sachs (1985), Rowthorn and Glyn (1990), and Therborn (1986).

4.2 CENTRALIZATION

The corporatist economies are distinguished above all by the nature of their labour market institutions. In these economies, workers and employers are organized into a small number of centralized federations, which are able to exert a significant degree of control over the behaviour of their members. Sometimes these federations negotiate directly with other bodies on behalf of their members, and sometimes they merely provide a framework and guide-lines for more decentralized bargaining. In each case, the central federations have various means at their disposal to influence the course of events, and they can normally ensure that the final outcome is broadly in accordance with their overall objectives. Their powers are not absolute and on occasion these federations can virtually lose control over events. But for the most part their influence is considerable.

One important feature of the corporatist economies is the role of the state in wage determination. This varies considerably through time and space but is frequently of great significance. Sometimes the state participates directly in negotiations, offering various inducements, like tax cuts or increased welfare expenditure, in return for wage restraint. Sometimes it imposes a compulsory incomes policy on the parties concerned—though such action is rarely taken without some kind of formal or informal negotiations. Policies of this type have been imposed on a number of occasions in both Denmark and Norway. Finally, even where it does not overtly intervene in wage bargaining, the state may still play a major role simply by threatening to intervene if the various parties cannot reach an acceptable agreement. Threats of this type have helped to shape the evolution of wage bargaining in Sweden.[4]

To summarize, one could say that the political economy of the corporatist economies is characterized by bargaining between centralized Labour and centralized Capital, with a significant, though variable, role for the state. The content of bargaining may vary through time and space, but always includes wages and conditions of work. It may also include various aspects of government policy.

A crucial aspect of the corporatist economies is that wage bargaining is dominated by a small number of powerful agents. Because of their individual power and small number, such agents have an incentive to behave 'strategically', taking explicit account of how their actions will affect others—and what the resulting feedback to themselves will be. Moreover, the interactions between these agents are normally of an ongoing variety and continue over indefinitely long periods of time. As the theory of repeated games shows, such conditions are conducive to compromise and to forms of'co-operative'

[4] See Braun (1986) for information on the role of the state in wage determination in the corporatist economies.

behaviour which are to the mutual benefit of all concerned. The fact that bargaining is dominated by a handful of powerful agents does not in itself automatically ensure that there will be compromise and co-operation, but it does mean that such behaviour is more likely than under a more atomistic regime. It is for this reason that many economists and political scientists believe that centralized wage bargaining is a major factor behind the frequently good labour market performance of corporatist economies.[5] However, although highly plausible, this is only a partial explanation which leaves many important questions unanswered. Why, for example, has less priority been attached to full employment in Denmark and Finland than in Norway and Sweden? Why has unemployment risen significantly in Austria and, more recently, Norway? Why does Austria exhibit such a persistently high wage inequality and such a low level of employment for women? Such questions cannot be answered simply by reference to some general theory of centralized bargaining, but require an examination of specific features of the countries concerned, including such items as the balance of power within the centralized bodies and their resulting priorities.

As Göran Therborn points out elsewhere in the present volume, the term 'corporatism' is used in a multitude of different ways by political scientists.[6] However, amongst economists the term is generally given a rather specific meaning, being used merely as a shorthand for centralized wage bargaining. My usage in the present chapter is consistent with the latter approach, although I would take a somewhat wider view and argue that bargaining may cover more items than simply wages, and frequently includes government policy. Indeed, I would emphasize the often crucial role of the state, which is stressed by political scientists, but usually ignored or downplayed by economists.

In emphasizing centralization, I am excluding decentralized systems of consensus formation of the type which, according to Katzenstein (1984), apparently obtains in Switzerland.[7] Under certain conditions, such a system can produce outcomes similar to those which theory predicts are likely in more centralized economies. For this reason, Switzerland will on occasion be singled out for special attention in the following discussion, along with Austria and the Nordic countries which are our main concern.

In this chapter it will be helpful to have a numerical index of centralization in wage bargaining. Of the various measures available, the most satisfactory is the index constructed by Calmfors and Driffill (1988). Their index has several advantages over its potential rivals, of which the most important is

[5] For a critical review of these ideas see the chapter by Matti Pohjola in the present volume.

[6] For a heroic, but ultimately unconvincing, attempt to distil some common element from the numerous definitions of corporatism put forward by political scientists see Williamson (1989).

[7] Katzenstein uses the term 'liberal' corporatism to denote such decentralized, consensus-generating systems.

the importance they attach to employers' organizations, which are weighted equally in this index with workers' organizations. Most other measures of centralization, by contrast, take little or no account of the degree of organization amongst employers.[8] The Calmfors–Driffill Index is not perfect and like any other measure it has drawbacks, but it is the most suitable available, and wherever a numerical index of centralization is required, it is the one I shall use.[9] Details of the Calmfors–Driffill Index and its construction are given in Appendix Table 4.A1. It is interesting to note that the five corporatist countries all rank at the top of the scale according to this index, whilst Switzerland is close to the bottom. Throughout the present article, where comparative international statistics are tabulated, the order of countries will normally be in accordance with the Calmfors–Driffill ranking, with the most centralized (Austria, Norway, etc.) at the top and the least centralized (the USA and Canada) at the bottom.

4.3 WAGE DISPERSION: CONCEPTS AND EVIDENCE

The subject of wage dispersion raises a number of conceptual and measurement problems. First, there is the question: what do we mean by wages? Which items should be included in income and which excluded? Should we include the social costs paid by employers on behalf of workers? Should we deduct taxes paid by workers or the costs they have incurred in their training? Should we be concerned with earnings at a given moment of time or with earnings over the whole of a person's working life? These are not trivial questions because the magnitudes involved are often very large.

Some idea of their scale can be gauged from the following example drawn from a study commissioned by the Swedish Employers' Federation (SAF).[10] According to this study, the total cost to a Swedish firm in 1982 of employing a graduate economist, including all payroll and other social charges, was on average 2.25 times as much as the cost of employing an industrial worker. When social charges are deducted, this differential falls to 2.15, and when

[8] For a description of the various indices proposed by political scientists see Pryor (1988). It should be stressed that these indices were never intended simply to measure centralization in wage bargaining, but were designed for the far more ambitious, and perhaps futile, task of ranking entire national systems of political economy. Even so, a casual treatment of employers' organizations is a weakness apparently shared by all of these indices.

[9] One possible criticism of the Calmfors–Driffill Index concerns Italy, whose wage-bargaining system is ranked as one of the most decentralized in Europe according to this index. Such a ranking ignores the role of political parties, especially the Communist Party, which exert a significant centralizing influence over wage bargaining in Italy. However, to avoid confusion, no attempt is made to remedy this defect, and the ranking used here is based on the original Calmfors–Driffill Index. Fortunately, none of our main statistical conclusions would be affected by modifying the Calmfors–Driffill value for Italy to reflect more accurately the situation in that country.

[10] Jonsson and Siven (1986).

income taxes are also deducted it falls still further to 1.56. Finally, when account is taken of the fact that graduate economists spend longer in education and have a shorter working life than industrial workers, the differential falls to 1.32 for post-tax, lifetime earnings. These numbers should be treated with caution as they have been calculated by authors who are highly partisan in their advocacy of greater differentials, but even so they do indicate the orders of magnitude potentially involved. Moreover, this is not the end of the problem. One could also take account of the so-called 'social wage', which is provided by the state in the form of free or highly subsidized social services for workers and their families. In some countries, especially in Western Europe, this social wage is often very large and is available either to all workers irrespective of their financial situation or else preferentially to poorer workers. As a result, the true standard of living of workers in these countries is often more uniform than data on cash earnings might suggest.[11]

Despite these qualifications, our discussion of wage dispersion will be based entirely on pre-tax earnings, excluding employer payroll charges and the like. This is not an ideal measure of income, but it is the only one for which anything like comprehensive international statistics are available. Moreover, although not ideal, this measure is adequate for our purposes and provides a reasonable indication of what has been happening internationally to the kinds of wage differentials which interest us. In particular, it allows us to identify important differences between countries with diverse bargaining structures.

4.3.1 *Occupational differentials*

Readily available international data on wage dispersion are of two kinds: occupational and industrial. The most useful source of information on occupational differentials in earnings is an article specifically devoted to this topic in the *OECD Employment Outlook* (1987). Unfortunately, this information has certain limitations. In particular, international differences in methods of occupational classification are considerable, so that cross-country comparisons of occupational differentials can only be impressionistic. On the other hand, this information does give a reasonable indication of what has happened to such differentials through the course of time within particular countries. Even here there are difficulties, but the general picture is fairly clear.

In the Nordic countries there has been a marked reduction in the differential between manual and non-manual workers over the past two decades, larger in fact than in most other countries. In the case of Sweden this

[11] This point is discussed in the closing section of the present chapter.

development is a continuation of a trend dating back at least to the 1940s. In the other Nordic countries its origin is somewhat later. Evidence presented in the OECD study suggests that differentials have also narrowed within the two broad occupational categories. In Sweden, for example, the gap between skilled and unskilled manual workers has diminished, whilst in both Norway and Sweden earnings differentials between various grades of salaried employee have narrowed over the past twenty years. Although the OECD provides no information on the other Nordic countries, it seems likely that similar developments have occurred there as well.

These developments are not unique to the Nordic countries and several other countries have also experienced a decline in occupational differentials. Even so, the decline in the Nordic countries is striking in scale and has occurred over a period when occupation differentials have remained constant or even widened in countries like Canada, the USA, Germany, and the UK. Another striking feature of this decline has been its ending and even partial reversal in the 1980s. For the time being, at least, the process of equalization in the Nordic countries has apparently come to a halt.

The experience of our other corporatist country, Austria, over the past twenty years has been very different from that of the Nordic countries. There has been no move at all towards equalization, differentials have been maintained, and the structure of occupational earnings has remained largely unchanged since the late 1960s. For example, the ratio of non-manual to manual earnings in Austria has shown only minor fluctuations during this period with no sign of any real trend. This finding is consistent with the evidence on inter-industry wage dispersion which, as we shall see, reveals no major changes in the overall structure of earnings in Austria.

4.3.2 *Inter-industry wage dispersion*

The most comprehensive and useful information for international comparisons of wage dispersion refers to industrial, as opposed to occupational, earnings. This information is collated by international agencies such as the UN, Eurostat, and the ILO or by certain governmental or private agencies, such as the American Bureau of Labor Statistics or the Swedish Employers' Federation. Most of these agencies publish series of average hourly earnings for a range of countries and for a range of manufacturing industries, together with mining, construction, and sometimes transport. The data I shall use are drawn mainly from the ILO *Yearbook of Labour Statistics.* There are a few gaps in the ILO data, some of which have been filled by interpolation using information drawn from the UN *Yearbook of Industrial Statistics* or from material provided by national governments and private organizations. The result is a complete and, hopefully, internationally comparable data set on average hourly earnings (and employment) for the years 1973 and 1985. It

covers manufacturing, mining, and construction in seventeen of the most advanced OECD countries. The data are differentiated by gender and broken down into approximately fifteen to twenty-five industries, depending on the country concerned.

A common method for dealing with data of this kind is to compute the coefficient of variation of earnings across industries. This coefficient, which is equal to the standard deviation divided by the mean, provides a simple and illuminating measure of wage dispersion which can be readily used for international comparisons. There are various ways of computing this coefficient. The conventional approach is to use unweighted, gender-blind industrial averages. Thus, all industries are given equal weight, no matter how large or small they may be, and no distinction is made between male and female earnings, which are both subsumed under the same industry-wide average.

The drawback of the unweighted method is obvious. Because it assigns equal weight to all industries irrespective of size, the resulting measure of dispersion is highly sensitive to the presence of minor outliers, where employment is extremely small and earnings are way out of line with those elsewhere in the economy. To deal with this problem we shall weight all observations by the number of people employed in the category concerned. This greatly reduces the influence of minor outliers and gives a more accurate picture of the true distribution of earnings.[12]

Our second departure from the conventional approach is to distinguish explicitly between men and women. Not only do we compute coefficients of variation for the two groups individually, we also compute an overall coefficient of variation, which is derived by regarding earnings figures for men and women in each industry as quite separate observations. The resulting measure of dispersion takes account of many important male-female wage differentials which are ignored by the conventional approach.

Our final departure concerns coverage. Most analyses of inter-industry wage dispersion consider only the manufacturing sector. Throughout the present paper, we shall consider a wider group of industries covering construction and mining (including petroleum extraction) in addition to

[12] A striking example of the distortions arising from the use of unweighted observations is provided by New Zealand, which is often classified as a country with a very high and increasing level of industrial wage dispersion (see Freeman 1988). In fact, this is an illusion caused by the extremely high earnings of a small number of workers in petroleum refining. If petroleum is excluded, wage dispersion in New Zealand is about average by international standards. Instead of excluding such outliers, an alternative and more satisfactory approach is to weight observations by the number of people employed in each industry. This greatly reduces the influence of small outliers and is the approach we shall normally use in the present chapter. If observations are weighted by employment, the coefficient of variation is reduced by a half, and New Zealand is then reclassified as a country with an about average level of wage dispersion. For evidence on this point see Rowthorn (1990).

manufacturing. This wider grouping, which we shall refer to as INDUSTRY, is more representative than manufacturing alone.

Thus, the measure of wage dispersion we shall use is based on separate observations for men and women in approximately fifteen to twenty-five different industries in manufacturing, mining, and construction; all observations are weighted by employment. One defect of this measure is the exclusion of services. This is not by choice, but is due to the paucity of suitable data on the service sector. Despite a considerable effort, using a variety of pub- lished and unpublished material from national sources, adequate information on earnings in the service sector could be obtained for only twelve of the countries in our sample. Suitable data do not seem to be available for the remaining five countries. It is for this reason that we restrict our attention primarily to the narrower range of activities covered by the heading INDUSTRY, where data are available for all the countries in our sample.

A useful check on the likely errors arising from this restriction is to see how measured wage dispersion is affected by the inclusion of services in the twelve countries where a comparison is feasible. Table 4.1 compares our measure of wage dispersion, which is based on INDUSTRY, with the corresponding measure obtained when services are also included. The main effect of including services is to raise the absolute level of wage dispersion somewhat. However, the ranking of countries remains much the same and the cross-country correlation between the two measures is extremely high (R-squared = 0.91). This suggests that our measure, despite its limitations, is a good proxy for the more comprehensive measure obtained when the service sector is also included.[13]

4.3.3 *Statistical evidence*

After these methodological points let us now examine the statistical information on wage dispersion which is provided in Tables 4.1 and 4.2. Further information is given in Appendix 4. A. It would be tedious to go through these tables in detail, so I shall merely summarize the main points here.

Countries are ranked in the tables according to their degree of centralization in wage bargaining, as indicated by the Calmfors–Driffill Index, with the most centralized at the top. Table 4.1 shows the overall position in 1985. It gives figures for wage dispersion, which are derived mainly from the ILO *Yearbook,* together with the corresponding information on male–female wage differentials. To complement these figures, the table also provides some information on earnings in the service sector, where wage dispersion is often higher than in industry and a large number of low-paid women are frequently employed.

[13] For a more comprehensive comparison of various indices of wage dispersion see Rowthorn (1990).

TABLE 4.1 Dispersion of hourly earnings in the late 1980s (mostly manual workers)

	Coefficient of variation (%)[a]			F/M ratio (%)		
	ILO IND. 1985 (1)	NAT. IND. (2)	NAT. PS and I. (3)	ILO IND. 1985 (4)	NAT PS and I. (5)	National data
Austria	21	18	27	70	64	*Arbeiter* 1986
Norway	13	12	15	82	87	Non-supervisors 1985
Sweden	8	9	10	87	87	Wage earners 1987
Denmark	9	13	14	85	85	Wage earners 1987
Finland	16			76		(skilled separately)
Germany	12			73		
The Netherlands	11	11	17	77	72	Workers 1985
Belgium	15			77		
New Zealand	19			72		
Australia	18	17	18	74	80	Non-managers 1984
France	12	19	18	82	82	*Ouvriers* 1982
UK	17	18	21	73	64	Manual 1988
Italy	8			86		(part-time separately)
Japan	29	34	35	49	53	Regular workers 1985
Switzerland	16	17	18	70	71	*Ouvriers* 1985
USA	22	20	30	68	68	Hourly paid 1987
Canada	22	21	28	64	67	Hourly paid 1986

[a] Weighted by employment, male and female earnings counted as distinct observations.

Notes: IND. = manufacturing, mining, and construction; PS and I. = private services (excluding health and education) plus IND.; NAT. = national data sources, data for late 1980s; F/M ratio = ratio of average female to average male hourly earnings. Countries in this and all similar tables are ranked according to the Calmfors and Driffill index of centralization.

Source: ILO and national sources.

Comparing the various columns in this table, we find a broad measure of agreement. Most European countries have rather similar levels of wage dispersion and are in the middle range by international standards. In Denmark and Sweden, wage dispersion is well below the European average. The same is apparently true of Italy, although because of deficiencies in the Italian statistics, the figure shown may not be very accurate. Outside of Europe, in North America and Japan especially, dispersion is typically higher. Indeed, if the service sector is included, the level of wage dispersion in North America and Japan is three times the level observed in Sweden and approximately twice the European average. One factor behind this difference

TABLE 4.2 Decomposing changes in wage dispersion, 1973–1985

	Coefficient of variation[a]		% change	Breakdown of % change		Other
	1973	1985		empl eff	f/m Eff	
Austria	22.0	21.3	–3.2	–0.4	–6.2	3.5
Norway	14.3	13.4	–6.6	–0.9	–13.8	8.1
Sweden	11.8	8.5	–28.4	–3.9	–15.4	–9.2
Denmark	11.1	8.6	–22.8	–3.7	–11.5	–7.2
Finland	20.2	15.9	–21.6	–2.9	–17.7	–1.0
Germany	13.5	12.4	–7.9	–5.5	–4.4	2.0
The Netherlands	8.8	10.5	19.2	6.1	2.2	11.0
Belgium	20.6	14.8	–27.9	–5.9	–17.1	–5.0
New Zealand	17.8	18.8	5.7	0.6	–8.9	14.0
Australia	15.3	17.6	15.2	8.8	–11.5	17.9
France	12.8	12.1	–5.4	3.8	–8.6	–0.6
UK	19.6	17.0	–13.5	–3.6	–23.2	13.3
Italy	15.3	7.7	–49.8	–5.8	–17.8	–13.3
Japan	27.1	29.3	8.1	–0.9	7.7	1.3
Switzerland	15.7	16.3	3.5	–1.0	–8.6	13.1
USA	26.7	22.2	–16.8	0.4	–9.0	–8.2
Canada	26.9	22.5	–16.5	–1.9	–9.6	–5.0
Geometric average	16.8	14.8	–12.0	–1.0	–10.0	1.0

[a] INDUSTRY (manufacturing, mining, and construction), employment weighted, male and female earnings regarded as separate observations.

Source: Mainly ILO, supplemented by data from UN, OECD, and national sources.

is the relatively high level of female wages in many European countries. Women's hourly pay in these countries is often approaching 80 per cent or more of the male average, as compared to less than 70 per cent in North America and 50 per cent in Japan. Indeed, such cross-country variations in the male-female differential explain a considerable part of all the international variations in wage dispersion. Countries with a very low ratio of female to male wages normally have a very high level of inter-industry wage dispersion, and vice versa. This is only to be expected with our measure of dispersion, which is specifically designed to highlight differentials between men and women. However, it also applies when more conventional measures are used. No matter what measure is used, there is a clear inverse correlation between the relative pay of women and the level of inter-industry wage dispersion.[14]

[14] See Rowthorn (1990).

Perhaps the most surprising feature of Table 4.1 is the extremely high level of wage dispersion in Austria. No matter which indicator we look at and no matter which data source we use, Austria has a wage dispersion similar to that observed in Canada or the United States. It is exceeded significantly only by Japan. The example of Austria illustrates that centralized wage bargaining is not synonymous with egalitarianism. In the Nordic countries, centralized wage bargaining has been accompanied by a policy of deliberately squeezing differentials. This has not been the case in Austria, where there has been no systematic attempt to reduce differentials which remain as high as they were in the 1960s, and sometimes even higher.

4.3.4 *Changes through time*

Table 4.2 provides information on how wage dispersion has changed since 1973 and on some of the factors responsible for these changes. In most countries wage dispersion has fallen, sometimes dramatically. However, the pattern of reductions is interesting. All of the Nordic countries, with the exception of Norway, have experienced a large fall in dispersion. So too have a number of other countries, of which Italy is the most striking case. According to our measure, the USA and Canada have also experienced noticeable reductions, although as already mentioned, the level of dispersion in these countries is still very high. Moreover, in the case of the United States, other evidence contradicts our findings and suggests that wage dispersion has in fact increased somewhat over the past fifteen years.[15] Two countries also worth mentioning are Austria and Japan, both of which have extremely high levels of wage dispersion and neither of which has experienced any significant reduction since 1973. The picture is similar if we look at other indicators of dispersion. Most countries have experienced a considerable fall in the male-female differential since 1973. In Austria, however, there has

[15] Some authors, such as OECD (1985), Bell and Freeman (1985), and Freeman (1988), base their claim for increasing wage dispersion in the USA on the behaviour of the unweighted inter-industry coefficient of variation of hourly earnings in the manufacturing sector, making no distinction between male and female earnings. This measure indicates a rise in dispersion over the period 1973–85. However, when observations are weighted by employment and differentiated by sex, the inter-industry coefficient of variation in US manufacturing remains more or less constant over the period 1973–85. If coverage is extended to include mining and construction—as in the present chapter—this coefficient falls over the period (see Table 4.2). More substantial evidence for increasing dispersion is provided by Harrison and Bluestone (1988 and 1989), who argue that there has been a polarization of earnings amongst workers of the same sex employed in the same industry, with an increase in the proportion of high- and low-paid workers and a decline of people in the middle. Their evidence on this point is. convincing and points to weakness in the measure used in the present chapter. However, despite the different picture they give concerning changes over time, the various indicators available for measuring wage dispersion all agree on one thing. The USA has consistently exhibited a very-high level of dispersion by international standards over the period covered by the present article. This is, perhaps, the fundamental point.

been almost no reduction in this differential and the average female wage is still only 64 per cent of its male counterpart. Even more striking is Japan, which has the dubious distinction of being the only country where the male-female wage differential has actually widened since 1973.

To round off the analysis, let us consider the results of a simple 'shift-share' analysis which are reported in Table 4.2. This table decomposes changes in the coefficient of variation since 1973 into three components. The first, labelled 'emp eff, indicates to what extent changes in the coefficient of variation are due to shifts in the pattern of employment and hence in the weights used to compute this coefficient. The second, labelled 'f/m eff, measures the influence of changes in the male-female wage gap. Finally, the third component is a residual reflecting changes in male and female earnings differentials; it also includes interaction effects, which are typically very small. It is clear from the table that the effect of changes in employment structure on wage dispersion has been small. Far more important in most countries has been the narrowing of the male-female wage gap, which is the main factor responsible for the widespread reduction in wage dispersion over the period concerned. Other factors have also influenced the evolution of wage dispersion to a significant degree, but no clear systematic pattern is observable.

Most of the preceding conclusions, it must be stressed, are extremely robust. No matter what indicators of dispersion we consider, including those not discussed here, the general picture is always the same. Austria, North America, and Japan always have very high wage dispersion. Conversely, Sweden and Denmark have very low wage dispersion, and most other European countries are somewhere in the middle. Moreover, changes in the male-female wage gap are always the main systematic factor responsible for international differences in wage dispersion and changes in dispersion since 1973.[16]

4.3.5 *Centralization and wage dispersion*

Some of these findings are summarised in Figs. 4.1a and 4.16, which show the situation with regard to wage dispersion in 1973 and 1989. They also illustrate the relationship between wage dispersion and centralization in bargaining. In both years there is an inverse correlation between these two

[16] In the conventional measure of dispersion, earnings are not distinguished by gender but simply averaged across all workers in the industry concerned. Even in this case, however, declining male-female wage differentials are the main factor statistically responsible for the observed fall in wage dispersion in OECD countries. The point is that an increase in the relative pay of women will affect various industries differently. In industries employing a large number of women the average rate of pay will rise relative to the national average, whilst the opposite will occur in industries employing a low proportion of women. As a result, inter-industry wage dispersion will fall, even though the measure concerned takes no explicit account of gender-based differentials. This point is made in Bell and Freeman (1985).

variables. In particular, the relatively centralized economies of Norway, Denmark, and Sweden have comparatively low wage dispersion, whilst the highly decentralized economies of North America and Japan have extremely high dispersion. However, there are some major outliers. For example, there is Italy, whose bargaining system is normally classified as decentralized, but which in 1985 had a level of wage dispersion as low as Sweden. At the other extreme, highly centralized Austria has consistently had a very high level of dispersion. However, despite there exceptions, there does appear to be something of an inverse relationship between centralization and wage dispersion.

The second point concerns changes through time. As can be seen from Table 4.2, the picture here is very confused and no clear pattern can be observed. At all levels of centralization, there are countries which have experienced a notable reduction in wage dispersion since 1973. In most Nordic countries, solidaristic bargaining has been deliberately used to squeeze wage differentials, but a significant reduction, albeit from a much higher level, has occurred spontaneously in some more decentralized economies. Likewise, at all levels of centralization, there are economies where wage dispersion has remained roughly constant or even increased. Such diversity invalidates the notion of a universal link between centralization and wage equality. It also points to an important diversity within the social corporatist group—between the Nordic countries and Austria. Centralized bargaining has certainly been used to reduce wage differentials in the former countries but not in Austria where they remain very high. This suggests the existence of two different varieties of corporatism, which are both comparatively centralized, but which differ in their social objectives and, presumably, in the nature of their institutions and in the social compromises which underlie them. We shall return to this point below.

4.3.6 *Centralization and employment*

In recent years there has been talk of a U-shaped relationship between employment and centralization of wage bargaining.[17] Both highly centralized and highly decentralized economies, it is said, have above average levels of employment, whilst employment is normally much lower in the intermediate countries. The amount of empirical support for this proposition depends on the time period concerned. If we go back to 1973, there is only weak evidence of any U-shaped relationship between the two variables. This is clear from Fig. 4.1 and is confirmed in Table 4.3, which reports the results of a regression analysis in which the employment rate was regressed against the

[17] For a critical survey of this literature see the chapter by Matti Pohjola in the present volume.

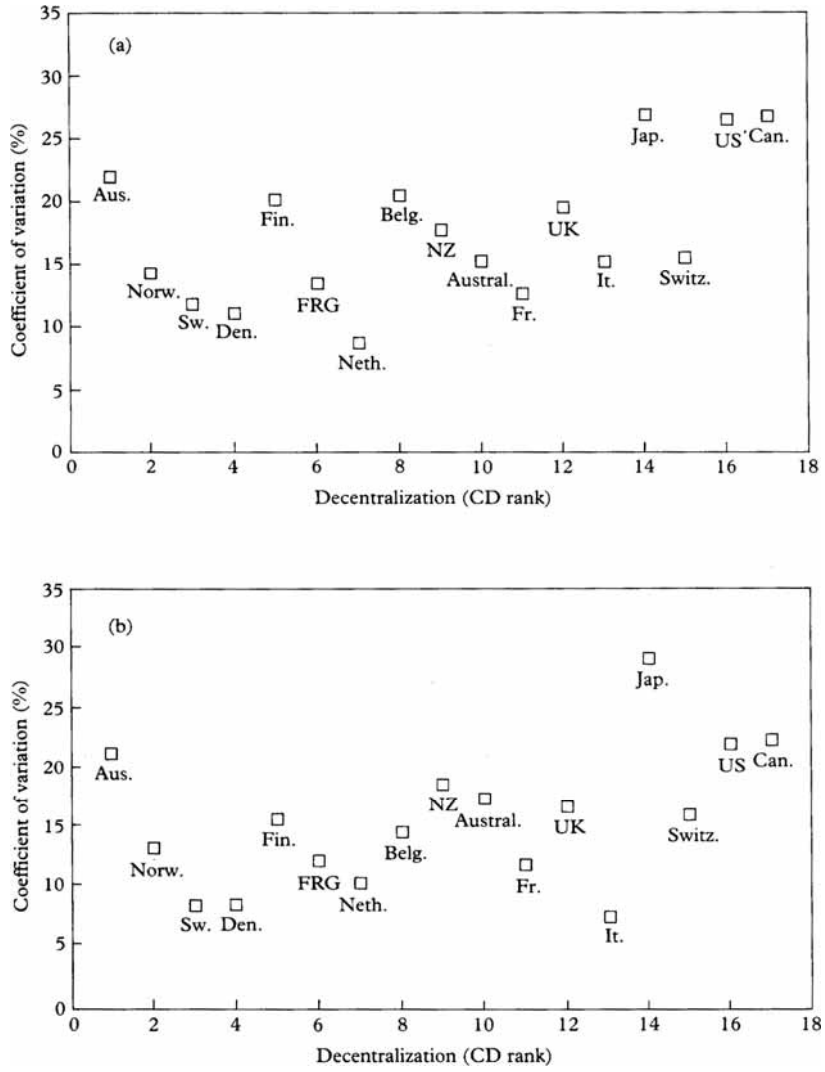

FIG. 4.1 Bargaining structure and wage dispersion

first and second powers of a variable DECEN, representing decentralization in wage bargaining.[18] In no case are any of the relevant coefficients for 1973 statistically significant—though in the case of women they are at least of the

[18] The variable DECEN is merely the rank of a country according to the Calmfors–Driffill Index of centralization. The more decentralized (less centralized) a country is, the greater is its numerical rank and hence the greater is the value of DECEN. Thus, for the least decentralized (most centralized) country, Austria, the value of DECEN is 1; for the most decentralized (least centralized) country, Canada, die value of DECEN is 17.

TABLE 4.3 Regression analysis: employment rate and centralization

(a) No Austrian dummy

	Independent variables			
	DECEN	DECEN SQ.	FEM	R^2
1973				
Males	0.01(0.01)	0.00(0.07)		0.01
Females	–2.92(1.42)	0.13(1.18)		0.17
Pooled	–1.45(1.22)	0.07(1.05)	–36.4**(13.23)	0.85
1985				
Males	–2.54*(1.90)	0.14*(1.95)		0.21
Females	–4.83*(2.13)	0.23*(1.87)		0.27
Pooled	–3.68**(–2.82)	0.18**(2.62)	–23.2**(7.71)	0.69
Change				
1973–85				
Male	–2.55**(3.03)	0.14**(2.98)		0.40
Females	–1.90(1.55)	0.10(1.50)		0.15
Pooled	–2.23**(3.09)	0.11**(3.01)	13.2**(7.93)	0.71

(b) Including dummy for Austria

	Independent variables				
	DECEN	DECEN SQ.	AUS	FEM	R^2
1973					
Males	0.26(0.17)	–0.01(0.08)	2.1(0.28)		0.02
Females	–4.31(1.71)	0.19(1.50)	–12.3(0.96)		0.22
Pooled	–2.03(1.38)	0.09(1.23)	–5.1(0.68)	36.4**(13.11)	0.86
1985					
Males	–3.43*(2.10)	0.18*(2.16)	–7.9*(0.95)		0.26
Females	–8.59**(3.86)	0.40**(3.51)	–33.5** (2.94)		0.56
Pooled	–6.01** (4.18)	0.29**(3.94)	20.1**(2.82)	–23.2 (8.55)	0.76
Change					
1973–85					
Males	–3.68**(4.01)	0.19**(3.97)	–10.1**(2.15)		0.55
Females	–4.28**(4.07)	0.21**(3.85)	–21.1**(3.93)		0.61
Pooled	–3.98**(5.73)	0.20**(5.53)	–15.6**(4.39)	13.2**(10.10)	0.82

Notes: The dependent variable in these equations is the employment rate (employment as a percentage of the relevant population aged 15–64 years). For clarity the constant term is not shown in these equations. Number of countries =17. Pooled regressions combine male and female observations in one sample, giving a total of 34 observations. DECEN is a measure of decentralization in wage bargaining (= Calmfors–Driffill rank as given in Table 4.2) and DECEN SQ. is its squared value; AUS is a dummy variable for Austria, FEM is a dummy variable for female observations. Absolute t-values are shown in brackets; * (**) denotes significance at the 1% (5%) level on a one-tailed t-test.

right sign. The situation, however, is quite different for 1985, where there is a well-defined U-shaped relationship between the centralization and the employment rate (Fig. 4.26). This is true for both men and women taken separately, and when male and female observations are pooled in one sample. It is also true when we look at changes in the employment rate since 1973. As a general rule, both highly centralized and highly decentralized

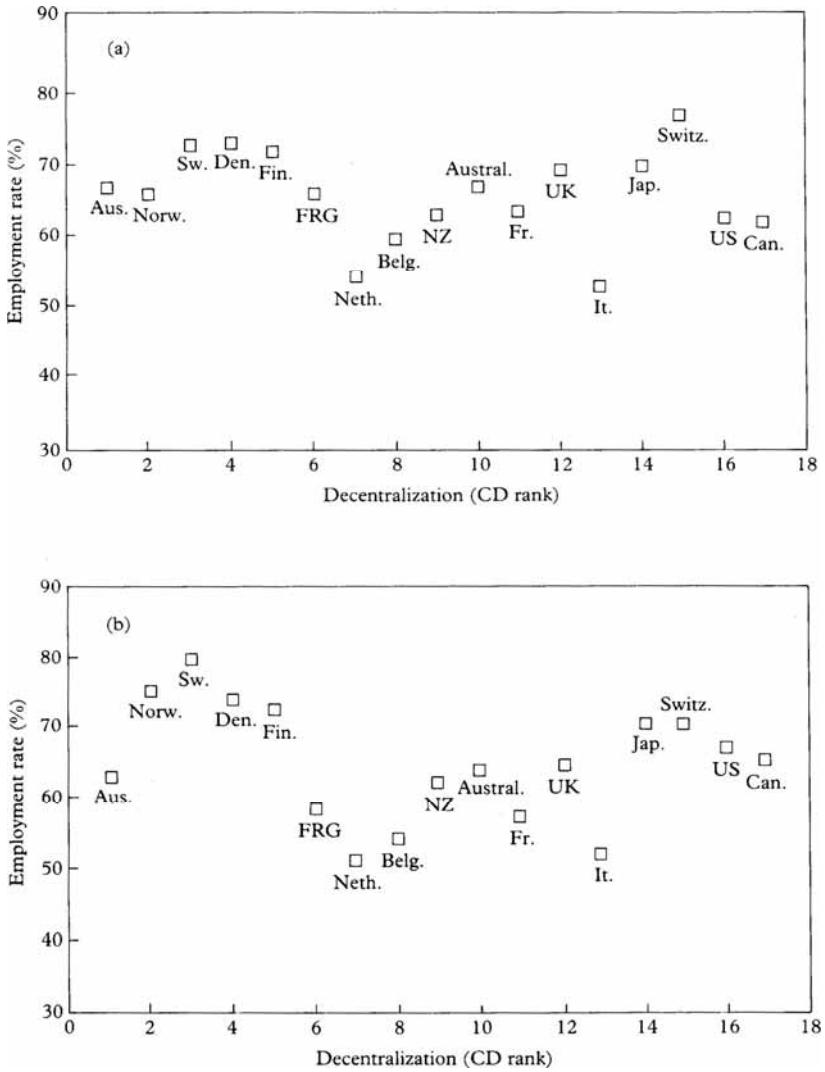

FIG. 4.2 Bargaining structure and employment

economies have experienced larger than average increases in the employment rate (or less than average reductions in the case of men), whilst intermediate countries have for the most part performed much worse. This is evident from Table 4.3, where the relevant coefficients are invariably of the correct sign and for the most part statistically significant.[19]

Thus, the U-shaped relationship does seem to be well established for the period since 1973. However, there are several major exceptions. Of particular interest is Austria, whose employment performance since 1973 has been poor despite its centralized bargaining structure. The employment rate for men in Austria has fallen roughly in line with the international average, whilst it is one of the few countries to have experienced an actual reduction in the female employment rate. This reduction is striking in view of the already low employment rate for women in Austria in 1973. Thus, in terms of both employment and wage dispersion, Austria is a clear exception amongst the corporatist economies.

Since it is such an exceptional country, Table 4.3 also reports the results of regression analysis when a dummy variable for Austria is included. For changes in the employment rate over the period 1973–85, the dummy coefficients for Austria are uniformly large, negative, and statistically significant. The same is true for absolute levels in 1985. In the case of women, the employment rate in 1985 is a full 33 percentage points below the value expected given the country's level of centralization, whilst for men the shortfall is 8 points. When the Austrian dummy is included, our previous conclusions concerning the U-shaped relationship are unaffected. For 1973 this relationship remains weakly defined. And in the case of the other regressions it becomes even more pronounced than before. Indeed, for changes over the period 1973–85, coefficients of DECEN and DECEN SQ. are now significant at the 0.1 per cent level. These results provide additional evidence for the existence in recent years of a U-shaped relationship between employment and centralization.

4.4 MEASURING LABOUR MARKET PERFORMANCE

Most conventional measures of employment look simply at the number of people in work, making no allowance at all for the quality of the jobs in question. This is the procedure we followed in the preceding section. However, it is open to objection on several counts. First, it ignores the meaning of employment from the worker's point of view. Some jobs are clearly more desirable than others because of their intrinsic qualities or the

[19] Similar results are obtained if employment is measured in terms of full-time equivalents, although the regression results in this case are not reported here.

income they yield. If a country creates employment by forcing people into low-paid, marginal jobs, its performance from a human point of view is inferior to that of a country which provides an equivalent amount of well-paid, secure employment. Moreover, there is also an important efficiency dimension to consider. Low-paid jobs are often low-productivity jobs, and economies with an extremely high dispersion of wages will almost certainly contain a great deal of allocative inefficiency. There will be many people working in low-paid, low-productivity activities who could be more efficiently employed elsewhere in the economy. There will also be many inefficient firms kept in existence or subsidized by their ability to pay wages far below the average.

In some cases, inefficiency arises from the misallocation of the existing work-force with its existing skills. Some low-productivity workers could almost certainly be redeployed elsewhere in the economy with little retraining or habituation, provided the obstacles to their redeployment were removed. In other cases, workers may lack the skill or motivation required for more productive employment elsewhere. Such deficiencies may be the result of some innate incapacity in the workers concerned, in which case their low productivity is not a symptom of allocative inefficiency. More frequently, however, these deficiencies are the result of social and economic mechanisms which inhibit the acquisition of skills and motivation. Failure to acquire skills and lack of motivation are really a form of allocative inefficiency, since they imply a waste of productive potential and a misdirection of human abilities. This is increasingly recognized in the case of women, whose past and present exclusion from skilled employment in many countries represents a prodigious misallocation of resources, but it also applies to many other disadvantaged groups and individuals.

4.4.1 *The* INDEED *Index*

The above discussion suggests that a very high wage dispersion is prima-facie evidence that existing employment is highly unsatisfactory from a human point of view, and of a widespread misallocation of labour and waste of human potential. Such failings should clearly be taken into account when assessing the employment performance of a country. How can this be done? In the present chapter, we shall use a composite index of employment performance which is similar in form to Okun's 'misery index', though based on different variables. Our measure will be called the 'Index of Employment and Earnings Dispersion', or INDEED for short. It is defined as follows:

$$\text{INDEED} = \text{ER} - \text{DISP}$$

where ER is the employment rate (employment as a percentage of the population aged 15–64 years), and DISP is a measure of wage dispersion

(inter-industry coefficient of variation in hourly earnings, also expressed as a percentage). In evaluating this index, an adjustment will be made for part-time working by measuring employment in full-time equivalents.[20]

The index just defined has the following properties. It is equal to 100 when all people aged 15–64 are in full-time employment, no one else is employed, and everyone in employment receives the same hourly pay. The two variables which define this index influence it in opposite directions. Other things being equal, an increase in employment or a reduction in wage dispersion will increase the value of the index, whilst a reduction in employment or an increase in dispersion will have the opposite effect.

As just defined, the INDEED Index applies to the entire population aged 15–64 in a country. However, it can also be applied, with suitable modifications, to subgroups of the population.

For example, for males the following formula provides an index summarizing their employment situation:

$$\mathrm{INDEED}_m = \mathrm{ER}_m - \mathrm{DISP}_m$$

where the subscript '*m*' indicates that the variable concerned is evaluated for the males only.

A similar formula could also be used for women, but it is more illuminating to use a slightly modified version. The labour market situation of women certainly depends on their employment rate and on the extent of wage dispersion within the female work-force. However, it also depends on the relative wage of women as compared to men. To take account of this differential, we shall use the following modified version of the basic formula:

$$\mathrm{INDEED}_f = (\mathrm{ER}_f - \mathrm{DISP}_f) \times \mathrm{F?M}$$

where F/M is the average female wage as a percentage of the average male wage, and the subscript '*f*' indicates that the variable concerned refers to females only. This modified index is equal to 100 when all women aged 15–64 are in full-time employment; no other women are employed; and all women receive the same hourly pay, which is also equal to the average hourly wage of men.

4.4.2 *The situation in 1985*

Information about the INDEED Index, and its construction, are given in Table 4.4 and displayed visually in Figs. 4.3a and 4.3*b*. As might be expected, the Nordic countries do best according to this index. In 1985, Sweden has the highest value, followed by Denmark and then Finland and Norway. Switzerland also does quite well. Apart from these countries, the

[20] Full-time equivalents are calculated by counting each part-time worker as half an employment unit.

TABLE 4.4 Aspects of labour market performance, 1985

	Abbr.	CD rank	Emp. rate	Emp. rate (FT equ.)	Wage disp.	INDEED Index
Austria	Aus.	1	63	60	21	39
Norway	Norw.	2	75	64	13	51
Sweden	Sw.	3	80	70	8	61
Denmark	Den.	4	74	65	9	57
Finland	Fin.	5	73	70	16	54
Germany	FRG	6	59	55	12	42
The Netherlands	Neth.	7	51	46	11	35
Belgium	Belg.	8	54	52	15	37
New Zealand	NZ	9	62	58	19	39
Australia	Austral.	10	64	58	18	41
France	Fr.	11	58	55	12	43
UK	UK	12	65	59	17	42
Italy	It.	13	52	51	8	43
Japan	Jap.	14	71	67	29	38
Switzerland	Switz.	15	71	65	16	49
USA	US	16	68	63	22	40
Canada	Can.	17	66	60	22	38

Notes: CD rank = rank according to the Calmfors–Driffill Index of centralization in wage bargaining; Emp. rate = total employment as a % of population aged 15–64 years; Emp. rate (FT equ.) = Emp. rate but measured in terms of full-time equivalents (part-time employment counts as half a unit); Wage disp. = inter-industry coefficient of variation of hourly earnings; observations weighted by employment; male and female earnings recorded separately; covers INDUSTRY (= manufacturing, mining, and construction); measured in %; INDEED Index = Emp. rate (FT equ.) - Wage disp.

performance of the rest is remarkably uniform. If we look behind the aggregate figures, the striking feature about the Nordic countries is their ability to combine (1) relatively high employment for both men and women, (2) low to average wage dispersion within the two groups, and (3) a low male-female wage differential. It is this combination which explains why the INDEED Index for these countries is so high. These various features are most consistently displayed in Sweden and rather less so in the other Nordic countries. It is interesting to note that Denmark scores highly on our index despite having an unemployment rate of around 8 per cent. This is explained by the fact that our index is based on employment rather than unemployment as conventionally defined. Denmark is an unusual country because of its very high participation rates for both men and women. These ensure that measured unemployment is considerable even though the country has one of the highest employment rates in the OECD. If we had based our index on unemployment instead of an employment, Denmark's performance would have appeared less impressive, though still good by international standards.

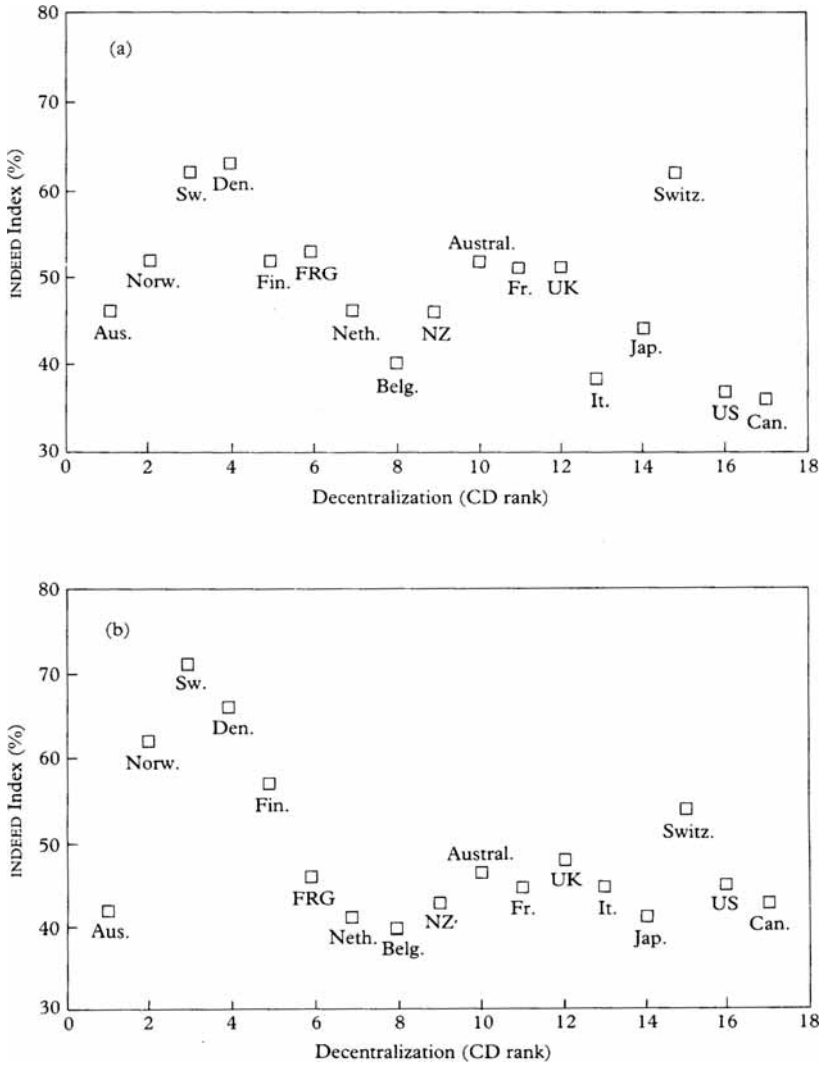

FIG. 4.3 Bargaining structure and labour market performance

Behind the apparent uniformity of the remaining countries there is, of course, diversity. North America and Japan, for example, combine high levels of employment with high wage dispersion. This gives them about the same overall score as countries in the European core (and Australasia), where employment and wage dispersion are both much lower. These differences indicate the very different patterns of inequality in the two groups. In the

European core, the greatest inequality in the potential work-force is between those with jobs and those without. Those fortunate enough to have jobs are, for the most part, moderately well off. This is not the case, however, in the United States, where there is a large underclass of what might be called the 'working poor'. The same is also true, though to a lesser extent, in Canada and Japan. The achievement of the Nordic countries has been their ability to minimize both kinds of inequality by providing a large number of comparatively well-paid jobs. If it is to mean anything at all, the term 'full employment' must surely signify not just any old job at any old wage, but a reasonable job for all at a wage reasonably close to the average. According to this interpretation of the term, no country has really achieved full employment, although Sweden is nearest to this goal and the other Nordic countries all do relatively well by international standards.

As always, Austria is the exception amongst the corporatist countries. With its low measured unemployment rate, the country was for long regarded as a model of what 'social partnership' could achieve in the realm of employment. In recent years this reputation has become somewhat tarnished as redundancies in the smokestack industries have highlighted the structural problems of the Austrian economy. However, our analysis raises the more fundamental question as to whether this reputation was ever justified in the first place. Employment rates in Austria have never been unduly high by international standards, and the country's low measured unemployment during the 1970s was due primarily to low participation rates, especially amongst women. Moreover, many of the men and women actually in work were employed in very low-paid jobs in the service sector and elsewhere, whilst the average pay of women was (and still is) well below that of men. To call such a situation 'full employment' is something of a misnomer.

Although its institutional structure is very different, the Austrian labour market is rather similar to the US labour market in terms of outcomes. This can be seen clearly from Table 4.5, comparing wage dispersion in the two economies. As a contrast it also includes Sweden. According to every single indicator shown in this table, the level of wage dispersion is dramatically higher in both Austria and the USA than in Sweden, often by a factor of three or four. Comparing Austria and the USA, the only noticeable difference is in male wages, which are somewhat more evenly distributed in Austria, where the coefficient of variation for industry and private services combined is 18 per cent, as compared to 24 per cent in the USA. In Sweden the corresponding figure is 9 per cent. In the case of females, wage dispersion in industry and private services is the same in Austria and the USA at around 24 per cent. When both sexes are pooled together, wage dispersion in the two countries is 27 per cent and 30 per cent respectively, as compared to 10 per cent in Sweden. Thus, despite its impressive array of centralized bargaining

TABLE 4.5 Dispersion of hourly earnings in three countries in the late 1980s

	Coefficient of variation (%)			
	Males	Females	Pooled	F/M ratio (%)
Manufacturing				
Austria	13	18	20	71
USA	13	14	21	67
Sweden	7	6	8	90
Industry				
Austria	11	19	18	70
USA	13	16	20	71
Sweden	7	6	9	88
Industry and private services				
Austria	18	24	27	64
USA	24	23	30	68
Sweden	9	6	10	87

Notes: Industry: mining, manufacturing, and construction; Private services: excludes private health and education; coefficient of variation is calculated with observations weighted by employment; in the column headed 'pooled', male and female earnings are regarded as separate observations. The final column shows average female wages as a percentage of the male average.

Sources: Austria: estimated from data in *Statistical Handbook of Austria (Arbeiter* 1986; earnings for Vienna, hours and employment for Austria); USA: unpublished; supplied by US Bureau of Labor Statistics (hourly paid workers 1987); Sweden: Central Statistical Bureau (wage earners 1987).

institutions, the Austrian labour market has produced wage outcomes very similar to its decentralized American counterpart. Moreover, in the case of employment, the Austrian labour market has performed noticeably worse than that of the USA, primarily because of its failure to generate female jobs.

4.4.3 *Changes through time*

So far we have been talking mainly about absolute levels in the mid-1980s. It is also interesting to examine what has happened to labour market performance during the preceding decade, for it is changes in performance rather than absolute levels which indicate the capacity of an economy to withstand shocks of the kind experienced since 1973. The most striking feature is how badly most European countries have done. Most have experienced a huge decline in the INDEED Index for men, with this index typically recording a fall of between 10 and 19 percentage points over the period 1973–85 (see Table 4.6). The only exceptions are the Nordic countries and Italy. Even Finland does quite badly over this period, with the male INDEED falling by 8 points, mainly due to a sharp fall in the male

TABLE **4.6 INDEED indices, 1973–1985**

	1985			Changel973–85		
	Male	Female	All	Male	Female	All
Austria	65	20	39	–10	–2	–4
Norway	68	30	51	–2	9	6
Sweden	74	45	61	–2	11	6
Denmark	71	39	57	–3	6	0
Finland	63	42	54	–8	7	3
Germany	65	22	42	–15	–4	–8
The Netherlands	56	17	35	–19	–1	–10
Belgium	54	22	37	–12	4	–2
New Zealand	64	21	39	–11	1	–4
Australia	61	24	41	–18	1	–7
France	57	29	43	–14	–2	–7
UK	62	22	42	–17	1	–4
Italy	65	22	43	–1	11	6
Japan	71	17	38	–3	–1	–3
Switzerland	76	24	49	–15	–9	–11
USA	58	23	40	1	6	8
Canada	60	17	38	–3	5	6

Note: For a definition of the INDEED Index see Table 4.4; the indices given here are based on employment measured in full-time equivalents.

employment rate in the mid-1970s, since when labour market performance has been extremely good. Amongst females, there has been an almost universal improvement in Europe, but the ranking of countries is similar, with Italy and the Nordic countries recording the largest increases in the INDEED Index, and other European countries some way behind.

It is interesting to note how well Canada and the USA have done since 1973 and how badly Austria has performed. According to the INDEED Index, labour market performance is still only about average in the North America countries, but their improvement over the period 1973–85 has been massive. In Austria on the other hand, the employment rate has fallen, whilst wage dispersion has remained unchanged. This is reflected in a reduction in the INDEED Index for Austria since 1973.

The overall picture of labour market performance in the OECD may be summarized as follows. The Nordic countries started with a high value of the INDEED Index and this value has increased considerably since 1973 so that they now enjoy a commanding lead over almost all other OECD countries. Austria has experienced a fall in this index and now has a roughly average value. Italy, Canada, and the USA have experienced an increase in the INDEED Index similar to that of the Nordic countries, but because of

their very low starting-point are still well behind these countries. Most of the remaining countries have experienced some reduction in the INDEED Index since 1973, mainly due to a very large fall in male employment, which has not been fully offset by improvements in other aspects of performance such as more jobs for women or greater wage equality. A major feature of developments in the INDEED Index since 1973 has been a general convergence of different countries towards a common value for this index. Countries well below the average in 1973 have experienced very large increases in the value of this index, whilst most other countries have experienced either no change or some reduction in its value. As a result, most of the major differences visible in 1973 have now largely disappeared. The only real exceptions to this convergence process are the Nordic countries which have increased their lead over the rest even further.

4.5 EMPLOYMENT AND WAGE DISPERSION

We have seen how, since 1973, a U-shaped relationship has apparently emerged between the degree of decentralization in bargaining and the level of employment. The question we shall now consider is: what role, if any, does wage dispersion play in explaining this U-shaped relationship?

Let us first examine briefly how different mechanisms of wage bargaining impinge on total employment. These mechanisms are of two kinds: macro and micro. The former operate at an economy-wide level and involve the deliberate manipulation of average wages to help achieve some macro-employment objective, whilst the latter operate in local markets for particular kinds of labour. By their nature, macro-mechanisms presuppose a fairly high degree of centralization in wage bargaining, since it is only in a centralized system that the average level of wages can be a target variable. In a highly decentralized system, the individual micro-bargaining units will usually have preferences concerning developments at a macro-level, but they will be individually powerless to implement these preferences. Their bargaining behaviour will perforce be guided primarily by their own local situation. Thus, in such a decentralized system, the average wage level is not a policy variable of individual bargaining units, but is the purely arithmetic consequence of a whole series of uncoordinated local bargains.

What are the implications of this for wage dispersion and inequality? The answer is not clear cut. In a centralized bargaining structure, where the centre has the formal ability to control relative wages, the level of wage dispersion will depend on the policy objectives of this centre. If a major objective is to achieve an egalitarian wage structure, as it has been in the Nordic countries, especially Denmark and Sweden, then dispersion will be low. On the other hand, if the objective is to achieve some given, but

inegalitarian, structure, then wage dispersion will be high. Finally, the centre may have no strong preferences with regard to wage dispersion, and its policy may be simply to manipulate the average wage level, whilst modifying relative wages in response to local conditions. In the latter case, the centre retains formal control over relative wages, but their ultimate pattern is determined by local bargaining and market forces. According to some accounts this is the position in Austria.[21]

Where relative wages are determined primarily by local bargaining and market forces, the level of wage dispersion may be high or low depending on the extent of labour market segmentation, and also to a lesser extent on the level of aggregate demand. If the labour market is highly segmented, there will almost certainly be large inequalities in the work-force, with some workers enjoying privileged access to well-paid jobs and others crowded into low-paid activities. This will be especially true in periods of recession when aggregate demand is depressed, but wage dispersion will also be high even in times of boom. The United States provides a clear example of such an economy, where a combination of segmentation (including unequal access to skills) and decentralized bargaining results in a high level of wage dispersion at all stages of the business cycle.

Extreme inequality is not an inevitable result of highly decentralized bargaining. Even in decentralized economies, a concerted drive to reduce segmentation may have a significant equalizing effect on wages. If discrimination and other major obstacles to labour mobility are tackled, and good facilities for retraining, the acquisition of skills, child-care, and the like are provided, many structural inequalities in the labour market will be eliminated. Micro-flexibility in response to local markets may then result in a reasonably egalitarian wage distribution. Thus, despite the absence of any formal wages policy, decentralized economies can make considerable progress towards wage equality through active measures to reduce labour market segmentation and tackle the economic and social conditions which put women, ethnic minorities, and certain other groups at a disadvantage in the labour market. Moreover, even in more centralized economies, solidaristic wage bargaining of the Nordic type is only fully effective where it is accompanied by such measures. In the absence of measures to eliminate segmentation, a solidaristic wages policy may simply reduce employment opportunities for the disadvantaged by pricing them out of the market. The most effective way to equalize wages is through a combination of centralized, solidaristic bargaining with active labour market policies to reconcile supply and demand in particular markets. Active labour market policies on their own, even without solidaristic bargaining, can certainly reduce wage dispersion, but they are unlikely to achieve the combination of wage equality and high employment observed, above all, in Sweden. Even if active labour

[21] See Pollan (1980) and also OECD (1985).

market policies were retained in Sweden, it seems likely that the abandonment of solidaristic bargaining would lead to some increase in wage dispersion—though not to the levels observed in North America and Japan.

Thus, high wage dispersion normally comes about through a combination of labour market segmentation (including unequal access to skills) and micro-flexibility of wages in local markets. In theory, if segmentation could be eliminated, then market forces would spontaneously generate a fairly uniform distribution of wages. There would still remain differentials for skills and hard work, but for the most part these would be comparatively small. The labour market would, in fact, resemble the Walrasian ideal of perfect competition. This, at least, is the theoretical possibility. The reality, however, is rather different. As a general rule, in economies where local market forces play a major role in wage determination, there are also major obstacles to labour mobility and the acquisition of skills. Such a combination of labour market segmentation and relative wage flexibility leads inevitably to high wage dispersion. Fortunate workers earn high wages and enjoy secure employment, whilst many others are condemned to a life of low pay and often insecurity. Sometimes these inequalities are the result of unequally distributed bargaining power. Sometimes they are the consequence of discrimination, as in the case of women in Japan or blacks in the United States. And sometimes they are the outcome of a culture of deprivation which prevents the disadvantaged from acquiring the skills and habits required to land and hold a good job. Thus, whatever the theoretical possibilities, those countries where relative wages are determined primarily by market forces are, in practice, also countries with considerable labour market segmentation (broadly defined to include lack of skills), and it is this combination which produces such a high level of wage dispersion.

The above discussion suggests that highly decentralized economies are likely to exhibit high wage dispersion. Moreover, centralized economies will also exhibit high wage dispersion if, as seems to be the case in Austria, they combine segmented labour markets with micro-flexibility of wages in response to local conditions. What are the implications of flexibility in relative wages for total employment? Most neo4iberals take it for granted that flexibility in this sense leads to more employment. Their basic argument is that ‘deregulating’ labour markets, and allowing wages to vary in response to market forces, will lead to the absorption of excess labour into low-paid jobs, primarily in the service sector. Although at first sight convincing, this argument contains a potentially serious flaw. It ignores the fact that flexibility is a two-way process. Regulatory mechanisms, such as solidaristic bargaining, often operate on both ends of the wage spectrum at once. Whilst keeping wages up at the bottom end, they may also keep wages down at the top end. These effects have opposing consequences for employment. Higher wages at the bottom end tend to reduce employment in otherwise low-paid jobs,

whilst wage restraint at the top encourages expansion in another direction. The overall impact on employment depends on the relative strength of these two effects. If wage restraint at the top end is the dominant feature, an egalitarian form of regulation will mean not only lower wage dispersion, but also more employment. Under these conditions, deregulation and greater flexibility in relative pay will lead to increased wage dispersion, higher average wages, and less employment. On the other hand, suppose that regulation functions primarily to pull up wages at the bottom end without exerting significant restraint at the top. Then deregulation will certainly lead to more wage dispersion, but it will also increase total employment, since wages will fall at the bottom end and new, low-paid jobs will be created without a significant loss elsewhere in the economy.

4.5.1 *Empirical evidence*

There have been several studies seeking to assess the impact of relative wage flexibility on employment. In their examination of OECD experience, Klau and Mittelstadt (1986) found some evidence of a positive relationship between these two variables, suggesting that the high wage dispersion observed in countries like Japan and the USA is partially responsible for their good employment performance. However, as the authors themselves point out, the evidence they present is weak and their conclusions are tentative. In a more recent article, Freeman (1988) argues that there is a U-shaped relationship between employment and wage dispersion, which he uses as an indicator of relative wage flexibility. This finding can be criticized on several grounds. His measure of wage dispersion is based on unweighted observations and is therefore unreliable. Moreover, in his statistical tests, he does not make adequate allowance for the effects of bargaining structure on employment and wages. As we have seen earlier, and Freeman himself points out, wage dispersion is inversely correlated with the degree of centralization in bargaining. The U-shaped relationship between employment and wage dispersion, which he identifies, may therefore be spurious. It may, in fact, be merely a reflection of another U-shaped relationship—between employment and centralization—which has already been discussed above. Indeed, this point was implicitly accepted by Freeman in the discussion following a conference presentation of his arguments.[22]

In their paper on the US economy in the 1970s, 'Does a flexible industry wage structure increase employment?', Bell and Freeman (1985) reached just the opposite conclusion. They found that the upward flexibility of wages in technically dynamic industries predominated over downward flexibility in stagnant industries, and the employment-reducing effects of the former

See the discussion following Freeman's paper (1988).

outweighed the employment-enhancing effects of the latter. Similar results were obtained in a study of seven EC countries by Dewatripont (1988). These studies are open to criticism, especially with regard to their theory of causation. They assume that productivity is the autonomous variable, and that differential wage growth is a response to differential growth in productivity. Thus, causality runs from productivity to wages. However, causality could just as well run in the opposite direction, with differential growth in productivity being partially a response by employers to autonomous, but non-uniform, growth in wages. Even so, their conclusions are extremely interesting. If correct, they imply that the high level of wage dispersion observed in countries like the USA is a consequence of their particular labour market institutions, but does not help to explain their high level of employment. Such countries certainly have an unduly large number of people employed in low-paid, and often low-productivity, jobs. By the same token, they have considerably less employment in high-wage, high-productivity jobs than would have been the case had they developed with a more egalitarian wage structure. This, at least, is the implication of the two studies just described.

4.5.2 *Regression analysis*

To explore this question further, let us consider the regression results presented in Table 4.7. The underlying equations are the same used previously for Table 4.3, with the main difference that an additional explanatory variable, DISP, has been added. This variable is merely our normal measure of wage dispersion.

Evidence presented earlier indicates that wage dispersion is influenced by the structure of bargaining. To allow for this, there is an additional equation for DISP as a function of the variable DECEN Finally, all equations have a dummy variable for Austria, which is included because the country is clearly such a special case.

As far as the effects of centralization on employment are concerned, these regressions confirm our earlier results. The coefficients of DECEN and DECEN SQ. are much the same as before, with similar levels of significance. For women, there is some evidence of a U-shaped curve in 1973, but not for men. In 1985 the curve is well defined for both men and women. The regressions also indicate the existence of a strong and remarkably stable inverse relationship between centralization and wage dispersion. The coefficients of DECEN in the equations for DISP are highly significant and virtually identical in the two years. Moreover, these equations indicate that Austria had a level of wage dispersion some 11–12 percentage points greater than expected given the degree of centralization in its bargaining structure. The final point to note concerns the coefficients of the variable DISP in the employment

TABLE 4.7 Regression analysis: employment rate, centralization, and wage dispersion

Dependent variables	Explanatory variables					
	DECEN	DECENSQ	DISP	AUS	FEM	R^2
1973						
ER males	0.11(0.07)	0.01(0.12)	–0.22(0.58)	3.8(0.45)		0.04
ER females	–3.95(1.54)	0.15(1.10)	0.56(0.90)	–16.5(1.20)		0.27
ER pooled	–1.92(1.27)	0.08(0.99)	0.17(0.46)	–6.3(0.78)	36.4**(12.93)	0.86
DISP	0.79**(3.22)			11.3*(2.22)		0.45
1985						
ERmales	–3.46*(2.19)	0.16*(1.99)	0.48(1.39)	–12.9(1.46)		0.37
ER females	–8.63**(4.03)	0.38**(3.38)	0.67(1.43)	–40.4**(3.37)		0.63
ER pooled	–6.04**(4.39)	0.27**(3.77)	0.58*(1.91)	–26.7*(3.45)	23.2**(8.93)	0.79
DISP	0.75**(2.89)			12.2*(2.26)		0.41

Notes: For clarity the constant term is not shown in these equations. DISP = percentage coefficient of inter-industry variation in hourly earnings in INDUSTRY (mining, manufacturing, and construction); observations are weighted by employment; male and female earnings are regarded as distinct observations. Other variables are as in Table 4.3. For each year, errors in the equations for dispersion are assumed to be independent of the errors in other equations; this assumption permits estimation by OLS. Absolute f-values are shown in parentheses. For other notes see Table 4.3.

equations. These coefficients are positive and significant at the 10 per cent level for both men and women in 1985. Moreover, in the pooled regression for 1985, the coefficient of DISP is significant at the 5 per cent level.[23]

The coefficient of this variable is also moderately large and of the right sign for women in 1973, although not statistically significant; for men it is insignificant and of the wrong sign.

These regression results suggest—though the evidence is not really very strong—that wage dispersion has acquired some independent influence over employment in recent years. At any given level of centralization, employment for both men and women is likely to be higher in countries with relatively high wage dispersion than in their more egalitarian counterparts. Thus, inequalities in the wage structure do seem to have encouraged employment creation since 1973, though not to any great extent previously. However, this does not appear to be the main reason why highly decentralized economies have performed relatively well in terms of employment in recent years. If we control for wage dispersion, their performance still looks fairly good by international standards. This suggests that, in recent times at least, extreme decentralization in bargaining has had a beneficial impact on employment in its own right, over and above any effect resulting from high wage dispersion.

None of this, however, alters the fundamental conclusion of this chapter, that the best labour market performance of all has been in the Nordic countries, especially Sweden, which have managed to achieve high levels of employment without resorting to the kind of inequalities and wage dispersion observed in Japan and North America.

4.6 WAGE DIFFERENTIALS AND ECONOMIC DYNAMISM

The solidaristic wages policy in Nordic countries is often considered in purely social terms as an egalitarian device for reducing income inequality. However, the original advocates of this policy also stressed its potential economic virtues as a mechanism for promoting modernization and structural change. They reasoned as follows. Centralized bargaining would equalize wages across the economy, reducing differentials to the minimum required to compensate workers for arduous work or long hours or for any sacrifices involved in acquiring skills. As the economy developed, this equalization would put continuous pressure on backward firms to modernize and also accelerate the contraction of declining sectors. Simultaneously, the government would take active measures to avoid unemployment by encouraging the creation of new jobs elsewhere in the economy. The resulting

[23] Similar results are obtained when employment is measured in full-time equivalents. Note that the coefficients of DISP in 1985 are much smaller and statistically insignificant if the dummy for Austria is excluded.

combination of high employment and uniform wages would further accelerate structural change by reducing worker opposition to plant closures and rationalization. With equally well-paid jobs available elsewhere, workers would have less reason for resisting redundancy than would be the case if the only alternatives were unemployment or a large reduction in pay. Finally, the average wage level would be set at a level compatible with this programme for continuous restructuring and for the achievement of the trade union movement's wider economic and social goals. Thus, the solidaristic wages policy was to be one arm of a comprehensive policy for modernization and structural change. The policy would accelerate the transformation of the economy by increasing the pressure on firms to adapt, whilst simultaneously reducing worker resistance to such adaptation.

The above argument was most elaborately developed in Sweden and is sometimes referred to as the Swedish, or Rehn-Meidner, model.[24] In this model, the financial cost of acquiring skills was to be borne mainly by the government or employers, with little or no contribution by the worker concerned. Moreover, government intervention would ensure that mobility was relatively easy, and the costs of moving would again be borne mainly by the government or employers. As a result, only relatively small wage differentials would be required to induce workers to acquire skills or move between jobs, and a highly egalitarian wages structure could therefore be achieved without significant economic costs and with clear benefits in terms of allocative efficiency, technological dynamism, and structural change.

The impact of solidaristic bargaining on the wages structure in Sweden has been extraordinary. Fig. 4.4 provides information on wages and labour productivity in Swedish industry in 1985. In this diagram, firms are ranked according to the amount of value-added they produce per worker. On the left are the firms with very high productivity and then, moving to the right, are firms with progressively lower productivity. The graph also shows the average wage level in each firm. As can be seen when comparing firms, there is no relationship whatsoever between average wages and labour productivity. Some firms pay slightly above the national average and some slightly below, but the variations are very small. Moreover, the firms with the highest value-added per worker in Sweden pay just about the same wages as do firms with the lowest value-added. Under the solidaristic policy, this is just what we should expect. Moreover, given the assumptions underlying the Swedish model, such uniformity in wages is efficient, since it implies a refusal to subsidize backward firms or penalize their more dynamic counterparts. The situation shown in Fig. 4.4 is just what a perfectly competitive labour market

[24] The original version of this model was produced in 1951 by two economists, Gösta Rehn and Rudolf Meidner, who were employed by the Swedish trade union federation LO. For an English translation see LO (1953), and for a good survey of subsequent developments in this area in Sweden see Martin (1984).

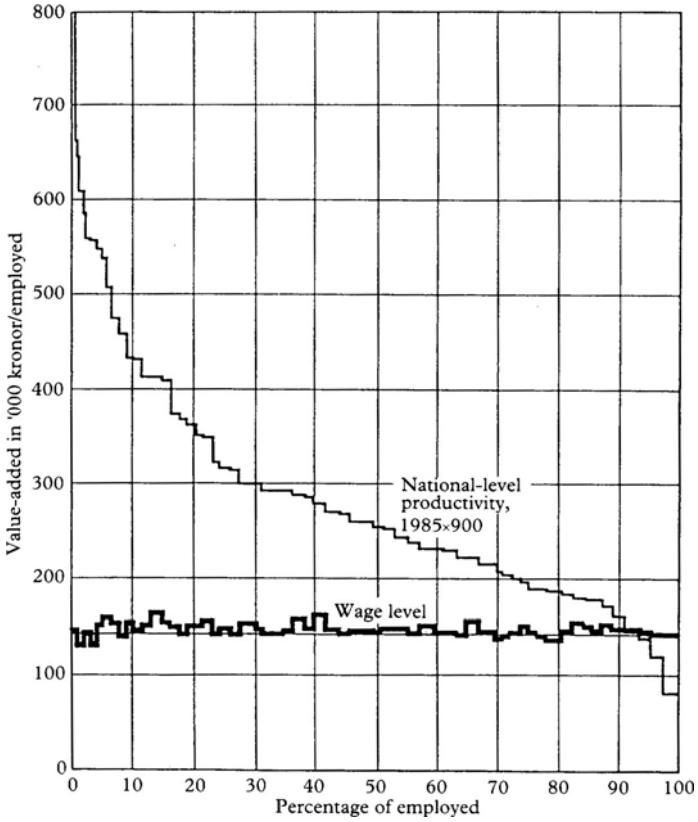

FIG. 4.4 Inter-firm productivity and wages in Swedish industry, 1985
Source: Standing (1988).

would produce in a situation where the costs of labour mobility, education, and training are socialized, as they are in Sweden. Through a combination of centralized solidaristic wages policy and vigorous government intervention in the labour market, Sweden has effectively mimicked the Walrasian ideal of perfect competition.

The case of Austria provides an interesting contrast to Sweden. As we have seen, wage differentials in Austria are extremely high, and there is evidence that this factor has had a conservative effect on the country's industrial structure. For example, the low pay of workers, especially women, in the textile and clothing industries has discouraged innovation and subsidized activities which should have been phased out. Conversely, the high rates of pay in older, nationalized industries, like steel and chemicals, intensified the opposition of workers to rationalization during the severe structural crises of the early 1980s. If the Austrian trade union movement had pursued a more

egalitarian wages policy the pace of structural change would almost certainly have been faster. This would have created new problems, of course, and a vigorous labour market policy along Swedish lines would have been required to ensure the absorption of workers displaced from declining industries. As it was, Austria had neither an egalitarian wages policy, nor a Swedish-style labour market policy to facilitate the absorption of displaced industrial workers. The absence of this combination helps to explain the structural problems which have become visible in Austria during the 1980s.[25]

4.6.1 *Some criticisms*

In recent years the Swedish model has been criticized for ignoring certain important aspects of worker motivation.[26] The model tacitly assumes that labour productivity is determined primarily by the skill of workers, the quality of management, and the quantity and quality of capital stock, and the kind of output produced. All except the first are quite outside of the worker's control and require no wage incentive to modify them. Skill, of course, is an attribute of the worker and some financial inducement may be required to encourage workers to acquire the requisite skills. However, since the cost of acquiring skills is largely socialized in this model, the financial inducement needed for workers to become skilled is very small. Thus, within the model, there is simply no reason for large differentials in pay or for significant local wage flexibility.

In this story, it is taken for granted that workers will perform their jobs in a broadly similar fashion, and that only minimal financial incentives will be required to induce this performance. Such an assumption, the critics admit, might have been justified in the past, when jobs were fairly standardized and easily monitored, so there was no problem in ensuring a uniform level of performance. Nowadays, they claim, the situation is different. Production methods have changed and a new relationship between workers, their job, and their employers is required.[27] Under the old methods, sometimes described as Fordist, jobs were standardized and workers were closely monitored, enjoying little discretion in their work. As a result, financial incentives played only a minor role in their performance. Under the new production methods, however, which are sometimes described as post-Fordist, work is less standardized, monitoring is often impractical, and workers enjoy considerable discretion. Moreover, there is merging of

[25] The case of Austria is discussed at greater length in the essay by Alois Guger in the present volume.

[26] For a comprehensive attack on solidaristic bargaining see Jonsson and Siven (1986).

[27] For a general theoretical statement in support of this view, inspired by the Japanese experience, see Aoki (1988). Further support can be found in the 'efficiency wage' literature, of which some of the most important articles are reprinted in Akerlof and Yellen (1986).

functions, so the dividing line between workers and managers is increasingly blurred, and workers now play a far more active role in shaping the destiny of their firms than was formerly the case. As a result of these changes, it is claimed, the performance of firms now depends crucially on the active involvement of workers in their jobs, and to induce this kind of involvement a different kind of wages system is required. Genuine career structures must be established within firms and the pay of workers must be linked to the performance of their own firm, or some aspect thereof. By their nature, such firm-specific incentives conflict with the basic principle of solidaristic bargaining, which seeks to establish a uniform rate for the job across the whole economy, independently of the situation in particular firms.

How important is this problem in practice? There is obviously something in it, for otherwise it is difficult to explain the proliferation of profit-sharing and similar firm-specific incentive schemes in recent years in Sweden (and also many other countries). The proportion of metal workers in Sweden paid 'according to results' has increased from 5 per cent in 1980 to almost 50 per cent in 1986. Over the same period the proportion involved in profit-sharing schemes has risen from almost zero to more than 20 per cent.[28] An avowed purpose of the new payment systems is to motivate workers by providing incentives which are supposedly lacking under the solidaristic wages policy.[29] From the individual employer's point of view, these schemes have an obvious attraction. However, for the employers as a whole, they pose an equally obvious danger. If they get out of hand, such schemes make centralized bargaining impossible and may lead to an inflationary competition between different employers, thereby undermining macro-economic stability and growth. What is rational for the individual firm may be counter-productive for the collectivity of firms taken as a whole.[30]

This point is recognized in a recent book by a tripartite group of Swedish economists, one from each of the two major trade union federations and one from the central employers' confederation (Faxen *et al.* 1988). After describing the dangers of fragmentation, they explicitly call for a strengthening of the centralized bargaining system, which has been seriously eroded in

[28] These figures are derived from information contained in Standing (1988).

[29] In Sweden, as in many other countries, there is also something of a 'hidden agenda' behind these schemes. Their purpose is not always narrowly economic, in the sense of providing a financial incentive to motivate workers to work. They are often part of a more general strategy for weakening trade unions by undermining collective solidarity either within the enterprise itself or between workers from different firms. It is hardly coincidental that employers in Sweden have become so keen on profit-sharing schemes and the like just at a time when the unions are acquiring new collective powers of control over private enterprise through the recently established wage earners' funds. These powers are not yet very extensive, but the employers are concerned about the longer-term threat which they represent (see Pontusson 1987).

[30] See Ahlen (1989) for a good analysis of the forces undermining centralized bargaining in Sweden in recent years. These forces include inter-union rivalry and the growing importance of public sector workers in wage negotiations.

Sweden during the 1980s. It is interesting to note that their call has been heeded, and in 1989, for the first time in six years, there were comprehensive, centralized wage negotiations in Sweden covering most of the private sector. However, the powerful metal workers' union has remained outside these negotiations, so there is still a serious question mark over the future of centralized bargaining in Sweden.

Critics of the solidaristic wages policy have complained that it discourages labour mobility and the acquisition of skills. These criticisms have been especially strident in Sweden, where the process is allegedly most advanced (Jonsson and Siven 1986). In fact, the evidence for Sweden provides little support for these claims. By international standards, Swedish workers are highly skilled and their financial incentives to acquire skills are adequate, if not unduly generous (Flanagan 1987). On the question of labour mobility, which has attracted considerable attention abroad, the picture is clear. It was originally claimed by the critics that low wage differentials were discouraging mobility by reducing the incentive for workers to move voluntarily between jobs. The evidence in support of this contention was a noticeable decline in mobility between Swedish firms during the 1970s. However, this was only part of the story. Alongside the decline in 'external' mobility between firms, there was a parallel rise in 'internal' mobility within firms. When the latter is taken into account, the decline in total mobility in Sweden in the 1970s—internal and external combined—was quite small. Moreover, even the decline in external mobility during the 1970s cannot be ascribed to the solidaristic wage policy. It was a perfectly normal response to the economic recession and slack labour markets afflicting Sweden, like other countries, at the time. Workers did not leave their jobs voluntarily to go to other jobs, because there were not that many jobs to go to. When the Swedish economy picked up in the 1980s, external mobility rose sharply and internal mobility continued to rise. As a result, total mobility is now back to the level it was in the 1960s.[31]

Thus, of the various arguments against the solidaristic wages policy, those concerning skills and mobility are unconvincing. However, there does seem to be something in the motivational argument, and the critics of solidaristic bargaining are expressing a concern about incentives which is nowadays common in most advanced economies. On the other hand, the social and macro-economic advantages of centralized bargaining and the solidaristic wages policy are considerable. A major challenge in the coming years will be to see how this system can be made more responsive to motivational requirements without destroying its essential character.

The problem of motivation is not, of course, simply a question of money or material reward, but is often concerned with the nature of work itself. The

For evidence on this point see Faxen *et al.* (1988).

absenteeism, excessive labour turnover, and lack of commitment which employers complain about frequently have their origin in some discontent about work, such as lack of stimulation or authoritarian work relationships. Workers in advanced countries are increasingly unwilling to accept these conditions, and it is unrealistic to believe that merely rejigging the system of financial rewards will in itself be sufficient to resolve the current difficulties. The subject of work and its future is obviously of great importance, but we shall not consider it here.

4.7 LABOUR MARKET SOLIDARITY

To conclude, let us locate the questions we have been discussing against a wider background. Throughout this chapter die discussion of wages and employment has been informed by a more general concept, which, for want of a better name, I shall call 'labour market solidarity'. This concept embodies the idea that the costs and benefits of economic performance should be distributed widely throughout the population. In particular, the costs arising from recession or structural change should be shared equally and not off-loaded on to a weak or vulnerable section of the work-force. Thus, labour market solidarity is concerned with citizenship and entitlements, with who should share in the benefits of economic performance and who should bear the costs. The concept has a number of dimensions, of which the following are of particular importance: employment, wage dispersion, unemployment benefits, and other welfare entitlements. The record of the corporatist economies in these areas can be summarized as follows.

4.7.1 *Employmen t*

Norway and Sweden have a strong commitment to full employment for both men and women, although in the case of Norway this commitment has come under severe strain in the late 1980s following a collapse in the price of North Sea oil. The commitment to full employment is somewhat weaker in Denmark and Finland, though both have performed quite well by international standards. Finally, Austria's record in this area has been rather poor, especially for women, for whom employment opportunities are severely limited.

4.7.2 *Unemployment benefits*

The financial cost of being unemployed varies enormously internationally. Most corporatist countries provide relatively generous benefits to those officially classified as unemployed. As a result, even where there is a great

deal of open unemployment, as in Denmark, its financial impact is frequently cushioned. Sometimes, as in Sweden, extremely high benefits are accompanied by considerable pressure on the unemployed to find a job or enrol in a government training scheme or work programme. In other countries, such as Denmark, the attitude is more relaxed. Some evidence on the generosity of unemployment benefits is provided in Table 4.8, which shows how these benefits compare to the average pre-tax wage.[32]

4.7.3 *Wage dispersion*

As documented previously, wage dispersion in the Nordic countries is relatively low by international standards. They have all avoided the emergence of a large underclass of 'working poor', which is such a prominent feature of the American labour market. In Austria wage dispersion is very high and similar to that observed in the USA. This situation, it must be said, is partly mitigated by the welfare state, which provides even low-paid workers in Austria with a fairly high 'social wage' in the form of health services, pensions, and the like.

4.7.4 *Other welfare entitlements*

The role of the welfare state as an equalizer can be gauged from Table 4.8, which presents some indices of 'decommodification of labour power', as calculated by Esping-Andersen (1989). These indices measure the extent to which the entitlement of workers to pensions and sickness benefit is independent of their monetary income from employment. Of all the countries examined by Esping-Andersen, Austria and the Nordic countries exhibit the greatest independence, according to his index, of pensions and sickness benefits from employment income. Such unconditional entitlement to welfare benefits is a major factor helping to mitigate inequalities arising from unemployment or low wages.

The above is by no means a complete list of what is covered by the term labour market solidarity. One should also include items like job security, employee rights at work, holidays, parental leave for child-care, and the like. All of these influence the extent to which various groups share in the fruits of economic growth and are shielded from discrimination during periods of recession or structural change. In the Nordic countries progress on these fronts has been impressive even during the troubled years since 1973. Progress in Austria has been less impressive.

[32] Note that the figures shown in Table 4.8 provide a composite measure reflecting the level, coverage, and duration of unemployment benefits. Thus, the low figure for the USA is due mainly to the limited coverage and duration of benefits; for those actually receiving benefits in the USA the level is quite high. For further evidence on unemployment benefits see Burda (1988), Burtless (1987), and OECD (1988*).

TABLE 4.8 Labour market performance and welfare benefits in the 1980s in 17 OECD countries

	Unemployment rate (%)	Employment rate(%)	Wage dispersion	Pensionand sickness benefits	Unemployment benefits (%)	
	(U)	(ER)	(DISP)	(PENSICK)	UBEN	UBEN*
ustria	5	63	21	24	34	40
Norway	2	75	13	29	35	35
Sweden	2	80	8	32	63	72
Denmark	8	74	9	30	58	86
Finland	5	73	16	24	34	57
Other Europe	9	59	13	20	32	37
Japan	3	71	29	17	27	27
USA	6	68	22	7	15	15
Other OECD	7	64	20	12	33	33

Notes: U, UBEN, and UBEN* refer to 1987, ER and DISP to 1985, and PENSICK to 1980. ER, DISP = as in Table 4.7; PENSICK = index indicating how far pensions and sickness benefits are delinked from employment income (source: Esping-Andersen 1989); UBEN = average unemployment benefit per worker officially classified as unemployment (including those not receiving benefits) as a proportion of average pre-tax wages (source: OECD 1988a); UBEN* = as UBEN but including special government assistance for early retirement; Other Europe = Germany, The Netherlands, Belgium, France, the United Kingdom, Italy, and Switzerland; Other OECD = Australia, New Zealand, and Canada.

When these various aspects of labour market solidarity are taken into account—employment, wage dispersion, welfare benefits, etc.—the record of the Nordic countries is outstandingly good by international standards, although not without its blemishes.[33] In all of these countries the costs and benefits of good and bad economic performance have been widely shared throughout the population, either in the form of wage income or welfare benefits of some kind. In none of them has there emerged a large underclass of poor people existing on low wages or miserly benefits. They have all managed to avoid the creation of a 'two-thirds/one-third society', of the type found in much of North America and Western Europe (i.e. two-thirds doing well, one-third in poverty). The record of Austria in this respect is mixed. Wage dispersion is high and employment opportunities for women are limited, but this situation is partially mitigated by the existence of a welfare state which is reasonably generous by international standards.

4.7.5 *Correlations*

It is interesting to ask at this point whether there exists any systematic relationship between the various indicators of labour market solidarity just described? Table 4.9 shows the correlation coefficients between some of these indicators. It also shows how these indicators are correlated with the measure of decentralization, DECEN. In this table, the figures above the diagonal are computed for all seventeen countries in the sample, whilst for those below the diagonal Italy is excluded. A justification for excluding Italy is that the country is an extreme outlier in a number of dimensions, and besides some of the Italian data are either suspect or misleading.[34]

The situation revealed by Table 4.9 can be summarized as follows. There is no correlation between DECEN and the employment variable, ER. This is to be expected since, as we have seen above, there is a U-shaped relationship between these variables, which is unlikely to be picked up in a simple correlation. There is, however, a clear negative correlation between DECEN and the variables PENSICK and UBEN*, indicating that welfare entitlements of all kinds tend to be much lower in decentralized economies. This is probably not a result of decentralization as such, but of the fact that Labour is politically weak in decentralized economies. On this and related points see the interesting paper by Paloheimo (1988). There is also a clear positive correlation between DECEN and DISP, indicating that wage dispersion is normally high in decentralized economies. Finally, there is a negative

[33] For example, there is still a fair amount of poverty in the Nordic countries amongst single mothers who are either unemployed or unable to work full time (see Allen 1989). Such poverty is least in Finland where even single mothers commonly have full-time jobs.

[34] In the case of Italy, the variables DECEN, UBEN, UBEN*, and DISP may be misleading or of questionable accuracy. (For DECEN see n.9.)

