CORPORATISM AND FOUL ECONOMIC WEATHER: RATIONAL CO-OPERATION, COMPARATIVE PERFORMANCE, AND THE SWEDISH CASE.

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Thesis presented for PhD at the London School of Economics

Political Science

1993

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ABSTRACT.

The thesis examines corporatism from a rational cooperation, comparative and case study perspective. It analyses how corporatism distributes gains in "fair economic weather" and costs in "foul economic weather". Fair or foul weather outcomes are determined more by factors exclusive of the degree of corporatism. Corporatism aims to achieve a pareto-optimal exchange between three actors: Labour, Capital and Government, who confront collective action problems. Labour, in particular, is fragmented into high and low pay workers. Foul weather results in a relative inequality shift, and the iterative and centralised bargaining solutions to the prisoners' dilemma become much more susceptible to "insider-outsider" behaviour in foul weather. The analysis suggests that growth-based corporatism breaks down in foul weather, and reassesses the role of centralisation and encompassing group behaviour.

The thesis examines corporatist performance in fair and foul economic weather empirically using cross-national data. A typology is defined and performance is compared in terms of economic indices and indices which reflect general societal welfare. Corporatism succeeds more in terms of sustaining employment and societal welfare than in terms of producing superior economic performance and avoiding foul weather. Sweden is identified as a critical case study of corporatism in foul weather. The evolution of Swedish corporatism is analysed and the operation of the model is shown to have been dependent on fair weather and the distribution of gains. Decentralisation of wage bargaining in Sweden provides strong support for the theorised impact of foul weather and insider-outsider problems of conditional cooperation involving high and low pay workers. But the Swedish system also makes a series of efficient adjustments to foul economic weather. Swedish comparative wage restraint performance is examined empirically and shown to be remarkably strong. It is not therefore possible to conclude that rational cooperation has broken down in Sweden.

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Acknowledgements.

This thesis was funded through a Commonwealth Scholarship, 1989-1992. Many thanks to the British Council and the Association of Commonweath Universities. Acknowledgements also to the Government Department and staff of the LSE, the Swedish Consulate in London, the students and staff of International Hall (University of London) and to my supervisor, Professor Patrick Dunleavy, who was always very helpful. Apologies to students at Kings College, University of London, and the former Polytechnic of Central London (now University of Westminster), where I taught some of this material. Thanks to Bengt Blomqvist, Martin Hornqvist, Annika Hilding, and other Swedes who endured my questions. Thanks to Desmond King and Brian Barry, and the ECPR Essex Summer School. Any mistakes are, of course, my own.

TABLES.

FIGURES.

Glossary.

AMS	Swedish Labour Market Board
FRG	Federal Republic of Germany
KTK	Swedish Federation of Salaried Local Government Employees
LO	Swedish Confederation of Labour
LF	Swedish Association of Local Authorities
Metall	Swedish Metalworkers' Union
OECD	Organisation for Economic Cooperation and Development
PTK	Swedish Federation of Salaried Employees in Industry and Services
SACO	Swedish Central Organisation of Professional Employees
SAF	Swedish Employers' Confederation
SAP	Swedish Social Democratic Party
SAV	Swedish National Agency for Government Employers
SIDA	Swedish International Development Authority
SIF	Swedish Union of Clerical and Technical Employees in Industry
SKAF	Swedish Local Government Workers' Union
SR	Swedish Organisation of State Employees
TCO	Swedish Central Organisation of Salaried Employees
TCO-S	Swedish TCO Section for State Employees
UK	United Kingdom
USA	United States

INTRODUCTION.

'Surely there is no problem in the social sciences that is more important than that of explaining why people cooperate'. *Jon Elster*.[1]

At one time, in the early 1980s, much was being claimed for corporatism as a "third way" between free market and centrally planned political economies.[2] Yet by the late 1980s most of the *political science* voices seemed to fall silent with a growing consensus that the hopes for corporatism had not been realised.[3] This is despite an apparent consensus among some contemporary Nordic and European *economic commentators* that corporatism had succeeded in many respects in achieving a cooperative solution to

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[1] Jon Elster, Making Sense of Marx, Cambridge, Cambridge University Press, 1985, p.366.

[2] According to Polanyi, the "third way" is that of *reciprocity*: giving and receiving according to need. Karl Polanyi, The Great Transformation, Boston, Beacon Press, 1957. See Jon Elster and Karl Ove Moene, 'Introduction', in Jon Elster and Karl Ove Moene (eds), Alternatives to Capitalism, Cambridge, Cambridge University Press, 1989, fn.4, p.3.

[3] Most of these doubts arose from the impact of recent "disorganising tendencies" on corporatist forms of organisation, explored by Stuart Lash and John Urry, The End Of Organised Capitalism, Cambridge, Polity Press, 1987, and Claus Offe, (John Keane, ed), Disorganised Capitalism. Contemporary Transformations of Work and Politics, Cambridge, Polity Press, 1985. For a summary of the increasing scepticism in the literature, see Markus M. L. Crepaz, 'Corporatism In Decline? An Empirical Analysis of the Impact of Corporatism on Macroeconomic Performance and Industrial Disputes in 18 Industrialized Democracies', Comparative Political Studies, 25, 2, 1992, pp.139-41.

the problems of restructuring in the modern OECD economic context of generalised relative contraction.[4]

If corporatism is a third way, and it is an intriguing possibility to explore, then it may be a feasible political project to build a cooperative society in which all actors interact in such a way that their collective wellbeing is maximised. In formal terms, corporatist cooperation maximises collective utility over time and is an attainable equilibrium solution to the prisoners' dilemma afflicting economic interest groups in a capitalist economy.[5]

But can corporatism really work? In formal theory, its stability depends primarily on iteration. But it is also vulnerable to a wide range of instabilities, such as informational and monitoring problems, backfiring trigger-strategies, high discount rates, complex multiple-actor scenarios, and so forth. It seems, on the face of it, that these

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[4] Tarantelli led the way in transposing corporatism for the economics profession. See Ezio Tarantelli, 'The Regulation of Inflation in Western Countries and the Degree of Neo-Corporatism', Economica, 7, 1983, pp.199-238. For recent examples, see Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?', Oxford, Clarendon Press, 1992; Richard Jackman, 'Where Corporatism Works', LSE Quarterly, 3, 3, Autumn 1989, pp.213-235; and Bob Rowthorn and Andrew Glyn, 'The Diversity of Unemployment Experience since 1973', in Stephen A. Marglin and Juliet B. Schor (eds), The Golden Age of Capitalism. Reinterpreting the Postwar Experience, Oxford, Clarendon Press, 1990, pp.218-266. For the economic flavour of the current times, see Larry Elliott, 'OECD warns that rising unemployment could destroy social cohesion of West', The Guardian, June 2, 1993; Colin Narbrough, 'OECD cuts growth forecast as concern over jobs escalates', The Times, June 2, 1993; Philip Bassett, 'OECD sees jobless total hitting 36m', The Times, July 21, 1993.

[5] Here we refer to distributional struggle and wage cost prisoners' dilemmas. See K. Schott, 'Investment, Order, and Conflict in a Simple Dymamic Model of Capitalism', in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon Press, 1984, pp.81-97.

instabilities must overwhelm any cooperation based around a complex equilibrium solution which is, after all, constantly changing. It seems that corporatist cooperation must be very difficult to sustain. And yet in the case of Sweden we have an apparently corporatist system surviving for at least 20 years.