TABLE 4.9 Labour market performance and welfare benefits in 17 OECD countries

	Correlation matrix for the 1980s				
	DECEN	ER	DISP	PENSICK	UBEN*
DECEN	1.00	–0.22	0.44	–0.73	–0.61
ER	–0.15	1.00	0.15	0.34	0.41
DISP	0.57	0.01	1.00	–0.57	–0.45
PENSICK	–0.74	0.35	–0.62	1.00	0.73
UBEN*	–0.58	0.29	–0.70	0.78	1.00

Notes: Correlations above the diagonal cover all 17 countries; those below the diagonal exclude Italy. DECEN = Index of decentralization in wage bargaining (= Calmfors–Driffill rank); other variables as in Table 4.8.

correlation between DISP and the variables PENSICK and UBEN*, indicating that high wage dispersion is associated with low welfare entitlements. This negative correlation is especially strong when Italy is excluded from the sample.

Since we know from previous evidence that employment levels are relatively high in decentralized economies, we can tell the following rather convincing story. In such economies, labour tends to be politically weak, welfare entitlements of all kinds are typically low, and as a result many people are forced by economic pressures to accept poorly paid jobs. This helps to explain why decentralized economies normally exhibit both a high level of employment and high wage dispersion.

The situation is quite the opposite in the centralized Nordic countries, where the labour movement is strong and welfare entitlements of all kinds, including unemployment benefits, are generous. The generosity of these entitlements helps to squeeze wage differentials by reducing the pressure on workers to accept low-paid employment, thereby reinforcing the equalizing effects of solidaristic bargaining by the trade unions. Finally, since the unions are centralized, they consciously set average wages low enough to permit the simultaneous achievement of a high level of employment and an egalitarian wage structure. This is, of course, an idealized picture of the situation in the Nordic countries, but it does contain a significant element of truth. It shows how the economic and political strength of organized Labour can function in a complementary fashion to produce mutually reinforcing, and egalitarian, outcomes in the labour market and the welfare state. Conversely, the example of the United States, and certain other decentralized economies, illustrates how the economic and political weakness of organized labour may conspire to produce just the opposite result of mutally reinforcing, but inegalitarian, outcomes in both arenas.

4.7.6 *Austria*

Austria provides an interesting special case. The labour movement in Austria has considerable economic and political strength, yet wage dispersion is extremely high and there is a large substratum of low-paid workers. These inequalities reflect the balance of power within the Austrian labour movement and its resulting priorities and objectives. Unlike its Nordic counterparts, the labour movement in Austria has not pursued a solidaristic wage policy designed to reduce differentials. On the contrary, it has accepted, indeed maintained, an inegalitarian wages structure which is partly inherited from the past, and is partly an outcome of competitive forces currently operating in the country's segmented labour market.[35] This situation is especially harmful to women, who have only limited access to more highly paid jobs and, if they work at all, are crowded into the bottom end of the labour market.

Such inequalities are reinforced by the unemployment benefit system, whose character also reflects the priorities of the Austrian labour movement. As can be seen from Table 4.8, this system is on average quite generous. However, the system discriminates heavily against low-paid workers, for whom the replacement rate (unemployment benefit as a percentage of net earnings) is often considerably less than for workers in the middle range of earnings. Benefits are especially meagre for low-paid workers without children, and when such workers become unemployed, they are under great pressure to accept whatever job is available, no matter how badly paid it may be (see Table 4.A6). This makes it difficult for the low-paid to escape from their situation, and helps to keep down wages in certain traditionally low-paid occupations. Since women earn much less than men on average, the benefit system is thus highly discriminatory in its impact.

Another factor helping to depress wages in Austria is the large reserve of women who are potentially available for employment, but are not officially classified as unemployed and receive no unemployment benefit. The official unemployment rate for women in Austria during the 1980s has never been more than a few per cent, yet the statistics indicate that approximately 50 per cent of women of working age are without paid employment of any kind (see Appendix Tables 4.A4 and 4.A5). The existence of such a huge reserve of potential workers, who receive no unemployment benefit, must inevitably exert a downward pressure on the earnings of women, and thereby on the earnings of those male workers who compete with them.

Thus, the high wage dispersion in Austria, and the low pay of women and certain male workers, are the result of two factors, both of which reflect the

[35] On this point see the chapter by Alois Guger in the present volume. Very recent developments suggest that this situation is beginning to change. There is increasing awareness both inside and outside the trade unions of the extent of inequality in Austria and of the need to do something about it.

balance of power within the Austrian labour movement and its resulting priorities. At an economic level, this movement has pursued a bargaining strategy which favours certain historically powerful groups of male workers, whilst at a political level it has helped to shape an unemployment benefit system which favours such workers, and reinforces their advantages in the labour market at the expense of women and other male workers.

4.7.7 *Two types of corporatism?*

How do we explain the striking contrast between Austria and the Nordic countries? They are all 'corporatist' economies, with strong and centralized labour market institutions, yet the priorities and objectives of their labour movements seem very different. One clue is provided by Göran Therborn in his article in the present volume, where he comments on the different forms of 'industrial order' in capitalist countries. He draws a distinction between systems organized around the principle of conflict and those organized around the principle of consensus. For historical reasons, he argues, the industrial order in the Nordic countries is organized around the institutionalization of conflict, whereas in Austria the dominant principle is consensus. Although he does not explore this issue, the institutionalization of conflict is associated with, indeed is mainly the result of, a historical struggle by labour for democracy and equality. This is certainly true in the Nordic countries. The result is that the labour movement in these countries has had an inclusive and egalitarian thrust, which is reflected in commitment to wage equality and genuinely full employment, for women as well as men. In Austria, on the other hand, for reasons which Therborn mentions briefly, the accommodation between labour and capital has been of a far more conservative kind, establishing consensus by freezing the status quo of the immediate post-war period. This may help to explain why women receive such a low priority in wages and employment, and why earnings differentials in general are so high in Austria. The conclusion seems to be that industrial orders in which conflict is institutionalized have an inherent dynamic towards equality, whereas those based on consensus are more conservative and tend to preserve the power relationships and inequalities in existence at the time these orders were established. Both kinds of order may be characterized by centralized institutions, both may exhibit certain features in common which derive from these centralized institutions, and both may be reasonably described as 'corporatist', but in other respects they may be very different. This may serve as a warning against trying to squeeze too much out of concepts like corporatism or labour market centralization.

APPENDIX 4.A. SUPPLEMENTARY TABLES

TABLE 4.A1 Calmfors–Driffill Index of centralization in wage bargaining

Rank		Co-ordination level within central organizations	Existence of parallel central organizations and their co-operation	Total score
1	Austria	3	3	6
2	Norway	3	2	5
3	Sweden	3	2	5
4	Denmark	3–	2	5–
5	Finland	3–	2	5–
6	Germany	2–	3–	5–
7	The Netherlands	2	2+	4+
8	Belgium	2	2	4
9	New Zealand	1	3	4
10	Australia	1	3	4
11	France	1+	2	3+
12	UK	0+	3	3+
13	Italy	1+	2	3+
14	Japan	1	2	3
15	Switzerland	1	2	3
16	USA	1	1	2
17	Canada	1	1	2

Source: Calmfors and Driffill (1988).

TABLE 4.A2 Labour market performance 1985 (males)

Country	Unemployment rate	Employment rate	Employment rate (FT equivalent)	Wage dispersion[3]	INDEED Index[b]
Austria	4.6	77.7	77.1	12.5	64.6
Norway	2.1	84.2	79.3	11.3	68.0
Sweden	2.7	83.4	80.4	6.6	73.7
Denmark	6.6	79.9	77.3	6.0	71.3
Finland	5.4	75.1	73.4	10.2	63.2
Germany	7.8	71.5	70.9	6.2	64.7
The Netherlands	13.4	65.9	63.6	7.8	55.8
Belgium	9.4	66.6	65.7	11.7	54.0
New Zealand	2.3	80.2	78.1	14.4	63.7
Australia	7.9	77.8	75.4	14.3	61.1

TABLE 4.A2 *(cont.)*

Country	Unemployment rate	Employment rate	Employment rate (FT equivalent)	Wage dispersion[3]	INDEED Index[b]
France	8.6	67.2	66.3	9.0	57.3
UK	13.6	74.9	73.7	11.4	62.3
Italy	6.8	71.7	70.8	5.5	65.4
Japan	2.6	85.5	83.4	12.0	71.5
Switzerland	0.8	88.6	85.6	9.7	75.9
USA	7.0	76.3	73.4	15.1	58.3
Canada	10.3	75.4	72.5	12.8	59.7

[a] Employment weighted and refers to INDUSTRY (manufacturing, mining, and construction).
[b] Employment rate (FT equivalent) - Wage dispersion.
Note: All statistics are measured in percentages.

TABLE 4.A3 Change in labour market performance 1973–1985 (males)

Country	Unemployment rate	Employment rate	Employment rate (FT equivalent)	Wage dispersion[3]	INDEED Index[b]
Austria	4.0	–7.7	–7.7	1.9	–9.6
Norway	1.1	0.3	–1.0	0.9	–1.9
Sweden	0.4	–2.7	–4.2	–2.3	–1.9
Denmark	5.9	–3.1	–4.9	–1.9	–3.1
Finland	3.2	–8.5	–9.6	–2.0	–7.6
Germany	6.9	–14.2	–14.4	0.8	–15.2
The Netherlands	10.9	–15.0	–16.8	2.1	–19.0
Belgium	7.5	–13.4	–14.1	–2.4	–11.7
New Zealand	2.0	–7.5	–7.5	3.5	–11.0
Australia	6.1	–10.4	–11.3	7.2	–18.5
France	7.0	–13.3	–13.6	0.2	–13.8
UK	10.6	–13.3	–13.7	3.2	–16.9
Italy	2.5	–6.4	–6.4	–5.4	–1.0
Japan	1.3	–3.4	–3.3	0.1	–3.4
Switzerland	0.8	–12.0	–11.9	3.5	–15.4
USA	2.8	–3.0	–3.0	–4.4	1.4
Canada	5.4	–5.4	–6.2	–3.6	–2.6

Note: The figures shown here are absolute changes in the magnitudes given in Table 4.A2.

TABLE 4.A4 Labour market performance 1985 (females)

Country	Unemployment rate	Employment rate	Employment rate (FT equivalent)	Wage dispersion[a]	F/M ratio[b]	INDEED Index[c]
Austria	3.6	48.8	44.0	15.9	70.2	19.7
Norway	3.0	66.3	48.1	11.6	81.6	29.8
Sweden	2.9	75.9	58.4	7.1	87.2	44.7
Denmark	8.2	68.4	53.1	6.5	84.7	39.5
Finland	4.4	70.3	65.9	10.6	75.8	41.9
Germany	9.5	45.6	38.8	8.1	73.1	22.4
The Netherlands	12.2	36.2	27.1	5.3	76.7	16.7
Belgium	16.5	42.1	38.0	9.0	77.0	22.3
New Zealand	7.5	44.1	37.9	9.5	72.5	20.5
Australia	8.7	49.9	40.9	9.3	75.4	23.9
France	12.8	47.9	43.1	7.4	81.5	29.1
UK	8.8	54.7	43.1	12.3	73.0	22.5
Italy	16.2	34.2	32.6	6.5	85.6	22.4
Japan	2.7	55.7	49.8	14.9	48.9	17.1
Switzerland	1.1	52.7	44.8	11.3	70.3	23.6
USA	7.4	58.9	52.0	17.5	68.0	23.5
Canada	10.7	55.6	48.3	21.0	63.7	17.4

[a] Employment weighted and refers to INDUSTRY (manufacturing, mining, and construction).
[b] F/M ratio = ratio of average female to average male hourly earnings.
[c] (Employment rate (FT equivalent) - Wage dispersion) x F/M ratio.

Note: All statistics are measured in percentages.

TABLE 4.A5 Change in labour market performance 1973–1985 (females)

Country	Unemployment rate	Employment rate	Employment rate (FT equivalent)	Wage dispersion[3]	F/M ratio[b]	INDEED Index[c]
Austria	2.0	–2.3	–3.1	0.3	2.7	–1.6
Norway	0.6	17.0	10.6	2.9	7.8	8.5
Sweden	0.1	15.0	9.3	–0.1	7.6	11.4
Denmark	7.1	3.6	1.4	–2.6	5.3	5.6
Finland	2.2	8.0	5.7	2.4	8.2	6.8
Germany	8.3	–3.3	–5.3	1.0	1.4	–4.0
The Netherlands	10.4	7.5	0.6	1.1	–0.8	–0.6
Belgium	13.2	1.0	–1.5	–2.9	11.2	4.2
New Zealand	7.2	5.0	3.1	3.8	4.0	0.7
Australia	5.4	3.8	1.1	3.0	7.6	1.1
France	8.3	0.3	–1.8	1.8	3.2	–1.7
UK	7.9	2.1	0.6	3.7	10.1	1.2
Italy	4.8	4.2	3.9	–7.1	11.8	11.2
Japan	1.5	2.2	1.0	0.6	–3.9	–1.2
Switzerland	1.1	–1.4	–9.3	6.0	3.1	–9.2
USA	1.4	10.9	10.0	3.9	6.6	6.0
Canada	4.0	11.5	8.7	2.2	6.3	5.4

[a] Employment weighted and refers to INDUSTRY (manufacturing, mining, and construction).
[b] F/M ratio = ratio of average female to average male hourly earnings.
[c] {Employment rate (FT equivalent) - Wage dispersion} x F/M ratio.

Note: The figures shown here are absolute changes in the magnitudes given in Table 4.A4.

TABLE 4.A6 Replacement rates in Austria in 1983: Some illustrative calculations

	No children				Two children		
	I	II	III		I	II	III
1. Gross income	18.9	11.6	6.6		18.9	11.6	6.6
2. Net income	13.4	8.9	5.6		15.6	11.1	7.8
3. Unemployment benefits etc.	9.4	6.0	2.7		13.1	9.7	6.3
4. Replacement rate %	70.5	67.5	47.3		83.9	87.3	80.5

Note: The figures refer to monthly income in thousands of schillings for someone who is unemployed for three months; the benefits shown include tax refunds; both net income and benefits include all transfer payments. Line (4) = 100 x line (3)/line (2).

Source: G. Fischer and M. Wagner (cited in Walterskirchen 1987: 227).

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5

Corporatism, Patterns of Employment, and Access to Consumption

Andrew Glyn

5.1 INTRODUCTION

A striking feature of the period of slower growth since 1973 is the diversity of employment performance between OECD countries. As noted in earlier studies (e.g. Bruno and Sachs 1985) there is little relationship between the degree to which output slowed down and the rise in unemployment. Many factors connected with the growth of the labour force have played a role (see Rowthorn and Glyn 1990), but there still remain wide differences in the extent to which the slow-down in output growth led to slower growth of employment.[1] This has important, but little explored, implications for the fundamental question of who bears the costs of slower growth.

A deterioration in employment performance unloads a disproportionate share of the costs on those who fail to get jobs. Conversely maintaining employment growth spreads the costs of slow output growth by extending more widely the access to consumption provided by paid work. Such 'employment spreading' may be achieved through conscious policies to subsidize work in the market sector. But even if the volume of work required in the market sector declines, employment may be maintained through the expansion of jobs in the state sector (providing welfare services etc.) or through cuts in the working week. So employment spreading includes policies both to maintain work in the market sector and to increase work in the state sector. Of course the extent of the output slow-down in response to oil shocks, slower growth of world trade, higher real interest rates, and so forth is not independent of the policies pursued. But to analyse the diversity of employment spreading we take output growth as given.

Employment spreading widens access to consumption, but within the confines of slower output growth such spreading of consumption must be paid

I would like especially to thank Bob Rowthorn for his help and Wendy Carlin and Mustaq Khan for comments on earlier drafts.

[1] The extent to which output slowed down in a country in die period 1973–86 (as compared to 1965–73) is not significantly correlated with the extent to which the growth of employment slowed down, in the sample of 15 OECD countries analysed in this chapter. Even if the extreme case of Japan is left out the correlation is barely significant for the period 1973–9, and less than half of the variance of the change in employment growth is accounted for by the change in output growth for the whole period 1973–86.

for. In the short run at least consumption out of property incomes may be squeezed through taxation, extra resources may be borrowed from abroad, or investment may be cut. But these sources have fairly narrow limits and/or adverse longer-term consequences. Ultimately the costs of employment spreading must be borne by the mass of wage and salary earners.

Some aspects of employment spreading bring direct benefits to those who would have kept their jobs anyway, in the form of better welfare services, more leisure as working hours fall, better possibilities for a second family member to find a job, for example. But for the most part the policies—of the state and of the collective organizations of labour—required to implement or initiate employment spreading have a strong egalitarian thrust. This is because the benefits are received by broader sections of the population than contribute to their financing. The implementation of such policies demands, therefore, a high degree of social solidarity on the part of those with secure jobs.

But there is a more fundamental problem, that of free riding. It is quite possible for such policies of employment spreading to be advocated, but when it comes to wage bargaining their costs may implicitly be shrugged off (compare Calmfors and Driffill 1988). Suppose compensation is achieved in wage claims for tax increases used to finance an expansion of the welfare services. This tends to nullify the increase in state employment through forcing faster rationalization and employment shedding in the market sector. Indeed the situation may be even worse to the extent that the higher real cost of labour reduces market sector output (as marginal exporters close, for example). Cuts in working time provoke similar effects if hourly earnings are increased to maintain weekly wages (see also Dreze 1986). So in addition to social solidarity the labour movement has to show strong collective discipline if employment spreading is to be successful.

The benefit system is another route through which consumption spreading occurs. The extent to which unemployment concentrates the costs of slower growth on the unemployed depends on the degree to which the benefit system 'replaces' the income lost, and the comprehensiveness with which it covers all those who cannot get jobs (see Burda 1988). But again these benefits have to be paid for. Higher unemployment benefits would lead to more people being unemployed if those with jobs resisted the implied cut in their consumption. The neo-classical route would have the actual real cost of labour rising leading to rationalization of production; alternatively in a conflicting claims framework (e.g. Rowthorn 1977) the level of unemployment required to suppress conflict over real incomes (the NAIRU) would increase. Again collective discipline in bearing the costs is necessary to pay for higher benefits, in addition to the social solidarity required to initiate them.

Similar remarks apply to other state benefits (pensions for example) which also represent 'consumption spreading', in that entitlements to consumption are extended beyond those in paid work. Maintaining the generosity

of state benefits ensures that the costs of slower growth are not met disproportionately by those dependent on them. But again it is necessary that there should be collective discipline amongst the employed to accept their share of the costs. In the short run the problem may be concealed by rising state deficits, reduced investment, and so forth. But eventually tax rates have to rise, and if the implied cut in (the growth of) living standards is not accepted, the inevitable result is that the costs are pushed on to those made unemployed. Consumption spreading, as well as being an implication of effective employment spreading, is a broader category as it covers the whole operation of the benefit system. The common element is the necessity for both social solidarity and collective discipline if wide spreading of the costs of slower growth is to be a durable pattern.

Social solidarity and collective discipline are precisely the virtues claimed for at least some of the so-called corporatist countries—that is the Scandinavian countries and Austria (see Rowthorn, Pohjola, Pekkarinen this volume). *Deliberate* and successful spreading of employment and consumption, through the policies described above, might be expected, therefore, to characterize successful corporatist countries. Such an approach is certainly the antithesis to the market solution to restoring high employment under conditions of slower growth. In ideal form this consists of relying on the impersonal pressure of the reserve army of labour to drive down wages and productivity in the market sector until the natural rate of unemployment is restored—in effect there is *forced* consumption and employment spreading. Whilst there is a common element in the outcomes (slower growth of consumption per worker) the overall configurations are different—for example greater hours reductions and increases in state employment in the interventionist/collective response to slower growth.

Attempts to implement market solutions where institutional structures (e.g. trades unions) resist lead (via nominal or real wage rigidities for example) to a heavy concentration of the costs of slower growth on particular groups. Those most likely to suffer would be those without jobs (who would also tend to face less than generous benefit systems) and more generally all those dependent on social welfare, cuts in which are usually an integral part of programmes to restore 'market forces'. Resistance has a similar effect (in terms of the concentration of costs on the unemployed) where deliberate policies of employment spreading are opposed by groups not prepared to bear a share of the costs.

The aim of this chapter is to use this general framework of employment and consumption spreading to explore the evolution of the corporatist countries since 1973 and to assess whether they diverge systematically from other OECD countries, especially those within the European core which provide the obvious frame for comparison. Sections 5.2 and 5.3 examine how the generally superior employment record of the corporatist countries

(see Rowthorn and Pohjola this volume) has been maintained, and in particular the respective roles of the state and the market sector. Section 5.4 records how the various patterns of employment and consumption spreading have been reflected, in the longer run if not always in the short run, in growth of consumption out of earned incomes for the average worker. This allows an assessment to be made of the degree to which policies for employment and consumption spreading have been carried out in various countries, of their contribution to differences in employment performance, and of the degree to which either collective restraint or market pressures had to bear down on the growth of consumption.

5.2 DEMARKETIZATION AND THE TREND IN EMPLOYMENT

Our analysis of trends in participation in paid employment begins with the availability of work in the market sector.[2] The total number of hours worked in the market sector depends on the balance between the growth of output and the growth of hourly labour productivity. In order to control for differences over time and across countries in the potential labour supply the best measure of work in the market sector is total hours worked per head of the population of working age.[3] This in turn depends on the balance between the growth of output per head of the population and the growth of labour productivity. Where the former is the faster an increasing number of hours are required in the market sector.[4] In the reverse case the amount of work in the market sector is declining, a process which we term 'demarketization' by (rough) analogy with the well-known phenomenon of deindustrialization. Demarketization does not necessarily imply a falling employment rate (ratio of employment to population) for the economy as a whole, since the labour time 'released' from the market sector may be absorbed by increases in employment in the state sector and by reductions in the average number of hours worked.

Table 5.1 presents a simple decomposition for the employment rate, showing how its trend depends on the balance between demarketization on the one hand and rising state employment or reduced working time on the other.[5] In order to focus on comparisons between the corporatist countries (CCs) and other European countries data is shown for the five CCs

[2] The market sector excludes that part of GDP produced within the 'general government' sector; thus it includes public enterprises producing commodities for sale.

[3] For conciseness 'population' is used henceforth as shorthand for population of working age when considering access to work; clearly the availability of work should be judged in relation to the latter rather than to the whole population.

[4] This follows from the identify $MHIP$ - O/P x MH/O, where MH is total hours worked in the market sector, P is population of working age, and O is market sector output.

[5] The decomposition on which the analysis of the employment rate is based is set out on p. 162 of Appendix 5.A.

TABLE 5.1 Demarketization and employment, 1965–1986 (average annual percentage changes)

	Corporatist countries			European core		
	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86
1. Market output per head of population	3.7	2.1	1.9	4.1	1.6	0.6
2. - Productivity	–5.9	–3.8	–2.6	–5.5	–3.5	–2.8
3. = Hours in market sector/population	–2.2	–1.8	–0.7	–1.4	–1.9	–2.2
4. + Share of state employment	0.9	0.9	0.5	0.3	0.6	0.3
5. + Fall in average hours worked (FT)	1.3	0.7	0.1	0.7	0.6	0.5
6. + Share of part-time	n/a	0.3	0.1	n/a	0.2	0.2
7. = Employment/population: (3)+(4)+(5)+(6)	0.0	0.2	0.0	–0.3	–0.6	–1.1

Sources and notes: For definitions, sources of variables, and the decomposition underlying the table see Appendix 5. A; population is of working age (15–64).

–1.1

combined (Austria, Denmark, Finland, Norway, and Sweden) and for five countries in the 'European core' (EC) combined (Belgium, France, Germany, The Netherlands, and the UK) .[6] Tables 5. A1–A3 in the Appendix provide the same information for each corporatist country, and for Belgium and The Netherlands which are perhaps the most closely comparable countries in the European core.[7] These tables form the basis for comments in the text on specific features of particular countries. The appendix tables also provide the data for Switzerland, which is the subject of another chapter in this volume and often taken to have the most liberal economic policies of the small European countries, and for the USA and Japan whose more thoroughgoing market orientation is often contrasted with that of Europe.

5.2.1 *The golden age*

In the period 1965–73 (the end of the 'golden age' pattern of post-war growth—see Glyn *et al.* 1990) the outstanding feature of the CCs taken as a group was their faster rate of demarketization (line 3). All the European countries considered showed a decline in total work done in the market sector per head of the population of working age, but in the CCs it proceeded nearly 1 per cent per year faster on average than in the EC countries. The magnitude of the CCs' 2.2 per cent per year decline can be judged by the fact that had it continued until the present then the amount of market work undertaken per head of the population would now be half the level of 1965!

Such very rapid potential release of labour from the market sector did not lead to a declining employment rate in the CCs (line 7). On the contrary, rises in state employment and cuts in average hours worked absorbed all the reduced availability of work in the market sector and so the employment rate was maintained.[8] In the EC the rate of demarketization was distinctly slower (reflecting both faster output growth and slower productivity growth); but the extent of employment spreading via rises in state employment, and especially through cuts in working time, was considerably less pronounced

[6] Data for the groups is a simple unweighted average of the data for the individual countries, unweighted in order to suggest 'typical' performance. Data limitations prevented the analysis of a broader sample of European countries; Italy, whose national accounts have recently been hugely, but only incompletely, revised is the most obvious omission. As explained in the Appendix in some instances it is necessary to use quite broad approximations to particular variables.

[7] Rankings of countries according to the degree of centralization of bargaining tend to show The Netherlands and Belgium just below the Scandinavian countries and Austria; see Calmfors and Driffill (1988: 18). Their size and openness also make them especially comparable.

[8] Regression analysis, reported in more detail in the next section, which includes dummy variables for the CCs, confirms that in the golden age they displayed 1.1% per year faster demarketization (equation 14) than other OECD countries with the same productivity growth, but this was precisely offset by faster increases in the share of state employment (equation 27) and reductions in average hours worked (equation 30).

than in the CCs so that even in the golden age the employment rate declined a little.

A rapid rate of demarketization characterizes every one of the CCs (Table 5.A1). But in both Austria and Finland the experience was closer to the EC, in that the extent of employment spreading was insufficient to maintain the employment rate. This supports the idea (Rowthorn, Pekkarinen this volume) that Austria represented at that time a narrow or 'exclusive' form of corporatism and that Finland was only in the process of evolving towards the typical corporatist pattern. By contrast, in Belgium and The Netherlands demarketization was as rapid as in the CCs, but in The Netherlands in particular this was associated with a very poor employment performance—the employment rate falling by almost 1 per cent per year. This was an early example of a much more widespread EC phenomenon after 1973. It suggests difficulties in securing the consumption restraint which would have been necessary better to preserve market sector work or to finance employment spreading at CC rates.

The data for demarketization during the golden age confirm casual impressions as to variations in economies' degree of market orientation. In the golden age two countries, Australia and the USA, experienced 'marketization' (increased total hours worked in the market sector per head of the population) and two more (Switzerland and Canada) demarketization of around 0.5 per cent per year. Cuts in working time and increases in state jobs were correspondingly small. The EC countries appear in general to lie between the extreme demarketization of the CCs and the most market-orientated economies mainly outside Europe.

Table 5.A4 provides some rough indicators of the level which the processes of demarketization had reached in the various groups of countries at the end of the golden age when the contrast between the CCs and the rest was at its sharpest. The extremely high shares of state employment in Sweden and Denmark in 1973 stand out, together with substantially shorter hours of work in Sweden than elsewhere.[9] In terms of state employment Austria is close to the EC average. Finland's relatively low level of development was reflected in less state employment and apparently longer hours of work than the EC countries. In general, however, rapid golden age employment spreading in the CCs was not simply a process of catching up with the general European trend. Whilst the CCs are not an entirely homogeneous group in this respect, in Sweden and Denmark the trend towards increasing state employment and declines in working hours had proceeded further by the time that growth slowed down.

[9] It is likely that the rapid reductions in hours worked in Japan in the golden age, which were the counterpart of substantial demarketization there, were a response to the extremely long hours of work there—see notes to Table 5.A4.

5.2.2 *The intershock period*

The intershock period, between 1973 and 1979, is characterized by slower growth of market sector output. But in relation to demarketization the contrast between the CCs and the EC shifts. The CCs show a *reduction* in the rate of demarketization as productivity growth fell more than output growth. In the EC, by contrast, with the decline in output being nearly 1 per cent per year steeper, productivity growth declined less than output growth and the rate of demarketization *increased.* With the trends in employment spreading (state employment and average hours) continuing at golden age rates in both groups, slower demarketization meant that the trend of the employment rate actually improved in the CCs in the intershock period. This remarkable result was not repeated in the EC; on the contrary the speed-up of demarketization was associated with a deterioration of the employment trend there.[10]

It is important to emphasize that the slower average decline in output growth in the CCs is not due just to the peculiar case of Norway, where the exploitation of North Sea oil led to market output growing faster after 1973. For in both Sweden and Denmark output growth slowed down less than in the EEC countries. Moreover in both these countries productivity growth slowed down much more than in the EEC. This strongly suggests that deliberate policies to support market sector jobs were effective—perhaps in underpinning output as well as preventing redundancies (see Landesmann this volume).[11]

The contrast in employment patterns between the groups is epitomized by the comparison of The Netherlands with Sweden; with very similar growth of market output Sweden achieved an extraordinary increase of the employment rate of nearly 1 per cent per year, whereas The Netherlands suffered a decline of more than 1 per cent per year. The accounting explanation is slower productivity growth, faster declines in working hours for full-timers, and much faster increases in state employment in Sweden. Underlying the Swedish pattern lay a whole range of interventionist policies (see Bosworth and Rivlin 1987).

Once again Austria and Finland seem less typical of the CC pattern, with demarketization continuing at the previous rate during the intershock

[10] Regressions confirm that the CCs no longer displayed significantly faster rates of hours reductions after 1973 (equations 31 and 32); only in terms of state employment growth did they remain exceptional, but the extent of this faster growth was halved after 1979 as compared to the golden age (equations 27–9).

[11] For a given fall in output growth market work was better preserved after 1973 in the CCs since the fall in productivity growth was some 0.9% per year more (and thus job loss less) than elsewhere (equations 22 and 23). The exceptional case of Norway, where output and productivity growth were maintained, tends to mask this important tendency for more productivity slow-down in the CCs.

period, and in Finland there was insufficient employment spreading to prevent a sharp deterioration in the employment position.

5.2.3 *After 1979*

The contrasting trends for demarketization which emerged in the intershock period were consolidated in the period after 1979, which includes both the oil and 'monetarist' shocks (see Glyn *et al.* 1990) and the subsequent recovery (although this is only partially captured in our data which reach up to 1986). The rate of demarketization slowed down further in the CCs, as output growth was practically maintained and productivity growth fell back. Conversely in the EC demarketization speeded up again as output fell sharply and by more than productivity growth. A comparison with the golden age brings out the extent of the role reversal—before 1973 demarketization was proceeding nearly 1 per cent per year faster in the CCs, after 1979 it was nearly 1.5 per cent per year faster in the EC.

In both blocks the rate of growth of state employment fell off radically after 1979. In the CCs the rate of decline of working time also slowed, but weaker employment spreading simply counterbalanced slower demarketization, without adverse effects on employment. In the EC, however, reduced employment spreading coincided with the speed-up of demarketization and thus contributed to a drastic (more than 1 per cent per year) deterioration in the employment rate. The pressures to reduce employment spreading, because of its impact on the consumption of those at work, were common to both groups of countries. What seems to distinguish the CCs as a group was the combination of state intervention and consumption restraint which held down the rate of decline of market sector work.

Once again Austria is the exception to the CC picture, with very poor output growth leading to rapid demarketization and to sharp declines in the employment rate. Its overall pattern is rather similar to that of Belgium and suggests a common inability to deal with the restructuring of uncompetitive heavy industry. When The Netherlands is again compared to Sweden the continuing huge discrepancy in employment performance is now due, in a proximate sense, to lack of output growth in The Netherlands rather than to lack of employment spreading as in the intershock period. Finland, however, decisively escapes its 'transitional' status and turns in the most dynamic performance amongst the CCs, with good output performance, rapid productivity growth, and with moderate demarketization fully absorbed by increases in state employment and hours cuts.

The first, and unsurprising, lesson of this preliminary analysis of employment patterns is that the performance of the corporatist countries since 1973 is not homogeneous. Austria's deteriorating employment performance is typical more of the EC than of the corporatist pattern; its relatively good

unemployment figures owing much to labour supply factors, especially the exclusion of many immigrant and women workers (see Rowthorn and Glyn 1990). Finland only achieved corporatist 'best practice' of limited demarketization and adequate employment spreading after 1979. Norway had the special assistance of the North Sea to lubricate its employment maintenance policies. With Denmark's good employment record tarnished by the substantial rise in unemployment, this leaves Sweden as the outstanding corporatist performer.

Despite these reservations, there is an undeniable contrast between the employment record of the Scandinavian countries, especially since 1979, and the disastrous performance of the European core countries. Fig. 5.1 summarizes this section by highlighting the strikingly different trends in demarketization in the two groups of countries, and the failure of employment spreading to absorb the labour time released from the market sector in the EC where demarketization increased after 1973. It seems, therefore, that the *character* of demarketization changed after 1973 and that particular sets of policies and institutional responses were required to hold employment up. It is to a further examination of this issue that we turn now, by analysing the shifting patterns in a more precise way.

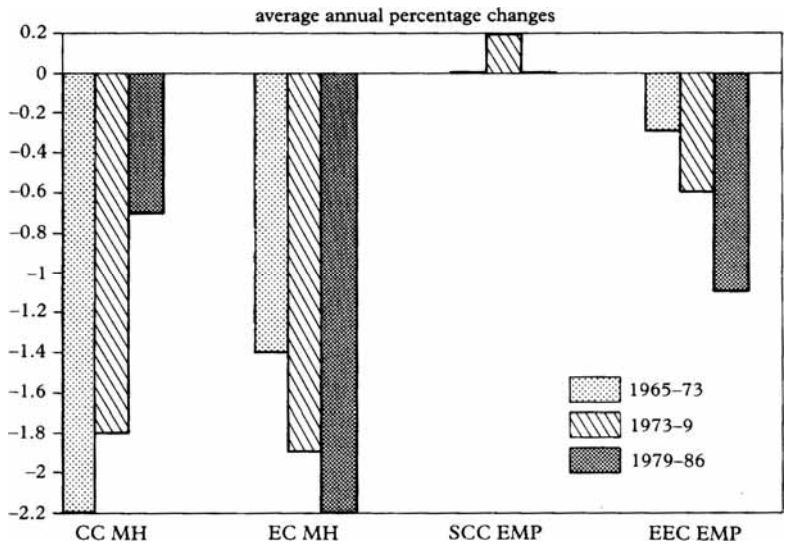

FIG. 5.1 Demarketization and employment

Notes: CC refers to a simple average of the 5 corporatist countries (Austria, Denmark, Finland, Norway, Sweden); EC refers to a simple average of Belgium, France, Germany, The Netherlands, and the UK; MH refers to total hours worked in the market sector per head of the population of working age; EMP refers to the ratio of employment to population of working age.

5.3 POSITIVE AND NEGATIVE DEMARKETIZATION

Rowthorn and Wells (1987) use the term 'positive deindustrialisation' to indicate a situation where rapid productivity growth in industry releases workers for employment in the services sector and where demand for industry and services grows fast enough (and in parallel) to ensure full employment. We may use the term 'positive demarketization' to indicate a similar process of release of labour time from the market sector for absorption in non-market work or as reduced working time, whilst total access to paid work—the employment rate—is maintained. Demarketization is 'negative' when the labour time released by the speed of productivity growth in relation to market output is not absorbed by rises in state employment and falls in working time and thus leads to a deterioration in employment performance.

Positive demarketization reflects the role of state policies and labour's bargaining objectives in permitting the benefits of rapid productivity growth in the market sector to be used partly to expand state services and to cut hours. Negative demarketization results where the market sector fails to generate sufficient work to provide jobs for the working-age population and the state and union movement do not offset this by spreading employment sufficiently.

Two variants of negative demarketization may be distinguished. The first, 'failed interventionism', would occur where extensive employment spreading was implemented (state employment, hours cuts, supporting market sector jobs), but given the circumstances (which could include a particularly weak market sector) there was insufficient support for the implied degree of consumption restraint necessary to maintain the overall employment rate. The second case, 'market failure', would describe a case where policy emphasis was on encouragement of market forces, but they were insufficiently powerful to impose the consumption spreading necessary to maintain employment within the market sector.

The patterns of demarketization and employment spreading are demonstrated in a series of cross-country regressions reported in detail in Table 5.A6. These cover our sample of eleven European countries, plus the USA, Japan, Australia, and Canada (the other OECD countries which had the relevant data). Each regression aims to discover whether a variable (such as the change in the employment rate) is significantly correlated with a relevant structural feature (for example the growth of total hours worked in the market sector per head of the population).

The shift towards increasingly negative demarketization for the OECD countries as a whole is most clearly signalled by the relationship between the trend in market work (total hours per head of the population) and the trend in the employment rate. Prior to 1973 there was only a very weak tendency

for a faster rate of demarketization to be associated with worse employment performance. After 1973, however, each 1 per cent faster rate of demarketization was associated with a 0.6 per cent per year fall in the employment rate; after 1979 the relationship was extremely tight (Table 5.A6 equations 1–5).[12] Demarketization was strongly negative after 1973 in the sense that it was associated with slower employment growth, whereas previously it was practically counterbalanced by more employment spreading. The contrast between Figs. 5.2 and 5.3 illustrates this very important structural change in the functioning of the capitalist economies.

Fig. 5.2, showing the golden age patterns of employment performance and market hours, suggests a U-shaped relation. Two groups of countries displayed exceptional employment performance. The Nordic CCs (apart from Finland) achieved this through rapid demarketization combined with extensive employment spreading. Others (the USA, Canada, Australia, all regarded as liberal and with rather decentralized bargaining) showed increases in the employment rate through rising work in the market sector. Countries in the EC (together with Japan, Austria, and Finland) displayed more or less substantial demarketization with somewhat declining employment. The idea

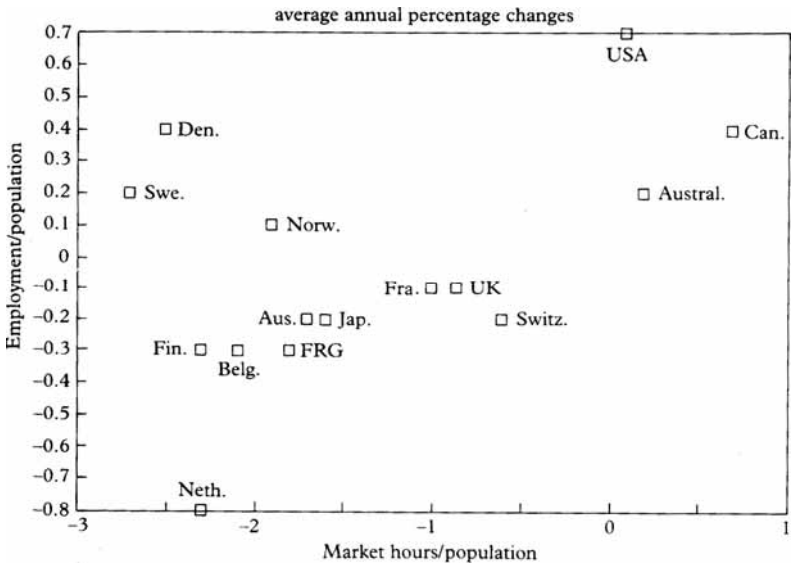

FIG. 5.2 Employment and market hours, 1965–1973

[12] Regressions (4)–(5) for *changes* in the growth rates of these variables confirm this picture, with a larger and more significant coefficient for the final period. To avoid repetition we will only comment on the regressions for changes in the growth rates where they seem particularly helpful in clarifying the patterns.

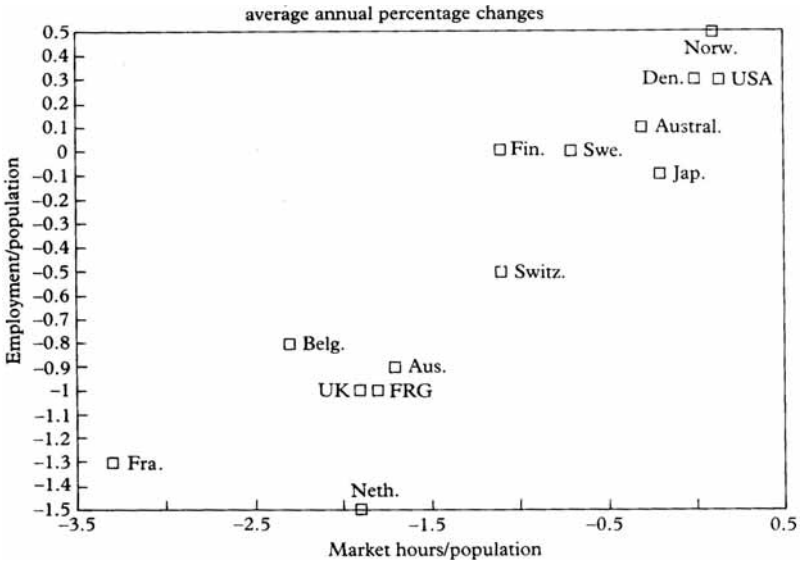

FIG. 5.3 Employment and market hours, 1979–1986

that there were two routes to outstanding employment performance *before* 1973 is an interesting precursor of the much discussed post-1973 relationship between employment and bargaining (see Calmfors and Driffill 1988 and Rowthorn and Pohjola this volume).[13]

These two routes to employment success were still followed in the inter-shock period. But after 1979 Fig. 5.3 shows a very different situation. Almost all the countries where employment rates were maintained showed little or no demarketization; only Finland represented a partial example of the earlier CC pattern of substantial demarketization offset by increases in state employment and hours cuts.

The proximate determinants of the availability of market work also changed in a very significant way. Before 1979 there was no relationship between the growth rate of market output (per head of the population) and the growth rate of market work (equations 6–8). After 1979 however there was a strong and significant correlation implying that 1 per cent faster growth

[13] Golden age differences in the trend of the employment rate have to be interpreted carefully since they are even less closely associated with changes in unemployment rates than was the case after 1973 (see Rowthorn and Glyn 1990). But even if these differences wholly reflected variations in the trend in women's participation rates, for example, there may well have been distinct economic forces contributing to these changes in the two groups of countries with big increases in employment rates—expansion of state employment providing part-time jobs for married women in the CCs and the economic pressure of slow growth in living standards encouraging two-earner families in the more market-orientated economies.

of market output was associated with 0.7 per cent faster growth (slower fall) of market work.[14] Fig. 5.4 shows the strong relationship after 1979 when the trend of the *overall* employment rate, and not just market work, was significantly increased by a faster growth rate of market output (equations 11–13). This establishes that the basis of negative demarketization (with associated inability to maintain the employment rate) was failure to expand market output. But Fig. 5.4 also shows that the strong positive relationship between market work and market output was heavily dependent on the exceptional output performance of a few countries (especially Finland, Norway, and Japan with rapid output growth). A mass of countries with output growth around 1 per cent per year showed a tremendous range of demarketization (by definition depending on productivity growth).

Indeed rapid productivity growth was consistently significantly and positively associated with demarketization (equations 14–18); but here too the impact of a 1 per cent faster rise in productivity in reducing market work increased (from 0.27 per cent before 1973 to 0.72 per cent after 1979). This suggests that those countries which increased productivity rapidly after 1979 tended to achieve this by rationalization in the context of slow growth of

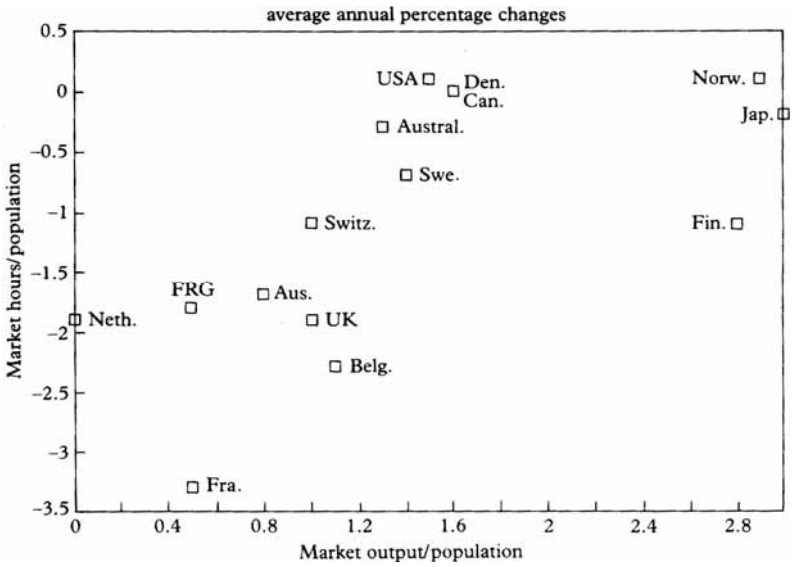

FIG. 5.4 Market work and market output, 1979–86

[14] The regressions for changes in growth rates confirm that it was ability to maintain market output growth after 1979 that was associated with reduced demarketization (equations 9 and 10).

production, rather than by Verdoorn-type exploitation of dynamic economies of scale characteristic of rapid output growth in the golden age.[15]

Thus productivity growth was increasingly associated with loss of market sector work. It was not, however, strongly associated with a declining employment rate (equations 24–6). This is because there was a significant and increasing tendency for rapid productivity growth to be associated with the rate of hours reduction (equations 27–9), and after 1979 a significant tendency for the share of state employment to rise faster in countries with faster market sector productivity growth (equations 30–2). Employment spreading after 1979 seems, therefore, to have been a response to the loss of market sector work implied by rationalization and productivity growth in the context of stagnant output.

Before 1979 there was no relationship whatever between employment performance and total employment spreading[16] (see equations 33–4), confirming the different routes to good employment performance in that period. After 1979, however, those economies with the most employment spreading experienced worse employment trends (equation 35).[17] So employment spreading was quite inadequate to combat loss of market sector work (see Fig. 5.5), and may of course have increased it to the extent that it required further consumption restraint. France showed the greatest degree of employment spreading after 1979—the early policies of the Mitterrand government included hours cuts and increases in state employment with explicit employment objectives (Sachs and Wyplosz 1986)—but disastrous employment performance in the years up to 1986. But the European core also exhibited cases of'market failure' as well as 'failed interventionism' (see p. 134 above); for in The Netherlands, where employment performance was disastrous, little employment spreading was attempted.

The analysis of this and the previous section yields some interesting conclusions about the superior employment performance of (most of) the CCs. The crucial role of the market sector in maintaining the momentum of employment growth in these countries, through both limiting the decline in output growth and moderating the rate of productivity growth, forms the starkest comparison with the EC countries. Both interventionist state policy and bargaining restraint contributed to this outcome. Maintaining market sector work allowed some winding down after 1979 of the employment spreading

[15] Equations 19–21 confirm the breakdown after 1979 of the very close golden age relationship between productivity and market output growth.

[16] Our employment spreading variable (the sum of the absolute values of changes in the share of state employment and of falls in average hours worked) unfortunately cannot include jobs supported in the market sector (by subsidies etc.), for which there is no comprehensive comparative data, so it reflects just hours reductions and rises in state employment.

[17] To some extent this effect may be relatively automatic; large-scale loss of market sector work will tend to increase the *share* of state employment without deliberate employment-creating policies in the state sector and cuts in overtime will reduce hours of work without deliberate action on the part of unions.

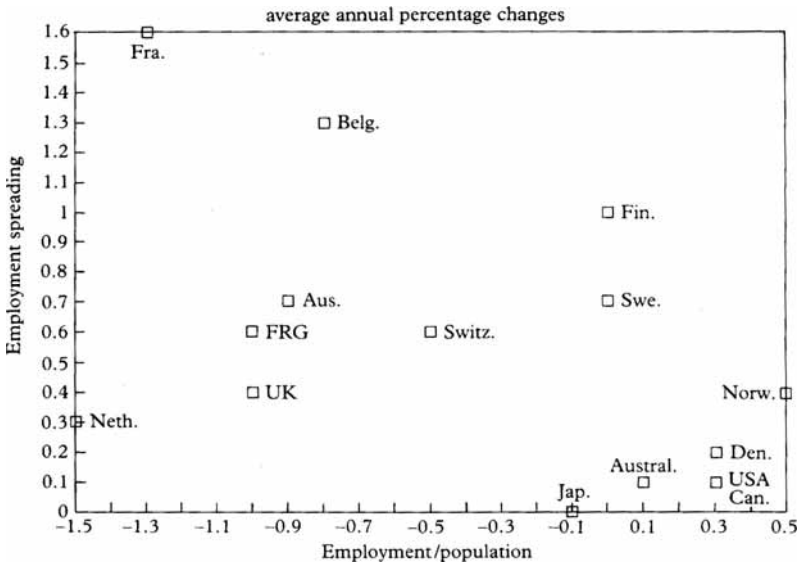

FIG. 5.5 Employment spreading, 1979–86

mechanisms which had been such a feature of the CCs in the golden age. Employment spreading at very high rates was no longer necessary to maintain employment performance in the CCs, whereas in the EC failure in the market sector could only have been offset by employment spreading on an increasing, and presumably unfmanceable, scale. The slow productivity growth, and the extensive employment spreading in the intershock period, had already constrained the growth of consumption per worker in the CCs. The next section examines the implications of consumption spreading for workers' living standards, and shows how the squeeze was severely compounded by rising transfer payments.

5.4 EMPLOYMENT, TRANSFERS, AND CONSUMPTION FROM EARNINGS

Employment spreading through cuts in working time and increases in the share of state employment also represents the spreading of resources potentially available for consumption. The growth of output per *worker* (state and market sectors) is reduced below that of hourly market productivity growth. But the pressure on 'consumption from earnings'[18] and state transfers may

[18] It is difficult to find an appropriate name for the trend of consumption out of earned incomes. Its designation as 'consumption from earnings', rather than the more obvious

be eased if other expenditure claims are squeezed. The share of net exports may be reduced as a result of an improvement in the terms of trade or financed by a deterioration in the current account. The share of private investment or the share of government purchases of market output (medical supplies or new hospitals for example) may be squeezed. Finally the share of consumption out of property incomes could be reduced (by taxation or falling real interest rates for example). Conversely that part of consumption financed from earnings will have to be further restrained if the share of transfers rises; taxes on earnings must rise to transfer claims on consumption to those not engaged in paid work.

The main issue here is to trace the course of consumption from earnings over the period of slower growth, isolating the influences of employment spreading, of the trend in transfers, and of the 'raiding' of other expenditure claims. We comment first on the data for our two groups of countries—the CCs and the EC—presented in summary in Table 5.2, whilst drawing on the more detailed data for the individual countries in Table 5.A5.

5.4.1 *The golden age*

The first part of Table 5.2 shows the transition from market sector productivity to consumption from earnings per worker. First of all the effect of employment spreading is shown in the move from market sector hourly productivity (line 1) to market output per worker employed in market and state sectors (line 2). Since employment spreading was stronger in die CCs, as already described, the differential between productivity and output per worker was correspondingly greater in die CCs in the golden age (some 2 per cent per year as against 1 per cent in the EC).

The transition from output per worker to adjusted output per worker (line 2 to line 3) shows the effect of other expenditure claims in either squeezing or boosting the growth rate of what was available for consumption from

'workers' consumption', is chosen to emphasize that it is a somewhat narrower category. First of all workers may own some property from which income is derived and consumption financed (the most obvious example being imputed rent on owner-occupied houses and associated imputed consumption). Comprehensive data to analyse this do not exist, which is unfortunate inasmuch as owner occupation has been increasing in a number of countries. Secondly workers' families receive cash benefits from the state which are not included in our estimate of earned incomes (after deduction of direct taxation, social security payments, and interest on consumer debt). Fortunately comprehensive data on these transfers (essentially various forms of child benefit) have been published by OECD since 1973 (1989). These show that in 1973 cash transfers, for a family with two children, varied between 0% (the USA, Japan, and Germany) and 16% (Belgium) of the average post-tax earnings of production workers. The average for the five CCs was 8.5%, whereas for the five EC countries the share averaged 8.2%. Most important for our analysis, by 1985 these averages had increased to 12.0% and 10.9% respectively. Thus our calculations for consumption from work represent some underestimation after 1973 of average growth of workers' earnings, but the effect is generally not very large.

TABLE 5.2 spreading, 1965–1986 (average annual percentage changes)

	Corpora tist countries			European core		
	1965–73	1973–79	1979–86	1965–73	1973–79	1979–86
1. Hourly productivity	5.9	3.8	2.6	5.5	3.5	2.8
2. Market output per worker	3.7	1.9	1.9	4.4	2.2	1.7
3. Adjusted market output per worker	3.3	2.0	1.2	4.5	3.3	1.1
4. Consumption from earnings per worker	2.4	0.4	0.6	3.5	1.6	0.1
Percentages of market output (average change per year)						
5. Net exports	0.1	0.5	0.3	0.2	0.0	0.5
6. Market investment	0.1	–0.7	0.0	0.0	–0.5	–0.4
7. Consumption from property	0.0	0.0	0.3	–0.1	–0.1	0.4
8. Consumption from transfers	0.4	0.7	0.1	0.4	0.8	0.2
9. Consumption from earnings	–0.6	–0.6	–0.5	–0.4	–0.2	–0.6

Notes: Productivity is market output per hour worked in the market sector. The series for *market output per worker* (line 2) grows more slowly than hourly productivity (line 1) because of falls in average hours worked and rises in the share of state employment (per worker refers to all workers employed in market and state sectors). *Adjusted market output* means that the shares of net exports, market investment, government purchases, and consumption from property are subtracted from market output at constant prices. This series (line 3), equalling consumption from transfers and earnings, grows more slowly than total market output (line 2) if the sum of the other expenditure shares rises. *Consumption from earnings* is real employee compensation per worker less estimates of taxes and social security payments, interest on debts, and savings. This series (line 4) grows more slowly than adjusted market output per worker (line 3) if the share of transfers grows relative to consumption from earnings.

Sources: See Appendix 5.A for sources and detailed descriptions.

earnings and from transfers. The very small discrepancies between lines 2 and 3 imply that in total other expenditure shares did not change much in either the CCs or the EC in the golden age.[19] The second half of Table 5.2 confirms that the individual expenditure shares also were very constant during the golden age.[20]

Finally the move from adjusted output per worker to consumption from earnings (lines 3 and 4) shows the impact of the rising share of transfer payments. In the case of both groups of countries the growth rate of consumption from earnings in the golden age is reduced a further 1 per cent per year as a result of the increased importance of transfers.[21]

The combined impact of these three effects—employment spreading, other expenditure shares, and consumption spreading via transfers—is reflected in the comparison between hourly productivity growth and the rise in consumption from earnings (lines 1 and 4). In the golden age consumption from earnings grew some 3.5 per cent per year more slowly than productivity in the CCs and 2 per cent more slowly in the EC.[22] In the CCs in particular well over half of the benefit of (hourly market sector) productivity growth was reflected in cuts in hours of work, increased employment in the state

[19] As explained in the Appendix 5.A the calculation of consumption from property depends on pro rata allocations of taxation, and interest payments between the categories of personal income. The inevitably crude nature of many of these attributions (no taxes on state benefits, attribution to the self-employed of an average wage so that only their incomes above the average wage count as income from property, the prorating of income tax and interest payments between the non-benefit sources of incomes, inclusion in some cases of imputed rent on owner-occupied property, inability to include real capital gains as well as recorded nominal income flows, assumption that savings ratios move in parallel for earned and unearned income) all make our estimates of consumption from property very rough indicators. Accordingly not too much weight should be placed on our finding that the CCs had only half as much consumption from property (as a share of market output) as did the EC countries (6% against 12% in 1973).

[20] The share of state purchases of market output (for consumption or investment) is omitted from the table since it remains rather steady throughout the whole period. Note that our categories of state purchases and state employment include the military. For most countries military spending is recorded as quite a small proportion of GDP (around 3%), and is generally stable but with some tendency to decline (OECD 19856: 48–52). In general therefore it is social spending (particularly health, education, and social security) which is responsible for most changes in state expenditure. The USA is the obvious exception. Military spending declined from 7.5% of GDP in 1970to4.5%in 1979, but rose to 6.9% in 1986 and dominated the trend in government purchases of marketed output.

[21] The difference between lines 3 and 4 depends on the *relative* behaviour of the share of consumption from transfers and the share of consumption from earnings (lines 8 and 9) since adjusted MO per worker is the sum of the two categories of consumption. Thus even if the share of consumption from transfers is constant, if other expenditure shares are rising, and thus the share of consumption from earnings is falling, then the growth rate of consumption from earnings is below the growth rate of adjusted MO, i.e. given the falling share of consumption out of transfers and earnings combined a constant share of transfers squeezes the growth rate of consumption from earnings. The magnitudes work out so that the difference between lines 3 and 4 is in fact roughly proportional to the sum of the absolute values of lines 8 and 9, a useful rule of thumb when interpreting the table.

[22] Regression 36 in Table 5.A7 confirms that workers' consumption in the CCs grew 1.5% per year slower, relative to productivity growth, than in other OECD countries.

sector, and an increased share of transfers.[23] This employment and consumption sharing represents a profound process of what may be termed 'decommodification', in the sense that potential growth of consumption is taken in the form of increased leisure, of an increased share of employment in state services, and in increased consumption from transfers allocated on criteria other than participation in paid work (cf. Esping-Andersen 1990). Such decommodification has strong egalitarian implications in the sense that welfare is spread beyond those deriving income from work (via enjoyment of the state services and receipt of transfers) and inasmuch as reduced hours of work spread access to paid employment.

The wedge between the growth of productivity and the growth of consumption from earnings was very large in the golden age in all the Scandinavian countries, but the meagre growth of transfers in Austria helps to put it nearer to the EC pattern. The Netherlands, where the increase in transfers was fastest at the end of the golden age, shows a rate of decommodification equal to any of the corporatist countries other than Sweden. But as already noted The Netherlands also had the worst employment performance at that time. This suggests that whilst there was the political support for income maintenance through transfers there was not the combination of interventionist policies from the state and consumption restraint from organized labour required to maintain employment levels. The Netherlands seems to have been displaying early symptoms of the kind of 'failed interventionism' characteristic of many of the EC countries during the period after 1973.

The contrast between the corporatist pattern of distribution and the opposite market-dominated pattern is exemplified by comparing the USA and Sweden. Between 1965 and 1973 they displayed an identical (1.2 per cent per year) growth of consumption from earnings. In the USA this was just below the 1.9 per cent per year growth of hourly productivity—employment spreading through cuts in working time and increases in state employment, and consumption spreading through rising shares of transfers were all very modest. In Sweden, by contrast, productivity grew at more than 5 per cent per year, but the great majority of the growth was swallowed up in employment and consumption spreading leaving consumption from earnings rising no faster than in the USA.

[23] All forms of employment spreading have the same effect in reducing consumption from earnings *per worker.* However cuts in average hours worked achieve this without any reduction in consumption from earnings *per hour,* whilst increases in state employment and deliberate job maintenance in the market sector require proportionate cuts in consumption from earnings per hour. This maymake the spreading of employment through hours cuts more acceptable to those bearing the costs although the frequency of demands for a '35–hour week with no loss of pay' suggests that this may not always be true. It seems that the best single indicator of the effects of employment (and consumption) spreading is consumption from earnings per worker.

5.4.2 *The intershock period*

As we have already seen employment spreading in the European countries was broadly maintained in the intershock period. In addition, as Table 5.2 shows, the growth rate of the share of transfers practically doubled as extension of the coverage and generosity of welfare benefits continued nearly unabated despite the slower growth (OECD 1985a). This tended to magnify the effect of the slow-down in productivity on workers' consumption. Indeed in the CCs consumption from earnings grew by less than half of 1 per cent per year in the intershock period. In the EC countries, however, there was extensive 'raiding' of non-consumption claims which allowed consumption from earnings to grow about 1 per cent per year faster; whilst the share of investment fell rapidly in both groups, in the CCs part of the resources released were devoted to greater net exports whereas in the EC they were all consumed.[24]

The extraordinary pressure on consumption from earnings involved in the corporatist pattern of decommodification is exemplified by the fall in consumption from earnings in Sweden of nearly 2 per cent per year in the intershock period (see Table 5.A6 where the data is given for the individual countries). There is a striking contrast with Switzerland whose 'exclusiveness' in employment performance (see Blaas this volume) is paralleled by relatively weak consumption spreading. Productivity growth was nearly 2 per cent faster in Sweden, but consumption from earnings grew 2 per cent per year less! Belgium provides a different contrast with Sweden. As in Switzerland consumption from earnings grew much faster, relative to productivity growth, than was the case in Sweden. But Belgium continued with extensive employment and consumption spreading, so the explanation of faster growth of consumption from earnings lay in greater consumption raiding in Belgium as the fall in real net exports was greater.[25] Of the CCs, raiding was much the greatest in Denmark where both the share of private investment and that of consumption from property fell more than in any of the other CCs; this cushioned consumption from earnings which continued to grow at 1 per cent per year in the intershock period (or about 3 per cent per year faster than in

[24] On average the 5 EC countries moved from a 1.5% of GDP current account surplus in 1973 to a 0.7% deficit in 1979; the CCs moved from a 0.8% of GDP average deficit in 1973 to a 2.2% of GDP deficit in 1979. So about half of inferior real net export performance of the EC countries represented a bigger average deterioration of the balance of payments than in the CCs (the other half representing a better trend of the terms of trade). Whilst Norway had much the largest diversion of real resources into net exports, Sweden was the only CC where net exports declined as a share (and only marginally).

[25] Belgium showed the greatest deterioration of our 5 EC countries in the current account of the balance of payments between 1973 and 1979 (from 2.9% of GDP surplus to 2.7% deficit). Sweden also showed the biggest deterioration of the CC group (from 2.7% of GDP surplus to 2.2% deficit). Thus the better performance of net exports in Sweden was almost all absorbed by a bigger deterioration in the terms of trade, rather than reflected in a better current account performance.

Sweden). Despite the case of Denmark, the CC group continued to show significantly slower growth of consumption from earnings (about 1.5 per cent per year less than productivity growth) in the intershock period (Table 5.A7 equation 37). Fig. 5.6 confirms Sweden's place as the extreme consumption spreader.[26]

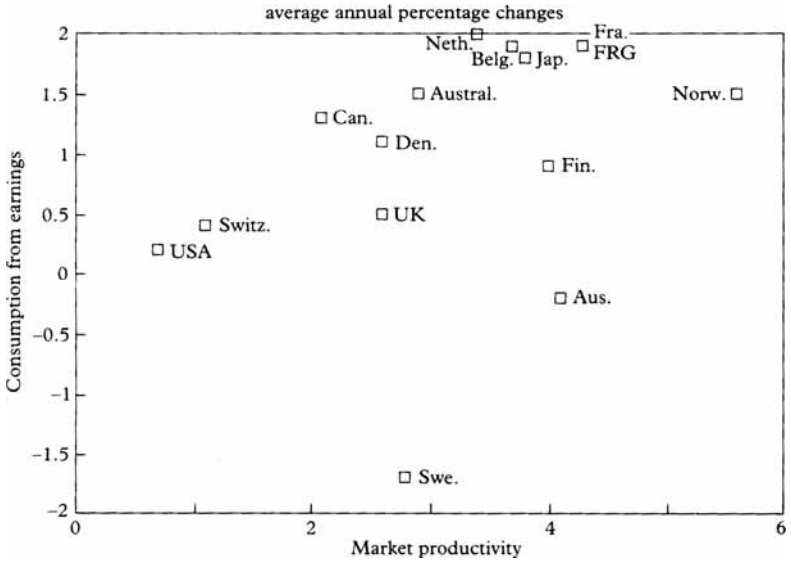

FIG. 5.6 Consumption from earnings and productivity, 1973–79

5.4.3 *After 1979*

As already described in the first section, the rate of reduction of hours of work and the rate of increase in state employment both declined sharply after 1979. It is entirely consistent with this winding down of employment spreading that there was simultaneously a virtual halting of the upward trend in the share of transfers, despite the larger rise in unemployment.[27] All these trends away from consumption spreading tended to relax the pressure on earnings from work. But contrary factors were also in operation. Both groups of countries experienced a substantial rise in net exports as most of the

[26] The only other case of consumption from earnings falling was Austria where a sharp rise in our estimate of consumption from property was substantially responsible—this is hardly consumption spreading!

[27] Regressions (not reported) show that there was no significant difference between the CCs and EC countries in the rate of transfer growth in any of the subperiods; nor was there a significant relationship between the growth rate of the transfer share and that of market output.

individual countries had by 1986 moved into current account surplus.[28] There was also a substantial and unprecedented rise in the share of consumption out of property incomes (reflecting higher interest rates and a profit recovery in a number of countries). One significant difference between the two groups of countries was that the decline in the share of private investment continued in the EC, but not in the CCs. Nevertheless the extent of employment spreading, net export increase, and transfer increase were all bigger in the EC than in the CCs after 1979. The result was that while consumption from earnings continued creeping up at about half a per cent per year in the CCs, in the EC it fell to virtually nothing.[29] The UK was exceptional amongst the EC, keeping consumption from earnings growing at 1.6 per cent per year between 1979 and 1986; employment spreading was weak and the balance of payments was allowed to deteriorate.[30]

The most extreme case of decline in the growth of consumption from earnings was The Netherlands. Whereas in the intershock period adjusted output per worker had grown nearly 2 per cent per year faster than actual output per worker (as net exports and investment were squeezed), after 1979 it grew nearly 2 per cent per year slower (as the shares of net exports and consumption from property rose sharply). Combined with slower growth of productivity this meant that consumption from earnings declined by 2 per cent per year after 1979. Belgium and Denmark also sustained falls in the level of consumption from earnings, as raiding of other expenditure claims (private investment and net exports) was sharply reversed. In Sweden consumption from earnings continued to fall after 1979, but less fast than in the intershock period. In both Norway and Finland consumption from work grew at a respectable 2 per cent per year after 1979. In the case of Norway this was achieved by minimal spreading of employment and consumption, and relatively little shift of resources away from consumption. Finland is somewhat unique amongst the CCs in that productivity growth continued at a rapid rate, and there was substantial spreading of employment and consumption through state employment, transfers, etc. The weak link was the continued decline in the investment share.

Fig. 5.7 charts the Swedish pattern for each year since 1965, bringing out the extraordinary fact that average consumption from earnings in 1986 was below the level of twenty-one years earlier, with a sharp fall from the

[28] The exceptions were Denmark and Norway, which had current account deficits of 5.5% and 6.4% of GDP respectively in 1986. In both cases deteriorations in the terms of trade (oil prices in the case of Norway) absorbed all and more of the increase in net exports.

[29] Regression 38 (Table 5.A7) shows that there was no significant difference after 1979 in consumption from earnings in the two groups (allowing for productivity growth).

[30] The explanation for continuing growth of consumption from earnings was *not* more dynamic productivity growth; only in manufacturing did productivity rise fast and this was offset by slower increases in services productivity.

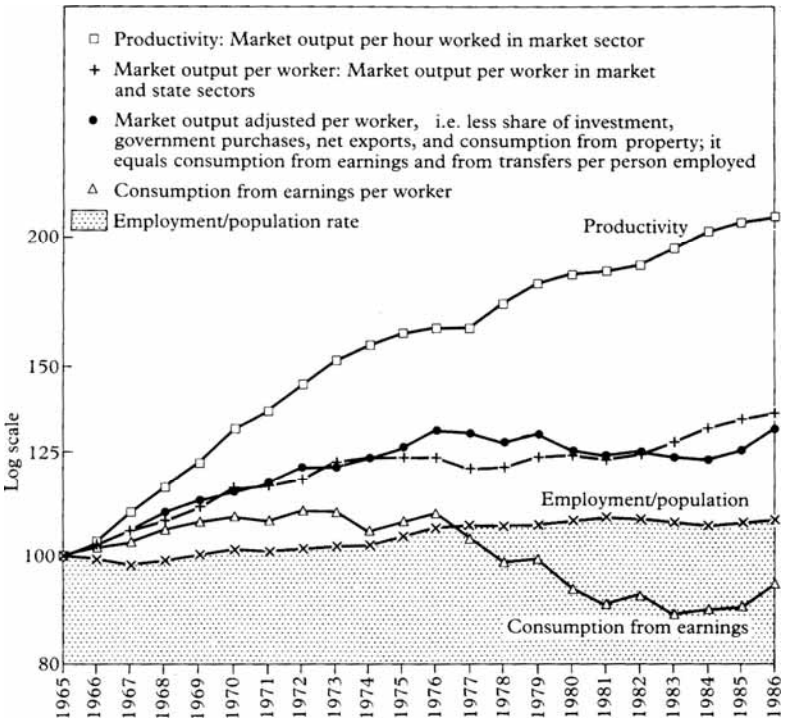

FIG. 5.7 Sweden: consumption and employment

mid-1970s to the early 1980s.[31] This represents an extreme case of the process of decommodification described above where *all* workers' share of increased productivity over a twenty-year period is used to finance cuts in hours, increased state employment, and rises in transfers. Sweden is unique in this respect, but Austria and Denmark have displayed stagnant consumption from work over the whole period since 1973 (Figs. 5.8 and 5.9). Denmark is an interesting case because consumption from earnings continued to grow in the intershock period and then fell back sharply. The rise in transfers, concentrated in the early 1980s as unemployment rose sharply, slashed consumption from earnings. Only Finland and Norway (with the aid of North Sea oil) maintain a significant growth in consumption from earnings over the post-1973 period (Figs. 5.10 and 5.11). The very large gaps in all these charts between the growth of productivity and the growth

[31] Between 1973 and 1985 Swedish workers with children benefited from a small increase in transfers; relative to net earnings receipts by a family with two children rose from 11.8% to
13.9%. This represents only a small offset to the decline in consumption from earnings (see n. 18).

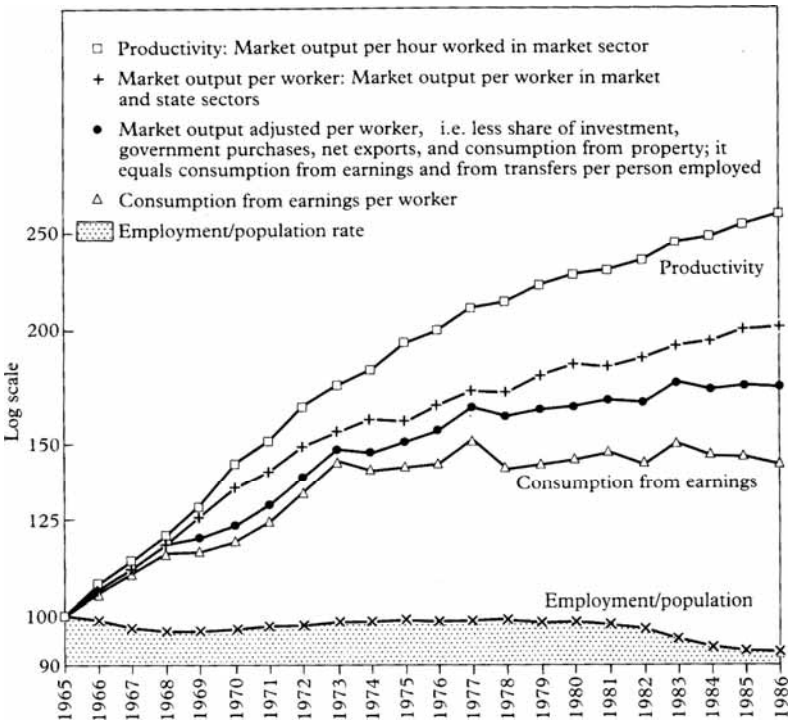

FIG. 5.8 Austria: consumption and employment

of consumption from earnings confirm the importance of decommodification over the period as a whole.

Both The Netherlands and Belgium displayed the same pattern of delayed adjustment of consumption from earnings already noted for Denmark (Figs. 5.12 and 5.13). Indeed The Netherlands represents the pattern in extreme form, with a huge dip in consumption from earnings in the early 1980s. In these three cases it seems that the necessary adjustment of workers' living standards to the conditions of slower growth of output and productivity had to await the onset of mass unemployment. They stand in contrast to Sweden in particular where even more extensive employment and consumption spreading in the intershock period was absorbed by reductions in consumption from earnings, without the market discipline of mass unemployment.

The charts show that all the CCs, except Austria, plus Belgium and The Netherlands managed a definite recovery in consumption from work in the mid-1980s. For the years since 1986 the data are not available for making the full set of calculations; yet the figures for aggregate consumption and for employment suggest substantial growth of consumption and employment in

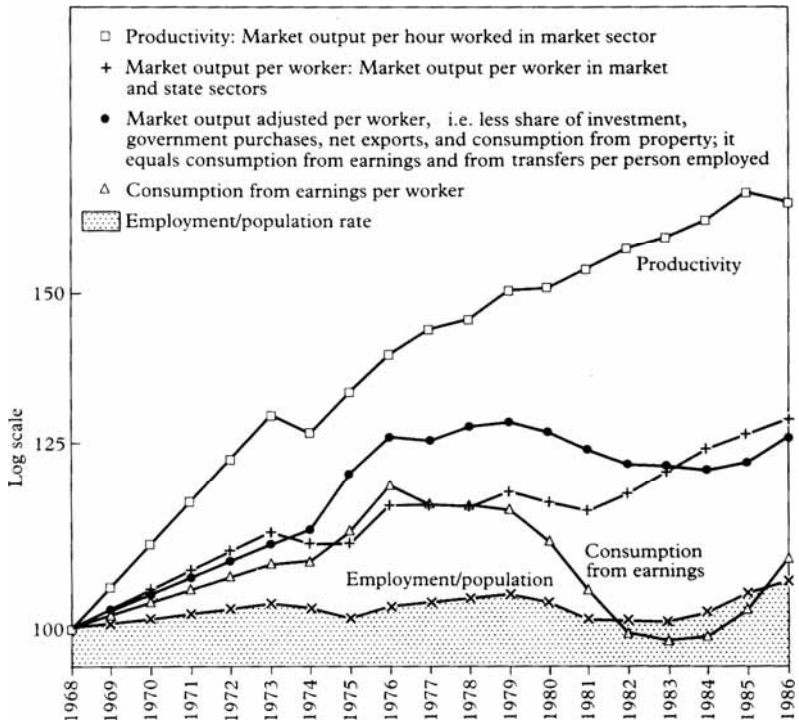

FIG. 5.9 Denmark: consumption and employment

Sweden and Austria and also in Finland, The Netherlands, and Belgium where unemployment fell strongly. It seems most probable that much more moderate consumption spreading has continued so that these trends imply definite growth of consumption from earnings. Denmark and Norway exhibit the opposite trends of declining employment and falling consumption. Whilst Norway's performance has been strongly influenced by the vagaries of the oil sector, the fact that unemployment had risen to over 5 per cent in 1989 suggests weakness in the effectiveness of the corporatist arrangements there, for it is precisely in the context of difficult circumstances that the solidity of these arrangements is tested. The rise in Danish unemployment back to over 9 per cent in 1989 (only equalled or exceeded by France and Italy in the European core) also highlights the weaknesses of corporatism there. The recovery, and consequent fall in unemployment by about one-third, in The Netherlands and Belgium still leaves unemployment rates not far below 10 per cent. So there is as yet no clear evidence that the EMS for example has replaced mass unemployment as an effective guarantee of consumption restraint. With Austria's record tarnished by poor employment,

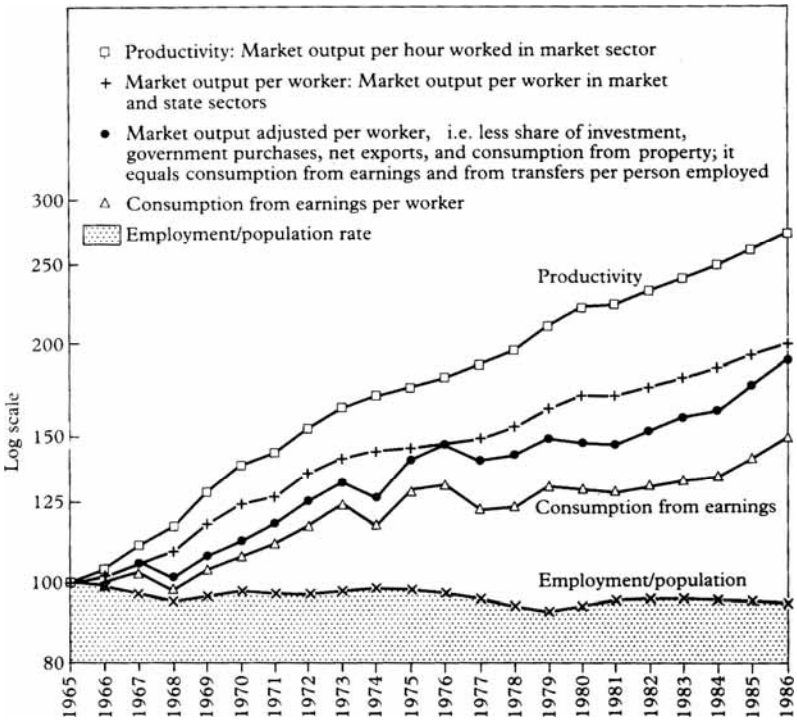

FIG. 5.10 Finland: consumption and employment

Finland and Sweden are confirmed in their positions of outstanding performers amongst the European countries (balance-of-payments difficulties notwithstanding).

5.5 CONCLUSIONS

This chapter has analysed some important respects in which the corporatist countries have performed exceptionally well in the years since 1965. In the golden age years before 1973 they exemplified a process of positive demarketization whereby a substantial portion of the quite rapid productivity growth in the market sector was utilized to increase leisure and to increase employment in (and thus provision of) state services. Allied to a rapid increase in the share of transfers, which was a much more generalized feature of the OECD countries, these trends implied that consumption from earnings grew much more slowly than productivity growth.

In the intershock period the CCs managed to reduce the rate of

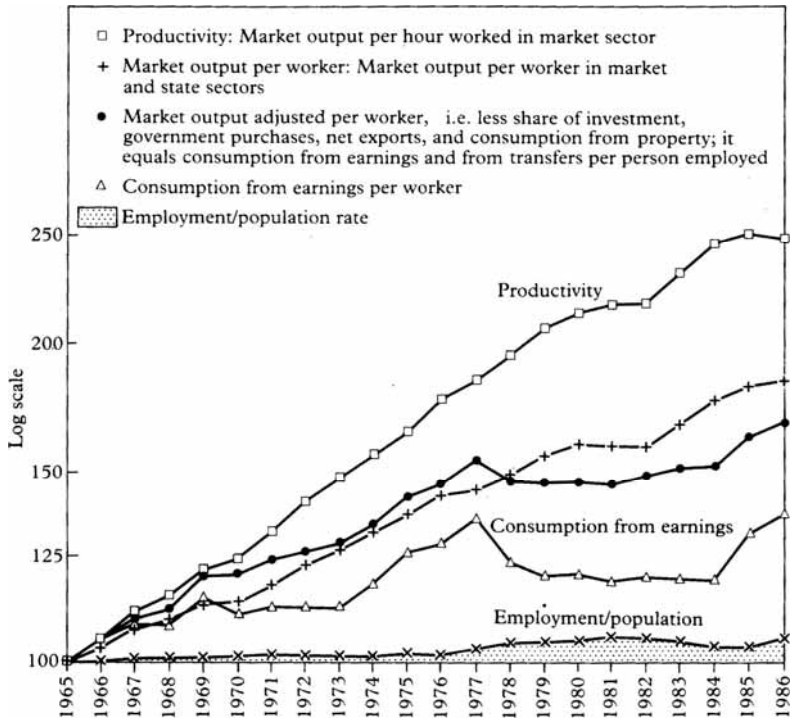

FIG. 5.11 Norway: consumption and employment

demarketization a little by limiting the decline in output growth and accepting a substantial decline in productivity growth. Such deliberate policies of job maintenance in the market sector prevented the deterioration in employment performance which characterized the 'negative demarketization' of some but not all of the EC countries. Consumption and employment spreading were maintained at a very high rate in the CCs, with the implication of stagnant consumption from earnings; in Sweden the extent of solidaristic redistribution implied an extended period of decline in consumption from earnings (though the impact on consumption for many working households was moderated by a second income as women's participation rates rose and living standards in the broader sense benefited from more leisure and improved welfare services).

In the period after 1979 the limits to politically acceptable redistributions were reached in the CCs; the seemingly inexorable rise in consumption and employment spreading was substantially slowed and consumption from earnings began to rise again in the mid-1980s. What is most striking in Sweden especially is that the transition to a period of less redistributive

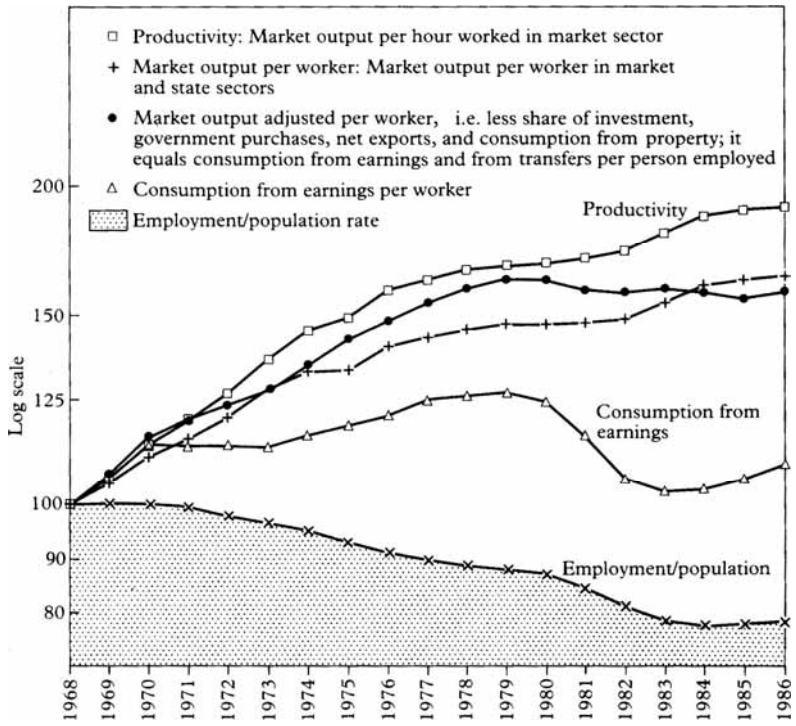

FIG. 5.12 The Netherlands: consumption and employment

growth required neither mass unemployment nor major cuts in the welfare state to hold back or satisfy pent-up demands for faster growth of consumption by workers. In this sense the solidarity and collective discipline has not been decisively reversed, despite the talk in the early 1980s of the 'crisis' of the Swedish model (see e.g. Lundberg 1985).

If Sweden exemplifies solidaristic redistribution and the limits it may reach, the contrast between Finland and Denmark underlines the importance of dynamism in the market sector. The much slower growth of output and productivity in Denmark after 1979, together with the necessity of reversing the unsustainable squeeze on investment and the balance of payments, imposed a very heavy pressure on consumption from earnings in that country. In Finland by contrast faster growth of productivity and output allowed more redistribution, good employment performance, and quite rapid growth of consumption from earnings.

There are obvious limits to the extent to which jobs can be preserved in the market sector at the cost of very low productivity growth. Such 'defensive egalitarianism' puts great strain on the growth of consumption from earnings.

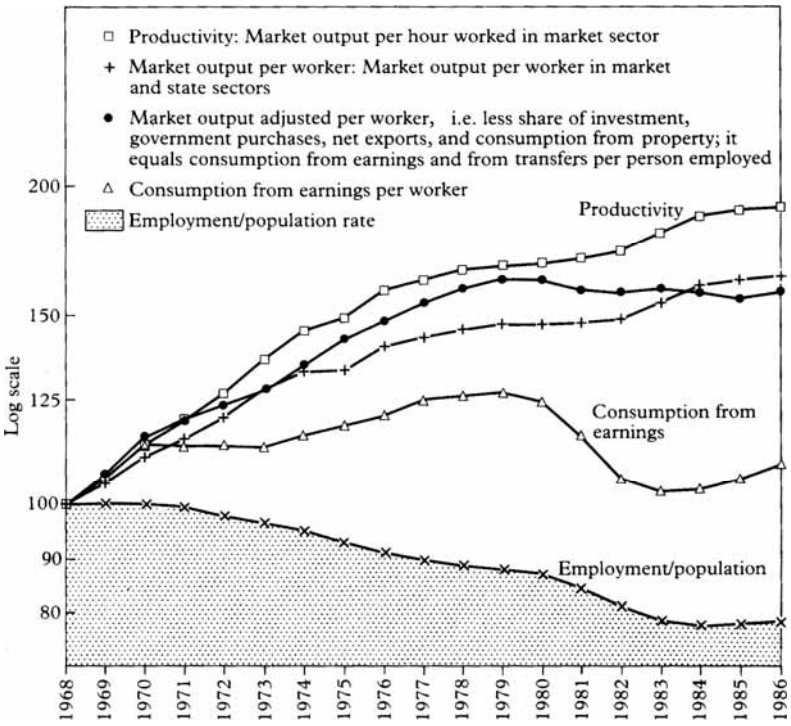

FIG. 5.13 Belgium: consumption and employment

Rapid growth of productivity, even in the context of constraints on market sector output growth, at least allows slow growth of consumption from earnings to be compensated with improved social services or reduced hours of work. Whatever the undoubted difficulties of maintaining the social solidarity ahd collective discipline necessary for such a pattern it has great attractions over the alternative of purely market-orientated rationalization of the market sector. In the absence of perfect market-enforced flexibility such a strategy allows average consumption from earnings to grow faster than with egalitarian policies of redistributing work and consumption. But such negative demarketization unloads the costs of slower growth on those who lose their jobs and on those especially reliant on state services. It is the singular achievement of 'social' corporatism, above all in Sweden, that it largely avoided this.