The explanatory limits of formal theory are in part compensated for by institutional theory, which shows that corporatist cooperation is strengthened by factors such as high centralisation and institutional interlocking, and by the support of left wing incumbency. A number of institutional mechanisms or their functional equivalents are sometimes viewed as necessary to secure the cooperation of member trade unions with a wage restraint policy that underutilises potential bargaining strength. As seen by Regini, these are:

1. Centralisation and representational monopoly to limit alternative sources of authority and compel obedience to wage policies.
2. The "insulation" of internal decision-making from members' demands.
3. Use of solidaristic ideology.[6]

Trade unions, employers and governments do not act in a vacuum. Institutional theory complements game theory because it suggests that "rational" choices are made within a framework delineated by size and encompassingness, institutional memory, high levels of organisation and professionalism, and so on, which strengthen the capacity of the actors to reach conditional cooperation. The awakening of the "new institutionalism" in economics reflects a recognition that the utility-maximising, selfish and rational

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[6] M. Regini, "The Conditions for Political Exchange: How Concertation Emerged and Collapsed in Italy and Great Britain", in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon, 1984, p.130.

individual of economic theory makes choices in a structured environment.[7]

The possibility of corporatism as formal cooperation is greatly enhanced by institutional theory, but despite the validity of the institutional arguments there is currently empirical evidence of corporatism becoming increasingly subject to instability. The travails of Sweden, seen as perhaps the best example of a corporatist political economy, and its apparently increasing trend towards liberalisation and labour market decentralisation, raises two seperate hypotheses. First, it confirms the institutional argument because it shows the dependency of corporatism on institutional factors. Second, it confounds the institutional argument because it shows that, with no change in institutions, cooperation breaks down in a prolonged and deepening economic crisis and that in fact current institutions need to be redesigned and deepened.

A key explanation for the breakdown of corporatism in countries such as Sweden is undoubtedly loss of centralisation caused by the rise of new actors such as public sector and white collar unions. The fact that these new groups have not entered into the centralised framework devised by the employers and the blue-collar workers leads to increasing economic difficulties, encourages the alternative strategy of more decentralised, market-led wage determination practices, and challenges the stability of left-wing incumbency. This explanation of events seems a valid and important part of the picture and we can conclude that it is correct.

Are there any reasons to believe that corporatism is a third way, and that it has the capacity to adapt to economic crisis? Ironically, we will find that most of the reasons do not fully

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[7] For an introduction to the "new institutionalism", see Sanford M. Jacoby, 'The New Institutionalism: What Can It Learn from the Old?', Industrial Relations, 29, 2, 1990, pp.316-359.

support the institutional argument. While it is true that the logic and mechanics of cooperation have been admirably combined by the institutional approach the mechanics appears to be stuck at the level of centralisation. The evidence for rational cooperation seems, on the other hand, to support a blend of encompassing viewpoint and decentralised interaction.

1. Growth-Based Corporatism.

The role of economic growth in relation to corporatism has perhaps not had the attention it might deserve. It has been taken for granted that economic growth determines *in some sense* the conditions for cooperation. Low economic growth is seen as an obvious contributory factor in the breakdown of corporatism. But since corporatism is supposed to maximise economic growth, and since game theory postulates that cooperation produces maximum collective gain (in prisoners' dilemmas by definition), and since corporatist strategies are designed to translate short-term restraint into long-term gain, the impact of low economic growth on cooperation could be viewed from a purely rational choice perspective as a *less* significant causal variable than developments such as the rise of new actors and increasing decentralisation.

According to game theory, or the mathematics of utility maximisation, it doesn't seem that cooperating to distribute costs should be any different, in terms of rational choice, to cooperating to distribute gains. Corporatism shouldn't break down because "the numbers change" from positive to negative. An experienced observer of the labour market might point out that it is clear that in a growing economy there is more output and hence more income to distribute among the workers, easing the problems of making pay-offs for cooperation and realising high expectations of success. In a contracting economy, actors can only be rewarded with fewer payoffs until the recovery, and high expectations cannot be met. But the game theorist could, it

seems, reply that within the bounds of even a contracting economy, a rational decision to cooperate would remain the best collective strategy and a functioning corporatist system would simply adjust expectations to the reduced payoffs.

In this thesis we examine separately the operation of corporatist strategies in economic conditions of growth and stagnation and conclude that centralisation and corporatism operate in distinctly different ways in these two contexts. The centralisation explanation, while important to the stability of rational cooperation, is something of a red herring.[8] Centralisation may contribute to the strength and stability of cooperation, but "economic weather conditions" in turn determine the effectiveness of centralisation. In "foul economic weather", centralisation, like the Emperor's clothes, becomes revealed as a rather transparent artifice. Whereas local actors might accept and passively cooperate with an encompassing plan that delivers constant gains, when it delivers costs the central plan must somehow compel their cooperation. For local actors the cost of agreeing literally increases and they have to be much more

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[8] Which poses a puzzle to the rational choice theorist, as Wallerstein writes, '[T]he real puzzle is not the instability of cooperation in the absence of centralised bargaining but the instability of centralised bargaining itself'. Michael Wallerstein, 'Centralised Bargaining and Wage Restraint', American Journal of Political Science, 34, 4, November 1990, p.997. As a start to unravelling this puzzle, see Goran Therborn, 'Lessons from "Corporatist" Theorizations', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.27, who points out that corporatism ("*sotto voce*") is all about class organisation, consensus, and associative action, and cannot be reduced to the "anodyne" variables of size, encompassingness and centralisation. For an earlier statement, see Colin Crouch, 'Conditions for Trade Union Wage Restraint', in L.N. Lindberg and C.S. Maier (eds), The Politics of Inflation and Economic Stagnation, Washington, The Brookings Institution, 1985, p.109; and David Cameron, 'Distributional Coalitions and Other Sources of Economic Stagnation: On Olson's *Rise And Decline Of Nations*', International Organisation, 42, 1988, pp.561-603.

involved in the decision-making process. The relative absence of such decentralised mechanisms of cooperation exposes the explanatory power of centralisation to a dependence on the distribution of gains.[9]

What exactly are "fair-weather" and "foul-weather" economic phenomenon? In *fair weather*, an economy is producing an increasing rate of growth in national income, and hence in output, productivity, competitiveness and so on. The causal determinants of this underlying growth rate have less to do with cooperation and more to do with long-wave innovation and technology trends, the availability of raw materials, the strength of competitors, and so on. In *foul weather*, each of these factors conspires to cause the rate of growth of the economy to contract, so that in the worst case it shifts into negative figures. This can happen even to a successfully functioning corporatist system. In the absence of cooperation, a struggle over the distribution of incomes then ensues.[10]

With the aid of these concepts, we can speak of cooperation as either maximising gains under fair weather or minimising costs under foul weather. Either way, cooperation over the long term should still be rationally preferred. In this thesis, however, we

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[9] As Olson argues, short of abolishing the freedom of organisation itself, it is impossible to prevent narrow fragments of encompassing organisations from lobbying and electing leaderships that will adopt a redistributive policy stance (at the cost of overall economic efficiency). Mancur Olson, 'A Theory of the Incentives Facing Political Organisations', International Political Science Review, 7, 2, 1986, pp.165-89. See also Michael Kendix and Mancur Olson, 'Changing Unemployment Rates in Europe and the USA: Institutional Structure and Regional Variation',in Renato Brunetta and Carlo Dell'Aringa (eds), Labour Relations and Economic Performance, London, Macmillan, 1990, pp.40-67.