APPENDIX 5.A

Data Sources and Methods

The following list gives the basic sources and methods for the calculations presented in the tables (ordered by line in the tables). Where these sources had to be supplemented from other data this is indicated in the country notes at the end.

Table 5.1

Lines (l)-(3) are connected by the following decomposition:

$$\frac{MH}{POP} = \frac{MO}{POP} \times \frac{MH}{MO} \qquad (5.A1)$$

and lines (3) to (7) by the following decomposition:

$$\frac{EMP}{POP} = \frac{MH}{POP} \times \frac{MSH}{MH} \times \frac{FTE}{MSH} \times \frac{EMP}{\mathrm{FTE}} \qquad (5.A2)$$

where *MH* = hours worked in market sector;
POP = population of working age;
MO = market output;
EMP = total employment;
MSH = hours worked in market and state sectors;
FTE = full-time equivalent employment (total employment adjusted for part-timers).

Thus from (5.A1) the growth rate of hours worked in the market sector per head of the population equals the growth rate of market output per head of the population *less* the growth rate of hourly productivity; and from (5.A2) the growth rate of the employment population ratio (the 'employment rate') equals the growth rate of market hours per head of population *plus* the growth rate of the ratio of total hours worked to market hours worked (the share of state employment) *less* the growth rate of average hours worked per full-time equivalent employee *(or plus* the rate of decline of average hours worked) *plus* the growth rate of the ratio of total employment to full-time equivalent employment (the effect of part-time employment).

1. *Market output per head of the population:* Market output is GDP at constant market prices less the output of producers of government services (OECD 1988a: ii, tables 1 and 12 of each country section and comparable tables of OECD (1987) and OECD (1983); for all national account (NA) series these three volumes are used for the periods 1979–86, 1973–9, and 1965–73 respectively with appropriate linking). Population is of age 15–64 (OECD 1988*: table 2).

2. *Productivity:* Market output per hour worked in the market sector. For a few

countries (Finland, Sweden, the USA) hours worked in the market sector are available directly (NA table 15). For the rest they are estimated from total employment in the market sector (NA table 15) and the OECD's index of average hours worked (OECD *Employment Outlook,* various issues).

3. *Hours in the market sector per head of the population:* See lines (1) and (2).

4. *Share of state employment:* Measured as the ratio of total hours worked in the state and market sectors to hours worked in the market sector. Except for the three countries listed in the note for line (2) it has to be assumed that average hours worked in the state sector are the same as for the market sector, so that the share of state employment is the ratio of total employment to market employment (NA table 15).

5. *Fall in average hours worked of full-time workers:* Measured as the ratio of total hours worked in the market and state sectors to full-time equivalent employment. The latter is estimated assuming that a person in part-time employment (from OECD *Employment Outlook,* various issues) is the equivalent of half a person in full-time employment.

6. *Share of part-time employment:* Measured as ratio of total employment to full-time equivalent employment (weighting part-time work as half full-time work). Share of part-time work from OECD *Employment Outlook,* various issues.

7. *Employment/population ratio:* Total employment (NA table 15) divided by population aged 15–65 (see line 1).

Table 5.2

2. Market output per worker. Number of workers is total employment, both employees and self-employed (NA table 15).

3. *Adjusted market output per worker:* Market output less shares of net exports, market investment, government purchases (NA table 1), and consumption from property (see below). Government purchases are government current expenditure on goods and services (NA table 1) plus investment by producers of government services (NA table 3) less output of government sector.

4. *Consumption from earnings per worker:* Consumption from earnings is total private consumers' expenditure (NA table 1) less consumption out of transfers (see line 8 below) and less consumption out of property incomes (see line 7 below).

5. *Net exports:* Net exports are exports of goods and services less imports of goods and services both at constant market prices (NA table 1).

6. *Market investment:* Market investment is total gross fixed capital formation plus increase in stocks, at constant market prices (NA table 1) less gross capital formation by producers of government services (NA table 3). It should be noted that it includes investment by government enterprises; but it is not 'business investment' since it includes private housing.

7. *Consumption from property:* Post-tax income from property is calculated as total income of the household sector (NA table 8) less transfers received (see line 8 below) and less disposable income from work. The latter is calculated first by calculating the post-tax wage of employees as employee compensation (NA table 8) less the average tax rate (calculated as direct taxes as a percentage of household receipts of income

less government grants received—NA table 8) less the average rate of social security contributions (social security contributions as a percentage of employee compensation plus the imputed gross wage of the self-employed—NA table 8) less (after 1973) the average amount of interest paid from employee compensation (interest payments as a percentage of household receipts of income less government grants—NA table 8). The disposable income from work of the self-employed is assumed equal to that of employees (numbers of employees and self-employed are from NA table 15). Disposable income from property is therefore (in principle) equal to excess of income from unincorporated enterprises over and above the average post-tax wage imputed to proprietors plus property and entrepreneurial income (rent, dividends, and interest) less estimates of tax paid (assumed to be at the average rate) and interest payments made out of that income (again assumed to be at an average rate). Personal savings are allocated pro rata between disposable income from property and disposable income from work, so that any changes in the savings ratio are assumed to affect consumption from income from work and from property proportionately.

8. *Consumption from transfers:* Transfers are social security benefits and social assistance grants (NA table 6); these are deflated by the price index of consumers expenditure (implicit in NA table 1) and then expressed as a share of marketed output. It is implicitly assumed that there is no taxation levied or savings made out of these state benefits.

9. *Consumption from earnings:* See line 4 above.

Additional data sources and gaps for specific countries

Australia: The national account data for output and employment of 'producers of government services' refer only to public administration and defence (less than 5% of total employment). An alternative series for government employment (as a percentage of total employment) is available in OECD *Historical Statistics,* tables 2.13 and 1.13; this is said to be a 'close approximation to the institutional sector "general government" ', and represents more than one quarter of total employment. This series is used for state employment (in line 15). It would be desirable to derive a series for the output of these workers which could be subtracted from GDP to reach marketed output. But our attempts to do so gave results which seemed inconsistent with the national account data for government current and capital spending (the government employment series being broader than 'producers of government services'). Accordingly it seemed best to abandon the attempt to estimate government output and instead use the growth of GDP as the indicator of the growth rate of marketed output; in that the OECD series for government employment stays very steady as a percentage of total employment it is likely that the growth rate of marketed output (and productivity) is substantially underestimated (by as much as one quarter) on account of the slower (if any) growth of productivity in the government sector.

Total employment and employees: from OECD *Labour Force Statistics,* Australia section, various issues.

Government investment: pre-1973 no constant price data were available, so estimated assuming price index is the same as for total fixed investment.

Average hours worked: average of series for men and women, average hours paid for in non-agricultural sectors, ILO *Yearbook,* various issues.

Austria: Total employment and employees: OECD *Labour Force Statistics.*

Government employment: OECD *Historical Statistics.*

Government investment: no data before 1973 so that for these years government purchases of marketed output refer only to current expenditure. After 1973 no constant price data are available, so estimated assuming price index is the same as for total fixed investment.

Average hours worked: US Bureau of Labor Statistics data for manufacturing sector only.

Belgium: Government employment: before 1970 OECD *Historical Statistics.*

Average hours worked: non-agricultural sector; ILO *Yearbook.*

Property income paid by personal sector: no data.

Canada: Total employment and employees: OECD *Labour Force Statistics.*

Government employment: OECD *Historical Statistics.*

Denmark: There are no income and expenditure data for the government sector prior to 1971 and no household sector data at all. But the availability of government sector data on social security grants paid and taxes and social security contributions received (NA table 6) made it possible to derive an approximation to the household sector data from 1973 onwards (and a very rough calculation was performed for 1965). The main problem was estimating property income received by the household sector. Especially since the focus is on changes in variables a reasonable approximation could be derived as net operating surplus (NA table 1; in effect the excess of operating surplus over and above the average wage was used) plus *net* payments by the general government of property income and operating surplus (NA table 6) plus net receipts from overseas of property income (NA table 1). This is essentially the proper category except that it includes the undistributed (net) profits of corporations, but it may be noted that there is anyway wide variation between countries on the extent of corporate business so that the calculation of consumption out of property income should only be regarded as broadly indicative of relevant trends.

France: Total employment and employees: before 1970 from OECD *Labour Force Statistics.*

Government employment: before 1970 from OECD *Historical Statistics.*

Japan: Government employment: for period prior to 1965 estimated from data on employee compensation in the government sector.

The usual method of attributing an average wage to the self-employed left a negative amount of property income from that sector, due to the low level of self-employment incomes on average. Instead all the net operating surplus of the self-employed was regarded as income from employment leaving zero (rather than negative) property income. This illustrates in an extreme form that the method of attribution understates the amount of property income in the unincorporated sector by focusing only on average levels of income rather than making an assessment, based on the full distribution.

The Netherlands: All data start in 1968. 1968 employment data from OECD *Historical Statistics.*

Norway: The personal sector data begin only in 1975. In order to calculate income

and consumption from property, the data on taxation, social security payments, and grants are used from the general government account. For 1973 and 1974 the simplest approach is to make an estimate of personal sector savings (assumed to be the same percentage of private sector savings as in 1975—NA table 1), which together with consumption expenditures and tax and social security payments allows total personal income to be estimated, and thus income from property as a residual after deducting income from work and from government grants. For the period 1965–73 the same method is used as for Denmark.

Switzerland: Market sector output: there are no data for the output of the government sector which can be subtracted from GDP to reach market sector output. Estimates of this are made as the product of government employment (see below) and average employee compensation in 1970 (to give a series for real output of government producers at 1970 prices).

Total employment and employees: OECD *Labour Force Statistics;* number of employees only available for selected years so interpolations necessary (constant percentage assumed after 1980).

Government employment: OECD *Historical Statistics.*

Government investment: no data so that government purchases of marketed output refer only to current expenditure.

Average hours worked: up to 1973 ILO series for manufacturing sector; after 1973 ILO series for non-agricultural sector. This is obviously a particularly unsatisfactory series.

Property income paid by the personal sector: no data.

TABLE 5.A1 Demarketization and employment in the golden age
(average annual percentage changes, 1965–73)

	CCs	EC	USA	Japan	The Netherlands	Belgium	Austria	Denmark	Finland	Norway	Sweden	Switzerland
1. Market output per head of population	3.7	4.1	2.0	9.0	4.3	4.6	5.4	2.9	4.2	3.2	2.8	2.7
2. – Productivity	–5.9	–5.5	–1.9	–10.5	–6.5	–6.7	–7.2	–5.4	–6.5	–5.1	–5.4	–3.3
3. = Hours in market sector/ population	–2.2	–1.4	0.1	–1.6	–2.3	–2.1	–1.7	–2.5	–2.3	–1.9	–2.7	–0.6
4. + Share of state employment	0.9	0.3	0.0	0.1	0.3	0.3	0.5	1.5	0.5	0.7	1.2	0.2
5. + Fall in average hours worked	1.3	0.7	0.5	1.2	1.1	1.4	0.9	1.4	1.3	1.3	1.6	0.2
6. = Employment/ population: (l)+(2)+(4)+(5)	0.0	–0.3	0.7	–0.2	–0.8	–0.3	–0.2	0.4	–0.3	0.1	0.2	–0.3

Source and notes: For definitions, sources of variables, and the decomposition underlying the table see the Appendix, above; population is of working age (15–64).

TABLE 5.A2 Demarketization and employment in the intershock period
(average annual percentage changes, 1973–79)

	CCs	EC	USA	Japan	The Netherlands	Belgium	Austria	Denmark	Finland	Norway	Sweden	Switzerland
1. Market output per head of population	2.1	1.6	0.9	2.7	1.3	1.3	2.4	1.0	1.6	4.2	1.1	–0.5
2. – Productivity	–3.8	–3.5	–0.7	–3.8	–3.4	–3.7	–4.1	–2.6	–4.0	–5.6	–2.8	–1.1
3. = Hours in market sector/ population	–1.8	–1.9	0.2	–1.1	–2.1	–2.4	–1.8	–1.7	–2.4	–1.4	–1.6	–1.6
4. + Share of state												
5. employment	0.9	0.6	–0.1	0.1	0.3	0.7	0.6	1.3	0.8	0.6	1.2	0.4
+ Fall in average hours												
6. worked (FT)	0.7	0.6	0.5	0.6	0.1	0.8	1.1	0.4	0.5	1.0	0.7	0.3
+ Share of part-time	0.3	0.2	0.0	0.1	0.6	0.2	0.1	0.1	0.0	0.4	0.6	0.0
7. = Employment/ population: (l)+(2)+(4)+(5)	0.2	–0.6	0.6	–0.3	–1.1	–0.6	0.0	0.2	–0.8	0.6	0.9	–0.9

Sources and notes: For definitions, sources of variables, and the decomposition underlying the table see the Appendix, above; population is of working age (15–64).

TABLE 5.A3 Demarketization and employment after 1979
(average annual percentage changes, 1979–86)

	CCs	EC	USA	Japan	The Netherlands	Belgium	Austria	Denmark	Finland	Norway	Sweden	Switzerland
1. Market output per head of population	1.9	0.6	1.5	3.0	0.0	1.1	0.8	1.6	2.8	2.9	1.4	1.0
2. - Productivity	–2.6	–2.8	–1.4	–3.2	–1.8	–3.4	–2.4	–1.6	–3.9	–2.8	–2.1	–2.1
3. = Hours in market sector/ population	–0.7	–2.2	0.1	–0.2	–1.9	–2.3	–1.7	0.0	–1.1	0.1	–0.7	–1.1
4. + Share of state employment	0.5	0.3	–0.1	0.0	0.2	0.4	0.4	0.5	0.5	0.4	0.6	0.1
5. + Fall in average hours worked	0.1	0.5	0.2	0.0	0.1	0.9	0.3	–0.3	0.5	0.0	0.1	0.5
6. + Share of part-time	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.0	0.0
7. = Employment/ population: (l)+(2)+(4)+(5)	0.0	–1.1	0.3	–0.1	–1.5	–0.8	–0.9	0.3	0.0	0.5	0.0	–0.5

Sources and notes: For definitions, sources of variables, and the decomposition underlying the table see the Appendix, above; population is of working age (15–64).

TABLE 5.A4 State employment, hours of work, and transfers in 1973

	CCs	EC	USA	Japan	The Netherlands	Belgium	Austria	Denmark	Finland	Norway	Sweden	Switzerland
1. State employment (% of total)	18.3	14.7	17.2	6.1	13.0	14.6	15.0	21.0	13.1	18.4	23.8	8.6
2. Av. working hours annual, full-time	1,873	1,898	1,954	n/a	n/a	n/a	n/a	n/a	1,980	1,930	1,711	n/a
3. Transfers (% of market output)	13.5	14.9	9.3	6.6	21.4	16	14.0	13.9	_ 9.4	15.9	14.4	10.5

Sources: State employment: OECD (1986: table 2.13). EC refers to simple average of Belgium, France, Germany, The Netherlands, the UK. Note that figures for state employment include armed forces; these represented 2.1% of US employment in 1973 (2.7% if forces overseas are included), 2.1% of employment in the EC and 1.7% on average in Finland and Denmark (the only CCs which publish the data in OECD *Labour Force Statistics).* Thus the inclusion of armed forces does not explain the surprisingly high US figure. Hours worked: OECD, *Employment Outlook* (1989), table L. These data have been roughly adjusted to hours for 'full-time' equivalent workers by assuming that part-time workers work half the hours of full-time workers. Data for France, Germany, and the USA refer to employees, the rest to all workers. EC refers to simple average of France, Germany, and Italy, CCs to average of Finland, Norway, and Sweden. Data in Maddison (1987: table A9) are somewhat inconsistent with the above table as they suggest that hours worked in the USA in 1973 were below those in the EC countries (other than the UK); they also estimate that hours worked in Japan were much higher (20–5%) than in Europe or the USA. Transfers: See Appendix, above.

TABLE 5.A5 Employment and consumption spreading, 1965–1986

	CCs			EC			USA			Japan		
	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86
Average annual percentage changes												
1. Productivity	5.9	3.8	2.6	5.5	3.5	2.8	1.9	0.7	1.4	10.5	3.8	3.2
2. Market output 3. per worker	3.7	1.9	1.9	4.4	2.2	1.7	1.3	0.3	1.2	9.2	3.0	3.1
3. Adjusted market output 4. perworker	3.3	2.0	1.2	4.5	3.3	1.1	2.0	0.6	1.1	7.8	3.3	1.4
4. Consumption from 5. earnings per worker	2.4	0.4	0.6	3.5	1.6	0.1	1.2	0.2	0.9	7.5	1.8	0.7
Percentages of market output (average change per year)												
5. Net exports	0.1	0.5	0.3	0.2	0.0	0.5	–0.1	0.1	–0.5	–0.2	0.7	1.1
6. Market investment	0.1	–0.7	0.0	0.0	–0.5	–0.4	0.1	0.2	0.0	1.3	–1.0	–0.2
7. Consumption from property	0.0	0.0	0.3	–0.1	–0.1	0.4	–0.2	0.0	0.3	–0.3	0.0	0.2
8. Consumption from transfers	0.4	0.7	0.1	0.4	0.8	0.2	0.5	0.2	0.1	0.1	0.8	0.1
9. Consumption from earnings	–0.6	–0.6	–0.5	–0.4	–0.2	–0.6	–0.1	0.0	–0.2	–0.8	–0.6	–1.1

TABLE 5.A5 *(com.)*

	Austria			Denmark			Finland			Norway		
	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86
Average annual percentage changes												
1. Productivity	7.2	4.1	2.4	5.4	2.6	1.6	6.5	4.0	3.9	5.1	5.6	2.8
2. Market output per worker	5.7	2.4	1.7	2.4	0.8	1.3	4.5	2.4	2.8	3.1	3.6	2.4
3. Adjusted market output perworker	5.1	1.6	0.8	2.1	2.5	–0.2	3.7	2.2	3.3	3.3	2.6	1.9
4. Consumption from earnings per worker	4.7	–0.2	0.1	1.6	1.1	–0.8	2.9	0.9	2.1	1.5	1.5	2.0
Percentages of market output (average change per year)												
5. Net exports	0.1	0.2	0.1	–0.3	0.4	0.7	0.4	0.6	0.1	–0.4	1.5	–0.2
6. Market investment	0.4	–0.5	0.1	0.3	–0.9	0.4	0.0	–0.6	–0.4	0.3	–0.9	0.2
7. Consumption from property	–0.1	0.7	0.5	0.6	–0.6	0.4	0.4	0.1	–0.1	–0.3	0.0	0.3
8. Consumption from transfers	0.1	0.6	0.1	0.1	0.9	0.0	0.3	0.5	0.6	0.8	0.3	–0.1
9. Consumption from earnings	–0.4	–1.1	–0.6	–0.7	0.1	–0.9	–0.8	–0.7	–0.3	–0.7	–0.8	–0.1

TABLE 5.A5 *{com.)*

	Sweden			Switzerland			Belgium			The Netherlands		
	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86	1965–73	1973–9	1979–86	1968–73	1973–9	1979–86
Average annual percentage changes												
1. Productivity	5.4	2.8	2.1	3.3	1.1	2.1	6.7	3.7	3.4	6.5	3.4	1.8
2. Market output perworker	2.6	0.2	1.4	2.9	0.4	1.5	4.9	1.9	1.9	5.1	2.4	1.5
3. Adjusted market output perworker	2.4	1.2	0.2	2.8	1.4	1.2	4.9	3.7	0.5	5.1	4.1	–0.4
4. Consumption from earnings per worker	1.2	–1.7	–0.8	1.8	0.4	0.7	3.8	1.9	–0.1	2.5	2.0	–2.2
Percentages of market output (average change per year)												
5. Net exports	0.6	–0.1	0.7	–0.3	–0.3	–0.4	0.1	–0.5	1.2	1.0	–0.2	0.7
6. Market investment	–0.5	–0.4	0.0	0.1	–0.6	0.7	–0.2	–0.2	–0.5	–0.1	–0.6	0.0
7. Consumption from property	–0.1	–0.2	0.2	0.2	0.2	–0.1	0.0	–0.4	0.5	0.3	–0.1	0.6
8. Consumption from transfers	0.5	1.3	0.1	0.5	0.6	0.2	0.5	1.0	–0.1	0.9	1.1	0.0
9. Consumption from earnings	–0.6	–0.8	–0.8	–0.5	0.0	–0.4	–0.5	0.0	–0.8	–0.9	–0.1	–1.1

Notes: Productivity is market output per hour worked in the market sector. The series for *market output per worker* (line 2) grows more slowly than hourly productivity (line 1) because of falls in average hours worked and rises in the share of state employment (per worker refers to all workers employed in market and state sectors). *Adjusted market output* means that the shares of net exports, market investment, government purchases, and consumption from property are subtracted from market output at constant prices. This series (line 3), equalling consumption from transfers and earnings, grows more slowly than total market output (line 2) if the sum of the other expenditure shares rises. *Consumption from earnings* is real employee compensation per worker less estimates of taxes and social security payments, interest on debts, and savings. This series (line 4) grows more slowly than adjusted market output per worker (line 3) if the share of transfers grows relative to consumption from earnings.

Sources: See Appendix, above, for sources and detailed descriptions.

TABLE 5.A6 Employment structure regressions for 15 countries
In each equation variables are measured as average annual rates over period defined except where specified as *changes* in growth rate as compared to previous period.

	Dependent variable	Explanatory variables			R^2
		Const		CC	
	Employment/ population	0.19	Total market hours		
1	1965–73		0.17(2.0)		0.23
2	1973–9	0.70	0.56(3.3)		0.45
3	1979–86	0.21	0.58(8.1)		0.83
Changes in growth rates					
4	1973–9 (from 1965–73)	–0.06	0.40(3.9)		0.52
5	1979–86 (from 1973–9)	–0.43	0.48(3.5)		0.48
	Total market hours		Marked output		
6		–0.12	–0.20(1.5)	1.36(2.9)	0.45
7		–1.63	0.12(0.5)	–0.39(0.8)	0.06
8		–2.13	0.75(2.7)	0.03(0.1)	0.42
Changes in growth rates					
9	1973–9 (from 1965–73)	–0.75	–0.08(0.7)	1.05(2.5)	0.35
10	1979–86 (from 1973–9)	0.29	0.35(2.0)	0.87(2.3)	0.44
	Emp/pop		Market output		
11	1965–73	0.34	–0.10(1.8)	0.08(0.4)	0.23
12	1973–9	–0.57	0.14(0.8)	0.48(1.3)	0.22
13	1979–86	–1.16	0.53(3.5)	0.13(0.5)	0.59
	Market hours		Productivity		
14	1965–73	0.42	–0.27(2.9)	–1.07(2.7)	0.62
15	1973–9	–0.44	–0.35(2.2)	0.00(0.0)	0.31
16	1979–86	0.46	–0.72(2.5)	0.71(1.5)	0.39
Changes in growth rates					
17	1973–9 (from 1965–73) (excluding Japan)	–1.01	–0.22(1.4)	1.00(2.8)	0.51
18	1979–86 (from 1973–9)	0.11	–0.17(0.8)	0.78(1.7)	0.30

TABLE 5.A6 *(cont.)*

	Dependent variable	Explanatory variables			R^2
		Const		CC	
	Productivity		Market output		
19	1965–73	0.39	1.16(10.2)	1.21(3.1)	0.90
20	1973–9	1.64	0.88(4.0)	0.36(0.7)	0.62
21	1979–86	2.07	0.28(1.0)	–0.05(0.1)	0.09
	Changes in growth rates				
22	1973–9				
23	(from 1965–73) (excluding Japan)	0.09	0.80(4.3)	–0.85(2.0)	0.64
	1979–86 (from 1973–9)	–0.31	0.67(3.8)	–0.84(2.1)	0.60
	Emp/pop		Market output		
24	1965–73	0.49	–0.11(2.7)	0.20(1.1)	0.39
25	1973–9	0.15	–0.18(1.3)	0.73(2.0)	0.28
26	1979–86	0.10	–0.27(1.4)	0.57(1.7)	0.27
	State employment				
27	1965–73	0.32	–0.01(0.3)	0.64(3.8)	0.54
28	1973–9	0.18	0.07(0.8)	0.47(2.1)	0.38
29	1973–86	–0.10	0.12(2.0)	0.28(2.9)	0.53
	Average hours worked				
30	1965–73	0.02	0.13(2.8)	0.51(2.6)	0.61
31	1973–9	0.28	0.11(2.1)	0.03(0.2)	0.30
32	1979–86	–0.34	0.28(3.4)	–0.25(1.9)	0.54
	Emp/pop		Employment spreading		
33	1965–73	–0.03	–0.00(0.00)		0.00
34	1973–9	–0.36	0.15(0.5)		0.02
35	1979–86	0.01	–0.70(2.1)		0.25

Notes: Emp/pop is the ratio of employment to population of working age; Total market hours is total hours worked in the market sector; CC is dummy variable for the five corporatist countries; the numbers in parentheses are t-statistics; Employment spreading is sum of State employment and (absolute value) Average hours worked.

TABLE 5.A7 Consumption regressions: 15 countries

In each equation variables are measured as average annual growth rates over period defined except where specified as *changes* in growth rates as compared to previous period.

Dependent variable	Explanatory variables			R^2
	Const		CC	
Consumption from earnings		Productivity		
36 1965–73	–0.43	0.71(6.2)	–1.38(2.8)	0.77
37 1973–9	–0.13	0.51(3.3)	–1.49(3.6)	0.60
38 1979–86	–1.30	0.66(1.8)	0.13(0.2)	0.22
Changes in growth rates				
39 1973–9 (from 1965–73)	–0.36	0.67(3.2)	–0.29(0.4)	0.47
40 1973–9 (from 1965–73) (excluding Japan)	–0.69	0.42(0.3)	–0.49(0.7)	0.19
41 1979–86 (from 1973–9)	–0.70	0.72(2.0)	1.81(2.3)	0.37

Notes: CC is dummy variable for the five social corporatist countries; the numbers in parentheses are f-statistics.

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6

Saving and Economic Growth from a Nordic Perspective

Katri Kosonen

6.1 INTRODUCTION

The term 'social corporatism', invented by Katzenstein (1985), is used in this volume to denote economies with centralized wage bargaining institutions, a strong and interventionist state, and co-operative mood or consensus in economic policy decision-making. A high degree of labour market solidarity, evidenced by low wage dispersion, high employment, and efficient protection of individuals against the loss of employment, is seen as one outcome of social corporatism. According to all these criteria the three Nordic countries—Sweden, Finland, and Norway—are highly socially corporatist economies; their labour market performance has been exceptionally good in the post-war era, the degree of centralization in their labour market organizations is relatively high, they have low wage dispersion and an egalitarian welfare state, etc. One fundamental question in this volume concerns the exact functional relationship between these factors, i.e. can corporatism really explain macro-economic performance of a country (see chapters by Pekkarinen, Pohjola, and Rowthorn, in particular, in this volume).

This chapter is not concerned with the labour market performance of the three Nordic countries, but rather with the pattern of economic growth and resource allocation that prevailed there in the post-war era. The emphasis is entirely on the institutional similarities between them, although there are also differences in areas such as political structure and the conduct of economic policy, which are scrutinized more closely by Pekkarinen in this volume. Particular stress is put on the central impact of the state in all the Nordic economies in the promotion of social welfare and economic equality on the one hand, and private investment and growth on the other. The highly progressive income tax system, deliberately maintained in all the Nordic countries throughout the post-war period, has made a significant contribution to the pursuit of both these policy goals. The specific sectoral saving pattern of the Nordic economies, characterized by persistently very low household saving and exceptionally high public saving rates, can be perceived as a behavioural outcome of this double role of the state. It facilitated the maintenance of relatively high economic growth rates up until the

mid-1970s without excessive recourse to foreign borrowing. Since then, however, more destabilizing tendencies have shown up, and in Sweden in particular, current account and public sector deficits have grown rapidly. This pattern of accumulation, which prevailed in all three Nordic economies in the post-war period at least until the mid-1970s, even longer in Finland and Norway, is referred to here as 'the Nordic model'. It can be seen as one part or aspect of the social corporatist structure of these economies, largely conditioned by their social and cultural traditions.

In what follows, the specificity of the Nordic accumulation pattern is first illustrated in the light of comparative data from the OECD countries. Alternative interpretations of these empirical phenomena are also discussed. Sections 6.3 and 6.4 depict the characteristics of the Nordic welfare state and tax systems from a comparative perspective. The nature of state intervention in production and the financial markets is described in section 6.5, in which an attempt is also made to analyse the functional relationship between the different activities of the state illustrated in earlier sections. The problems and threats facing 'the Nordic model' today are briefly discussed in the last section.

6.2 INTERNATIONAL COMPARISONS OF SECTORAL SAVING PATTERNS

In this section, comparative data from OECD countries are used to show certain empirical similarities in the accumulation patterns of the Nordic countries in the post-war period. Possible interpretations of these empirical phenomena are also discussed.

Table 6.1 shows data describing the long-term saving, investment, and growth rates in various OECD countries for the period 1960–84. All the figures are annual averages over the whole period. These figures give rise to a few comments, which have some bearing on what follows.

1. Household saving rates in the three Nordic countries—Sweden, Finland, and Norway—were the lowest in the whole OECD area. This phenomenon persisted throughout the whole period considered despite the short-term volatility of household saving rates. Household saving also constituted a smaller share of net national saving here than in any other OECD country (cf. Figs. 6.1 and 6.2).

2. By contrast, the long-term average gross national saving rates (GS) in Finland and Norway were among the highest of all the OECD countries, and were slightly below the OECD average in Sweden. Finland and Norway maintained a high level of national saving during the whole period, but in Sweden the saving rate fell by almost 10 percentage points over twenty years, which explains its relatively low long-term average rate.

3. Countries which devote a large share of their national income to saving

TABLE 6.1 The average rates of saving, investment, and growth in various OECD countries, 1960–1984

	HS	GS	GI	GDP/capita % growth
USA	8.5	18.9	18.0	2.1
Japan	18.1	33.7	31.9	5.8
Germany	12.2	24.9	23.2	2.7
France	12.6	23.5	22.3	3.2
UK	6.8	18.8	18.3	1.9
Italy	19.6	22.5	20.5	3.2
Canada	8.8	21.4	22.0	2.8
Austria	9.3	27.0	26.0	3.4
Belgium	15.1	21.3	20.9	3.1
Denmark	—	20.4	22.0	2.6
Finland	5.4	25.7	26.3	3.5
The Netherlands	14.1	24.9	22.8	2.4
Norway	5.0[a]	27.2	28.9	3.5
Portugal	14.2	24.2	25.7	4.2
Spain	9.6	22.1	20.9	3.8
Sweden	4.6	22.0	21.9	2.5
Switzerland	12.3	29.5	25.8	1.8
Total OECD	11.1	22.2	21.3	2.8

[a] 1974–84.

Note: HS = net household saving as % of disposable household income; GS = gross saving as % of GDP; GI = gross fixed capital formation as % of GDP.

Source: OECD (1986).

also have, as a general rule, high rates of accumulation and growth (the Spearman rank correlation across countries between gross national saving (GS) and gross fixed capital formation (GI) is 0.98 in Table 6.1). Thus, on average, the economy grew much more rapidly in Finland and Norway than in Sweden and Denmark in the post-war period. It should be remembered, however, that the *level* of GDP per capita was originally much higher in the two latter countries than in either Finland or Norway, and this was still the case in the 1960s. Close correlation between national saving and investment rates has also been found in several other studies (Feldstein and Horioka 1980; Summers 1985; Gintis 1986; Dooley *et al.* 1987) and is generally interpreted to be strongly at variance with the assumption of perfectly integrated international capital markets, favoured in neo-classical macro-economics literature.

4. On the other hand, there is almost no correlation across countries between household saving rates and rates of capital accumulation or growth. Correlation between the first and last columns of the table is in fact slightly

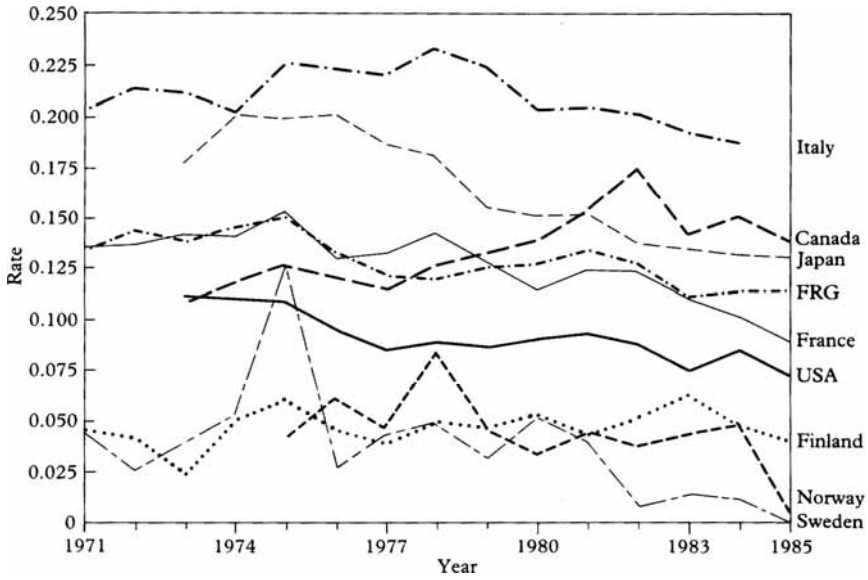

FIG. 6.1 Household sector: net saving divided by disposable income
Source: OECD (19856, 19876).

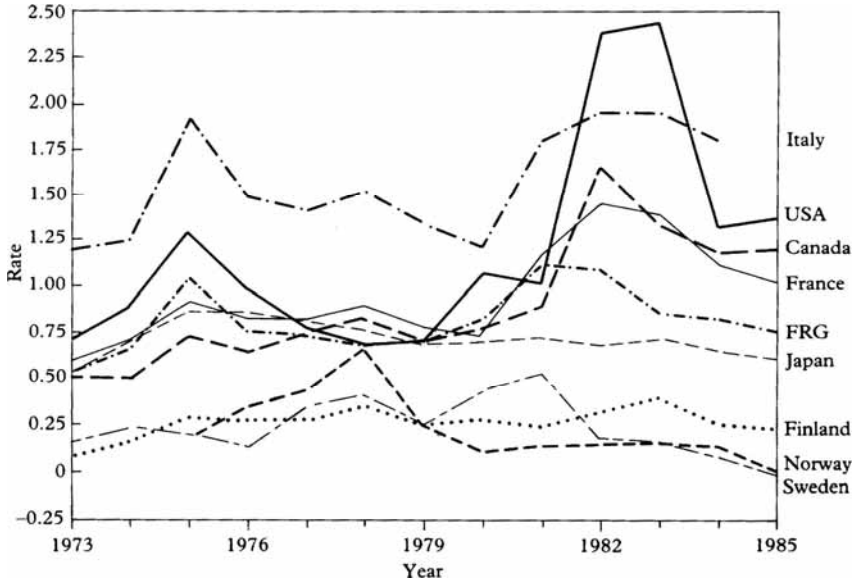

FIG. 6.2 Net household saving divided by net saving of the nation
Source: OECD (19856, 19876).

negative, which is clearly at variance with the postulates of the Life Cycle Hypothesis of Saving, as presented in Modigliani (1985), for instance. Possible reasons for the discrepancy between our observations and those of Modigliani *et al.* are discussed in Kosonen (1988).

The apparent contradiction between the last two points may be explained by the differences in *sectoral saving patterns* across countries. These are illustrated in Fig. 6.3. The sectors included are *household* (households + non-profit institutions serving households), *corporate* (corporate + quasi-corporate enterprises + financial institutions), and *government* (central and local government + social security funds). The net saving of all these sectors is divided by the GDP. The graphs cover the period 1960 onwards for countries for which data were available. The figures are, however, strictly comparable only from 1971 because of the differences in national accounting systems before then.

It is obvious from these figures that, during the whole period, the public sector has contributed a much larger share of national saving in the NCs than in other OECD countries. In Norway and Finland, the high public saving rate helped to maintain the high national saving rate up to the 1980s. In the 1960s Sweden also had a very high rate of public saving, which amounted to almost 50 per cent of its total saving, but this situation changed rapidly in the mid-1970s. By the end of the decade, with rapidly rising public spending., its whole public sector was in deficit. The public saving rate declined from the late-1970s level in Finland, too, but nevertheless stayed well above zero still in the early 1980s. In the other OECD countries, the sectoral distribution of saving generally displayed a very different pattern; the level of household saving was well above that of both corporate and public saving. The latter was, in fact, below zero in most OECD countries in the 1970s and thus helped to decrease rather than increase the national saving rate. Cross-country variation in corporate saving levels was much smaller than either with respect to household or public saving and no specific country patterns could be found.

Similar cross-country differences in saving patterns are apparent if the *financial saving* of sectors is also compared. Financial saving is defined as the difference between gross saving and gross investment and represents the share of savings not used inside the sector itself, i.e. net lending to other sectors within the economy. From the point of view of the supply of financial resources, it is a more relevant concept than the aggregate saving of a sector. Fig. 6.4 (from Soderstrom 1986) depicts the financial saving as a percentage of GDP for the public sector, the private sector (households + corporate), and for the country overall (current account deficit) for selected countries. According to these graphs, the Norwegian and Finnish public sectors were net creditors throughout the whole period, as was the case in Sweden until the late 1970s. The private sector as a whole, on the other hand, ran up a

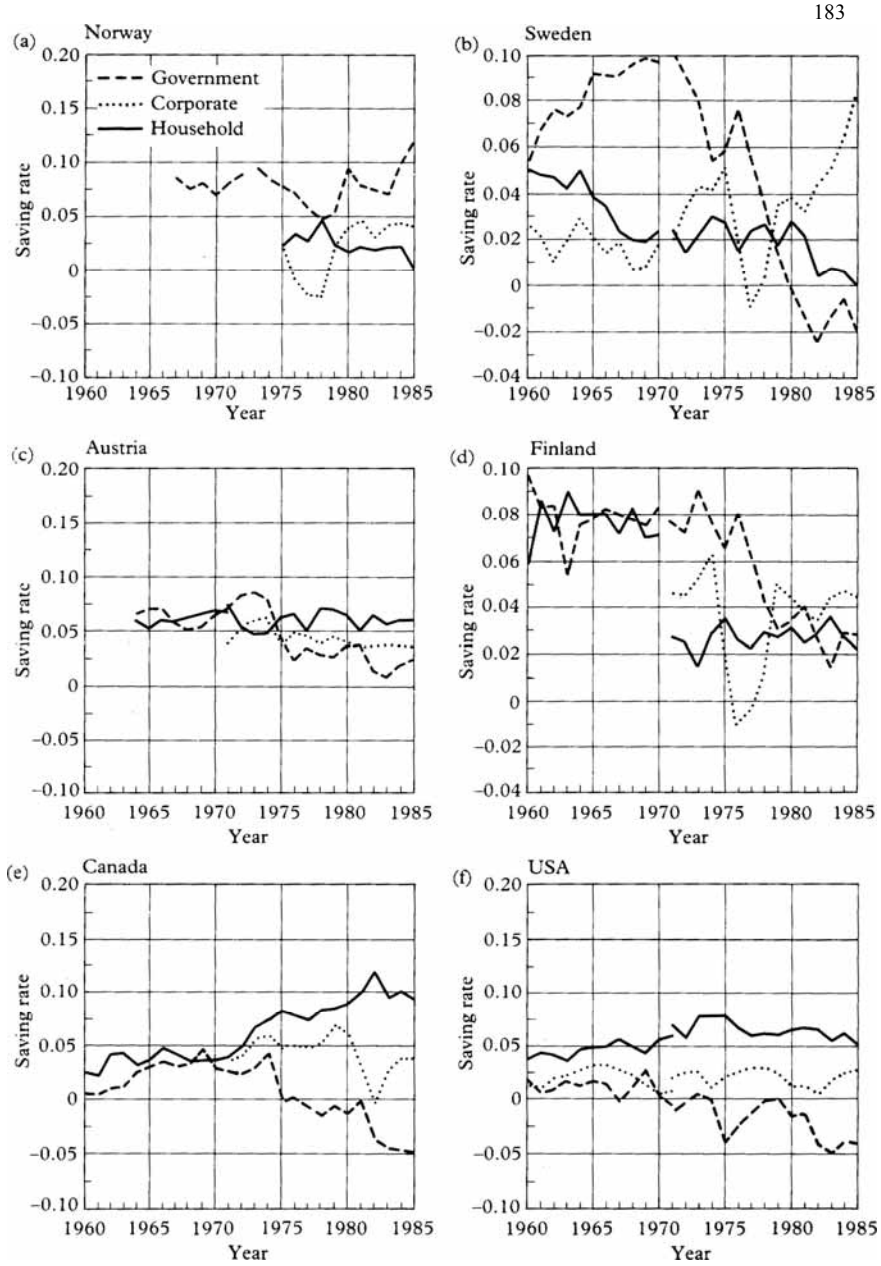

FIG. 6.3 Household sector, general government, and corporate saving divided by GDP

Sources: OECD, *National Accounts* (1975, 1981, 1984, 1987) (saving rates for Norway, Sweden, and Finland up to 1970 are based on the former SNA system).

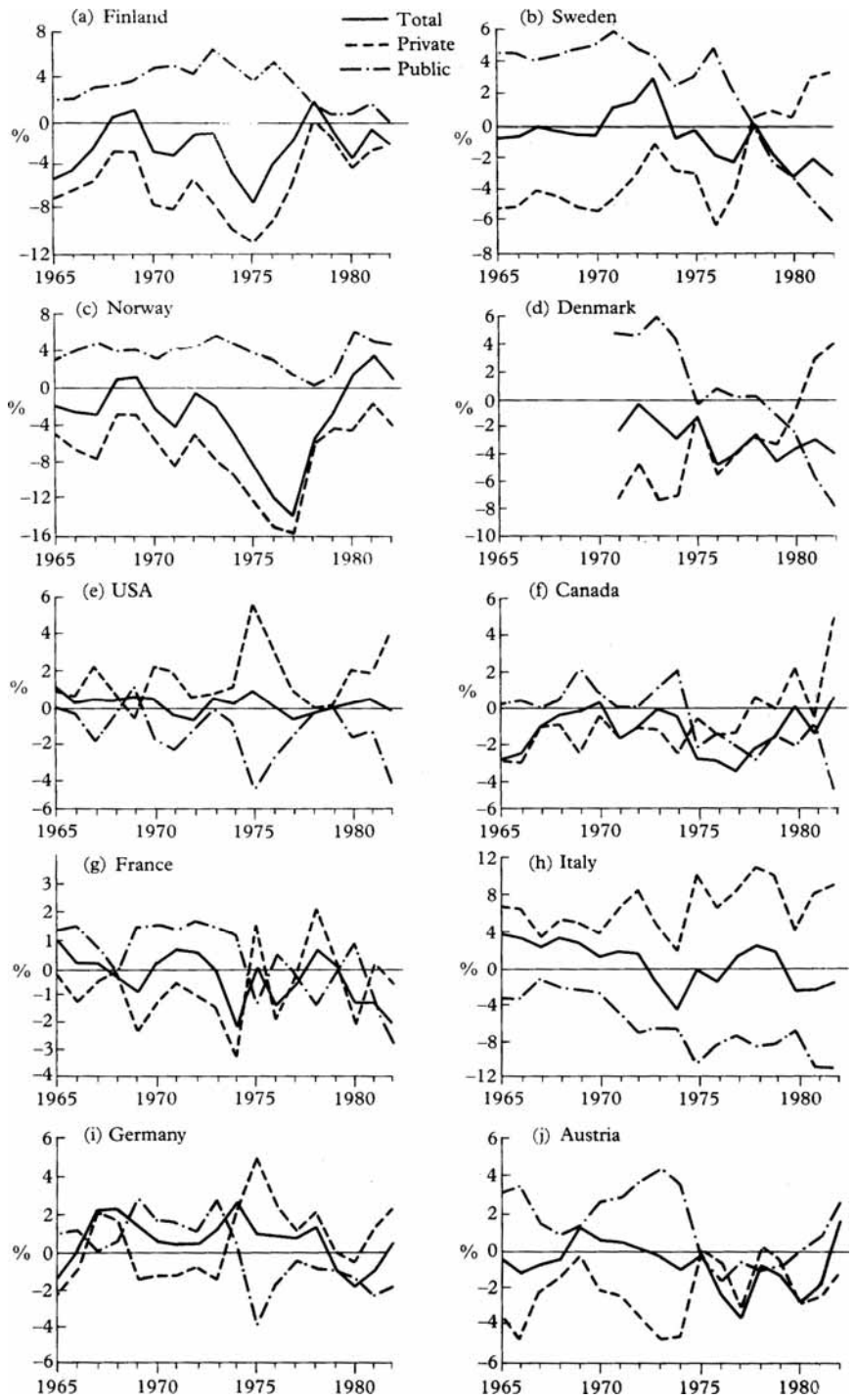

FIG. 6.4 Financial saving by sector

Source: Soderstrom (1986).

financial deficit. Even Denmark fitted into the Nordic pattern until the mid-1970s. The public sector financial position in the other OECD countries was generally much worse. The latter half of the 1970s, in particular, saw budget deficits growing rapidly. However, the private sector showed far less deficit man in the NCs, which was entirely due to the financial surplus of their household sectors. The corporate sector was a net debtor in all countries, the implication being that corporate saving was generally not sufficient to finance productive investment in the private sector. The deficit was covered partly by the current account deficit and partly by the surplus generated in the other institutional sectors of the economy. The public sector had mis role in the Nordic countries, and, in general, the household sector in the other OECD countries.

There are, of course, alternative ways of explaining such structural differences. Both graphs presented above indicate that there is an inverse relationship across countries between public and private/household saving. According to the so-called *Ricardian Equivalence Principle,* this should be taken as an expression of close substitutability between public and private saving, resulting from the adjustment of rational individuals to the changes in government saving and dissaving (cf. Barro 1974). Applied to the situation prevailing in the Nordic countries, this would imply that consumers anticipate that taxes will be lower in the future and therefore save less in order to compensate the benefit accruing to the next generation. Low household saving would then simply be a reaction to government financial surplus, largely maintained by high income tax rates.

The Ricardian Equivalence is based on assumptions concerning the far-sightedness and information-processing capacity of individuals tiiat can hardly be considered plausible. It also requires that there is no uncertainty about future income and that no consumers are liquidity-constrained. These assumptions are hardly realistic given the conditions prevailing, for instance, in the Western European countries today, despite the deregulation of their financial markets in recent years. Empirically, Ricardian Equivalence has not generally received any strong support (see e.g. Poterba and Summers 1987). Another problem with it is the fact that the considerable increases in budget deficit observed since the late 1970s in most OECD countries were not generally accompanied by any increases in household saving (Canada being almost the only exception to this).

In an alternative explanation the causality would be the reverse. It is rather the public sector that adjusts to the changes in private sector saving behaviour. If the private sector as a whole is in financial deficit, as is the case in all the NCs, and the policies aiming at the encouragement of private saving are not successful, external balance can be maintained only by a corresponding public sector financial surplus (since the sum of financial savings of the institutional sectors is equivalent to the current account deficit of the

country). High public saving in countries where private domestic investment permanently exceeds private savings should thus be seen as a deliberate policy to avoid the recurrence of excessive foreign indebtedness. Conversely, countries with a private sector in financial surplus are less constrained in their fiscal policies and tend therefore to run budget deficits (see Summers 1985). This does not mean, of course, that the countries would not have recourse to foreign borrowing over the short or medium term, but only that foreign indebtedness is kept within certain limits by appropriate fiscal and monetary policies.

This view is in accordance with the views expressed, for instance, in the papers by Summers (1985) and Gintis (1986). Gintis contrasted what he called the *national economy model* with the neo-classical view on perfect international capital markets. This model states simply that, while over the short or medium term international borrowing may be used to finance investments, in the long run the level of investment is limited by the availability of domestic savings. According to Gintis, this is not only because national governments impose impediments to the free flow of capital or because transaction costs are associated with foreign borrowing. It is also because national governments, for reasons that are more political than economic, are reluctant to tolerate a large outstanding foreign debt for sustained periods. They therefore tend to use appropriate national economic policies to achieve external balance over the longer term (see also Summers 1985). Empirical evidence presented above (Table 6.1), as well as in the studies by Feldstein and Horioka (1980) and Dooley *et al.* (1987), among others, clearly supports this view.

The essential implication of the national economy model is that national savings policies can be efficiently used to foster investment and growth in a country. In contrast with Ricardian Equivalence, tax increases would be an efficient means of increasing the national saving rate, at least if government spending were not altered correspondingly. This requires, of course, that individuals do not reduce their personal saving in response to tax increases by the same amount as the increase in public saving. However, for several reasons that have nothing to do with the ultrarational behaviour of 'Ricardian' consumers, the high level of income taxation may have a depressive effect on the household saving rate (see section 6.4 below).

In retrospect, the experiences of the NCs in the 1960s and the 1970s are well in accordance with the assumptions of the national economy model; although some 'crowding-out' of private saving because of high taxation probably took place, the national saving rates nevertheless remained at a relatively high level due to high public saving, which in turn allowed high rates of investment and growth to be maintained without excessive reliance on foreign borrowing.

The above does not imply that foreign borrowing would not deliberately

have been used to finance investment in the NCs at certain periods. This was the case in Finland in particular in the 1950s and 1960s. Rapid industrialization was in progress and investment rates were at a very high level by international standards (Vartia and Vuori 1987). In Norway, foreign borrowing was extensively used in the 1970s to finance investments needed to exploit North Sea oil and gas fields. Both of these countries, however, were able to keep their foreign indebtedness under control, and outstanding foreign debt relative to GDP in fact decreased after the late 1970s. In 1982, the Norwegian foreign debt was still 26 per cent of GDP, but a huge improvement has taken place in the 1980s. By 1987, Finnish foreign debt had also slighdy decreased from the 17 per cent of GDP it was in the early 1980s.

Sweden, on the other hand, still had a much higher public saving rate and also a much better external balance than either Finland or Norway in the early 1970s. It was still a net creditor in 1973 having net foreign claims amounting to 7 per cent of its GDP (see *Economic Growth in a Nordic Perspective* 1984 and *Growth Policies in a Nordic Perspective* 1987). After the mid-1970s, however, its public debt started to grow rapidly, as public spending increased at a faster rate than taxes and other government revenue. At the same time, the trade balance deteriorated mainly because of poor industrial export performance. By 1984, Swedish foreign debt had reached 25 per cent of GDP. In the 1980s one of the primary goals of Swedish economic policy was to stop the accumulation of foreign debt and restore external balance.

This section was devoted to a very general description of the sectoral saving pattern that prevailed in the three Nordic countries—Sweden, Finland, and Norway—in the 1960s and the 1970s. We have emphasized the importance of the public sector in financial intermediation and the supply of financial resources in these countries—a feature that clearly seems to distinguish them from other Western European welfare states. In the following sections, government intervention in the fields of social welfare and taxation is considered. The Nordic countries share certain common characteristics here too, which are important for the functioning of the 'Nordic model'.

6.3 THE NORDIC WELFARE STATES: A COMPARATIVE ANALYSIS

The two fundamental goals or dimensions of the welfare state are *security* and *equality*. By security is meant the protection of individuals against loss of income in case of unexpected events or emergencies (accidents, sickness, unemployment), or in the typical life-cycle phases of unemployment (maternity/parenthood/childhood, old age, widowhood, etc.). The principal instruments in pursuing this goal are the direct payment of cash benefits and the public provision of services in kind (Flora and Heidenheimer 1981).

Cash benefits are paid through social insurance or income maintenance schemes, which cover the most standardized situations of need (old age, unemployment, sickness, disability to work), or in the form of public assistance. Access to benefits may be either *universal,* i.e. granted to everyone regardless of income level, or *means-tested,* i.e. granted only to those below the minimum income level judged necessary for subsistence. On the other hand, benefits may *he flat-rate,* i.e. represent an equal sum of money to all, or they may be linked to the previous income level of the beneficiary, in which case they are said to be *earnings-related* (cf. Jallade 1988). Income maintenance schemes are financed either by general taxation, budget deficits, or contributions paid by employers or the beneficiaries themselves.

As a policy objective, equality is a more ambiguous notion than security. Jallade (1988) suggested that at least two different meanings should be distinguished:

1. equality of opportunity or access to welfare benefits and services;
2. the degree of equalization actually achieved in, for instance, income distribution (see Jallade 1988: 5).

These two notions of equality are not always congruent; social programmes that are based on the egalitarian principles in the meaning of the first definition do not necessarily lead to any reduction in income inequality or well-being. An example of this is the public welfare services, which may, in fact, benefit more high- and middle-income households than low-income households. It is also clear that, as policy goals, security and equality in the second definition are not entirely complementary, but may contain contradictory elements. For example, the adoption of the earnings-related principle in social insurance considerably increases the adequacy of benefits and therefore leads to higher protection and security. At the same time, however, it may merely replicate the existing structure of earnings and thus have no redistributive effect.

On the other hand, high redistributive potential is associated with different ways of financing the welfare state. In particular, progressive income taxation, while not necessarily egalitarian in the first meaning, is shown to have a strongly equalizing impact on the post-tax distribution of income (see, for instance, Sawyer 1982). Various kinds of tax reliefs and deductions, which generally benefit high-income groups most, could, however, somewhat lessen this effect. The incidence of indirect taxation (taxes on goods and services) is also generally considered to be regressive rather than progressive, and may therefore counteract the equalizing impact of progressive income taxation.

The Nordic countries are often described as ‘institutional welfare states’ with universal and egalitarian income maintenance schemes and extensive public services financed largely by general taxation (see Alestalo *et al* 1985). This should be contrasted with ‘the marginal welfare state’, in which social

security is directed only to those judged to be in need, i.e. it is mainly based on means-tested benefits and social assistance. In this case the level of public social expenditure as a whole is low. It has also been suggested that 'the Nordic welfare state tradition'—typical of Sweden, Finland, and Norway—differs in certain basic institutional characteristics from the two other Western European welfare state traditions, namely 'the Bismarck tradition' found, for instance, in Germany, Austria, France, and Italy, and 'the Beveridge tradition' of the UK and Ireland (Jallade 1988). This section contains a brief, comparative overview of the historical development of the Nordic welfare states, followed by an analysis of the basic similarities and the most important differences between them and the other Western, industrialized countries at the present time.

The historical development of the welfare state in the Nordic countries has not been at all uniform. Denmark was clearly a forerunner and had already established fairly extensive social insurance schemes along Bismarckian lines in the early twentieth century. Sweden too had developed a relatively advanced social security system by the 1930s, largely due to the strong influence of the Social Democratic Party. In Norway and Finland, developments were much slower. Indeed, in Finland only a tiny proportion of the population was covered by any social security system during the inter-war period. As a whole, none of the Nordic countries, except perhaps Denmark, was in any sense among the leading welfare states at this time (Kosonen 1987: 195). It was only in the post-war period that a major expansion took place which affected the whole area and was then quite rapid compared with the other Western European countries.

One way to illustrate the development of the welfare state in a country is index numbers describing the *coverage of social security.* Alestalo *et al.* (1985: 193) present such index numbers concerning Western European countries during the period 1920–75. They indicate the proportion of population actually covered by major social insurance schemes (old age pensions, sickness, unemployment, and occupational injuries insurance) during the time period in question. According to this criterion, there was considerable diversity in the development of the welfare state in Western Europe up until the 1960s. The leading countries in the 1950s were Denmark, Norway, Sweden, the UK, and Switzerland. Several countries caught up in the 1960s and many actually passed the level reached earlier by these leading nations. In particular, the position of the UK and Switzerland deteriorated in relative terms. The retarded development of the welfare state in Finland becomes evident here; the major extension of the social security system only took place in the 1960s and it was not until 1965 that Finland reached the same standard in terms of social security coverage that Denmark was already enjoying in the 1920s. The welfare state expanded rapidly in Finland after that time and today its coverage exceeds the Western European average.

The level of social expenditure (relative to GDP) is another important indicator of the extension of the welfare state in a country. It reflects the coverage of social programmes as well as the average level of social benefits and the size of population concerned. Fig. 6.5 depicts the evolution of social expenditure in the OECD countries during the period 1971–81 (calculated from OECD 1985a). Social expenditure here includes public expenditure on education, health, pensions, and unemployment compensations and other social expenditure (sickness, maternity, and temporary disablement benefit, family and child allowances, etc.). It paints quite a good picture of the general national levels of social services and social security.

These figures also show how rapid the growth of the welfare state was in Western industrialized countries during the post-war period, although a slow-down at the end can be clearly perceived. Since the late 1970s, the 'size' of the welfare state has been largest in Belgium, The Netherlands, and Sweden. Standards reached in the 'Bismarckian' countries the FRG, France, Italy, and Austria in the 1980s also exceeded those achieved in Norway and Finland. According to these figures, the Anglo-Saxon ('Beveridgian') countries have a more modest level of social expenditure than either Nordic or Continental European countries.

In the light of this evidence the Nordic countries generally seem to rank higher in terms of social security coverage than in terms of level of expenditure. This phenomenon reflects in a way the universalist and solidaristic tendencies of the Nordic welfare states. It also implies that Nordic citizens actually covered by social security receive perhaps somewhat lower benefits than citizens of the Continental European countries, where total expenditure is higher but the proportion of the population actually covered is slightly lower.

This is particularly true of Finland, where the average level of welfare benefits today still lags behind the three other Nordic countries and, in all probability, the other advanced welfare states of Western Europe as well. For instance, a comparison of the social insurance schemes in operation in the four Nordic countries in the early 1980s reveals that compensation levels (benefits received as a percentage of net income) varied between 70 and 100 per cent in Sweden, Norway, and Denmark, but were generally 20–50 percentage points lower in Finland. The biggest gaps were in unemployment and sickness benefits and child allowances *(Social Security in the Nordic Countries* 1984). The average level of pension benefits has substantially increased in Finland following the establishment of an occupational pension insurance system in the early 1960s. Today it exceeds the OECD average, although it is still lower than in Sweden and several Continental European countries (France, Italy, The Netherlands, Austria, and Belgium) (Allen 1988).

One important conclusion to be drawn from this comparative evidence is

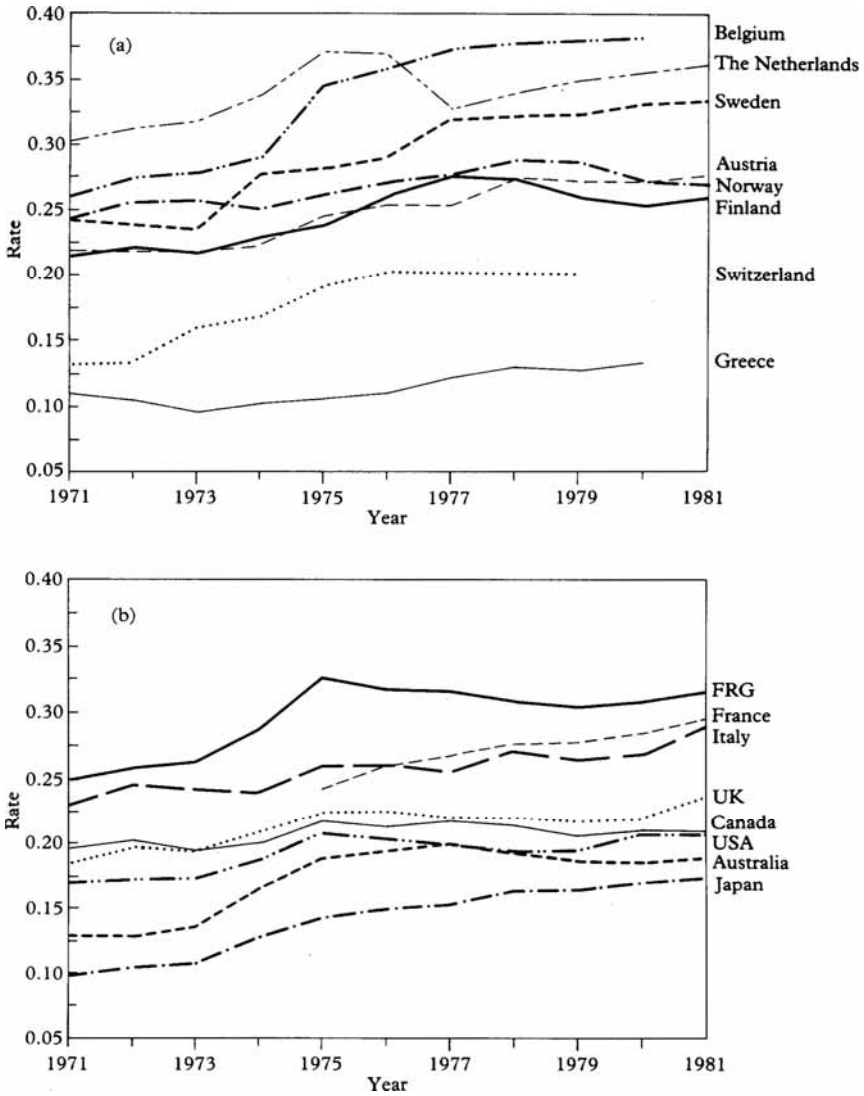

FIG. 6.5 Total social expenditure divided by GDP, 1971–1981

Source: OECD (1985a).

that there is no homogeneous Nordic pattern regarding the level of social security relative to the advanced welfare states of Continental Europe. Continental European household saving rates, however, are generally much higher than those of the Nordic countries (cf. Fig. 6.1). This seems to cast serious doubt on the relevance of 'the asset substitution hypothesis' (cf. Feldstein 1974) or 'the precautionary savings hypothesis' (cf. e.g. Kotlikoff 1986 and Skinner 1987) in explaining the low long-term level of Nordic household saving and, for that matter, on the importance of the life-cycle or precautionary motives for household saving behaviour in general (see also Kosonen 1988).

This conclusion does not imply, however, that the notion of the Nordic welfare state as a distinct Category would be without any empirical ground. A closer look at their institutional similarities and at how they indeed differ from other Western societies follows.

The social security system which operated in all the Nordic countries from the post-war period up to the 1960s had a highly egalitarian character. The social insurance schemes were compulsory and universal with mostly flat-rate benefits (Esping-Andersen and Korpi 1984). The financing of the welfare state relied to a large extent on general tax revenues collected mostly through progressive income taxation. In the 1960s, however, this system went through a profound transformation. The most important change was the adoption of a supplementary, earnings-related pension insurance system, which took place in all the Nordic countries early in the decade. This resulted in a two-tier system:

1. the basic pension, which is flat-rate and granted to all regardless of income level, and which also includes means-tested supplements;
2. the supplementary (or, in Finland, occupational) pension, which is calculated on the basis of past earnings, financed largely by employers' (in Finland and Norway also to a small extent by employees') contributions and funded *(Social Security in the Nordic Countries* 1984).

The pension funds thus created remain under government control in Sweden and Norway. In Sweden, this solution represented a victory for the Social Democratic Party after a fierce political struggle. A similar system was adopted somewhat later in a more harmonious political atmosphere in Norway (Kosonen 1987). These funds made a significant contribution to the increase in public saving in the 1960s in both countries, and also offered the governments an efficient means of financing private investment. In Finland, the occupational pension insurance system was established in 1960 as a result of close co-operation between both workers' and employers' labour market organizations in 1960: this event could in fact be considered as the first step towards a corporatist wage-bargaining system in Finnish society (Niemela 1988). The pension funds are not integrated into public

administration as in Sweden and Norway, but are run mainly by private insurance companies. The enterprises which finance these funds are granted automatic re-lending amounting to two-thirds of the contributions paid at an interest rate somewhat lower than the prevailing market rate (Niemela 1988).

By the 1970s the earnings-related principle was also extended to unemployment, sickness, and industrial injury insurance {*Social Security in the Nordic Countries* 1984). All these reforms aimed at (and largely succeeded in) improving the adequacy of welfare benefits of the wage-earning population relative to the more privileged civil servants and private salaried employees, who already had an earnings-related pensions insurance system (Esping-Andersen and Korpi 1984). Only after these reforms did the Nordic countries really step into the front rank among the Western welfare states. On the other hand, these developments could also be seen as a move towards the 'Bismarckian' social insurance system and a step away from the egalitarian principles on which the Nordic welfare state was originally based. In the words of Esping-Andersen and Korpi (1984: 21): 'The honoured ideal of equal benefits to all gives way to the ideas that citizens should be guaranteed against income loss, and that benefits should be closely related to accustomed earnings or income, ideas which already to some extent had been realised in connection with reforms of sickness insurance.' The inequalizing impact resulting from the adoption of earnings-graduated provisions in principle was, however, moderated in all the Nordic countries by income-tested supplementary benefits designed for low-income groups and those not eligible for occupational pension schemes (Esping-Andersen and Korpi 1984). It seems that the combination of flat-rate and earnings-related elements, means-tested supplements, and the progressive taxation of benefits has made the Nordic pension insurance systems as a whole rather progressive. According to a comparative study by Uusitalo, the equality of income distribution among the elderly, particularly in Sweden but also in Finland and Norway, is relatively high by international standards (Uusitalo 1988).

The institutional development of the welfare state was thus very similar in all the four Nordic countries during the post-war period. The social security systems were developing along much the same lines in other Western European countries. By the 1970s compulsory, universal pension schemes consisting of flat-rate and earnings-related parts as well as earnings-related unemployment, sickness, and industrial injury insurance had been almost universally adopted. Consequently, despite minor differences 'impressive similarity' characterized the social security system 'in use in the late 1970's in Europe' (Sawyer 1982: 220).

A few important differences still remain and they emphasize the more institutional nature of the Nordic welfare states compared with the Continental European ('Bismarckian') countries. One has already been

mentioned—the more universal coverage and liberal eligibility conditions of social security in the Nordic countries (see also Esping-Andersen and Korpi 1984). There are two others which should be emphasized.

First, in the Nordic welfare state tradition, a relatively large share of benefits is provided in the form of *services in kind,* while the Bismarck tradition stresses more direct cash transfers (Jallade 1988). One indication of this is that the level of social security transfers (relative to GDP) is lower in the Nordic countries dian in The Netherlands, Belgium, and all the typical 'Bismarckian' countries, which have a higher total level of social expenditure including public expenditure on healtii and education. The comprehensive school system and extensive public health and social services are, in fact, often considered hallmarks of the Nordic welfare state. In the 1970s major reforms were carried out in these areas, and as a consequence the public sector as a whole expanded rapidly. The importance of the public sector as employers also grew. The rate of expansion was more modest in Finland, however, and the availability of public services still lags behind in certain respects (Allen 1986). Day care services for small children in particular are more scarce in Finland than in the three other countries (Alestalo *et al.* 1985).

The second difference concerns the *ways of financing the welfare state.* Government tax revenue has played a dominant role in the Nordic welfare state tradition and still contributed more than 50 per cent of total finance in the 1960s. However, employers' contributions increased substantially following the establishment of supplementary pension insurance systems. By 1981, the share of the state in the total financing was highest in Denmark (88 per cent) and lowest in Norway (42 per cent). Employees' social security contributions made up only a small part of the total financing (although the figure is 20 per cent in Norway, it is much less in the three other countries) (Allen 1988). Here again the contrast with the Continental European countries is clear. In accordance with the Bismarck tradition they rely to a much larger extent on the contributions of the beneficiaries themselves (cf. Tables 6.2 and 6.3 in the next section). Personal income taxes are generally progressive, while social security contribution schemes are either proportional or regressive (Sawyer 1982). Thus the Nordic tax system as a whole is more progressive than that of the Continental European countries.

This last point is relevant to the second fundamental dimension of the welfare state, equality. Inter-country comparisons on this level are more complex than regarding achievements in the area of security. A few comparative studies in which income distributions are compared indicate, however, that the redistribution achieved through the welfare state is particularly noticeable in the Nordic countries. In a recent study, Uusitalo (1988) presented data on the distribution of disposable income (factorial income + income transfers- taxes) in seven countries in the early 1980s: three Nordic

countries—Sweden, Finland, and Norway—clearly stood out as having the highest levels of equality. (For instance, Gini coefficients for the seven countries are: Sweden 20.5, Finland 22.5, Norway 24.3, UK 27.3, Canada 29.9, USA 32.6, and Israel 33.3.) According to the estimates by Uusitalo, the redistributive effect of income transfers was in fact more important than that of taxes in the Nordic countries. This implies that the Nordic welfare state has preserved its egalitarian character very well. Uusitalo also concluded that the basic explanation for the high equality achieved in the Nordic countries concerns the size of the welfare state as such; his data show a clear positive correlation between these two variables.

Unfortunately the reference group in his study only includes countries with a 'smaller' and more marginal welfare state than the Nordic one. In particular he did not include any of the advanced welfare states of Continental Europe with social expenditure shares and average benefit levels at least as good as, if not better than, the Nordic countries. In an earlier study, Sawyer (1982) also presented the data on the distribution of post-tax income in nine Western European countries. Here, too, the Nordic countries turned out to have the lowest levels of inequality: as an example, the percentage of post-tax income received by the two top income deciles was lowest in Sweden, Norway, and Finland, and highest in the 'Bismarckian' countries France, Germany, and Italy (37, 37.3, and 38.5 vs. 46.9, 46.1, and 43.9 respectively). These differences must be largely due to the higher progressivity of income taxation in the Nordic countries. It should be added, however, that the equalizing impact of progressive income taxation could be at least partly offset by tax reliefs and deductions, which are extensive by international standards in all the Nordic countries (for example Nielsen 1988).

All the available evidence thus suggests that the degree of income equality is very high in the Nordic countries compared with almost any Western, industrialized country and that this is to a large extent due to the redistributive impact of the welfare state. In this regard, it is interesting to note that in Finland, where the major expansion of the welfare state took place in the 1960s and the 1970s, its redistributive effects have continuously become stronger (Uusitalo 1988). During the period 1966–76 some equalization of factorial incomes also took place. According to Uusitalo this was largely due to the solidaristic wage policies of that period. The equalization achieved through income transfers and taxes was, however, much more important and also continued in the period 1976–81, when wage dispersion started to grow again. This Finnish evidence suggests that the equalization achieved through the welfare state is much more significant than what is achieved through solidaristic wage policies. Unfortunately, Uusitalo made no such comparisons regarding the other Nordic countries (i.e. the equalization of factorial vs. disposable income), but it may be assumed that the redistributive effects of the welfare state in those countries are at least as strong as, if not

stronger than, in Finland. The high level of labour market solidarity, emphasized in particular by Bob Rowthorn in this volume, is thus also confirmed by this evidence. The efficient and egalitarian welfare state is indeed an essential functional part of social corporatist economies.

In conclusion, the distinctiveness of the Nordic welfare states is much more apparent along the equality dimension than along the security dimension. The most apparent example of this is the equal distribution of household disposable income. Another specific Nordic feature is the importance of state intervention in the provision of welfare services and their extensive allocation among the whole population.

6.4 TAXATION

It was pointed out in the previous section that one of the most conspicuous differences between the Nordic and Continental European welfare states today is in the area of financing welfare expenditure. This section considers the Nordic tax systems and their possible effects on household saving rates in more detail. Some of the most important differences are described in Tables 6.2 and 6.3, illustrating the structure of tax revenue and the level of taxation in OECD countries in the 1980s.

Total tax revenue as a percentage of GDP is the highest of all OECD countries in Sweden, Norway, and Denmark. In Finland, however, the gross tax rate is near the OECD average, reflecting the lower level of social expenditure (Table 6.2, col. 1). Finland, on the other hand, like Sweden and Denmark, collects a comparatively large share of its taxes directly from households in the form of personal income tax (Table 6.2, col. 2), while the share of taxes paid directly by corporations is small (Table 6.2, col. 3). (Norway deviates from this Nordic pattern mainly because of the tax revenue received by the government from oil companies.) Social security contributions in the Nordic countries are generally lower than in the other OECD countries (col. 4), while taxes on goods and services constitute a relatively important source of government tax revenues (col. 5).

The most conspicuous differences between the Nordic and other OECD countries are found, however, in the level of personal income taxation. This is illustrated by the figures in column 1 of Table 6.3. Personal income tax rates in Finland, Denmark, and Sweden, measured at the income level of an average productive worker, are the highest of all the OECD countries, only Norway having a somewhat lower figure. The effect of high direct income tax on disposable income is partly compensated by the generally lower level of social security contributions paid by employees themselves (Table 6.3, col. 2) compared with other Western European economies. (The bulk of social security contributions are paid by employers in Norway and Sweden,

TABLE 6.2 The rate and the structure of taxation in various OECD countries in 1985

	Total tax revenue/ GDP (1)	Personal tax (2)	Corporate direct tax (3)	Social security tax (4)	Tax on goods and services (5)
Finland	37.1	46.3	4.4	9.0	36.9
Denmark	49.4	51.6	5.0	3.8	34.5
Norway	47.8	22.5	17.0	20.7	37.6
Sweden	50.6	38.4	3.2	25.1	26.3
USA[a]	29.0	35.3	7.1	29.1	18.2
Japan[3]	27.4	24.5	21.1	29.7	15.1
Germany	38	28.6	6.0	36.7	25.6
France	45.6	12.8	4.3	43.7	29.4
UK	38.6	26.5	12.2	18.0	31.1
Italy[3]	41.2	26.3	9.8	33.9	26.1
Canada	34.2	34.1	9.8	12.9	32.5
Austria	42.3	23.1	3.2	31.7	32.6
Belgium	46.7	34.7	6.2	32.3	24.9
Greece[3]	35.2	14.6	2.6	35.2	43.4
The Netherlands	44.8	20.1	6.8	43.7	25.7
Switzerland	32.0	34.7	5.9	32.1	19.0

[3] 1984

Ncnes: Personal tax = the share of personal income tax in total tax revenue; Corporate direct tax = the share of corporate direct tax in total tax revenue; Social security tax = the share of social security tax in total tax revenue; Tax on goods and services = the share of tax on goods and services in total tax revenue.

Source: Hagemann, *et al.* (1987).

which explains the figures in col. 4 of Table 6.2.) Even taking this into account, the total tax burden of the household sector in Denmark, Sweden, and Finland is one of the highest in the OECD area and it is also above the average in Norway (see OECD 1987).

The high progressivity of Nordic income taxation was emphasized in the previous section. This is evident in the above tables in the relatively high marginal tax rates on average and top wages (Table 6.3, cols. 3 and 4 respectively), although these figures of course do not display the progressivity of the whole tax schedule. Direct income distribution comparison gives more reliable information in this respect (see above and also Sawyer 1982).

The third feature that needs to be emphasized is the importance of tax deductions. The tax-deductibility of interest on loans is exceptionally liberal in all the Nordic countries (see Hagemann *et al.* 1987 and Skjaeveland and Stokstad 1988). In Sweden, Norway, and Denmark, interest on both housing loans and consumer credit is totally deductible. This is subject to a ceiling

TABLE 6.3 Average and marginal income tax rates in various OECD countries in 1986

	Personal income tax (1)	Social security contributions (2)	Marginal tax rate (3)	Top marginal tax rate (4)
Finland	30.3	3.4	53.2	68
Denmark	40.4	6.3	62.4	68
Norway	22.7	11.1	60.1	56
Sweden	36.1	6.0	62.0	77
USA	19.9	7.2	40.9	38
Japan	9.2	7.0	31.9	88
Germany	18.1	17.2	62.7	56
France	7.2	15.8	51.2	58
UK	21.6	9.0	43.9	60
Italy	16.8	8.8	57.8	62
Canada	20.0	4.0	34.1	52
Austria	10.8	16.4	54.5	62
Belgium	24.4	12.1	63.2	87
Greece	5.1	13.3	40.1	63
The Netherlands	11.5	26.2	61.9	72
Switzerland	11.4	10.3	39.4	46

Notes: Personal income tax = personal income tax as a percentage of gross earnings at the income level of an average productive worker (APW), single people, year 1986; Social security contributions = employees' social security contributions as a percentage of gross earnings at the income level of an APW, single people, year 1986; Marginal tax rate = marginal tax rate on average wage under the present tax system, year 1986; Top marginal tax rate = top marginal tax rate under the present tax system, year 1986.
Sources: OECD (1987a); Hagemann *et al.* (1987).

in Finland (FIM 25,000 and FIM 10,000 respectively in 1988). Only a few other countries (The Netherlands, Switzerland) allow unlimited, or any, deductions on consumer credits, and deductions on housing loans are also often restricted in various ways. The main effect of this, combined with high marginal tax rates, is a decrease in the real cost of household borrowing. In fact, according to estimates made by Skjaeveland and Stokstad (1988), the real after-tax interest rate on both mortgage and consumer credit was, on average, negative over the period 1975–85 in all the Nordic countries, and lower than in any other OECD country included in their calculations. On the other hand, the real rates of return on financial assets were generally low due partly to the progressive taxation of property income (not in Finland), and partly to low bank deposit rates and regulated financial markets in general. This obviously constitutes a powerful incentive for borrowing and disincentive for saving in Nordic households.

These considerations suggest that the low household saving rates in the

Nordic countries are a result of their particular tax systems rather than the social security systems or income growth rates. A highly progressive income taxation typical to the Nordic countries could in fact have a depressive effect on the aggregate household saving rate for at least three different reasons: (1) because it reduces the wedge between after-tax borrowing and lending rates, as indicated above, (2) because it equalizes after-tax distribution of income, and (3) because it reduces unexpected variation in income. The second reason prevails if the saving rate tends to rise with a rise in household income, as the Keynesian theory suggests. The third explanation in turn applies if the propensity to save out of unexpected income change is high, as the Permanent Income Hypothesis assumes.

The hypothesis that progressive income taxation as such has a significant negative impact on the household saving rate is also supported by empirical evidence. In cross-country saving equation regressions run on data from eighteen OECD countries (including the three Nordic countries), the average personal tax rate was by far the most powerful single explanatory variable and had a significantly negative coefficient in all model specifications. Our interpretation of this is that the personal income tax rate variable is in these regressions a proxy to the progressivity of the tax system as a whole in the country. (The model specifications and possible interpretations are explained in more detail in Kosonen 1988.) Empirical distinction of the three alternative explanations of the apparent negative correlation between the income tax rate and the household saving rate is unfortunately not possible on the basis of these regressions.

6.5 NORDIC GROWTH POLICIES

In this section, an attempt is made to develop a more comprehensive view of the growth process of the three Nordic countries—Sweden, Finland, and Norway—in the post-war period. A brief overview of the growth policies practised is presented first in order to produce a fuller picture of the role the state has played in the accumulation processes. The section ends with a 'pulling together of strings' and a look at how the institutional factors analysed in this chapter have contributed to the functioning of the 'Nordic model of accumulation'.

One important function of the state in the NCs right from the early phase of industrialization has been to support, but also direct and control, the process of accumulation. This was true in the pre-war period, when they were still in the stage of transition from agrarian to industrial societies —Sweden being clearly a forerunner with respect to both Finland and Norway. In the post-war period, too, the promotion of investment and growth was highly ranked as a target of economic policy in all the three NCs. The priority given

to policy targets varied in the countries according to the individual national economic policy model. The 'Swedish model' clearly gave highest priority to full employment and stabilization, but 'equality' (welfare and solidaristic wage policy) also ranked highly and accumulation was considered complementary to these. In Norway and Finland, on the other hand, investment and growth were given absolute priority in the formulation of economic policy. This involved more direct state interventionist forms in Norway than in Finland, where, in turn, the competitiveness of export industry was more emphasized at the expense of employment and welfare (the Nordic national economic policy models were analysed in detail in Mjoset 1986; Kosonen 1987; see also Pekkarinen in this volume).

Although direct state intervention in the allocation of productive capital was important both in Finland and Norway after the war, the bulk of industrial production remained the responsibility of private enterprises. A crucial role *of public investments* was above all to strengthen the industrial base and create favourable conditions for the accumulation of private capital. State-owned enterprises were established in both countries in certain basic industrial sectors, where the magnitude of capital input needed was large and investments were therefore too risky for private capital. In Finland, these included basic metal and chemical industries, and to some extent forestry, which traditionally had been the main export sector (see Vartia and Vuori 1987). Energy production in Finland is also largely dominated by public enterprises. In Norway, state enterprises were established immediately after the war in the traditional export sectors, mining and metallurgy, which had earlier been dominated by foreign capital (Mjoset 1986 and Kosonen 1987). Later on, in the 1960s and the 1970s, the exploitation of North Sea oil and gas fields was carried out with close collaboration between the state and multinational oil companies. The companies, which are totally or partly state-owned, now dominate Norwegian petroleum production; this has become Norway's most important export commodity (and the most important source of tax revenues for the government). Despite the importance of state-owned companies in a few key industrial sectors, their share of total employment or industrial production has never reached a high level in either country. In the early 1980s, state-owned companies contributed less than 10 per cent of total industry value-added in Norway and about 18 per cent in Finland (see Vartia and Vuori 1987 and *Economic Growth in a Nordic Perspective* 1984).

In Sweden, direct state intervention in production and the allocation of investments has been far less important than in the two other NCs. There are no big state enterprises in the Swedish export industries, which are dominated by strong and highly centralized national capital. The level of public investment relative to GDP in the 1960s was somewhat higher in Sweden than in either Finland or Norway, but this was largely due to her

housing construction programme, which was financed to a great extent by public funds. In the 1970s public investments remained in the range of 4–5 per cent of GDP in all the three NCs (see Kosonen 1987).

However, growth policies were not limited to the activities of the public sector alone. The *financing of private investments* was greatly influenced in all the three countries by the state both directly by loans, grants, and subsidies, and indirectly by the regulation of financial markets.

The quantitative importance of subsidies is rather difficult to estimate. If public expenditure figures are compared, direct transfers to producers (the bulk of which are subsidies) seem to have been at a particularly high level in Finland and Norway in the post-war period (see Kosonen 1987: 198). Subsidies in Finland and Norway, however, were not used principally to promote industrialization, but to support the population still engaged in primary production (agriculture and fishing), which at least partly explains the difference in figures with respect to Sweden. On the other hand, according to estimates made by Carlsson (1984), Sweden and Norway have had industrial subsidy programmes since the late 1970s which are substantial by international standards and much larger than in Finland. The growing importance of subsidies, at least in Sweden, may rather be seen as an effort to maintain full employment in the worsening economic climate than as an element of traditional growth policy. The role of subsidies in the Nordic countries is more closely analysed by Landesmann elsewhere in this volume.

Besides direct financial support for investments, the Nordic governments' monetary policies, and in fact the functioning of the whole financial system, have been rather strongly orientated towards financing productive investments.

All the three NCs practised policies of credit rationing combined with low interest rates up to the end of the 1970s. In Norway the state directly controlled the lending volume of the state banks, although the activities of the private banks were seen as an integral part of the state-regulated credit system. In Finland and Sweden, the central banks had a strong influence on the credit market. Private banks were indebted to the CB, which could control the outstanding volume of bank credit by regulating the cost of central bank borrowing. Quantitative regulations (liquidity and cash quotas, lending limits, and investment quotas imposed on other financial institutions) were also extensively used in Sweden (Horvei *et al.* 1987: 264). In both countries the CBs also made informal agreements with private banks, the purpose of which was to control the total amount of credit and to influence its allocation in favour of productive investments. Despite general credit rationing, large enterprises were granted priority access to bank credits. In Finland, in particular, big corporations operating in the export sector were strongly favoured in the banks' lending policy (cf. Vartia and Vuori 1987).

The interest rates on bank credits were tightly controlled by the state (or

the CB) in Finland and Norway up to the 1980s. (In Finland, control of average bank lending rates was relaxed only in 1986.) Sweden has had more flexible interest rates since 1965, but within the limits set by the system of credit rationing (see Mjoset 1986). Since nominal interest rates have been more or less fixed, real interest rates have been at very low levels in periods of accelerated inflation. This was the case in the 1970s in particular, when real interest rates were negative for several years *(Economic Growth in a Nordic Perspective* 1984). The combination of low interest rates and the tax-deductibility of interest payments made bank credit a very cheap source of finance for enterprises. The central banks' tight control of capital flows made it possible to maintain the gap between domestic and foreign interest rates.

In conclusion, although the bulk of production and investment decisions in the NCs were left to private enterprises operating freely on the market, almost all forms of financing investment were strongly regulated by the state. In Norway, where regulation took the most extreme forms, the term 'credit socialism' has been used to describe the system (cf. MJ0set 1986). This may be too much of an exaggeration for Finland and Sweden, although state influence on the conditions of finance was nevertheless very important. Selective credit rationing and the regulation of interest rates provided enterprises with cheap funds to finance their investments. Corporate retained earnings therefore probably played in the NCs a less important role as a *source of finance* than they are normally thought to play in capitalist economies (cf. e.g. Glyn *etal.* 1986). This does not mean of course that profit expectations were not an important determinant of investment decisions also for the Nordic enterprises.

From this perspective, the government welfare and tax policies have made an important contribution to macro-economic equilibrium in the following sense. The high general level of taxation which has been maintained in all the NCs throughout the whole post-war period can be seen as a deliberate choice of policy motivated by the desire to keep up the high rate of capital accumulation. Part of wage increases won by workers at the bargaining table (the corporatist wage formation process practised in the NCs is described in other studies of this volume) was taxed away through progressive income taxation, which contributed to increase the public sector financial surplus. This in turn helped to finance productive investment by a corporate sector in financial deficit. As A. Glyn (1986: 7) pointed out: 'If capitalists' access to credits frees their investments from a tight dependence on declining profits, it can only do so by taking away from workers what they gained or thought they gained at the bargaining table.' This point assumes particular relevance in the light of the steadily rising share of wages in value-added in all the three Nordic countries from the 1950s until the mid-1970s (see Mjoset 1986). This happened despite the fact that corporatist incomes policies were used at least partly to moderate wage increases, and exchange

rate policy was actively and deliberately used to change the functional distribution of income in favour of profits and to maintain the profitability of export industries.

This policy could be called *forced saving through taxation* adjustment (cf. Taylor 1983). In economies which operate at near to full capacity and where excessive foreign indebtedness is not considered feasible politically or otherwise, a high public saving rate is almost the only viable way of closing the saving-investment gap (see also e.g. Kalecki 1970). This is in fact what Kaldor recommended for 'backward countries', where it is impossible to mobilize household saving on a voluntary basis; in such conditions, according to him, the advancement of capital accumulation by fiscal means 'constitutes the only alternative to inflation, which is a bad and inefficient way to mobilize resources' (quoted in Benoit 1985: 278). In the light of the analysis presented in this chapter, this policy alternative also seems to apply to mature capitalist economies with a high degree of social corporatism, such as the Nordic countries; failure to mobilize private saving is not due to 'backwardness', but rather to a highly developed welfare state which has institutionalized certain important functions of household saving and also to the tax system, which strongly favours borrowing at the expense of saving for both households and enterprises. In such economies, the high public saving rate achieved by fiscal means allows for a higher non-inflationary growth rate to be maintained (see also Kurihara 1970). On the other hand, to be successful, such policy requires a strong and 'hegemonic' state power, which was also an essential part of the social corporatism of the Nordic economies in the post-war period (see also Pekkarinen in this volume).

Finally, it should be emphasized that the Nordic governments did not use the tax revenues collected from households only to promote capital accumulation. They also aimed to increase the welfare and equality of their citizens, as mentioned previously. These policies, which were highly valued as such in terms of the national model of each country, contributed to the enlargement of the mass consumption base. In fact, steadly increasing domestic consumption constituted one important factor in the economic growth of all the Nordic countries in the post-war period (see also Mjoset 1986). On the other hand, by considerably decreasing the economic inequality between the citizens of each country, they also helped to create political conditions, an 'atmosphere of consensus or solidarity', which allowed the state to maintain high average and marginal tax rates without too strong popular resistance. As Kaldor (1955: 184) pointed out in his discussion of the efficiency of British tax policy: 'With greater equality in the standards of living, the power of the Government to retard consumption through taxation would be considerably greater than it is now . . . people are far more ready to accept sacrifices in a national cause when they feel the burden tfiey are asked to bear is fairly distributed' (cf. also Glyn 1986).

6.6 PRESENT TRENDS: IS THE NMA FALLING APART?

In this final section some problems and contradictions facing the Nordic economies today are considered. In a way the same institutional characteristics which made an essential contribution to the success of the 'Nordic model' in the post-war period also seem to have potential to assist in its dissolution. Two trends in particular are worth mentioning.

First, it has become increasingly difficult to maintain the high saving rate and financial surplus of the public sector. Second, in the early 1980s all the NCs went through a profound transformation of their financial market conditions. This radically decreased government ability to control the supply and allocation of credit. Both of these factors have in turn helped to increase the instability of the Nordic economies and aggravated the problem of external balance. These problems are particularly pronounced in Sweden and Denmark, but the same trends are also visible in Finland and Norway.

The first of these destabilizing tendencies appeared in the latter half of the 1970s, when the financial position of the public sector started to deteriorate in all the NCs. The public sector financial surplus, which was still, at best, 3–5 per cent of GDP in the early 1970s, shrank and turned to deficit towards the end of the decade. Deficits grew continuously in Sweden and Denmark until the early 1980s, and by 1985 gross state debt had reached a level of more than 70 per cent of GDP in Denmark and 60 per cent in Sweden. In Finland and Norway, however, public deficit was a more temporary phenomenon; Finnish public accounts were in relatively good balance (small deficits and surpluses) in the first half of the 1980s and the Norwegian public sector in fact developed huge surpluses during the same period mainly because of high oil prices (see *Growth Policies in a Nordic Perspective* 1987). In the latter half of the 1980s, the balance of public accounts was steadily improving in Sweden and Denmark, while in Finland and Norway opposite tendencies were again apparent.

There are various possible reasons for these developments. First, the commitment of the Nordic governments to the development of the welfare state contributed to the growth of public expenditure. This continued at a relatively high level throughout the 1970s in all the NCs, despite deteriorating economic conditions towards the end of the decade. It was particularly rapid in Sweden and Denmark partly because social reforms introduced during the 1960s and the 1970s demanded increasing amounts of financial resources, but also because general price and wage increases swelled the expenses of the public sector (Allen 1986). In addition, full-employment policies, practised above all in Sweden, required a considerable financial effort from the state.

On the other hand, progressive income tax schedules were not adjusted to the high inflation rates of the 1970s and consequently the average and

marginal tax rates on wage and salary incomes rose by the end of the decade to levels considered politically implausible. As an example, at the beginning of the 1980s the highest marginal tax rate in Sweden was 85 per cent and 43 per cent of income earners had marginal tax rates exceeding 50 per cent (Nielsen 1988). Despite the considerations presented in the previous section, popular resistance to high income tax rates grew in strength in all the NCs. Tax evasion and other distortions created by high marginal tax rates also became more widespread. Generous tax-deduction provisions allowed high income earners in particular to reduce their effective tax rate by, for instance, borrowing against their wealth. This made the progressivity of taxation much lower than that dictated by official tax schedules (Nielsen 1988). For all these reasons, the need to lower the level of direct taxation was unanimously felt among the Nordic political parties and decision makers. In any case, the financing of public spending by further tax increases was no longer considered politically plausible.

The tax reforms proposed in all the NCs in the 1980s could be seen as one attempt to find a solution to the political impossibility of increasing income tax rates on the one hand, and essentially cutting public expenditure on the other. (The first tax reforms were implemented in Sweden during 1983–5, in Norway in 1988, and in Finland only in 1989 (Nielsen 1988).) The common aim of all these reforms is to lower average and marginal tax rates on wage income to some extent without, however, essentially reducing government tax revenue. The method of doing this varies somewhat from one country to another, but the general idea seems to be to abolish or limit rights concerning tax deductions and also to enlarge the tax base more in the direction of property and entrepreneurial income. This would avoid the harmful effects associated with high marginal tax rates and liberal tax deduction on interest payments. However, a considerable reduction in marginal tax rates could also lead to inequalities in the post-tax distribution of income and would therefore counteract the egalitarian principles upon which the Nordic societies have been built.

The deregulation and liberalization of financial markets which occurred in all the Nordic countries in the early 1980s were quite rapid. There were several background factors in this process: the growing instability of the world economy after the first oil crisis, the increased integration of the international financial system, the increasing internationalization of Nordic productive enterprises, and the worsening financial balance of the public sector (Horvei *et al.* 1987: 238). The short-term money market emerged—first as an unofficial grey market between firms—in Sweden, Norway, and Finland during the 1970s, and was quickly broadened in the 1980s after several deregulative measures were undertaken by the central banks. These developments soon made the traditional policy tools, the regulation of interest rates and credit rationing, ineffective, and their importance has been

gradually diminished in all three countries. Today, monetary policy is mostly conducted through market-orientated measures, i.e. intervention in short-term money markets and foreign exchange forward markets. At the same time, the bond market has been deregulated and vitalized in Sweden and Norway. This has never played any significant role in Finland. Stock markets have experienced very fast and steady growth in trading activities and corporate values since the end of the 1970s in all the NCs. Nevertheless, the banks and other financial institutions still dominate the long-term financing of investments in Sweden, Finland, and Norway to a large extent. Denmark's financial system has traditionally been different, with bond markets occupying the central position in overall credit stock (Horvei *et al.* 1987: 242). Foreign exchange controls have been progressively relaxed, and by the 1990s both short-term and long-term capital movements are almost completely liberalized in all the three NCs.

Naturally, these developments have strongly influenced the behaviour of both the household and corporate sectors. As already mentioned, loan interest rates were kept at artificially low levels throughout the 1970s in Sweden, Finland, and Norway. In addition, the tax systems in these countries made the financing of investments by credit rather than from own savings attractive for both households and business enterprises. This kept the demand for credit continuously high in all the Nordic economies. Credit rationing, which particularly affected households, nevertheless limited their borrowing opportunities and kept their saving rate at a low, albeit clearly positive, level. Furthermore, the housing finance system in Finland, with its very high down-payment requirements and short loan repayment periods, required considerable saving efforts by people who were planning to purchase an own home or had already done so. Because of the serious shortage of rental accommodation and the lack of other alternatives, the number of owner occupiers is relatively large in Finland (see Kosonen 1985).

Under these circumstances, the loosening of credit rationing in the 1980s led to an outstanding increase in the indebtedness of the household sector in all the three previously regulated Nordic economies. Although the interest rates also rose markedly with the effect of maintaining clearly positive real interest rates throughout the whole decade, households increasingly borrowed to finance not only housing but also other durable purchases and, to some extent, non-durable consumption (e.g. travelling). It is thus not surprising that the 1980s saw a sharp decline in household saving rates from levels which were already low by international standards. By the end of the 1980s the household sector saving rate as a whole turned negative in Sweden and Norway. In Finland it followed a very similar trend, but was still slightly positive (around 0.5 per cent) in the latter half of the decade.

For the corporate sector, the end of credit rationing and low interest rate policy meant a marked increase in real interest rates compared with the real

rates of return on physical investments *(Growth Policies in a Nordic Perspective* 1987: 27). The decline of investment rates in manufacturing, experienced in particular in Sweden and Norway in the first half of the 1980s, could be at least partly due to this phenomenon. In addition, the vitalization of capital and equity markets may have opened up wider possibilities for the realization of short-term profits on operations in these markets and therefore attracted private capital away from productive investment. Easy access to credit facilitated the financing of these transactions largely by borrowed funds. Whether this will indeed constitute a growth problem for the Nordic economies in the future remains to be seen. In any case, it is obvious that the balance-of-payment considerations will not allow any reductions of real interest rates in the years to come.

The improved liquidity that has followed from the deregulation and liberalization of financial markets has been mainly used to finance consumption and asset market transactions. This has led to rapid price increases in equity and housing markets. The housing boom has been particularly strong in Finland, and the consequences of this mainly affect ordinary households. Despite serious imbalances in the housing market, the supply of rental accommodation has not been sufficiently increased, and many households are still forced to purchase their own home at a relatively early age. Although access to credit has been improved, the very high housing price level and high real interest rates have put these households into an economically difficult situation. The inequality, which stemmed from the discrimination between banks' customers in the regulated system, is being replaced in the 'market' economy by inequality between those who can afford to borrow at high interest rates and are able to liquidize capital gains and those who cannot. On the other hand, rapidly expanding household consumption, as well as the shrinking financial surplus of the public sector, are today considered a serious threat to the external balances of the nordic countries and thus constrain the conduct of their economic policies to a much larger extent than earlier.

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7

Social Corporatism and Long-term Economic Performance

Michael Landesmann andjuhana Vartiainen

7.1 INTRODUCTION

The focus of the economic literature on social partnership institutions, or social corporatism, has so far mostly been on the relevance of such institutions for short-term economic management and stabilization policies. This is not surprising, for two reasons. Firstly, there has recently been interest by economic theorists in issues of centralization and decentralization; their work, however, has been mostly concerned with static one-shot analysis and with comparisons of different equilibria without dynamics (Pohjola 1984, Ploeg 1987 are exceptions). Secondly, the focus on bargaining institutions arose from an interest by macro-economists in the experiences of a number of 'social corporatist' (henceforth abbreviated to SC) economies such as Austria, Norway, Sweden, and Finland. These countries seemed to cope with the economic slow-down of the 1970s relatively successfully. The distinct feature picked up in these macro-economic analyses of social corporatist economies was the particular pattern of institutionalized and centralized wage bargaining typical for these economies (see Calmfors and Driffill 1988; Freeman 1988). In this chapter we would like to broaden the interest in the experiences of these economies away from the narrow focus on wage bargaining and from short-term macro-economic analysis.[1]

We shall argue that institutions of social partnership and more generally of ways of mediating social conflicts inherent in capitalist economies are very

[1] The short-term approach adopted in most economists' discussions of the experiences of social corporatist economies seems to us to be seriously flawed. To illustrate this point, consider the fact that in discussions about centralization of wage bargaining (see e.g. Pohjola in this volume), the benefits of corporatism are almost without exception seen to accrue through the moderation of wages, with a higher employment level and equilibrium capital stock as a result. The focus of the discussion is whether economies like Sweden in which the growth of real wages was efficiently checked in the 1970s were able to recover more rapidly. However, if that was all that mattered in corporatism, we should expect social corporatist economies gradually to become low-wage economies relying on labour-intensive, backward techniques. We know that this is not the case, and wage moderation accompanying short-run demand management is not all that there is to corporatism. The corporatist economies of Sweden and Norway have high labour costs and rely on technologically advanced industries. One essential ingredient of the corporatist strategy may indeed be the reliance on technological progress and the socialization of the costs of readjustment.

much linked to the long-term performance of an economy. Economic policy which is based on social partnership institutions rather than simply on decentralized market co-ordination can have profound effects on the long-run evolution of the economy. From a longer-run developmental point of view, corporatism might be attractive to many economies for tackling structural change at particular stages of their economic development. This is especially true for small and open economies which are highly dependent upon the world market (see Katzenstein 1985). Structural and technical change are an important domain in which social corporatist arrangements have an impact. Their relationship to structural change is, however, an ambivalent one. Structural changes, particularly in periods of dramatic industrial restructuring, pose challenges that may or may not make solutions based on broad social agreement attractive to some parties. Furthermore, the issue of institutional adaptation is crucial for the analysis of social corporatist economies' long-run performance.

In this essay, we do not claim that we can present a grand theory of social corporatism and long-term economic performance, but by investigating the issue from various angles we hope to highlight some relationships that have not received due attention in the discussions of social corporatism.

The chapter is organized as follows. In section 7.2 we discuss a few features which allow an endogenous economic analysis of corporatist structures. Section 7.3 summarizes theoretical arguments concerning corporatism and accumulation. We consider the discussion about the centralization of wage bargaining and investment, and also present a few new arguments, related to Sen's (1961, 1967) isolation paradox. We then consider social corporatist features other than centralization of bargaining that may be of importance for an economy's capacity to develop effectively. Section 7.4 discusses the conflict of interests inherent in any growth policies and analyses the evolution and breakdown of trust in social corporatist arrangements. Section 7.5 tries to single out those institutional and structural factors that are specific to corporatist economies' growth policies, the overall theme being that small corporatist countries have predominantly rejected pure market solutions as guarantors of growth, although concrete policies have taken quite different forms in different countries. This section includes a comparison of different corporatist countries' growth strategies. In Austria, Sweden, Norway, and Finland, growth and accumulation were definitely tackled in a very interventionist way: in this sense all have been very corporatist. However, the actual content of economic policies and the institutions responsible for carrying out the policy strategies have been different. Section 7.6 attempts to corroborate at a more empirical level some of the theoretical predictions worked out in the preceding sections. We ask whether economic variables related to growth behave in a distinctive way in corporatist economies.

7.2 ENDOGENIZING CORPORATISM

7.2.1 *Structural change in small open economies*

It has been powerfully argued by Katzenstein (1985) that some degree of corporatism is a necessary characteristic of small open economies, which are crucially dependent on the world economy and trade, but unable to influence that market in a strategic way. Katzenstein identifies corporatism with smallness in general, but his concrete analysis of—what he calls the social, in contrast to liberal—corporatism shows that the former notion very much coincides with the notion of corporatism used in this paper.

Katzenstein develops much of his analysis around the political implications of smallness and openness. A more economical way of reaching similar conclusions would be to stress structural factors related to industrial organization and openness. The export industries of small European economies have necessarily been strongly specialized: instead of building a small-scale replica of larger economies, small economies have specialized in particular industries and in product niches. Many arguments, starting from increasing returns to scale and the role of fixed costs to the dynamics of research and development and training, support the notion that some industries, in order to be viable, cannot be perfectly divisible. Instead, there may be a minimum size required for them to be competitive. This leads to the specific market structures that one can in fact observe in the small open economies under consideration.

On the business side, this means specialization in a few fairly specific branches of industry instead of over the wide spectrum of industries typical for large economies. This in itself makes it easier for political and organizational links to develop between the business community and the state. Finland is an extreme example: the very founders of the Finnish state were bankers and industrialists and their representatives. On labour's side, this specialization and concentration leads to the emergence of few powerful industrial branch unions. This is a characteristic that makes it potentially easier for the parties of the labour market to enter social contracts with one another or for such contracts to be mediated and/or enforced by the state. With a few large industrial unions dominating the trade union movement, it is easier to establish centralized bargaining structures (for the emergence of corporatism, see also Therborn's chapter in this volume).

The above structural characteristics also have implications for the social arrangements needed to tackle economic change. Restructuring and reallocation of resources are a continuous process in market economies, both small and large; but in large economies where there is a greater number of industries, it is more likely that the consequences of structural change 'average out': when employment opportunities decrease somewhere in the economy, there will probably be new ones emerging somewhere else. With

more specialized industrial structures, small open economies are more vulnerable to restructuring which may not 'average out' to the same degree as in the bigger economies. This emphasizes a need to devise social agreements in order to contain the social malaise and conflict that might otherwise emerge.

The two sides of the labour market might, however, have quite different conceptions about the 'need' for concerted action. If firms want to carry out heavy restructuring, any joint action may be felt by them as a constraint if they are in a favourable bargaining position, and they may also doubt the labour organizations' ability to legitimate the restructuring in the eyes of their membership. But if social corporatist joint action means that the state is willing to assume some of the costs of adjustment in the form of, say, training programmes and the building of new infrastructure, then joint action may become more attractive from the management's point of view. Similarly, if the state buffers the labour force against the negative implications of restructuring by providing alternative job opportunities and help in retraining which would lead to upward job mobility, joint action will become attractive from labour's point of view.

Agreements about restructuring can be struck at various levels. A decentralized bargain may include new investment and wage moderation commitments at the plant level. Similarly, there could be industry-wide agreements that need not have a broader dimension nor involve the state. However, the deeper the restructuring that is needed, the more likely it seems that there will be externalities involved in the costs of reallocating resources and thus the more likely it is that the state can help to bring about an efficient solution. By definition, structural change means that some skills become redundant and some capital equipment obsolete. If this affects a whole industry, any social bargain has to transcend the limits of that one industry. In such a bargain, the state can assume some of the costs of reallocating capital, of creating new human capital, and moving labour. However, some of the failures of the structural policies pursued in social corporatist economies in the 1970s and 1980s can also be seen in this light. In a number of cases, corporatist policies were restricted to individual branches such as steel or shipbuilding, when in fact industry-transcending policies were needed (see Strath 1988).

The comprehensiveness of corporatist arrangements is certainly relevant for the capacity of an economy to be restructured (see chapter 1 of this volume). The more encompassing a corporatist arrangement, the more likely it is that individual agents are ready to accept short-term losses in exchange for better long-term prospects: a worker (or a farmer) can accept restructuring and redundancy if he can be confident that the system of concerted action is democratic and representative enough to guarantee new jobs as well. A less comprehensive corporatism, on the other hand, is more likely to degenerate into a stagnant system where the interests of limited sections of

the economy are taken care of, at the expense of deeper renovation. This criticism can possibly be raised against some developments which characterized the Austrian social partnership system in the 1970s.

While the above points to a functionalist rationale for corporatist arrangements in small open economies, such an approach has to be supplemented by an analysis of the specific organizational structure and policies of employers and employees in those economies. Studies of the historical origins of corporatism (cf. Katzenstein 1985; Esping-Andersen 1985) do show that times of crisis and restructuring provided the impetus for organizing social corporatist arrangements. In Sweden, the economic crisis of the 1930s brought the lesson home, whereas in Finland the turbulence of the 1970s showed to both parties that a more consensual approach to economic policy might do a better job. In Austria, the civil war experience between the world wars and the need for social and economic reconstruction after World War II were the immediate catalyst.

7.2.2 *Labour shortage and labour organization*

Another factor, neglected by political scientists who have studied corporatism, that may move economic policy towards corporatist arrangements is the labour supply situation. The relative abundance of labour is probably one key factor which determines its relative bargaining strength. In an economy in which there is a large reservoir of labour in traditional occupations or which can rely on immigration, the bargaining power of labour is more likely to remain relatively weak and firms will be less interested in entering social corporatist arrangements. On the other hand, when the supply of labour becomes scarcer, firms might perceive advantages in participating in more comprehensive social regulation of income distribution. In this essay we shall not attempt to carry out a careful statistical analysis of the emergence of concerted action in relation to labour supply developments. However, we would like to point out a few historical chains of events which show that labour supply may be an important determinant of social corporatist arrangements.

Finland is an example of a small country in which the end of the 1960s effectively meant a possibly lasting evolution towards concerted action. Finnish economic policy during the 1950s and 1960s had not been characterized by partnership and joint action in economic policy formation. Economic policy was interventionist and geared to fostering growth and investment, but it was a case of corporatism without the social component and was plagued by confrontations. Fiscal policy aimed at balanced budgets on a yearly basis while monetary policy was directed towards accommodating the financing needs of the open sector. This resulted in a pro-cyclical economic policy and a very volatile economy (see e.g. Pekkarinen 1989).

The central bank was autonomous and mostly paid attention to the external balance of the economy. Real wages followed a political business cycle: in times of high export demand, wages increased fast, but this increase was then checked by devaluations, coupled with austerity policies which decreased the bargaining power of labour. However, from the end of the 1960s onwards, a system of consensual incomes and tax policies was gradually developed, and it is of interest to note that this coincided with the completion of an important phase of structural change in the economy. During the 1960s, the flow of labour from agriculture was still an important source of labour supply, whereas by the beginning of the 1970s this process was more or less complete.

In addition, one can consider the overall evolution of European labour markets during the post-war era and especially the turbulent events at the end of the 1960s. Many accounts of post-war economic growth in fact attribute a key role to labour supply (Kindleberger 1967; Kaldor 1966; Boltho 1982). Thus labour was quite abundant in Europe during the 1940s and the 1950s, and indeed the historical process of urbanization and industrialization was in the 1950s still far from complete (Hyman 1978). Hence rapid and steady growth in the 1950s was possible thanks to the internal migration of labour from agriculture and traditional industries to modern manufacturing and services. Towards the mid-1960s this reservoir gradually exhausted itself, although the scarcity of labour was for a while mitigated by migration from southern Europe.

In the 1950s and 1960s, the strong demand for labour generated first by reconstruction and then by steady economic growth could be satisfied without excessive wage inflation. During the 1960s, however, the prolonged conditions of full employment, together with the slowing down of population growth and the exhaustion of the agricultural labour reservoirs, strengthened the bargaining power of workers and allowed an increase in their relative income share. This enhanced bargaining power was also reflected in the increased regulation—both by legislative means and by collective agreements—of employment conditions (safety requirements, minimum wage legislation, lay-off compensation, and other job security). These trends peaked towards the end of the 1960s, and it is probably not coincidental that it was at that time that a new interest in encompassing social contracts arose in almost all the major European economies.

Changes in respective bargaining strength affected the interest that the various parties of the labour market had in corporatist arrangements. Most of the big European economies at that time flirted briefly with the idea of concerted action, but in none of them did this yield any lasting results. In West Germany, comprehensive wage settlements were agreed upon in 1967 and 1968, but in 1969 the social consensus disintegrated: the trade unions could not contain labour unrest and the central bank reverted to an

autonomous policy of monetary orthodoxy (see Scharpf 1984). In Britain, a social contract was attempted in 1976–9, but it broke down in the 'winter of discontent', leading to a dramatic shift towards confrontational policies under Mrs Thatcher. The ideological roots of the British labour movement did not favour co-operation and the social contract in the form of incomes policy did not deliver much to the workers in exchange for wage moderation. After die electoral success of the Conservatives in 1979, confrontation was the rational assumption for all actors in the economy. In Italy, labour markets were turbulent from the end of the 1960s onwards, and in 1977–9 this generated an experiment of 'solidarity nazionale', with the unions supporting wage moderation in exchange for legislation on retraining, youth employment, and restructuring. As in the German case, this proved short-lived: both sides of the labour market gradually grew more suspicious of concerted action (Regini 1984). France fits perhaps less well into the general pattern. Labour supply in France was scarce throughout the post-war period, and employment in manufacturing did not increase by as much as in the other countries. Yet a massive restructuring of labour within industry into high growth activities seems to have taken place (Sautter 1982). An immediate reason for the absence of concerted action before the Mitterrand government was simply the absence of labour organizations strong and unified enough to claim the workers' mandate. French economic policy has been 'statist', and the government largely relied on regulative measures which affected wages and prices. It was not until Mitterrand's presidency that the first attempts towards a social contract with the main unions took place. However, the organizational basis for this remains weak: the socialist-controlled CFDT is much weaker than the CGT which shows scant interest in co-operating with a socialist-dominated government. Thus while labour scarcity seemed to bring social corporatism on to the agenda, tendencies towards social corporatism were in general defeated in the large European economies.

In the 1980s, mass unemployment persisted in most OECD countries and, after labour's period of strength in the late 1960s, slow growth and rapid technological change thereafter moved labour markets again towards an excess labour supply regime. This has decreased labour's bargaining power and political muscle, leading in many countries to a shift towards more orthodox economic policies. The uneven pattern of technological advances and the associated processes of industrial restructuring also contributed to an increasing inequality in labour's bargaining power and thus to greater income differentials. The SC economies have in this respect behaved quite differently from other economies (as is discussed in more detail below), but social corporatist structures certainly have had to and still do continue to adjust to changing circumstances.

7.3 DOES CORPORATISM FAVOUR INVESTMENT, GROWTH AND STRUCTURAL CHANGE? THEORETICAL ARGUMENTS

7.3.1 *Wage restraint and the dynamic inefficiencies of capitalism: the role of centralization*

We now turn to the more common way of addressing the issue of corporatism and ask whether corporatism, when interpreted as centralization of wage bargaining, leads to more capital accumulation and growth. For the moment, we adopt the narrow view, criticized above, according to which the positive implications of corporatism work through wage moderation.

The relationship of wage setting to investment has generated a voluminous literature in theoretical economics. However, the relationship of centralization of bargaining and investment and accumulation has been to a large extent neglected, Sen's isolation paradox (Sen 1961, 1967) and its extensions (see Pohjola 1984 and Chapter 3 of this volume) being the few exceptions.

The economists' theoretical discussion about the dynamic inefficiency of capitalism has focused almost exclusively on settings where the game is between two actors, the firm and the union, possibly interpreted as the employers of the economy and the workers. Thus the centralization of the bargaining structure has not been integrated into the analysis. This strand of research has generated important insights about capitalism (the original argument was in Lancaster 1973; see also Grout 1984 and Ploeg 1987 for representative contributions). The main insights of this discussion are intuitive: in a dynamic game in which the capitalists invest and the workers set the wage, there is a dynamic externality leading to a suboptimal capital stock: the capitalists will not invest as much as an efficient solution would stipulate, because then the workers would have an incentive to renege on the original wage agreements and extract the differential rent of the installed capital. It would be advantageous to both if workers could commit themselves to lower wages, but it is difficult to see how such commitments could be enforced in a normal market economy based on free contracting between the agents.

On the other hand, there is the more recent literature, largely provoked by Calmfors and Driffill (1988), which focuses on the effects of the bargaining structure on employment. This literature is essentially static and does not consider investment and capital accumulation. Of course, one can always argue that if, in a world of centralized or completely decentralized bargaining, the workers set lower wages and consequently there is higher employment, a trivial dynamic generalization would be that in such a world employers invest more and the ensuing capital stock is higher. This generalization is potentially important but theoretically trivial, since it essentially treats the long run as a sequence of short-run equilibria which are the result of the myopic one-shot behaviour of economic actors.

Thus one would like to say more. Without working out elaborate analytical models, we present additional arguments which potentially link together the bargaining structure and investment and accumulation:

(a) Dynamic inefficiencies and the age profile of workers

The Calmfors–Driffill results build on the fact that a centralized trade union aggregates the preferences of workers in various industries. However, it is clear that a centralized trade union federation also aggregates over preferences of workers of various ages. This may have profound implications for investment and employment if there is some labour mobility in the economy. The intuition of this argument goes as follows: consider the labour market of an economy which consists of overlapping generations of workers, young and old. Thus a worker arrives at the labour market when young, works for one period as young, then works for another period as old, and finally leaves the labour market. Assume also that there is labour mobility in the labour market, so that the young workers have to change to another firm once the first period (youth) is over. Assume also that the number of workers is large relative to that of firms, so that on average half the workers in a firm will be young, half old. Firms invest between the periods in new capital stock and want to maximize their profits in the usual neo-classical vein. In this economy, the bargaining structure will affect the equilibrium capital stock. Consider first a decentralized bargain in which at the beginning of each period the wage agreement is struck individually in each firm. Now the old workers in each firm have no incentive not to use their bargaining power fully, since their eventual sacrifice in the form of wage moderation (a higher capital stock in the next period) will not accrue to them since they will be out of the market. The young could in principle enjoy the fruits of moderation, but they see no incentive to disagree with their elders' maximalist demands, since anyway they will have a new job in the next period and their sacrifice will not pay off for them. A centralized bargain will give a very different result. In the centralized federation, the old will again vote for maximalist increases, but now the young will have an incentive for moderation: if a generally low wage agreement is passed then, with rational capitalists, the capital stock in the next period will be higher everywhere, and the young will enjoy higher employment and wages, regardless of where they are employed. If the centralized federation aggregates preferences in a democratic way so that the young have at least some say, then the wage demand will be lower than in the decentralized case. This insight is quite robust and it can be made precise in a variety of models, be it with wage setting by the union or by using the Nash bargaining solution over the partners' respective pay-offs. Thus the centralized federation can be seen as a guarantor of moderately priced labour, regardless of age and place of employment. This argument may shed light on the interpretation of the Swedish model, in which

retraining and labour mobility have always been emphasized. It fits well with the very centralized bargaining structure; otherwise, labour mobility could mean that there would never be any incentive for workers to make sacrifices for the firm in which they are working at present. The argument can also be used to assess the consequences of demographic structure on the labour market: with an ageing population, one would expect shorter horizons for the trade unions and consequently higher wage demands. The assumption that all the workers change jobs is not essential—the argument carries through even if only some of them do. This discussion can be seen as an extension of Sen's (1967) isolation paradox, potentially more important than the common model of infinitely lived workers employed with a constant capital stock.

(b) Information and the building of confidence and reputation

The original result of Lancaster (1973), according to which the capitalist economy suffers from dynamic inefficiency, has been largely modified in the more recent discussion based on modern game theory (see Kaitala and Pohjola 1990, for example). According to this criticism, dynamically efficient equilibria can in fact be sustained as non-co-operative Nash equilibria when the players use some kind of memory strategies, which take into account the past history of the game. Thus an efficient equilibrium could be sustained by trigger strategies whereby the workers do not use their full wage-bargaining power and the capitalists invest more than the static profitability condition would stipulate; if any of the parties deviates from this solution, the other party punishes him either for some time or for the rest of the game by reverting to the open loop equilibrium solution. A crucial condition for this solution to be sustainable is that the parties can effectively monitor each other's behaviour and thus build reputations for 'co-operative' behaviour. It is a typical feature of economies with centralized bargaining structures and social partnership arrangements that the labour market partners make up many joint bodies, often with the participation of or organized by the state which monitors the key economic variables and keeps all the parties informed about them. This can be speculatively interpreted as an institutional attempt to sustain long-term efficient solutions. Broadly speaking, institutions of social partnership may induce an atmosphere of mutual confidence in forward-looking behaviour.

(c) The process of creative destruction

Centralized incomes policies have often though not always meant a solidaristic wage policy whereby wage increases have been more uniform throughout the economy. Hence firms whose profitability is above the average will benefit from centralization whereas inefficient firms will suffer. This may contribute to rapid technical progress and structural change: firms which use outdated production methods will be wiped out instead of being able to

get by thanks to low wages and access to a segmented labour market. Thus a solidaristic wage policy may 'lend a hand to the invisible hand'; a solidaristic and centralized wage policy may in this way bring the economy nearer to the Walrasian ideal of perfect labour market arbitrage. This is also an instance in which social corporatism and the state can correct dynamic inefficiency: the socially optimal shift of resources from declining industries is facilitated when the state assumes some of the costs. Thus a solidaristic wage policy may require other state intervention to work smoothly: as inefficient industries are being reorganized, it helps if the state can bear part of the social cost of transferring resources and supporting the evolution of new industries.

7.3.2 *Investment in infrastructure and technical progress*

Another interpretation of the isolation paradox is in terms of technical progress and infrastructure investment. By definition, technical progress means the shifting of the technology frontier. It is well known in the economic literature (see e.g. Arrow 1962) that the private costs of and rewards for pushing the technology frontier outwards do not coincide with the social costs and benefits, and that it is probably hard to get the frontier pushed outwards by individual firms or groups of workers alone. This may explain the corporatist countries' large investments in education and infrastructure. There are, of course, other reasons for such expenditure. In countries which have to close a 'technological gap' (as was the case with Finland and Austria for most of the post-World War II period), be they social corporatist or not, the necessary initial outlay on training and infrastructure is simply too large to be undertaken by the private sector. The same could still be true for economies which are small relative to the large businesses operating internationally in certain industries and with which domestic firms have to compete. In both situations one can predict that a large part of spending on research and development and on the general upgrading of skills will be undertaken by the state. However, in more recent times, when large businesses in countries like Sweden and Finland have become heavily internationalized and become successful players in a competitive international environment, we can perceive an increasing share of spending on R. & D. and training being internally financed by the successful firms. Such firms also have clear advantages in retaining their labour force, because of superior employment conditions, and thus do not have to face the problem of high labour turnover.

7.3.3 *The increased power of the unions; participation and productivity*

Much of the discussion so far identifies corporatism with centralization of the representation of the workers' interests. However, another relevant feature of social corporatism is that workers' participation and industrial democracy

is enhanced. This has been associated historically with centralized trade union movements, since only in those countries in which the labour movement has been efficiently organized has far-reaching industrial democracy legislation been enacted. Industrial democracy may increase workers' identification with their firms and thus increase work motivation and profitability. On the other hand, employers have often perceived industrial democracy as a threat. There may be another conceptual 'hump-shaped' relation here: of all possible worlds, the employers would probably choose one in which the labour and union movements were so weak that the employers could dictate wages and the organization of work. According to this argument, increased power of the unions lessens the employers' ability to squeeze out as much as possible from the worker and hence a shift of power towards labour is detrimental to productivity. The counter-arguments are obvious: labour's bargaining power enhances industrial democracy and motivation and hence productivity. Thus industrial democracy could be seen as a form of efficiency wage, albeit perhaps not very costly to the employer. Furthermore, it may be precisely the strength of the workers which makes it worth while for the individual worker to invest in job-specific skills: he knows that his work conditions will remain satisfactory and his employer will not extract the fruit of his investment for the benefit of the firm alone.

To conclude, let us mention saving as a potential object for corporatist policies. Sen's isolation paradox was originally cast in terms of suboptimal saving, and it is certainly noteworthy that all the Nordic countries have relied on a high degree of public saving. (For a thorough development of the notion of forced saving through taxation, see Kosonen's chapter in this volume.)

7.4 THE CONFLICT OF INTERESTS AND THE EVOLUTION OF SOCIAL CORPORATIST STRUCTURES

Much of the argument so far offers reasons as to why concerted action and social corporatism may be rational for all parties. Yet corporatist arrangements have emerged in only a few countries and nowhere have they emerged by common consensus. The above arguments should thus not hide the fact that besides the eventual mutual interest in co-operation there is also a continuous conflict of interests in capitalism, which poses a threat to and an obstacle for corporatist institutions.

Of all possible worlds, the employers would probably choose one in which labour was weak and they would never need collaboration. This would result in low wages, high profit margins, and, possibly, high growth. Some of the NICs have used this route, and this confrontational strategy is the very essence of Thatcherism. However, once labour is strong and organized, it may become more attractive for firms to enter corporatist arrangements, using

the state to assume some of the social costs of business activities and relying on the labour unions' ability to legitimate wage moderation to the rank and file. These arrangements take some time to evolve in order to build the trust needed. Thus both of these two social patterns may be self-enforcing: both trust and distrust build slowly and reputations are hard to change.

Modern game theory shows that it is possible to sustain dynamically efficient paths when the parties' strategies depend on history. The parties can use various schemes for punishing a party which deviates from the efficient solution. This makes the analysis much more relevant than the previous theories which seemed to predict inefficiency or require binding long-term commitments. Thus game theory provides a useful interpretation of phenomena in which periods of trust and confrontation seem to alternate.

Thus while trust builds up over longer time periods there is also learning from periods of mistrust. Examples for dramatic shifts from non-co-operative to co-operative behaviour are the changes in Austria before and after World War II and also the changes which took place in the socio-political climate in Finland in the 1970s (see discussion above). Co-operative ways of behaving probably fare better in those economic environments that are not subject to very abrupt changes. In such environments, all the agents have accumulated the necessary information about the respective pay-offs and valuations of the other agents. On the other hand, when the environment changes fast, the players may appreciate the situation in different ways and it is probably easy to interpret a deviation from the co-operative strategy as a betrayal or shift of mood, even when it may be based on a different evaluation of the changing environment. In a changing environment, it is more likely that the parties become suspicious of each other, expecting the other party to use the new environment to its own advantage. We argued above that one essence of social corporatism is its capability of handling technical change; but there is probably an inherent contradiction in it in the sense that corporatism becomes more difficult to sustain in periods of rapid change.

Uncertainty about the environment is related to how well the members of the social partnership are able to allocate to themselves both power over and responsibility for those variables which they have an interest in. For example, the difficulties of corporatist collaboration in Finland and in Germany have both been related to the fact that an important range of decisions, namely those of the central bank, are effectively out of the partners' control. This creates another source of uncertainty. Thus a central bank which was keen to keep its independence and maintain an orthodox monetary policy was an additional factor which contributed to the disintegration of the German social corporatist experiment in the 1960s. Similarly, the uncertainty about the future exchange rate in Finland has made it more difficult for the labour market partners to agree on wage increases. In the 1970s the central bank sometimes threatened to use its policy tool—usually a devaluation—only

after the wage agreements had been struck. In Austria, on the contrary, the parties of the social partnership have effectively shared amongst themselves the mandate to control the central bank, so that both the responsibility for and the power to make exchange rate policy and monetary policy decisions have been thrust upon them.

Finally, if the building of trust is a continuous and contingent process, there probably is a role for the state in fostering an atmosphere of trust and co-operation. In Finland, the state in the 1980s clearly assumed the role of 'mediator' in the sense that it asserted its readiness to use its other policy tools to make agreements easier. Thus changes in tax rules have been used to make consensual arrangements more attractive.

7.5 INSTITUTIONAL AND STRUCTURAL CHARACTERISTICS OF CORPORATIST ECONOMIES

There is considerable diversity in the actual growth strategies adopted by the corporatist countries. Yet it is easy to find a common denominator in all of them: the distrust of liberal *laissez-faire*. In these small economies, most of which were late industrializers, growth and structural change were simply perceived as too important to be left to market forces. Instead, these issues were identified as central for national economic development. We shall now describe in more detail those institutional and structural characteristics of the SC economies which are related to economic growth.

7.5.1 *Labour market institutions and economic growth*

The discussion concerning bargaining structures and economic growth in sections 7.3 and 7.4 was of a general nature and could not therefore present a picture of the differentiated facets by which labour market institutions affect economic growth in particular economies and in particular historical circumstances. We will now discuss some of these particular features.

Of all the countries included in our comparison in this chapter, Austria has probably the highest degree of participation of trade unions in framing economic policy. However, while there is a high degree of centralized participation of the trade union organization in macro-economic policy formulation (the various institutions of the social partnership arrangement, such as the 'Paritatische Kommission'), there are also powerful branch unions particularly in the 'older' industries, such as steel, heavy mechanical engineering, etc. It so happens that these industries are also in public ownership. The bargaining situation in these sectors is thus very different from the situation faced by the employees either in the smaller-scale Austrian-owned business sector or in the foreign-owned enterprises which operate in most of the

'modern' sectors of the economy (electrical engineering, instrument engineering, etc.).

Industrial relations are thus rather segmented and this might explain why the foundations for a 'solidaristic wages policy' (in the sense of an egalitarian wages policy) may not have existed in Austria as compared to, say, Sweden and Norway. It might also explain why in Austria, unions in the 'older' manufacturing industries were able to resist restructuring in the 1970s until the degree of indebtedness of the nationalized industry sector could no longer be sustained and a U-turn in the management of the nationalized industries was initiated in the early 1980s. On a macro-economic level, on the other hand, the clear leadership position of a few powerful branch unions may have facilitated the implementation of national wage agreements when macro-economic conditions required these.

In Sweden, concerted social action has been understood as a contract between the parties of the labour market, independent of the state. The term 'incomes policy' has therefore also been consistently avoided by the architects of the Swedish model. Wage bargaining has been quite centralized and the central trade union federation LO has effectively bargained on behalf of the individual unions. Wage settlements have also been more solidaristic than in other SC countries. Sweden could thus be singled out as an example of an economy in which the growth of real wages in certain industries has been held back by centralized wage agreements. It has been argued, for example, that the low growth in real wages contributed to the growth of the Swedish automobile industry in the 1960s (Mjoset *et al.* 1986).

The early commitment to a solidaristic wages policy was partly inspired by the normative idea of similar work effort earning similar remuneration. However, the notion of creative destruction caused by the relative uniformity of wages (see section 7.3.1) also figured in the early Social Democratic and trade union writings. The wage earners' funds project was a logical implication of this strategy: while the micro-economic control of investment was mainly left to private capitalists, the 'extra' surplus generated in efficient sectors because of centralized wage settlements was to be controlled politically. However, the real impact of the funds has apparently been quite limited.

Sweden's trade unions are probably the most powerful in the world, with the additional characteristic of white-collar employees being also to a large extent unionized. The political participation of trade unions, however, is not as extensively institutionalized as in Austria. Rather, economic policy and labour market strategies are twin facets of the Social Democratic strategy. Hence the integration of labour organizations into policy-making is more political and substantial than institutional and formal. However, the strength of the Social Democrats and the trade unions has led to the introduction of extensive schemes of industrial democracy both at the work-place and within the firm.

In Norway, wage bargaining has by and large been less centralized than in Sweden. The state's involvement in incomes policy grew in the 1960s, but still it is probably not too far off the mark to say that the essence of Norwegian corporatism has been in industrial policies and macro-economic planning rather than in centralized bargaining and incomes policy.

In Finland, centralized collective bargaining and concerted action are more recent phenomena. For two decades after World War II, the trade union movement remained weak by Nordic standards and politically divided. It was only at the end of the 1960s that a unitary trade union organization was formed and the first centralized wage bargains were struck. However, the Finnish trade union federation SAK has never had a mandate as extensive as that of the Swedish LO to bargain on behalf of the individual unions. Yet the role of the state has been prominent from the outset of social corporatism and fiscal decisions have often been used to enhance co-operative labour market outcomes. This is a new feature of social corporatism in Finland. Industrial democracy and labour participation in macro-economic policy-making were almost non-existent in the 1950s and 1960s. It was only after the harsh lessons of the 1970s—first rapid inflation and erosion of profitability, then austerity policies from 1975 on—that practices and institutions for concerted social action emerged. At present, the joint monitoring body of the policy makers, employers, and labour plays an important role in the formulation of macro-economic policy. A factor which has probably made it more difficult to sustain co-operation has been the independent role of the central bank which, from the point of view of policy makers and labour market organizations, makes the bargaining environment more uncertain. Legislation to promote industrial democracy was introduced in the 1980s. In contrast to Sweden, profit-sharing schemes have been completely confined to the enterprise level.

7.5.2 *Finance and economic growth*

Throughout the 1950s and 1960s, the role of stock markets in allocating finance to business was unimportant in the SC countries. This did not necessarily mean a 'socialization of the investment function'. Austria came nearest to this left-Keynesian idea since the mediation of finance basically happened through banks which were nationalized. In Sweden, the banks remained mostly in private hands although the policy makers had some quantitative and qualitative control of flows of capital. In Finland the banking sector has been more independent and less subject to political intervention, which reflects the more conservative character of the Finnish policy model. But in all countries the banks have formally controlled the allocation of finance, and in all countries the banking sector has been oligopolistic. Thus important financial decisions have acquired a more strategic character than what would have happened in a stock market; policy makers and

powerful bankers have exerted a very strong influence on key investment decisions. In addition to the oligopolistic character of banking and finance, monetary authorities have used various instruments of credit control. After World War II, a policy of low interest rates was adopted in all the corporatist countries to suit the needs of reconstruction and rapid investment. This necessitated rationing of the available saving supply away from consumption and credit rationing has been in force in Austria, Sweden, Norway, and Finland. In Finland, however, the policy makers' grip on the credit markets was probably less powerful than in the other countries, owing to the lack of appropriate policy instruments other than the control of banks' behaviour at the discount window (Vartiainen 1989).

Norway is the prime example of an active credit policy geared to enhance structural change. In addition to public saving, Norwegian 'Credit Socialism' has consisted of extensive regulation of both the volume and the micro-economic allocation of credit. State banks have played an important role in the mediation of finance to key sectors of heavy industry, and private banks' credit allocation decisions have also been subject to far-reaching governmental steering.

In the 1980s, however, monetary markets were extensively liberalized in all SC countries. In a much more internationalized financial system, the traditional array of monetary controls has become difficult to maintain. Furthermore, many of the large firms have internationalized their own operations and advocate access to a liberalized financial system. Finally, many of the SC economies which started after World War II at a lower stage of industrial development have now developed mature and competitive industrial structures. One could argue that at this stage the previous regime of financial control is less functional.

7.5.3 *The role of the public sector in economic growth*

(a) The role of nationalized industries: The nationalized sector played an important role in post-war economic development in Finland, Norway, and Austria. In Finland, it was instrumental in the emergence of important industrial branches such as mining, chemicals, and petroleum refining. In Austria, where privately owned Austrian businesses were largely small and medium sized, the nationalized industries were the only non-foreign-controlled large-scale firms. They were (and are) to be found largely in basic processing (steel, mining) but also in chemicals and heavy mechanical engineering. In Sweden, nationalized industries never played such an important role.

Nationalized industries in Austria also played an important role in the full-employment strategy of the Austrian government after the first oil-price shock (see Landesmann 1990). By the late 1970s, the publicly owned companies came under much pressure—as was the case in many other

European economies—to operate in the same fashion as private businesses. Following a period of mounting deficits experienced by these corporations, this led to massive restructuring in the 1980s and even to privatization. In Finland, the management of publicly owned firms was always rather independent of political interference and their operation did not differ much from the way private businesses operated. In Norway, publicly owned firms played an important role in the country's distinct regional policy. At present, though, one can perceive changes in the orientation of Norwegian industrial policy in this respect. In Sweden, public ownership of industries has played a less important role, with die exception of the late 1970s when the state assumed a substantial share of the cost of maintaining a domestic shipbuilding industry (note, however, that 1976–82 was precisely the time when the Swedish model was 'run' by centre-right governments, and not by its Social Democratic architects).

(b) The public sector as employer of last resort: The role of the nationalized industries in this respect has already been discussed in the previous paragraph. In addition, empirical evidence to be presented later on shows the important role which public sector (non-manufacturing) employment played in all SC countries in the crucial period from 1973 to the late 1970s in maintaining full employment. Such a policy was indeed difficult to pursue in circumstances of rapid labour shake-out in the manufacturing sector and growth in the labour supply due to population growth and/or increased participation. The state sector acted as a 'sponge' to absorb the otherwise redundant labour force and thus helped to lift employment levels during crucial phases of industrial restructuring in the 1970s.

(c) *High spending on social services:* High spending on social services has traditionally been a hallmark of social corporatist economies. In the period of economic crisis after 1973, such spending played an important role in maintaining demand when investment collapsed in some of the economies. It also contributed to the general perception that the economic crisis did not translate itself into a social crisis of equal proportions. This allowed much of the institutional framework which characterizes SC economies to stay intact.

Apart from the above, the safety-net which social services provide has probably contributed to labour mobility across regions and occupations. It has also brought into the labour force sections of the population (especially women) which in many other economies have been driven out of the active labour supply.

(d) Public investment in infrastructure: The social corporatist experiments, particularly those of Scandinavia, have always paid special attention to training and retraining of the labour force, which satisfies the requirements of a continuously restructuring economy. Emphasis was also put on matching skills with an upward movement of the industrial structure towards high value-added segments of international production.

Research and development spending started from a relatively low level, particularly in Finland and Austria. Its level (measured as a proportion of GDP) is still low in these two economies, but the growth rates of such spending are comparatively high. Sweden on the other hand spends a higher proportion of its GDP on R. & D., and is among the technologically most sophisticated of the industrial world.

7.5.4 *Saving and investment*

(a) Structure of saving: The 'Nordic model of accumulation' is extensively analysed in Kosonen's chapter in this volume. Kosonen demonstrates that private saving rates are very low by international comparison. On the other hand, public saving financed through a relatively high burden of taxation compensates in such a way that investment rates are in general not low by international comparison. Recently, however, tax reforms were introduced in most of these economies, attempting to put a halt on further increases in taxation. In the future, therefore, it is questionable whether public savings will continue to play such an important role.
(b) Support for investment: Various schemes to support private investment activity such as early depreciation allowances (particularly generous in Austria) and interest rate allowances have been used very prominently in the SC countries. For a detailed discussion of these policies see Landesmann's chapter in this volume.

7.6 EMPIRICAL OVERVIEW OF FEATURES OF ECONOMIC GROWTH IN SOCIAL CORPORATIST ECONOMIES

(a) GDP and manufacturing output growth: Tables 7.1 and 7.2 present growth in GDP and GDP per capita for the four economies discussed in this paper and for the OECD and OECD Europe as a whole. We can see that the growth in GDP and GDP per capita was higher than in OECD Europe in three of the four economies (Swedish growth rates being somewhat lower). Norway's high GDP growth in the 1970s due to North Sea oil is particularly striking.

Output growth in manufacturing (Table 7.3), however, is particularly low in Norway over the 1970s and the 1980s reflecting the fast process of deindustrialization. It is very high in Finland over the entire period and in Austria until the early 1980s. Sweden experiences a recovery in the 1980s after a depressed manufacturing growth performance in the 1970s.

All in all, a comparison of the GDP and manufacturing output growth performance with the OECD European average reveals nothing very distinctive about this group of economies. Two of the countries (Austria and Finland)

TABLE 7.1 GDP (growth per annum) (%)

	1960–8	1968–73	1973–9	1978–87	1960–87
Large OECD countries	5.0	4.4	2.7	2.6	3.7
Austria	4.2	5.9	2.9	1.6	3.5
Finland	3.9	6.7	2.3	3.3	3.9
Norway	4.4	4.1	4.9	3.3	4.1
Sweden	4.4	3.7	1.8	1.8	2.9
OECD Europe	4.6	4.8	2.5	1.8	3.3

TABLE 7.2 Real GDP j per capita (growth) (%

	1960—8	1968–73	1973–9	1978–87	1960–87
Large OECD countries	3.9	3.3	2.0	1.9	2.4
Austria	3.6	5.4	3.0	1.6	3.2
Finland	3.3	6.5	2.0	2.9	3.5
Norway	3.6	3.3	4.4	2.9	3.5
Sweden	3.6	3.1	1.5	1.6	2.5
OECD Europe	3.6	3.9	1.9	1.3	2.6

TABLE 7.3 Real value-added in manufacturing (growth) (%)

	1960–8	1968–73	1973–9	1978–87	1960–87
Large OECD countries	6.3	5.4	2.3	2.6	4.1
Austria	4.5	7.4	2.7	1.5	3.7
Finland	5.3	8.6	2.9	3.7	4.8
Norway	4.3	5.0	0.2	0.9	2.5
Sweden	5.3	9.0	0.5	1.8	2.9
OECD Europe	5.6	6.1	2.0	0.8	3.5

experience in general higher manufacturing growth performance than the OECD European average and the other two economies (Norway and Sweden) lower growth. The same could be said about productivity performance in manufacturing (see Fig. 7.1 and Table 7.4).

(b) Productivity and real earnings growth and the recovery of investment: Fig. 7.2 compares the real earnings and productivity paths in manufacturing for each of the four SC economies and also for OECD Europe. Here a distinct picture does emerge: all the four economies experience over the 1970s and the 1980s

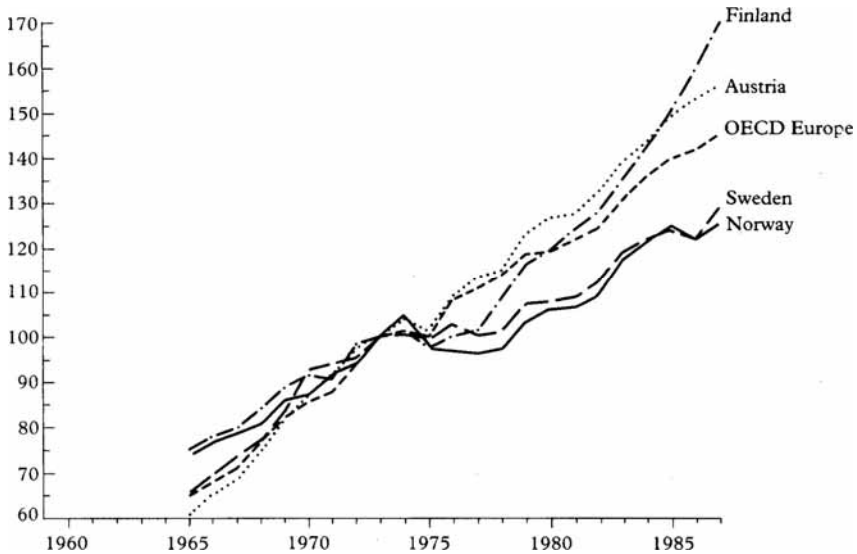


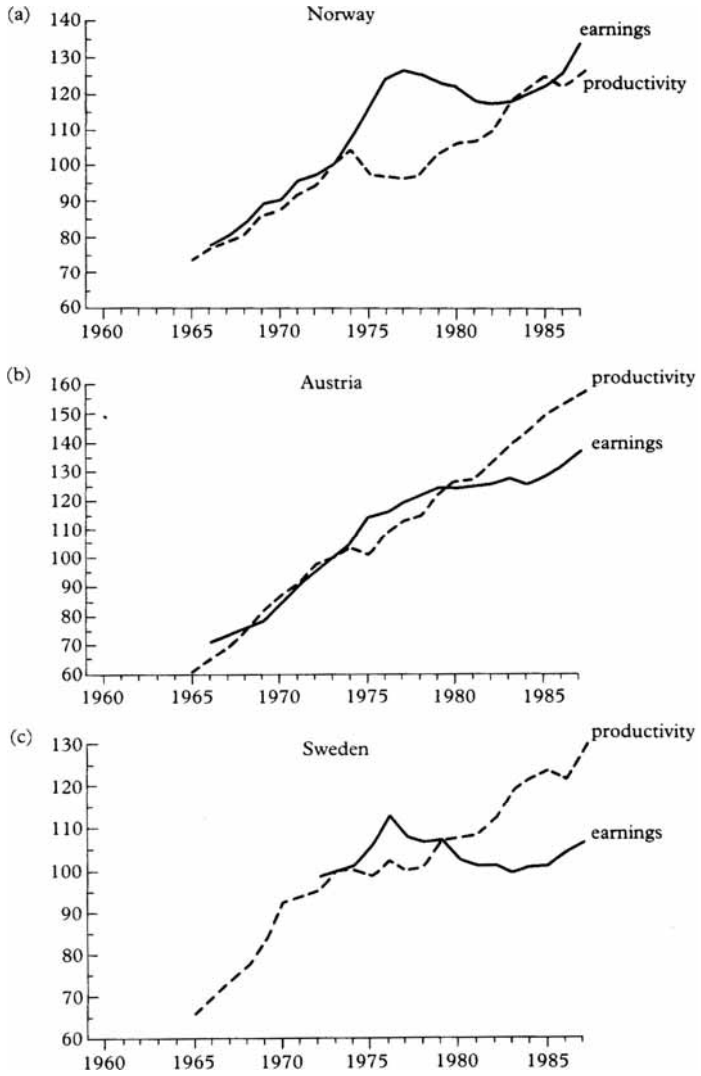
FIG. 7.1 Productivity in manufacturing (1973 = 100)

TABLE 7.4 Real value-added in manufacturing per person employed (%)

	1960–8	1968–73	1973–9	1978–87	1960–87
Large OECD countries	4.5	4.6	2.6	3.7	3.9
Austria	5.2	5.5	3.5	3.0	4.2
Finland	4.2	3.6	2.5	4.8	3.9
Norway	3.3	—	0.5	(3.3)[a]	—
Sweden	5.2	5.4	1.2	(2.8)[a]	—
OECD Europe	5.0	5.4	2.9	2.6	3.9

[a] One year missing.

distinct periods in which (labour) productivity growth outstrips real earnings growth. (Norway, however, also experiences a period in the mid-1970s in which earnings growth outstrips productivity growth but these trends get reversed in the 1980s.) This pattern (which, incidentally, also occurs in the USA and Japan) is a feature which does distinguish this group of social corporatist economies from the behaviour of other European economies. As Fig. 7.3 shows there are distinct periods in which real earnings growth has been substantially reduced and lags behind productivity growth. This pattern, which has been accompanied by a substantial recovery of profitability in the 1980s (in Austria this happened only in the late 1980s), explains also the distinct recovery of manufacturing investment in the 1980s in three of


(a)
Norway
earnings
productivity
140
130
120
110
100
90
80
70
60
1960
1965
1970
1975
1980
1985
(b)
Austria
productivity
earnings
160
150
140
130
120
110
100
90
80
70
60
1960
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1975
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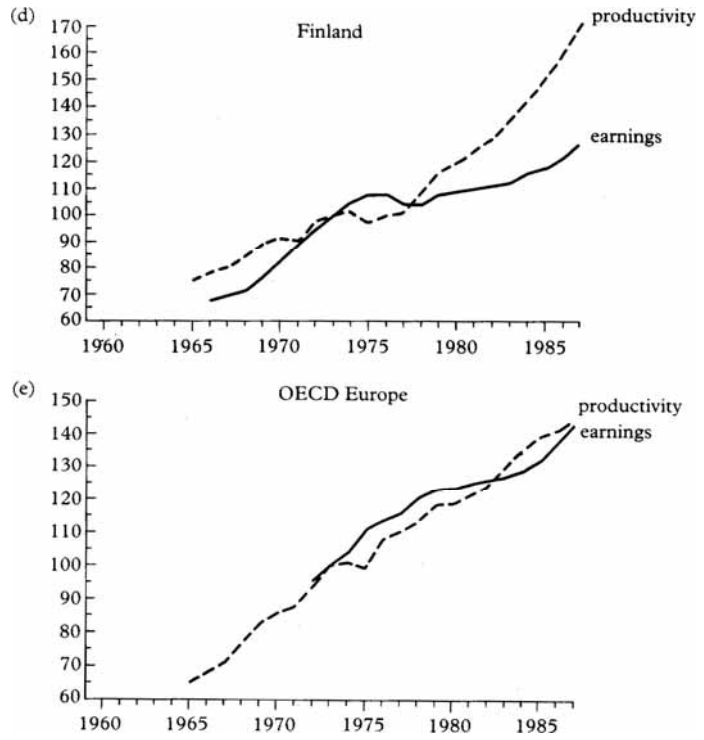

FIG. 7.2 Real earnings and productivity in manufacturing (1973 = 100)

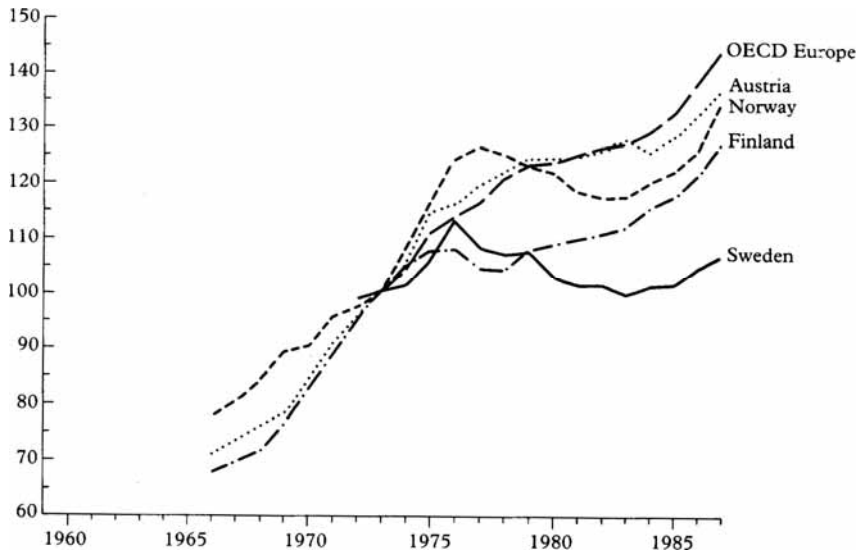

FIG. 7.3 Real earnings in manufacturing (1973 = 100)

the four economies (with the exception of Austria; see Table 7.5). Both Finland and Sweden, which experienced a dramatic slump in investment in the mid-1970s, show a remarkable recovery in the 1980s (much higher than OECD Europe as a whole).

(c) *Investment shares and profitability:* Tables 7.6 and 7.7 on investment shares (gross fixed capital formation as a percentage of GDP) and rates of return, as well as Fig. 7.4 which plots profitability indicators and investment shares

TABLE 7.5 Real gross fixed capital formation (growth) (%)

	1960–68	1968–73	1973–9	1978–87	1960–87
Large OECD countries	6.3	5.8	1.5	2.3	3.9
Austria	5.6	8.1	1.2	0.7	3.6
Finland	2.5	8.7	–1.3	3.2	3.0
Norway	5.5	6.3	2.1	3.0	4.1
Sweden	5.0	6.5	–2.9	4.9	3.9
OECD Europe	5.8	5.2	0.2	1.1	3.0

TABLE 7.6 Gross fixed capital formation as a percentage of GDP

	1960–68	1968–73	1973–9	1978–87	1960–87
Large OECD countries	20.5	21.9	22.1	20.7	21.2
Austria	26.4	27.2	26.4	23.2	25.7
Finland	26.6	26.2	27.4	24.5	26.1
Norway	28.0	27.4	32.9	26.1	28.7
Sweden	24.1	22.6	20.6	18.0	21.6
OECD Europe	23.0	23.6	22.4	20.2	22.2

TABLE 7.7 Rates of return in the business sector (%)

	Pre–1979	1975–9	1980–6
Large OECD economies	24.2	19.8	18.8
Austria	23.6	17.4	15.4
Finland	17.0	12.8	13.3
Norway	14.9	12.4	11.5
Sweden	19.0	15.3	14.6
OECD Europe	19.8	16.9	16.3

Source: OECD, *Economic Outlook* (June 1989).

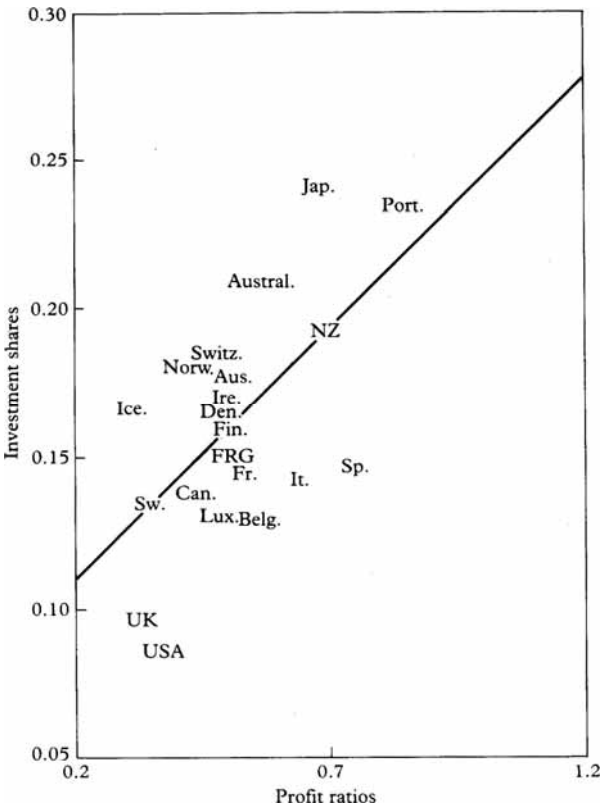

FIG. 7.4 Investment shares and profit ratios in OECD economies, 1960–1985

Notes: Investment shares = net capital formation/national income; profit ratios = operating surplus/compensation to employees.

Source: OECD, *National Accounts.*

for all OECD economies, reveal another distinct feature of the social corporatist economies: while rates of return in the business sector are rather low (with the expansion of Austria) in comparison with OECD Europe, investment shares are high (except for Sweden after 1973). This points to a particular characteristic of the SC economies: these economies seem to be able to maintain comparable or even higher investment activity compared to other OECD economies while showing significantly lower rates of return or profit shares in national income. One reason for this situation could be the particular structure of saving typical for these economies (see discussion in section 7.5.4). Another reason could be compensating factors such as good industrial relations, expectations of stable growth, and continuity of macro-economic policy direction. This conclusion is also borne out by a cross-country regression

analysis of investment in which investment shares over various subperiods are regressed on profitability and growth indicators. For most of the time periods, all the corporatist countries lie above the regression line, as is apparent from Fig. 7.4.

In section 7.3, the abundance of labour was emphasized as one determinant of growth, suggesting that social corporatism may be a co-operative solution for dealing with labour shortage. While the paucity of data does not allow a very far-reaching analysis of the role of labour supply, it is certainly of interest to note that a comparison of investment ratios reveals an even stronger regularity if labour supply is used as a conditioning factor. Using Kindleberger's (1967) classification of countries into high and low labour supply ones, we have investigated investment ratios within the low labour supply growth group, to which the social corporatist economies of Sweden, Austria, and Norway belong. Within the low labour supply growth group, the investment ratios of the SC economies are clearly higher than those of the non-corporatist low labour supply economies of Belgium, The Netherlands, and France; the former lie consistently above the OECD average whereas the latter remain below it (see Fig. 7.5).

(d) Sectoral patterns of employment and productivity growth and implications for long-run competitiveness of the tradable sector: Table 7.8 shows employment growth in the manufacturing and service sectors as well as in public employment. We can see that the negative employment growth in the manufacturing

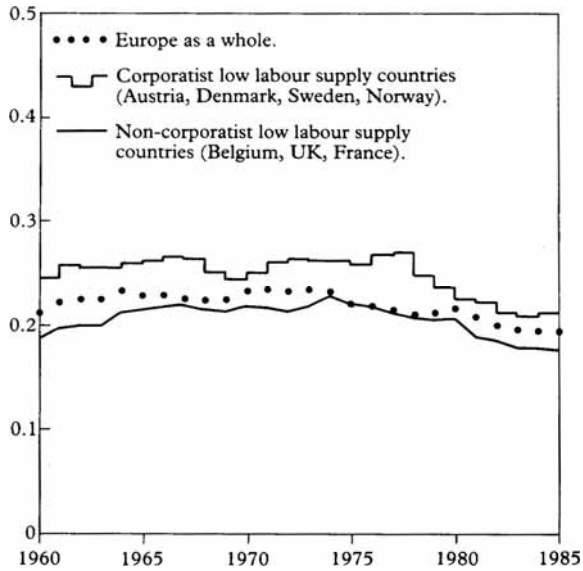

FIG. 7.5 Investment ratios in three groups of countries

Note: Investment ratios - investment (gross)/GDP.

TABLE 7.8 Employment in manufacturing, services, and government (%)

	1960–8	1968–73	1973–9	1978–87	1960–87
Manufacturing					
Large OECD countries	1.7	0.8	–0.3	–1.0	0.3
Austria	–0.7	1.8	–0.7	–1.5	–0.5
Finland	1.0	4.8	–0.1	–1.0	0.8
Norway	1.0	—	–0.2	–1.1	—
Sweden	0.1	–1.3	–0.6	(–0.7)[3]	—
OECD Europe	0.6	0.7	–0.09	–1.6	–0.9
Services					
Large OECD countries	2.3	2.7	2.5	2.1	2.4
Austria	1.3	1.8	2.4	1.3	1.6
Finland	2.9	3.7	2.2	2.5	2.8
Norway	2.0	—	4.0	2.5	—
Sweden	2.0	3.2	2.8	(1.6)[a]	—
OECD Europe	1.9	2.1	1.8	1.8	1.9
Government					
Large OECD countries	3.2	1.9	1.7	1.0	2.0
Austria	2.2	3.6	3.9	(1.9)[a]	2.9
Finland	4.5	4.7	4.7	2.8	4.1
Norway	—	4.6	3.6	2.6	3.5
Sweden	5.2	6.3	4.9	(2.0)[a]	4.3
OECD Europe	2.3	3.5	2.4	1.3	2.2

[a] Years 1978–89.

sector in these economies over the 1970s and 1980s was very much in line with average OECD experience. The manufacturing sector did not react very differently in contributing potentially to severe unemployment. However, figures on employment generation in services and particularly in public employment show much higher rates of employment growth than in the OECD in general. Referring back to relative productivity growth in manufacturing (not very different from the OECD European average, see Table 7.4) and services (in general much lower than the OECD European average in the 1970s and 1980s, see Table 7.9), this confirms the picture obtained in our analysis: that these economies attempted to restructure their tradable sectors (in most cases successfully) so as to maintain (or even improve) their competitiveness while using the sheltered sectors of the economy to avoid unemployment.

Table 7.10 presents figures for the trade balance as a percentage of GDP. We can see that after a period of negative performance on the trade balance in 1970s, there is in most cases a remarkable turn-round in the 1980s (with

TABLE 7.9 Real value-added in services (growth), and per person employed (%)

	1960—8	1968–73	1973–9	1978–87	1960–87
Growth					
Large OECD countries	5.2	9.6	3.4	2.9	4.0
Austria	4.0	5.5	3.3	2.0	3.5
Finland	4.6	7.4	2.8	3.8	4.5
Norway	4.6	4.6	3.3	2.5	3.7
Sweden	4.1	3.8	2.5	1.7	3.0
OECD Europe	4.5	4.9	3.2	2.3	3.6
Per person employed					
Large OECD countries	3.0	2.0	12.0	0.8	1.7
Austria	2.7	3.7	0.9	0.7	1.8
Finland	1.7	3.7	0.6	1.4	1.7
Norway	2.7	—	–0.7	(–0.09)[3]	—
Sweden	2.0	0.7	–0.3	(0.06)[a]	—
OECD Europe	2.8	2.9	1.4	0.6	1.8

[a] Years 1979–89.

TABLE 7.10 Trade balance of a percentage of GDP (average)

	1960–8	1968–73	1973–9	1978–87	1960–87
Large OECD countries	0.6	0.6	0.1	–0.2	0.3
Austria	–0.1	0.6	–0.7	0.2	0.0
Finland	–1.1	–0.1	–0.7	0.9	–0.2
Norway	–1.8	0.0	–4.7	4.9	–0.1
Sweden	–0.1	0.7	–0.7	1.4	0.4
OECD Europe	0.0	0.6	–0.1	0.7	0.3

Austria somewhat lagging behind). While this indicator has to be used with caution and interpreted in the light of terms of trade movements and relative GDP growth in these economies relative to their trading partners, it does point to a relatively successful performance in which a twin strategy of, at the same time, maintaining or improving the competitiveness of the tradable sector while keeping low levels of unemployment and maintaining public services (see Table 7.11) far above the OECD European average was pursued.

[2] For an extensive discussion of structural adjustment in the tradable sectors in these economies and for the presentation of various indicators of competitiveness, see Landesmann in this volume.

TABLE 7.11 General government claim on resources

	Total outlays as%ofGNP				Government employment share (%)			
	1960	1975	1980	1986	1960	1975	1980	1986
Large OECD countries	28.8	37.7	38.4	40.0	11.5	14.7	14.6	14.7
Austria	35.7	46.1	48.9	51.9	10.5	16.4	18.2	20.5
Finland	26.6	36.1	36.5	42.3	7.7	14.6	17.8	20.8
Norway	29.9	48.4	50.7	52.0	—	19.3	21.9	23.3
Sweden	31.0	48.9	61.6	63.5	12.8	25.5	30.7	33.0
OECD Europe	31.5	44.1	45.8	48.9	10.4	15.4	16.7	18.1

Source: OECD (1989: table 5.2, p. 158).

7.7 CONCLUSION

This chapter has presented an overview of certain features of social corporatist economies and longer-term economic development. We should like in conclusion to discuss some of the challenges which lie ahead, particularly with respect to the adjustment of social corporatist structures to the process of closer European economic integration in the 1990s.

There were two aspects which we emphasized when discussing the emergence of social corporatist institutions in a number of European economies in the course of this century. One was the observation that in many countries the emergence of social corporatism coincided with some crucial 'catching-up' phase of the economy. The other was that they were (and are) small, open economies.

In the present context of closer European integration we can perceive that most northern and central European economies have converged in terms of the degree of maturity of their industrial structures and, while there are still some 'technological gaps' to be closed (e.g. in the case of Austria), most countries now compete more or less successfully on equal terms with other industrialized economies.

They will continue to be relatively 'small' which will make them predestined to be 'niche' producers in an international economy where intra-industry specialization and trade are the main expression of the international division of labour amongst advanced economies. However, closer political integration in Europe will limit the extent to which countries will be able to have recourse to national economic policy instruments as a means of achieving long-term competitive advantages.

7.7.1 *Where does that leave social corporatism?*

In our opinion the debate concerning social corporatism will shift over the next few years to a discussion of political-economic structures at a transnational level. The recent debate concerning the 'Social Charter' of the European Communities has already shown this. While the main pressure for complete integration of the European market by 1992 might come from business, that debate has shown that, given the political and social history of the different European economies, the consideration of the 'social' aspects of such an integration process cannot be neglected. An institutionalization (e.g. in the form of a harmonization of European legislation) of social policy questions at a pan-European level amounts to a Europeanization of social corporatist structures. However, another aspect of such internationalization seems to have been lagging behind such developments. It concerns the internationalization of

[3] Austria has already submitted its application for full EC membership, and it is expected that Sweden and Finland will follow suit in the course of the 1990s.

wage-bargaining arrangements or union policy in the wider sense at a pan-European level. While in certain branches unions have developed cross-country strategies to face multinational employers, such strategies are so far few and not always very successful. Union organizations still seem to be very nationally orientated and find it difficult to become active in the 'trans-national' arena. There is, however, also a more structural aspect to this problem: Collective organizations gain their effectiveness from the close monitoring of members' interests and the flexibility they show to new demands which emerge from changing circumstances. Such monitoring of demands is- by definition, easier in smaller-scale organizations, and, equally, the flexibility they can show towards the particularities of the interest groups they represent is also in most cases inversely related to size.

The danger of organizational centralization at a high level (e.g. at a European level) thus carries risks for trade union organizations as far as the representation of and adaptability of their actions to members' interests is concerned. On the other hand, the traditional rationale of trade union organizations in capitalist market economies is that they enforce certain common standards across competitors and these standards counteract the unbalanced growth and segmentation processes which would otherwise emerge. This reasoning behind the potential for organization of union and labour representation at a pan-European level will continue to exist and the formulation of the 'Social Charter for Europe' is an expression of it. Initiatives in this direction are evidence of an international integration process of social corporatist structures.

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8

Industrial Policies and Social Corporatism

Michael Landesmann

8.1 INTRODUCTION

This chapter discusses the relationship between industrial policies and 'social corporatism'. The notion of 'social corporatism' has been defined (see e.g. Goldthorpe 1984; Schmitter and Lehmbruch 1979) as the tripartite (business, labour, and the state) institutionalized involvement in the formulation and execution of economic and social policies. The group of Scandinavian countries (Sweden, Norway, Finland) and Austria have been singled out as representing the most developed forms of corporatist arrangements of this type at the present time and this chapter sets out to examine the experience of these economies *vis-d-vis* the success or failure of the industrial (or structural) policies pursued in them, particularly over the 1970s and the 1980s.

As we will see, the experiences even within this group of economies are rather varied. They had in common with other advanced economies the strong pressure to undergo industrial structural adjustment in the wake of the two oil-price shocks, the lower growth environment of the world economy, and the increased degree of international competition both from NICs and from the increasing degree of international integration amongst advanced economies. They also faced the additional pressure—which is particularly strong in social corporatist economies—to pursue a policy towards industrial structural adjustment which puts heavy emphasis upon minimizing the social costs (and the even distribution of the gains) of such adjustments. This led to an interesting mix of both defensive and constructive policies (the former refers to policies designed to smooth the process of structural adaptation, the latter to policies orientated towards the support of new activities, skills, etc.) which were used with varying and changing emphasis in the four economies and over the period examined in this chapter.

The structure of the chapter is as follows: section 8.2 addresses the general question of the relationship between industrial policies and social corporatism, section 8.3 describes the evolution of industrial policies and of structural change in the four economies in some detail, and section 8.4 summarizes some of the interesting differences which the country studies reveal about the experiences of the four economies.

8.2 GENERAL QUESTIONS CONCERNING THE RELATIONSHIP BETWEEN CORPORATIST STRUCTURES AND INDUSTRIAL POLICY

8.2.1 *Why is there such a strong emphasis in the economic literature examining corporatist experiences on incomes policy and on wage-setting institutions?*

At first sight, the almost exclusive attention on the relationship between corporatist institutions and one particular macro-economic variable, the general level of wage settlements, seems odd for the following reasons.

Corporatist arrangements seem to be designed to operate in the *longer run,* i.e. they are supposed to provide a framework in which the mediation of specific group (or class) interests is achieved and in which medium- to long-run social and economic targets can be met. In the recent economic debate, however, the role of corporatist institutions has mostly been discussed within the context of *short run* macro-economic analysis.[1] As is well known, short-run macro-economic analysis today, as it was the case in the inter-war period, focuses upon the labour market as an explanation for the level of employment or unemployment and, in particular, upon the role of wages in regulating the level of employment. It seemed natural for macro-economists, who were interested in finding an explanation for the varying experiences of different economies with respect to unemployment and the growth of employment, to make differences in the wage-setting mechanisms in these different economies responsible for the different unemployment (employment) experiences. The relatively narrow focus in the economic literature on wages policies in different economies and the role of corporatist institutions in affecting wage levels thus satisfied the needs of current (and pre-war) macro-economic analysis.

Another reason why the issue of wage settlements has been in the forefront of the analysis of the economic impact of corporatist institutions is that wages could be seen as the most *explicitly targeted variable* in many corporatist arrangements. Even if that can be agreed upon in the case of a number of European economies, it must be recognized that the general level (or the rate of growth) of wages can only represent an *intermediate target* variable. The ultimate targets which are seen to be affected by this variable are rather the overall level of employment (or unemployment), the rate of inflation, the rate of growth, etc.

Apart from the fact that the relationships between the wage level and these other, ultimate target variables are hotly debated in current macro-economic analysis, it is quite clear that these variables are also affected by

[1] See Bruno and Sachs (1985), Calmfors and Driffill (1988), Newell and Symons (1987), Freeman (1988).

a host of other variables which are also subject to the influence of corporatist arrangements. For example, it is difficult to predict, even in an orthodox economic model, how wage settlements will affect the rate of inflation without at the same time knowing how productivity growth is affected.

The point which is at issue here is the following: corporatist arrangements are by their very nature slowly evolving longer-term historical features of capitalist economies,[2] which in many cases affect comprehensively the ways in which economic processes evolve in these economies. A singular concern with the impact of corporatist structures upon one particular variable, the general level of wage settlements, and then indirectly, upon employment, inflation, and growth, is thus seriously misleading.

In this essay, I will discuss the influence of corporatist arrangements upon industrial policies and thus analyse their impact upon a host of other variables and relationships, such as productivity growth, the sectoral orientation of industrial growth, training, and research and development. While these are the variables which affect the industrial growth process in the long run, it seems none the less to be indispensable to consider these variables if one is to understand and compare the employment, growth, and inflation experiences of a number of European 'social corporatist experiments' over the 1970s and the 1980s.

8.2.2 *Why do industrial policies often occupy a secondary place in social corporatist settings?*

The first answer to this question could simply be that industrial policies are in fact central to social corporatist experiments but they appear not to be so and are overshadowed by other policies such as incomes policies.

There is—in my opinion—something to this argument: industrial policies by their very nature attempt to influence economic performance in the long run. They are also composed of a wide variety of heterogeneous instruments which operate in very specific—often micro-economic—ways in different sectors of the economic system. There is no reason to presume that they do not affect macro-economic performances in a substantial way just as the use of straightforwardly macro-economic instruments[3] (such as exchange rates, fiscal and monetary policy, and, indeed, incomes policies) might do. But their effects are very difficult to assess quantitatively precisely because of the longer-term nature of their impact and because of the heterogeneous use and effects of these instruments. Macro-economic policy instruments,

[2] See e.g. Maier (1984) for a historical account of the evolution of corporatist structures in a number of advanced economies.

[3] Nobody would deny, for example, that training and educational policies in the German economy have had a marked effect upon its industrial performance and similarly one would agree with respect to the role of Japan's industrial policy in the post-war era.

including wages and incomes policies, on the other hand, are often used in a discrete manner, frequently responding to situations of economic crisis, and thus their effects are more easily discernible in the short term.

There is however also a deeper reason why industrial policies are not perceived as belonging to the core of social-corporatist experiments.[4] At first sight it seems as if a consensus on industrial policy targets (such as high industrial growth, increased competitiveness, etc.) would be easier to obtain than, say, an incomes policy where the underlying conflictual situation (over income shares) is more apparent. Industrial policies are targeted towards increasing national wealth as a whole and they thus open up positive sum options from which everybody could gain.

In actual practice, however, industrial policies are designed to be specific, i.e. directed towards particular industries, firms, regions, groups in the labour market, etc., rather than general. Even in those cases in which they are general (such as general tax allowances), they have a differential impact upon different parts of and actors in an economy. Implicit in industrial policy formulation and execution are therefore always trade-offs between different groups, regions, industries, etc.

As such, industrial policies are less conducive to centralized agreements (see also the discussion below on the effective use of industrial policy instruments) or to an easy summary in the form of macro-economic target variables (such as a general target of annual wage increases in the case of incomes policies) around which a consensus on the direction of macro-economic policies could emerge.

Furthermore, industrial policies have the same problem as all disaggregated policies and especially discretionary ones. They are prone to the impact of particularistic group interests and, in the case of industrial policies, of groups which want to preserve their current position in an economy if they are threatened by processes of structural change. Industrial policies which are meant to assist structural change could thus easily be turned into structure-preserving policies as a result of the specificity and possibility for discretion in the instruments employed and the political processes involved. This possibility is reinforced by the fact that the establishment of new industries, the support of R. & D. and training programmes in new directions, etc. only has 'potential' advocates in industry, while existing activities, skills, research lines, etc. are often represented by very vocal, well-entrenched interest groups. There is also an element of lack of transparency in the use of a large set of heterogeneous policy instruments which makes them more accessible to the lobbying tactics of particular

[4] In other forms of corporatism, for example the technocratic form of corporatism which characterized Japan's post-war economic policy performance, industrial policies are seen as very much at the core of the relationship between the corporate sector and the state (see e.g. Johnson 1982).

interest groups, often uncontrolled by the wider public scrutiny which more 'visible' policies are exposed to.

The difficulty which social corporatist experiments face with respect to industrial structural change in general, and industrial policies in particular, can also be expressed in another way. Social corporatism has the problem not only of finding a consensus (or a mode of conflict resolution) between classes, but also of building on a consensus within classes. At the least it has to show that it can successfully provide the framework to mediate between different segments of the same class and thus avoid open conflict.

Policies which speed up structural change, and which assist the uneven process of industrial development, face difficulties in being recognized as a basis for a consensus between the different segments of the same class. This is not necessarily and not in all circumstances the case: if structural change is perceived as indispensable for achieving industrial growth (as seems to have been recognized by the Swedish trade union and labour movement early on),[5] and adjustment to structural change is perceived as leading to an upward movement in real income positions, job content, etc. which will be widely diffused, then such consensus support may be found.

There is, however, a problem with the time horizon of such policies: industrial policies are not, in most cases, expected to have an immediate effect upon growth prospects and the modernization of the industrial apparatus. To carry along the support or at least understanding of those groups which stand to lose in the short run from structural adjustment processes but could gain in the longer run (which, in turn, will depend on the distribution of such gains) might be a difficult undertaking. Adjustment assistance, such as temporary employment schemes, mobility support, training for potential new jobs, is one way of assuring that the negative aspects of structural change processes get weakened or, in a forward-looking manner, provisions are made for a 'new structure' to emerge. The experience in different economies (such as Austria, Norway, Sweden) shows that such measures are able either to support or to inhibit and even prevent structural change from taking place.

We also know that—depending upon the time horizon and the scope of such measures—these (adjustment-assisting) policies might absorb a large (and often growing) fraction of the total funds available for industrial policy purposes. In the case where the modernization process takes longer than expected or is unsuccessful (sometimes because of international circumstances), the budgetary problems posed by policies which assist structural adjustment may become very severe and, in some cases, unsustainable. (See the case histories in section 8.3 of this essay.)

A further problem which arises in connection with industrial policy-making

[5] See the early trade union documents LO (1951) and LO (1961, 1966).

in a corporatist setting is that—unlike other components of social corporatism—industrial policies are often not formulated or executed in a *tripartite setting,* i.e. with representatives of the state and *both* labour and management being involved.

Many industrial policy measures are formulated and executed as a result of the direct interaction between ministerial bureaucracies and the management or owners of firms or their representatives, with little participation of labour or their representatives. This also explains the much more central role which industrial policies play in forms of corporatism other than social, such as the technocratic form of corporatism pursued by Japan or France in the post-war period.[6] Often there is also a division of responsibilities for different types of industrial policies (regional policies, manpower planning and training, R. & D. support and high-technology schemes, the provision of public utilities, and the running of nationalized industries, etc.) within the overall ministerial bureaucracy. These different branches of public policy-making bodies search for the agreement and support of different interest groups with regard to different types of policies. Thus manpower planning and training schemes might in fact include trade union representatives in the consultative process, while R. & D. support might not; regional grants might involve local authorities, while various types of investment support might be dealt with exclusively in interaction with the management of firms, etc. From the point of view of resolving conflicts, such a decomposition of industrial policies into different parts might be a good strategy. However, the same decomposition might not be conducive to achieving broad support for a powerful and coherent industrial policy programme (an 'industrial strategy') which would receive weight and urgency similar to short-run macro-economic policies.