[10] Leo Panitch used the term "fair weather" in relation to corporatism. Leo Panitch, 'Recent Theorizations of Corporatism - Reflections on a Growth Industry', British Journal of Sociology, 31, June 1980, pp.159-87.

focus on how the absence of economic growth can undermine the foundations of cooperation *even if "new actors" are not around to complicate the bargaining environment and even if the system is highly centralised.*[11] But why should lack of economic growth destabilise a cooperative equilibrium or cause a decrease in centralisation and lead to a more right-wing incumbency? *If it does, we hope to show, this raises questions about the dependence of the cooperative equilibrium on distributing gains in fair economic weather.*

According to prisoners' dilemma modelling, cooperation should maximise economic growth. It is at first difficult to see why actors who already enjoy the benefits of strong stability-inducing variables such as centralisation and left-wing incumbency should cease cooperating simply because economic growth slows down. They should be cognizant that they are already enjoying the maximum benefit from the underlying level of growth. In rational choice terms, a strategy of wage-restraint produces positive sum outcomes if the outcome of distributional conflict, that is to say, the alternative strategy outcome, is worse. Thus, *it simply does not matter if an actor is worse off than they were before cooperating, instead it matters if they are better off than they would be by not cooperating.*

If the fair weather cooperative equilibrium is dependent on an exchange of "restraint" for gains and compensatory payoffs, then a shift to foul weather will require a change from distributing growth in income to distributing real costs. This

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[11] A similar argument is made by Karl Hinrichs, Claus Offe and Helmut Wiesenthal, 'Time, Money, and Welfare-State Capitalism', in John Keane (ed), Civil Society and the State. New European Perspectives, London, Verso, 1988, pp.221-43. For example: 'It ... appears highly unlikely that any union - even the most comprehensive, solidaristic and united - will be able to pursue strategies which aim solely at the collective (as opposed to the average individual) interest of wage-earners in a high aggregate level of employment', p.228.

change in the game complicates the difficulties inherent in n-person cooperation in ways that are not apparent in fair economic weather.

A counter argument that we have to deal with is that a successful corporatist system might produce growth itself.[12] Corporatist cooperation is designed to produce wage restraint combined with a host of active policies designed to maximise economic restructuring, which results in lower inflation, a stronger export sector, lower distributive conflict, higher profits, greater innovation and flexibility, higher investment, full employment, stable demand, and economic growth (so the story goes). In this understanding of the cooperative equilibrium it produces a constantly increasing income and employment share for the cooperators.

This is an assumption that we question. Even if all this were true, it may be that other factors contribute with equal or greater impact to the *overall* level of growth of these factors. Much of the impetus to growth is given by factors such as efficiency and innovation, flexible systems of education and labour utilisation, high responsiveness to technological change, and so on. But even an efficient corporatist system might

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[12] This is the argument of Alexander Hicks, 'Social Democratic Corporatism and Economic Growth', Journal of Politics, 50, 1988, pp.677-704; and Peter Lange and Geoffrey Garrett, 'The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974-1980', Journal of Politics, 47, 1985, pp.792-827. Wage restraint from the unions ensures cost competitiveness in industry, and social democratic political power ensures capital investment and restructuring, so that corporatism produces economic growth. As Hicks writes: 'Organisationally, and governmentally, strong labour movements may emerge as major social benefactors, as purveyors of relatively rapid income growth, and also of somewhat more equal distribution of income' (p.700). See also, W. Streeck, "Qualitative Demands and the Neo-Corporatist Manageability of Industrial Relations: Trade Unions and Industrial Relations in West Germany at the Beginning of the Eighties", British Journal of Industrial Relations, 14, 1981, pp.149-69.

encounter "foul economic weather". Corporatism might not simply need to survive long enough for the in-built success mechanisms to begin to function.

2. Methodological Approach.

The thesis mixes three methodological approaches to the study of corporatism. As the first step, we use rational choice and game theory to provide a model of the corporatist political economy. The game theoretical material aims to go beyond existing models of corporatist cooperation in two ways: first of all we make a distinction between cooperation to distribute gains and cooperation to distribute costs, and argue that the common understanding of corporatism as a "growth-based" strategy that rewards cooperation with economic and political gains is flawed if it does not recognise the possibility of relative gains. Once we accept that the gains from cooperation can only be understood relative to the gains from non-cooperation it becomes theoretically meaningfull to speak of a successful corporatist system even in a context of poor economic performance. Corporatism need not always produce growth in output and productivity in order to be said to be functioning at maximum efficiency.

Secondly, in our game theoretical model we attempt to model a little more closely the complexity of the real world. Instead of a model in which the principle actors are simply labour and capital, we make a distinction between three major actors: labour, capital and government. Within the labour actor itself, we make a further distinction between centralised actors (the peak federation) and lower level trade union actors, and within the universe of trade union actors we make yet a further distinction between low and high pay groups. Then we take these actors and model the rationality of their cooperation when the only feasible objective is to minimise costs and not distribute gains. We thus model corporatism in "foul economic weather".

The result of this theoretical modelling shows that in foul economic weather the difficulties for achieving cooperation are considerably increased. This raises a further provocative question about what is actually being achieved through existing examples of corporatist cooperation in fair economic weather.

The second methodological approach we employ is cross-national comparison. The empirical testing of political-economic hypotheses using OECD data from the advanced capitalist economies has been a fruitful avenue in the past two decades. In terms of corporatism and its relative performance, a large number of empirical studies demonstrated that corporatist countries appeared to achieve a superior mix of employment, inflation, economic growth and welfare objectives. The development of the current prolonged economic crisis has placed increasing doubt on these achievements. Our objective is to reassess these explanatory associations by making a distinction between the performance of corporatism in fair economic weather and foul economic weather. We examine the achievements of corporatism in the late 1970s and 1980s to see if corporatism has continued to warrent the claims for its efficacy made earlier.

But cross-national comparison has its limits, principally derived from reliance on aggregate, quantitative data and a relatively small sample of countries. In social science terms, by searching for probabilistic generalisations regarding the association of empirical variables and relying on inductive forms of explanation we are forced to oversimplify and ignore historical and particularistic factors.[13] The Calmfors-Driffil thesis, for example, argues for an empirical link between decentralisation and low unemployment largely on the basis of the

[13] For a general discussion, see A. Przeworski and H. Teune, The Logic of Comparative Social Inquiry, New York, Wiley, 1970.

performance of Japan, Switzerland and the US.[14] It could be argued that Japan and Switzerland in fact utilise a high degree of bargaining coordination and that the US is better described as a country in which there is no bargaining at all.[15] With such a small sample the presence of one or two outliers, or the coincidence of performance in one direction or another due to factors wholly unrelated to corporatism, renders causal generalisations at the very least worthy of much closer examination.

The marginal utility of cross-national comparison has declined in the past decade.[16] This leads us to the third methodological approach used in this thesis: the critical case study method. In this approach cross-national comparison provides a vital map, helping us to identify cases which provide an exception to otherwise predicted outcomes.[17] The cross-national

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[14] L. Calmfors and J. Driffill, 'Bargaining Structure, Corporatism and Macroeconomic Performance', Economic Policy, 6, 1988, pp.14-61.

[15] See Andrew Henley and Euclid Tsakalotos, 'Corporatism and the European Labour Market after 1992', British Journal of Industrial Relations, 30, 4, 1992, p.581.

[16] See F.G. Castles, 'Comparative Public Policy Analysis: Problems, Progress and Prospects',in F.G. Castles, Franz Lehner, Manfred G. Schmidt, Managing Mixed Economies, New York, Walter de Gruyter, 1988, pp.197-223; F.G. Castles, 'Introduction. Puzzles of Political Economy', in F.G. Castles (ed), The Comparative History of Public Policy, Cambridge, Polity Press, 1989, pp.1-15.

[17] Following MacIntyre, who suggests that in order to determine whether or not the theory really fits the facts we examine cases where a will to achieve the same end was achieved with greater or lesser success in different contexts. We can then identify the features which "explain" the success of failure in achieving the outcome. A. MacIntyre, 'Is a Science of Comparative Politics Possible?', Comparative Politics, 1978, pp.46-65. For a discussion of the critical case study method, see F.G. Castles, The Working Class And Welfare. Reflections On The Political Development Of The Welfare State In Australia And New Zealand, 1890-1980, Sydney, Allen and Unwin, 1985.

examination of the performance of corporatism in the late 1970s and 1980s points to Sweden as a critical case. Sweden appears to be a country which is strongly corporatist and which has entered a comparatively severe episode of foul economic weather. The economic difficulties experienced by Sweden, moreover, were clearly not primarily caused by any breakdown of corporatism even if they were exacerbated by its subsequent deterioration. According to our game-theoretical model Sweden should have encountered increasing difficulties in sustaining corporatist cooperation between high and low pay groups, with stronger actors preferring to redistribute costs to weaker actors rather than continuing to maintain a cooperative and collective distribution of costs.

Sweden certainly, on the face of it, fits the model but the real question is whether the breakdown of cooperation and subsequent trend to decentralisation is explicable in terms of the theory we have developed or whether an alternative explanation is better. According to our game theoretical model, Sweden only approximated a corporatist system which would have been capable of distributing costs effectively in sustained foul weather. The alternative explanation is that corporatism in Sweden broke down because the bargaining environment itself changed dramatically from the 1970s, in which case the older Swedish-style corporatism would have been expected to otherwise deal effectively with the foul economic weather.

To settle this question of the importance of centralisation and of the efficacy of institutional arrangements in foul economic weather we make a detailed case study of Swedish corporatism. This thesis argues that corporatism in foul economic weather must function not through reliance on greater centralisation per se, but through reliance on bargaining institutions of a sort which link the strategies of local and industrial actors to the encompassing strategies identified as

necessary to solve prisoners dilemmas. In this respect, recent developments in the formulation of wage bargaining strategies by the blue collar unions and their peak federation in Sweden suggest such a possibility.

The major conclusion is that the expectations of a corporatist system in foul economic weather have to be revised. It can be a burden to view corporatism as a "growth strategy" when this may be actually impossible. The expectation that it should, to be judged successful, turn around foul economic weather and produce a virtuous circle leading to continually improving fair economic weather is equally mistaken. Corporatism should be viewed as a type of *political economy* which maximises gains in fair economic weather and minimises costs in foul economic weather while combining both socialist objectives and the use of market mechanisms. The determinants of these "weather" conditions may not be as amenable to cooperation as has been thought.

CHAPTER ONE.

CORPORATISM AS RATIONAL COOPERATION.

> '"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 what it does'. *Goran Therborn*.[1]

Corporatism is, at heart, all about collective action involving labour, capital and government. Is corporatism then essentially the same as socialism? The more successful Nordic Social Democratic political economies, where socialism and labour movements enjoyed political strength, were based on class cooperation or collective action applied within the context of a capitalist economy. Hence the familiar concept of the "Historical Compromise".

Collective action is hardly at the theoretical heartland of socialism. Przeworski and Sprague, for example, provide us with a list of socialist goals.[2] The first is to abolish exploitation, understood primarily as the extraction of surplus labour (in the

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[1] Goran Therborn, 'Lessons from "Corporatist" Theorisations', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, pp.24, 25.

[2] Adam Przeworski and John Sprague, Paper Stones: A History of Electoral Socialism, Chicago, The University of Chicago Press, 1986, p.22.

form of profit) from wage labourers forced to sell themselves, like commodities, for a wage which tends to merely reproduce their labour power in a free market. The second is to end the division of society into classes. The third is to remove all political and economic inequalities. The fourth is to avoid market failures or wastefulness in capitalist production. The fifth is to eradicate injustice and prejudice. The sixth is to emancipate not only the working class, but all humanity. Only with the seventh goal are we enjoined, almost as an after-thought, to build a political economy based on cooperation.

Somehow, within socialist theory, collective action is imagined to take care of itself and lead naturally to cooperation. Marx had made a distinction between what can be called "labourism" and "socialism", the former referring to more narrowly economistic collective action. Elster interprets Marx as arguing that workers would only become conscious of their "collective interests" through the process of organising into trade unions and pursuing their more limited "individual interests". But for Elster class consciousness is precisely the ability of individual workers to overcome the temptation to free-ride on the organisational activity of their fellows.[3]

Class consciousness enables effective collective action through trade union organisation. But in socialist theory class action and collective action are conflated in a way which does not take account of a higher order collective action problem: the prisoners' dilemma. To paraphrase Hardin, while "market failure" is a case of the invisible hand slapping us in the face "collective action failure" is a case of class action kicking us in the guts.[4]

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[3] Jon Elster, Making Sense of Marx, Cambridge, Cambridge University Press, 1985, pp.347, 349.

[4] Russell Hardin, Collective Action, Baltimore, The John Hopkins Press, 1982.

1 - Corporatism As Rational Cooperation

Collective cooperation is clearly an important ingredient in socialism. We could go so far as to argue that corporatism is the only viable organisational form of socialism, precisely because it is the only organisational form that directly addresses collective action problems. Unless these problems are addressed, socialism must fail to deal adequately with distributive conflict, and its economic consequences. But many of the goals of socialism as stated by Przeworski and Sprague are not necessarily those of corporatism. Corporatism and socialism are not interchangeable concepts. In fact, corporatism is also compatible with capitalism: it is compatible with the presence of classes (actors), and inequality, and consists of an equilibrium distribution of utility among the actors which is regarded by them as being preferable to the next alternative.

1.1. Actors and Processes.

Corporatism, defined in terms of rational cooperation, is a type of political economy in which the societal actors labour, capital and government, reduce distributional struggle and wage-cost prisoners' dilemmas through processes of political bargaining and cooperative mechanisms. The outcome is the maximisation of collective material well-being.

This use of the term corporatism does not depend on the actors being organised in any particular way, whether in centralised unions, as in Sweden, or in decentralised work stations, as in Japan. It does not refer to the structural design of the system, or the degree of centralisation, it refers the relationship between the actors, or to an ideal-typical societal representation of the equilibrium solution to the n-person prisoners' dilemma. Such a solution would be consensual because it would be fair, efficient and maximising. No country could ever realise this ideal of equilibrium cooperation, but they might do well enough at approaching it in fair economic weather.

1 - Corporatism As Rational Cooperation

A corporatist system, by our definition, is simply a country (measured in terms of its strength of corporatism) which by cooperative processes manages to restrain wage earners within the space delineated by the need for investment, and growth in output. Theoretically, it does this by an equilibrium distribution of income between capitalists, government, and other wage earners that maximises future income growth for all the actors and is achieved through a series of complementary restructuring interventions, welfare payoffs and redistributions.[5]

Structurally, then, a corporatist system can be analytically subdivided into the three fundamental actors in a modern political economy: government, labour, and capital. Government as an actor refers to all the expenditure needs of government, such as wages (hence public sector workers are located within the sphere of this actor), and public policy (hence incumbent parties are located also within the sphere of this actor), that are a cost exacted in fiscal terms from the output growth of the export-trading sector and the sheltered sector. Labour as an actor refers to all wage earners (private sector blue and white collar), who operate in the competitive sector and the sheltered sector.[6] Capital as an actor refers to all the actors who take

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[5] This is a somewhat different interpretation from the "classic" view of corporatism, as centralised and monopolistic interest "intermediation", and as policy-making concertation between state and interest groups. See Phillippe Schmitter and Gerhard Lehmbruch (eds), Trends toward Corporatist Interest Intermediation, London, Sage, 1979; Gerhard Lehmbruch and Phillippe Schmitter (eds), Patterns of Corporatist Policy-Making, London, Sage, 1982. On the 19th century etymological origins of corporatism, see Colin Crouch, 'Pluralism and the New Corporatism: A Rejoinder', Political Studies, 31, 1983, p.460.

[6] These terms are derived from Gosta Edgren, Karl-Olof Faxen, Clas-Erik Odhner, Wage Formation and the Economy, London, Allen and Unwin, 1973. See Chapter Five.

their income almost entirely from stocks, shares, interest, managerial salaries and properties, and so forth.

The issue is, then, how can labour, capital and government cooperate in a corporatist system? Here we are interested not so much in the particular, historical, institutional forms of cooperation, which clearly differ from country to country, but in the substantive theory of cooperation.