Industrial policies are thus caught in a dilemma: from the point of view of obtaining maximum and broad-based support, industrial policies should be consistently formulated, be as transparent as possible, and the rationale of a particular package should be widely disseminated and made easily understandable. From this point of view use should be made mostly of non-discriminatory schemes (such as general tax allowances, access to training for as wide a section of the potential labour force as possible, general R. & D. support, etc.). However, from the point of view of maximum effectiveness, industrial policies should be 'tailored' to the specific needs and circumstances of particular regions, industries, segments of the labour force, etc. This would allow, for example, easier monitoring of the fulfilment of the so-called 'additionality' requirement often imposed in government schemes and would allow a concentrated use of funds where they are most needed. It would also allow a more effective targeting of

[6] See e.g. Pempel and Tsunekawa (1979).

instruments to specific requirements. This, though, would reduce the overall transparency needed for broad-based involvement and also increase the feeling that discriminatory practices were being pursued and increase the conflict potential between different interest groups.

There is a final point which has to be made with respect to the problematic relationship between social corporatism and industrial policy. As mentioned before, industrial policies are aimed at affecting industrial structures and industrial practices of an economy in the long run. They are thus designed to have an impact upon the structural characteristics of an economic system, while these are taken as given for the purposes of short-term macro-economic policy-making which are not themselves aimed at changing such characteristics. Industrial policies thus have the potential to affect the way in which economic processes are carried out and can—potentially—qualitatively transform an economic system. It is this potential of industrial policies to transform the qualitative characteristics of an economic system which has caused—in a number of historical circumstances—sharp political conflicts over the formulation and implementation of such policies. Examples for such conflicts are the debates concerning nationalization after both World Wars I and II in a number of European countries,[7] the conflicts which erupted with Mr Benn's tenure of office as Minister for Industry in the Labour cabinet of 1974/5 in the UK and his proposals concerning corporate planning agreements, the conflicts over the Swedish wages funds in the late 1970s and early 1980s, etc.[8]

While, in the longer run, capitalist structures often do exhibit remarkable abilities to adjust to such reforms, at the point of actual implementation such policies often lead to acute political and social conflicts which can threaten existing social corporatist agreements even though these might get re-established in a different form alongside or after the implementation of such reforms.

8.3 SOCIAL CORPORATISM AND INDUSTRIAL POLICIES IN AUSTRIA, FINLAND, SWEDEN, AND NORWAY

In this section we shall deal with the particular experiences of a group of social corporatist societies *vis-d-vis* structural change and industrial policies over the period of the 1970s and the 1980s. We shall first present some statistical background information concerning macro-economic developments in the different economies and then discuss in some detail their specific experiences with respect to structural change and industrial policies.

[7] See e.g. Weissel's (1976) excellent discussion of the socialization debates in Austria after World War I.

[8] See e.g. Pontusson (1987) concerning the debates on the establishment of the Swedish-wages funds.

Table 8.1 shows the percentage shares of the labour force employed in agriculture, industry, and services and Table 8.2 presents some figures concerning economic developments in the four economies over the 1973–9 and the 1979–86 periods. The figures in Table 8.1 show that the three economies found themselves by the early 1970s still at substantially different stages of industrial development. Austria and Finland still had a substantial share of the labour force employed in the primary sector, while Sweden and Norway had already embarked, by the early 1970s, upon a process of 'deindustrialization' (defined by a declining share of the labour force employed in manufacturing). That process of deindustrialization was most rapid in the case of Norway (which became an oil economy over that period), followed by Sweden. The share of the labour force employed in manufacturing in Austria is high by international standards.

As regards developments over the subperiods 1973–9 and 1979–87 (Table 8.2), we can see that Sweden achieved relatively low rates of growth of GDP over both periods and Austria's growth decelerated substantially in the second period, while Finland's increased.

The growth rates of fixed capital formation show that both Sweden and Finland experienced a dramatic slump in investment activity after the first oil-price shock but recovered thereafter. Figures on unemployment rates show that all countries achieved substantially lower rates than the OECD average (although Finland's unemployment rate jumped to about 6 per cent by 1979).

How these unemployment rates were achieved given the different demographic conditions, developments in participation rates, migration, etc. in the different economies is discussed in other chapters of this volume. Here we simply produce the figures on employment growth over the two subperiods (which show rather different experiences for the different economies) and figures on labour productivity growth. The latter show the rather strong decline in productivity growth over the 1970s and 1980s for Austria, Finland, and Sweden relative to the pre-1973 period, a well-known feature experienced throughout the OECD from which this group of social corporatist economies did not escape. Productivity growth in Sweden was particularly low.

We shall now turn our attention to the particular features of industrial structural change and of industrial policies in the four economies with emphasis on the 1970s and the 1980s.

8.3.1 *Austria*

Austria was engaged in reconstruction after World War II and was closely linked (through trade and investment) with the West German economy. It had few problems in the 1950s and 1960s in moving 'upstream' in the development of its industrial structure: Austria was—relative to Germany—at

TABLE 8.1 Percentage of the labour force employed in agriculture, industry, and services in Austria, Finland, Norway, and Sweden

	Austria				Finland				Norway				Sweden			
	1970	1975	1980	1986	1970	1975	1980	1986	1970	1975	1980	1986	1970	1975	1980	1986
Agriculture	18.9	12.5	10.5	8.6	22.6	14.9	13.6	11.0	13.9	9.9	8.3	7.2	8.2	6.4	5.6	4.2
Industry	40.3	40.9	40.3	37.8	34.6	36.1	34.6	32.0	37.2	34.4	29.1	26.7	38.4	36.5	32.2	30.1
Services	40.8	46.5	49.2	53.6	42.8	48.8	51.8	57.0	48.8	56.3	62.5	66.1	53.5	57.1	62.2	65.6

Source: Calculated from OECD (1988*d*).

TABLE 8.2 Developments in Austria, Finland, Norway, and Sweden, 1973–1987 (average annual percentage growth rates)

	Growth of GDP		Growth of gross capital formation		Growth of employment		Unemployment rates			Growth of labour productivity in the business sector		
	1973–9	1979–87	1973–9	1979–87	1973–9	1979–87	1973	1979	1987	Pre–1973	1973–9	1979–85
Austria	3.23	1.97	1.19	1.07	0.29	0.31	0.9	1.7	3.8	5.5	3.9	2.2
Finland	2.96	3.76	0.24	3.28	0.29	1.10	2.3	5.9	5.0	5.0	3.2	2.0
Norway	4.79	3.42	4.01	2.13	1.84	1.54	1.5	2.0	2.1	3.0	4.3	2.4
Sweden	2.13	2.00	–0.70	2.21	0.97	0.64	2.5	2.1	1.9	3.1	1.9	1.4

Source: All the figures have been calculated from OECD (1988e), with the exception of the labour productivity figures which were taken from OECD (1987).

an earlier stage of industrial development, and the further evolution towards a more mature industrial economy was relatively straightforward. It involved, for example, the development of its chemicals and electrical engineering industries and the lowering of its dependence upon natural-resource based industries such as wood and wood-processing.

The social corporatist institutions which developed after World War II did not reflect the need for an explicit industrial policy but rather provided a framework in which the 'social partners' (labour and business) could co-operate on incomes policy targets and on broad issues of macro-economic policy.[9] The strong presence of foreign businesses (multinationals) in most advanced areas of industrial activity, as well as the small and medium-sized character of the domestic privately owned business sector, also made it difficult to develop an industrial policy framework *a la* 'Japan Inc.' or 'Sweden Inc.'. The reasons why the large sector of publicly owned enterprises, particularly in the basic industries such as steel, coal mining, chemicals, and machinery production, was not more actively used to further the modernization process of Austria's economy (as was, for example, the case in Finland) need further study.

A straightforward argument could be that things were going well in the 1950s and in the 1960s and little needed to be done in terms of selective intervention by the government. Investment rates were high (also due to a policy of generous early depreciation allowances) and the consensus on macro-economic policy management also turned out to be robust with respect to the impact of the first oil-price shock in 1973. Austria responded with a strong continued commitment to maintaining full employment. It used fiscal policy to that purpose but also preserved employment levels in the nationalized industry sector in order to achieve this goal.[10]

Industrial structural change from the late 1960s onwards proceeded in line with other industrial economies, but at a pace which did not allow much further closing of the gap with more advanced economies such as West Germany and Sweden. (See e.g. the comparisons made in the OECD Economic Survey on Austria: OECD 1985a: 39–40.)

The OECD report mentions a WIFO study (WIFO 1982) in which productivity differentials between Austrian and German industries are examined. Between 1964 and 1980, these differentials shrank for some industries (such as fabricated metal products, machinery and equipment, and chemicals) but increased (for basic metals) or remained constant for others. Overall, the productivity differential to Germany still remains important (see also Aiginger 1982: 222). Compared with other OECD economies,

[9] For a general discussion of the development of social partnership arrangements in Austria after World War II, see e.g. Nowotny (1982).

[10] See Table 8.A1 for information about employment and productivity development in Austria's nationalized industries.

Austria experienced a sharp deceleration of relative productivity growth in the basic metals and chemicals industries after 1973. In other industries, Austria compared favourably with productivity developments abroad.

Austria's trading position towards other advanced economies still shows a high export dependence upon basic and semi-finished goods. The share of high-technology products in its exports is still low, and not increasing rapidly (see Table 8.3). Austria's spending on R. & D. is very low compared to the OECD average and, although the ratio of R. & D. to GDP is increasing, it is not increasing at the rate it does for some of the other countries (particularly Finland) discussed in this chapter (see Table 8.4).[n] Patent applications, while being relatively high in Austria for historical reasons, have actually fallen over the 1970s and the 1980s (see Table 8.5). As mentioned above, a distinct feature of Austria's industrial structure is the strong presence of foreign-owned companies particularly in advanced industries, such as electrical engineering, and also the large share of publicly owned companies.[12] These two together account for a large share of total R. & D. spending in Austrian industry. The small to medium scale of Austrian-owned private businesses is a factor explaining the comparatively low overall spending on R. & D.

TABLE 8.3 Share of high-technology products in exports of manufacturing in Austria, Germany, and Sweden

	1970	1975	1980	1982
Austria	7.6	7.6	8.9	8.7
Germany	13.6	13.4	14.8	16.0
Sweden	10.6	11.6	12.0	12.9

Source: OECD (1985a: table 13, p. 41).

TABLE 8.4 R. & D. expenditure as % of GDP in Australia, Finland and Norway

	1970	1975	1980	1985
Austria	0.61	0.92	1.10	1.27
Finland	0.78	0.91	1.07	1.53
Norway	1.10	1.34	1.27	1.53
OECD average	2.12	1.99	2.07	2.45

Source: OECD (1987: table 24, p. 46).

[n] See also the detailed figure presented by E. Volk in s. 12 of the WIFO Report (WIFO 1987).

[12] In addition to the publicly owned companies under the control of the OEIAG, the state holding company, which accounted for about 13% of industrial employment in 1983, there are many companies controlled by state-owned banks which account for an additional 10% of industrial employment (see OECD 1985a: n. 24; see also the discussion in Aiginger 1988).

TABLE 8.5 Total patent applications in Austria, Finland, Norway, and Sweden

	1965	1970	1975	1980	1983
Austria	2,714	2,267	2,525	2,345	2,388
Finland	819	861	1,164	1,356	1,719
Norway	870	938	752	716	825
Sweden	4,814	4,343	4,042	4,126	4,331

Source: Englander *et al.* (1988: table 3, p. 16).

The nationalized sector is concentrated in the basic industries such as mining, basic metals, chemicals, and machinery production, while Austrian-owned private firms are to be found particularly in textiles and food production. As we mentioned earlier (see also n. 11 above), these two parts of die economy behaved very differently over the different subperiods since 1973. Between 1973 and 1978, in the wake of the first oil-price shock, employment in the nationalized sector increased by about 5 per cent, and fell in the private incorporated business sector by 12 per cent (see Aiginger 1982: 223). After 1982, on the other hand, the employment losses in the nationalized sector were much more severe. We will return to these more recent developments, after describing certain features of Austrian industrial policy.

The institutional basis for an active industrial policy is poorly developed in Austria. The 'Paritatische Kommission' occupies a central position in Austrian economic policy formation, but it concentrates its policy recommendations on questions of wages and prices and general macro-economic stability. Until the early 1980s the awareness of a need for an industrial policy framework was very low, although a number of studies had been commissioned by the Beirat fur Wirtschafts- und Sozialfragen (another powerful social partnership institution; see Guger in this volume) in the late 1970s which reflected a concern about the lack of a properly formulated and executed industrial policy, particularly in the areas of technology policy, direct export, and investment support. Existing investment support was criticized as being too broadly diffused, and as favouring capital-intensive and large enterprises.[13] Direct industrial support has often proved (given the political mechanism of its allocation) to be structure preserving in terms of both industrial and regional employment patterns. Otherwise, Austrian industrial policy is heavily biased in favour of indirect investment promotion in the form of accelerated depreciation and investment allowances, low interest credits from the (largely publicly owned) banking system,[14] and the formation of tax-free allowances.

[13] See e.g. Haas and Wehsely (1977) and Kager and Kepplinger (1981).
[14] OECD (1985a) estimates that about 30% of bank credits to industry are subsidized in Austria.

There is some evidence to suggest that the massive financial support given to the nationalized industries during the 1970s, which has undoubtedly helped to preserve employment levels in these industries over that period, has not however been used efficiently to develop effective training schemes (as happened, for example, in Sweden over the same period). These could have helped to equip the work-force with additional skills and supported a drive to restructure the enterprises and make them viable in the longer run. By the late 1970s and early 1980s the budgetary situation and the in-debtedness of the nationalized industry sector had deteriorated to such an extent that the overall policy direction started to change quite dramatically from the early 1980s onwards.[15]

The government commissioned a comprehensive review of the entire system of subsidies and transfers, a dramatic reorganization of the Austrian state holding company (OEIAG) was initiated, and the privatization of some of its subsidiaries was envisaged.[16] There is a plan to step up R. & D. spending to a level of 1.5 per cent of GDP and stricter criteria are being set up to select projects for industrial policy support. Finally, a revision of the existing law regulating business activity (the Gewerbeordnung) is under way which is designed to strengthen the small and medium-sized enterprise sector by removing barriers to entry and exit.

TABLE 8.6 Unemployment in Austria

	1974	1980	1982	1986
Unemployment rates[a]	1.5	1.9	3.7	5.2
Males	0.8	1.6	3.9	5.1
Females	2.2	2.3	3.5	5.2
Unemployment duration[b]				
6–12 months		10.2	14.1	14.1
12 months or over		4.2	5.7	12.6
Long–term unemployment[c]				
Youths		3.3	10.3[d]	16.4
Adults		7.9	10.3[d]	16.4
Older workers		22.1	21.6[d]	30.4

[a] Registered unemployment as a percentage of the dependent labour force.
[b] Percentage share in total unemployment.
[c] Percentage in total unemployment within age and gender groups.
[d] 1983.

Source: OECD (1988a: tables 18 and 19, p. 44).

[15] Government aid in the form of subsidies and capital transfers had reached a peak of 5% of GDP in 1981.
[16] See OECD Economic Survey 1987/88 on Austria (OECD 1988a: 18–19).

Unemployment rates have risen dramatically, with youth unemployment deteriorating steadily since 1980, and the incidence of long-term unemployment is also increasing fast. The fall in employment levels since 1980 was particularly dramatic in the nationalized industry sector as Fig. 8.1 shows. The latest OECD report on Austria (OECD 1989a), however, testifies to a positive outcome of the reorganization process initiated in the early 1980s in the nationalized industry sector and of various measures in the area of technology policy. The OECD report records that the restructuring measures adopted by the nationalized industry sector have led to a dramatic turn-round of the revenue situation of the OEIAG which was forecast to close 1988 with a gross operating surplus on current transactions of AS 1 bn., as compared with a loss of more than AS 10 bn. in 1987: 'About half of the improvement can be attributed to the favourable demand and price situation while the remainder reflects rationalisation and consolidation efforts' (OECD 1989a: 25).

By the mid-1980s, therefore, the Austrian government[17] had embarked upon a set of policies different from those pursued in the 1970s. These include fiscal consolidation, tax reform, reorganization of the publicly owned company sector (including the privatization of some segments of it), and initiatives in the areas of technology policy and the small and medium-sized enterprise sectors which seem to have won the support of the majority of

FIG. 8.1 Employment in Austria

Note: Indices 1970 = 100.

Source: OECD (1988a: diagram 12, p. 53).

[17] A coalition government is presently in power which includes the two major parties, the Socialist Party and the People's Party.

the political constituents of Austria's social partnership arrangement. There is evidence to suggest that the government has acted effectively on the basis of that new consensus. Opposition to these developments within the 'Grand Coalition' has manifested itself in stronger support for parties outside that coalition such as the Greens and the right-wing Austrian Freedom Party (FPO).

8.3.2 *Finland*

Finland has, in issues concerning industrial structural change and industrial policy, turned out to be a success story. Figs. 8.2–8.4 reproduce some of the distinguishing features which characterize Finnish manufacturing performance over the 1970s and the 1980s: high overall growth in manufacturing output (Fig. 8.2), a very high investment rate (very similar to that in Japan, see Fig. 8.3), and a dramatic increase in R. & D. spending (Fig. 8.4). In the mid-1970s, following the first oil crisis, Finland experienced, however, a dramatic slump in investment, low GDP growth, and very low employment growth. In the late 1970s and throughout the 1980s, GDP growth was high, investment boomed, and there were declining unemployment rates (see Tables 8.1, 8.2 above for statistical information). We also showed in Table 8.1 that Finland had, in 1970, still about 23

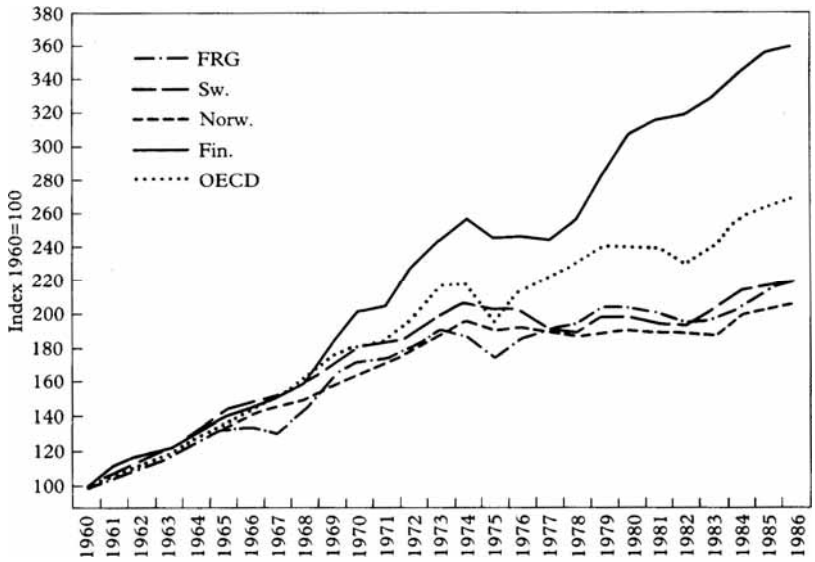


FIG. 8.2 Growth of manufacturing output (index 1960 = 100)
Source: OECD (1988ft: diagram 9, p. 31).

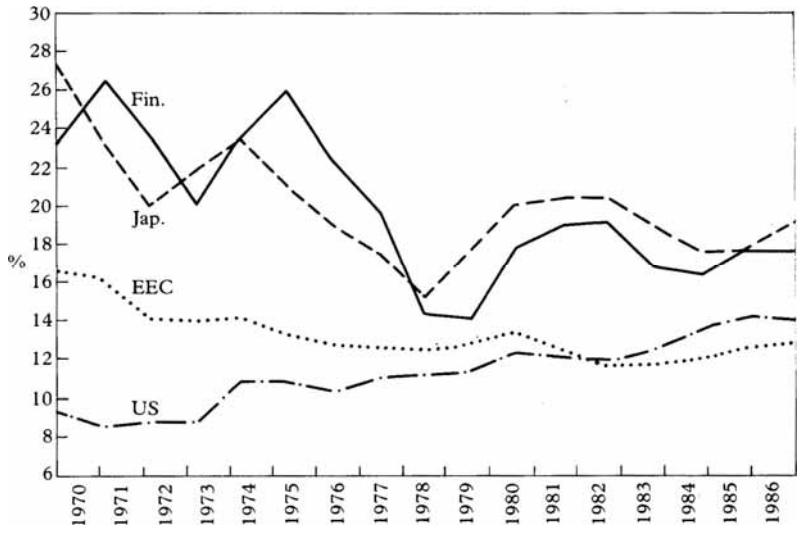


FIG. 8.3 Investment rate in manufacturing, 1970–1986

Note: Fixed investment as a share of manufacturing value-added.

Source: OECD (1988*: diagram 11, p. 36).

per cent of its labour force employed in agriculture; this proportion had come down, in 1986, to 11 per cent. Over the period under analysis, Finland could thus be regarded as having been 'catching up', particularly in relation to countries such as Sweden and West Germany. Commentators (see e.g. Pekkarinen 1988, or OECD 19886, particularly diagram A3, p. 85) have remarked that Finland had, until recently, a very specialized structure of industrial exports, more so than any of the other countries surveyed in this chapter. It has in the past, therefore, been particularly vulnerable to changing world market conditions. The notion of a 'devaluation cycle' has been coined (see Korkman 1978, mentioned in Pekkarinen 1988) to describe the impact of an ever-recurring balance-of-payments constraint upon macroeconomic policy formulation in the 1960s and 1970s.

While Finland's exports immediately after World War II consisted almost entirely of forestry products, over the last two decades its export structure has become more diversified. Finland is a very open economy and Finnish industrial performance is heavily influenced by external factors. A study undertaken by the economics division of the Bank of Finland (reported in OECD Report 19886: 43) suggests that the geographical and product composition of Finnish exports, which in the early 1970s still had a negative impact on Finnish export performance in Western markets, became much

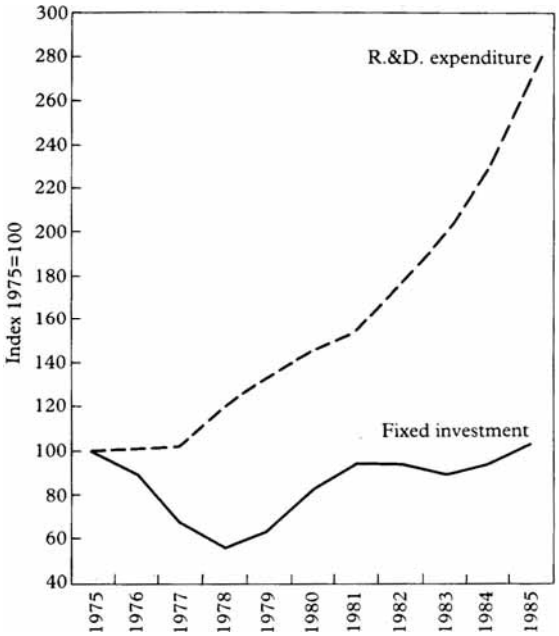


FIG. 8.4 R. & D. expenditure and fixed investment in Finnish manufacturing constant prices

Source: OECD (19886: diagram 12, p. 39).

more favourable in the 1980s. A constant market share analysis confirms that both the product composition and die geographical distribution of Finnish exports no longer contribute negatively to export growth (see Table 8.7).

The relatively strong emphasis in Finland upon supply side policies, and relative neglect of Keynesian demand management policies, can thus, in our view, be explained, firstly, by the relatively recent industrialization process of the Finnish economy and, secondly, by the strong incentive to

TABLE 8.7 Constant market share analysis of Finnish exports (yearly average change, current prices)

	1972–6	1977–81	1982–6
Regional structure	–1.1	–2.6	0.1
Product patterns	–0.6	–1.0	0.9
Residual factor	–2.3	5.4	0.8
Change in market share	–4.2	1.8	1.9

Source: OECD (19886: 43, table 12).

diversify its industrial and export structure in order to become less vulnerable in its external economic relationships.

Different from Sweden, but similar to Austria, Finland has a strong presence of state-owned companies employing about 12 per cent of the industrial labour force and accounting for about 30 per cent of industrial investment. These are run on a commercial basis and are largely independent of direct government supervision.[18] State-owned companies are to be found particularly in the highly capital-intensive branches such as mining, energy, and heavy industry. State initiatives were also instrumental after World War II in establishing the metal industry, which has developed into an important export industry.[19]

Investment rates in manufacturing have traditionally been very high in Finland (see Fig. 8.3) and these have been seen for a number of reasons[20] as being essential to maintain and improve competitiveness. Industrial policies in the post-war period were particularly directed towards achieving high rates of investment (through depreciation and investment allowances). Since the 1970s, however, there has been a strong emphasis upon productivity-enhancing policies (training and a very wide access to educational facilities, as well as support for research and development). Finland's spending on research amounted to 1.6 per cent of GDP in 1986. During the period 1980–7, finance for research in industry 'has grown at a real rate of 5 per cent per annum, while funds set aside for target oriented research have soared by about 20 percent in real terms each year' (Ministry of Trade and Industry 1987: 27). There have been a large number of government schemes supporting research and development activity in Finland. The Ministry of Trade and Industry Report (1987: 37) mentions 'tax reforms to promote research activities, the removal of restrictions on the depreciation of research equipment, the provision of opportunities to use investment reserves, and the introduction of an extra deduction for research'.

Finland also undertook in the 1980s a strong expansion of spending on education and training. Spending directed particularly towards supporting research activities in higher education expanded at a rapid rate.

The rate of growth of total factor productivity (TFP) decelerated in die 1970s but it accelerated again from the late 1970s. For example, manufacturing TFP accelerated from 1 per cent in 1973–9 to 3.3 per cent in 1979–86 (see OECD 19886: table 7, p. 32). Apart from the high R. & D. spending and high output growth, the OECD report (19886: 35) also mentions a number of other factors which explain the favourable productivity

[18] See OECD (19886:52).

[19] See Pekkarinen (1988: 17).

[20] 'Geographic and climatic conditions as well as the sparsity of the population also provide an explanation for the relatively high investment ratio' and 'The capital-intensive structure of Finnish industry together with environmental conditions require a higher level of investment than is necessary in competitor countries' (in: Ministry of Trade and Industry 1987: 33, 34).

performance: 'Wages in Finland have risen considerably faster than in competitor countries, and hence the need for rationalisation and the pressure for scrapping of inefficient capital equipment have increased; from 1979 to 1986, industrial wages rose on average about 2]A percentage points faster per year than in the OECD area. Due to the higher investment ratio and the investment boom of 1979–80, when in most other OECD economies investment decelerated, the age structure of the Finnish capital stock is now rather favourable.' An important and distinct feature of Finland's technology policy is its emphasis on decentralized and regional supply of technological information (see Ministry of Trade and Industry 1987: 28 and 42–9). Technology centres (TEKES) have been established in a number of regional centres and, in addition to traditional measures of regional assistance, efforts have been made to develop forms of aid, in the areas of marketing, product development, and know-how. A number of measures have been introduced to support the medium- and small-sized enterprise sector (such as the establishment of a new Business Development Department in the Ministry of Trade and Industry) which provide a network of company services and use the Regional Development Fund (RKA) to that effect.

As regards agricultural policy, Finland has an agricultural sector which is one of the most subsidized in the OECD area (see OECD 1989e and OECD 19896: 56). Subsidies amounted to around 70 per cent of receipts in 1987. 'As a result of this policy, Finland has a degree of self-sufficiency which is significantly above 100 percent for dairy products and meat and above 100 percent for grain' (OECD 19886: 56).

While the Finnish government continued to take a protective stance *vis-d-vis* the agricultural sector, Finnish manufacturing had—as mentioned above—a very strong productivity performance in the 1980s, its R. & D. soared, it can rely on a good educational and training infrastructure to develop the skills of its labour force, and has consequently pursued a successful strategy of upgrading its production activities and the product composition and regional orientation of exports. It has become a successful 'niche producer' in particular specialized areas of industrial production and has become a world leader in technology in branches such as forest products, paper machines, and specialized shipbuilding. Recent OECD estimates of the income elasticity of demand for Finnish exports was 1.86 compared to an income elasticity of demand for imports of 0.99.[21] Finnish patent applications have risen dramatically (see Table 8.5 above) and its business sector has recently embarked upon a strategy of internationalization[22] (as have Swedish producers over a much longer period).

[21] See OECD (19886: table A4, p. 95). The estimation period for these countries was 1975 to 1986.

[22] OECD (19886: 37): 'In the period 1981–86, the volume of investment abroad increased

8.3.3 *Sweden*

The need for industrial structural change was accepted early on in Sweden. The economic policy orientation of both the trade union movement (the 'LO' or 'Landsorganisationen') and the employers' federation ('SAF' or 'Svenska Arbetgivarforeningen') included a commitment to full employment but also to the necessity of industrial structural change.

The reasons for this are quite clear. Relative to other European powers (England, France, and even Germany) Sweden was a late industrial developer and thus had to conceive early on of a strategy to promote exports and substitute imports (see e.g. Heckscher 1954; Lindgren 1979; and Lundberg 1985). It was also a feature of the Social Democratic policies after World War II that rising living standards and an extension of social welfare were dependent upon industrial structural change and technological advance (see LO 1951; 1961, 1966).

A number of famous schemes were devised to combine social policy targets with the requirements of structural change and modernization. The most famous of these is the one associated with the name of the LO economist Gösta Rehn (see Rehn 1948, 1952; and the discussion in Lundberg 1985).

The principal idea behind this scheme was to put pressure upon the business sector to modernize and keep wage inflation down while at the same time both supporting the modernization process and ensuring full employment through an active labour market policy. The logic of the Rehn scheme was the following: a strong adherence of the (centralized) trade union movement to a solidaristic wages policy—which ensures that the same pay is given for the same type of work regardless of profitability and productivity in the various branches and firms—would ensure that strong pressure was put upon the low-productivity but also the labour-intensive sectors and firms of the economy. This would either lead to the shedding of labour in these sectors or firms and/or lead to an improvement in their efficiency. A necessary complement of such a policy to ensure full employment was therefore an active labour market policy which allowed the efficient transfer of labour to more productive jobs, which supported labour mobility through retraining schemes, through subsidies for geographical transfers, through efficient labour exchanges, etc. Finance for these labour market policies (but also for the rapidly expanding social services, etc.) would come from successively increased taxes including payroll taxes. If the squeezed profits led to lower private savings, this could be compensated for by increased public savings (see also the contribution by Kosonen on the 'Nordic system of accumulation' in this volume).

There is evidence that the effect of the implementation of this scheme

by 30 per cent annually and reached 19 per cent of the value of industrial investment in 1986 .. . during the three years 1983–86 Finnish companies bought 179 foreign companies.'

(under conditions of an open trade policy) was an industrial structural transformation away from labour-intensive activities such as textiles, clothing, and footwear industries, and towards expanding export industries such as engineering and capital-intensive branches such as iron and steel, shipyards, and petrochemicals.[23] Public expenditure on labour market policies became a hallmark of the 'Swedish model' and they rose from about 1 per cent of GDP in the early 1960s to about 4 per cent in the 1980s. There is also evidence to suggest that the Rehn model contributed to the strong overall shift of employment out of industrial employment and into public sector employment.[24]

The period between the mid-1970s and the early 1980s was a difficult one for the Swedish economy. After the investment boom of 1973–4, the volume of investment dropped by about 40 per cent and investment stagnation lasted until about 1983.[25] There was also a dramatic increase of state support for ailing industries. In Fig. 8.5 we can see the increase in direct industrial subsidies over the period 1975 to 1979. Industrial subsidies as a whole increased from about 1.3 per cent of GDP in 1970 (or about 4.9 per cent of value-added in mining and manufacturing) to about 3.6 per cent of GDP in 1978 (or 16 per cent of value-added in mining and manufacturing). Bo Carlsson estimates that over the period 1970–9 75 bn. Skr. were paid out in industrial subsidies. This compares with spending on labour market measures of 50 bn. Skr. over the period 1970–9.

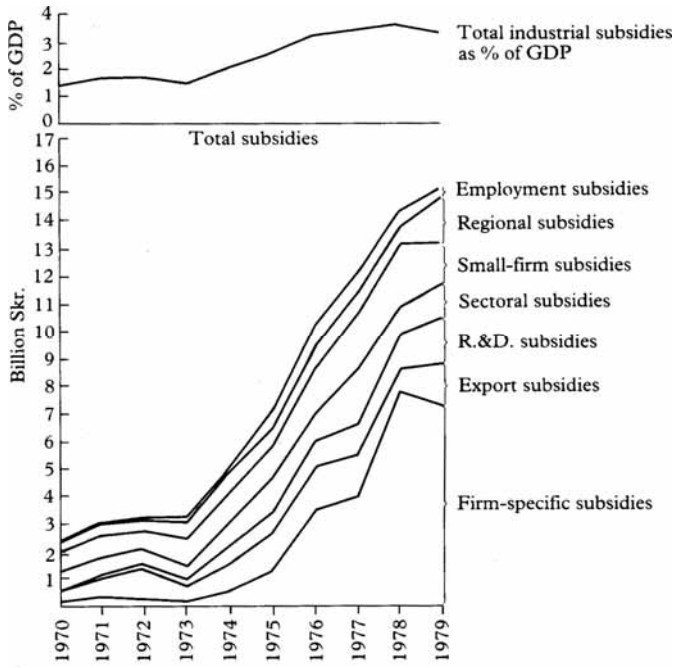
As we can see from Fig. 8.5, the measures which increased the most over the period are firm-specific measures, i.e. direct measures largely designed to save ailing firms. In an attempt to compare the industrial subsidy programme across a number of European economies, Carlsson also finds that the level of firm-specific subsidies was particularly high in Sweden and a very high proportion of these were on rescue operations. Carlsson's statistics are reproduced in Table 8.8.[26]

[23] See Lundberg (1985: 19).

[24] F. Scharpf in Goldthorpe (1984: 266–7) presents some comparative statistics on public sector employment. According to OECD statistics (see OECD 1982), the share of public sector employment in total employment rose from 20.6 to 29.8% between 1970 and 1980. In Austria and West Germany the corresponding figures were increases from 14.1 to 18.5% in Austria and increases from 11.2 to 14.7% in West Germany. According to ILO (*Yearbook of Labour Statistics)* figures, the share of employment in 'community, social and personal services' increases in Sweden from 29 to 35% between 1972 and 1980, in Austria from 23 to 24%, and in West Germany from 19 to 23%. Scharpf concludes (p. 267): 'By either measure, Sweden now has the highest share of publicly financed employment of any country in Western Europe'.

[25] Lundberg describes the dramatic increase in public spending and public sector employment over that period: 'The volume of total public-sector expenditures (including transfer payments and gross investment expenditures by general government) was expanding by 6 per cent per annum (1970–1982), attaining close to 70 per cent of GNP while GNP in real terms was stagnating (1 per cent growth rate). The share of total employment in the public sector increased from 20 per cent to 33 per cent between 1970 and 1983' (Lundberg 1985: 20 n. 11).

[26] For details on the compilation of these figures and the caution needed in making international comparisons in this area, the reader is referred to Carlsson (1983).



Source: Carlsson (1983: 4).

TABLE 8.8 Firm-specific subsidies by receiving sector in Sweden, 1977–1979

	Million Skr.	In relation to		No. of employees (thousands)
		Value-added (%)	Total wage bill (%) (of skr.)	
Shipyards	9,094	72.3	120.2	282
Steel	4,880	35.6	33.4	92
Forest-based	2,012	11.2	12.4	32
Mines	1,666	32.9	41.2	100
Textile and clothing	1,125	9.5	11.6	21
All manufacturing	20,238	6.9	8.5	21

Note: Sum of grants and loans; paid-out amounts; credit guarantees not included.
Source: Carlsson (1983: table 2, p. 11).

In Sweden, three-quarters of the firm-specific subsidies in 1977–9 went to the shipbuilding and the steel industries. Over the 1977–9 period, the shipbuilding subsidies amounted to about 120 per cent of the total wage bill, and in 1978 and 1979 the subsidies exceeded the value-added produced in the industry.

While over the period 1975 to about 1982 the emphasis of industrial policy measures was thus clearly to help ailing industries to restructure their operations, since 1982 the character of industrial policy support has changed quite dramatically. There was a move away from rescue and restructuring support and towards the promotion of high-technology areas, export support, and support to the small firm sector (see Fig. 8.6). At this stage it might be appropriate to relate some of the specific features of Sweden's industrial structure to the restructuring processes which took place in Swedish industry over the 1970s and 1980s. Table 8.9 shows the breakdown of Swedish exports by industrial branch. It shows clearly that the traditional comparative advantage areas of Sweden's industrial structure (forest products, shipbuilding, crude ore) have declined both in terms of shares in Swedish exports and in terms of world market shares (where the

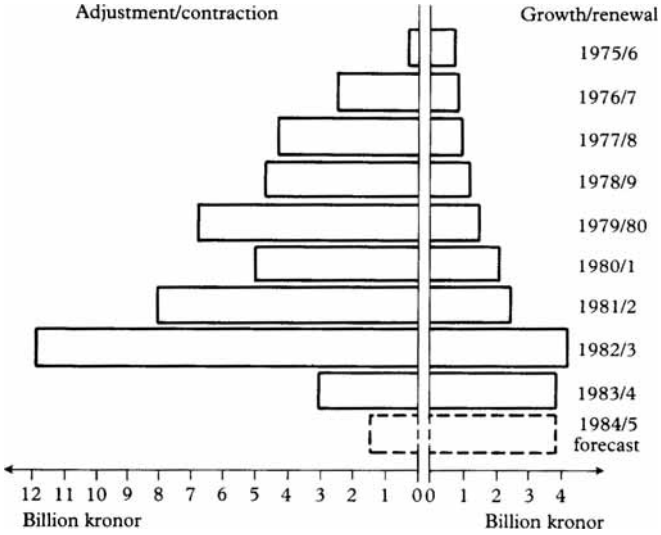


FIG. 8.6 Structure of industrial support in Sweden

Note: Adjustment/contraction = temporary support + sectoral support; growth/renewal supports for R. & D., regional development, exports, and small enterprises.

Source: OECD (1985c: diagram 16, p. 46).

TABLE 8.9 The structure of Swedish exports

	Percentage of total exports			World export share %	
	1960	1970	1977	1961	1976
Declining					
Pulp	13.9	8.5	5.8		12.7
Wood and lumber	8.8	5.9	4.7	14.7	7.0
Ores	8.4	4.0	2.2	7.5	3.0
Stable					
Paper and paper products	10.2	8.8	9.0		
Metal products	3.0	3.4	4.0		
Shipbuilding	7.0	5.2	6.0	18.0	15.0
Steel	8.0	9.0	7.0	4.5	4.2
Textile and clothing	1.5	1.9	2.6		
Growing					
Chemicals and pharmaceutical	2.9	4.1	4.8	1.3	1.5
Mechanical engineering	13.7	17.5	18.2	3.7	3.4
Electrical engineering	4.4	7.4	8.1	2.7	3.6
Transport equipment (excl. shipbuilding)	5.4	9.7	11.3	1.4	2.5
Other	15.8	18.4	21.5		

Source: Boston Consultancy Group (1979), Main Report, Exhibits 1 and 2.

declines are particularly strong). Electrical engineering, transport equipment excluding shipbuilding, chemicals and pharmaceutical, and, to some extent, mechanical engineering exhibit, on the other hand, both increasing world market shares and increases in their share in the value of Swedish exports.

These last four branches show an extremely high degree of industrial concentration. The top twenty-eight companies in the Swedish engineering and chemical-related sectors accounted for 77 and 55 per cent of total exports and employment respectively in these industries in 1977. (See e.g. Boston Consulting Group (1979), Main Report, Exhibit 19.)

Public ownership in these sectors, on the other hand, is very low as Table 8.10 demonstrates. State ownership was concentrated (apart from tobacco and beverages which are rather special cases) in shipbuilding, mining, and a particular segment of the steel industry.

Given this background concerning the particular features of Sweden's industrial structures, the restructuring process over the 1970s and 1980s had the following characteristics. On the one hand, there were the traditionally dominant industries such as wood and wood processing, iron ore and

TABLE 8.10 State ownership in industry in Sweden in 1976[a]

Tobacco	100	Wood products and paper	10
Shipbuilding	73	Pharmaceutical	10
Mining	60	Chemicals, plastics	9
Beverages	58	Engineering	3
Commodity steel	53	Transport (excluding shipbuilding)	3
Textiles, clothing, leather	14		

[a] % of total sector sales generated by state-owned companies.

Source: Boston Consultancy Report (1979).

steel, and shipbuilding which faced very serious problems over the period and which saw a significant reduction in their activities, levels of employment, and importance in Swedish exports.[27] They also absorbed a colossal amount of public direct subsidies over the period. State ownership in this sector (apart from forestry products and paper) is high. On the other hand, the other important group of manufacturing industries (electrical engineering, chemicals and pharmaceutical, transport equipment other than shipbuilding, and mechanical engineering) pursued over the same period a relatively successful path of modernization, attempting to withstand the much fiercer climate of international competition. This group of industries was traditionally dominated by very large firms (given Sweden's size overall) and these firms' activities were highly internationalized.

The OECD report on Sweden (OECD 1985c) testifies that R. & D. spending in Sweden is highly concentrated in large firms: 95 per cent of R. & D. takes place within firms with more than 500 employees and of the firms which report R. & D. activities the ten largest account for two-thirds of all R. & D. spending. We also know that R. & D. expenditure has risen dramatically over the 1970s and 1980s,[28] while the level of total investment has stagnated or contracted, and government-funded R. & D. as a percentage of total R. & D. spending has fallen over the 1970s.[29] The increase in R. & D. spending must therefore have been largely 'in house' within the corporate sector (exceptions to this might have been defence-related firms).

The strategy towards modernization of the Swedish corporate sector seems to have been remarkably successful over the 1970s and 1980s and has proceeded in the following directions:

[27] See the book by Strath (1988) describing the restructuring process in the Swedish and other European shipbuilding industries.

[28] See OECD (1985c: diagram 14, p. 42).

[29] Government-funded R. & D. as a percentage of total industry R. & D.: 1973: 35% (total), 15% (excluding defence); 1975: 27% (total), 15% (excluding defence); 1977:29% (total), 13% (excluding defence) (Boston Consultancy Group 1979: Appendix B, p. 52). The same source also presents some figures concerning public R. & D. support to the large Swedish firms which are rather low by international comparison.

- We have already remarked on the very rapid growth of R. & D. spending; R. & D. spending in Sweden in 1983 was about 2.3 per cent of GDP (in 1987/8 about 3 per cent of GDP), for Germany 2.2 per cent, for the USA 2.0 per cent, and for Japan 1.6 per cent. The OECD report (1985c) mentions that R. & D. now represents almost 10 per cent of value-added in industry and industry finances 90 per cent of its research.
- There has been much progress in introducing modern techniques of production. The OECD report mentions that the use of robots and computer-aided design and computer-aided manufacturing methods (CAD/CAM) is among the highest in the world.
- Swedish firms have successfully attempted to obtain market dominance in well-defined sectors and niches of the world market (see Boston Consultancy Group Report 1979: appendix 13).
- Finally, large Swedish firms have continued their process of internationalization at a very rapid rate: the OECD report (1985c) estimates that the twenty most multinationalized Swedish firms, which account for about 80 per cent of employment in Swedish foreign subsidiaries, have invested some 70 to 80 per cent of their total investment since 1982/3 abroad.

8.3.4 *Norway*

Norway is an example of a social corporatist economy which, partly owing to macro-economic circumstances and partly owing to the particular orientation of its structural policies, faced especially severe structural adjustment problems which it has—so far—not overcome.

Norway experienced in the late 1970s/early 1980s a dramatic process of deindustrialization, as the figures in Table 8.11 testify. We can see that over the late 1970s/early 1980s there was a marked shift of employment out of manufacturing and most of the employment absorption took place in the general government (public services) sector. The most important explanation for this process of deindustrialization is that Norway became an oil

TABLE 8.11 Sectoral employment shares in Norway (%)

	1965	1975	1987
Primary sector	17.5	9.3	6.5
Secondary sector	36.4	34.3	26.5
Tertiary sector	46.1	56.4	66.9
of which:			
General government	13.8	19.3	27.3

Source: OECD (1988a: table 16, p. 48).

economy. The key variable by which North Sea oil affected the other sectors of the economy was, as in the case of the United Kingdom, the exchange rate. While other social corporatist economies such as Sweden and Finland took advantage of exchange rate devaluations as a key mechanism by which greatly to improve the prospects of the export sector, this instrument was denied to Norway as it became an oil economy. By the mid-1980s, the oil and gas sector produced about 18 per cent of GNP, 20 per cent of fixed capital formation took place in this sector, its exports constituted about one-third of all Norwegian exports, and the traditional (non-oil) exports were only able to finance less than two-thirds of non-energy imports.

Relative labour unit costs of the manufacturing sector deteriorated strikingly in the mid-/late 1970s (see Fig. 8.7) owing particularly to the exchange rate appreciation but also owing to unfavourable relative labour productivity growth; relative wage rates did not, until the mid-1980s, move out of line with development in competitor countries; after this, however, they rocketed.

There was a dramatic deterioration in the terms of trade of the exposed as against the sheltered sector of the economy. 'From 1975 to 1982 the

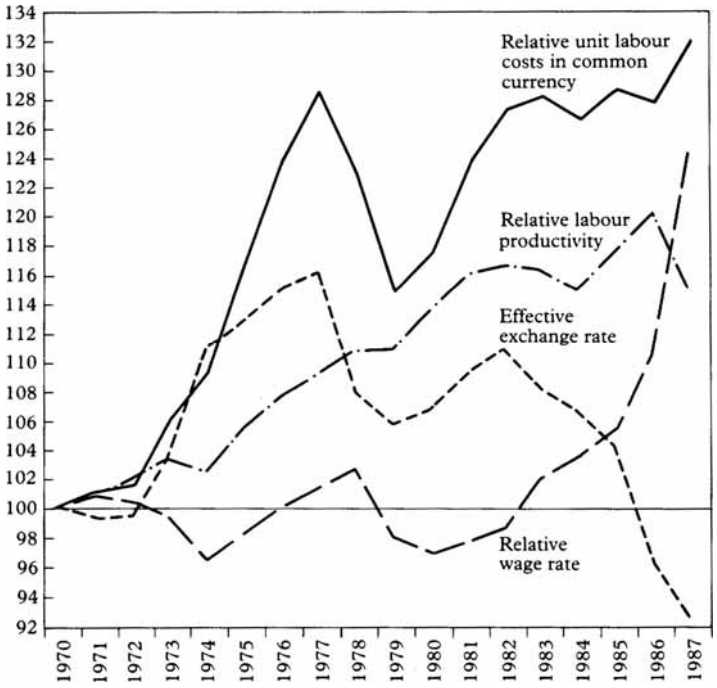


FIG. 8.7 International competitiveness in manufacturing in Norway

Source: OECD (1989c: diagram 10, p. 51).

output price of the exposed sector relative to that of the sheltered sector fell by 15 per cent. With money wages rising uniformly across sectors, this has led, given productivity developments, to a profit squeeze of the exposed sector' (OECD 1985c: 1). These developments led to a sharp drop in the early 1980s of manufacturing investment, and manufacturing production virtually stagnated after 1973.

The revenues from North Sea oil permitted, however, high GDP growth (about 4 per cent per year between 1972 and 1983 compared to an average of 2.5 per cent per year in the OECD as a whole). The gains from oil were 'largely redistributed to firms and households through subsidies and transfers, higher public spending and—more secretly—tax reductions' (OECD 1985^: 85).

On the industrial policy side, regional support has always played an important role in Norwegian structural policy. Manufacturing production is geographically dispersed and some 100 'one company towns' account for about 10 per cent of manufacturing production. Plant closures thus would have had a marked regional impact.

Public subsidization—already high by international standards—rose dramatically in the late 1970s when it amounted to close to 8 per cent of GDP (see Fig. 8.8). Just as in some of the other Scandinavian countries—particularly Sweden—industrial support was particularly targeted towards shipbuilding (see Table 8.12). Government assistance was provided in a number of forms: direct subsidies, subsidized loans, reduced taxes and

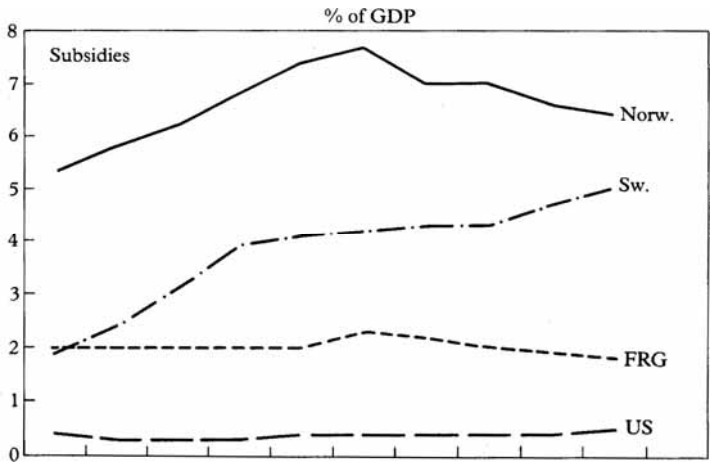


FIG. 8.8 The degree of subsidization: an international comparison (Norway, Sweden, the FRG, and the United States)
Source: OECD (19856: diagram 8, p. 25).

TABLE 8.12 Industrial support to shipbuilding and state companies in Norway

	Shipbuilding		State companies[a]	
	Percentage of gross value-added	Percentage of operating surplus	Percentage of gross value-added	Percentage of operating surplus
1973	5.2	22.1	4.2	15.9
1977	10.5	65.3	4.1	37.7
1980	20.2	149.6	5.1	16.9
1981	33.1	157.7	9.7	61.2
1982	28.1	131.0	26.2	271.9
1983	24.7	141.8	12.7	38.6
1984	22.3	205.7	19.2	42.5
1985	29.2	190.9	11.8	40.0

[a] Value-added are operating surpluses in sectors where state companies are particularly concentrated: mining, manufacture of ferrous and non-ferrous metals, and manufacture of metal products (except machinery and equipment). The figures thus understate the importance of industrial support to the state enterprise sector.

Source: OECD (1988c : table 19, p. 67).

duties, and the covering of losses of public enterprises. The textile industry was furthermore supported through import restrictions.

The OECD report (OECD 1988c: 68) assesses the public support to industry in the following way:

Government support to industry has typically aimed at keeping employment in industries which otherwise would no longer be viable. These industries are among the most capital-intensive in the economy. Consequently, most of the support can be said to have subsidised the use of capital rather than labour. As an employment measure, the support policy must be judged as inefficient, in particular as the labour market has generally been unduly tight. However, the location of the targeted industries and the regional problems which would follow abrupt closure of individual industries may explain why a policy of easing the strain of adjustment had been pursued.

By the mid-1980s the employment losses in the declining industries were none the less severe, similar to Sweden although less than in the UK. Apart from government support to industry, income support to farmers had been very high. Until the mid-1970s, agricultural policy had been directed towards increasing production and this was achieved particularly through import restrictions. Since then, income support has become the prime target which includes an attempt both to reduce income differentials between farmers (for geographical or efficiency reasons) and to narrow the gap between the real incomes of farmers and those of industrial workers. The first of the two objectives required direct subsidies while the second could

be achieved through price support policies. The budgetary cost of this policy was very high. Public expenditure related to the implementation of agricultural policy amounted to about 5 per cent of total government outlay and more than 6 per cent of central government spending (in the US 4 per cent, in Japan 3 per cent, and 2.3 per cent in the European Community; see OECD 1988a: table 16, p. 63). Production subsidies as a percentage of gross value-added in agriculture amounted to more than 40 per cent in the early 1980s.

TABLE 8.13 Employment trends in three ailing sectors (Norway, Sweden, Germany, France, United Kingdom)

	Iron and steel 1985 (1974 = 100)	Textiles 1984 (1974 = 100)	Shipbuilding 1985 (1975 = 100)
Norway	53	65[a]	29
Sweden	62	62[b]	11
Germany	66	60	45
France	52	64[a]	57
United Kingdom	31	42	25[c]

[a] 1983
[b] 1982
[c] 1984

Source: OECD (1988 *c* : table 17, p. 66).

As regards the present state of competitiveness of Norwegian industry, there is evidence to suggest that—similarly to the UK economy—the shift of resources out of the traditional tradable sector in the late 1970s and early 1980s due to North Sea oil has taken a heavy toll. With the fall in oil prices a rather dramatic deficit on the current account of the balance of payments has opened up (the deficit on the current account amounted to 6.5 per cent of GDP in 1986; see OECD 19896: 39). There are also signs of a deteriorating deficit on the balance of service trade. This mainly reflects the fall in net shipping revenues due to a decline in the shipping fleet under the Norwegian flag.

The decline in the exchange rate from 1989 onwards improved competitiveness somewhat (in fact the volume of Norwegian exports grew at relatively high rates) but it will take time to reverse the effect of the uneven growth of the oil and the non-oil sector of the Norwegian economy which took place in the late 1970s/early 1980s. The long-run viability of the tradable sector has also not benefited to the same degree as it did in Sweden and Finland, from a targeting of structural policies towards modernization and the development of new activities. Rather, these policies were defensive

in character and most government assistance concentrated on shipbuilding, mining, and basic metals industries. Structural adjustment and the reorientation of industrial policies are hence delayed relative to countries such as Sweden and Finland.

8.4 LESSONS FROM THE FOUR COUNTRIES' EXPERIENCES WITH RESPECT TO INDUSTRIAL STRUCTURAL CHANGE AND INDUSTRIAL POLICIES IN THE 1970S AND THE 1980S

As with most other OECD economies, the group of social corporatist economies surveyed in this chapter had to face severe problems of structural adjustment in the 1970s and 1980s. However, the developmental state of their economies (including certain features of their respective industrial structures) as well as the historical traditions of their corporatist arrangements were different. In the following, we will argue that the above two types of factors were both important in explaining the attitudes of social corporatist institutions in the four economies towards the use of industrial policy instruments in the 1970s and the 1980s.

As argued above, *Finland* was, as far as the general level of industrial development was concerned, still a relatively 'backward' economy in the 1950s and 1960s and its industrial structure (and particularly its export structure) was highly specialized. Just after World War II, the state took it upon itself to attempt to broaden the industrial base of the Finnish economy, and public ownership in a variety of industries (particularly mechanical engineering) was used to that effect. But Social Democratic traditions were much weaker in Finland than in the other Nordic economies (see Pekkarinen 1988) and, hence, the emphasis upon the role of the state in guaranteeing full employment and extending welfare services was weaker. Public ownership in certain areas of industrial activity was seen as a pragmatic step to promote industrial development rather than to 'socialize' sections of a capitalist economy. The weakness of the external balance and the strong dependence upon natural-resource-based export commodities was continuously felt in the post-World War II period and gave rise to sharp economic fluctuations (in the form of a sequence of 'devaluation cycles'; see discussion above). There was thus a strong incentive to improve the export capacity of the Finnish economy.

Finland's response to the world-wide developments of the 1970s and 1980s can be seen as a continuation of its attempts to promote industrial development, to move 'upstream' and broaden its export base, and to continue to develop an educational and training infrastructure to enable it to do so. The relative weakness of its Keynesian tradition prevented as strong a concern with maintaining full employment levels as was the case

in the other countries of our sample (although compared to average OECD performance in this regard, Finland did quite well). The publicly owned enterprise sector continued to operate along commercial lines and did not act as the employment absorber of last resort. Being closely linked to economies with a more mature and broadly based industrial structure (Sweden, Germany), Finland had to move into specialized product areas if it wanted to export, and this tendency helped it to continue to embark on a successful 'market niche' strategy in high value-added areas of international export markets in the 1970s and 1980s. Even the 'problem sectors' such as shipbuilding and steel were already more specialized in Finland than in, say, Sweden, so that the burden of restructuring of these sectors was much lighter.

Austria had, over the post-World War II period, built up a strong, institutionally reinforced basis for 'social partnership' co-ordination of economic policy formation and execution. Its economic policy orientation centred around what came to be known as 'Austro-Keynesianism'. This involved a strong commitment to maintain full employment relying on the 'social partners' (labour and business) and on a hard-currency policy (the Austrian Schilling remained closely linked to the D-Mark) to control inflationary pressures. As argued in section 8.3 above, the awareness in Austrian economic policy-making circles of the need for an explicit industrial policy was very weak until about the early 1980s. Economic management was almost entirely centred around the use of aggregate macro-economic policies and a strong emphasis on wages and incomes policies. The experience of fast economic growth and generally rising living standards after World War II did not generate any incentive to change that economic policy orientation or to modernize the institutional basis of the social partnership arrangements existent in the Republic.

Austria responded to the post-1973 situation with a continued strict adherence to its previous policy targets and continued to maintain low unemployment rates and low inflation. The high degree of unionization and the particularly strongly organized unions in the nationalized industries (steel, heavy mechanical engineering, chemicals) assured that these sectors did not react in the same manner to the new international circumstances (international excess capacity, strong competition from NICs and other advanced economies facing low demand) as they did in other advanced industrial economies. Employment levels in the nationalized industry sector were held up; however, the 'breathing space' enjoyed by these industries through heavy public subsidization was not efficiently used to reorganize production lines, retrain the labour force, and change managerial practices. The experience of the Austrian nationalized industrial sector over the period 1973 to 1982 is an example of an important failure of social corporatist arrangements.

Although it had all the back-up from the state and operated in a relatively non-hostile political environment, it did not manage to combine the twin goals of modernizing its operations while adhering to the socially desirable target of contributing to employment maintenance over this period. The reasons for this failure deserve further careful study, especially since it did seem to have contributed substantially to the change in the political and ideological climate in the early 1980s and to the shift in economic policy orientation. The sharp contraction of employment levels in the nationalized industry sector in the mid-1980s has been described in section 8.3. It was also argued that while the strong presence of a nationalized industry sector could have contributed to the formulation of a consistent and effective industrial policy programme, and so could the available institutional apparatus of the social partnership organizations (see also Haase 1982), the ownership structure in industry as a whole is rather fragmented (with a strong presence of foreign-owned enterprises in many modern industrial activities and Austrian-owned firms mostly in the small to medium-sized sector). This might have contributed to difficulties in developing and co-ordinating an industrial policy effort. However, in the most recent period, the awareness of industrial policy issues and of the importance of further modernization of Austria's industrial structure has increased appreciably and one has to wait to see in which way the social corporatist arrangements are going to embrace this new orientation and with what success.

Sweden had a very difficult transition in the 1970s and 1980s towards what seems now a relatively successful survival of the 'Swedish model'. In this chapter we have argued that what made this transition relatively successful was, to an important extent, the 'dual structure' of the Swedish economy. For historical reasons, Sweden has developed a highly concentrated and strongly internationally orientated corporate sector which was able to modernize its operations in the face of fierce international competition in the 1970s and 1980s. The state involvement in the restructuring processes of the 'ailing' industrial sector (particularly shipbuilding and steel) was very great, and commentators (see IUI 1981) have argued that the heavy subsidization programme over the 1970s contributed substantially to the slow growth performance of the Swedish economy over that period. However, in spite of slow overall economic growth, the social policy features of the 'Swedish model' seem to have been maintained and even strengthened over that period (low unemployment with rising participation rates particularly of women, good training and retraining programmes, good public services, etc.), while the corporate sector of the Swedish economy has built up a strong competitive position. From the early-mid-1980s, the profitability of the Swedish business sector improved, the devaluation in 1981/2 and the growth of demand in export markets supported export performance; investment growth was rapid and in particular growth in

intangible investment (in R. & D., marketing, etc.) was very high. Improved output and employment growth allowed the dismantling of various selective support schemes and subsidies (see OECD 1989d) and also the scaling down of various labour market measures. The government's budgetary situation improved dramatically over the period 1986–8.

There is evidence of a strong process of internationalization by the large Swedish companies and there is a question whether this might weaken the domestic base in the longer run. Net direct investment abroad has been boosted additionally by the prospects of an integrated European market. The pressures towards internationalization are now felt throughout the group of countries considered in this chapter and will have a significant impact upon changes in the industrial organization of these economies over the coming years.

The macro-economic circumstances faced by *Norway* in the 1970s and the 1980s were quite different from the other three economies. Owing to the arrival of North Sea oil, Norway achieved high real income growth in the 1970s, and employment generation and investment performance were strong. However, Norway also experienced in that period a strong process of 'deindustrialization' (as indicated by a large shift of employment out of manufacturing) and devaluation was not an instrument available to support the non-oil export sector of the economy (as it was in Finland and Sweden); rather, manufacturing investment and profitability suffered from a strong appreciation of the currency which was reversed only in the mid-1980s. Since overall income growth was high and the budgetary situation very favourable (owing to high tax income from North Sea oil), structural policies were used mainly to support declining industries (particularly shipbuilding) and the traditional regional policy orientation of subsidizing geographically dispersed manufacturing activity and the very high support for agriculture were maintained. Unlike Sweden and Finland, Norway did not pursue with rigour a policy of infrastructural support (R. & D., training, etc.) and of modernization of its manufacturing sector until the early-mid-1980s when the oil price fell and a dramatic weakening of the trade balance emerged. At present Norway is still struggling to secure competitive foundations in its non-oil tradable sector in order to regain external equilibrium with high economic growth. Rather as in Austria, the move from a defensive orientation of industrial policies towards offensive modernization measures is imposed upon Norway at a time when circumstances (particularly the budgetary situation and foreign debt position) have become more difficult.

TABLE 8.A1 Economic performance of state-owned industries in Austria compared to industry as a whole (Index: 1973 = 100)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Employment											
State-owned industry, total	100	104	103	102	101	99	100	99	96	95[1]	91[1]
Excluding oil and mining	100	104	102	102	101	101	102	101	97	93	89
Total industry	100	100	94	93	94	92	92	93	91	87	83
Production											
State-owned industry, total	100	103	93	97	98	103	109	103	97	94	92
Excluding oil and mining	100	106	100	101	103	109	114	109	106	102	101
Total industry	100	105	97	104	108	111	119	122	120	119	120
Productivity											
State-owned industry, total	100	99	90	95	97	104	109	104	101	99	101
Excluding oil and mining	100	101	98	99	102	108	113	108	108	109	113
Total industry	100	105	103	112	115	120	130	132	132	137	145
Excluding oil and mining	100	106	103	113	116	122	131	134	135	140	148

Estimate.

Source: OECD (1985a : table 5, annex).

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9

Exchange Rate Policy and Employment in Small Open Economies

Sixten Korkman

9.1 INTRODUCTION

Employment in a large and relatively closed economy is often thought to be mainly demand-determined in the short run, in which case the causal significance of the real wage may be limited. For small open economies, by contrast, there is widespread agreement that the real wage matters (at least in the medium to long run). Traded goods may be sold on international markets even though domestic demand is insufficient, as the price elasticity of demand facing producers in a small economy can be taken to be high. A reduction in the real wage should in these circumstances stimulate production and employment through a number of routes: by changing relative prices and switching world demand towards domestic output, by raising profitability and encouraging increased utilization of existing capacity, by inducing investment, etc. There is a presumption that large-scale and persistent unemployment in a small open economy is classical in the sense of being associated with a real wage and a real value of the currency which exceed the levels compatible with full employment at external balance.

The main proximate determinants of the real wage are the money wage, world market prices, and the exchange rate. Policy analysis of the real wage-employment nexus should thus be concerned with two sides of the same coin, i.e. with wage (and price) formation as well as with exchange rate changes. It is the interaction between wage developments and exchange rate policy which is crucial.

This chapter approaches the aforementioned issue from the perspective of central bank policy, mainly as pursued in the Nordic countries (Denmark, Norway, Sweden, and Finland). I will start by enumerating in section 9.2 some important changes that have taken place in the environment of central bank policy in the past decade. I will also characterize what seems to be the dominating doctrine of the role of monetary policy in a small economy. As will be pointed out, this doctrine is not a fully convincing one. Section 9.3 will then outline alternative monetary regimes or exchange rate policy systems and their consequences for inflation and employment. Particular emphasis is paid to the macro-economic significance of alternative rules or commitments on the part of the central bank. Section 9.4 discusses

the relation between exchange rate policy and corporatism. Section 9.5 makes some observations on the institutional choices open to small European countries and the EMS option, in particular. Section 9.6 concludes.

9.2 MONETARY POLICY: CHANGING ENVIRONMENT AND SHIFTING PERCEPTIONS

The role assigned to monetary policy has changed in all countries since the early 1970s. Underlying these changes are shifts in policy perceptions and priorities as well as a major transformation of the economic and financial landscape. Some of the main changes from the point of view of small economies like the Nordic ones may be outlined as follows:

1. International economic developments have been characterized by severe real shocks and financial turbulence. Oil crises and stagflation in the 1970s were followed by high real interest rates and disinflation in the 1980s. The key currencies of the world economy have not only been flexible or floating, but also volatile and misaligned. For long periods they seem to have evolved quite independently from economic fundamentals. The unstable international environment has been associated with increased macro-economic imbalances and adjustment problems as well as increased micro-economic risks.
2. Fiscal policy in many European countries, in particular, has been constrained by large financial imbalances in the form of deficits in the government budget and/or in the current account. In Denmark and Sweden, for instance, there was widespread agreement in the late 1970s and the first half of the 1980s that the room for fiscal policy action was insignificant because of the dangers of the debt trap. Declining fiscal policy ambitions tended to increase the importance attached to monetary policy as a tool for demand management. For the same reasons, monetary policy has been pursued under conflicting pressures related to external and internal balance, i.e. to the foreign exchange reserves and the current account, on one hand, and the inflation-unemployment constellation, on the other hand.
3. Money and capital markets have expanded enormously and administrative controls of financial markets have been dismantled.

Deregulation in Scandinavian countries and elsewhere has concerned both domestic interest rate determination and bond issues as well as foreign exchange transactions and capital flows. The interest rate mechanism has replaced credit rationing as the vehicle for equilibrating demand and supply in loan markets. A particularly noteworthy feature of financial developments is integration across national borders, which has reduced the autonomy of monetary policy.

The changes in the financial environment have been associated with corresponding shifts in the perceived role of monetary policy. There is quite a difference between the views that were held on this issue in Scandinavian countries during the decades after the war, and what seems to be the consensus view or the 'official doctrine' in the late 1980s.

The traditional view was that the central bank should maintain low and stable interest rates and fixed exchange rates. Capital flows were regulated and interest rates were set administratively at below market-clearing levels. Credit rationing was widespread and monetary policy was predominantly passive.

During the 1980s, by contrast, market forces have come to the forefront. As mentioned above, rationing and regulation have been replaced by flexible interest rates and central bank operations in open markets. Furthermore, the size and interest sensitivity of (deregulated) capital flows have increased.

The emerging or established view on the role of monetary policy in the new circumstances is very simple: it states that there is no room for an independent policy to be pursued in a small economy. Interest rates should be allowed to be determined by markets so that the balance of payments remains in equilibrium at the given exchange rate. This view takes for granted that capital flows should not and, in any case, cannot be regulated, and that domestic and foreign financial assets and debts will then be close substitutes in domestic and foreign portfolios.

Another cornerstone of the officially held doctrine is that the authorities should make no exemptions to the fixed exchange rate policy. (Earlier it was considered permissible and even recommendable to change the exchange rate in conditions of a so-called fundamental disequilibrium.) The resulting view that monetary policy is impotent is then easily understandable, since free capital flows and fixed exchange rates are indeed a combination which minimizes the scope for monetary policy and makes the level of interest rates and financial conditions in the small economy externally determined.

There are two main reasons for being somewhat sceptical as regards the sustainability of the (permanently) fixed exchange rate regime in small economies. First, with fiscal policy being as inflexible as it is, there is not necessarily an instrument to contain the current account deficit and thus to maintain external equilibrium. The interest rate will preserve equilibrium in the overall balance of payments, but may allow net capital inflows to finance even sizeable current account deficits, which may then be reversed only at exceedingly high interest rates associated with speculative attacks on the currency and financial distress. Monetary policy under fixed exchange rates cannot be used to regulate the level of demand or the current account.

A second observation is that many countries have in fact repeatedly

departed from the exchange rate regime that they officially adhere to. In particular, the Nordic countries undertook more than twenty devaluations in the late 1970s and the early 1980s. One could reply to this that neither Sweden nor Finland (or Denmark) has devalued since 1982, and that this marks the start of a new era (while Norway is slipping behind). For Sweden, however, it should be noted that the currency has been effectively depreciated since 1985 because of the large share of the dollar in the Swedish currency basket. Another conceivable reason why there have not been any more devaluations may be the fact, interesting in itself, that the 1982 devaluation seems to have been so effective that no new devaluation has so far been needed. A complementary interpretation would point to the favourable international environment which has prevailed in recent years. The status of exchange rate policy is still an unresolved issue in these countries. The official doctrine is that fixed exchange rates are the basic norm to which the economy and policies have to adapt themselves. However, the question is whether this doctrine is credible and, even more important, whether it is sensible and desirable: should the monetary authorities stick to the fixed exchange rate with uncompromising vigour, or should exchange rate changes be used actively to promote favourable macro-economic developments?

9.3 THE RELATION OF EXCHANGE RATE POLICY TO INFLATION AND EMPLOYMENT

An assessment of exchange rate policies should be based on a number of criteria such as the prevalence of various shocks, political priorities, the size of foreign trade elasticities, the strength of wage responses to price changes, and the character of the mechanism of wage formation in general. In the following I shall first outline briefly the (familiar) effects of an isolated exchange rate change, before turning to the significance of alternative exchange rate policy systems or regimes.

9.3.1 *Effects of a change in the exchange rate*

Assume that the currency is devalued in a situation where there is a deficit in the current account and unemployment. What are the most important links in the chain of effects thus initiated?

1. Price competitiveness will improve and the real wage will fall. Price competitiveness may refer to the price ratio of domestic to foreign goods and/or of traded to non-traded goods. The real wage will fall because of the increase in the domestic currency price of imported

or traded goods, given at least short-run rigidity of the nominal wage rate.

2. Improved competitiveness should increase export and decrease import volumes and thus strengthen the real trade balance. The market share responses may, however, take time to materialize, and the initial effect on the value of the trade balance may therefore be negative (the J-curve). The short-run effect on output may also be negative as the fall in the real wage as such reduces consumption. In the somewhat longer run, however, trade elasticities are generally thought to be large enough for a devaluation to improve both output and the trade account (given that the level of unemployment and slack in the economy are sufficient for output to be responsive to demand).
3. Lower real wages are associated with an increase in profitability—through higher profit margins as well as increased capacity utilization—which should encourage investment in new capacity. A higher investment ratio supports growth of output and productivity, thus raising the sustainable level of employment and real wages. The hoped-for effects on profitability and growth (rather than on the trade balance) have indeed been the main motivation for most of the devaluations undertaken by the Nordic countries.
4. Devaluation will induce inflation both through direct cost effects and through demands for wage compensation (and possibly via an improved labour market situation). The wage response will be large and fast, particularly if wage indexation is widespread. The increase in the price level will reduce the real value of domestic currency assets and debts and may also lead to higher interest rates.

A widely held view, consistent with the sequence of effects outlined above, is that devaluation will have real effects only in the short to medium term, while the main long-run effect will be an increase in the general price level. Furthermore, the real effects may be quite modest if investors and exporters discount expected future wage increases and therefore do not respond to the (temporary) improvement in competitiveness and profitability.[1]

The aforementioned view presumes that there is a unique equilibrium for real variables; the only conceivable role for a change in the exchange rate is then one of speeding up the process of adjustment from an initial disequilibrium. While limited, this role may nevertheless be quite constructive if exogenous disturbances are large and frequent and if nominal rigidities are important. An even more essential role for central bank policies will emerge if there are 'hysteresis effects'—implying that present imbalances have repercussions on developments in an indefinite future—or if policy

[1] For an analysis which recognizes the effects on investment of expected future wage reactions to a devaluation, see Risager (1988).

regimes have effects on strategically important parameters characterizing private sector behaviour. We now turn to these issues.

9.3.2 *Effects of exchange rate policies*

Most economists feel strongly that the monetary system needs a nominal anchor in the form of a controlled money supply (alternatively a target for nominal income) or a fixed exchange rate. The motivation for this concern is that fully accommodating policies might render the price level indeterminate. For a small economy, in particular, it is generally thought that the fixed exchange rate is the most natural mechanism for establishing an anchor or a benchmark for inflation expectations and wage formation. Correspondingly, the argument against using discretionary exchange rate changes as a means of facilitating the adjustment process is basically that such changes will remove the 'fixed point' and the associated 'discipline of the market', thus having detrimental consequences for wage behaviour and price stability.

In this view it is taken for granted that devaluations or an accommodating exchange rate policy will not generate any additional employment in the long run. Recurrent devaluations only cause permanently high inflation as trade unions demand compensation for expected and realized inflation. Non-accommodation in the form of a permanently and rigidly fixed exchange rate is therefore often strongly recommended even though it is admitted that credibility of the fixed exchange rate regime can perhaps be achieved only by accepting a temporary phase of above-normal unemployment.[2]

One may (and should) ask why the Nordic countries have in fact chosen to pursue devaluation policies if these are indeed futile or only harmful in the long run. The simplest explanation is to draw attention to the importance of the short run and to the magnitude and persistence of the adjustment problems that may be encountered. The conflict between internal and external balance may result in strongly deflationary pressure and high unemployment. The alternative to a devaluation—restrictive demand management policies that dampen wage growth by increasing unemployment—works slowly and its results are politically painful.

Furthermore, contractionary demand management policies risk leading to a lasting increase in unemployment because of asymmetrical reactions which imply that higher actual unemployment also raises 'equilibrium' unemployment (hysteresis). Laid-off workers may not be re-employed even

[2] This claim has been forcefully stated in a sequence of reports by the Swedish group of economists called 'Konjukturradet'. Results of formal analyses dealing with the consequences of exchange rate policies in game-theoretic terms are actually quite sensitive to model specification; cf. the articles in the *Scandinavian Journal of Economics* (1985). For instance, wage claims may in fact be moderated if unions acknowledge that large nominal wage increases are useless since they only trigger offsetting devaluations anyway.

though output revives, partly because the perceived quality of labour may be negatively affected by the fact of being unemployed. Deflation causes irreversible scrapping of capacity, and with low utilization rates capital formation becomes too small and unsupportive of future growth revival. The structure of investment tends to be 'defensive', i.e. biased towards cost-saving rather than output-increasing equipment etc. In sum, unemployment is more easily increased than decreased; cf. Johansen (1982). Fear of a deflationary spiral with permanent stagnation as the outcome is certainly one of the reasons why Nordic governments (except Denmark) have so far hesitated to endorse the 'restoration of credibility just takes some temporary suffering' doctrine.

Another explanation for accommodating policies might be that these policies are simply an illustration of the famous time-inconsistency problem. The interests of society might indeed be better served by sticking to the fixed exchange rate, but in the short run the government will find it optimal to devalue (given an adjustment problem as well as the time lags of the inflation effects of a devaluation and the time and pain needed to make non-accommodating policies credible). Understanding this, the private sector expects policies to remain accommodating and behaves accordingly, thus magnifying the problem and making expectations of accommodation self-fulfilling.[3] Precommitment may be the way out of this dilemma but more so in a theoretical than in a practical context.

A third possibility worth considering is that there is something missing in the 'devaluation does not matter in the long run' characterization of exchange rate policy given above. One particular line of reasoning, which does not seem far-fetched in a Nordic context, goes as follows: a basic precondition for growth of investment and output is that entrepreneurs have confidence in future demand and profitability conditions. The required confidence was bolstered in the first decades after the Second World War by successful government demand management policies and by the strong commitment to full employment. More recently, this confidence has evaporated and the investment propensity has fallen because of the risks and uncertainty associated with real shocks and the unresolved conflict between full employment and price stability.

For obvious reasons, domestic demand management is of less importance in small economies. This is so particularly for the manufacturing sector and exports, which in the longer run are of paramount importance for overall macro-economic developments through their effects on external equilibrium. Actual and expected profitability in small open economies is more directly dependent on wages, foreign prices, and exchange rates (as noted in section 9.1).

[3] The problem is magnified if there is a two-party system, since the incoming government will then often have a particularly strong temptation to start its term with a devaluation.

Accommodating exchange rate policies may in these circumstances enhance investment by reducing the uncertainty of profit expectations.[4] Investment is discouraged by the fact that the yield on long-term investment projects can easily be wiped out by unforeseeable price or wage developments or changes in world market conditions. The essential role of accommodating exchange rate policies is to reduce these risks by smoothing out profit developments, or by redistributing risks so that they are shared more equally as between sectors and agents. Given nominal wage rigidity and imperfect capital markets, accommodating exchange rate policies may help diversify risks and may to some extent act as an insurance system for private sector profitability and for manufacturing profitability, in particular.

The argument that accommodation enhances investment does not require that devaluations have permanent effects on competitiveness and the real wage (only that they reduce profit uncertainty). However, there are actually two ways for devaluations to safeguard the level of manufacturing profitability even though the competitiveness effects are temporary. First, even temporary reductions in the real wage may enhance profitability if they are recurrent. Second, devaluation policies may ease the lot of debtors—such as industrial corporations—by maintaining inflation at a high level. Needless to say, high inflation reduces the real value of debt (and assets), particularly if interest rates are set administratively and are not adjusted in response to changes in the rate of inflation.

Another perspective on the argument that accommodation supports investment is provided by the literature initiated by Lancaster (1973) on the dynamic inefficiency of capitalism. Lancaster views workers and capitalists as being involved in a strategic game where workers decide on real wages and distribution, while capitalists decide on investment (and thereby determine future employment and consumption opportunities). Lancaster's point is that there is dynamic externality arising from the fact that workers are unable to affect the allocation of profits as between capitalists' consumption and investment, while the capitalists cannot ensure that they will receive the desired share of future output as returns to present investments. The consequence of the dynamic externality is that equilibrium will be inefficient as real wages will be too high and investment activity too low.

Accommodating policies may reduce this dynamic externality by setting limits on the real effects that may be achieved through aggressive wage policies. Devaluation can be used to wipe out any real wage gains and to restore competitiveness, at least in the short run. In order to avoid an accelerating inflation-devaluation spiral it may, however, at times be necessary to reduce the influence of trade unions by pursuing deflationary policies in the form of a credit squeeze or tight fiscal policy.

[4] Cf. Korkman (1985).

It is not necessarily the case that trade unions oppose devaluations, however, even though these might seem to mitigate the effects of wage increases. One reason is that trade unions may accept (if only implicitly) the commitment to certain profitability standards. More importantly, devaluation may be acceptable to all participants in a conflict where rivalry between competing unions is an essential element. As Pohjola (1984) has demonstrated, union rivalry may cause an 'excessive' real wage, slow growth, and high unemployment, when each union sets its wages without due regard to their overall impact. Devaluation is a way of reducing the average level of real wages without interfering with the wage relativities that union rivalry is about. Again, the role of exchange rate policy is to modify and to reduce the consequences of a dynamic externality arising from strategic interaction. (Obviously, this is a reformulation of the old argument that labour accepts reduced real wages through an increase in the price level more easily than through lower money wages.)

In view of the interactions discussed above, it should be clear that the exchange rate may have a pivotal role to play in corporatist policies in a small economy. Before dealing further with corporatist policies, however, it may be noted that the scope for using the exchange rate as an instrument of such policies is importantly affected by the working of the financial markets. When nominal interest rates were set administratively at low levels, devaluation policies would, as noted above, ease the lot of debtors through inflation. More recently, interest rates and capital flows have been deregulated and have become more flexible. Now devaluation and inflation expectations will feed into nominal interest rates. In addition, exchange rate uncertainty may create a risk premium, raising real interest rates as well.

The constraints on exchange rate policy imposed by the financial markets are severe because of the large size of potential 'hot money movements'. Conceivably, uncertainty and speculative capital flows may in the present circumstances be kept within limits—and interest rates at reasonable levels—only by establishing confidence in the fixed exchange rate. Freely floating rates may be the only viable alternative. Barring this alternative, the regime of fixed exchange rates may thus be imposed upon the economy by the financial community irrespective of the role that the exchange rate could perhaps otherwise play as part of the macro-economic policies pursued by the government or by the corporatist system.

9.4 EXCHANGE RATE POLICY AND CORPORATISM

A key goal of corporatist policies is to regulate income distribution in a way that is acceptable to all parties and at the same time conducive to macro-economic developments. The exchange rate is unavoidably essential to such

policies, but its role will vary according to the circumstances. The variation in national experience is considerable.

In *Finland it* is generally recognized that recurrent devaluations have been part of a growth-orientated policy. Sizeable devaluations were undertaken in 1949, 1957, 1967, 1977–8, and 1982. A common interpretation is that there used to be an 'implicit understanding' between industry, the forest industry in particular, and the central bank, that investment activity should be strong, and that, as part of such a policy, the exchange rate would be devalued if this was necessary to ensure some minimum return on investment. Arguably, this is one explanation for the high investment ratio which has been characteristic of the Finnish economy. The development of the manufacturing sector, in particular, remained favourable in the 1970s and 1980s (Fig. 9.1). It seems obvious that the devaluations in 1977–8 were instrumental in restoring competitiveness (Fig. 9.2) to a level consistent with continued industrial expansion.

The attitude of trade unions to devaluations has been mixed. On some occasions, they have resisted devaluations and demanded compensation for the inflation effects. To avoid being caught in an accelerating devaluation-inflation spiral it has, at times, been found necessary to limit the influence of trade unions by pursuing quite deflationary policies in the form of a monetary policy-induced credit squeeze and/or tight fiscal policy. As a

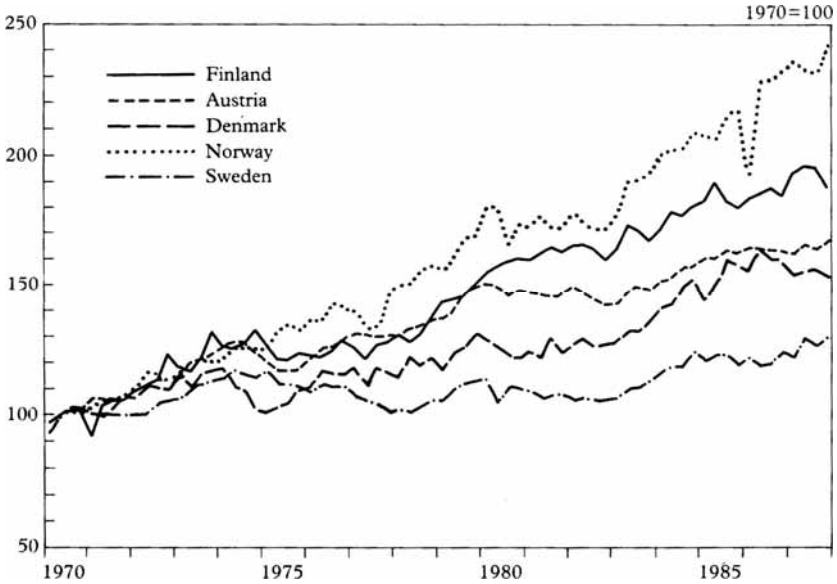


FIG. 9.1 Industrial production in Finland, Austria, Denmark, Norway, and Sweden (s.a. 1970 = 100)

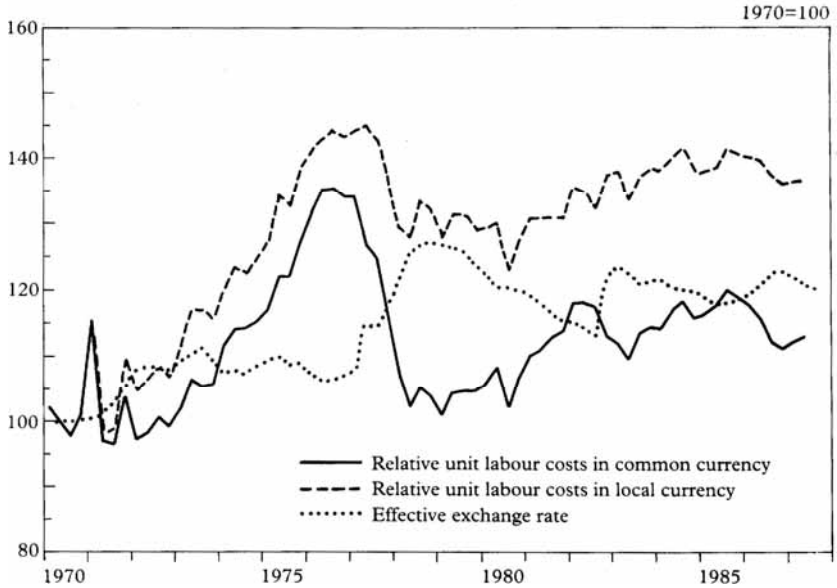


FIG. 9.2 Finland: international competitiveness

result, Finland has pursued an accommodating policy with recurrent devaluations but with a stop-go profile associated with brief deflationary periods preceding the devaluations (whence the name 'devaluation cycle' to characterize Finnish exchange rate policies in the post-war period).

At other times, devaluations seem not to have been opposed by the unions; in some instances they have even actively advocated devaluation (if only behind the scenes). Union rivalry is probably one explanation for this (cf. above). Another explanation is that devaluations have been decided by coalition governments with a strong representation of left-wing parties. Typically, the exchange rate has been devalued by predominantly left-wing governments once wage policies have failed to maintain the conditions necessary for external balance.[5] An additional reason for the rather modest resistance to devaluations might be that the inflation-induced reallocation of wealth (reductions in the real value of financial debts and assets) is perceived as being favourable by both corporations (large debtors) and households[6]

[5] There is a growing strand of literature containing game-theoretic analysis of the strategic interaction between a wage-setting monopoly union on one hand, and an exchange rate-setting government cum central bank on the other. Clearly, however, this approach is not fully appropriate if governments and trade unions are not really independent decision makers, but are rather to be viewed as different parts of the same power structure (with the Socialist Party being the common denominator).