1.1.1. Labour and Capital.

In neo-pluralist and neo-Marxist theory (they are pretty much the same and meet in the middle), a structural conflict is hypothesised between labour and capital in which capital bears a decisive influence. The neo-pluralists accept the neo-Marxist argument that power is distributed unequally among interest groups, and that interests favouring capital can be more pervasive and powerful than interests favouring labour.

It is not unusual, then, to find the view expressed that corporatism is primarily in the interests of capital, since it involves wage restraint and is designed to produce economic outcomes which necessarily benefit capital.[7] Unions are seen as either being duped or unable to resist corporatist tendencies. It has also been argued that the organisational work unions are required to do to compete with capital is more difficult in comparison to that of employers' associations, because workers are such a numerical majority and large groups are difficult to organise. Labour and capital do not have an equal capacity to form collective organisations to realise their material interests, hence corporatism is a form of institutional subjugation of labour by capital.[8]

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[7] For example, L. Panitch, "Trade Unions and the Capitalist State", New Left Review, 125, 1983, pp.21-44.

[8] Claus Offe, Contradictions of the Welfare State, London, Hutchinson, 1984, and Disorganised Capitalism, Cambridge, Polity Press, 1985.

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Classical Marxist theory argues that there is an inherent, structural conflict of interest between labour and capital in a capitalist economy. Capitalism involves an unavoidable degree of class struggle between incompatible interests. Neo-Marxist theory accepts that the structural conflict is assuaged by the mixed economy, the welfare state, and strong economic growth. But whether the conflict is open or assuaged, it is held to exist by both Marxists and neo-pluralists.

Despite the validity of these arguments, however, it is possible to argue that corporatism serves the interests of labour as well as that of capital. Marin, for example, argues that corporatist arrangements offer the possibility for labour to strengthen its position vis-a-vis capital.[9] Walter Korpi and Gosta Esping-Andersen argue that, since governments often take responsibility as part of the corporatist bargain for maintaining the level of economic activity and promoting employment growth, corporatism improves the relative power resources of labour.[10]

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[9] B. Marin, "Austria - the Paradigm Case of Liberal Corporatism?", in W. Grant (ed), The Political Economy of Corporatism, London, Macmillan, 1985, pp.89-125.

[10] W. Korpi, The Democratic Class Struggle, London, Routledge and Kegan Paul, 1983; G. Esping-Andersen, Politics Against Markets: The Social Democratic Road to Power, Princeton, NJ., Princeton University Press, 1985. The classic statement of political exchange is Alessandro Pizzorno, 'Political Exchange and Collective Identity in Industrial Conflict', in C. Crouch and A. Pizzorno (eds), The Resurgence of Class Conflict in Western Europe Since 1968, Volume Two, London, Macmillan, 1978, pp.277-98. Colin Crouch also argues that "bargained corporatism" is an exchange relationship from which labour derives some benefit from positive-sum bargaining. See C. Crouch, "Corporatism in Industrial Relations: A Formal Model", in Wyn Grant (ed), The Political Economy of Corporatism, London, Macmillan, 1985, pp.63-88. See also Marino Regini, "The Conditions for Political Exchange: How Concertation Emerged and Collapsed in Italy and Great Britain", in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon Press, 1984, p.127; and Marino Regini, "Political Bargaining in Western Europe During the Economic Crisis of the 1980s", in Otto Jacobi et al (eds),

This is a view which is largely accepted here, since we assume that a corporatist bargain must be understood in terms of an equilibrium solution to the prisoners' dilemma of cooperation which entails a level of improvement in the welfare of both actors and which is preferable to both actors. Workers would certainly stand to gain from such cooperation as long as the distribution of gains and costs were such that workers were not simply transferring income from themselves to capitalists, but were contributing to future growth through the investment mechanism.[11] The proviso to this, however, is that labour and capital have unequal power resources: capital controls the accumulation process whereas labour only has the capacity to indirectly influence production.[12]

Economic Crisis, Trade Unions and the State, London, Croom Helm, 1986, pp.61-76. Gerhard Lehmbruch argues that "Wage restraint could ... be traded for high and stable employment as a result of a shared insight into the logic of market procedures rather than as the result of a barter transaction"; and for Walter Streeck corporatism enables trade unions to enhance their "capacity for strategy". See Gerhard Lehmbruch, "Concertation and the Structure of Corporatist Networks", in J.H. Goldthorpe (ed), Order and Conflict, p.67; and Walter Streeck, "Neo-Corporatist Industrial Relations and the Economic Crisis in West Germany", in J.H. Goldthorpe (ed), Order and Conflict, p.292.

[11] As Przeworski writes: 'The only conceivable reason for workers to consent voluntarily not to claim the entire social product is to treat current profits as a form of workers' "delegated" investment'. Adam Przeworski, Capitalism and Social Democracy, Cambridge, Cambridge University Press, 1986, p.180. On this subject, see Colin Crouch, 'Varieties of Trade Union Weakness: Organised Labour and Capital Formation in Britain, Federal Germany and Sweden', in Jack Hayward (ed), Trade Unions and Politics in Western Europe, London, Frank Cass, 1980, p.87; Kerry Schott, Policy, Power And Order: The Persistence Of Economic Problems in Capitalist States, New Haven, Yale University Press, 1984; and Bob Rowthorn, Capitalism, Conflict And Inflation, London, Lawrence and Wishart, 1980, p.134.

[12] Matti Pohjola, 'Threats and Bargaining in Capitalism. A Differential Game View', Journal of Economic Dynamics and Control, 8, 1984, pp.291-302.

Thus corporatism does not simply function to achieve by institutional means outcomes which would have been produced by the market anyway. Both capitalists and government are expected to act in specific ways under corporatism, as much so as labour. There is an apparent paradox in the way the corporatist strategy of the encompassing peak federation seems to be 'compatible with the stability of that market economy against which labour started to organise itself in the first place'.[13] This paradox is resolved when we consider that the corporatist strategy involves an exchange between labour, capital and government. As Roland Czada writes:

> '"Encompassing" unions can hardly obtain rational choice criteria from inside their organisations. If they help modernize the economy they risk dismissals and hurt their members' immediate interests; if not, they slow-down the economy and thereby infringe on the long-term interests of their membership and of the society as a whole. This dilemma can only be solved with the aid of governments'.[14]

1.1.2. The Role of Government.

Sometimes corporatism is seen as a government-led strategy, involving heavy-handed, central direction of wages policy that is designed primarily to achieve wage restraint. Wage restraint, in this view, is of little benefit to labour, and simply functions to maintain government in office and capitalists in the lifestyle

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[13] Colin Crouch, 'Conditions for Trade Union Wage Restraint', in Leon Lindberg and Charles S. Maier (eds), The Politics of Inflation and Economic Stagnation, Washington DC., The Brookings Institution, 1985, p.139.

[14] Roland Czada, 'The Impact of Interest Politics on Flexible Adjustment Policies', in Hans Keman, Heikki Paloheimo, Paul F. Whiteley (eds), Coping With The Economic Crisis. Alternative Responses to Economic Recession in Advanced Industrial Societies, London, Sage, 1987, p.45.

to which they have become accustomed.[15] Corporatism can also be seen as a form of authoritarian state direction and intervention in business decision-making.[16] In this view, corporatism enhances the directive power of the state, and is the early stages of a new, organic political economy, directed from above.

Certainly in a corporatist political economy the role of government is interventionist, in the sense that active policy measures are necessary to ensure that both labour and capital gain from their cooperation. But government cannot simply provide the solution to the problem of cooperation on its own. It is correct to attribute power and authority to the state, but it is a mistake to neglect the power of labour and capital. Although the state has some power to authoritatively enact its directives, the experiences of many countries have shown that governments prefer, if possible, not to resort to a head-on clash with strong trade unions and employers.[17]

The basic function of government is to promote social peace and capital accumulation, which requires either the satisfaction of societal interest group demands or the constraint of

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[15] Leo Panitch writes that incomes policies are 'primarily about state-induced collaboration. Above all else, [they are] a political structure designed to integrate the organised working class in the capitalist state'. Leo Panitch, 'Recent Theorizations of Corporatism: Reflections on a Growth Industry', British Journal of Sociology, 31, 2, 1980, p.161.

[16] J.T. Winkler, "The Coming Corporatism", in R. Skidelsky (ed), The End of the Keynesian Era, London, Macmillan, 1978, pp.78-87. Philippe Schmitter is another theorist who adopts a more statist and less class-analytic approach to corporatism. See P. Schmitter and G. Lehmbruch (eds), Trends Towards Corporatist Intermediation, London, Sage, 1979.

[17] It seems wise to neither underestimate the importance of "the state factor" nor to reduce corporatist theory to class relationships only. For a critical analysis, see Pierre Birnbaum, States and Collective Action: The European Experience, Cambridge, Cambridge University Press, 1988, p.112.

alternative sources of power and authority. In a capitalist economy, government is fiscally dependent upon profits in the private sector for the rents which sustain government activities. It must contend with interest groups which wield substantial economic power, and which can engage in "strike" activity (both investment strikes and labour strikes). In stagnant periods, government must walk a fine line between policies which maintain legitimacy through winning the political support of interest groups seeking privileges, and policies which force some groups to bear excess costs but also promote economic rationalisation.[18]

Government, then, may have an interest in corporatism as a means to promote collective gains, strengthen legitimacy and promote profit accumulation all at the same time. Corporatism could be a viable, long-term economic policy strategy. Government, however, is a relatively autonomous institution which acts partly as a competitive mechanism for representing the conflicting demands of labour and capital through party politics, partly as an independent actor with political and material interests in its own right, and partly as a governmental system

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[18] Most corporatist theorists interested in the role of the state focus on the fusing of the processes of interest representation and state intervention under capitalism. See C. Offe, 'The Attribution of Public Status to Interest Groups: Observations on the West German Case', in S. Berger (ed), Organising Interests in Western Europe: Pluralism, Corporatism and the Transformation of Politics, Cambridge, Cambridge University Press, 1981, pp.123-58. B. Jessop, 'Capitalism and Liberal Democracy: The Best Possible Political Shell?', in G. Littlejohn et al (eds), Power and the State, London, Croom Helm, 1978, pp.10-51; A. Cawson, 'Pluralism, Corporatism and the Role of the State', Government and Opposition, 13, 1, 1978, pp.178-98; A. Cawson, Corporatism and Political Theory, Oxford, Basil Blackwell, 1986, p.24; A. Cawson, 'Introduction: Varieties of Corporatism: The Importance of the Meso-Level of Interest Intermediation', in A. Cawson (ed), Organised Interests and the State: Studies of Meso-Corporatism, London, Sage, 1985, p.6; P.C. Schmitter, 'Neo-Corporatism and the State', in W.P. Grant (ed), The Political Economy of Corporatism, London, Macmillan, 1985, pp.32-62.

circumscribed in its economic and social policy choices by the profit criterion of capital.[19]

Its policy interests are therefore indeterminate. Government might play the role of authoritative dictator, impassive facilitator, capitalist agent, and even political wing of the labour movement. Determining its income share of the societal product could involve either a corporatist compromise with both labour and capital or an alliance with either labour or capital against the remaining actor.[20] Government is not a Hobbesean leviathan, in a corporatist exchange it can only bargain with labour and capital.[21]

To sum up the discussion, corporatism is best understood in terms of voluntary, liberal-democratic exchanges between the three actors, within the context of a capitalist political

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[19] See M. Olson, "A Theory Of The Incentives Facing Political Organisations, Neo-Corporatism and the Hegemonic State", International Political Science Review, & (2), April 1986, pp.165-89. Przeworski and Wallerstein also argue that even a Labour government is, in large measure, structurally determined (in particular during periods of economic constraint) by dependence on private capital accumulation, and unlikely to automatically respond to trade unions' distributive interests. See A. Przeworski, Capitalism and Social Democracy, Cambridge, Cambridge University Press, 1986, pp.7-46; and A. Przeworski and M. Wallerstein, "Structural Dependence of the State on Capital", American Political Science Review, 82, 1, March 1988, pp.11-29. On the relative autonomy of the capitalist democratic state, see Eric Nordlinger, On The Autonomy Of The Democratic State, Cambridge, Mass., 1981; and Charles E. Lindblom, Politics and Markets, New York, Harper, 1977.

[20] On the effectiveness of interest group influence over government, see Paul Brace, Yousef Cohen, Virginia Gray, and David Lowery, 'How Much Do Interest Groups Influence State Economic Growth', American Political Science Review, 83, 1989, pp.1297-1308.

[21] Manfred E. Streit, 'The Mirage of Neo-Corporatism', Kyklos, 41, 1988, pp.603-623.

economy.[22] Each of the three actors is dependent upon the other for their cooperation, in particular, labour and capital depend on government to obviate inefficiency and inequality produced by market outcomes.[23] These exchanges must benefit each of the three actors, but the overall context is overshadowed by the economic requirements of a capitalist economy.

1.1.3. Collective Action Difficulties.

A crucial assumption in corporatist theory is that trade union members have a collective interest in investment, price competitiveness and full employment, and that a corporatist policy of wage-restraint combined with economic policies designed to distribute costs will contribute toward realising these interests. Once realised, wages are assumed to increase at an optimal rate.

The approach taken here is to make rational choice assumptions about the actors. Hence, the actors are taken to maximise their preferences (or utility) subject to the interplay of strategies in a game-like environment. It is assumed that economic self-interest predominates. The weaknesses of such an approach are important, and must be kept in mind. Materialist rationality cannot exhaust the causes of human motivation, and this applies particularly to the conflict-ridden labour market relationship we are examining. As Peter Swenson points out,

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[22] On corporatism as liberal-democratic exchange, see G. Lehmbruch, "Liberal Corporatism and Party Government", Comparative Political Studies, 10, 1, 1977, pp.91-126; Prakash Sarangi, 'Determinants of Policy Change: A Cross National Analysis', European Journal of Political Research, 14, 1986, pp.23-44; Harold L. Wilensky and Lowell Turner, Democratic Corporatism and Policy Linkages, Berkeley, Institute of International Studies, 1987, pp.10-11.

[23] David Soskice, 'Reinterpreting Corporatism and Explaining Unemployment: Coordinated and Non-Coordinated Market Economies', in Renato Brunetta and Carlo Dell'Aringa (eds), Labour Relations and Economic Performance, London, Macmilllan, 1990, pp.174-75.

"anger" is not necessarily instrumentally rational, and nor is "solidarity".[24] Moral principles may inform behaviour which takes little or no account of material gain, behaviour which may be sacrificial or even "suicidal". Individual choice can be moulded by institutions and cultural norms, and by leadership.[25]

Despite the lack of any completely solid ground, it is assumed here that material interests in income growth, relative worth, and "social wage" gains, and political interests in power, authority and control, play a significant enough role in motivating our actors' behaviour with respect to wage restraint for useful analysis to proceed. Although moral principles may motivate behaviour which is materially "irrational" for a time, it is assumed here that this is enough of an exception to the general rule for the rational choice model to be of some use.

It is well known that trade unions face a collective action problem in cooperating to sustain a cooperative wage-restraint strategy.[26] In a classical collective action problem individuals or groups with a collective interest will not necessarily cooperate to further that interest, instead their rational

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[24] P. Swenson, Fair Shares, Unions, Pay, and Politics In Sweden And West Germany, London, Adamtine Press Limited, 1989, p.13f.

[25] Because trade unions have to organise unity and collective action, union leadership plays a significant role in shaping workers' definitions of their interests. See C. Offe and H. Wiesenthal, "Two Logics of Collective Action", in C. Offe, Disorganised Capitalism: Contemporary Transformations of Work and Politics, Cambridge, Polity Press, 1985, pp.170-220.