[6] Cf. Oksanen(1988).

(typically also debtors)—while losses have been incurred mainly by the pension funds (which nobody seems to include on their assets side).

In *Sweden,* the fixed exchange rate is an essential part of the well-established corporatist doctrine called the EFO (or the Scandinavian) model. This model, which was worked out by a group of experts from the trade unions and from the employers' association, states that nominal wages should be kept within the limits set by increases in productivity and world market prices in combination with the requirement that the functional distribution of income be unchanged. It is a cornerstone of this model that exchange rates be fixed. Nevertheless, in the difficult period since 1973, Sweden has had to abandon this policy, at least temporarily.

Expansionary fiscal policy ran into difficulties, and a series of devaluations was undertaken in order to restore conditions conductive to industrial growth. The commitment to full employment was stronger than the commitment to the fixed exchange rate. Again, devaluations have been undertaken by left-wing governments as well (or in particular). It would seem that the devaluations have been successful[7] in improving competitiveness (Fig. 9.3) and in recent years also in stimulating industrial growth (Fig. 9.1).

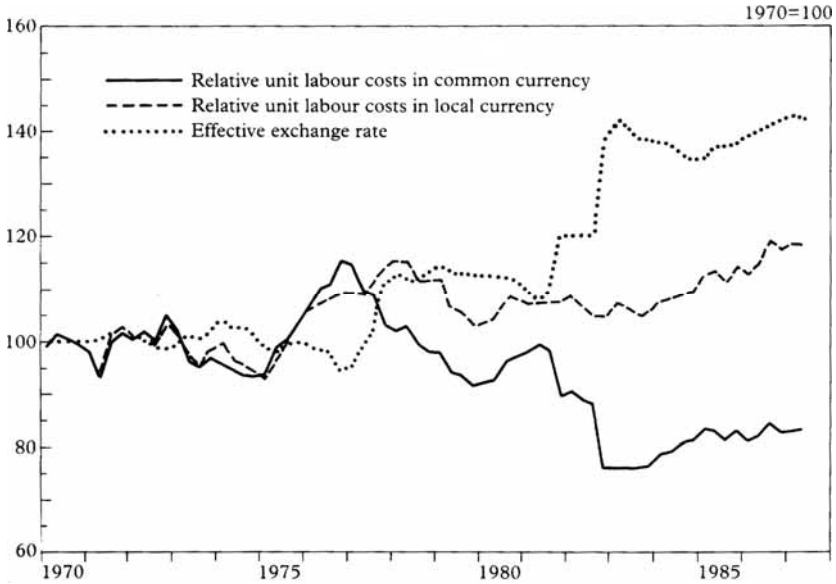


FIG. 9.3 Sweden: international competitiveness

[7] Sweden's 1982 devaluation seems, by and large, to have been a success (even taking into account the favourable external environment). Nevertheless, practically all Swedish economists are united in their claim that no new devaluation is conceivable. A more favourable attitude to a soft exchange rate policy was taken by the group of economists associated with the Brookings Institution.

In *Austria,* a hard-currency policy has been pursued in the form of a fixed peg, mainly to the German Mark. As a consequence, the Schilling has appreciated 30 per cent in effective terms since 1970 and relative unit labour costs have risen by some 20 per cent (Fig. 9.4). Yet industrial output has developed rather favourably (Fig. 9.1). It would seem that wage formation in Austria is so effectively controlled by corporatist policy that changes in the exchange rate have no useful role to play (as is supposedly the case in the Scandinavian model too). On the other hand, the industrial performance of Austria has deteriorated in recent years, and the authorities are increasingly facing a dilemma.[8]

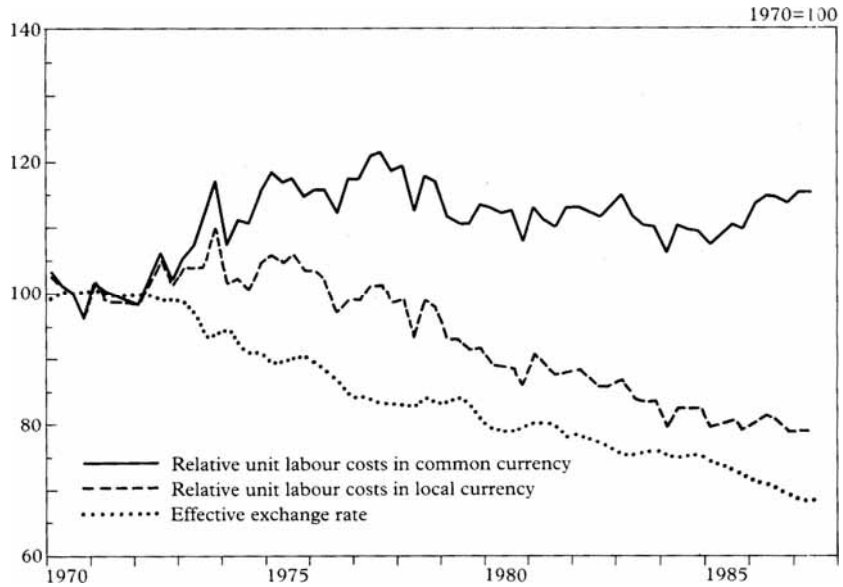


FIG. 9.4 Austria: international competitiveness

Norway has mainly pursued a hard-currency policy but only because it could afford to do so. Competitiveness has deteriorated markedly since the early 1970s (Fig. 9.5). More recently, falling oil prices have caused large imbalances and an apparent switch to a soft-currency policy. A major factor inhibiting devaluation seems to be that it would simply be pointless since at present there is excess demand as a result of lax fiscal policies. The institutional environment of exchange rate policy is much the same as in

[8] The hard-currency policy has been associated with some lack of industrial flexibility (and considerable support to government enterprises). This is interesting, as a major criticism of accommodating devaluations is that they are 'defensive' and allow outdated activities to be maintained.

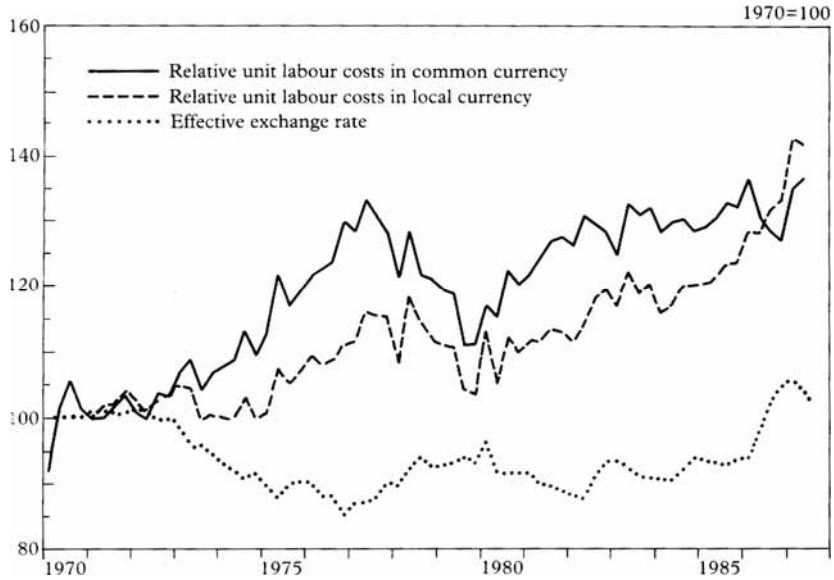


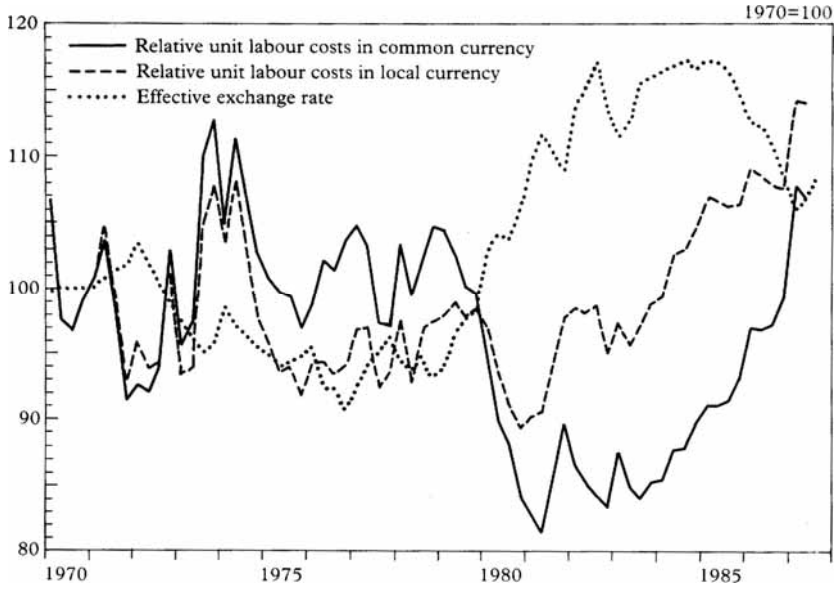
FIG. 9.5 Norway: international competitiveness

Sweden. Industrial production has developed favourably but only because of energy-related activities.

Finally, *Denmark* also undertook large devaluations in the early 1980s (Fig. 9.6), and these were followed by a revival of industrial output. More recently, the Danish authorities have placed strong emphasis on their commitment to the fixed exchange rate in the hope of achieving low interest rates and modest inflation. So far, however, domestic inflation has remained higher than in competitor countries. In addition, in the EMS context, the fixed nominal exchange rate *(vis-a-vis* ECU) has implied a substantial strengthening of the effective exchange rate and a devastating loss of competitiveness. Imbalances remain large, the manufacturing sector performs poorly, and no resolution to the Danish dilemma is in the offing, cf. Akerholrrr (1988). The Danish experience supports the view that the road to a credible commitment to the fixed exchange rate regime is long and fraught with hardship.

9.5 THE INTERNATIONAL DIMENSION

Exchange rate changes that are unilaterally decided are often regarded as internationally harmful beggar-thy-neighbour policies. After the war, the Bretton Woods institutions were created in order to avoid, among other



things, competitive depreciations. Exchange rates were supposed to be basically fixed and adjusted only with due regard to international aspects.

Ex post it would seem that the Bretton Woods system served its purposes well; the 1950s and 1960s were a period of unprecedented growth and stability.[9] In contrast, the fifteen years of experience of floating rates are generally assessed to have been disappointing. Needless to say, floating rates are not to be blamed for real disturbances like the oil shocks. Nevertheless, floating rates have been part of the problem rather than of the solution because of their association with large trade imbalances and financial turbulence (related to uncertainty hampering trade and investment, waning confidence in the financial system, and the debt crisis, etc.). The experience of the last decade has demolished the myth that floating rates make international policy co-operation redundant (and that monetarist policies are a road to price stability with full employment).

Greater fixity of exchange rates is currently in vogue again: intervention in exchange markets takes place on a large scale, international co-ordination of macro-economic policies is being called for, and target zones for the major currencies are being discussed. One concrete expression of the move

[9] At the time, however, the verdict of most economists was different. Fixity of exchange rates was condemned and flexible rates were advocated by both monetarists and Keynesians. The former considered free exchange rates as a natural part of an unregulated price mechanism; the latter hoped to escape the constraints on macro-economic policies imposed by the requirements of external equilibrium.

towards fixed rates is provided by the vitalization of the European Monetary System. The EMS has secured relative stability of European exchange rates, and inflation differentials between member states seem to have narrowed. The EMS has consequently come to be regarded as an example of successful monetary co-operation on a regional basis. An enlargement of its membership seems likely, as does also the future development of EMS co-operation towards a full monetary union with a European central bank as the final (if distant) goal. There is no doubt that many small countries, in particular, will seriously consider joining the EMS in the coming years. Denmark is already a member, Austria might join both the EMS and the EEC, and membership is being discussed in Sweden and Norway. Interest will increase when the United Kingdom joins the EMS.

EMS membership is of course quite attractive to those who stress the importance of credibility and commitment to the fixed exchange rate regime. The advantage of the EMS from this point of view is that unilateral exchange rate changes would not be allowed, and that the discipline imposed by the pegged rate would therefore be more severe. At best, EMS may enhance both domestic price stability and international policy co-operation.

On the other hand, EMS is no automatic route to credibility (cf. the Danish experience where nominal and real rates of interest are persistently high). Moreover, EMS membership largely eliminates the freedom to use the exchange rate as part of adjustment policies implemented in a corporatist context or otherwise. This consideration is of some importance in the Nordic context because these countries have an economic structure (e.g. the forest industry) and political priorities (e.g. die commitment to full employment) which differ from the rest of Europe. Disturbances requiring adjustment of real exchange rates are therefore likely to occur in the future as well.

In retrospect, the currency-basket system operated by the Nordic countries seems to have worked reasonably well. Large and persistent misalignments of exchange rates have been avoided. The devaluations in 1977–82 in Finland and Sweden contributed to developments in employment which are internationally satisfactory. The manufacturing sector, in particular, has been supported by the soft exchange rate. It may be that the policy of an adjustable peg to a basket of currencies cannot be continued in the future. Deregulation of financial markets and capital flows have changed the situation. Discretionary exchange rate changes are difficult to implement in a world with large and mobile capital flows. A choice between EMS membership and free floating may be the options that remain.

In this respect, the EMS is a very noteworthy alternative. For an enlarged EMS system to work satisfactorily, however, it will probably have to develop in the direction of more symmetry (as regards the adjustment burden

between surplus and deficit countries) and flexibility (as regards the size and/or frequency of realignments). Alternatively, the Nordic countries should retain the right to introduce temporary capital controls in times of financial unrest, or they should be allowed larger bands around the central rates (maybe even larger than the 6 per cent allowed for Italy).

9.6 CONCLUDING COMMENTS

Competitiveness and the real wage are bound to be important for the macro-economic performance of small economies. This is widely recognized by labour market organizations as well as by governmental bodies. It is therefore generally thought to be imperative that institutional arrangements be conducive to the necessary synchronization of wage, price, and exchange rate developments.

One of the main advantages of the fixed exchange rate is that it clarifies the allocation of roles and responsibilities in the policy-making context. In particular, it puts severe constraints on central bank policies and at the same time yields a simple norm for appropriate wage formation in normal circumstances (the Scandinavian model). With fixed exchange rates and exogenous world market prices (and productivity developments), the 'room' for domestic wage increases may be reasonably well assessed. From this perspective, the fixed exchange rate may be viewed as an essential element of the system of corporatist policies aimed at regulating income distribution.

In the past two decades, small economies have been faced with large shocks and severe imbalances. Domestic wage flexibility cannot ensure full employment in such circumstances. The imbalances may become cumulative unless adjustment is effective. Given nominal wage rigidity, effective adjustment policies are likely to include a change in the exchange rate as part of the policies.

In the five countries briefly considered above, exchange rate policy has indeed been closely associated with corporatist policies. For instance, in Austria the hard-currency policy is a cornerstone of the corporatist system of real wage regulation. The same used to be the case in the Scandinavian countries. More recently, Sweden has actively used devaluation as an instrument of adjustment policy. Again, this has taken place within the framework of policies decided by a socialist government and implemented by the monetary authorities and trade unions. In Finland, arguably, accommodating exchange rate policy was earlier based on an understanding mainly between the forest industry and the central bank (1940–70), while it has subsequently been based more on an understanding between the labour market organizations and the government. There are many reasons, some of which were dealt with above, why these policies may have had

important effects not only on nominal variables but on real variables like growth and employment as well.[10]

Conceivably, the manipulation of exchange rates in order to support industrial growth and employment is a policy strategy which is not viable in the new financial environment characterized by large and unregulated capital flows. If so, the fixed exchange rate system may be sustainable in Nordic countries only if corporatist policies can be strengthened and made more flexible, possibly in the context of an enlarged EMS. Otherwise, floating exchange rates may be the unavoidable even if undesirable outcome. Also, the future role and power of the corporatist institution is conditional on its ability to cope with the new financial environment.

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[10] There is no obvious correlation between competitiveness and industrial performance. This is not surprising in view of the two-way causality involved: strong price competitiveness most likely supports industrial production, but rapid growth will also lead to higher wages and lower price competitiveness. For the 1930s, it has been argued that the crisis was much less severe in those countries that undertook large devaluations than in other countries: see Eichengreen and Sachs (1984).

10

Corporatism and Economic Performance in Sweden^ Norway, and Finland

Jukka Pekkarinen

10.1 INTRODUCTION

Three Nordic economies, Sweden, Norway, and Finland, share common characteristics which make them an interesting subject for study from the point of view of corporatism and economic performance.

First, as far as the institutions bearing on industrial relations and economic policy are concerned, all three countries rank relatively highly on the various scales that are used to indicate the degree of corporatism—union density, centralization of wage bargaining, involvement of interest organizations in economic and social policy design, and, except Finland, number of strikes, etc.

Second, the recent economic performance of these countries, in particular with respect to employment, has been impressive by European standards. They have achieved high employment levels and their unemployment rates have remained low.[1] This may to some extent reflect the readiness of the Nordic countries to accept higher inflation rates and larger current account deficits than elsewhere, but empirical studies frequently suggest that they have favourable trade-offs between inflation and unemployment and display relatively flexible real wages.[2]

Comments from Peter Katzenstein, Paulette Kurzer, Steven Marglin, Wolfgang Merkel, Matti Pohjola, Bob Rowthorn, Juliet Schor, and other participants in the project are gratefully acknowledged. I also thank Malcolm Waters for correcting my English. The research was supported by financial assistance provided by the Finnish Ministry for Foreign Affairs to the project being carried out at the Labour Institute for Economic Research. The chapter was partly written during the author's stay at Harvard University in the academic year 1988–9. This visit was made possible by grants from the Academy of Finland, the Yrjo Jahnsson Foundation, and the Finnish Cultural Foundation.

A qualification is needed for Finland, which has represented a kind of intermediate case between low unemployment and high unemployment countries; Finland is nevertheless one of the very few OECD countries which succeeded in consistently reducing unemployment during the first half of the 1980s and has now reached an unemployment rate lower than that of Norway or Austria. The labour market performance of the corporatist economies is examined more closely by Bob Rowthorn in this volume.

[2] See e.g. Grubb *et al.* (1983); Kahn (1984); McCallum (1986). Except for Norway, these results are broadly confirmed by those obtained in the project on 'Wage formation in the Nordic countries', in which Sweden scores the highest elasticity of real wages with respect to unemployment. See Calmfors (1990). For a discussion of the issue of real wage flexibility, see also Matti Pohjola in this volume.

Third, as shown by Bob Rowthorn in this volume, the economic and social record of these countries is enhanced by the relatively low degree of wage dispersion across industries in all Nordic countries, including Denmark. This is further strengthened by the heavy reliance on a progressive income tax as a source of public sector revenue and by an extensive welfare sector, as discussed by Katri Kosonen in this volume.

The Nordic countries appear to be good examples of social corporatism, in the sense of the terms used in this volume: they show a combination of centralized bargaining, heavy government involvement, and a high degree of solidarity. Taking into account their good employment performance, the question naturally arises whether the latter has been caused by the former. Before jumping to such a conclusion two counter-arguments addressed in this chapter must be considered:

1. The nature of corporatism and its linkages with economic performance vary strongly from one country to another even among the subgroup of social corporatism.
2. It has frequently been argued that the corporatist 'star performers', using the term due to Rowthorn and Glyn (1990), have not done very well from a long-run point of view as far as growth and structural change are concerned. If true, this claim casts doubt on the sustainability of their performance.

Some introductory remarks on these two issues are in order:

1. The rediscovery of corporatism by economists, many years after it had been extensively dealt with by other social scientists already preparing to leave the subject, exemplifies the general revival of interest in *institutions* in economics. The most narrow characterization of corporatism relates to certain structural characteristics of the wage-bargaining institutions. High degrees of unionization and vertically centralized organization structures among employees and employers are usually observed. They give rise to centralized wage bargaining. A broader structural definition encompasses a state ready to negotiate with the interest organizations and interventionist in its economic policies. Corporatism is thus conceived as a tripartite bargaining structure between labour, capital, and the state. The power balance of this triangle varies and this gives rise to different variants of corporatism (cf. Katzenstein 1985). The variety is further increased by the fact that institutions are historical and carry the legacies of specific national traditions concerning, for example, the agenda of economic policies (cf. Pekkarinen 1989).

The historical contingency of corporatism appears especially important from the point of view of the definition of corporatism adopted in this project. The distinction between conflict- and consensus-based varieties of corporatism refers to differences in the goals the interest organizations, the trade union movement in particular, strive for. This difference in goal setting is at

least partially independent of the degree of centralization. Moreover, goals may change over time. This suggests a dynamic dimension to corporatism.

2. The relevance of the dynamic dimension is further enhanced by the fact that, apart from the rediscovery of institutions, economists' concern with corporatism is related to the debate on flexibility evoked by the largely structural interpretation of the recent economic crises. In the late 1970s and early 1980s, the call by policy makers, international economic organizations, and many economists for greater flexibility of the economic system was generally interpreted as implying a move toward decentralization and the freer play of market forces. More recently, acquaintance with the corpora tist experiments has introduced more nuances into the flexibility issue by suggesting that centralized economic systems in which labour is well organized and in which government intervention is widely used can show high flexibility in adjusting to changing economic circumstances.

There are several channels through which corporatism can contribute to flexibility. As emphasized by Bob Rowthorn in his essay in this volume, centralized wage bargaining is a necessary condition for direct control of the general wage level and consequently, at least in a small open economy, the distribution of income between wages and profits as a policy target. This may have enhanced the capability of the corporatist economies to deal with the supply shocks of the 1970s. As far as the micro aspects of flexibility are concerned, it is suggested in this book that the distinction between the inclusive type of corporatism based on institutionalized conflict and the typically more exclusive type of consensus-based corporatism is relevant. The former type of corporatism, which more or less characterizes the Nordic countries, tends to freeze the wage structure and thus weaken the role of relative wages in the reallocation process.

On the other hand, active manpower policies and union involvement in the management of the reallocation of labour may enhance micro-flexibility. Furthermore, in contrast to the standard view, the high priority placed on full employment and low wage differentials characteristic of the social corporatist economies may facilitate micro-flexibility: when jobs offering largely the same pay are available elsewhere in the economy, workers' resistance to restructuring may be diminished. It may also be the case that the principle of democracy or non-exclusion lengthens the horizon of the interest organizations and enhances their readiness to accept far-reaching restructuring measures considered necessary for preserving the economic viability of the system while at the same time contributing to a more solidaristic sharing of the burden of adjustment. Bearing on this issue, this chapter discusses flexibility from the point of view of the *stability* or integrity of corporatism over time. If corporatism results in a poor long-run performance with respect to growth and structural change, it endangers the preconditions for its own existence in the course of time. Bargaining has to take

place under deteriorating economic conditions. The co-operative mood of the game between the interest organizations weakens as also may their internal solidarity.

The *Nordic countries* are usually regarded as prime examples of social corporatism. Without challenging this interpretation, this chapter stresses the point that there are important differences between them. This diversity implies certain qualifications concerning the relation between corporatism and economic performance. More importantly, the experience of each Nordic economy can be used to illuminate certain specific aspects of corporatism. One distinction can be drawn between Sweden and Norway on the one hand and Finland on the other. Whereas the former countries represent mature corporatism, the relevant institutions having become established long before the economic turmoil of the 1970s, Finland, like Australia discussed by Robin Archer in this volume, is an example of strengthening corporatism, where institutional realignment was combined with the challenge posed by the economic crises of the 1970s.

Against this background, the following sections take a closer look at economic developments in the three countries since the mid-1970s. *Sweden* provides an example of *steady* corporatism. Viewed from the perspective of the late 1980s and overlooking the current problems of overheating, the Swedish economy seemed to have succeeded in combining continuous full employment and restructuring. The role played by the expanding oil sector cannot be overlooked when accounting for the success of the *Norwegian* economy in the late 1970s and early 1980s. But the economic situation deteriorated sharply as a result of the fall in oil prices in the mid-1980s. The question to be faced in the Norwegian case is whether postponement of the restructuring of the non-oil economy weakened its long-term growth prospects. If so, the Norwegian case may illuminate the thread of *instability* or fragility of corporatism.

Finland figures as a country which, after a sharp decline in the mid-1970s, rapidly improved her relative economic performance. As this coincided with the rise of Finnish corporatism, the question naturally arises whether the Finnish case exemplifies the positive economic consequences *oi strengthening* corporatism. This hypothesis has to be set against the alternative view according to which certain favourable, but not necessarily irreversible, changes in the international economic environment were decisive for the improvement of economic performance in Finland.

In what follows section 10.2 describes in general terms the structural and institutional background of each country. Sections 10.3–10.5 discuss how economic policies, the behaviour of the private sector, and changes in the economic environment have shaped economic performance in each country since the early 1970s and the role of corporatism in this. Conclusions are drawn in section 10.6.

10.2 SOCIAL CORPORATISM IN THE NORDIC COUNTRIES: BACKGROUND

As far as the *economic structure* is concerned, all three countries meet Katzenstein's (1985) criterion of external vulnerability as a precondition for social corporatism. Their industrialization was export-led. While Sweden developed a relatively diversified export structure in the inter-war period, the exports of Norway and Finland have traditionally relied on a few bulk products the markets for which are very volatile. Reflecting this difference, Swedish exports taken as a whole tended to be more stable than those in the other two countries. One would thus expect the external balance in Finland and Norway to have been more volatile than in Sweden. In Finland this indeed was the case whereas in Norway, curiously enough, swings in exports and imports were so closely synchronized that serious current account disturbances were rare (for possible explanations, see Pekkarinen 1989).

These differences notwithstanding, up until the first oil crisis the broad international economic environment of these three small open economies was quite similar. While the industrialized countries in general slid into a deep recession, which strongly influenced the overall policy assessment in the Nordic countries as well, Sweden, Norway, and Finland, as a consequence of the central role of resource-based goods in their exports and the expansionary economic policies pursued, experienced rapid growth in 1974. But in 1975 exports contracted strongly. While domestic demand still remained buoyant and inflation accelerated, external balances deteriorated sharply. These imbalances set the economic policy agenda for many years to come, each of the three countries reacting to them in its own way.

Among the *institutional* preconditions for corporatism, one may first note the fairly high degree of concentration among firms, characteristic of the Nordic export industries in particular. Together with a centralized trade union movement and also a fairly centralized state structure, this has facilitated corporatist approaches.[3] In contrast to the formal vertical hierarchy among each of the interest organizations, the horizontal interaction between state, capital, and labour has been quite flexible. This combination of horizontal flexibility and vertical hierarchy has been considered typical of corporatist arrangements.[4] One should, however, remember that in social corporatism of the Nordic type the local level has played an active role in the trade union movement.

The fairly high degree of centralization of the Nordic state structures facilitates government involvement in the economy.[5] This is also supported by the fact that the Nordic countries lack a strong *laissez-faire* tradition; a

[3] See Czada (1987). [4] This has been emphasized e.g. by Lehmbruch (1982).
[5] For the relevance of this point, see Weir and Skocpol (1985).

strong economic role for the state has in principle been accepted across a wide political spectrum. The Nordic countries also have a tradition of extensive committee work in the preparation of major policy reforms. As these committees have relied on the representation of interest organizations, they have performed as a catalyst for corporatism.

Broad similarities in the economic role of the state do not preclude some crucial differences in *economic policies.* These are in many respects greatest between Finland and Sweden, while Norway, although closer to Sweden, forms an intermediate case.[6] Whereas in Sweden and Norway the Keynesian ideas of demand management were already widely accepted before the Second World War, economic policy in Finland resisted these ideas. Fiscal policy, in particular, followed a clearly pro-cyclical pattern in Finland until quite recently. The main attention in economic policy was paid to the relative costs of the export sector. Moreover, in Finland the central bank retained an unusually high degree of autonomy whereas in Sweden and Norway the treasury gained effective control of it.

Norway shares with Finland the characteristic that direct state intervention in production has been extensive. In both countries, the state has actively fostered industrialization by setting up state-owned enterprises and by granting subsidies. In Sweden such direct state intervention has been exceptional, notwithstanding the high level of public sector saving—a common feature in all three countries emphasized by Katri Kosonen in her essay in this volume. Until the late 1970s, state ownership and subsidies to non-farming industries did not play a big role. Moreover, in Sweden the state has traditionally not relied on *dirigiste* incomes policies. Wage control has been considered the responsibility of the labour market organizations.

Although Agrarians and Liberals have often allied with Social Democrats to form a majority in major reforms in Sweden,[7] the general pattern of economic policies has frequently been challenged by the non-socialist parties. This gave rise to deep conflicts such as the controversies over planning in the late 1940s, pension funds in the 1960s, and wage earner funds in the 1970s. The strong presence of conflict in the Swedish case has raised the question in the literature as to whether it should be considered a corporatist case at all in the conventional 'Continental' use of the term. While referring to the interpretation of corporatism as a system where there is consensus at the top level of organizational hierarchies and the trade union movement accepts the responsibility for suppressing the demands of labour from below, Walter Korpi and Gösta Esping-Andersen, for instance, regard Sweden as a case of democratic class struggle where labour is strong and the corporatist

[6] I have argued for this point elsewhere, referring to, as national economic policy models, the thinking patterns concerning economic policy and cutting across the political spectrum. They seem to show remarkable persistence over time. See Pekkarinen (1989).

[7] See Marklund (1988).

features of which represent a kind of tactical compromise, each stage of which will be challenged by the increasing power of the left.[8] This view closely resembles Göran Therborn's notion in this volume that Sweden represents a case where relatively peaceful industrial relations are maintained by institutionalized conflict. Indeed, in terms of the distinction drawn in many essays in this volume between consensus- and conflict-based corporatism, Sweden is a prime example of the latter.

In Norway and in Finland consensus concerning the basic thrust of policy has traditionally been more prevalent. In Norway it was established during the reconstruction period after the war under a Social Democratic hegemony that remained unchallenged until the 1960s. In Finland changes in cabinet coalitions were frequent and majority cabinets were an exception until the late 1960s. Since then, quite stable coalitions between socialist and bourgeois parties, unknown in other Nordic countries, have been the main rule in Finland. The strict majority rules of the Finnish constitution have compelled governments to negotiate with the opposition on many major issues requiring new legislation. Combined with the emphasis on consensus and heavy government involvement in bargaining between capital and labour that has been prevalent in Finland, this raises the question, to be addressed below, as to whether Finland fits the description of conflict-based corporatism.

The present systems of *industrial relations* in all three countries are characterized, first, by high degrees of organization among employers and employees.[9] Labour is organized in industry-wide unions of manual workers and lower-paid salaried employees on the one hand and in mostly craft-based professional unions on the other. The biggest of the central organizations are the LOs in Sweden and Norway and the SAK in Finland which represent the industry-based unions in manufacturing, construction, and the low-paid workers' and salaried employees' unions in the public and private service industries. In Sweden, the LO alone covers about half of the labour force, somewhat more than the LO in Norway or the SAK in Finland. The coverage of the LO in Norway is closely confined to manufacturing, construction, and communications. The craft-based professionals' unions are organized in two or three central organizations. Norway also has some independent professional unions.

The overall unionization rate exceeds 85 per cent in Sweden and Finland, with little difference between manufacturing and services or between workers and salaried employees in either country. In Sweden the increase in

[8] Korpi (1983); Esping-Andersen (1985).

[9] There is an extensive comparative literature on the system of industrial relations in Norway and Sweden, whereas that on the Finnish system is more sparse. See e.g. Flanagan *et al.* (1983); Braun (1986); Elvander (19886). Most recently, wage formation in the Nordic countries, including Denmark, has been studied extensively in the project on wage formation in the Nordic: countries mentioned in n. 2 above. See Calmfors (1990).

the unionization rate has been fairly steady, whereas in Finland unionization remained quite low, around 40 per cent, until the late 1960s. During the next ten years, it increased rapidly and has been quite stable more recently. In Norway the degree of unionization has not increased much since the late 1960s, and it is now less than 70 per cent, being significantly lower among salaried employees and in the service sector than among workers in manufacturing or construction.

In Scandinavia, the LOs have been politically closely allied with the Social Democratic parties, which in turn have normally dominated governments. In Finland this tie has been looser, and there has been a strong presence of Communists in the blue-collar trade union movement.

Private employers were organized roughly at the same time as employees around the turn of the century. Nowadays, a strong presence of the central organizations of employers in wage negotiations is a common characteristic of all Nordic countries. Public and private sector employers are organized in separate central organizations, however, as are, in the case of Finland, private employers in the secondary and tertiary sectors. Political ties between confederations of employers and bourgeois parties, although present, have not been as systematic as between trade unions and parties on the left.

Compared internationally, wage bargaining in the Nordic countries is characterized by a high degree of centralization; there has not, however, been full co-ordination between settlements for blue-collar and white-collar unions, or private sector and public sector unions, for instance. Standard features of centralized bargaining—multi-year wage contracts, use of index clauses and earnings guarantees, etc.—have, to a somewhat varying degree, been present in all three countries. These common features aside, there are some differences in the bargaining procedures among the Nordic countries. First, centralization is higher and of older origin in the Swedish and Norwegian LOs than in the Finnish SAK or among the professional unions. While Sweden had an unbroken sequence of centralized settlements in the period 1956–82, recourse to bargaining at industry level has been more frequent in Finland and also in Norway. Moreover, whereas for example in Sweden the role of industry-wide wage negotiations is normally downplayed by the binding centralized agreement and the local level is important in applying the central agreement, in Finland the industrial unions are more autonomous. They specifically decide whether or not to accept the central agreement negotiated by the central organization. On the other hand, although conditional upon the acceptance of the industrial unions, each central organization has normally been a partner in accepting the central agreement in Finland whereas in Sweden for example the central agreement is negotiated by the LO for the private sector only. Other central organizations do not negotiate for their member unions, which have formed separate negotiation cartels for the private sector and the public sector. Finally, in

Finland the government has been an active partner in the centralized wage negotiations that have traditionally been quite explicitly tied up, as comprehensive 'package solutions', with issues of taxation and social policy. In Norway, compulsory arbitration enacted by parliament has been fairly frequent and the government has also intervened sometimes in the bargaining between the labour market organizations by means of tax concessions. Most recently, wage restraint has been imposed by legislation.

A common feature of all Nordic countries, which distinguishes them from many European countries, is the rather strong presence of trade unions at the plant level. Shop stewards and other trade union representatives play an important role at the work-place where unions face no competing institutions of work-place representation such as codetermination bodies. Local bargaining at firm (or plant) level is also an important element of wage bargaining. It is reflected in 'wage drift', i.e. the excess over centrally negotiated wage increases, which accounts for not less than roughly half of total wage increases in the Nordic countries.[10]

Finally, the Nordic countries had to face decentralization tendencies in wage bargaining in the course of the 1980s. These developments will be discussed more closely in the context of the country analysis and in the concluding section below.

10.3 SWEDEN: SOLID CORPORATISM?

In the early 1980s, the performance of the Swedish economy deteriorated sharply (see Table 10.1). Output growth stagnated; in manufacturing the volume of output was 4 per cent and the volume of investment no less than 40 per cent lower in 1982 than in 1976. The rate of productivity growth decreased. Swedish exports suffered heavy losses in the market shares. A whole bunch of crisis industries emerged in the previously flourishing Swedish manufacturing sector. Subsidies, which by the early 1980s amounted to 2 per cent of GDP, were paid to keep them alive. The macro-economic symptoms of external and internal imbalance were alarming. The current account, in a comfortable surplus in 1973, swung into a deficit amounting to nearly 4 per cent of GDP by 1982, and the fiscal balance of the consolidated public sector (including pension funds), which had shown a surplus of 4.6 per cent of GDP as late as 1976, had turned into a deficit of

[10]There is an ongoing debate on the determinants of wage drift in the Nordic countries: whether it is accounted for in the central negotiations, whether, in contrast, it is the ultimate determinant of wage increases which offsets variations in centrally negotiated wages, or whether the two components of wage increases are independent of one another. For contributions to this debate, see the papers by Jackman, Holden, Holmlund and Skedinger, Flanagan, and Pissarides and Moghadam in Calmfors (1990).

TABLE 10.1 Economic indicators on Sweden, 1973–1988

Year	Change in real GDP (%)	Change in real exports (%)	Change in real domestic demand (%)	Unemploy-ment rate	Employ-ment rate[3]	Labour market meas-ures	Change in con-summer prices (%)	Manufacturing		Manufacturing		Effect-ive exchange person	Change in real output per employed	RULC[c]	Current account (%ofGDP)
								Real hourly earnings	Nominal hourly earnings	Negoti-ated wage	Wage drift rate				
1973	4.0	13.7	2.3	2.5	73.6	2.8	6.7	1.4	8.2	4.1	4.0	143.3	5.1	120.3	2.8
1974	3.2	5.3	4.6	2.0	75.4	2.5	9.9	[illegible]	11.0	5.0	6.8	143.0	0.3	116.4	–1.0
1975	2.6	–9.3	4.1	1.6	77.2	2.3	9.8	4.6	14.8	10.5	7.5	148.2	–1.3	121.7	–0.5
1976	1.1	4.3	2.6	1.6	77.6	2.6	10.3	6.9	17.8	7.9	5.4	151.4	3.5	136.8	–2.1
1977	–1.6	1.5	–3.1	1.8	77.8	3.3	11.4	–4.3	6.7	3.7	3.5	145.4	–2.2	134.4	–2.6
1978	1.8	7.8	–2.1	2.2	77.8	3.6	10.0	–1.1	8.7	4.8	3.2	131.1	0.8	123.4	0.0
1979	3.8	6.1	5.5	2.1	78.8	3.6	7.2	0.5	7.8	4.4	3.8	131.0	6.1	116.0	–2.2
1980	1.7	–0.5	1.9	2.0	79.4	2.9	13.7	–4.3	8.8	6.1	3.2	130.2	0.4	115.2	–3.6
1981	–0.3	1.1	–2.8	2.5	79.0	2.8	12.1	–1.4	10.6	5.9	4.2	129.2	0.9	117.0	–2.5
1982	0.8	4.4	0.8	3.1	78.6	3.6	8.6	0.1	8.7	4.1	3.5	116.3	3.5	103.5	–3.6
1983	2.4	10.7	–0.8	3.5	78.5	4.2	8.9	–1.7	7.1	3.8	2.9	103.0	5.7	91.6	–1.0
1984	4.0	6.7	3.2	3.1	77.8	5.0	8.0	1.4	9.5	6.2	4.1	104.8	5.5	96.2	0.4
1985	2.1	2.2	4.0	2.9	78.7	4.4	7.4	0.2	7.5	3.8	3.7	103.7	1.5	99.2	–1.3
1986	1.1	3.3	1.7	2.7	79.1	4.0	4.3	3.0	7.4	3.9	3.5	101.5	–1.7	100.9	0.7
1987	2.4	2.5	3.7	1.9	80.1	3.8	4.2	2.2	6.5	—	—	100.0	5.7	100.0	–0.3
1988	2.1	3.0	2.9	1.6	—	3.7	5.8	—		3.4	5.0	99.8	—	104.8	—

[a] Employed as a percentage of population aged 15–64.

[b] Persons affected by special labour market measures as a percentage of total labour force.

[c] Relative unit labour costs.

Source: OECD (1973–88).

more than 7 per cent of GDP by 1982. After a short pause before the second oil crisis, inflation reaccelerated and the rate of increase in consumer prices reached 13 per cent in 1982. Only labour market indicators brought any satisfaction; but they, too, took a turn for the worse. The rate of open unemployment approached 3 per cent in 1982—despite the fact that about 3 per cent of GDP was used for special labour market measures. Total employment, which, thanks to the rapid growth of the public services, had still been rising in the late 1970s, fell.

However, the Swedish economy recovered rapidly after 1982. In 1984, manufacturing output was already 12 per cent above its level in 1982. The sector underwent a successful restructuring. Manufacturing investment picked up after declining from 1976 to 1982. The rate of growth of labour productivity increased. With continued growth of output in the service sector, the rate of growth of real GDP soon reached that of the average of European OECD countries. The rise in employment resumed after 1982. This made it possible gradually to dismantle the manpower programmes and subsidies while the rate of unemployment fell continually to its present level of below 2 per cent. Among the macro-economic indicators, a clear improvement has taken place in the fiscal balance of the public sector; the financial deficit of the consolidated public sector was eliminated by 1987 and the public sector resumed its traditional role as a financial surplus sector. The foreign trade balance has also swung back into surplus, although the current account is in deficit. Inflation started to abate after 1983 but it has persistently run higher than on average in the OECD countries and is currently on the increase. Indeed the inflationary pressures, intensified with the recent overheating, combined with persistent slack in the productivity growth and ongoing erosion of the institutional and political basis of the model, have most recently led the Swedish model into a new crisis, which will be considered towards the end of this section.

These changes in Sweden's economic performance are reflected in domestic and foreign assessments. Whereas in the early 1980s it was widely cited as a warning example for the consequences of not combating imbalances in time, the Swedish economy was later on as widely praised for its success in combining restructuring and continuous full employment. Most recently, however, the current problems of overheating have evoked increasing scepticism.

As a matter of fact, the late 1970s represented the first large-scale attempt in Sweden to overcome an international recession by 'vulgar' Keynesian means. Was this flirtation a failure and was there a fundamental reconsideration of policies in 1982 which saved the Swedish economy from ruination? It seems that a positive answer to this question has widely been taken for granted. This has certainly been the case among those Nordic economists who have criticized Swedish economic policies in the late 1970s

for accommodating public employment measures which have allowed trade unions to pursue excessive real wage claims.[11] An important exception is formed by the corporatism literature, where the continuous maintenance of full employment is linked to the corporatist features of Swedish society. Andrew Glyn and Bob Rowthorn, for instance, interpret the period from the first oil crisis to the mid-1980s rather as a continuous whole.[12] The first phase, extending to the early 1980s, consisted of job protection and the expansion of public sector employment, which was partly financed by an increase in the budget deficit and partly by increased taxes. In the second phase the main emphasis was on the restructuring of the open sector, which was helped by the international upswing.

I shall also argue for this continuity hypothesis but with some qualifications. It is doubtful whether there ever was any conscious two-stage strategy. Rather, Swedish policy makers tried, often with much hesitation and controversy, to cope with the situation as it evolved. While changes in circumstances led to changes in policies, the continuity was represented by the priorities, or the pressures the policy makers had to adjust to.

It is useful to distinguish between different types of continuity:

1. continuity of policy goals and priorities;
2. continuity of the range of feasible policy options as determined by external and internal constraints;
3. continuity in targeting different policy tools to given objectives.

I shall argue that in the Swedish case the corporatist influences have worked for continuity in priorities (1), which, in turn, as a reflection of changes in constraints (2), has led to changes in policy tools (3). Changes in the international economic environment were the main factor contributing to the difficulties at the end of the 1970s as well as to the subsequent recovery. This interpretation, which emphasizes the constraints that socially acceptable goals set on admissible economic outcomes, is in line with the notion of social corporatism as a non-exclusive system.[13]

The first signs of a deterioration in the relative performance of the Swedish economy were already apparent in the late 1960s in the form of a weakened external balance. In the early 1970s, the government pursued tight economic policies in order to combat external deficits. Thus Sweden had a comfortable

[11] See e.g. Söderström and Viotti (1979); Calmfors (1982). For a mild criticism of this view, see Jackman (1989). The assessment by other social scientists may be more varied. Göran Therborn (1986), for instance, seems to imply that the bourgeois governments in Sweden were so tightly constrained by the 'institutionalised commitment to full employment' (p. 23) that they had no alternative but to pursue full-employment policies.

[12] Rowthorn and Glyn (1990).

[13] Göran Therborn relies on a similar kind of explanation when he refers to 'an institutionalised commitment to full employment' (Therborn 1986). A problem in his interpretation is, however, that he to a large extent assumes this commitment to endure under all circumstances and leaves its concrete implications somewhat vague.

surplus on current account until the first oil crisis. This was achieved at the cost of a rise in unemployment to the highest level since the late 1950s.

Due partly to the fact that the resource-based export structure gained from the commodity boom and partly to the accommodative reaction of economic policies in the major OECD countries, the initial impact of the first oil crisis was a boom in 1974. The inflationary thrust of this was exceptional, as both export and import prices soared. The rise in export prices was reflected in a profits explosion in 1973–4. This laid the ground for a rapid increase in wages in the consequent years. In 1974 central agreements were still aimed at moderate wage increases, but, as a reaction to high profits and the booming economy, the negotiated wage increases were overwhelmed by rapidly accelerating wage drift. With the public sector leading the next wage round, even contractual wages were sharply increased in the two-year agreements for 1975–6. In 1974–6 the average annual increase in money wage costs in Swedish manufacturing amounted to nearly 19 per cent. Boosted by slow productivity growth and the appreciation of the Swedish Krona,[14] relative unit labour costs increased by almost 20 per cent in 1974–6. This, together with the sudden slow-down in export prices, was in turn reflected in sharply declining profit shares.

Under these circumstances, the continuity of the Swedish model was represented by the priority given to low unemployment as a policy goal. The approaches adopted by the policy makers in adjusting to internal and external pressures without abandoning full employment can be divided into three partly overlapping stages.

The first stage was the original *bridging* attempt after the first oil crisis. Initially, it was expected to last over an international downswing of a normal cyclical character only. Economic policies were expansionary and several special measures, such as subsidies for stockpiling, were taken to keep the export sector intact. When it became evident from 1976 onwards that the international environment would remain gloomy for a long time and that the structure of Swedish exports would make its effects still more damaging, the bridging strategy was replaced in the second stage by attempts by the new bourgeois government to *shelter* the economy more permanently from the international crisis.[15] While subsidies to ailing manufacturing industries were continued and many firms facing bankruptcy were taken over by the state, the sheltered sector, the public sector in particular, was now assigned the main role in maintaining full employment. Notwithstanding the fact that the budget deficit increased rapidly, taxes were increased to finance the

[14] The Swedish Krona remained in the snake until 1977 and was thus tied to the German Mark.

[15] The distinction between the bridging and sheltering strategies has been made by Andersen (1990). For the weakness of the export performance of Swedish manufacturing, see e.g. Erixon (1984) and Horwitz (1982).

expansion of the public sector and to suppress the real disposable income of those employed and thereby to reduce imports and the external dependency of the economy. As Andrew Glyn's calculations in his essay in this volume show, there was in the social corporatist economies, and in Sweden in particular, a marked decrease in the share of consumption out of labour income in the market sector. Overlapping with these sheltering measures Sweden abandoned the currency snake in 1977 and a series of devaluations followed the two previous devaluations against the snake in 1976 and early 1977. The trade unions agreed to wage restraint and real wages declined.

The recovery of 1978–9 brought a short respite. But now the government showed its indeterminacy by continuing expansionary policies. Inflation accelerated. When the next international recession following the second oil shock arrived, it seemed that the government had lost its faith. Internal controversies among the bourgeois bloc increased. Relations between the government and the trade unions were strained and there was a short general strike in 1980. Unemployment started to increase. This, together with some cuts in the welfare sector which acquired great symbolic significance, gave the Social Democrats a case for claiming that the government was preparing to abandon the Swedish model.

The third phase of adjustment, that *of export-led growth,* was launched with the 1982 devaluation by the new Social Democratic government. The inter national recovery was soon to follow. As was explained above, the recovery that started in Sweden in 1983 was in many ways impressive. The main problem confronted by the government now was how to check the inflationary pressures.

I shall next deal more closely with two issues:

1. What is the overall assessment of the Swedish performance over the post-1974 period as a whole?
2. What role has social corporatism played in it and what are its future prospects?

1. As far as the assessment of Swedish performance is concerned, the above interpretation amounts, at a general level, to a broad Keynesian argument according to which investment in buying time, i.e. fighting the recession in the 1970s by expanding the sheltered sector and by subsidizing the open sector, turned out to be successful after all. This strategy was in many respects similar to 'Austro-Keynesianism'. But while the latter was praised and even adopted as the standard for assessing the performance of other countries in the early 1980s, the Swedish strategy was strongly criticized.[16] Yet Austria was accumulating difficulties for the future while Sweden was more successful in restructuring.

This consideration apart, the critics of the Swedish case maintain that the

[16]See e.g. Scharpf (1987: 96).

sheltering attempts became futile and only prolonged the crisis when it became clear, say, by 1977 that there was a structural crisis in Swedish manufacturing. Two considerations are relevant in assessing this claim:

(a) What was the alternative to sheltering in the conditions of the late 1970s and what would have been its consequences? What the critics have usually had in mind would have been a more rapid restoration of external equilibrium and budget balance. This would most likely have implied an increase in unemployment, which, in turn, would have diminished domestic cost pressures. I shall compare these two alternatives more closely below when discussing the Finnish case, which comes closest in the Nordic context to the kind of rapid adjustment of domestic demand proposed by the critics. Did sheltering inhibit the necessary restructuring of Swedish manufacturing and prolong the crisis of the open sector? One can first point out that the main phases of the Swedish adjustment are clearly delimited: rapid public sector growth, subsidies, public indebtedness, and balance-of-payments deficits until 1982 and a reversal thereafter. While productivity growth was extremely low in the first period, it recovered in the latter. Second, the series of discrete devaluations undertaken to restore the price competitiveness of the Swedish open sector had been started quite early. The first devaluation took place in 1976, and it was followed by two more in 1977 and one in 1981. The effective exchange rate of the Swedish Krona depreciated by almost 20 per cent as a result of these measures alone. While the rise in money wage costs was at the same time on a downward trend, reaching a low point of 6 per cent in 1982, relative unit labour costs in Swedish manufacturing started to fall in 1977 and the decrease amounted to about 20 per cent by 1979. After the devaluation of 16 per cent in the autumn of 1982, relative unit labour costs in Swedish manufacturing, measured in common currency, were about 20 per cent lower in 1983 than in 1974 when the deterioration of the relative cost situation had started. It is questionable whether an alternative strategy would have brought better results in this respect.

Third, considering the decade from the mid-1970s onwards as a whole, the manufacturing sector in Sweden has maintained its position and its structural transformation has been quite successful by international standards. This is generally recognized as far as the 1980s are concerned, but even in the late 1970s Sweden's record in restructuring compared well with other countries.[17] In fact, in Sweden certain policy measures associated with sheltering, such as extensive manpower programmes, were targeted at restructuring. By the early 1980s, the number of people on special employment schemes rose to about 5 per cent of the labour force. Had this number been added to the unemployment pool, the rate of open unemployment in Sweden

[17] See OECD (1987); Rivlin (1987: ch. 3), in which the structural change in Sweden is compared with the USA; see also Landesmann in this volume.

would have amounted to more than 8 per cent, not much lower than in Europe on average. The social and economic costs of such an open unemployment alternative would have been high.[18] Increasing open unemployment would probably have involved hysteresis effects so that restructuring would hardly have been faster. Moreover, active manpower policies that increase labour mobility can be regarded as a supply side precondition for low wage dispersion in Sweden.

The above is not meant to imply that the Swedish strategy for fighting unemployment was without errors. Critics have a point, e.g. as far as the expansionary policies during the short upswing of 1978–9 are concerned; they generated imbalances which worsened the situation in the next recession in the early 1980s. And, as pointed out by Michael Landesmann in this volume, the explosion of subsidies in the late 1970s was to a large extent defensive in character and did not contribute very much to restructuring in any direct way. Much of the credit for the success of Swedish restructuring must be given to the efficiency and flexibility of the corporate sector. Apart from the bankrupt firms in the crisis sectors that fell into the hands of the government, firms in the open sector pursued a restructuring process of their own. The dominance of relatively big firms and the export orientation of the Swedish manufacturing industry facilitated its adjustment to the new market situation.

2. As far as the relevance of corporatism for Swedish performance is concerned, it should first be recalled that, according to the interpretation given above, external factors were the main factor behind both the rapid recovery after 1982 and the difficulties preceding it. The influence of corporatism should be traced to the ways the domestic economy managed these changes in the environment. The discussion can be divided into two issues:

(a) Corporatist influences on economic policy priorities;
(b) the influence of corporatism on the behaviour of the private sector.

(a) The solidity of the tripartite bargaining system had, for several decades, been based on a commitment by economic policy makers to maintain full employment under all circumstances. This gave rise to internal pressures under which economic policies were implemented. Initially, they led to policies that, by relying on at times almost desperate bridging and sheltering measures, did not allow unemployment to increase. Then, in the early 1980s,

[18] Yet some scholars have claimed that the manpower programmes and subsidies, together amounting to about 5% of GDP at their peak, did little to foster restructuring and were an expensive way of maintaining employment. See Standing (1988). For a survey of studies of Swedish labour market policies, see Bjorklund (1990), which comes to the conclusion that no clear positive effects are indicated by the studies, except for intensified employment service, and that the question of the efficacy of Swedish labour market policies remains open. A more positive account is given e.g. by Jackman (1989).

when the bourgeois government started to have doubts about whether or not to go on with sheltering, they led to a change in government. *(b)* But had the corporatist influences not affected the behaviour of the private sector and its readiness to share the burden of adjustment in an equitable way, merely fixing the full-employment target might only have led to an accumulation of difficulties over time. In fact, as has already been indicated above, such influences can be discerned in the Swedish case. After the overshooting of wage increases in 1974–6, the wage restraint imposed by labour market organizations was effective. Real take-home pay in the private sector decreased for four years in the period 1976–82 and there was still a decrease in the pre-tax real wage in 1983. The impact of wage restraint on the profitability of the open sector was enhanced by devaluations. In addition to decreasing real wages, the real take-home pay of those employed was further reduced by tax increases used to finance job creation in the public sector (see also Andrew Glyn in this volume). This casts doubt on the critique of accommodation, according to which a combination of trade union monopoly power and full employment guaranteed by expansion of the public sector leads to a crowding-out of the open sector through excessive wage increases.[19]

Wage restraint is by now a classical economic argument for corporatism. But the influence on behaviour of inherited corporatist institutions was broader. As was indicated in section 10.2 above, inherited national policy legacies have a momentum of their own. So far as they are embodied in certain administrative capabilities and reaction patterns, they may facilitate the readiness to react to certain kinds of shocks. The Swedish case provides an example. The government was well equipped to make extensive use of active labour market policies. Many other countries did not have such readiness and were driven to open unemployment instead.[20] Moreover, the Nordic countries possessed some experience of the beneficial effects of devaluations.[21] There was also a more general legacy of an export-led growth strategy to which these countries had been orientated. This was built into the behaviour pattern of the private sector and fostered the restructuring process of the corporate sector and the rapid investment reaction to the 1982 devaluation.[22]

[19] See n. 11 above. For a further assessment of this argument see Matti Pohjola's chapter in this volume (ch. 3). It should be noted that some results reported in Calmfors (1990) find support for the view that accommodating employment policies increase real labour costs whereas changes in income tax rates seem to leave real labour costs for employers unchanged.

[20] See Weir and Skocpol (1985); Therborn (1986); Jackman (1989).

[21] The Swedish devaluation in 1949 was regarded as a success that rendered the Swedish manufacturing industry highly competitive for two decades to come. Finland, in turn, had a legacy of its own growth-boosting devaluations in 1957 and 1967.

[22] From this point of view, contrasting the opening measures of the Swedish Social Democrats with the strategy adopted by the French Socialists in 1981–2 is illuminating. The French started their recovery programme with an expansion of domestic demand and delayed

What then has been the overall importance of the corporatist influences for the success of Sweden? There is no simple answer to this question. Rather, there has been a dynamic process involving the interaction of a multitude of factors. In this process, success has fostered success. When full employment under all conditions was given top priority in economic policy, workers did not resist restructuring. With this taken for granted, the wage restraint imposed by centralized wage agreements made firms ready to respond to their enhanced competitiveness by investing more. Uncertainty concerning die goals of economic policy and future bargaining did not cause an adverse reaction of expectations to the extent which depressed private demand, delayed recovery, and depressed investment in many other European countries that were also successful in restoring price competitiveness and profit shares by the early 1980s.

My final comments on the Swedish case amount to some speculations concerning its prospects. In a long historical perspective, a central feature of the Swedish model has been the crucial and independent role the trade union movement, more specifically the LO, has played in its formation and implementation. Since the early 1950s, many of the new policy ideas which subsequently turned out to be of lasting influence were first proposed by the LO. It has also been an established tradition in Sweden that government does not directly intervene in wage negotiations.[23] The political and organizational risks inherent in wage restraint have been faced by the labour market organizations. Collective wage restraint is a potential source of conflict between the leadership and the rank and file in the trade union movement. But it has been able to overcome this by insisting on the principle of solidarity—full employment and equalization of wage differentials—and on more far-reaching economic and social goals.

The traditional basis of the Swedish model is, for many reasons, under pressure to change. The production structure and the composition of the labour force have changed. While the overall degree of unionization has remained high, the two central organizations of white-collar employees have increased their share, and in addition within the LO there has been a shift in the balance of power from the open sector towards those employed in the closed sector. In the 1980s, these shifts have resulted in difficult intersectoral wage disputes. The traditional model of wage determination in which the open sector is supposed to play the determining role has come under doubt.

Combined with pressure from employers, structural change in the organization of labour has also fostered decentralization tendencies in wage bargaining. These were accelerated by the profit boom after the 1982

the more significant devaluation until 1983. Furthermore, the private sector in France did not have confidence in the Socialists' policies. This was reflected in a capital flight.

[23] For the Swedish bargaining system, see Elvander (1988*a*).

devaluation, which threatened to cause a breakdown in the centralized wage negotiation system in 1983. It required a great effort by the government before some form of central bargaining could be restored. Shifts between more and less centralized bargaining have occurred before. In fact centralization has often been a response to the acceleration of inter-union wage rivalry under decentralized bargaining. Something like this has occurred during more recent years.[24]

Thus recurrent decentralization tendencies do not necessarily mean that the system has changed in a fundamental way. But changes in technology, the organization of production, and the structure and skills of the labour force may now be taking place that have put the negotiation system under more irreversible pressure to change and as a consequence of which firm-specific factors play a more prominent role in wage formation than before. While local-level organization is strong in the Swedish trade union movement and has had a say, for example, in the decisions concerning new technology, these developments need not weaken the positions of trade unions as such. But they may involve a shift in strategic power from the central to the local level and at the same time increase the pressure for greater flexibility of relative wages. Thus it is equality among wage earners and the chances to countervail potential inequality tendencies through education, labour mobility, and the like which are at stake.

The Swedish system has been unique in providing a framework for an effective exchange between voluntary wage restraint and economic policies aimed at full employment. But this sharing of responsibility is under pressure to change. The temptation for economic policy makers to intervene in wage bargaining has increased, as their room for manoeuvre in monetary and fiscal policies has diminished and internal divisions in the trade union movement have reduced its capability to impose wage restraint. In Sweden, government involvement in wage negotiations increased after the 1982 devaluation and at times there has not been much difference from formal incomes policies. It remains to be seen whether the Swedish system is moving permanently towards a more 'statist' version of corporatism. This might worsen the free-rider dilemma inherent in collective wage restraint, as the government could be blamed for the breakdown of wage restraint. It could also erode the internal solidarity of the trade union movement and threaten the integrity of the whole system of industrial relations.

The debate on wage earner funds may have resulted in a further weakening of the role of the trade union movement in controlling the conflict over real wages and the functional distribution of income in Sweden.[25] By the late 1970s, the LO's fund proposal had become a political burden to the Social

[24] After all restrengthening centralized bargaining in the new environment was what the 'new EFO' or 'FOS' project recently argued for. See Faxen (1989).

[25] SeePontusson (1987).

Democratic Party. Although it never dissociated itself from the LO's proposal it played down its role in order not to endanger its election chances. The party won the election and the retreat on the fund issue was widely regarded as a loss to trade unions. One may question whether the increase in relative power among the left towards the party will indirectly shift the balance of power in the corporatist triangle towards government and in this way affect the preconditions for social corporatism. Be that as it may, the meagre outcome of the fund debate shows the limits of structural reforms in a system where the mandate to make investment decisions is tied to ownership of capital. This also sets limits on the corporatist agenda.

The current overheating of the economy has brought many of the underlying difficulties of the Swedish model into a sharp focus. A cyclical upswing of long duration combined with an annual increase of nominal earnings of well over 10 per cent and with a persistently low rate of growth of labour productivity (in the range of 1–2 per cent annually in the 1980s) has sharply intensified inflationary pressures and deteriorated the external balance. Frustrated by the strong resistance among various pressure groups to its attempts to tame the overheating, the government proposed a package of direct control measures, including price controls and a ban on strikes, in winter 1990.

This package represented a new phase in governments' involvement in wage settlements. It was widely rejected even among the Social Democrats. The government resigned, and after certain manoeuvres, which damaged the popularity of the Social Democrats, Ingvar Carlsson set up a new cabinet with a new Finance Minister and the package was passed in a diluted form in which it did not directly attack the conflict rights of the trade unions.

Although too much should not be made of the present crisis—the government after all came out of it with a package largely involving the deflationary thrust it had originally aimed at—it is nevertheless symbolic of the underlying difficulties of the Swedish model. The traditional spheres of responsibility of government and the trade unions in the implementation of the model are in a state of flux, and the problems inherent in this are rendered more difficult by the weak productivity performance of the economy.

10.4 NORWAY: SYMPTOMS OF FRAGILITY?

Traditionally, Norway has been regarded as lying second to Sweden among the Scandinavian countries as far as the strength of its corporatism is concerned. Norway has also been one of the most stable economies in the OECD area in the post-war era. But, in the course of the 1980s, the Norwegian economy has encountered difficulties (see the economic indicators in Table 10.2). The oil sector exposed it to new types of external

TABLE 10.2 Economic indicators on Norway, 1973–1988

Year	Change in real GDP (%)	Change in real exports (%)	Change in real domestic demand (%)	Unemployment rate	Employment rate[a]	Labour market measures	Change in consumer prices (%)	Manufacturing: Real hourly earnings	Manufacturing: Nominal hourly earnings	Manufacturing: Negotiated wage	Manufacturing: Wage drift	Effective exchange rate	Change in real output per person employed	RULC[c]	Current account (% of GDP)
1973	4.1	8.3	6.5	1.5	66.4	—	7.5	2.9	10.6	4.8	7.2	109.3	6.1	82.3	-1.8
1974	5.2	0.7	7.1	1.5	66.3	—	9.4	7.4	17.5	17.3	8.0	118.8	4.2	85.2	^.8
1975	4.2	3.1	5.9	2.3	67.7	1.1	11.7	7.7	20.3	9.2	4.1	119.9	-6.7	90.4	-8.5
1976	6.8	11.3	7.4	1.7	70.6	0.6	9.1	7.3	17.1	9.6	5.8	122.6	-0.7	96.0	-11.9
1977	3.6	3.6	3.5	1.4	71.7	0.6	9.1	1.7	10.9	3.0	7.0	125.9	-0.6	100.7	-14.0
1978	4.5	8.4	-5.6	1.8	72.5	0.6	8.1	-0.1	8.0	2.1	3.9	116.4	1.0	95.5	-5.2
1979	5.1	2.6	3.9	2.0	72.7	0.7	4.8	-1.8	2.9	0.3	2.5	113.0	6.2	88.6	-2.2
1980	4.2	2.1	4.9	1.6	72.8	0.8	10.9	-0.9	9.9	5.1	8.3	113.6	-2.5	90.2	1.9
1981	0.9	1.4	0.9	2.0	73.4	0.9	13.7	-2.9	10.4	1.8	6.5	116.3	0.6	95.0	3.8
1982	0.3	-0.1	1.9	2.6	73.0	0.9	11.3	-0.9	10.4	5.5	6.3	119.8	2.6	98.3	1.1
1983	4.6	7.6	1.3	3.4	72.6	1.3	8.4	0.3	8.7	1.0	5.1	116.1	7.2	98.8	3.6
1984	5.7	8.2	6.0	3.1	73.1	1.8	6.3	2.1	8.5	3.0	5.7	113.1	3.6	97.3	5.3
1985	5.3	6.9	4.7	2.6	74.4	—	5.7	1.6	7.4	0.5	6.5	110.6	2.8	96.8	5.3
1986	4.3	1.9	8.1	2.0	76.5	—	7.2	2.9	10.3	3.7	8.4	104.2	-2.5	97.1	-6.4
1987	3.4	0.3	-1.0	2.1	77.3	—	8.7	6.8	16.1	0.2	7.5	100.0	3.0	100.0	-5.0
1988	2.6	5.9	-1.1	3.2	—	—	6.7	—	—	1.7	2.0	99.7	—	101.9	—

[a] Employed as a percentage of population aged 15–64.
[b] Persons affected by special labour market measures as a percentage of total labour force.
[c] Relative unit labour costs.

Source: OECD (1973–88).

pressures. Norway may also exemplify some of the problems attached to corporatism in combining full employment and flexibility. To assess these claims, I shall first describe the interplay of external shocks, policy reactions, and wage bargaining since the 1970s.[26] This is followed by a cautious assessment of the performance of and future prospects for Norwegian corporatism.

As in all three Nordic countries discussed here, the initial impact of the first oil crisis was a boom, with soaring profits and increasing inflationary pressures in 1974. In Norway, this overheating in an atmosphere of impending global slump was faced by a Social Democratic minority government, the authority of which had been weakened by the 1972 referendum on the EEC pact and by the party's defeat in the parliamentary election in 1973. Given the high priority placed on full employment and the prospect of rapidly increasing revenues from North Sea oil, Norway, like Sweden, adopted a bridging strategy, which turned out to be much more prolonged than was originally expected.

While insisting on wage moderation, the government relied on expansionary policies to protect Norway from the effects of the international recession. Private consumption was boosted by real wage increases exceeding on average 7 per cent annually in 1974–6. There were generous increases in subsidies to ailing manufacturing industries and agriculture. New social policy programmes were launched, and public expenditure increased rapidly. The growth of domestic expenditure kept the labour market tight. Deficits in the government's budget, which had traditionally been in surplus, and in the current account started to increase. But, with expectations of increasing oil revenues and an end to the world recession, this was accepted.

In 1975, Norwegian exports turned down and the external equilibrium started to deteriorate much more rapidly than had previously been expected. In 1976–7, the cumulative current account deficit exceeded 25 per cent of annual GDP. Profitability in the manufacturing industry declined sharply, as the rise in domestic costs continued and adherence to the European snake had resulted in an appreciation of the Norwegian Krone. Despite the increasing economic difficulties, the Social Democrats succeeded in strengthening their position in the 1977 election. As a matter of fact, their policies were not much different from those of the bourgeois cabinets in Sweden in the late 1970s. Although the main thrust of policies was on sheltering and fiscal policies were accommodating, policies were gradually tightened and the emphasis shifted to improving the profitability and competitiveness of the open sector. A series of devaluations of the Norwegian Krone were implemented when Norway left the currency snake in 1978. With the prospect of increasing oil revenue to rely on, Norway was more

[26] This account of the developments in Norway relies heavily on Fagerberg *et al.* (1989).

ready than Sweden to draw on its current account deficit. In Norway the improvement in the price competitiveness of manufacturing industries was nothing like as big as in Sweden. Nor was there any squeeze on real incomes comparable with that in Sweden, although real earnings decreased somewhat after their record high increase in the mid-1970s. The expanding oil sector substituted for a restructuring of the traditional open sector and the existing structure was maintained with subsidies. Reflecting Norwegian traditions, policy measures involved a regulatory thrust. The government legislated a wage freeze to last until the beginning of 1980 and this was combined with price controls. Control of the housing market was tightened. Financial market controls were also maintained and the share of the state banks in the total credit supply was further increased.

In many respects, Norway coped with the late 1970s quite well. Full employment was maintained, inflation was brought under control, and the relative unit labour costs of Norwegian manufacturing fell slightly. The state of the economy was further enhanced by the international recovery in 1978–9. This made it possible for the government to start tightening its fiscal stance. The economic outlook became even brighter with the rise in oil prices in 1979. By 1980, the combined share of oil and natural gas in total Norwegian exports exceeded 30 per cent. Revenue from oil in the form of taxes and excise duties accounted for 30 per cent of the total revenue of the central government in the early 1980s.

After the 1981 election a new minority government was formed by the Conservatives, who had called for fundamental changes in the traditional Norwegian model. The fact that Norway was the only one of the three Nordic countries to become, for some time, a laboratory for new conservatism was partly due to purely accidental questions of timing. While in Sweden the bourgeois cabinets were in office during the most difficult period of the late 1970s and the recession of the early 1980s, in Norway the Social Democrats paid the political price for it. But the fact that the Conservatives' challenge was echoed so well among the electorate that their share of total votes exceeded 30 per cent—almost 10 percentage points higher than in the two other countries—was due to more fundamental factors. In Norway, the strategy of the Social Democrats had differed from that in Sweden in two respects. First, it had relied more on direct state control and regulation in its policies on prices, incomes, housing, financial markets, etc. Second, Norway's Social Democrats did not manage to gain wide support among the rapidly expanding group of middle-class voters. This constituency responded to the Conservatives' call for lower taxes, in particular.

The Conservative government took office just at the time when Norway's oil revenues were accelerating sharply. The value of exports of oil and natural gas almost doubled from 1981 to 1985. Thanks to oil, the surplus on the current account amounted to roughly 5 per cent of GDP in the mid-1980s

despite the fact that traditional trade was heavily in deficit. But the effects of the international recession were felt particularly strongly in the manufacturing industries, where employment fell by more than 6 per cent in 1982–3. While economic policies were tightened somewhat at the same time, the total rate of unemployment exceeded 3 per cent in 1983, although an increasing share of the slack in the labour market was concealed by the expanding manpower programmes.

The weakening in economic performance was still modest by contemporary international standards. But combined with certain belt-tightening measures interpreted as attacks on the welfare state, it was enough to evoke a strong political reaction. In response to it, two other major non-socialist parties agreed on a coalition government with the Conservatives in the spring of 1983. The new coalition was driven to lax pro-cyclical policies in the upswing of 1984–6. Domestic demand increased at an average annual rate of 6 per cent in this period. The combination of international recovery and domestic expansion generated a boom. The unemployment rate fell to 2 per cent by 1986. But the expansion led to the accumulation of imbalances in the form of inflation and a deteriorating external balance, which was further aggravated by the oil price collapse. The current account deficit exceeded 5 per cent of GDP in 1986 and 1987.

The coalition government resigned in the spring of 1986 and was replaced by a Labour minority government. In some respects, the Brundtland cabinet returned to traditional Norwegian policies in the form of fairly heavy direct state involvement. But now policies were geared towards fighting the external imbalance and enhancing the productivity and competitiveness of the manufacturing sector. The Norwegian Krone was devalued in 1986. The government legislated strict wage control. Wage increases started to slow. Price inflation decelerated less rapidly than wage increases; this, together with tightened fiscal measures, contributed to an almost 8 per cent decline in the real disposable income of households in 1985–8.

The Brundtland cabinet resigned in the autumn of 1989 and was replaced by a bourgeois coalition. It is still too early to assess its success in attempting to balance the Norwegian economy. The current account deficit has been corrected, the budget balance has been strengthened, profits have increased, and the manufacturing industries have started to recover. But the other side of the coin has been an increase in the unemployment rate to over 4 per cent—the highest in Norway since the 1930s.

Both Sweden and Norway exemplify strong continuity implanted in policy priorities by established corporatist structures.

From the current perspective it is very possible that the international upswing will bring such relief that even the Norwegian case will provide one more piece of evidence for the proposition mentioned in the context of Sweden above, that those countries which, so to speak, bought time and,

under the pressure of inherited policy priorities, resisted a big increase in unemployment in the late 1970s and early 1980s have fared relatively well.

But the Norwegian case is weaker than the Swedish one. The restructuring of the non-oil sector was delayed and the problems of the late 1980s were caused by earlier lax policies. In addition to these policy failures, there are some institutional and structural problems which cast a shadow over the future of Norwegian corporatism.

First, in Norway the political and institutional basis of corporatism has been weakened. In the political arena, the Social Democrats have lost their former majority position and the non-socialist bloc, further confused by the rapid rise of the Progress Party, is internally divided. The degree of unionization is low by Nordic standards and the LO, which has traditionally played the main role in wage settlements, has lost ground. Wage drift has started to play a more important role for wage increases in the 1980s and wage differentials have started to widen.

More generally, partly as a result of the previous policy failures, the reliance on direct state intervention, traditionally heavily used in Norway, has lost its credibility. But there has not necessarily been any general decrease in government intervention. Its contents have changed, however. While the government has lost some of its traditional policy options and at the same time the accumulated imbalances have called for stronger intervention to restore the external balance, greater use than before has been made of incomes policies imposed by the government. Such a development may increase resistance to incomes policies: there is a danger of the 'British disease' where the corporatist alternative is criticized from the right and the left and is in disarray because of a lack of political support.

The foregoing implies that social corporatism in the sense used in this project may be eroding in Norway. This may be further exacerbated by the fact that the structure of the Norwegian economy has changed in a way that may undermine its traditional stability and thus complicate corporatist settlements. The rise of the oil sector has increased external vulnerability. It also sharpens the dualistic nature of the Norwegian economy. Apart from a few isolated exceptions, e.g. in the electrical industries and industries connected to offshore activities, no large-scale restructuring of the manufacturing sector of'mainland Norway' has taken place. Finally, deregulation of the financial markets and the increasing importance of international capital flows have weakened the traditional mechanisms of financial control. This change has taken place more or less in all market economies, but its consequences may be particularly acute in Norway because Norwegian economic policies have traditionally relied on tight quantitative control of credit flows and the disturbances emitted by the oil sector tend to be magnified by the reaction of international capital movements.

10.5 FINLAND: STRENGTHENING CORPORATISM?

In the Nordic context, Finland provides an example of unsettled but gradually strengthening corporatism. Although Finnish corporatism in its present form is of fairly recent origin, its roots reach further back in time. Various attempts at corporatism have been made since the 1940s but these have been repeatedly wrecked by external and internal pressures. The Finnish version of corporatism also contains some elements of the traditional Finnish policy model, which strongly reflected the interests of the export industries and overlooked stabilization of domestic demand. This volatile historical background and mixture of old and new in its present version raise questions as to the future sustainability of Finnish corporatism.

The strengthening of corporatism in Finland since the late 1960s is evident by most indicators commonly used: the rate of unionization has risen strongly; centralized wage negotiations have become the norm, with few exceptions; these negotiations have often been connected with comprehensive economic and social policy packages through which the government has become an active partner in bargaining; strike activity has been in decline, etc. This has coincided with a clear improvement in the relative performance of the economy. Since the end of the 1970s, economic development in Finland has been among the most stable in the OECD area and GDP has persistently grown faster than in the European OECD countries on average. Unemployment has decreased. There has not been as steep a slow-down in productivity growth as in many other countries. Real wages have increased without squeezing profits (see Table 10.3).

The combination of strengthening corporatism and improved economic performance naturally raises the question as to whether there is a causal relation between the two. Has corporatism led to better economic performance or has the latter kept the former intact? I shall argue that, apart from strengthening corporatism, the improvement in relative economic performance in Finland has been combined with many other factors, such as diversification and diminishing external vulnerability of the economic structure, with a more stabilizing orientation of economic policies—and with sheer good luck. In fact, to the extent that the strengthening of corporatism has been a reaction to a more or less exogenous improvement in the economy, the Finnish case rather illustrates the endogeneity of corporatism.

As far as the post-war period until the late 1970s is concerned, Finland's relative economic performance was characterized by the following features:

1. Over the period as a whole, output and productivity growth in Finland roughly corresponded to the average of the OECD countries. During the reconstruction period after the war, growth was relatively rapid, but it stagnated in relative terms in the 1960s.

TABLE 10.3 Economic indicators on Finland, 1973–1988

Year	Change in real GDP (%)	Change in real exports (%)	Change in real domestic demand (%)	Unemploy-ment rate	Employ-ment rate[a]	Labour market meas-ures[b]	Change in con-summer prices (%)	Manufacturing		Manufacturing		Effect-ive exchange rate	Change in real output per person employed	RULC[c]	Current account (% of GDP)
								Real hourly earnings	Nominal hourly earnings	Negotiated wage	Wage drift				
1973	6.7	7.3	7.1	2.3	68.8	1.3	10.7	5.5	16.8	11.1	8.0	108.2	2.3	91.3	–1.9
1974	3.0	–0.6	7.5	1.7	70.3	1.3	16.9	4.7	22.3	11.3	13.7	111.6	1.1	98.7	–4.9
1975	1.2	–14.0	2.1	2.2	69.6	1.3	17.9	2.7	21.1	8.7	10.2	110.0	–3.8	105,8	–7.5
1976	0.3	12.8	–4.3	3.8	71.2	1.1	14.4	0.3	14.7	7.2	6.7	110.3	2.6	115.8	–3.7
1977	0.1	15.7	–0.9	5.8	69.5	1.1	12.6	–3.2	9.0	5.5	3.2	105.7	1.2	108.9	–0.3
1978	2.2	8.9	–0.3	7.2	68.3	1.8	7.8	–0.4	7.4	5.4	3.6	95.2	7.2	92.2	1.9
1979	7.3	8.8	9.2	5.9	69.7	2.3	7.5	3.7	11.5	4.9	3.1	94.7	7.1	90.5	–0.3
1980	5.4	8.4	5.5	4.6	71.6	2.4	11.6	1.1	12.8	11.3	4.6	97.5	2.8	92.1	–2.7
1981	1.6	4.9	–0.4	4.8	71.9	2.1	12.0	0.7	12.8	7.0	4.0	101.5	3.9	97.2	–0.8
1982	3.6	–1.1	4.3	5.3	72.2	2.3	9.6	0.9	10.5	8.4	3.1	103.8	3.3	101.2	–1.6
1983	3.0	2.5	2.3	5.4	72.0	2.3	8.3	1.1	9.5	5.6	3.6	99.7	5.4	99.3	–1.9
1984	3.3	5.4	2.0	5.2	72.2	2.5	7.1	3.1	10.4	4.0	3.8	101.9	5.3	103.4	0.0
1985	3.5	1.2	2.9	5.0	72.6	2.2	5.9	1.7	7.7	3.8	3.3	101.5	5.4	103.5	–1.3
1986	2.3	1.3	3.1	5.3	72.5	2.0	2.9	3.2	6.2	2.8	3.4	99.5	5.8	99.7	–1.1
1987	3.8	1.7	4.7	5.0	72.1	2.2	4.1	4.6	8.9	3.4	3.6	100.0	6.4	100.0	–2.2
1988	4.8	4.2	6.4	4.5	—	2.2	5.1	—	—	5.3	4.0	101.2	—	104.3	—

[a] Employed as a percentage of population aged 15–64.
[b] Persons affected by special labour market measures as a percentage of total labour force.
[c] Relative unit labour costs.

Source: OECD (1973–88).

2. The rate of structural change was very rapid. In the early 1950s, no less than half the population was employed in primary industries. Since then, the share of the agricultural labour force has decreased rapidly, to about 20 per cent in 1970 and less than 10 per cent at present. As a reflection partly of this, and partly of the high capital intensity of the main export industries, the investment rate in Finland (like that in Norway) has been very high by international standards—averaging about 25 per cent of GDP.

3. Cyclically, the economy was one of the most unstable in the OECD area. Although the measured rate of unemployment remained on average between 2 and 3 per cent, there were periods of high unemployment in the late 1950s and late 1960s and continuous disguised unemployment in rural areas before the jump in the unemployment rate to more than 7 per cent in 1978. Inflation was higher than in the OECD countries in general and there was a persistent tendency of trade balance deficits. Both these problems reached their climax in the mid-1970s: in 1975 the rate of increase in consumer prices amounted to nearly 18 per cent while the current account deficit rose to 7.5 per cent of GDP.

This mixed performance can be partly attributed to structural factors. The markets for forestry products, the combined share of which in total exports was still almost 80 per cent in the early 1950s, were cyclically unstable. Contrary to, for example, the Norwegian case, which has also had a highly unstable export sector, the import content of Finnish exports was fairly low and the multiplier effects of cyclical export shocks were big. But the structural factors notwithstanding, cyclical swings were amplified by two factors pertaining to economic policies and wage bargaining:

1. Reflecting the combined influence of the traditional fiscal orthodoxy, aversion to government borrowing and the politically motivated attempt to restrict the growth of the public sector, the reactions of fiscal policies were highly pro-cyclical. Neither did monetary policy effectively prevent cyclical swings in domestic demand.

2. The relations between unemployment, inflation, wages, profits, and economic policies displayed regularities that extended over the normal trade cycle. At roughly ten-year intervals (1949, 1957, 1968, and 1977–8), after a prolonged period of high unemployment, a major devaluation of the Finnish Markka took place just towards the end of a deep recession. These devaluations were preceded by contractionary policies. The devaluations changed the distribution of income towards profits, and various attempts at wage restraint were taken to maintain this shift. But when labour markets became tighter during the following international upswing, wage restraint did not hold. Domestic inflation accelerated and the competitiveness of the economy deteriorated again. This paved the way for a new devaluation after a couple of normal export cycles.

In the Finnish discussion, these regularities have been referred to as the devaluation cycle.[27] They can be interpreted in terms of a Kaleckian political business cycle reflecting the fact that the class relations of post-war Finland persistently prevented the combining of low unemployment, low inflation, and a stable functional distribution of income. Economic policies were targeted at high investment and rapid structural change. This required a favourable outlook for profits and devaluations were used to provide this. But in order to be effective, it had to be ensured that the advantages they brought were not immediately eroded by increasing wages. To prevent this, before a devaluation, unemployment was deliberately used as a means to provide workers with a lesson of the consequences of excessive wage claims and to give the economy room to expand. After devaluation wage restraint was striven for so as to preserve its distributive effects. Attempts at procedures akin to corporatism were made during this phase of the cycle.

Given the prevailing institutions of industrial relations, policy makers had limited power to influence wages. Attempts at extensive agreements on wages and prices did not bring lasting results. There was a bitter general strike in 1956. Shortly thereafter, the blue-collar trade union movement was split into two central organizations. Union enrolment was on the decline. In these conditions, the sound policy for unions, unable to behave collectively, seemed to be to gain as much in wages as they could. In the vicious spiral of devaluation, inflation, and unemployment, short-sightedness was institutionally imposed.

After the failure of the 1950s, there were renewed attempts at incomes policies in the 1960s. As one obstacle to this was formed by the split in the trade union movement, the state and employers backed the negotiation process which led to the reunification of the SAK ('the Finnish LO') in 1967. A network of tripartite institutions between trade unions, employers, and government was formed to convey information and to co-ordinate economic and social policies with incomes policies. Agricultural prices and farm incomes were also integrated with incomes policies. Comprehensive packages of centralized wage agreements and economic policies and social policies have subsequently been quite common in Finland.

The new system of comprehensive incomes policies was created under strong economic pressures. The devaluation cycle had reached the phase where the currency was overvalued, profits were down, and unemployment was high. The Finnish Markka was devalued by 31 per cent in 1967 and a comprehensive incomes policy package was agreed thereafter. Thanks to the boost given by devaluation and by the international recovery soon to follow, the economy recovered rapidly towards the end of the 1960s.

[27] The term and the formal presentation of the idea are due to Korkman (1978). See also Pekkarinen(1989).

Unemployment decreased and profits soared. Wage restraint started to erode, as was shown by, for example, a strike in the metal and engineering industries in 1970. The failure of this phase of Finnish incomes policies was made evident by the strong upswing in the early 1970s. The Finnish economy was, like Sweden and Norway, in the peculiar position that the impact of the 1973 oil shock was expansionary and strongly inflationary—even more dramatically so in the Finnish case because the forest industries accounted for a bigger share of Finnish exports. Moreover, during the upswing preceding the first oil crisis, economic policies had been expansionary in Finland, including a further depreciation of the currency in terms of the trade-weighted basket during the slide of the dollar in 1972. Expansionary policies were continued until the first half of 1975. While other areas of economic policies were biased in the opposite direction, much emphasis in the control of inflation was laid on incomes policies. But not unexpectedly, wage control did not succeed under the conditions of tight labour market and accelerating inflation. The centralized wage agreements were overwhelmed by wage drift that accounted for the major part of the total increase of more than 20 per cent in nominal wages both in 1974 and in 1975. In 1975, export revenues dropped sharply while the expansion of domestic demand continued to imports and wage and price increases accelerated. As a result, the competitiveness and profitability of the export industries rapidly deteriorated and the current account deficit increased sharply.

In this situation, economic policies in Finland took a sharply different course from those in Sweden and Norway. While the two other countries insisted on keeping unemployment rates low and adopted bridging strategies, reducing inflation and restoring external balance were given primacy in Finland and economic policies shifted in a sharply restrictive direction. Policy makers' interest in incomes policies waned and unemployment was deliberately used as a means to bring down inflation.[28] Monetary policy was tightened in 1975. Fiscal policy followed suit in the following year when the discrete (structural) surplus in the budget of central government increased by about 4 per cent of GDP. Tight policies were continued until the end of 1977 when the first devaluation took place in a series of three devaluations in 1977–8, amounting in all to a 19 per cent increase in the effective exchange rate. Before the relief brought by the devaluations and the international recovery from the end of 1978 onwards, the economy was thrown into its worst recession since the 1930s. Only when it became obvious that the unions were ready to accept tight wage constraint were incomes policies given a central role again in 1978. Trade unions accepted the shift in income distribution. Once again boosted by devaluation and international recovery, the Finnish economy embarked on a rapid upswing in 1978, and the

[28] The practice of centralized wage agreements was not abandoned, however.

following year total output increased by more than 7 per cent. Unemployment started to fall.

In the 1980s, economic development in Finland has been extraordinarily stable at a persistently higher level than in the European OECD countries on average. Industrial relations have been more peaceful than before, and certain tendencies toward more decentralized bargaining notwithstanding, no breakdown in incomes policies has occurred.[29] Is this achievement due to strengthening corporatism, to wise policies, or to a favourable external environment? One can point out significant changes in all three sets of factors.