[26] M. Olson, The Logic Of Collective Action, Cambridge, Mass., Harvard University Press, 1965 and The Rise And Decline Of Nations, New Haven, Yale University Press, 1982; see also Peter Lange, "Unions, Workers and Wage Regulation: The Rational Bases of Consent", in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon, 1984, pp.107-108, and S. Lash and J. Urry, 'The New Marxism of Collective Action: A Critical Analysis', Sociology, 18, 1, 1984, pp.33-50.

interaction has unintended consequences, so that there is a paradox in which individual and collective rationality are in conflict.

In deciding whether to contribute toward a policy of wage-restraint, individual unions first have to calculate the effect of their own wage-rate on the overall rate of inflation, unemployment, and investment, which are indivisible and non-excludable collective goods (or bads). They also have to consider the responses of capitalists and government. If noncooperation has low visibility, low imitative effects, and there are few sanctions available, and if the prospects of cooperation by other trade unions are high, then defection is obviously the best strategy.[27] The union enjoys a free ride while everybody else fights inflation.

Importantly, defection is still the best strategy if the prospects of cooperation by other trade unions are low. The leadership can judge that a sacrifice on the part of their union will bring minimal benefit in terms of lower inflation, while extracting a substantial cost in terms of wage restraint from the union members.[28] On the other hand, a militant strategy from the union, if the firm can survive by raising prices to compensate, can net a share of whatever gains are available, and the costs can be passed on to retiring workers, the unemployed, and social

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[27] See P. Dunleavy, "Group Identities and Individual Influence: Reconstructing the Theory of Interest Groups", British Journal of Political Science, 18, 1988, pp.25-27.

[28] For the argument that each trade union reasons its own wage setting behaviour will not affect the general level of prices, see: R.F. Elliott and J.L. Fallick, "Incomes Policies, Inflation and Relative Pay: An Overview", in J.L. Fallick and R.F. Elliott (eds), Incomes Policies, Inflation and Relative Pay, London, Allen and Unwin, 1981, pp.251-52; E. Tarantelli, "The Regulation of Inflation in Western Countries and the Degree of Neo-Corporatism", in A.A.C. Silva, Economic and Social Partnership and Incomes Policy, Faculdade De Ciencias Humanas Da Universidade Catolica Portuguesa, 1984, pp.41f.

transfer recipients. Defection will produce maximum gain for the members while the costs will be distributed among the membership of society as a whole.

How could individual trade unions ever cooperate, then, in a corporatist wage restraint policy? In institutional theory, centralisation provides the solution, since centralisation reduces the independence of local wage bargaining units and in effect "redesigns the bargaining table". Mancur Olson's work on the logic of collective action showed that large encompassing interest organisations should be expected, if they act rationally, to take into account the wider redistributive effects of their economic strategies.

Olson argued, in The Rise and Decline of Nations, that pluralist interest group activity in capitalist democracies tends to be characterised by a bias in favour of narrow distributional interests at the expense of general economic welfare, causing what he called "institutional sclerosis".[29] According to Olson, special interests have greater political influence, due to the greater ease of their effective organisation and mobilisation, and hence are able to secure protective government intervention. This "rent-seeking" behaviour then adversely affects the economy's capacity to adapt to changes in economic circumstances. The result is a reduction in efficiency and the rate of economic growth, with the social and economic consequences that follow.[30]

Olson's general argument seemed rather neatly contradicted by the experience of the corporatist countries, at least in fair economic weather as we shall show, in which large heterogeneous groups of interests were organised (into peak federations of trade unions and employers' associations), and in which they were

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[29] M. Olson, The Rise and Decline of Nations, New Haven, Yale University Press, 1982.

[30] See also, M. Olson, The Logic of Collective Action, Cambridge Mass., Harvard University Press, 1965.

also incorporated into policy strategies which did explicitly take into account the general interest.[31]

But Olson also included a proviso in his theory: the "size effect". This held that, despite being pluralist in social organisation, some societies overcame the tendency of organised interests to pursue economic strategies with little regard for the general welfare because they organised their interests into large, central federations. Such large organisations could no longer externalise the costs of their strategies and so the logic of their strategy choice changed from the pursuit of costly narrow interests to the pursuit of the general welfare. Their strategies became more encompassing.

What is important here is the proportion of income-producing capacity influenced by the cooperation or defection of a trade union. The "size effect" can be achieved in one way, by having the membership of the trade union represent a large proportion of social membership. Any good or harm the union thus does to the social interest it does, pari passu, to its own members. But note that a small organisation in terms of members might also be unable to externalise the costs of its wage-setting behaviour, if its strategies have large enough implications for the well-being of society as a whole (or directly for its own well-being). Thus, via high visibility of defection and imitative effects, a small union in terms of membership may have "size".

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[31] For critical analyses of Olson's theory, see David R. Cameron, 'Distributional Coalitions and Other Sources of Economic Stagnation', in International Organisation, 42, 1988, pp.561-603; Roland Czada, 'The Impact of Interest Politics on Flexible Adjustment Policies', in H. Keman, H. Paloheimo and Paul F. Whiteley (eds), Coping With The Economic Crisis, London, Sage, 1987, pp.20-53; Franz Lehner, 'Interest Intermediation, Institutional Structures and Public Policy', in Coping With The Economic Crisis, pp.54-82; and Peter Lange and Geoffrey Garrett, 'The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974-80', Journal of Politics, 47, 1985, pp.794-796.

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The usual point made about the size of the organisation is that centralised, unified and encompassing trade unions will be particularly conscious of the difficulties in externalising the costs of wage-push inflation and at the same time will have the institutional power to direct a cooperative agreement. The availability of an organisational capacity to knit together divergent interest meshes neatly with the more encompassing, or collective perception of the group's interests.[32]

So far, however, we have talked only about a collective action problem which is solved by centralised authority: the "Hobbessean solution".[33] While encompassing organisations might be expected to have a greater capacity to reach cooperative agreements, the truth is that centralisation as a means of achieving this aim has its limits. Lower level actors have to be convinced that the strategy is also in their interests, a condition that we will show is much more easily satisfied in fair than in foul economic weather. Moreover, the encompassing organisations themselves must somehow solve their dilemmas of interaction. Setting aside the issues of centralisation and institutional factors in general for the moment, we have to examine why actors (even encompassing actors) might overcome the perverse logic of their situation and reach a cooperative solution.

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[32] R. Czada, "The Impact of Interest Politics on Flexible Adjustment Policies", in H. Keman, H. Paloheimo and P.F. Whiteley (eds), Coping with the Economic Crisis, London, Sage, 1987, pp.20-53.

[33] Jonathan Bendor and Dilip Mookherjee, 'Institutional Structure and Collective Action', American Political Science Review, 81, 1, March, 1987, p.131; see also, Heikki Paloheimo, 'Micro Foundations and Macro Practice of Centralised Industrial Relations', European Journal of Political Research, 18, 1990, pp.389-406.

1.1.4. Iteration and Conditional Cooperation.

In game theory, the collective action problem is modelled as the "prisoners' dilemma". In the prisoners' dilemma (see Table 1.1.), non-cooperation is always the dominant strategy for all players, given the value of the payoffs. No matter whether the other players cooperate or defect, it always pays to defect.[34] Since all players have a dominant strategy, the game has an equilibrium, or a strategy vector such that no player can get a larger payoff using a different strategy while the other players' strategy remains the same. If each player expects the equilibrium to be the outcome, they will have no incentive to adopt a different strategy.

Table 1.1.

The Two-Player Prisoners' Dilemma.