1. As far as the *structure* of the economy is concerned, there have been several changes exerting a stabilizing influence. First, the Finnish economy provides a good example of successful catching-up. The average annual rate of growth of total factor productivity in Finland decelerated by less than half a per cent from the 1960s to the early 1980s, which is exceptional by OECD standards. Export diversification has continued. While forest-based products still made up more than half of Finnish exports in the early 1970s, its share has now fallen below 40 per cent and, apart from cyclical changes, has been exceeded by that of the metal and engineering industries. Swings in these two main groups of Finnish exports offset each other to some extent so that exports as a whole have become more stable. A significant upgrading has also taken place in the internal composition of both main export branches. Finnish export industries, which like their Swedish counterparts are dominated by relatively big firms, have succeeded quite well in diversifying.

Second, thanks to the geographical pattern of Finnish foreign trade, the impact of the second oil shock was different in Finland from that in a typical non-oil-producing OECD country. Finland imports most of her oil from the Soviet Union. Trade between these two countries has been based on bilateral agreements aimed at balancing trade over five-year periods. Consequently, when the increase in the price of oil increased Finland's import bill from 1979 onwards, exports to the Soviet Union also increased. This cushioned the adverse developments in exports to Western markets.

Third, as Juhana Vartiainen and Michael Landesmann point out elsewhere in this volume, the shift from the conflict-ridden devaluation cycle to a more co-operative mood of play in industrial relations may reflect a change in the structural conditions under which the distribution of income between wages and profits is determined. Until the 1970s, Finland fitted the characterization of a labour surplus economy with a reserve army of labour in agriculture. This made the policy of big devaluations work by making real wages responsive to them. Profits were increased and firms were able to expand production by relying on workers migrating from the primary sector. In these conditions, economic instability aggravated by economic policies

[29] Wage agreements have been reached three times at industrial union level in the 1980s.

may have accelerated long-run growth by diminishing the power of organized labour and thus increasing the average share of profits in industry. When surplus labour in agriculture was exhausted, this conflictive accumulation mechanism no longer generated growth but rather inflation and instability. This may have paved the way for a transition from a political business cycle to more co-operative procedures.

2. *Economic policies* in Finland have become more stabilizing during the last ten years. Paradoxically enough, while the OECD countries in general have become more wary of fiscal policies, Finland, which had previously resisted fiscal activism, has just begun to make use of the idea of compensatory fiscal policy. The timing of fiscal measures has not been perfect, but at least the clearly pro-cyclical fiscal shocks that destabilized the economy before have been avoided. Moreover, the expansion of the public sector has been rapid on average, reflecting the fact that many welfare programmes had been started relatively late in Finland and no cuts have been implemented. Exchange rate policies have tried to distance themselves from the devaluationary policies pursued earlier. The Markka was devalued in two steps by 11 per cent just before and after the Swedish devaluation in 1982. On the other hand, modest revaluations were implemented in 1979, 1983, and 1989.

3. Finally, *industrial relations* in Finland have been more peaceful than earlier. Real wage increases have remained broadly within the limits set by productivity growth. Temporary oscillations aside, the distribution of income between profits and wages has been relatively stable. Stabilizing changes in economic policies and industrial relations in Finland can partly be traced to the strengthening of corporatism. But as far as the significance of the latter for the relative improvement in economic performance is concerned, the Finnish experience tentatively suggests that a reform of the institutions pertaining to industrial relations alone does not guarantee economic stability. This seems to be one lesson from Finland's history of devaluation cycles. The institutional framework for comprehensive incomes policies was created in the late 1960s and its roots go back further in time. Yet this structure did not prevent the accumulation of the imbalances caused by economic policies and external shocks in the early 1970s. Other factors are needed to explain the persistence of the co-operative mood of play since the end of the 1970s. As was indicated above, such stabilizing changes have taken place both in economic structure and in economic policies.

The post-war Finnish experience illuminates the endogeneity of corporatism.[30] It is also an interesting feature of the Finnish devaluation cycle that attempts at corporatism seem to occur during upswings in times of relatively high profits, i.e. after devaluations, while they are abandoned

[30] In his essay in this volume, Matti Pohjola puts forward an analytical argument for the endogeneity of corporatism. See also Kaitala and Pohjola (1990).

during the periods of unemployment preceding devaluations. This runs counter to the argument frequently made which states that corporatism makes a real difference during periods of economic difficulties.

In conclusion, comparing the Finnish case with the Swedish and Norwegian cases suggests some comments:

1. An interesting difference between Finland on the one hand and Sweden and Norway on the other is to be seen in the economic policy reactions in 1975–7. While the latter countries opted for the bridging strategy, the Finnish economy was driven by sharply contractionary policies into a deep recession. An argument—quite the opposite to the one for social corporatism presented above—sometimes put forward is that Finland's good performance since the late 1970s is due to the fact that the imbalances were corrected at an early stage.[31] The current account deficits were restored to a sustainable level and the imbalances were not carried forward to a time when greater adjustments would have been needed. Trade unions and employers learned that accommodative policies were not to be expected and inflationary expectations were defeated. These arguments bear general resemblance to the orthodox claim for credible rules of economic policy. In fact, this was frequently used in the opposite direction, e.g. in the Swedish debate, to point out the destabilizing consequences of economic policies that give a full-employment guarantee to the private sector.[32] Yet, according to the interpretation given above, the later Swedish, and with more reservations also the Norwegian, experience shows that preserving full employment by bridging and sheltering did not necessarily lead to accumulation of greater difficulties in the long run. In Sweden, real wages were flexible and successful restructuring took place.

2. The fact that the unemployment rate has been higher in Finland than in Sweden or Norway exemplifies the country specificity of the priorities connected with corporatist institutions. These possess a continuity of their own. In a sense, Finland is a good example of a case where corporatism has traditionally been conceived as rather constrained, or conditioned, i.e. mainly as a means to adjust the goals of different groups to the economic necessities largely seen to be determined by the external economic environment. It renders the adjustment more manageable.

This characterization of Finnish corporatism is different from the social corporatism of the Swedish type. The former bears some resemblance to the consensus version of corporatism discussed in the introduction to this book. The fact that it has not been very quick to adherence to full employment in the past can be seen as an indication of exclusion. But on the other hand the organization of political and economic interests is firmly class-based in Finland and the conflict rights of interest organizations are acknowledged.

[31] See e.g. Calmfors (1984).

[32] See literature in n. 9 above.

Moreover, the recent increase in unionization has implied a change in the underlying balance of forces in Finnish corporatism that may underline the inclusive principle. Finnish corporatism is an interesting mixture of social corporatism and consensus.

Finally, what implications do the endogeneity and mixed nature of Finnish corporatism have for its future prospects? Are there good reasons for relying on its stability in future or will it break down soon after economic circumstances change? The new pattern of policies and industrial relations has so far been tested by relatively stable external conditions. The old instabilities may well return in the event of serious external shocks. The underlying principles of policy need not have changed much from the days of the devaluation cycle to have resulted in stable policies in a situation where the external balance has not been fatally disturbed. But there have occurred certain countervailing, partly irreversible changes, such as the diversification of the economic structure, 'institutional learning' in economic policies, and an increase in the strength of the trade unions. Only time will show whether these changes are enough to bring about a permanent shift in the priorities of economic management and to preserve Finnish corporatism over extensive periods of external pressures.

In the 1980s, decentralization tendencies in wage bargaining have been prevalent in Finland as in many other countries. On two occasions no central agreement was reached. In 1988, in turn, no less than half the unions rejected the central agreement. The role of the government has become more visible in shaping and enforcing the central agreement. In 1989, the government announced in advance that taxes would be increased if the central agreement was not accepted by the unions, and the signing of the central agreement was postponed until it was known whether it had been accepted by individual unions. These decentralization tendencies and the government's reaction to them have tended to diminish the authority of central organizations. If they continue, they will undermine the present wage negotiation system. As government-imposed incomes policies in the presence of weak central organizations have in many countries turned out to be an unviable system, more decentralized bargaining would be a more likely outcome of such a dissolution of the existing system.

10.6 CONCLUSIONS

A relatively good economic performance has been a common characteristic of the three Nordic countries discussed in this chapter. In conclusion, I shall summarize the factors behind this by classifying them into economic structure, economic policies, and institutions.

As far as the *economic structure* of the three countries is concerned, Norway

had its newly found oil resources to rely on during the critical years of the late 1970s and the early 1980s. Finland benefited from an increase in its exports to the Soviet Union just when its Western markets were in recession in the early 1980s; furthermore, the Finnish economy was undergoing a favourable diversification phase as part of its catching-up process. The course of the Swedish economy, too, seems to a large extent to have been determined by external impulses; the structural problems of the Swedish manufacturing industries exacerbated the problems in the late 1970s while later on relief was brought by the international recovery.

This chapter has emphasized the interaction between *economic policies* and *institutions,* including *corporatist* structures. It is useful in conclusion to divide the linkages between corporatism and economic policies into two groups.

1. The *supply side* linkages that have figured in the foregoing analysis mainly consist of the real wage and price competitiveness (the real exchange rate or relative unit labour costs in common currency). The fact that Sweden, Norway, and Finland have made use of devaluations instead of a prolonged deflation in the attempts to restore the competitiveness of their open sectors suggests priorities between inflation and unemployment different from those countries who have been prepared to take the hard-currency option even at the cost of persistent unemployment. The relatively high degree of flexibility of real wages in these countries, which is shown by several empirical studies, suggests, in turn, a readiness on the part of the Nordic trade unions to accept the distributive impact of devaluations.

Although most accounts of corporatism have relied on it, the link between real wages and employment is not the sole explanation for the good relative performance of the Nordic countries. As a matter of fact, since the late 1970s and early 1980s, the Nordic countries have not performed very well as far as the evolution of their relative unit labour costs in common currency is concerned.

2. *Aggregate demand* forms a second link between economic performance and corporatism. International differences in labour market performance stem to a great extent from the first half of the 1980s. Empirical studies, in turn, suggest that differences in the stance of fiscal and monetary policies were important in explaining differences in economic performance during this period.

The three Nordic countries avoided contractionary policies for different reasons, reflecting differences in their corporatism. Owing to their strong commitment to full employment this option was *excluded* in Sweden and Norway. Governments which were preparing for austerity measures in the early 1980s were defeated in elections. In Finland, on the other hand, there was no *need* for contraction; the foreign balance and government finances were in good shape and the impact of the deep recession in the West was relatively modest thanks to the increase in exports to the Soviet Union.

This chapter has also dealt with corporatism as a partly endogenous factor dependent on economic policies and economic performance themselves. This has been discussed as a problem of the stability of corporatism. The three countries can also be compared from this point of view. The Finnish experience since the late 1970s illuminates the case of strengthening corporatism. But it is an open question how resistant it will be to unfavourable changes in the external environment. Sweden, in turn, represents a case of fairly stable corporatism which has succeeded in combining continuous full employment and structural transformation. Certain doubts can in turn be raised concerning the stability of Norwegian corporatism as restructuring of the traditional industries has been delayed and certain institutional and political preconditions for corporatism also show some symptoms of weakness. But from today's perspective the Norwegian system seems to be recovering quite well. Corporatism is thus conditional on the economic success which it may, in turn, foster. But what causal power is then left for corporatism? I have tried to shed light on the interaction between corporatism and economic policies, as reflected in economic policy priorities and in the room for manoeuvre in policy. But behind this macro-economic context there is a broader and, in the last analysis, perhaps more important question: how do the social, political, and economic forces pertaining to corporatism influence the capacity of the economy to adjust to changing circumstances at the micro level? This question opens up a wide range of issues from the educational system and industrial policies to corporate strategies and the role of the trade unions at the work-place which have been briefly hinted at in this chapter.

The three Nordic cases represent somewhat different varieties of corporatism. But one can also argue that there have occurred certain shifts in each of them, as a result of which the three cases have approached one another. While Finland has moved in the direction of more full-blown corporatism, some 'Finlandization' has on the other hand taken place in the Swedish economic policy strategy after 1982 and in the Norwegian one after 1986. Namely, quite in accordance with the traditional Finnish economic policy priorities, emphasis in these two countries has been shifted towards enhancing profitability. In its extreme form, such a policy strategy involves an unconditional profit guarantee and represents a withdrawal from the principles of the Rehn-Meidner model where profit squeeze is assigned the role of speeding up structural change and productivity growth.

It has been argued in the Swedish debate that some consequences of this withdrawal are already to be seen in the fact that Swedish exports have actually gained in relatively low-technology industries in the 1980s (cf. Erixon 1989). Moreover, as the Finnish experience of the devaluation cycle exemplifies, from the point of view of stabilization, policies targeted at enhancing profits involve the risk of a wage explosion which in turn paves

the way for future devaluations. One may question whether the present difficulties in Sweden testify to the relevance of such risks.

Finally, what are the *prospects* for the three Nordic cases of corporatism? One factor that may bear upon the future prospects is the shift which has taken place in the pattern of government involvement. Partly as a result of increasing integration, government intervention outside the labour market has become more difficult. Financial integration has diminished the autonomy of monetary policies which have become increasingly targeted at the balance of payments. It is doubtful whether increased financial integration any longer allows for successful discrete exchange rate adjustments.[33] Also, fiscal policies are for various reasons considered to be subjected to tighter constraints than before. Under these conditions, macro-economic wage adjustment has become more important since it has been required to compensate for the loss of the freedom of manoeuvre elsewhere. This, in turn, has increased the temptation to make more extensive use of government intervention in the negotiations.

Government intervention in wage negotiations has also been stimulated by a tendency toward greater decentralization of wage bargaining and the increasing difficulties of the labour market organizations to reach a central agreement on their own. These tendencies may well be different from the previous cycles between centralized and decentralized bargaining experienced in all Nordic countries. First, owing to the ongoing change in the industrial and occupational structure of the labour force, the craft-based professional unions have become stronger at the cost of the industry-based blue-collar workers' unions. The former, while strongest in the sheltered sector, are in a better position to push wage increases across industries which, in turn, evokes compensation demands among the industrial unions in manufacturing: there is a danger of a wage-wage spiral which is initiated in the sheltered sector and in which organizational disputes play a large role. Second, the role of firm-specific factors in wage determination is increasing as is shown for example by the increasing importance of different types of bonus systems. Third, as has been emphasized, for example, in the vast literature on post-Fordism, the change from mass production towards more differentiated products has, among certain sections of the labour force, been connected with greater autonomy at work and differentiation of skills and work careers. It has been claimed that trade unions have difficulties in redefining their role to meet the expectations of this new labour force.

These changes may have weakened the preconditions for voluntary wage restraint imposed by the central organizations. While at the same time the

[33] In this respect, there is a difference between the typical Nordic view, which is described by Sixten Korkman in this volume, and the view expressed by many foreign, especially American, observers of the Nordic economies, like the Brookings Report on Sweden and Cooper (1987).

importance of wage restraint in economic policy has increased, a consequence has been more active direct government intervention in wage formation. In a way, decentralization tendencies have been counteracted by shifting the management of wage restraint away from the labour market organizations to the government. It thereby becomes more politicized. The experience of many countries suggests that such a system is fragile. It is likely to decrease the autonomy of interest organizations and to endanger the basis of corporatism by shifting the burden of the control of conflict away from a struggle between capital and labour to that between the government and unions and to internal disputes among the interest organizations themselves.

It is not only on the wage front that Nordic corporatism is under pressure to change. Difficulties in maintaining public sector saving against a background of resistance to taxation and expanding expenditure requirements, combined with the prospect of a diminishing financial surplus in the social security funds sector, lead one to ask whether the Nordic countries face a more acute shortage of saving than before or whether the fall in public saving can be compensated for by an increase in private saving through tax concessions or otherwise. Should the increase in private saving take place in the household or in the corporate sector? Household saving has recently been declining sharply in the Nordic countries and there are demographic and other reasons for believing its longer-term prospects may not be good. Apart from this, the former alternative would intensify pressures for greater income differentials in household incomes than before. The latter alternative, in turn, poses the question: on what conditions will workers be willing to accept the increase in corporate profits it involves and what will be its implications for the distribution of wealth. The outcome of the fight over wage earner funds in Sweden suggests that Nordic societies are not yet ready to solve this basic conflict.

The problems of redesigning the institutions influencing saving and wage bargaining both face the uneasy trade-off between equality and economic incentives. As such they pose a challenge to the Nordic types of corporatism, which have so far succeeded in combining these two objectives in a way that has maintained good economic performance and preserved the cohesion of the existing institutions with their great emphasis on equality.

In many ways, the new tendencies evident in the nature of work, the organization of labour, and government's interest in wage restraint and in the patterns of saving bring into focus the future role of the trade unions. The Nordic trade unions are in a relatively good position to meet the future challenges by new organizational and strategic solutions. One of their greatest assets, provided by the experience of corporatism, is their established status as partners in economic and social management at the local, industry, and national levels. These types of basic institutional patterns are

largely irreversible and to a large extent set the landscape in which solutions to new problems will be sought.

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11

Corporatism: Success or Failure? Austrian Experiences

Alois Guger

11.1 INTRODUCTION

In the decade after the first oil shock the world economy experienced a marked decline in output and productivity growth and a substantial rise in inflation and unemployment.

All industrialized countries were confronted with these important changes in the economic environment more or less to the same degree. However, we can find a considerable increase in the variance of the performance measures of individual countries since the early 1970s. Looking at Western Europe even some highly open economies like the Scandinavian countries or Austria have been much less prone to stagflationary processes than others.

In recent years, the economic policies and institutional arrangements of these so-called 'success' countries have attracted growing interest among social scientists. The institutional structure of a country promotes or restricts strategic actions and determines the range of feasible policy options. On the one hand, the degree of centralization in the bargaining process of a country appears to foster the degree of co-operation between trade unions, employers, and government; and on the other hand, the political structure of a society, i.e. the relative power positions of labour and business and the state, exert a crucial constraint on the rank order of political priorities. Thus, it seems that countries with powerful centralized trade unions and business organizations, with a strong labour movement, and with highly centralized bargaining arrangements have steered their economies significantly better through the turbulent years since the first oil crisis than other countries.[1]

Since Austria has been considered as a paradigm of corporatism in all its various classifications the performance of the Austrian economy in the period of crisis since the early 1970s is of special interest.

The subject-matter of this chapter is the analysis of the Austrian economy with respect to its institutional arrangements and economic policy. The chapter is organized in five sections: first, we shall briefly comment on the role of corporatist institutions in economics; second, we shall give a brief

The author wishes to thank Adalbert Knobl (IMF), Wolfgang Pollan (WIFO), Kurt W. Rothschild (WIFO), Josef Steindl (WIFO), and Ewald Walterskirchen (WIFO) for comments.

[1] Scharpf (1984), Bruno and Sachs (1985), Blaas and Guger (1985) written in 1977.

account of the development of the Austrian economy during the period of crisis and its aftermath; in section 11.4 a description of the Austrian economic strategy of this time—the so-called 'Austro-Keynesianism'—and its underlying institutional arrangements and policy strategies will be given; section 11.5 will deal with wage and labour market flexibility, the main concern of prevailing orthodox economics in employment policy; and in section 11.6 we shall, finally, discuss some major problems of this approach and give an evaluation of the Austrian model and its prospects.

11.2 CORPORATISM AND ECONOMIC POLICY

The recent interest of economists in corporatism stems from the role that mainstream economics attaches to labour markets in employment matters. As in the period of mass unemployment in the 1930s, neo-classical economists have again diagnosed inflexible labour markets, i.e. too rigid real wages and low labour mobility, as the main reason for the high unemployment over the last fifteen years.

Some of the main elements of corporatism, such as powerful, centralized trade unions and nation-wide bargaining systems, used to be criticized by 'free-market economists' as monopolistic elements and hence impediments to the smooth functioning of competitive markets. But since in recent years a number of studies seem to indicate that such corporatist features foster smooth real wage adjustments, corporatist institutions have more and more been discussed as a possible instrument to improve labour market performance, at least for countries with powerful trade unions.

From a Keynesian perspective, however, the meaning of corporatist institutions goes beyond the labour market. As far as the labour market is concerned, trade unions can only act upon nominal wages, not real wages. In this model, inflation is determined by wage bargaining and 'incomes policies' are seen as necessary elements of viable full-employment strategies: when the growth of money wages exceeds productivity growth the price level will increase. Since trade union power increases with rising employment, bargaining institutions and trade union co-operation are crucial in this model to control inflation at full employment.[2]

But the effects of corporatist institutions go beyond the labour market.

[2] Keynes and his group in Cambridge had clearly seen the problem of accelerating inflation already at the time of the publication of the General Theory: their position is probably best summarized in Joan Robinson's statement in 1943: 'Unemployment in a private enterprise economy has not only the function of preserving discipline in industry, but also indirectly the function of preserving the value of money. If free wage bargaining, as we have known hitherto, is continued in conditions of full employment, there would be a constant upward pressure upon money wage-rates ... In peace time the vicious spiral of wages and prices might become chronic'

Industrial relations shape expectations of the private sector. A co-operative mode of bargaining between business, labour, and government with consensual outcomes leads to positive business expectations ('animal spirits') and, hence, fosters private investment and growth.

The consequences of free bargaining at high-employment levels under adverse politico-institutional conditions have been convincingly demonstrated by Great Britain's 'stop-go policy' in the post-war period and its harmful effects on business expectations, investment, and growth.

The Keynesian position is best summed up by Kalecki's conclusion (1943):

> 'Full employment capitalism' will have . . . to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped.

If corporatist arrangements can be seen as such new social and political institutions which facilitate the pursuit of long-run full-employment strategies, some form of corporatism may prove a (necessary) precondition for maintaining full employment in the long run, at least in societies with a strong labour movement.

11.3 GROWTH AND LABOUR MARKET PERFORMANCE OF THE AUSTRIAN ECONOMY SINCE THE EARLY 1970S

Starting from a low level of productivity the post-war development of the Austrian economy has been a more or less continuous catching-up process (Table 11.1): in 1970, Austria's GDP per capita was still about 5 per cent lower than in OECD Europe on average and 20 per cent lower than in Germany. In the 1970s and early 1980s, however, Austria's economy could improve its relative position significantly. In 1985, Austria's GDP per capita was about 10 per cent higher than in OECD Europe and 12 per cent lower than Germany's.[3]

After the war, rapid productivity growth had been the result of the reconstruction boom and of bridging the technological gap, but soon a deliberate policy enhanced growth. After breaking the post-war price-wage spiral in 1953, economic growth received the highest priority in Austria's economic policy. Since growth was limited by labour shortages throughout the 1960s a comprehensive system of investment promotion was introduced to foster capital accumulation and productivity growth. Furthermore, the labour market was opened to foreign workers. Their share in the labour

[3] According to purchasing power parities (OECD 1989a) in industry, labour productivity was still 30% below the German level in 1976, but by 1985 this gap had shrunk to 13% (Guger 1988).

TABLE 11.1 Growth of real GDP per capita

	Average annual increase (%)			
	1960–8	1968–73	1973–9	1979–87
Austria	3.6	5.4	3.0	1.6
Germany	3.2	4.0	2.5	1.5
Switzerland	2.7	3.4	–0.1	1.5
Sweden	3.6	3.1	1.5	1.6
Finland	3.3	6.5	2.0	2.9
Norway	3.6	3.3	4.4	2.9
The Netherlands	3.5	3.7	1.9	0.6
Denmark	3.8	3.3	1.6	1.9
OECD Europe	3.6	4.0	1.9	1.3
OECD	3.9	3.6	1.8	1.8
SMEC[a]	3.9	4.2	1.4	1.2

[a] Smaller European countries.

Source: OECD (19896).

force increased from 2 per cent in the late 1960s to 7 per cent in 1973/4 (Fig. 11.1).

In the aftermath of the first oil crisis, Austria responded to the recession of 1975 with an expansionary strategy and gave full employment highest priority. In fact, labour market participation and employment increased, and unemployment rates remained under 2 per cent despite a considerable labour force growth till 1980 (Table 11.2).

The employment policy of the government was also supported by some labour hoarding in the nationalized industries in the late 1970s. In fact, private firms were also rather cautious in their lay-off policies, since unemployment remained at a very low level and business expectations were fairly optimistic[4] throughout the 1970s. Furthermore, there were supply side measures on the labour market: a reduction of the legal working time, in 1975, and a more restrictive foreign labour policy (Fig. 11.1).

After the second oil crisis, the policy response was different. All main trading partners, and Germany in particular, followed a more deflationary course than in the 1970s; and Austrian policy makers moved further and further away from the idea of 'diving through the recession'.

A number of factors—some hard facts and some ideological or theoretical reasons—which coincided in the early 1980s led to this change in policy. In the aftermath of the second oil shock, the effects of the world-wide

[4] Austria's high investment rate may be mentioned as an indicator: gross fixed capital formation was 26.4% of GDP on average between 1974 and 1979 (OECD 1987). Only Norway, Japan, Iceland, and Finland show higher figures in the OECD area. Austria's relative position was significantly higher in this period than in any period before and after since 1960.

FIG. 11.1 Foreign workers and unemployed in Austria
Source: WIFO.

recession were reinforced by a substantial effective appreciation of the Schilling. Rapidly rising unemployment and the structural crisis in the nationalized iron and steel industries put heavy strains on the federal budget (Fig. 11.2).[5] At the same time, an enormous rise in interest rates increased the costs of financing the budget deficit considerably. In this environment, the anti-state and anti-activist ideologies of the time found readier acceptance than in the 1970s. Furthermore, the increasing share of interest payments in government expenditures and the deflationary international environment gave some substance to these objections by weakening the multiplier effects of expenditures. Finally, when the Socialist Party under Bruno Kreisky lost its absolute majority in 1983, the coalition governments that followed moved gradually away from full employment as an absolute priority.

Hence, in the 1980s, the development of the Austrian economy indicates a gradual abandonment of the policy of the 1970s. While the hard-currency approach and moderate incomes policies have been maintained, fiscal policy

[5] Employment programmes and claims on the social budget had to be financed; and the net borrowing of the federal budget in percentage of GDP increased from 2.6% in 1981 to 5.5% in 1983.

TABLE 11.2 Employment, unemployment, and labour market participation in Austria

(a)

	Average annual increase (%)			
	1960–8	1968– –73	1973–9	1979–87
Growth of				
Population (15–64)	–0.1	0.3	0.4	0.8
Total labour force	–0.7	0.6	0.6	0.3
Total employment	–0.6	0.8	0.5	–0.1

(b)

	Average (%)			
	1960–7	1968– –73	1974–9	1980–7
Rates of				
Participation[a]	70.1	67.6	68.9	66.7
Male	90.4	86.4	85.0	80.2
Female	52.1	50.5	53.9	53.6
Employment/ population ratio[b]	68.7	66.7	67.8	64.3
Foreign labour [c]	1.1	4.4	5.8	4.6
Unemployment[c]	2.0	1.4	1.6	3.5

[a] Total labour force as % of population of working age (15–64).
[b] Total employment as % of population of working age (15–64).
[c] Foreign labour/unemployed in % of total labour force.

Source: OECD (19896).

has been significantly less expansionary or even contractionary. The 'consolidation' of the federal budget has gained priority over full employment, and the unemployment rate increased from 1.6 per cent in 1980 to 4.9 per cent in 1987.

The rise in unemployment may seem moderate by international standards, in particular when we take into account seasonal unemployment which is high and rising with the growing tourist sector. But the unemployment figures do not reflect the labour market situation quite correctly; on the one hand, early retirement schemes, special allowances for particular groups of older workers, and a lower recruitment of foreign labour reduced open unemployment. On the other hand, in some regions, the structural crisis of the large iron and steel industries has led to much higher unemployment figures.

As the figures in Table 11.2 indicate, labour market participation has traditionally been low in Austria. This is mainly due to pension laws and low female participation rates. The legal retirement age is 60 for women

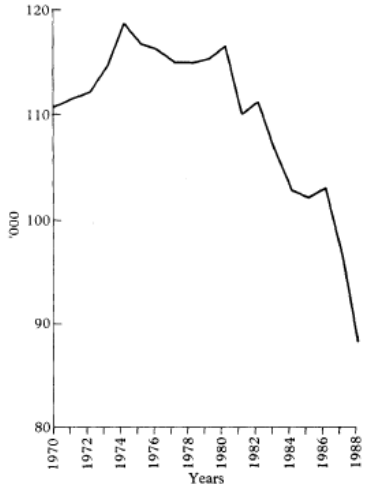

FIG. 11.2 Employment in nationalized industries in Austria
Source: WIFO.

and 65 for men, but people can and normally do retire earlier if they have worked for 35 years. Actually, in 1987, at the age of 55–60 only two-thirds of men and one-quarter of women held a job, and at the age of 60–5 only 16 per cent of men and 7 per cent of women.[6] The participation rates of older people are lower in Austria than in all other European countries but The Netherlands.

Religion has an important influence on women's attitude to employment and family; in Catholic countries women's participation rates are significantly lower than in, for example, Protestant countries.[7] Participation rates of women in the prime age groups[8] are also low since a substantial proportion leave their jobs to take care of children. In this respect, limited kindergarten facilities, almost no all-day public schools, and few pan-time employment possibilities have also to be mentioned. Part-time jobs are not very popular with trade unions in Austria. In particular, female trade union leaders argue that part-time jobs do not offer equal career prospects.

While in many European countries part-time employment has had important effects on labour market performance, in Austria the share of part-time work in total employment grew only from 6.3 per cent in 1973

[6] Walterskirchen(1990:54). [7] Rothschild (1989). [8] Biffl (1988: 42 ff.).

to 7.3 per cent in 1987. Over the same period, the share of part-time work increased by more than 20 percentage points in The Netherlands and by 7 points (to a level of more than 25 per cent) in Sweden.[9]

Summing up, the growth and labour market performance of the Austrian economy were quite remarkable in the 1970s. In the 1980s, unemployment figures increased substantially until 1987, though they have remained well below the average European rates. In the favourable international environment of the last two years, unemployment rates have also been declining in Austria. So, at the moment, total unemployment is not of primary concern but long-term unemployment has been rising.

The performance of Austria's economy in the 1970s has often been attributed to its institutions and policy; the question arises, therefore, whether the deterioration of the 1980s is just caused by the abandonment of the former strategy or whether the strategy itself was not viable in the longer run?

11.4 THE AUSTRO-KEYNESIAN MODEL: INSTITUTIONS AND POLICY

In the late 1970s, Austria's economic institutions and policy approach attracted widespread interest.[10] In the aftermath of the first oil crisis, Austria managed to accomplish low unemployment with moderate inflation and a remarkable rate of growth. While most industrialized countries gave highest priority to the fight against inflation, Austria pursued a Keynesian full-employment strategy, despite inflationary pressures from abroad.

The main characteristics of the Austrian economic strategy, which has *ex post* proudly been labelled as 'Austro-Keynesianism' (Seidel 1982), are:

- the social partnership as a form of voluntary, informal, and permanent incomes policy to control wages and prices and international competitiveness;
- an expansionary fiscal policy to foster growth and employment;
- a hard-currency policy to fight inflation; and
- absolute priority of full employment and growth.

This Austro-Keynesian model differs from standard Keynesianism; it is not confined to anti-cyclical demand management, but it represents a long-term device to stabilize business expectations with the help of incomes and exchange rate policies, thus fostering investment and growth; in fact, Austro-Keynesianism focuses extensively on stabilizing the private sector.[11]

Austro-Keynesianism is based, on the one hand, on rather fundamental Keynesian notions such as uncertainty and volatile business expectations,[12]

[9] Walterskirchen (1990: 22 ff.).

[10] Arndt (1982); Flanagan *et al.* (1983).

[11] In his discussions of the economic plans for the post-war period in the Treasury, Keynes stressed the importance of this point (Guger and Walterskirchen 1988).

[12] Tichy(1984).

and on the other hand, on the corporatist institutions of the Austrian social partnership.

Furthermore, there is a specific assignment of instruments and goals that takes into account the openness of the country, its institutional situation, and the inflationary environment of the time. In the period of high imported inflation, the traditional assignment did not seem adequate for a small open economy. While the traditional fiscal policy of compensating for fluctuations in demand was extended to foster growth by investment promotion, exchange rate policy was assigned to price stability,[13] and incomes policy to external equilibrium by checking the price-wage spiral and preserving international competitiveness. Thus, moderate incomes policies had to soften the combined effects of hard-currency and expansionary fiscal policy on the balance of payments.

As Austria's institutions have been widely discussed in the international literature on corporatism and economic policy[14] we shall confine ourselves to a rather short summary and raise some special issues.

11.4.1 *The social partnership*

The social partnership[15] has been widely considered as the centrepiece of Austria's post-war economic policy. Bruno Kreisky used to describe it as 'the sublimation of the basic capitalist class conflict', meaning a more civilized form of class struggle. Its scope is much wider than an institution of wage bargaining; it is a system of institutionalized co-operation between labour, business, and government which is involved in all important aspects of economic and social policy.

The Austrian social partnership was formed on a voluntary and informal[16] basis by the Austrian trade union federation and the Chambers of Agriculture, Commerce, and Labour to control post-war inflation in the early 1950s. Although the immediate reasons mainly concerned the shortcomings in the public administration of the immediate post-war years, it is deeply rooted in the history of Austria. Firstly, from an institutional perspective, there is the Austrian chamber system as the highest level of interest representation with compulsory membership whose origin dates back to the last

[13] Helmut Frisch's (1976) application of the Scandinavian model to Austria may have acted as a rationale for this concept; cf. Handler (1982).

[14] Katzenstein (1984); Scharpf (1984); Goldthorpe (1984).

[15] Suppanz and Robinson (1972); Marin (1982); Gerlich *etal.* (1985).

[16] The voluntary and informal nature of the Austrian approach has been imposed by the Austrian Constitution. In 1952, the Supreme Court of Austria ruled that a (cabinet) commission to co-ordinate decisions on price controls, rationing, etc. was unconstitutional since the authority of a cabinet minister cannot be superseded by collective decisions of a commission or the cabinet as a whole (Flanagan *et al.* 1983: 58). A decision that proved wise, as Josef Steindl pointed out to me, since it pushed back the considerable influence of lawyers in Austrian politics and strengthened the impact of economic reasoning in Austrian economic policy.

century. The chambers are legal representatives of their members in the legislative process, i.e. the government has to obtain the approval of the chambers on draft legislation before it is submitted to parliament. There are chambers for various professions, but only the Chamber of Commerce, the Chamber of Labour, and the Chamber of Agriculture are of political importance from a macro-economic point of view and, hence, are represented in the Parity Commission. The chambers play an essential part as intellectual brain trusts for the two large political parties in the general process of policy and strategy formulation. At the same time, they constitute, together with the Austrian trade union federation (OGB), the nation-wide, top-level bargaining institutions for wage and price policies.[17]

Secondly, from the perspective of political history, the tragic experience of irresolvable class conflicts and civil war in the inter-war period and the German occupation encouraged a co-operative mode of relationship between the social classes.[18] After World War II, the need for such co-operation was reinforced by the desire for quick independence from the allied occupational forces.[19] The achievement of political consensus was reflected in a long-lasting coalition government between the Austrian People's Party (OVP) and the Austrian Socialist Party (SPO), both representing the major interest groups and together representing about 90 per cent of the electorate.

Thirdly, while the trade unions in the First Republic (1918–38) had been fragmented along craft and political lines, their institutional structure was changed dramatically in 1945 by the formation of the Austrian trade union federation. In general, this structural reorganization not only increased the power of the labour movement by centralizing authority, finance, and bargaining but, in leaving less room to inter-union competition, placed a higher priority on long-run and nation-wide macro-economic goals and promoted a co-operative mode of trade union contact with employers. Today, the trade union federation represents some 60 per cent of all Austrian employees, and in large industrial companies this percentage is much higher.

The Parity Commission for Wages and Prices is the most important formal institution of social partnership. It was founded in 1957 and is formed by the Chambers of Commerce, Labour, and Agriculture, together with the Austrian trade union federation (OGB) and the relevant ministers on a voluntary basis. Although the Federal Chancellor acts as chairman, members of government have no right to vote. All decisions have to be unanimous. The Parity Commission works on a voluntary basis and has no

[17] Biffl *etal.* (1987). [18] Matzner (1974).

[19] At the beginning, the intellectual left was rather sceptical as this co-operation resembled the ideology of Austro-Fascism and right-wing Catholicism ('Standestaat'). The chambers, which in the 1930s had been instruments to expel the socialists and trade unions, were now supposed to integrate labour.

legal authority nor means of applying direct sanctions. The threat to impose sanctions is left to the government, but has hardly ever been used.

The Parity Commission is the top-level bargaining institution of incomes policy in Austria; it was set up to control price and wage trends. Thanks to its tripartite structure, however, it has also become 'an instrument which gives the employers' and workers' organizations a voice in government economic policy in general and conversely enables the Government to make sure of co-operation from these organizations in its economic policy measures'.[20]

The Parity Commission has formed subcommittees on prices and wages to handle its task of curbing these. The Prices Subcommittee authorizes price increases which have to be justified by substantial cost increases and applied for by individual firms or branches. Since the Subcommittee has no authority to examine firms' accounts, its effects are limited and more or less confined to postponements of price increases. In the late 1970s, the Prices Subcommittee covered about 20 per cent of consumer prices and about 50 per cent of industrial prices; officially regulated prices and tariffs, which cover another 15 to 20 per cent of consumer expenditures,[21] and import prices are excluded. Today, the coverage is still lower and by and large confined to certain basic foods and energy supplies.

The Wages Subcommittee exercises its control on wages by approving or refusing the opening of wage negotiations. Its task is to combine both wage-bargaining autonomy at the branch level and the introduction of macro-economic considerations in the wage formation process. To start wage negotiations, individual trade unions have to apply through the trade union federation. Thus, although wage negotiations are conducted by the subordinate sectoral trade union bodies, the federation has a voice in fixing the dates and co-ordinating the individual wage claims. Actually, there is a Working Party on Wage Policy at the trade union headquarters to formulate common objectives of wage policy. Although individual trade unions are autonomous in their actual wage negotiations, bargaining processes have to be authorized and are co-ordinated by the trade union federation and the Wages Subcommittee.[22]

In this context, it seems to me that the power of the Austrian trade union federation *vis-d-vis* its subordinate sectoral trade unions—at least some of them—is somewhat overestimated in international studies on wage bargaining and corporatism. For one thing, the high and growing wage differentials indicate that one needs to be careful not to put too much emphasis on the high degree of centralization of bargaining in Austria. By having control over finances, the trade union federation is potentially very powerful, but has given much autonomy to the individual unions.

[20] Suppanz and Robinson (1972: 17).
[21] Nowotny (1989: 138).
[22] Suppanz and Robinson (1972: 11 ff.).

In 1963, the Parity Commission set up a third permanent Subcommittee, the Economic and Social Advisory Board, to extend the activities of the Commission beyond incomes policies and to broaden the scientific basis of economic policy. The Advisory Board is composed of representatives of the social partners and ministries as well as of experts of the Austrian Institute of Economic Research and universities. Its task is to study important economic and social questions and prepare a scientific basis for policy recommendations of the social partners to the government. Compared to similar institutions abroad, the Advisory Board is 'both a group of expert advisers and a body for resolving conflicts of interest'.[23] It has to be seen, on the one hand, as an instrument of finding consensus by providing a common assessment of important features of the economy but, on the other hand, it has also served to suppress the discussion of crucial issues such as the problems of environmental protection.

In addition, there are councils to various ministers where the social partners play a leading role. They are composed of representatives of the social partners and of the public administration, and experts from research institutions, and their important task is to advise the minister in special fields.[24]

In short, the Austrian social partnership, whose institutions and climate of consensus grew out of the history of this country, can be characterized by a rather high degree of centralization, a wide scope of policy involvement, a co-operative mode of industrial relations, the absence of direct government involvement, and by informality.

11.4.2 *Incomes policy: wages and wage flexibility*

In many countries, governments resort to incomes policies as short-term manoeuvres to cope with accelerating inflation; incomes policy is normally confined to wage and price regulation and is backed up by legal force. In contrast, the Austrian social partnership represents a long-term, voluntary strategy incorporating virtually all aspects of economic policy. This means that incomes policy in Austria is embedded in a national economic strategy and co-ordinated with monetary and fiscal policy.

[23] Ibid. 21.

[24] Most of these councils have been formed since the late 1960s when the need for a more scientific basis of policy-making became apparent. As a rule, they have a legal basis like the Councils for Living Standard Adjustments of Pensions (Pensionsanpassungsgesetz 1965), the Council for Labour Market Policy (Arbeitsmarktforderungsgesetz 1968) or the Council for Foreign Labour Policy (Auslanderbeschaftigungsgesetz 1975) which advise the Minister for Labour and Social Affairs (Butschek 1973; Frank 1975). From a political perspective, as Felix Butschek pointed out to me, the Council for Labour Market Policy might also be seen as an instrument of the first single-party (conservative) government (1966–70) after the war to integrate the trade unions and the Chamber of Labour into the administration of their traditional domain.

(*a*) *Wage policy*

The Austrian trade unions have no explicit distributive goals: their policy is based on a firm growth ideology. Trade union leaders argue that, since Austria's productivity level is still low, wage policy is not an effective redistributive instrument; it would lead to a lower investment rate and reduced long-term productivity growth and, consequently, to lower real wage increases.

Progressive taxes and high public expenditure are considered as appropriate redistributive instruments.[25] Since the 1970s trade union leaders and the politicians of the labour movement have emphasized uniformly that maintaining full employment is the most effective distributive policy.

Generally, the wage policy of the trade union federation has been orientated both at compensating for inflation and at long-run productivity growth. In the period since 1960 both real wages and productivity have on average been growing by about 3.5% per year. In the 1960s, the unions pursued an explicit counter-cyclical wage policy, which implied rather moderate wage claims during business upswings and some pressure during a recession. Hence, wage policy had overall stabilizing effects.[26]

In the 1970s, the trade unions aimed at promoting growth and full employment and formulated as a new guideline the so-called 'Benya-formula', which aimed at a long-run real wage growth of 3 per cent. Since productivity growth ranged between 4 and 6 per cent, at the time, this implied that firms were widely provided with funds for investment (Table 11.3).

Since it soon became clear in the 1970s that a unilateral stimulation of demand would clash with external equilibrium, current account considerations were more and more taken into account in wage claims.[27] Actually, the wage explosion of 1975, which was mainly due to far too optimistic forecasts, was soon corrected by moderate wage agreements in the following years, when even trade union leaders spoke of the 'overdrawn' wage round of 1974/5 (Fig. 11.3). Also, the figures in Table 11.3 show that the international cost competitiveness of manufacturing has improved substantially since the mid-1970s, although the Austrian iron and steel industries were in a deep structural crisis in the mid-1980s.

(*b*) *Wage flexibility*

Despite the corporatist institutional setting, which has often been considered as an obstacle to flexible market adjustments, nominal and real wage flexibility in Austria is relatively high by international standards. Taking

[25] In fact, the overall tax system is not progressive in Austria; because of a large share of indirect taxes it is rather proportional, cf. Guger (1987).

[26] Pollan (1984).

[27] According to wage equations for the period 1964–84, an increase of the ratio of the current account deficit to GDP of 1 percentage point dampened the growth of contractual wage rates by half a percentage point; cf. Biffl *et al.* (1987).

TABLE 11.3 Labour costs and productivity in industry, Austria

(*a*)

	Average annual increase (%)		
	1964–73	1973–9	1979–88
Total wage costs per hour	10.7	11.0	5.7
Productivity per hour	6.7	5.9	4.2
Unit labour costs	3.7	4.8	1.5
Exchange rate:			
Weighted trading partners	–0.5	–3.1	–1.5
Germany	1.4	–0.1	–0.4

(*b*)

	Unit labour costs of main trading partners in. Austrian schillings		
	1964–73	1973–9	1979–88
Germany	5.8	3.8	2.2
Switzerland	3.5	8.2	2.3
Italy	3.9	3.3	2.9
Sweden	1.8	4.8	–0.2
Weighted trading partners	3.8	4.5	2.1
Austria	3.7	4.8	1.5

Note: (*a*) - denotes a revaluation.

Source: Austrian Institute of Economic Research (WIFO); OECD, Main Economic Indicators.

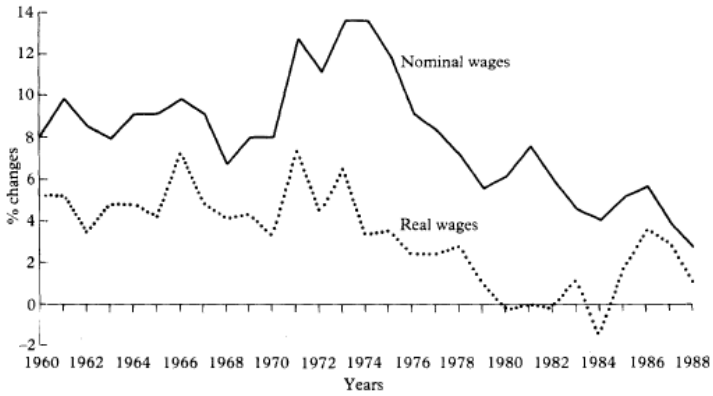

FIG. 11.3 Growth of nominal and real wages per capita in Austria

into account our foregoing analysis, Austria's corporatist institutions have, however, to be seen as an important reason for this high wage flexibility.

Wage equations show that Austria is one of the few countries where the Phillips relation still holds. The unemployment elasticity of nominal wages comes close to that of Japan and has been one of the highest in the OECD countries. Since price increases have not been fully compensated and nominal wages react flexibly to changes in unemployment real wage flexibility has also been high.[28]

A comparison between the 1970s and 1980s also reveals that wage flexibility did not decrease in the 1980s when unemployment started to rise significantly. On the contrary, the unemployment flexibility of wages seems rather to have risen in the 1980s, since the metal workers' union, which acts almost as wage leader, was hit most severely by the crisis in the nationalized industries.

11.4.3 *Demand management*

In the 1950s and 1960s the promotion of economic growth had highest priority. Hence, fiscal and monetary policy started from a long-run growth perspective. When, in the 1970s, the maintenance of full employment became the prime objective, their role was no longer confined to mitigating cyclical business fluctuations but was committed to fostering investment through an extensive system of tax incentives and direct subsidies (accelerated depreciation, tax credits, low-interest loans).

Since fiscal and monetary policy was co-ordinated with incomes policy through the institutions of social partnership, an expansionary fiscal strategy which was accommodated by monetary policy could be pursued despite inflationary pressures. The inflation of the 1970s was clearly conceived as cost inflation that could not be fought effectively by monetary instruments.

In Austria, the main demand management instrument is fiscal policy. Monetary policy was committed to accommodating fiscal policy. In this context, the Austrian National Bank is, on the one hand, obliged by law 'to consider the economic policy of the Government' and is, on the other hand, also part of the corporatist networks of social partnership through overlapping memberships. The main objective of the National Bank was to smooth the waves of financial speculation and to stabilize nominal interest rates. But since 1976 the hard-currency option has tied the Austrian Schilling to the German Mark, and the room for action on monetary policy has been seriously limited and to a high degree exogenously determined by the Bundesbank.

[28] The elasticity of wages with respect to prices is somewhere between 0.5 and 0.9 and with respect to unemployment 1.3; Biffl *et al.* (1987), appendix, tables 5 and 6.

In Austria, the mere size of the public sector gives great importance to fiscal policy; in 1983, the share of public expenditures in GDP amounted to 55 per cent. Furthermore, built-in stabilizers play an important part due to a well-established system of social security; hence, budget balances are highly sensitive to output and employment fluctuations. Although these automatic stabilizers may have been of great importance, there were also significant discretionary fiscal actions; full-employment budget measures indicate a clear change to a more expansionary fiscal stance after 1975.[29]

Austria's growth advantage in most of the period 1974–82 was related to its expansionary fiscal policy and could be termed 'government-led growth' (Walterskirchen 1990). All in all, the government's expansionary fiscal stance and straightforward commitment to full employment and growth gave business confidence and stabilized the private sector. The policy response to the second oil crisis was less clear as is aptly illustrated in Table 11.4 by Hans Seidel (1987).

TABLE 11.4 Demand management and macro-economic performance after OPEC I and OPEC II in Austria

	% increase over 3 years	
	1974–7	1980–3
Structural budget deficit (% GDP)	+3.5	+0.6
M1 in real terms	+9.2	+1.9
Real domestic demand	+11.2	+0.2
Current account balance (% GDP)	–2.4	+2.3
GDP in real terms	+8.7	+3.0
Employment	+0.6	–2.5
Rate of unemployment (% point change)	+0.5	+2.6

Source: Seidel (1987).

The response to OPEC II was still expansionary, but it was rather moderate compared to *xht* policy in *xhe* 1970s. The much higher public debt at the beginning of the second period and the high levels of interest rates were certainly important causes for this policy change. Since the mid-1980s the federal government has given high priority to budget consolidation; there have been cuts in public consumption and partial privatizations of nationalized industries. The overall impacts on effective demand were slightly restrictive in the last years. The 1989 budget had, however, moderate expansive effects due to the revenue losses caused by the income tax reform.

[29] Guger (1978); Frisch (1982).

11.4.4 *Hard-currency policy*

Price stability has traditionally been assigned to monetary policy. Taking into account the conditions of a small open economy and the origin of inflation, Austria has assigned price stability to the exchange rate and external equilibrium to incomes policy since the 1970s.

Since 1976 the Austrian Schilling has been closely tied to the German Mark; the consequence has been an effective appreciation of the Schilling. This policy has been widely considered as a precondition for the expansionary demand policy in the face of high inflationary pressures from abroad.

Interestingly enough, this policy was suggested by the trade unions: on the one hand, because it would slow down the increase in import prices, but also because it may have made it easier for the trade unions to explain their moderate wage policy to their members by exchange rate policy reasons.[30]

In the early 1970s fiscal and monetary policy had been well co-ordinated in following a rather expansive course. The National Bank aimed at stable nominal interest rates as well as a stable price level and exchange rate. Then, since the mid-1970s the Austrian Schilling has been tied to the German Mark. Yet, mainly due to capital market imperfections, Austrian monetary policy managed to combine its policy of stable interest rates with a roughly constant exchange rate to the German Mark till 1979. Then, with growing capital market integration and rising German interest rates this policy became unsustainable and the National Bank gave up its interest policy. The decision to keep to the fixed Schilling-DM rate has since narrowed the room for manoeuvre in monetary policy, and Austrian monetary policy has to a high degree been determined by both the Deutsche Bundesbank and the difference in inflation expectations between Austria and Germany. Nevertheless, there is no indication that Austrian monetary policy has had particularly restrictive effects on the real economy.[31]

11.5 PROBLEMS OF CORPORATISM IN AUSTRIA

In the 1980s, it became more difficult to pursue expansionary policies, particularly in the restrictive environment of the big neighbour Germany; so Austro-Keynesianism has lost much of its appeal. Unemployment started to rise and public debt and interest payments on that debt increased rapidly. When, in the mid-1980s, the deep crisis in the nationalized industries also became a big burden for the federal budget there was a rather radical change in economic policy. Since then budget consolidation has had high priority in fiscal policy and federal budgets have been rather restrictive[32] and have

[30] Winckler(1988). [31] Handler ; 1989).

[32] Although, in 1989, the income tax reform which led to a big loss in tax revenues bolstered disposable incomes substantially.

no longer been an instrument promoting growth and employment. In fact, expansionary fiscal policy, a crucial element of the policy of the 1970s, has been given up.

Although the restrictive international environment and the burden of public debt may have been the actual reason for these important changes, the question remains whether endogenous flaws in Austria's policy of the 1970s may have reduced its long-run viability. Actually, for some time it has been contended that Austro-Keynesianism suffers from allocative inefficiencies.[33] And Tichy writes: 'If Austro-Keynesianism should fail in the longer term, it will probably be because of the fact that industrial policy is definitely conserving old and outdated structures.'[34]

11.5.1 *Allocative inefficiencies*

The Austro-Keynesian policy of the 1970s was essentially a macro-economic strategy which aimed at growth and full employment. First, there was a crucial lack of allocative aspects in this strategy. Industrial policy was more or less confined to indirect investment promotions such as accelerated depreciation, investment allowances, and low-interest credits affecting all industries across the board and favouring particularly capital-intensive industries. While this policy fitted in with the macro-economic strategy of fostering overall growth and a high level of employment, it more or less ignored the long-run allocative effects and hampered the process of structural adjustment and technological progress.[35] Besides, there is evidence that in the nationalized industries redundant labour was hoarded to support the full-employment strategy in the late 1970s.[36]

Second, there is another important aspect of inefficiency in Austrian corporatism. There are numerous regulations, such as the Gewerbeordnung, protecting substantial parts of goods' and services' producers, in particular the professions, against new competitors.[37] Hence, although the wage level is relatively low by international standards in Austria services are rather expensive.

Furthermore, in agriculture and food-processing industries we can find a sort of paradigmatic case of a 'distributional coalition' (in the sense of Mancur Olson) between food-processing industries, farmers, and the food workers' trade union, which leads to both relatively high profit margins and wages in these industries and high food prices for farmers and consumers.[38]

[33] Guger (1978: 19 ff.); Walther (1989); Winckler (1985).
[34] Tichy (1984: 382).
[35] For a more comprehensive treatment of Austrian industrial policy, see Landesmann in mis volume.
[36] Nowotny(1979), cf. also Fig. 11.4. [37] Szopo (1986). [38] Guger (1988).

11.5.2 *High wage differentials and slow structural change*

Due to an extensive social system and large public expenditure on social affairs, Austria has often been compared with Sweden as a country of a high degree of equality. But the structure of primary incomes in Austria differs substantially from other corporatist economies: wage differentials are very high in Austria. According to Rowthorn's (1990) data in this volume, Austria shows the highest inter-industry wage differentials in Europe. Among industrialized countries, inter-industrial wage dispersion is only higher in Japan, the USA, and Canada.

Segmentation in the Austrian labour market is generally relatively high; also, wage differentials according to social status and qualifications are much higher than in the Scandinavian countries and higher than in Germany: in the early 1980s, the ratio between industrial earnings of manual and non-manual workers was 61 per cent in Austria and 69 per cent in Germany (Table 11.5).[39] Earnings data in industry for April 1989 show also that the ratio of low-skilled blue-collar worker earnings to earnings of their high-skilled colleagues is 73 per cent in Austria and 81 per cent in Germany.

The Austrian wage structure has been rather sensitive to market forces.[40] In fact, two elements seem to have been of outstanding importance; the general labour market conditions and the opening of the labour market for foreign labour. In the last thirty years, inter-industrial wage differentials have widened substantially as the changes in the coefficients of variation in Table 11.5 indicate. In the early 1960s, the inter-industrial wage dispersion of manual and non-manual workers had been quite similar, i.e. less than 15 per cent of average income. Then, in the late 1960s and early 1970s, when labour demand increased rapidly, the dispersion of blue-collar earnings widened with the influx of cheap foreign labour (Fig. 11.1), while the structure of salaries remained stable.

From the mid-1970s to the late 1980s, the dispersion of both wages and salaries increased. Over this period, overall labour market conditions deteriorated and general wage policy followed a rather moderate course. Both factors may have been of importance for the explanation of the tendency to rising inequality; since low contractual wage increases have left ample room for wage drift in industries either where demand conditions and profitability have been better or where the trade union organization has had a stronger position, as it had in the nationalized industries till the mid-1980s. Furthermore, in Austria, the concept of 'solidaristic wage policy' has more or less been confined to broadly equal increases in contractual wage rates. The actual development of effective earnings has been left to branch- or firm-specific negotiations. In fact, till the end of the 1980s, there

[39] Guger (1989a). [40] Pollan (1980).

TABLE 11.5 Wage differentials in Austrian industry

	Inter-industrial wage differentials (coefficient of variation)				Monthly earnings (industrial average = 100)		Monthly earnings[3] (blue-collar as % of white-collar workers)	Hourly wages[3] (blue-collar: lowest skill group as % of highest skill group)
	Monthly earnings			Hourly	Oil	Clothing		
	Employees	Blue-collar	White-collar	wages	industry	industry		
1961	14.6	14.7	13.9	—	128.7	76.7	57.7	62.8
1971	19.8	20.9	13.8	16.5	150.9	62.2	60.3	63.4
1981	22.8	24.0	16.2	19.0	165.5	58.4	61.1	66.5
1987	24.7	25.1	17.8	21.8	173.4	55.4	59.2	68.6

[a] Industrial average.

Source: Guger (1989k 186).

was hardly any attempt to reduce absolute wage differentials. However, in recent wage rounds there have already been some activities in reducing wage dispersion within certain industrial wage contracts.

While wide wage differentials and a flexible wage structure have often been considered as instrumental to labour market flexibility and productivity growth, the Austrian experience teaches rather the contrary. The large and widening inter-industrial wage differentials have rather hampered the process of structural adjustment; first in the 1970s, by keeping labour and capital too long in marginal production, and second in the mid-1980s, by impeding the process of reallocating labour from high-wage but money-losing (nationalized) industries to profitable industries paying lower wages. In addition, there were also for too long public subsidies[41] to ailing industries which have weakened competitive pressures and slowed down the process of restructuring.

A more solidaristic wage policy with higher wage increases in the low-wage sectors would probably have led to higher wage and labour market rigidity, but certainly also to higher capital mobility and, thus, to faster structural adjustments in the period of high employment till 1981.

11.6 SUMMARY AND PROSPECTS

Corporatism is an important feature of the political economy of Austria and her economic performance. Austrian social partnership represents a voluntary, long-term device of co-operation between labour, capital, and the government in virtually all aspects of economic and social policy.

From a macro-economic perspective, corporatism has been rather successful in Austria, despite some adversities. In the 1950s and 1960s, the promotion of economic growth and, in the 1970s up to 1983, full employment had highest priority in the national economic strategy. Accordingly, an expansionary policy, in the short run through the budget and in the long run through an extensive system of tax incentives and subsidized credits, was complemented by a hard-currency policy, directed towards holding back financial speculation and stabilizing interest rates. Unions aimed at stabilization of employment and prices and not so much at changes in the functional distribution of income. Since the rapid acceleration of imported inflation in 1973, Austria has tied the Schilling first to a currency basket and since 1976 to the German Mark. The hard-currency policy was supported by the Austrian trade union federation, which shows the high degree of trade union co-operation. Also, through the institution of social partnership incomes

[41] However, in the 1970s, subsidies to nationalized iron and steel works were low compared to the subsidies per ton in the EEC. But, in the mid-1980s, the financial help to the nationalized industries was quite substantial.

policy is embedded in a national economic strategy and co-ordinated with monetary and fiscal policy.

In the increasingly deflationary environment of the 1980s, when public debts and interest payments increased rapidly, the fiscal policy changed from an expansive course to budget consolidation as primary objective. Mainly due to faster-than-expected international expansion, the consolidation process is well under way, despite a major income tax reform that implied rather large revenue losses. Also, unemployment has been declining.

From a micro-economic perspective, Austrian corporatism has been less successful. There has been a lack of allocative efficiency; on the one hand, there are numerous regulations in the interest of specific sectors and groups as well as sector-specific distributional coalitions at the expense of consumers. On the other hand, the process of structural adjustment has been hampered by an industrial policy which favoured large capital-intensive enterprises rather than small businesses, as well as by high and growing wage differentials which kept capital and labour too long in marginal production.

In recent years, some major improvements on the supply side of the economy have been initiated; first, the restructuring of the nationalized industries is well under way; second, the new tax system favours the technological improvement of the capital stock and the enlargement of a firm's capital base; third, there have also been moderate steps to reduce subsidies and a process of some deregulation has been going on in the agricultural and food-production sector quite recently. Finally, the trade unions themselves have become aware of growing inequalities and tend to narrow wage dispersion in most of the new wage contracts.

Austria's economic performance has been creditable again in the last years. Corporatism and its institutions, however, have been losing influence and popularity in the last decade; for one thing, due to the changes in the employment structure, i.e. shifts from large-scale manufacturing production to services, and the crisis in nationalized industry organized labour has been gradually losing some of its authority and influence. For another, the social partnership has also failed to get rid of the reputation of a 'production coalition' able to take up new problems of general interest, such as environmental protection.

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12

The Swiss Model: Corporatism or Liberal Capitalism?

Wolfgang Blaas

12.1 INTRODUCTION

Switzerland is often, if not always, considered a special case in terms of its macro-economic performance. Labour unions and Social Democracy are weak, wages are high, and inflation is low; monetary policy is restrictive and fiscal policy rather cautious, but there is full employment. It is widely held that the case of Switzerland does not fit into any textbook model and is therefore difficult to understand.

In this country study we will show that Switzerland is neither a special case nor is its macro-economic performance difficult to explain—if due account is taken of the country's economic, institutional, and political endowment.

The chapter is divided into six sections. The next section summarizes the most important macro-economic indicators in order to show why it is the conventional wisdom to talk about the 'Swiss success story'. Leaving the surface level of long-term averages, a look at the year-to-year figures for employment and unemployment in section 12.3 reveals a seemingly paradoxical picture of employment crisis without rising unemployment in two recessions. Section 12.4 analyses the Swiss labour market and contains the main arguments explaining this seemingly paradoxical scenario. Out of these arguments follow some considerations about the limits of the Swiss model in section 12.5. Section 12.6 summarizes the chapter.

12.2 THE SWISS SUCCESS STORY

This section is deliberately kept short since it is well known that Switzerland has done extremely well according to most macro-economic indicators. To summarize the most important facts, long-term average rates of change in real growth, consumer prices, and employment are shown in Table 12.1 along with long-term figures for unemployment, the current balance, and currency appreciation. To provide a point of reference, the corresponding figures for Austria and the OECD countries on average are also given.[1]

[1] Reference is made throughout the chapter to 'WIFO Data Bank' as a source for empirical data. This is the data bank system of the Austrian Institute for Economic Research. Furthermore, since Switzerland and Austria are quite comparable in size (Switzerland has a population

TABLE 12.1 Macro-economic performance: Switzerland in international comparison[a]

	Switzerland (%)	Austria (%)	OECD (%)
Real growth of GDP	2.6	3.6	3.7
Growth of total employment	0.7	0.0	1.0
Labour productivity	1.9	3.6	2.7
Unemployment rate	0.3	2.1	4.9
Inflation[15]	4.0	4.8	6.1
Current balance[0]	1.9	–0.4	0.0
Currency (vs. US$)	143.0	70.0	—

[a] Average rates of change 1960–86.
[b] Consumer prices.
[c] Current balance as percentage of GDP, 1960–86 average.

Sources: All figures are taken from OECD (1988*b*), except for unemployment figures: Schmidt (1985); WIFO Data Bank.

As the table shows, Swiss unemployment and inflation rates remained at very low levels throughout the twenty-five years examined, and the current balance was generally positive, being one reason why the strong Swiss Franc appreciated by more than 140 per cent against the US Dollar during that period. Long-term labour productivity growth was significantly below the OECD average, so that even with a growth rate of real GDP lower than comparable countries like Austria and lower than the OECD countries on average, there was long-run employment growth. This increase in employment, although modest at 0.7 per cent, may have contributed to the extremely low unemployment levels. The unemployment rates are particularly interesting, since the developments in them in the 1970s stand in sharp contrast to the experience in most other Western countries (see Fig. 12.1). Looking at the overall figures for economic performance, it is certainly justified to talk about the 'Swiss success story' (Danthine and Lambelet 1987).

12.3 EMPLOYMENT CRISIS WITHOUT UNEMPLOYMENT IN TWO RECESSIONS

Let us consider in more detail what has happened to the Swiss labour market since the beginning of the 1970s. To begin with, we look at employment performance. As can be seen from Fig. 12.2, by OECD standards (or

of 6.5 million and Austria a population of 7.5 million) and labour force (Switzerland 3.2 million and Austria 3.4 million), the Swiss figures are often compared to those for Austrian and/or the OECD on average.

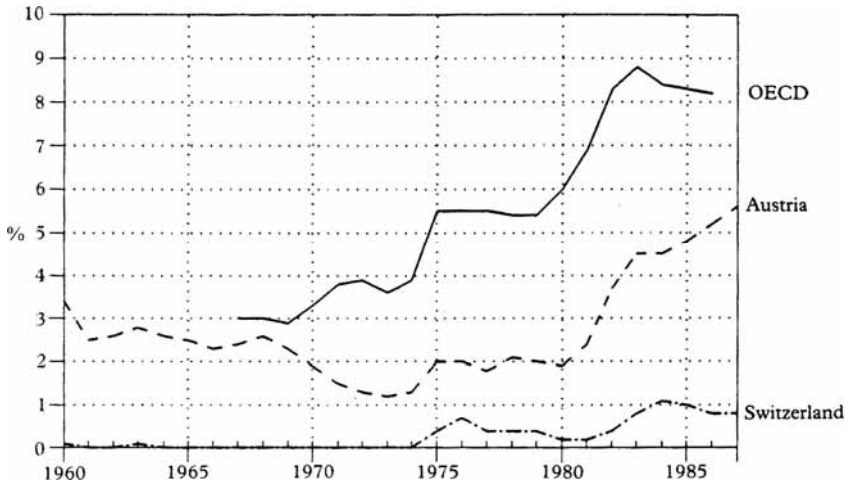

FIG. 12.1 Unemployment rates

Sourer. WIFO Data Bank.

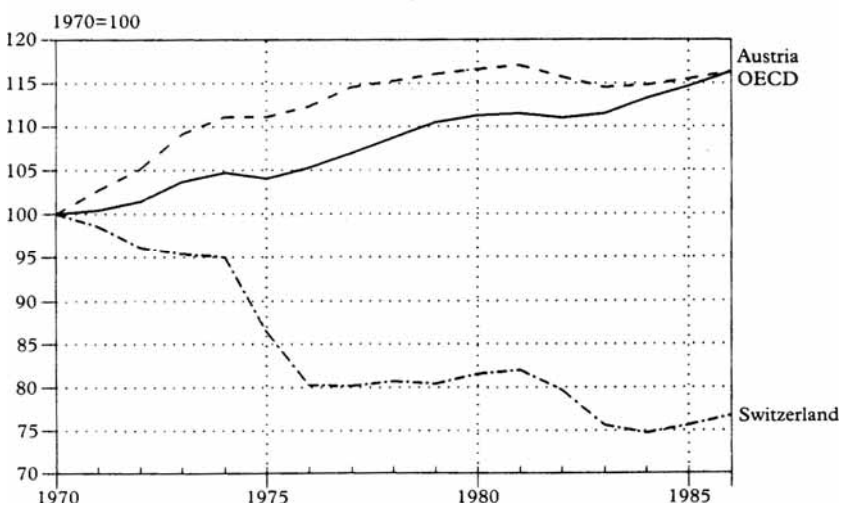

FIG. 12.2 Total employment

Source: WIFO Data Bank.

in relation to neighbouring Austria) developments in employment were significantly worse in Switzerland during the 1970s. There was a severe employment crisis in mid-decade; the number of jobs decreased by more than 10 per cent between 1974 and 1976. The loss of 330,000 jobs during this period indicates that, in terms of employment, Switzerland was hit

much harder by the world recession of the mid-1970s than other European countries and the OECD on average (Danthine and Lambelet 1987: 163). Some two-thirds of these jobs were held by foreign guest workers, and about 50,000 of the remaining 100,000 jobs which vanished in the mid-1970s recession were held by women (Schmidt 1985: 30). The rest of the unemployed included a number of older workers who retired (before the normal retirement age) and also some younger persons, now lagging behind in their entry into the labour market.

The employment crisis had quite significant effects on the supply side of the Swiss labour market in the 1974–6 recession. During this period 245,000 foreign workers and 60,000 Swiss workers (mainly women) *withdrew from the market,* leaving only 25,000 unemployed persons still in the market and an unemployment rate of no more than 0.8 per cent (see Fig. 12.1). Thus, despite a deep employment crisis there was almost no (open) unemployment.

During the recovery of 1976–81, the number of new jobs grew rapidly again. A total of 125,000 new jobs was created, eliminating unemployment almost completely and providing 100,000 jobs for foreign workers. The 1981–3 recession differed significantly from that in the mid-1970s, because the loss of jobs was spread much more evenly among Swiss and foreign workers. During that period, 'only' 65,000 employed lost their jobs. Since 20,000 Swiss workers and 20,000 foreign workers withdrew from the labour market, only 25,000 workers were unemployed, again giving rise to an unemployment rate of just 0.8 per cent.

Thus, an extremely high elasticity of labour supply was responsible for a swift adjustment to rapidly changing labour demands, equilibrating the Swiss labour market rather smoothly. In order to gain a more comprehensive picture of the nature and causes of that unique achievement, we will take a closer look at Switzerland's labour market and its institutions.

12.4 THE SWISS LABOUR MARKET

In the following we examine those characteristics of the Swiss labour market which are both peculiar to the Swiss case and essential for an explanation of full employment in Switzerland.

12.4.1 *Institutional background*

(a) Minimalistic state and market dominance

The Swiss economic system is frequently referred to as one of genuine liberal capitalism. Swiss economic culture is certainly highly liberal, exhibiting a strong confidence in private business and its ability to manage economic affairs of all kinds (Breuss 1988: 239). A small public sector hardly interferes

at all in the business sector, which, in turn, is fully aware that it can expect little in the way of public help in the event of any economic difficulties (Danthine and Lambelet 1987: 171).

Furthermore, the composition of members in the Swiss parliament is strikingly biased towards business and business interests as regards the professions and occupations of its members. This is quite different from, for example, Austria where the parliament consists mainly of professional politicians, officials from different interest organizations, and civil servants (Breuss 1988: 233).

Hence, as might be expected, the state plays but a minor role in the Swiss economy. In 1986, government expenditure as a percentage of GDP amounted to 30.4 per cent in Switzerland, as compared to 51.9 per cent in Austria, 63.5 per cent in Sweden, and 40.2 per cent in the OECD countries on average (OECD 19886: 64).

(b) Social security

Social security has traditionally been a matter of private initiative. After World War II, when other European countries enlarged their public welfare systems, Switzerland retained her system of voluntary unemployment insurance. Thus, when the recession hit Switzerland in the mid-1970s, only 22 per cent of workers were insured against unemployment (Schmidt 1985: 112). Since they were not entitled to receive unemployment benefits, the majority of workers had no incentive to register as unemployed persons.

The statistical picture of unemployment is therefore definitely biased downwards. In an empirical study on the relation between registered and self-declared unemployment in Switzerland, Stolz estimates that this ratio was 1.4 per cent (!) in 1970. Ten years later, after the introduction of a statutory unemployment insurance scheme in 1977, the ratio was 22.7 per cent (Stolz 1985: 403). *Registered*unemployment has risen quite significantly since then. A comparison of average unemployment rates before and after 1977 shows an increase by a factor of 6 in Switzerland, compared to a factor of 1.7 in Austria and a factor of 1.8 in the OECD area on average.

(c) *Labour market policy*

It is also consistent with the general principle of non-intervention in economic affairs that labour market policy and labour market instruments are rather underdeveloped in Switzerland, at least in comparison to other European countries.[2]

There is, however, one important exception. The state interferes heavily

[2] In 1987, no more than 0.4% of Swiss GDP was publicly spent on labour market policies, whereas in Austria the comparable figure was 1.48%, in the UK 2.57%, and in Sweden 2.66%. Furthermore, income maintenance absorbed more than half of these outlays in Switzerland, compared to only 30% in Sweden. OECD (1988a: 6).

in the market by closely regulating the (in)flow of foreign workers.[3] Until very recently, labour market policy essentially meant foreign worker policy, based on the priority principle of protection of native workers (Trioritarer Schutz der einheimischen Arbeitskrafte'). According to this principle, which is supported by a large social and political consensus, foreign workers are the 'first out' and the 'last in' when employment is changing. Since foreign worker policy plays a prominent role in Swiss economic policy, we will take a closer look at foreign workers in Switzerland (see below).

(d) Business dominance in industrial relations

Social peace in Switzerland dates back to the famous Peace Agreement (Friedensabkommen) in the 1930s, the origin of a distinctive 'ideology of consensus', as all comparisons of strike figures quite clearly indicate: during the period 1965–80, there were, on average, only 0.8 minutes of strike per worker in Switzerland, compared to 6.5 minutes in Austria, 17.4 minutes in the Federal Republic of Germany, 96.6 minutes in Belgium, and 226.8 minutes in Finland (Blaas 1984: 166).

In contrast to Austria, for example, the Swiss business community is centralized and strong whereas labour is rather weak. Between 1960 and 1985, about 30 per cent of the labour force was unionized in Switzerland.[4] However, there is no peak organization of labour. The Swiss trade union confederation SGB (Schweizerischer Gewerkschaftsbund) comprises about fifteen unions, organized by industries or groups of different jobs. But, in addition to the SGB, there are also confessional unions, such as the CNG (Christlichnationaler Gewerkschaftsbund), and white-collar unions, such as the VSA (Vereinigung der Angestelltenverbande).[5] The national employers' organization (Zentralverband der schweizerischen ArbeitgeberOrganisauonen) embraces thirty-six local and partial organizations and the member companies employ more than one million people (1976). Hence, the degree of organization is higher among employers than among labour.

The centralization of capital does not mean, however, that labour-capital bargaining takes place at the national level. In Switzerland bargaining is a matter for the individual union or institutions at company or even plant level. The central organizations focus their effort on contribution in political institutions (parliament). Business and labour deal with each other on questions of wages and employment and the state steps in only in the event of a serious crisis.[6] Investment issues are dealt with between industry and the financial sector.

[3] Apart from a protectionist agricultural policy, Swiss foreign worker policy seems to be the only area where Switzerland does not adhere to the principle of non-intervention.

[4] Schweizerische Bankgesellschaft (1987: 53).

[5] In 1985, 51% of unionized labour was organized in the SGB, 12% in the CNG, and 17% in the VSA. Schweizerische Bankgesellschaft (1987: 53).

[6] In this respect, Switzerland constitutes a striking exception among the small European countries (Katzenstein 1985: 91).

To sum up, business is in a strong position to control both employment and investment decisions and this is accepted by labour as an intrinsic feature of the capitalist system, whose prevalence is not questioned. As a consequence of comparatively weak labour organizations, workers do not enjoy such far-reaching protection against dismissal as is usual in other European countries, so that hiring and firing costs are relatively low. Hence, changes in the business cycle have much more immediate effects on employment.

Furthermore, the powerful and therefore dominant business interests make for an explicitly conservative attitude towards foreign workers and the role of women in society at large. This attitude clearly supported and favoured the withdrawal from the labour market by foreigners and women in the 1974–6 recession.[7]

The Swiss economic system is sometimes classified as a 'liberal corporatism'.[8] If corporatism is defined as a pluridimensional concept,[9] embracing centralization of government, employers, and unions, public involvement in relations between the government and the two classes, and class co-operation, then it seems more appropriate to think of the Swiss system as liberal capitalism. In the Swiss model, centralization of unions is absent and centralization of government is only weak; furthermore, public involvement is essentially lacking in matters of class conflicts. The Swiss model more closely resembles paternalistic-liberal capitalism of the Japanese type and may not therefore be considered a corporatist economy as such.

12.4.2 *Labour demand*

Although there were cautious employment programmes in 1975/6 and 1982/3, the expectations of managers about fiscal behaviour in the recession have certainly been formed by the declared abstinence from intervention.[10] It is explicitly stated and fully in accordance with the principles of non-intervention and market dominance that the state has no responsibility to compensate for deficient effective demand during a downswing in the business cycle.[11]

[7] Cf. section 12.4.3(*d*).

[8] For Katzenstein, Switzerland is a liberal variant of democratic corporatism. Katzenstein (1985: 105).

[9] See R. Archer in this volume.

[10] The employment programme of 1975/6 is estimated to have created or maintained 8,600 jobs in 1975, 24,900 in 1976, 25,000 in 1977, and 8,400 in 1978. This implies a reduction in the potential unemployment rate of 0.3 percentage points in 1975, 0.8 percentage points in 1976 and 1977, and 0.3 percentage points in 1978. If one also takes into account cumulative employment effects, the potential unemployment rate was reduced by a maximum of 2.2 percentage points (Schmidt 1985: 93–4).

[11] 'Es kann und darf niemals Aufgabe des Staates sein, mit einem konjunkturellen Stutzungsprogramm die fehlende Nachfrage voll zu ersetzen.' Bundesrat (1976: 17).

It comes as no surprise then that real investment in machinery and equipment declined strongly in 1975 (–17.7 per cent) and 1976 (–13.9 per cent), while the European OECD economies on average experienced a decline in real investment of 6.5 per cent in 1975 and a rise of 5.4 per cent in 1976. Furthermore, private consumption is bound to be a more procyclical demand element in a system without statutory unemployment insurance[12] and with (comparatively) low social security benefits, so that automatic stabilizers can yield only minor compensating effects. In addition, Switzerland's extremely hard currency has not been without heavy costs for export business. In 1975, the volume of exports and services decreased by 6.6 per cent as compared to only 3.7 per cent in OECD Europe (Austria: –2.4 per cent). In the recession at the beginning of the 1980s, exports declined by 3 per cent in 1982, whereas exports rose in the European OECD countries on average by 1.2 per cent (Austria: +1.9 per cent).

Consequently, industrial production fell dramatically in the 1974–6 recession and subsequently recovered very sluggishly. From 1974 to 1976, the index of total industrial production decreased by 12 per cent, approaching the level of 1974 again in 1980 and 1981. This is in stark contrast to what happened, for example, in Austria, where industrial production shrank by 6 per cent from 1974 to 1975, and recovered immediately in 1976 to the level of 1974. From 1977 onwards the index of industrial production was higher than in 1974 in every succeeding year. By contrast, it was not until 1985 that Swiss industrial production exceeded the 1974 level (WIFO Data Bank).

12.4.3 *Labour supply*

(a) Foreign workers

Switzerland, like most other central European and Nordic countries, suffered from labour shortage in the long prosperous period after World War II and therefore, like these countries, attracted workers from other—mainly southern European[13]—countries. There is, however, one outstanding feature of the Swiss foreign labour force: its order of magnitude compared to the native labour force. As early as 1965, when the share of foreigners in the labour force was 6.5 per cent in Belgium, 5.7 per cent in Germany, 0.8 per cent in Denmark, 1.8 per cent in The Netherlands, 1.6 per cent in Austria, and 4.6 per cent in Sweden, the Swiss ratio was 23.7 per cent, i.e. almost one quarter of jobs were held by foreign workers.[14] Again, as in most

[12] It has already been mentioned that unemployment insurance was not made compulsory until 1977.

[13] For the composition of countries of origin of Swiss foreign labour see Biffl (1985: 485).

[14] Ibid. 481.

comparable countries, the share of foreign workers reached its peak during the early 1970s (26 per cent in Switzerland, as compared to e.g. 11 per cent in Germany, 9 per cent in Austria), and has been declining ever since. Hence, the very number of foreign workers made foreign worker policy more important and also more powerful than in any other comparable country.

On the other hand, increasing uneasiness among the native population ('overforeignization') led to growing pressure on politicians to impose a ceiling on the total number of foreign workers. Such a ceiling was eventually introduced (in the 1970s) at 25 per cent of the labour force, which is still regarded as politically and socially acceptable. It is important to note that while the mid-1970s recession provided economic reasons for reducing the foreign labour force, there were also good political and social reasons, at least from the viewpoint of Swiss politicians, for repatriating foreigners.

(b) The structure of foreign labour

To comprehend the options of Swiss foreign worker policy, it is important to know that there are four different groups of foreign labour:[15] first, workers with a permanent resident status; second, border commuters, travelling daily between their jobs and their homes; third, annual workers, who have to renew their work permits every year; and fourth, seasonal workers, having the right to work up to nine months out of twelve. Fig. 12.3 shows the distribution of these four categories in the period from 1970 to 1988.

At die beginning of die 1970s, the major part of the foreign labour force (70 per cent) consisted of annual and seasonal workers. Therefore, the inflow of foreign workers could be managed quite efficiently by controlling work permits for diose having to reapply on a yearly or seasonal basis. Indeed this was what happened in the 1974–6 recession. As Fig. 12.3 shows, more than 240,000 foreign workers lost dieir jobs in the recession, and the main burden was borne by annual and seasonal workers, whereas the number of border commuters decreased only slightly and die workers with resident status increased more or less steadily.

The figure also shows quite clearly that die structure of foreign labour has changed dramatically since the early 1970s. Today, foreign workers with resident status and border commuters take up the large and dominant share of the foreign labour force which annual and seasonal workers used to have in die early 1970s. Consequently, die options of foreign worker policy today must be quite different from what tiiey were then. We will come back to this point in section 12.5.

[15] Recently, a fifth group of workers with short-term work permits ('Kurzaufenthalter') has been introduced.

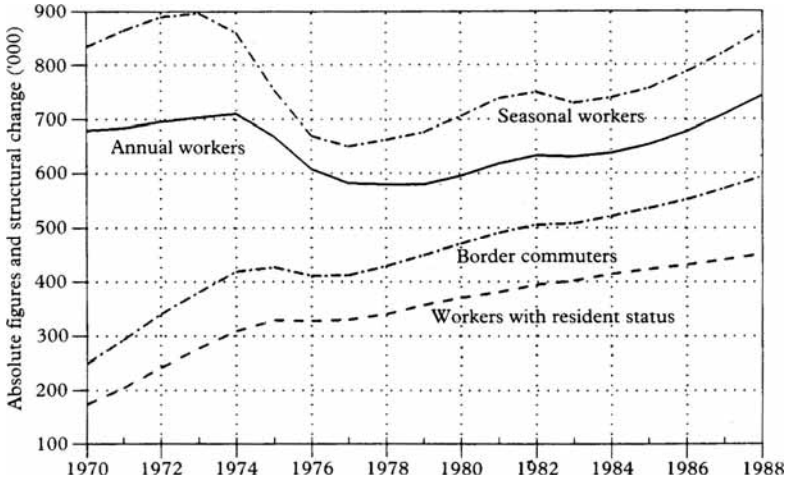

FIG. 12.3 Foreign labour in Switzerland

Source: Die Volkswirtschaft (Nov. issues).

(c) *'Natural' turnover rate of foreign labour*

Foreign workers may have reasons other than economic ones for not re-applying for work permits or for leaving the host country. The wish to return to their family and origins or the discrimination experienced in the host country may also be responsible for the decision to leave the labour market voluntarily.

It is estimated that, prior to the 1974–6 recession, only two-thirds of the seasonal workers in Switzerland used to reapply for a contract in the following year. Furthermore, on average about 50,000 annual workers and workers with permanent resident status left Switzerland every year between 1970 and 1974 (Danthine and Lambelet 1987: 163). This large 'natural' turnover rate in the 1974–6 recession added to the then much welcomed downward supply flexibility of the labour market.

(d) Participation rates

We have already mentioned that institutional factors in general and the underdeveloped social security system may have contributed to the vanishing of the unemployed from the labour market. This is confirmed quite convincingly by labour participation figures.

The total labour force participation rate decreased from 77.4 per cent in 1974 to 73.6 per cent in 1976, i.e. by almost 4 percentage points. In the European OECD countries on average, the participation rate fell by less than half a percentage point, whereas in countries like Austria, Denmark, and Finland, the participation rate actually rose (OECD 1988*b*: 34).

Further, if despite slow growth and a bad employment performance after the 1974–6 recession (see Fig. 12.2) there was no significant rise in unemployment in Switzerland, a declining participation rate was mainly responsible for full employment.

Admittedly, the labour participation rate also declined in the European OECD countries between 1974 and 1986 from 67.4 per cent to 65.4 per cent on average. However, if Switzerland had shared in the European trend (i.e. a decline in the labour participation rate of 2 percentage points), there would have been approximately 188,000 additional unemployed persons in 1986 resulting in an unemployment rate of 6.6 per cent (0.8 per cent registered unemployment plus additional 5.8 per cent unemployment).

In particular, female participation in the labour market stagnated from 1974 to 1986, whereas it rose by 3 percentage points on average in OECD Europe, and by almost 14 percentage points in Sweden (OECD 19886: 35). Male participation fell in Switzerland as in OECD Europe, but much faster: the rate dropped by almost 11 percentage points (1974–86) compared to a fall of only 7 percentage points in OECD Europe.

12.4.4 *The explanation summarized*

The main thrust of our argument has been that rigorous management of labour supply has been predominantly responsible for low unemployment. This is in line with the fact that Switzerland does not fare particularly well in a cross-country comparison in terms of real wage flexibility, although the latter has been somewhat higher than in comparable countries.[16] Also in terms of wage dispersion Switzerland holds an average position among OECD countries, but shows definitely more wage equality than for instance Austria.[17] Labour demand has been shown to be rather volatile since business expectations are not stabilized by Keynesian-type fiscal and/or monetary policy and automatic stabilizers are relatively small.

12.5 LIMITS TO THE SWISS MODEL

The above account of the Swiss labour market and its recent developments reveals a fair number of problems. These problems may constitute some limits to the Swiss model, and we examine each of them in turn.

First, an extremely high labour supply elasticity, which was quite essential for maintaining full employment in the mid-1970s recession, may have been

[16] Real wage flexibility, as measured by the coefficient of variation in real wage changes, is slightly higher in Switzerland than e.g. in Austria. Sources: Schweizerische Bankgesellschaft (1987); WIFO Data Bank.

[17] See Rowthorn in this volume (Table 4.2 and Fig. 4.3).

counter-productive to the Swiss economy in the past. Comparatively low costs of hiring and firing contribute to low overall costs of labour, reducing the incentive to restructure the economy and slowing down the pace of innovation.

The failure of Switzerland, strongly criticized by the OECD,[18] to restructure its industry by developing new products or shifting into new activities with long-term market potential was an important reason for the stagnation of industrial output and employment up to the mid-1980s. The predominantly private Swiss business community preferred to restructure by cutting back and rationalizing old industries.

Whereas the Swiss type of labour relations with weak unions but an implicit job guarantee for native workers and foreign workers with permanent resident status would have allowed for innovation and restructuring without much friction, there was not enough cost pressure to pursue that particular kind of adjustment.[19]

Second, labour market flexibility has, on the other hand, been significantly reduced by structural changes in the foreign labour force in the last twenty years. A large share of foreign workers today holds the status of permanent residents, having essentially the same privileges as native Swiss workers. Therefore, if there was a recession today, one might expect that foreign labour supply would react in a far less elastic way than it did in the mid-1970s. This might also be true in the near future for other social groups, e.g. female workers. In a more modern society, their participation rate may not be as easy to reduce as it was in the past.

What would be the consequences of greatly reduced labour market flexibility for the unemployment figures? Suppose that overall labour participation had declined in line with trends in OECD Europe between 1974 and 1986 and, in addition, that the number of foreign workers had remained at its 1973 level. Then Switzerland would have suffered from mass unemployment of 9.8 per cent in 1986.[20]

Third, on the demand side there seem to be clear institutional limits to any significant expansionary fiscal impulse. According to the principle of a minimalistic central state there is a widely shared distaste for Keynesian intervention to foster effective demand. Although there were small and limited employment programmes in 1975/6 and 1982/3, it seems obvious

[18] OECD (1984). See also Rowthorn and Glyn (1990).

[19] At the time of writing (1989), the pressure to innovate and rationalize is coming increasingly from labour shortages, as the overall ceiling on the maximum number of foreign workers has been reached.

[20] Schmidt estimates the rate of unemployment for 1976 to be between 4.2 and 7.9%, if the stock of foreign labour is kept at 1973 levels (Schmidt 1985:63–4). Rowthorn and Glyn estimate the unemployment rate in 1983 to be 15% under the assumption that the number of foreign workers is kept constant from 1973 onwards and furthermore the overall participation rate is kept at its 1973 level (Rowthorn and Glyn 1990).

by the mere size of the public sector[21] that only minor effects on the business cycle are to be expected.

Furthermore, and probably even more important, monetary and exchange rate policy quite obviously reflect the interests of the financial community. Contrary to the otherwise cherished principle of non-intervention in market affairs, monetary authorities pursue an extreme hard-currency policy in favour of *rentiers* and banks at the cost of industrial production and employment. The economic power hierarchy, characterized by superiority of financial business over industrial business, and by superiority of business over labour, puts the burden of (cyclical) adjustment mainly on to labour. In the past, this did not set any severe limits to the system, since those who carried the costs were predominantly without much political weight. However, this may change in the near future, as we have tried to demonstrate.

12.6 CONCLUSIONS

In section 12.2 we started out from the 'Swiss success story', by looking at the well-known and impressive macro-economic indicators. When we went behind these figures to try to gain a deeper understanding of this success story, the picture changed gradually and in a number of different ways. In the end, we found that the 'Swiss success story' not only looks much more like the performance of other highly developed nations, but also displays some remarkable failures.

The outstanding achievement of the Swiss economy is full employment. However, as we have shown, it is more appropriate to talk about full employment for (male) Swiss citizens. There is no full employment with a constant labour force.

Under Swiss conditions, high labour market flexibility is the counterpart of capital immobility. Slow growth of labour productivity and a low innovation rate follow as negative consequences, though mitigated by high rates of research and development expenditures of Swiss multinational companies.

The Swiss model of social consensus about market dominance, non-intervention, and class co-operation assigns the burden of economic disequilibria quite clearly to the lowest level in the power hierarchy: foreign workers (without permanent resident status) and women are the residual entity. But Switzerland could perform much better if these power rigidities could be broken up, and labour, industrial, and financial interests were to co-operate as real partners.

[21] Current government disbursements as a percentage of GDP were 29% (on average 1974–9) and 30% (1980–6) in Switzerland as compared to 40% (1974–9) and 45% (1980–6) in OECD Europe. OECD (1988*b*: 63).

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13

The Unexpected Emergence of Australian Corporatism

Robin Archer

13.1 INTRODUCTION

Throughout the 1980s corporatism has been in retreat. The trend has been the same in one country after another. In Britain a weak legacy of corporatism was defeated; in Sweden a strong legacy was weakened. Indeed amongst OECD countries the trend has been almost universal. Almost, but not quite. For just when the rest of the world was moving away from corporatism, Australia was firmly embracing it.

By 'corporatism' I mean to refer to that phenomenon which has been variously labelled 'neo-corporatism', 'liberal corporatism', 'societal corporatism', and 'social corporatism'. The same phenomenon has at least as many definitions. Why this is so only becomes clear once we recognize that corporatism is essentially a system of industrial relations.

The industrial relations systems of the advanced capitalist countries all have three main actors: the government, the employers, and the unions. Relations both within and between these actors can be organized in different ways. And the different combinations of these intra- and inter-actor relations define different industrial relations systems. Fig. 13.1 illustrates the six dimensions which combine to define an industrial relations system. Three of these dimensions concern the degree of *centralization* of each of the actors. The fourth and fifth concern the degree of *public involvement* in relations between the government and the two class actors. Public involvement concerns both class involvement in public affairs and public (i.e. government) involvement in class affairs. The sixth dimension concerns the degree of *class co-operation.* Corporatism is an industrial relations system which combines a high degree of all of these: centralization, public involvement, and class co-operation.[1]

Because an industrial relations system can be made or broken by the way

[1] Each of the better-known definitions of corporatism deals with one or more of these factors. Schmitter (1981: 284) equates corporatism with centralization, Maier (1984: 40) emphasizes class co-operation, Offe (1981: 136) defines it as public involvement, as does Maier (1981: 56) in an earlier essay, Regini (1984) combines public involvement and centralization, and Crouch (1979: 187) refers to centralization and consensus which he relates to both class co-operation and public involvement. But only Lehmbruch (1979: 5; 1984: 61) recognizes that in fact corporatism is a 'pluridimensional concept' which combines them all.

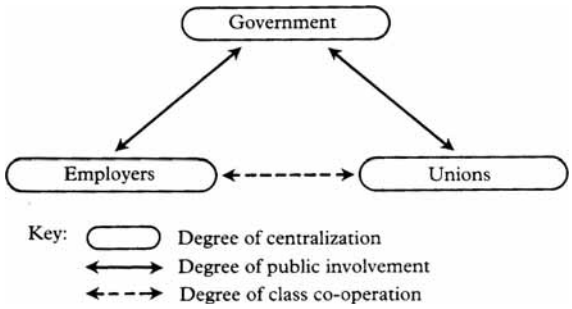

FIG. 13.1 The six dimensions of an industrial relations system

it deals with wage demands, centralized wage fixation has often been seen as the most important manifestation of a corporatist system. However unions do have other bargaining chips. In Australia, for example, attention has recently shifted from wages to working practices and the organization of work. And these can play an important role in sustaining a corporatist system. So while centralized wage-fixing systems are likely to be corporatist, not all corporatist systems must feature centralized wage fixation.

Since the first election of the Hawke government in 1983, the Australian labour movement has purposefully gone about building up a corporatist system. The system which has been established is based on the *Statement of Accord by the Australian Labor Party and the Australian Council of Trade Unions Regarding Economic Policy* (ALP/ACTU 1983). The 'Accord' as it came to be known was indeed centred on an incomes policy. However by now its original prescriptions have been altered so many times that the government and the unions refer instead to the 'Accord process'. The bipartite origins of this process have ensured that a high degree of public involvement and a highly centralized union movement have become the most distinctive features of Australian corporatism. Both formal and informal negotiations between the government and the ACTU play a fundamental role in setting macro-economic policy. However this process has in turn brought about greater class co-operation, leading, for example, to a radical reduction in strike activity. More recently, explicitly negotiated class co-operation between unions and employers has also begun to emerge.

In the early years of the Labor government many commentators dismissed the emergence of corporatism in Australia as an aberration which would soon fall into line with international trends. But when the Labor Party was re-elected for an unprecedented third term in July 1987 it became clear that the Australian labour movement had genuinely bucked the international trend and established a lasting corporatism in the 1980s.

This chapter is divided into four more sections. Each is designed to answer a specific question about the evolution of Australian corporatism. But each is also designed to shed light on one of the more general problems which our (i.e. WIDER's) study of corporatism has raised. Section 13.2 looks at how the Accord came about, and, in particular, at whether or not it is a product of uniquely Australian traditions. It aims to address the general question of whether different societies are free to accept or reject a corporatist system, or whether they are bound by tradition to their respective industrial relations systems. Section 13.3 considers whether the Accord achieved the goals that it originally set itself. It adds this evidence to the general debate about the effect of corporatist institutions on macro-economic performance in a period of stagflation. Section 13.4 considers whether the Accord can be successfully adapted to achieve a new set of goals. It questions the generally held belief that corporatism is incompatible with the demands of micro-economic restructuring and labour market flexibility. Finally, section 13.5 looks at the Accord's future prospects. It considers whether the conditions underpinning the Accord are strengthening or weakening and speculates about the ends to which a continuing Australian corporatism could be put.

13.2 CHOOSING CORPORATISM

Is it possible for a society to choose its industrial relations system? And in particular is it possible for a country without a tradition of corporatism to opt for a corporatist system? For a study which is based on a comparison of the experiences of different countries these are fundamental questions. If we answer 'no' to them, then our work can be of no more than scholarly interest. From the point of view of the policy maker, there would be little point in undertaking a comparison of different industrial relations systems if the basic characteristics of each are pre-given and unchangeable.

For this reason there is an implicit assumption in our project that advanced capitalist countries can learn from each other. But is this assumption tenable? The work of some industrial sociologists suggests that it is not. Colin Crouch, for example, argues that, in Europe, corporatism can only be successfully established in countries which have a tradition of sharing political space, and that these traditions were established 'some time in the eighteenth or nineteenth centuries' (1986: 177). Drawing on the work of Charles Maier (1984: 29), he highlights the importance of the 'liberal parenthesis' that existed between the era of the guilds and the *standestaat,* and the era of organized capitalism and organized class interests. During this parenthesis parliamentary states attempted to monopolize political space.[2]

[2] The liberal parenthesis is better known as the era of *laissez-faire* capitalism. As Crouch points out state attempts to monopolize political authority were directly linked to the defence

In some countries the parenthesis lasted longer than in others. And in some countries the political monopoly that inaugurated it proved more difficult to establish than in others.[3] According to Crouch these two factors established a tradition which continues to determine whether a country has a liberal or a corporatist industrial relations system. His central thesis is that 'the longer the interval, or the sharper the breach, between the destruction of ancient guild and standestaat institutions and the construction of typically "modern" interest organisations, the more committed did the state become to liberal modes of interest representation, and the less likely to tolerate sharing political space' (1986: 182). So whether a country is prepared to share political space, and hence whether it is prepared to countenance corporatism, is a function, not of contemporary choices, but of long-established traditions. I will refer to this type of claim as the 'tradition-boundness thesis'.

Now I have been dwelling on this point because, prima facie at least, Australia seems to provide a decisive counter-example. Of course it is not a counter-example of Crouch's particular thesis since in the history of white Australia there is no pre-parenthesis period. But it does seem to provide a counter-example to the general line of argument that corporatism can only arise as a function of long-established tradition. For Australia's long-established industrial relations tradition is generally thought of as a variant of the British liberal tradition. This is reflected in almost every attempt to rank countries according to their degree of corporatism. Australia is typically grouped near the bottom of the list with the other Anglo-Saxon countries—Britain, the United States, Canada, and New Zealand.[4] But if this is so, the emergence of corporatism in the 1980s can hardly be a product of tradition. The liberal industrial relations tradition of the Anglo-Saxon world is widely seen as the antithesis of a corporatist tradition.

In response it might be said that white Australia does not provide a counter-example to the tradition-boundness thesis because it is simply so young that it has no traditions and hence should be ruled out as an exceptional case. We should be wary of this argument. As with most advanced capitalist countries, Australia has a tradition of organized industrial relations dating back well over a century. The tradition is a product of both its British

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of a *laissez-faire* market. To defend a *laissez-faire* market the state must not only keep itself out of the economic system; it must also monopolize political space to keep economic actors out of the political system, for this would also have the effect of politicizing the market.

[3] The difficulty was especially great in those countries where the Catholic Church had a long-established claim to political space.

[4] See e.g. Cameron (1984: 165), Crouch (1985: 119), Bruno and Sachs (1985: 226), and Schott (1984: 2). Schmitter (1981: 294) does not include Australia but as Crouch (1985: 118) points out Schmitter's criteria would place it 'at or near the bottom of his ranking'. The one exception is Calmfors and Driffill (1988: 17–20) who give Australia an intermediate ranking. This is partly because of their attempt to take into account the developments of the early years of the Accord.

inheritance and a reaction against it. If the tradition-boundness thesis is true, the emergence of Australian corporatism must be a product of this tradition. To see if Australia is really a counter-example we will have to identify the elements of this tradition and assess whether they helped or hindered the rise of corporatism.

Two ideologies dominated the first century of white settlement in Australia. The first was a version of English radical liberalism. The second was the distinctively Australian ethos of 'mateship'.

The Australian colonies were among the world's first democracies. Between 1850 and 1858 the main points of the constitutional programme of English radicalism were put into effect. Manhood suffrage and vote by ballot were adopted a generation before the third Reform Act brought them to England. Economically the radicals focused on the question of land distribution. By promoting the development of a class of small independent farmer-settlers they hoped to provide the new democracy with a solid foundation. This aspiration was shared by many miners who began to look for alternative ways of safeguarding their independence once the gold rush of the early 1850s began to wane (Gollan 1960: 15–16). The radicals won the legal battle with the passage of the Land Acts of 1860–1 in the colonies of New South Wales and Victoria. But the squattocracy (named both for the way in which they originally acquired their vast land holdings and for their aristocratic pretensions) retained overall control of the pastoral industry, and it became increasingly clear that wage-labour rather than self-labour would be the norm. So lucrative was the pastoral industry, however, that in the early twentieth century Australia had the highest standard of living in the world.

Alongside these radical liberal initiatives a different ideology was emerging amongst the bush workers of the outback: the ethos of mateship. Mateship grew up amongst the semi-nomadic drovers, shepherds, shearers, bullock-drivers, stockmen, boundary-riders, and station-hands who were collectively known as bushmen. These men did not deny the value of individual independence stressed by the radical liberals. But they placed a special emphasis on egalitarian values and on the importance of solidarity or fellowship. Mates were equals, and mateship was a fellowship of equals. These values were rooted both in the hardship and loneliness of life in the outback and in the convict origins of the earliest bushmen (Ward 1965: 2, 10, 27, 78). Although it seems likely that 'the main features of the new tradition were already fixed before [the beginning of the goldrush in] 1851' (Ward 1965: 11), it was in the 1880s that they came to have enormous national significance when a movement of writers and poets began to promote mateship and the values of the bush as definitive of a new Australian national identity.[5]

[5] One of the most forceful and influential advocates of this new identity, the *Bulletin,* defined it like this: 'By the term Australian we mean not those who have been merely born in Australia. All white men who come to these shores—with a clean record—and who leave behind them the

The point to note is that neither radical liberalism nor mateship is straightforwardly propitious for the development of corporatism. The first is clearly hostile, placing a premium on individual independence; while the second is more ambiguous, valuing both a collective and an individual identity.[6]

But ideologies are not the only manifestations of traditions. Traditions are also carried by long-established institutions. To get a clearer picture of Australia's industrial relations tradition we need to look at each of the institutions that has played a significant role in establishing it. To assess the tradition-boundness thesis we will have to consider whether these institutions have helped or hindered the emergence of corporatism. I will first consider the institutions of the labour movement (the unions and the Labor Party), then those of the employers, and finally those of the state.

Embryonic workers' organizations began to appear in the 1830s, but it was only in the 1850s, after gold brought new prosperity to the colonies, that stable unions were formed. These were unions of skilled workers based on craft divisions and they set a pattern of craft unionism which continues to exist. They were joined by new unions of unskilled and semi-skilled miners, shearers, and waterside workers in the 1880s. These unions drew strength from the mateship ethos of the bush. According to the first president of the shearers' union, W. G. Spence:

> Unionism came to the Australian bushman as a religion. It came bringing salvation from years of tyranny. It had in it that feeling of mateship which he understood already, and which always characterised the action of one 'white man' to another. Unionism extended the idea, so a man's character was gauged by whether he stood true to Union rules or 'scabbed' it on his fellows. (Crowley 1980: 78)

The new unions faced their first trial of strength during the depression of the early 1890s. Under the banner of 'freedom of contract' employers, supported by police and troopers, took on the seaman, the shearers, and the miners. In each case the workers were decisively defeated.

These defeats encouraged unions to consider the benefits of direct involvement in parliamentary politics. From 1890 onwards the Trades and

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memory of the class distinctions and the religious differences of the old world; all men who place the happiness, the prosperity, the advancement of their adopted country before the interests of Imperialism, are Australian. In this regard all men who leave the tyrant-ridden lands of Europe for freedom of speech and the right of personal liberty are Australians before they set foot on the ship which brings them hither. Those who fly from an odious military conscription; those who leave their fatherland because they cannot swallow the worm-eaten lie of the divine right of kings to murder peasants, are Australians by instinct—Australians and Republicans are synonymous. No nigger, no Chinaman, no Kanaka, no purveyor of cheap coloured labour is an Australian.' *Bulletin, 2* July 1987 (Clark 1955). Australians combined a vituperative racism with an image of themselves as egalitarian, prosperous, and free.

[6] Bushmen exhibited a ' "manly independence" whose obverse side was a levelling, egalitarian collectivism, and whose sum was comprised in the concept of mateship' (Ward 1965: 167).

Labour Councils that co-ordinated union activity in the various colonies began to form parties to contest seats in their respective parliaments. By 1884 the New South Wales Labor Party held the balance of power. And in 1899 the world's first labour government was formed in Queensland although it was out of power by the end of the week. However there was little to distinguish Labor parliamentarians from other progressives. The representatives of labour were deeply committed to liberalism and parliamentary government, and only a minority saw socialist or collectivist ideas as distinguishing them from other liberals (Gollan 1975: 206). Those socialist ideas that did exist were heavily influenced by Edward Bellamy's justly forgotten *Looking Backward* which mingled them with a populist belief in a semi-mystical entity called 'the money power' which conspired against 'the people'. In general, however, there was little attention to doctrine of any kind. Anticipating federation in 1901, the colonial Labor parties met the year before to establish the Australian Labor Party (ALP). Its objectives were established at its first full-scale national conference in 1905. By 1910 majority Labor governments were in power both federally and in New South Wales.

Neither the unions nor the Labor Party were developing in a way that was propitious for corporatism.

I will begin with the unions. The one factor which is almost universally agreed upon as a precondition for corporatism is a strong centralized union movement. Indeed a number of writers see the centralization of organized labour as coextensive with corporatism.[7] Centralization has three dimensions: membership density, organizational unity, and concentration of power.[8] These are illustrated in Fig. 13.2. Only on the first of these dimensions do Australian unions score well prior to the 1980s.

Membership density refers to the extent to which unions have succeeded in organizing workers. In the first decades of this century, Australia became the most unionized country in the world. By 1920 over 53 per cent of all employees belonged to a union. During the depression this dropped to a low point of 42.6 per cent in 1934 and then steadily rose to an all-time high of 63 per cent in 1953. During the 1960s and 1970s membership density settled down to around the 55 per cent mark.

Organizational unity refers to the extent to which unions are themselves organized into peak councils. The lowest scores go to countries with a multiplicity of peak councils and numerous unions. The craft origins of Australian unionism led to the formation of a plethora of unions each jealously protective of its craft base. There have been well over 300 unions for most

[7] This is especially true of the economists who have recently attempted to quantify corporatism. See e.g. Calmfors and Driffill (1988).

[8] Cf. Cameron's (1984: 164–6) 'organisational power of labour', and Schmitter's (1981: 294) 'societal corporatism'.

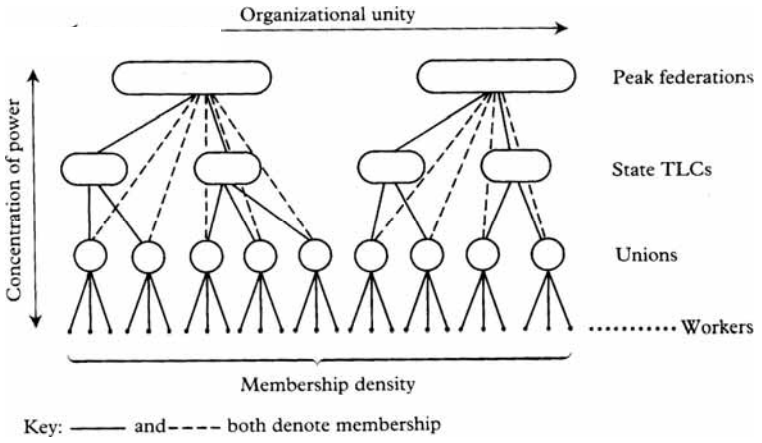

FIG. 13.2 Union centralization
Note: In Australia unions are members of both peak federations and state Trades and Labour Councils (TLCs).

of this century. In 1983 the figure still stood at 319.[9] After a number of unsuccessful attempts many of these unions joined to form the Australian Council of Trade Unions in 1927. But its coverage was far from universal. The Australian Workers' Union, built on the base of the old shearers' union, claimed the status of an alternative peak council and refused to join until 1967. Moreover white-collar and public sector unions were organized into two separate peak councils. These merged with the ACTU in 1979 and 1981 respectively. The formation of a single peak council has certainly helped the development of corporatism. But with over 300 unions and 3 or 4 peak councils until the beginning of the 1980s, organizational unity can hardly be considered part of the industrial relations tradition.

Concentration of power refers to the extent to which a peak council is able to control the industrial activities of its affiliates. In Australia intrastate industrial disputes are managed either by the union concerned or by the state's Trades and Labour Council. Although the Trades and Labour Councils are branches of the ACTU, they retain significant independent powers reflecting their early growth and importance during the colonial period. Formally, the ACTU has the power to take over the management of interstate industrial disputes. But in reality, unless its assistance is sought, disputes remain outside its control. It is the affiliates that control strike funds and, on the whole, it is the affiliates that initiate and manage disputes.

What about the Labor Party? There are three factors concerning socialist

[9] Of these the largest 14 unions (each with more than 50,000 members) represented 44.6% of unionists while the smallest 105 (each with less than 500 members) represented just 0.6% (Hancock Committee 1985: 23).

parties which have been thought to help the development of corporatism. None of them seems to apply in Australia.

The first concerns the original relationship between the party and the unions. Corporatism has prospered where parties and unions developed at the same pace. But it has proved difficult to establish either where parties reached maturity before unionism became firmly established, as in France and Italy, or where unionism preceded party formation, as in Britain (Maier 1984: 54–5). We have seen that it is this latter, British-style relationship that pertains in Australia. The unions established the Labor Party to put their delegates in parliament and they considered their influence over the party a matter of right rather than one of negotiation.

Second, corporatism has been most sustained in those countries in which socialist parties have played a dominant role in government (Schmitter 1981: 313–14; Panitch 1977). Clearly, 'unions will be more prepared to enter into political bargaining, and will have greater confidence in eventual gains from it, where they possess close ideological as well as organisational ties with the ruling party' (Maier 1984: 49). However in Australia, despite its early success, the Labor Party did not become a natural party of government, as in Sweden, or even a natural partner of government, as in Austria. The 1949 defeat of the Labor government which had led the country through the Second World War inaugurated twenty-three years of continuous Conservative rule. In 1972 Labor regained government for just three years before the Conservatives were returned to office where they remained until 1983.

Third, it seems that it is not just the predominance of socialist parties that matters; it is the predominance of socialist parties of a certain type. In particular, corporatism seems to be best fostered by German-style Social Democratic parties with a Marxist-influenced past (Goldthorpe 19846: 327). Having resigned themselves to operating within a capitalist economy, the Marxist heritage of these parties fostered class-wide corporate identites and a more political unionism. We have seen that the Australian Labor Party was built on essentially liberal ideological foundations. The speed with which the newly formed Labor parties moved into a position of power forced them to turn their attention immediately to the exigencies of running a capitalist economy and left little room for the development of radical political ideas. Marxist ideas, in particular, were thin on the ground. According to a contemporary commentator, Labor leaders 'know little or nothing of Marxian theories. Few of them know even by tide the principle text books of continental socialism.'[10] It is true that in 1921 the ALP adopted 'the socialisation of industry, production, distribution, and exchange' as its objective, but, by then, 'socialism without doctrine' was already well entrenched.[11]

[10]Clark (1906). Cited in Pons (1984: 118).

[11] In this regard it is interesting to note the role of Communists in providing the legitimizing framework for the Accord within the union movement. Australia's most prominent Communist

In summary, neither of the two main institutions of the Australian labour movement carried traditions which were propitious to the development of corporatism. The unions did have a high membership but were otherwise weakly centralized. They were established well before the Labor Party, and the party itself failed to predominate. Marxist ideas had very little influence. In each of these respects the Australian labour movement looked very similar to its British counterpart, and a similar industrial relations tradition could be expected.

Employer organizations have also been unfavourable to the development of corporatism. The employers have even less of a tradition of strong centralized organization than the unions. Their early organizations were either trade associations or were formed for specific purposes such as combatting the 1890 strikes. When national organizations began to emerge after federation their role was restricted to making legal challenges to the emerging industrial relations system. Ultimately two stable organizations took root: one co-ordinated employers' federations, the other co-ordinated chambers of commerce. Employers remained deeply divided between the two until the 1960s. A merger was finally achieved when the Confederation of Australian Industry was formed in 1977. But the unity was short lived. In 1983 a second national employer organization—the Business Council of Australia—was formed. And in the latter half of the 1980s the CAFs claim to be a national peak council was further undermined as one after another of its main industry groups chose to operate independently.

Finally I want to look at the institutions of the state. Australia's origins as a penal colony bequeathed it centralized and interventionist administrative institutions. Following self-government these institutions were turned to entrepreneurial tasks in order to promote rapid colonial development. Large-scale assisted immigration programmes were launched to import labour from Britain (de Lepervanche 1975), and the colonial governments raised huge capital loans on the London Bond Market which they invested in railways, roads, and bridges (H. V. Evatt Research Centre 1988: 17). So widespread and so widely supported was this public economic intervention that it is often referred to as a kind of 'colonial socialism'. After federation in 1901 an interventionist approach was also adopted by the federal government. It was most clearly articulated in the 'New Protection' policy which restricted immigration to whites, and imposed tariffs and bounties to protect local manufacturers, and some agricultural producers, from overseas competition. However in the realm of industrial relations it was much more difficult for the federal government to act.

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union official, Laurie Carmichael, repeatedly emphasized that the Accord was a class policy designed to protect the interests of all workers, not just the sectional interests of those who happened to have industrial muscle.

The new Australian Constitution specified the powers of the Commonwealth (or federal government) and left all other powers with the states (which took over from the old colonial governments). In the area of industrial relations the Commonwealth's powers are severely restricted. Section 51 (xxxv) of the Constitution empowers it: 'to make laws for the peace, order and good government of the Commonwealth with respect to . . . Conciliation and Arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one State'. The power to legislate about incomes, working conditions, and all other industrial relations matters rests with the states.[12] With such limited powers the federal government does not seem well equipped to foster corporatism. In fact, however, this peculiar constitutional situation led to the establishment of a unique conciliation and arbitration system which some have seen as a form of proto-corporatism. Anyone wanting to claim that the Accord is a product of Australian traditions would emphasize its continuity with the arbitration system. Since the arbitration system provides defenders of the tradition-boundness thesis with their strongest argument, I want to consider it in more detail.

The outcome of the industrial struggles of the 1890s convinced the labour movement that some sort of state machinery was necessary to enforce union recognition and fair wages and conditions. In 1904, with Labor Party backing, the federal government used its limited constitutional power to establish a Court of Conciliation and Arbitration which was later renamed the Conciliation and Arbitration Commission. When a dispute occurs, the Commission is first required to encourage conciliation between the parties. If the parties manage to reach an agreement, the Commission will usually register it as a 'consent award'. But if the parties fail to agree arbitration is compulsory and the Commission must convene a hearing and make an award itself. Either way the outcome is an award which is legally binding on both parties. Penalties can be imposed on those who fail to comply with an award, but in reality these are only used against employers.[13]

By 1912 similar industrial tribunals had been established in all the states. Gradually the federal tribunal became predominant. In the 1907 *Harvester* case, the founder of the federal arbitration system, Justice Higgins, established a needs-based criterion for setting the basic (or minimum) wage that should be paid to an unskilled worker. Skilled workers would be awarded 'margins' over and above the basic wage. Arguing that an average man must support himself, his wife, and three children, Higgins set the basic wage at 42 shillings a week. Since this was above the prevailing minimum rate being

[12] Wartime, and the Commonwealth's own employee, are exceptions to this.

[13] Attempts to fine striking unionists in the 1960s led to die jailing of the tram workers' leader Clarrie O'Shea. The unions responded with a national strike and refused to pay all further fines. Since then penalties for direct action by unionists have not been imposed.

offered by the state tribunals, many unions sought to be covered by a federal award. Ultimately almost the entire work-force was covered by either federal or state awards.[14]

There is no doubt that the arbitration system 'is deeply entrenched in [Australian] society'. These are the words of the Hancock Committee (1985: ii. 4) which was established in 1983 by the Hawke government to conduct the first comprehensive review of the industrial relations system since its inception. The Hancock Committee essentially recommended a continuation of the existing system, and public opinion seems to support this recommendation.[15]

Now there are a number of objections to the claim that the Arbitration Commission has fostered the development of corporatism. Firstly, it can be argued that, both by taking on the mantle of the public interest, and by protecting the existence of a plethora of small craft-based unions, the Commission has hindered the development of an encompassing strategically thinking union movement. Why should unions consider the public interest when the Commission is there to mediate between it and their claims? Secondly, some economists have suggested that the Commission has no long-term effect at all. This is a controversial point but those who support it argue that Commission decisions simply mimic the changing market strength of employers and unions.[16] Thirdly, it is often emphasized that it is a mistake to juxtapose the arbitration system to free collective bargaining since one of the main aims of the system's founders was to achieve recognition of collective bargaining. In particular 'it is wrong to equate "conciliation and arbitration" and centralisation and to equate "collective bargaining" and decentralisation ... it is possible to have highly centralised collective bargaining systems and highly decentralised arbitral systems' (Hancock Committee 1985: ii. 212).

This third objection is especially telling given the pivotal role of centralized bargaining in a corporatist system. Consider wage bargaining for example. A cursory look at the historical record shows that the arbitration system has coexisted with a wide variety of wage-fixing systems. Table 13.1 summarizes the history of Australian wage fixation. It is clear that early on the Arbitration Commission developed into a unique centralized forum which based its

[14] The first official survey of award coverage in 1954 showed that 89.5% of the work-force were covered by awards: 42.5% were covered by federal awards while the remaining 47% were shared out between the six states.

[15] The Hancock Committee commissioned a poll in 1984 which showed that 56% of people thought that the Arbitration Commission did a good job at national wage fixing while 16% thought it did a poor job (Hancock Committee 1985: iii. 212). In another poll that year, people were asked whether the Commission should continue in its major role of determining wages and working conditions: 76% answered yes; 14% answered no; and 10% didn't know (Hancock Committee 1985: ii. 227).

[16] The Hancock Committee rejects this view (1985: ii. 156 and n. 10). For a recent review of some of the literature see Gill (1987a).

TABLE 13.1 Key events in national wage fixation in Australia, 1904–1983

1904	Conciliation and Arbitratioon Act passed.		
1907	Harvester judgement based on cost of living (COL).		
	Basic wage		Margins
1912	Higgins applies 'needs principle' through COL adjustments. In 1922 annual changes replaced by automatic quarterly adjustments (AQA).	1912	Increases based on 'work value' or 'comparative wage justice' (employees doing same work in different firms should get same pay). Margins set independently of the basic wage.
1931	Emergency 10% reduction.		
1934	The economy's 'capacity to pay' principle is affirmed as the appropriate basis for increases but AQA continue.	1935	Metal increases flow-on.
		1939	War loadings give most unskilled workers a margin.
		1947	Commission fails to stop another metals flow-on.
1953	AQA ended. Replaced in 1956 by annual reviews. From 1961 awards based on a mix of national productivity and COL.	1954	Flow-ons formalized into metal trades 'test cases' which set a formula for all other margins.
	Total wage rule		
1967	Separate hearings replaced by a single national wage case. But unions rely on market strength to get increases outside of national wage cases.		
1974	Reintroduction of quarterly wage indexation (6–monthly after 1978). Partial indexation and increases outside the system lead to its collapse.		
1981	New round of metals-led free collective bargaining.		
1983	Wage pause followed by the Accord.		

awards on national criteria such as the needs principle, the economy's capacity to pay, and the doctrine of comparative wage justice. But the important point to note is that the Commission later showed itself to be quite compatible with a highly decentralized system closely resembling British-style free collective bargaining. In particular in the late 1960s and early 1970s the Commission's national wage decisions had become little more than a guaranteed minimum for weakly organized workers and the most important wage rises were achieved in individual award changes negotiated outside the arbitration system. Evidence for this can be seen in the sharp rise in consent awards (which are simply ratified by the Commission) and overaward payments (which are paid completely independently of the Commission), and in increased strike activity.[17] By the financial year 1974/5 the contribution of national wage cases to increases in average male award wages had fallen to just 21.2 per cent (Howard 1977: 271). After a period of centralized indexation there was a further period of decentralized free collective bargaining in the early 1980s.

This is very damaging for the tradition-boundness thesis. In its strongest form, the thesis claims that certain tradition-carrying ideologies or institutions exist which in themselves are a sufficient condition for the development of corporatism. We have seen that amongst the ideologies there are no candidates for this role, and that amongst labour, employer, and state institutions, only the Arbitration Commission is a viable candidate. But at times, and indeed immediately prior to the Accord, the Arbitration Commission has coexisted with liberal wage-fixing arrangements, so it can hardly be a sufficient condition for corporatism. However, finally to lay the tradition-boundness thesis to rest we also have to tackle the weaker claim that the Commission was a necessary condition for corporatism. To test this weaker claim we need to identify what were the main conditions which led to the emergence of the Accord. If the Commission is not among them then the claim is false.

A comprehensive analysis of the conditions which led to the emergence of the Accord would be a major task. But briefly we can say that the Accord came about because the labour movement adopted it as a policy at a time when it had the power to implement it.

The policy developed out of new ideas which began to emerge during the late 1970s and early 1980s in both the political and industrial wings of the labour movement. A National Committee of Inquiry began a systematic reappraisal of Labor Party policies in 1978, and in the same year the metal workers' union began publishing a series of booklets on alternative ways of dealing with Australia's growing economic crisis. In particular they

[17] On consent awards see Gill (19876: 8). On overaward payments and strike activity see Hancock Committee (1985: ii. 193 ff. and 54).

identified the social wage and industry development as industrial issues that required unions to negotiate not only with employers but also with government. It was these changing attitudes within the unions—especially powerful left-wing unions like the metal workers—that were crucial.

A peculiar combination of boom and bust ensured both that these unions committed themselves to the Accord, and that they had a powerful voice in setting the terms of the agreement. The 'boom' was a phoney resources boom in 1980–1 which strengthened the negotiating position of the unions who, led by the metal workers, won huge wage rises in the market. This also strengthened the unions' hand in negotiating the terms of the Accord with the Labor Party. Labor urgently required a coherent alternative to the Liberal government's monetarist-inspired 'fight inflation first' strategy if it was to avoid a fourth successive defeat at the impending elections. And this required an agreement with the unions on wage restraint. The left-wing unions used their bargaining strength to widen the Accord to include social wage issues and an interventionist industry development policy. The 'bust' was the 1982 recession which soon made it clear that the unions' underlying strength was being seriously eroded. Massive lay-offs and soaring inflation reinforced the unions' commitment to the Accord. In the twelve months to May 1983, employment in the metal and engineering industries fell by 17 percent.[18]

The Accord was an agreement between Labor and the unions. The Arbitration Commission played no role in formulating it. Of course, because of the constitutional division of power, the newly elected Labor government had to turn to the Commission to implement the Accord's income policy. But this hardly suggests that the Commission was a necessary condition. On the contrary if it were not for Australia's peculiar constitutional division of powers, the government could have simply implemented its policy directly. In a sense the Commission was an impediment. It was an independent party outside the original Accord agreement which had to be convinced that it was worthy of approbation. This is not to suggest that there were no advantages to operating through the Commission. It did, for example, provide a ready-made forum for national wage fixation, and it released the unions and the government from some of the responsibility for policing the system. But this is a long way from being tradition-bound. Australia's newly emerged corporatism is a product, not of tradition, but of the choices made by the labour movement in response to the circumstances of the 1980s. The prima-facie

[18] The crucial importance of the recession in cementing the Accord supports Maier's contention (1984: 50) that it is their 'sense of potential economic vulnerability' that drives small highly developed countries towards corporatism, and, more generally, highlights Katzenstein's thesis (1985) that small open economies tend to adopt corporatism because of their extreme vulnerability to external shocks. During the early years of the Accord, Bob Hawke liked to dramatize the crisis confronting Australia by comparing his task with that of the wartime Labor Prime Minister John Curtain.

observation was right: Australia does provide a counter-example to the tradition-boundness thesis.

13.3 DEALING WITH STAGFLATION

Recently a number of economists have taken an interest in the effects of corporatist industrial relations systems on macro-economic performance. In particular, attention has focused on claims that corporatist countries have dealt better with stagflation than countries with other industrial relations systems. For these economists corporatism is largely equated with centralized wage-bargaining structures and macro-economic performance is typically measured as a function of unemployment.[19] However the empirical evidence for this claim is inconclusive. Indeed an OECD study (1988: 35) finds that: 'On a country-by-country basis there appears to be no direct relationship between macro-economic performance and bargaining structure in either the 1970s or 1980s.' Matti Pohjola draws a similar conclusion on the basis of his survey of both empirical and theoretical studies. Pohjola suggests that 'more could be learnt about corporatism by examining the experiences of individual countries—alternating corporatist and non-corporatist episodes—instead of making direct cross country comparisons' (Chapter 3 in this volume).

Australia has experienced a number of more or less centralized wage-fixing 'episodes' since the onset of stagflation in 1972. We have already seen that decentralized free collective bargaining was the order of the day in the early 1970s. In 1975 this was replaced by centralized quarterly wage indexation which gradually broke down and was followed in 1981 by a renewed bout of decentralized bargaining. To complete the picture we need to consider the wage-fixing arrangements that have prevailed since 1983 under the auspices of the Accord.

The Accord was explicitly designed to deal with stagflation. It identified 'simultaneously high levels of unemployment and inflation' as 'the fundamental feature' of the crisis afflicting Australia in the early 1980s (ALP/ACTU 1983: 1). The Accord rejected the monetarist solutions adopted by the Liberal government and noted that the OECD countries which have dealt best with stagflation are those that 'have eschewed monetarism and have instead placed substantial importance on developing prices and incomes policies by consultation' (ALP/ACTU 1983: 2). An incomes policy is vital according to the Accord because, by restraining wage increases, it will allow the government to pursue expansionary policies designed to promote economic and employment growth, while retaining control of inflation.

[19] See Bruno and Sachs (1985), Rowthorn and Glyn (1990), and Calmfors and Driffill (1988).

Without wage restraint, 'economic recovery will soon lead to increased inflation, thus forcing the government to adopt contractionary anti-inflation policies which will truncate the recovery and prevent any restoration of full, or near full employment' (ALP/ACTU 1983: 1).

Thus wage restraint is a fundamental prerequisite for 'the parties' prime objective of full employment' (ALP/ACTU 1983: 1). The Accord attempts to combine this with a second key objective, namely 'to ensure that the living standards of wage and salary earners and non-income earning sectors of the population requiring protection are maintained and through time increased with movements in national productivity' (ALP/ACTU 1983:4). To achieve both these objectives—employment growth through wage restraint and the maintenance of living standards—the Accord advocated a return to a centralized wage-fixing system based on full cost of living adjustments. Increases could also be sought on the basis of increased national productivity, and reduction to the emerging 38–hour-week norm could continue, but otherwise unions must make no extra claims. The Accord partners also reached agreement on price surveillance, taxation, and a number of 'supportive policies' covering industry development and the social wage (Archer 1988: 216–18). Here however I will concentrate on the incomes policy commitments which are at the heart of the Accord.

The final years of the Fraser Liberal government were marked by escalating social conflict. This was forcefully brought home to the public in 1982 when a demonstration by recently retrenched steel workers forced their way past police and broke down the doors of Parliament House. During the 1983 election campaign Labor leader Hawke contrasted this conflict with his call for consensus and national reconciliation. Having won the election, Hawke immediately convened a National Economic Summit of state and federal governments, unions, and business leaders, and won from it endorsement for a return to centralized wage fixing. Against this background the ACTU, supported by the government, applied to the Arbitration Commission for the establishment of a centralized wage-fixing system based on the provisions of the Accord. The Commission agreed to a system of twice-yearly hearings at which full cost of living increases would be granted unless extraordinary circumstances persuaded it to the contrary, and so long as unions gave a commitment to make no extra claims.

This system remained in place until September 1985, when, in an agreement with the government known as the 'Accord Mark IF, the unions agreed to trade off wage rises due to cost of living and productivity increases for tax cuts and the introduction of employer-funded occupational superannuation. But a much bigger change was on its way.

In May 1986 the Treasurer, Paul Keating, publicly suggested that Australia was threatening to turn into a 'banana republic'.[20] The Treasurer's

[20] Interview broadcast on Sydney radio station 2GB, 14 May 1986.

comment inaugurated a huge shift in public perceptions and conveniently marks the beginning of a new period in which the government pursued policies that were fundamentally at odds with the original Accord agreement. Stagflation was replaced by the balance-of-payments deficit as the main focus of economic strategy.

Figs. 13.3, 13.4, and 13.5 show the different components of the balance-of-payments crisis confronting Australia by mid-1986. The terms of trade were deteriorating rapidly as key export commodity prices fell by about 10 per cent (Fig. 13.3). In a country where primary produce accounts for approximately 80 per cent of export earnings this had a dramatic effect. Foreign indebtedness rose sharply (Fig. 13.4). So did import penetration (Treasury 1988a: 38–41). All this contributed to a large and worsening current account deficit (Fig. 13.5).

In June 1986 Prime Minister Hawke responded to the balance-of-payments crisis with a National Economic Statement that called for cuts in real wages and deep cuts in public spending. The contractionary budget that followed made it clear that even the Accord's basic commitment to reduce unemployment had been dropped. Hence both the key objectives of the original Accord—reduced unemployment and the maintenance of living standards—were no longer being pursued by the government. This was a crucial juncture for the Accord. The ACTU could easily have returned with righteous indignation to the old-style politics of opposition. Instead it chose

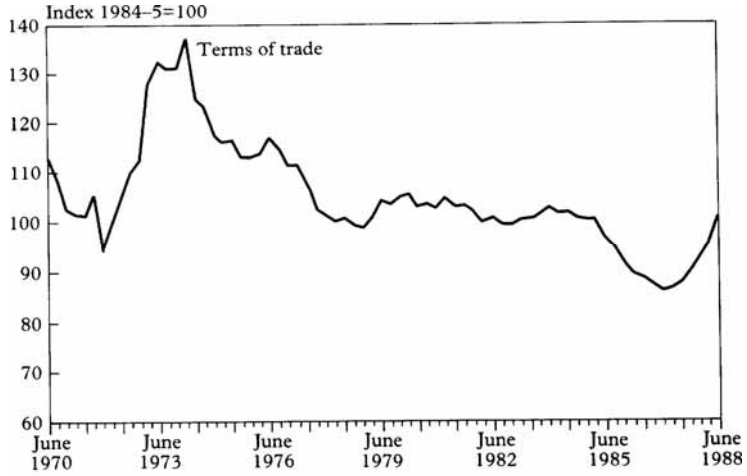

FIG. 13.3 Terms of trade, Australia

Note: Terms of trade as measured by the ratio of the implicit price deflator for exports of goods and services to the implicit price deflator for imports of goods and services.

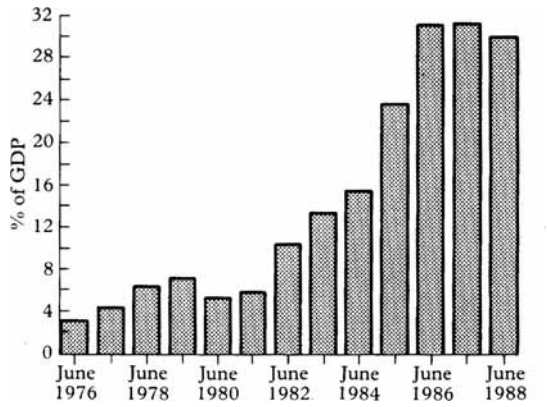

FIG. 13.4 Net external debt, Australia

Note: Net external debt is defined as total gross debt less official reserve assets and Australian lending overseas.

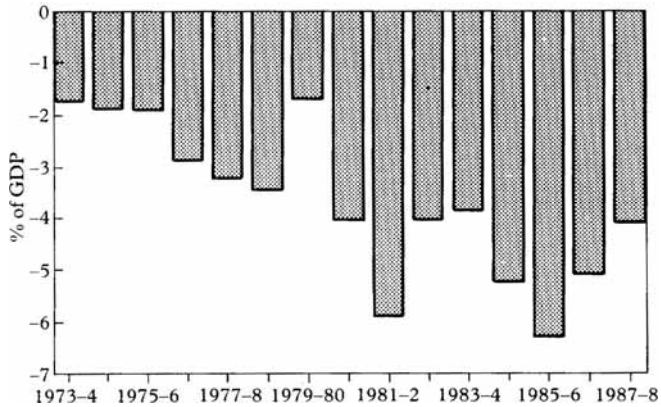

FIG. 13.5 Balance on current account, Australia

to push ahead with the 'Accord process'. Two days after the 1986 budget, when it became clear that the old wage-fixing system would not survive, the ACTU began formulating a workable alternative: the Accord Mark III. The ACTU proposed a new 'two-tier' system which was accepted by the Arbitration Commission in March 1987. Under the first tier the Commission awarded a flat-rate $10 increase to all workers. Under the second tier workers with industrial muscle could win increases up to a maximum of a further 4 per cent by making enterprise-level productivity agreements. This partial decentralization was reinforced by the August 1988 national wage case which awarded increases that were conditional on unions agreeing to a

'structural efficiency' principle which foreshadows industry- and enterprise-level negotiations with employers aimed at radically revising and modernizing all awards. This was widely viewed as a decisive shift away from centralized wage fixation.

In summary then, there have been five wage-fixing episodes since the onset of stagflation. These are shown in Table 13.2. So has the Accord improved Australia's macro-economic performance? Figs. 13.6 and 13.7 and Tables 13.3 and 13.4 show movements in some of the main indicators. A cursory examination seems to support the public perception that the Accord brought some significant improvements. Clearly, in judging whether the Accord was successful in tackling stagflation, its first three years are of special significance. For it was only during this period that stagflation was the focus of the government's policy and that the Accord's stagflation-orientated incomes policy was being pursued.

TABLE 13.2 Wage-fixing systems under stagflation in Australia

1972–4	Decentralized	Rapid wage increases
1975–81	Centralized	Wage indexation: undermined by discounting CPI adjustments and lack of government support
1981–2	Decentralized	Further rapid wage increases
1983–7	Centralized	Wage pause followed by CPI indexation: some discounting in exchange for social wage benefits
1987–9	Partially decentralized	Two-tier system and structural efficiency reviews

Both unemployment and inflation improved markedly in the early years of the Accord. In two years inflation was halved from its 1982–3 high of 11.5 per cent although it then began to rise again (Fig. 13.6). This was accompanied by strong employment growth. The government met its promise to create 500,000 jobs in its first three years, and by the end of 1987–8, over 1 million jobs had been created. Increased participation (notably by women) reduced the impact of employment growth on the rate of unemployment. Nevertheless by June 1986 unemployment had fallen from a peak of 10.2 per cent to 7.8 per cent (Fig. 13.7). The new jobs were fuelled by strong growth in the Gross Domestic Product. Negative growth in 1982–3 was followed by three years of continuous GDP growth at almost 5 per cent per annum (Table 13.3). The contractionary policies announced in the 1986 budget can be seen in reduced GDP growth and a slight increase in unemployment during 1986–7.

All in all the first three years of the Accord seem to provide strong prima-facie evidence of the advantages of corporatism.

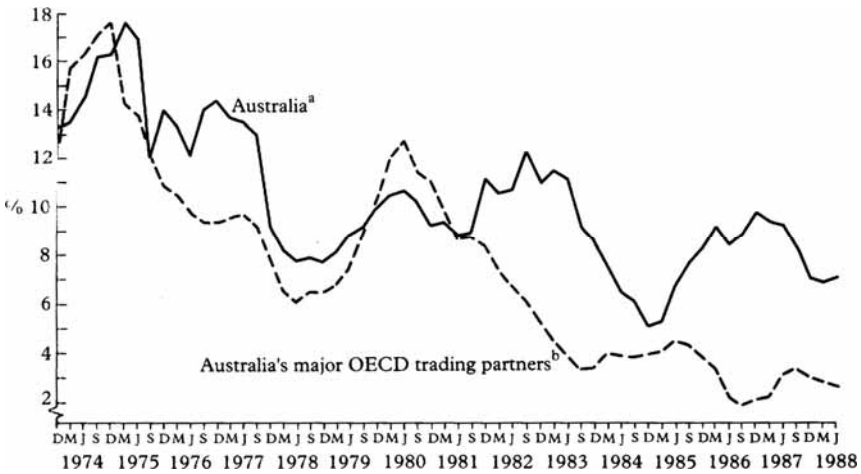

FIG. 13.6 Inflation rates, Australia: quarterly data, percentage change on a year earlier

Note: D = December; M = March; J = June; S = September.

However international comparisons shed some doubt on this. While there is no doubt that Australian GDP and employment growth were remarkably strong by international standards (Table 13.3 and Table 13.4), neither inflation nor unemployment compare especially favourably with OECD norms. As Fig. 13.6 shows, the fall in inflation that occurs during the Accord's first two years parallels a similar fall in the inflation rates of Australia's major OECD trading partners (G7 plus New Zealand) which occurred more than a year earlier. Moreover in 1985–6 Australia's inflation rate rises sharply while that of its major trading partners is stable and falling. Table 13.4 shows that since receiving a boost from the 1982 recession, Australia's unemployment has never managed to fall below the OECD average.

Given the ambiguity of international comparisons I will turn to Matti Pohjola's suggestion and review the literature that has compared the performance of the different wage-fixing systems that have operated in Australia under stagflationary conditions. The Accord's strategy for tackling stagflation is built on the assumption that wage indexation will restrain the aggregate growth of real wages. Hence whether indexation does in fact reduce aggregate real wage results is an important test of its success.

Lewis and Kirby conduct such a test by developing a theoretical model of the wage determination process which attempts to estimate the equilibrium real wage which could be expected on the basis of labour supply and demand. They conclude that over the first two years of the Accord 'equilibrium real

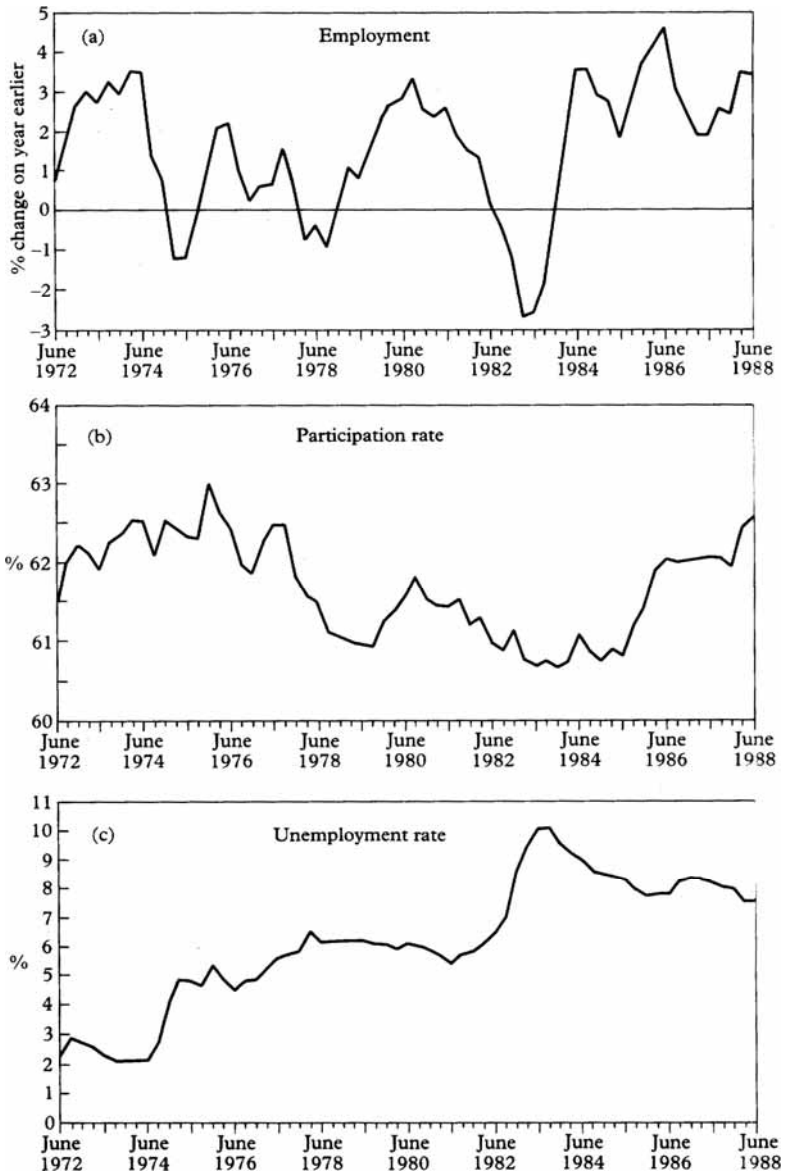

FIG. 13.7 Labour market aggregates, Australia

Note: Old series linked to new series at Feb. 1978 and Apr. 1986.

TABLE 13.3 Real GNP in Australia

Year	Australia[3]	Sum of seven countries'[3]
1978–9	4.8	4.3
1979–80	1.9	2.4
1980–1	3.3	0.9
1981–2	1.8	0.8
1982–3	–1.2	0.5
1983–4	4.9	4.7
1984–5	4.9	3.8
1985–6	4.6	3.0
1986–7	2.7	2.6
1987–8	3.6	n/y/a

[a] Data refer to GDP at 1984–5 price levels.
[b] Financial year data based on sum of seasonally adjusted quarterly data. This column comprises the United States, Japan, West Germany, France, Italy, Canada, and the United Kingdom using 1980 exchange rates and price levels.
Source: National sources and OECD *Quarterly National Accounts*.

wages were over 5 per cent below what would have been expected from previous experience' (Lewis and Kirby 1987).[21]

A number of studies draw similar conclusions about the earlier 1975–81 indexation period. In particular Gregory (1986) measures the difference between actual average weekly earning outcomes and those that would be expected if the Arbitration Commission were simply a veil for market forces. Two wage equations are developed to estimate expected market outcomes. One is based on unemployment and the other is based on overtime data. Both suggest that 'overall, the 1975–81 indexation experiments kept the rate of growth of nominal wages below levels that might have been expected'. Furthermore, 'these gains were not lost in a subsequent wage rebound' (S70). Dornbusch and Fisher (1984) reach a similar conclusion about the rate of growth of real wages. They estimate that indexation reduced real wages by a little more than 2 per cent in the period 1975–80. This is similar

[21] Simes and Richardson (1987) and Pissarides (1987) have produced alternative wage equations which challenge these results. According to Simes, Lewis and Kirby have failed adequately to specify labour market pressures. However Simes himself has been criticized. John Beggs, an economist at the Australian National University, believes that Simes's own work would show that the Accord had been effective if he based his results on a non-parametric test.

TABLE 13.4 International employment and unemployment

Year[3]	Civilian employment (% change on previous perioid)								Unemployment rate (OECD standarized) (% of labour force)								
	United States	Japan	West Germany	France	United Kingdom	Italy	Canada	Aus-tralia[0]	United States	Japan	West Germany	France	United Kingdom	Italy	Canada	Aus-tralia	Total OECD[d]
1978–9	3.7	1.1	1.0	n/a	2.9	0.9	4.0	0.1	5.8	2.2	3.3	5.6	5.4	7.3	7.9	6.3	5.1
1979–80	1.8	1.2	1.5	n/a	0.6	1.4	3.8	2.3	6.2	2.0	2.9	6.1	5.2	7.5	7.3	6.1	5.3
1980–1	0.5	1.0	0.2	n/a	–3.0	1.1	3.0	2.7	7.4	2.2	3.6	6.7	8.3	7.5	7.2	5.8	6.2
1981–2	0.1	0.8	–1.2	n/a	–2.6	–0.4	–0.1	1.2	8.3	2.2	5.3	7.8	10.7	8.3	8.7	6.1	7.4
1982–3	–0.6	1.4	–2.0	–0.1	–1.7	–0.3	–2.9	–1.7	10.1	2.5	7.3	8.2	12.0	8.9	12.3	8.8	8.7
1983–4	3.8	0.9	–0.6	–1.4	1.1	0.4	2.8	0.9	8.2	2.7	7.5	8.9	12.2	9.7	11.3	9.6	8.3
1984–5	2.9	1.0	0.5	–1.2	1.7	0.5	2.5	2.8	7.2	2.6	7.2	10.1	11.4	9.9	10.9	8.5	7.9
1985–6	2.0	0.5	0.9	–0.5	0.9	0.6	3.3	3.8	7.0	2.7	6.9	10.2	11.1	10.6	9.9	7.9	7.8
1986–7	2.5	0.9	1.0	0.1	1.2	0.1	2.0	2.3	6.6	2.9	6.4	10.6	11.0	n/y/a	9.4	8.2	7.6[e]
1987–8	2.6	1.6	n/y/a	n/y/a	n/y/a	n/y/a	3.7	3.0	5.7	2.7	n/y/a	10.4	9.3	n/y/a	8.1	7.7	n/y/a

[a] Seasonally adjusted.
[b] Excludes agricultural and non-market sector employees.
[c] Data based on ABS Cat. Nos. 6202.0 and 6203.0.
[d] Total OECD comprises Canada, the United States, Japan, Australia, Austria, Belgium, Finland, France, Germany, Italy, The Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom.
[e] Preliminary.

Source: OECD *Quarterly Labour Force Statistics* and OECD Main Economic Indicators (national sources are also used where necessary to update civilian employment data).

to Lewis and Kirby's (1987) finding that equilibrium real wages were reduced by 2.6 per cent during 1975–81 with little evidence of a subsequent 'catch-up' effect.

If these studies hold up for the 1975–81 indexation period they provide important support for the claim that the 1983–7 indexation period was also effective in reducing real wages. For during the 1975–81 period, wages drift outside the system reduced the downward effect of indexation on real wages and ultimately undermined it. Partial discounting of full CPI indexation which began just twelve months after the system was introduced put pressure on unions to make up the difference outside the system. During the 1983–7 period the Commission has explicitly sought to minimize wages drift by rigorously enforcing its 'no extra claims' ruling. And when discounting of full CPI indexation has taken place it has generally been offset by social wage improvements[22] thereby taking pressure off unions to move outside the system. Furthermore the 1983–7 indexation period did not end in a decentralized wages explosion like its predecessor but rather in a managed partial decentralization which maintained a cap on aggregate wage outcomes. It seems reasonable to suggest, therefore, that the Accord will be at least as effective as the 1975–81 system in reducing real wages. Given the assumption that employment growth is, at least in part, a function of real wage restraint,[23] these findings imply that the Accord has been responsible for at least some of the 1 million jobs that have been created under its auspices. A comparison of Australian employment growth with that of the major OECD economies (Table 13.4) suggests a similar conclusion. In 1988 Treasurer Keating could claim that 'our rate of job growth is unmatched in the Western world' (1988: 2). Since the economic claims that are made on behalf of corporatist systems generally rest first and foremost on their employment performance, it is fair to conclude that the Australian Accord should join the ranks of the corporatist 'star performers'.[24]

Of course, in the Accord's own terms, job creation was only one of two key objectives. With falling real wages, the second key objective—the mainrtenance of living standards—seems to be out of reach. But this ignores the importance of the social wage trade-offs mentioned above. In fact the government is keen to point to the statistics in Table 13.5 which show that while both award rates and average earnings have fallen in real terms during

[22] Tax cuts, pensions, family allowances, and the introduction of occupational superannuation and universal health insurance have been prominent examples of social wage improvements which have been traded off for reduced real wages.

[25] In the late 1970s this assumption was hotly debated in Australia, but it is now widely accepted. See the *Australian Financial Review,* 26 Sept. 1988.

[24] Further supportive evidence for the efficacy of the Accord comes from two studies by Beggs and Chapman (1987a and 1987fc) who argue that it has significantly reduced strike activity. Through both an international comparison and a model of previous Australian experience they show that changing macro-economic conditions account for only 40% of the decline in strike activity during the first three years of the Accord.

TABLE 13.5 Wages and household income in Australia
(% change on preceding year)

	1982–3	1983–4	1984–5	1985–6	1986–7	1987–8	1988–9[3]
Employment	–1.9	0.9	3.2	3.7	2.9	3.1	2.8
At constant (1984–5) prices[0]	0.2	–1.9	–0.6	–3.3	–3.6	–3.0[a]	–1.0
Average award rates of pay							
Average earnings (national accounts basis)[b]	2.0	–2.4	0.8	–1.9	–1.9	–0.6	1.3
Household disposable income	–0.2	3.9	2.3	2.8	0.2	2.1	3.0
Household disposable income (per capita)	–1.8	2.6	1.1	1.4	–1.3	0.6	1.5

[a] Forecast.
[b] Non-farm sector.
[c] Deflated by the private consumption deflator.

the life of the Accord, average real household disposable income and (except for one year) average real household disposable income per capita have shown reasonable growth.

However even measuring the performance of the Accord with respect to both employment growth and the maintenance of average living standards is somewhat restrictive. Bob Rowthorn (Chapter 4 above), for example, has suggested that wage dispersion should also be taken into account. He rightly argues that people do not only want work. They want well-paid work.

There has been a wide-ranging and inconclusive debate about whether the Australian arbitration system has led to more egalitarian wage dispersion.[25] Current official wisdom holds that there is nothing especially unique about the structure of Australian wage relativities.[26] And it is certainly not clear that periods of centralized wage fixation have compressed wage relativities *vis-d-vis* other periods. For example there is evidence that relativities widened in 1953–67 (when the basic wage plus margins system might have been expected to compress them), that they were compressed in 1967–74 (when the relatively free reign of market forces might have been expected to widen them), and that they widened again in 1975–82.[27]

[25] For recent reviews of the literature see Gill (1987a) and Hancock Committee (1985: iii, appendix II).

[26] See Hancock Committee (1985: iii. 11–15) and National Labour Consultative Council (1987: 14).

[27] For the first two periods see Gill (1987fc). Presumably part of the compression in 1967–74 is due to the Arbitration Commission's implementation of equal pay for women in the early 1970s. For the third period see Peetz (1985: 16–23 and appendix C). Unfortunately Peetz does

However it does seem that the Accord has halted the expansion of relativities that preceded it. Peetz (1985: 20) has shown that during its first two years the Accord has maintained existing relativities. The flat dollar increases awarded in the 1987 and the 1988 national wage cases may slightly compress wage relativities. But even if they do not, it is not necessarily appropriate to criticize the Accord for failing to generate a more egalitarian wage dispersion. Because what really matters is the dispersion of total income. Given that die willingness of the Accord partners to trade off real wage reductions for social wage improvements has been an important feature of the Accord's success, this is of fundamental importance. Indeed the original Accord sees fiscal rather than wages policy as the main vehicle for achieving redistributive measures. In light of this, wage dispersion is not really an appropriate measure of the Accord's success.[28] Unfortunately the work needed to establish whether the Accord has compressed or widened total income dispersion has yet to be done. Prima facie the government's record is ambiguous. Some initiatives, such as the introduction of Medicare, where a flat-rate premium for health insurance was replaced by a fixed-rate percentage of income, have had a progressive effect on income dispersion. Others, such as income tax cuts where the top marginal rate was reduced from 60 per cent to 49 per cent and the bottom rate from 25 per cent to 24 per cent, have been regressive.

13.4 INDUSTRIAL RESTRUCTURING

Since the mid-1980s stagflation has started to fade in the OECD countries as both unemployment and inflation slowly decline. Instead, attention has begun to focus on another, perhaps more fundamental, economic transformation: far-reaching industrial restructuring in the advanced capitalist countries. There have been a number of heralds of this transformation. Michael Piore and Charles Sabel have been especially influential. Piore and Sabel (1984) and Sabel (1982) argue that a combination of international pressures from the newly industrialized nations and domestic consumer demand is forcing manufacturers in the advanced capitalist countries to abandon the old 'Fordist' mass production methods in favour of 'flexible specialization'.

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not distinguish between the contributions of the 1975–81 and the 1981–2 periods to the widening of relativities, although evidence of a regressive change in income distribution from 1978–9 to 1981–2 suggests that the latter period made an important contribution, as might be expected.

[28] This also casts doubt on Freeman's (1988) attempt to link corporatism, or even just centralized wage bargaining, with low wage dispersion.

In Australia this general imperative has been given special urgency by the balance-of-payments deficit: whatTreasurer Keating (1988:4) calls 'Australia's number one economic problem'. And few on either the left or the right would disagree. Even though commodity prices have now recovered to their 1984–5 level, the long-term downward trend means that Australia cannot continue to rely on its abundant natural resources to support a high standard of living (Fig. 13.8). Rather the traditionally complacent and highly protected manufacturing sector will have to become more internationally competitive in order both to find new export markets and to fend off growing import penetration. The government has recognized that this will require a wholesale micro-economic reform programme of industrial restructuring that aims to improve the productivity of individual firms. And, in order to allow firms to make these adjustments, the government has placed a high priority on achieving greater labour market flexibility (Department of Industrial Relations 1988).

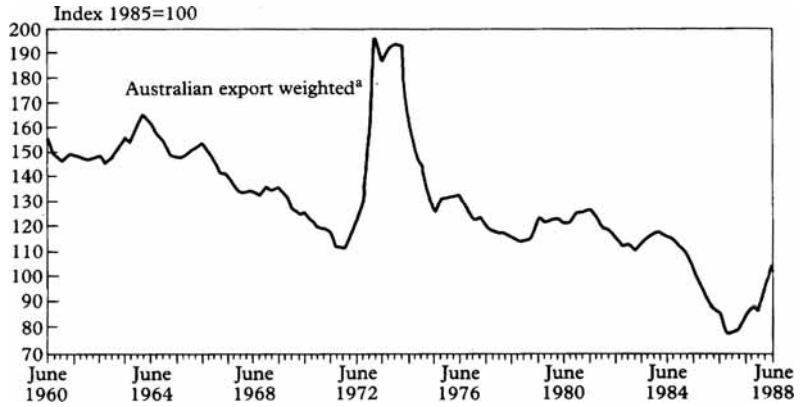

FIG 13.8 Real commodity prices, Australia

[a] Nominal US$ non-fuel commodity prices weighted by Australian export, value deflated by the United Nations US$ index of manufactured export unit values

But surely the greatest enemy of labour market flexibility is corporatism. Whatever the merits of corporatism in dealing with the macro-economic implications of stagflation, surely industrial restructuring calls for a decentralized, liberal industrial relations system. But the extraordinary thing about Australia is that Accord-style corporatism *has* proved compatible with the micro-economic goals of industrial restructuring. In fact the Accord, or rather the 'Accord process', has proved more than compatible with these goals. It has become the driving force in bringing them about.

To understand how this has been possible requires an understanding of

the crucial role being played by the unions. And this in turn requires an understanding of the fundamental transformation of the union movement that the Accord has set in place. Less than ten years ago the Australian union movement looked quite similar to its British counterpart. This provides a benchmark against which the extent of the transformation of Australian unionism can be measured. Whereas in Britain the Thatcher government thought industry could only be modernized by undermining the unions, the Hawke government is showing that modernization can be achieved with the unions in the driver's seat.

The Accord has made the unions more confident and forward-looking. The old defensive unionism has been left behind and in its place is a new agenda-setting unionism which aims, in the words of one of its architects, to provide 'a fundamental challenge for leadership to the nation' (Carmichael 198(5). The decision to shift to the two-tier wage-fixing system of the Accord Mark III was a key expression of this transformation. In particular it was an expression of both the importance which the ACTU attaches to its role as a national agenda-setter, and its willingness to adapt to the continually changing conditions imposed by the world economy in order to maintain this role.

But the shift to the two-tier system was not the only expression of this transformation. More important, in a way, was the ACTU's 1986 Mission to Western Europe. Senior unionists visited Sweden, Norway, Austria, Germany, and Britain. In a comprehensive report entitled *Australia Reconstructed* they highlighted the advantages of the Swedish and Norwegian industrial relations systems and emphasized the importance of 'strategic unionism'. Strategic unionism requires the development of an integrated long-term strategy. To this end *Australia Reconstructed* recommended that 'Australian unions should continue to develop the co-ordinated national approach to policy formulation and implementation under the umbrella of the ACTU' (ACTUATDC 1987: 189). At its 1987 biennial conference the ACTU adopted the recommendations of *Australia Reconstructed* as its policy.

Australia Reconstructed also served to re-emphasize union concern with industry development. Industry policy has been an abiding theme of the unions in the Accord period (Ewer 1988). In the early years of the Accord, special importance was attached to the formulation of tripartite industry plans in which employer and union commitments were given in return for government assistance. Now, however, the unions are shifting their focus from negotiations with government to direct negotiations with employers which aim to reach agreement on plans to modernize production at both an industry and an enterprise level.

For its part, the government believes that this sort of employer-union co-operation is essential to the success of restructuring. Confrontation between workers and employers would not only slow restructuring and increase its costs. More importantly for the government, it would inhibit the

development of a 'productive consciousness' in which ongoing changes to improve productivity are widely accepted.

In September 1986 an agreement in principle was reached between the ACTU and the employer peak councils (the CAI and the BCA) on the need to improve efficiency and productivity at an industry and enterprise level. This became incorporated into the two-tier wage system the following year. In order to win the second tier increase of 4 per cent, unions had to offer productivity improvements of an equivalent value. These typically involved the giving up of so-called 'restrictive work practices'. Two further agreements have since been reached between peak union and employer organizations. The tripartite National Labour Consultative Council (1987) has sponsored a report on *Labour Market Flexibility* in the Australian Setting, and the CAI and the ACTU (1988) have issued *a Joint Statement on Participative Practices.*

The report by the National Labour Consultative Council (NLCC) examines the implications for Australia of the OECD's (1986) Dahrendorf report on labour market flexibility. 'Labour market flexibility' has become something of a catchphrase in the second half of the 1980s. The trouble is that it actually refers to a great many different things. The NLCC report identifies six distinct elements of labour market flexibility which are of special relevance to Australia: the general level of wages, relative wages, non-wage labour costs, labour mobility, work practices and work patterns, and education and training.[29] The difference between these elements is crucial. For while some, such as more flexible relative wages, may be incompatible with corporatism, others, such as a more flexible general level of wages, may depend on it. The NLCC report argues that: 'In comparison with other countries Australia's experience has been above average in terms of both [external] labour mobility and the responsiveness of wages generally to unemployment and inflation, and on a par with many countries in relative wage flexibility and developments in labour on-costs. . . . However . . . significant deficiencies remain in Australia's education and training systems and in the area of work organisation and working patterns' (NLCC 1987: 1). This assessment is confirmed by OECD (1988*b*).

The government believes that greater flexibility in these two deficient areas does not require wholesale deregulation (Department of Industrial Relations 1988: pp. ii, 8). On the contrary, it argues that an at least partially centralized industrial relations system is needed to maintain aggregate wage restraint, systematic restructuring in all industries, and union co-operation. Moreover a centralized system is needed to develop national training standards. Indeed in a number of countries, studies which are sympathetic to corporatism have increasingly focused on training issues in particular as one

[29] See NLCC (1987: 13). The Dahrendorf report also discusses conditions of labour such as employment protection, and regulations relating to the labour market. OECD (1986: 9 ff.).

of the only areas where unions can secure an input in an increasingly hostile and deregulated economic environment.[30]

To rectify these deficiencies the government has launched a labour market reform programme which has two main elements: reform of post-school education and training, and award restructuring. The first is principally being pursued by the government with the support of the unions. The second is principally being pursued by the unions with the support of the government. Both take as their starting-point the importance of encouraging the growth of a highly skilled work-force which is seen as a prerequisite for maintaining a high-productivity, high-wage economy. But again, it is the unions that have been setting the overall agenda. Indeed, according to the *Australian Financial Review,* it is a 'seasoned communist', ACTU Assistant Secretary Laurie Carmichael, who 'has been responsible over the past year for driving the debate on training and skilling in industry to the center of the micro-economic reform agenda' (6 Oct. 1988: 48).

Post-school education and training reform is focusing on the higher education system. Under new funding arrangements the government is seeking to make the higher education system more responsive to national economic priorities. Institutions will be required to submit 'educational profiles' outlining their goals and how they relate to national economic priorities (Department of Employment, Education and Training 1988a: 29). 'Performance indicators' are being developed to measure the achievement of these goals (p. 85). The government is also planning a large expansion of the higher education system. Forty thousand new student places are to be created in the 1989–91 triennium. This will mean that, by the end of the triennium, 110,000 new places in higher education (an increase of 43 per cent) will have been created since the government came to power in 1983 (Department of Employment, Education and Training 19886: 3). To offset the cost of this growth a special graduate tax is being introduced. A tripartitely controlled training fund levied on employers is also being considered.

Awards are legally enforceable documents which contain sets of job classifications, pay rates, and conditions of employment for all individuals employed in an occupation or industry. Many awards contain obsolete classifications and conditions, some dating back to the beginning of the century, which inhibit flexible working patterns and the efficient use of new technology. But the goal of the unions in promoting award restructuring is not merely to update these classifications and conditions. More importantly, the unions are seeking to establish a career structure within each award so that the lowest-paid worker can, by obtaining the right qualifications,

[30] See Finegold and Soskice (1988) for a discussion of this in the British context, and Crouch (1988), who takes a more general Europe-wide view.

progress to the highest-paid job. Progression along this career path will be linked to the acquisition of clearly established skill levels and pay rates will be organized so as to create an incentive for each worker to acquire superior skills.

Of course by allowing long-established conditions and working practices to be altered the unions are giving up an important source of power. Job classifications have typically been the final trenches into which unions retreat in order to defend their members. For this reason the unions, or rather the metal unions which are taking the lead, have set two preconditions which employers must agree to before award restructuring can proceed. The first is a guarantee of job security. The second is a commitment to the establishment of in-plant consultative committees which will be 'the prime implementation instrument for the changes proposed under the restructuring' (Harrison 1988). These committees will have an ongoing existence. The unions envisage that they will subsequently become responsible for training programmes. They mark the first systematic attempt to establish plant level co-determination in the private sector in Australia. The Metal Trades Federation of Unions see them as 'the basic building block of industrial democracy'(1988: 4).

Although the metal unions were the first to begin implementing award restructuring, the 'structural efficiency' principle which the Arbitration Commission laid down as a prerequisite for wage rises in the 1988 national wage case has ensured that there will be a systematic restructuring of all awards by 1990.

The structural efficiency principle requires all unions and employers to commit themselves to industry- (and in some cases enterprise-) level negotiations to restructure their awards. There is no denying that this, along with the attempt to link pay rates to the skill needs of particular industries., implies a more decentralized wage-fixing system. But does it imply a less corporatist system? I think not. For one thing wage bargaining has only been partially decentralized. Wages will still be subject to a maximum aggregate outcome which will be a product of centralized negotiations. In the 1988 wage case this aggregate figure was largely determined by negotiations between the government and the ACTU prior to the Commission's hearings. In any case, wages are not the only thing that matters. Centrally negotiated framework agreements on productivity, labour market flexibility, and participative practices are also important manifestations of corporatism. Indeed the growing willingness of employers to negotiate these sorts of agreements at both an economy-wide and an industry level suggests that, for the first time, an explicit class co-operation component is emerging from the Accord process, marking the beginning of a fully tripartite Australian corporatism.

13.5 FUTURE PROSPECTS

Finally, I want to assess whether the conditions underpinning the Accord are strengthening or weakening. That requires an assessment of the state of the key parties in the Australian industrial relations system: the unions, the employers, the Arbitration Commission, and the Labor government. Having done that I want briefly to speculate about where an ongoing Australian corporatism may lead.

The last section highlighted the major transformation which has taken place within the Australian union movement. The shift from a defensive sectional unionism to a strategic unionism in which the ACTU is the key corporatist bargaining partner is dependent on the consolidation of a strong centralized organization. We saw in section 13.2 that strong centralized organization has three components. Two of them—organizational unity and concentration of power—have been historically weak in Australian unions. Both are now strong.

Following the consolidation of a single peak council in the early 1980s, organizational unity is now being further strengthened by a concerted ACTU-led effort to amalgamate as many as possible of the small craft unions into about twenty large industrial unions. The government has backed this objective by changing the industrial relations legislation to make amalgamations easier and by asking the smallest unions (with less than 1,000 members) to explain why they should not have to amalgamate.

Whether concentration of power will be diminished by the partial decentralization of wage bargaining that is taking place is open to debate. There is no doubt that wage claims continue to be the most important bargaining chip in the hands of the unions. Although the ACTU remains a major player in determining the aggregate outcome of wage rounds, it is clear that power in this area is being somewhat decentralized. But it seems likely that the ACTU's growing influence on the overall macro-economic agenda more than compensates for this. A recent survey of the most influential people in Australia lists ACTU Secretary Bill Kelty as 'one of the two most important decision-makers in Australian politics'.[31] Either way, throughout the Accord period, concentration of power has been much greater than at any previous time.

Ironically it is the one component of centralization which was historically strong that is now causing concern at die ACTU. According to survey data compiled by the Australian Bureau of Statistics, membership density has fallen from 49 per cent in 1982 to 46 per cent in 1986.[32] And it is falling in

[31] *'The Australian Financial Review,* 6 Oct. 1988: 48: 'The ACTU Secretary must be counted as one of the two most important decision-makers in Australian politics, sharing the mantle with his close friend and ally, the Treasurer.'

[32] An alternative official series based on union returns shows membership steady at 55%. The

a period of strong employment growth during the tenure of a Labor government. Worse still, union membership in growth industries and amongst young workers is especially low (ACTU 1987: 15). It may be that the unions are losing a generation of workers. *Future Strategies for the Trade Union Movement* outlines the ACTU's (1987) response to these problems. The ACTU's strategy focuses on amalgamations to bring about larger better-resourced unions, improved union services including new financial services such as the 'ACTU Privilege Card' which offers credit facilities and cheap home loans, and an expensive publicity campaign to improve the image of the union movement.

Overall then, for the immediate future, the preconditions for strong centralized union organization have been enhanced, although, in the longer term, much will depend on the ACTU's success in reversing falling membership density.

But there is another threat to union unity which cannot be ignored. Six years of corporatism have led to growing discontent amongst sections of the rank and file. In particular, divisions have emerged in the all-important metal workers' union where leaders who have begun to articulate this discontent have come into conflict with others who are leading the industrial restructuring process. So far these developments have not been too damaging. However, the possibility of union leaders losing touch with their members is an ever present danger in a corporatist system. At its worst this can result in union leaders mobilizing their central power to discipline, rather than represent, their members. The ACTU recognizes this. *Australia Reconstructed* emphasizes that the most successful corporatist countries combine both central co-ordination and strong local organization and work-place involvement (ACTU/TDC 1987: 176–8). But the point does not get the attention it deserves.

Furthermore, with a tight labour market and growing dissatisfaction after six years of real wage reductions, it would clearly be possible for a strong union to lead a 'break-out' from the centralized wage-fixing system which would result in wage 'explosions' similar to those that occurred in 1973–4 and in 1981–2. When the domestic airline pilots went on strike in August 1989 there was a widespread fear that this was about to happen. Rejecting a national wage case decision that granted all workers a 6 per cent wage rise with extra increases for the low paid, the already highly paid pilots demanded a 30 per cent increase. Heavy-handed opposition to their claim came not only from the airlines, but also from the government[33] and the ACTU. This

ACTU (1987: 11) believes that 'the lower figure is the more accurate of the two, although it does slightly understate the true figure'.

[33] The government provided military aircraft to help break the strike and backed a common law action in which the court ruled that the pilots' industrial action was illegal.

effectively marginalized the pilots, and after three months—a very long dispute by Australian standards—it was clear that they had been completely defeated. Despite fears about the precedents being set by government action against the strikers, other unions remained united in their opposition to the pilots' demands.

In contrast to the unions the employers are as divided as ever. These divisions were exacerbated by militant 'New Right' employers in the mid-1980s who set up yet another peak employers' organization. National wages cases demonstrate the extent of the divisions. At the 1988 national wage case, ten separate employer submissions were made to the Arbitration Commission (1988: 24–35) ranging from opposition to the very existence of the arbitration system to support for the ACTU's wage claim. However, the fact that some employer organizations were prepared to support wage increases at all was seen as evidence of a growing preparedness to play the corporatist game. In fact the ACTU had been keen to encourage direct negotiations with the employers prior to the hearings.[34] A growing acceptance of corporatism on the part of some employers seems to be part of a trend. It is assisted by the fact that the New Right push seems to be running out of steam. The trend can be seen in the willingness of the CAI to negotiate agreements with the ACTU on issues such as participative practices, and is especially clear in the metal industry where the Metal Trades Industry Association (1986) has proposed a 'Compact' with the metal unions.

Although it was neither a sufficient nor a necessary condition for the emergence of corporatism, the Arbitration Commission has provided a useful ce.ntral forum through which to channel corporatist wage bargaining. The new Industrial Relations Act is the first comprehensive attempt to rewrite the legislation in this area since the original Conciliation and Arbitration Act was passed in 1904. In the main it merely updates and streamlines the much amended older Act. However it does make one significant change. The new Act allows for 'certified agreements' between unions and employers which will allow individual employers to make special deals on wages and conditions so long as they meet a Commission-administered test of the public interest. The Commission has always been able to certify consent agreements. But by formally authorizing a procedure which allows parties to opt out of generally applicable wage-fixing principles, the new procedure tends to undermine the Commission's ability to provide institutional support for a centralized wage-fixing system.

Finally, what about the Labor government? Prime Minister Hawke's July 1987 election victory, which brought the Labor Party an unprecedented third consecutive term of government, has guaranteed that the

[54] 'The ACTU . . . purposefully tried to bring employers into the accord bargaining process . . . broadening the incomes strategy into a three-way accord of unions, government and employers.' *Australian Financial Review,* 5 Sept. 1988: 5.

transformations wrought by the Accord will be more than a passing phase. But there is a growing threat to the party's electoral strength which is at least in part a function of the Accord's success. Falling real wages and an increased profit share have led to a widespread perception that the government is more concerned about its big business 'mates' than it is about the woes of workers. As a result some of Labor's core working-class supporters are deserting the party. The July 1987 election was indicative. The government won only by increasing its vote in a few carefully targeted marginal seats. In some of its traditional strongholds its vote fell sharply, although not by enough to lose the seat. This was widely interpreted as a protest vote by the party faithful. However voting studies show that this sort of protest vote can quickly become an entrenched habit. The loss of working-class support was also apparent in a series of by-elections, and in the 1988 defeat of the twelve-year-old NSW Labor government. The federal government has responded to these developments by emphasizing the social justice components of its policy. But further deterioration in the balance of payments throughout 1989 compounded the problem and weakened the government's reputation for sound economic management.

What would happen if Labor lost power? The public involvement aspects of corporatism would almost certainly come to an end.[35] But if the labour market parties continue to grow into corporatism, a more attenuated version based on class co-operation may continue to exist. Even this is doubtful, however. The Liberal Party's industrial relations policy was formulated at the height of New Right influence and it commits the opposition to a far-reaching deregulation of the entire industrial relations system. The unions are trying to guard against this by developing a stronger relationship with employer organizations. But nascent corporatist sympathies amongst the employers could quickly dissipate in a new electoral environment. In the end, the only guarantee of Australian corporatism is the continued commitment of the two original Accord partners. If either union support waned or the government fell, corporatism would be seriously weakened. The second problem is more likely to strike first.

But suppose Labor keeps winning at the polls, and the current industrial restructuring process is successfully completed, what then is the future for Australian corporatism? The restructuring process is focused on the traditional welfare goals of the labour movement: the creation and equitable distribution of wealth. Yet the labour movement has always identified with a second set of goals as well: participatory goals. And the Accord process clearly carries the potential for major advances on this second front. Even in the midst of a balance-of-payments crisis, the unions have been able to use award restructuring to entrench important rights for workers and their

[35] Although the ACTU (1987: 37) thinks that 'it should still be possible to "trade" [with non-Labor governments], albeit on less advantageous terms'.

representatives at the work-place. Union ambitions extend well beyond this, however. In *Australia Reconstructed* the ACTU (ACTU7TDC 1987: 21–3) recommends the establishment of a tripartitely administered National Development Fund. This is an early attempt to deal with a general problem which will sooner or later confront unions operating in a corporatist system. Wage restraint in the present is predicated on the expectation of returns in the future. But capital investment is a major determinant of that future. And so unless unions can exercise some control over investment, it may not be rational for them to exercise restraint. The expansion of union-controlled superannuation funds is providing another vehicle through which investment decisions can be influenced. Treasurer Keating (1988) has suggested that: unions should see the funds as a source of 'institutional muscle' which could be used to protect their power in a more 'hostile political environment'.

The National Development Fund proposal is clearly inspired by Swedish experiments in economic democracy. There are certain advantages to having second bite at the cherry. The Accord was a successful adaptation by the Australian labour movement of failed British efforts to institutionalize a social contract. In time, maybe the same can be done with failed Swedish efforts to inaugurate economic democracy.

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