		Player A.	
	COOPERATE		**DEFECT**
COOPERATE	1, 1		-2, 2
Player B.			
DEFECT	2, -2		-1, -1

Despite the existence of an equilibrium in the prisoners' dilemma, however, the outcome is not pareto-optimal. All players would prefer the outcome (C,C) over (D,D). The key to the dilemma, then, is not simply that each player reasons that "since my opponent will defect in any case I may as well defect", or even the fact that the risk of being a "sucker" is very great. It is that defection is always the dominant strategy, no matter what

[34] See R. Hardin, "Collective Action as an Agreeable N-Prisoners' Dilemma", Behavioural Science, 16, 5, 1971, pp.472-81.

the other player does. The dominant strategy produces a sub-optimal outcome for all players.[35]

Played only once, the prisoners' dilemma produces no incentive to cooperate, but game theorists have shown that iterative plays change the incentive structure. The underlying idea here is that a sufficiently large number of repeated games makes the possible gains from cooperation (C,C) appear increasingly attractive. This changes the preference order of outcomes for player A from:

$$(D,C) > (C,C) > (D,D) > (C,D);$$

to:

$$(C,C) > \{(D,C) = (D,D)\} > (C,D).$$

Several conditions have to be met, however. First, the two players must have a sufficiently large enough probability of meeting again for them to have a stake in the outcome of future interactions. Second, the potential payoff from iterated (C,C) outcomes depends on the discount ratio of future to present payoffs. Game theorists assume that the future will be less important to a player than the present, since a player tends to value payoffs less the further they are in the future, and because the probability of meeting the same opponent again decreases as the number of games increases. That is to say, your opponent may change, the game may come to an unexpected end, the payoff values might change, and so on.[36]

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[35] M. Taylor, The Possibility of Cooperation, Cambridge, Cambridge University Press, 1987.

[36] Some game theorists argue that if the game is to be played a known finite number of times the players will again have no incentive to cooperate. This is because on the last move they will have no future to influence by cooperation, so that defection is once again the best strategy. Logically it would seem that the second-to-last move would then become the next "last" move, and the game would unravel all the way back to the first move. The probability of a rational player defecting on the last move is 100 percent, but shifting to a (D,D) outcome too

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Robert Axelrod has demonstrated that the most successful cooperation strategy in a repeated two-person prisoners' dilemma is Tit for Tat (TfT).[37] TfT is a conditional cooperation strategy of cooperating on the first move and then doing whatever the other player did on the last move. Axelrod shows that for TfT to be collectively stable the next move has to be at least two thirds as important as the current move. Over iterated play, neither player could do better than TfT by reaping a one-off gain.

An important point to make about TfT is that, given the payoff structure (T=5, R=3, P=1, S=0)[38] , a player using TfT can never actually score better relative to the other player. TfT always cooperates on the first move, lets the other player defect first, and never defects more times than the other player has defected. Therefore TfT can only achieve at most the same score relative to the other player, making it a non-zero-sum game, in which a player does not have to do better than the other player to do best.

In other words, from an unequal starting point, both actors could improve their collective position without necessarily improving their relative position. TfT simply succeeds by eliciting cooperative behaviour from the other player, making each player's proportionate success contingent upon the proportionate success of the other. It follows, then, that TfT is a strategy which is undermined by a high rate of excess inequality. If the value to a player of keeping ahead or of

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early might negate the one-off gain of free-riding by wasting potential gains from (C,C). On the other hand, leaving it too late allows your opponent to make the one-off gain.

[37] R. Axelrod, The Evolution of Cooperation, New York, Basic Books, 1984.

[38] T = temptation; R = reward; P = punishment; S = sucker.

catching up is greater than the value of the mutual cooperation outcome, then TfT will become collectively unstable.

The notion of the "shadow of the future" is also captured by Russell Hardin in his investigation of cooperation in an n-person prisoners' dilemma.[39] Hardin imagines a game involving ten players in which each player chooses between contributing or not contributing toward the provision of a public good. Each unit of cost produces two units of collective good, which is non-excludable. Since the dominant strategy for each player is not to pay, the outcome appears to be collective failure. But Hardin points out that the cooperative outcome would in fact be chosen in a voting situation, making it a (weak) Condorcet winner.

The point which Hardin's example illustrates is the distinction which must be made between choosing strategies and choosing outcomes. In the prisoners' dilemma, the mutually cooperative outcome would always be preferred to the mutually non-cooperative outcome. It is only for strategic reasons that each player chooses to defect. If the only issue were the relative value of the outcomes, then (C,C) would always be chosen.

Several conclusions follow from this discussion of game theory for our rational choice perspective on the cooperation of trade unions in a corporatist wage-restraint policy:

1. Where it is difficult to measure the discount rate, the value of the payoffs, the effects of external disturbances, the value of contributions and costs, and where "punishment phases" are necessary to trigger cooperation from shirkers, estimating parameters for an equilibrium "solution" of a

[39] R. Hardin, "Collective Action as an Agreeable N-Prisoners' Dilemma", Behavioural Science, 16, 5, 1971, pp.472-81.

cooperative type and avoiding accidentally triggering punishment phases will be very difficult.[40]

2. The likelihood of the players "meeting again" or meeting regularly is very important. For trade unions this is particularly important since the costs are borne before the gains, if any, are realised, and trade unions are vulnerable to a change in the policy environment. If it likely that the gains from cooperation will only last as long as it takes to reduce inflation, and that other actors will then cease cooperating, it may seem best to be the first to reap the gains of unilateral defection.

3. An industrial relations environment characterised by distrust and acrimony corresponds to a scenario of mutual unconditional defection. Shifting to conditional cooperation would require a great deal of bargaining over outcomes, and clear agreement as to what could be expected from the policy.

4. In a TfT strategy, the conditional cooperator never does better than the other actors. Yet in a liberal-capitalist economy, the outcomes of corporatism are likely to be limited in their implications for equality. Employers seek the cooperation of unions in increasing profits, but seldom appear to share the burden of income restraint themselves. Trade unions have to offer cooperation to a partner who expects as a matter of property right to reap a greater gain. Exploitation by actors is therefore likely to undermine the conditions for cooperation.

In sum, these difficulties must make us look again at corporatist countries that have supposedly solved the prisoners' dilemma with

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[40] For a discussion of "monitoring problems", see Jonathan Bendor and Dilip Mookherjee, 'Institutional Structure and the Logic of Ongoing Collective Action', American Political Science Review, 81, 1, March, 1987, pp.129-54.

new wonderment. Do the concepts and ideas discussed above make any explanatory sense when applied to the adoption by the Swedish blue-collar unions, for example, of a policy of voluntary wage restraint in the 1950s and 1960s? Did the unions offer conditional cooperation because the shadow of the future was such that they estimated the gains from restraint over the long term outweighed the costs of free-riding? If so, why did cooperation in Sweden begin breaking down from the mid-1970s onward?

The collective action problem understood as a prisoners' dilemma does not exhaust the possibilities for game theoretical situations to be repeated in real life. There are two other important categories of game-like situation which we will consider briefly here: chicken games and assurance games.

In the chicken game the cost of mutual defection is so great that each player would prefer to supply the collective good on their own, if need be. However, each player would not prefer to cooperate if the other player will do the work, so that there is no equilibrium in a chicken game. There is no best strategy, since this depends entirely on the other actor's strategy.

In chicken situations, each player has an incentive to pre-commit to a strategy of non-cooperation, thereby forcing the other player to supply the collective good. The dilemma is, that both players may reason that the other will be forced to back down first and so the worst possible outcome occurs.

In the assurance game, there is an equilibrium at (C,C). There is effectively no collective action problem, since the gains can only be maximised through cooperation, and this is the dominant strategy for each player. The assurance game suggests that the public good is structured in such a way that cooperation is the only way it can be provided. Each player acting alone is unable to provide enough of the good, and (D,D) is a disaster. Therefore, so long as one player cooperates, the other will do likewise. But since neither player would prefer to cooperate if

the other defects, the equilibrium is weak, and vulnerable to one defection.

In the context of the corporatist exchange, the assurance game is important because it might lie in the shadow of the prisoners' dilemma. The potential outcome of mutual cooperation over iterated play is great enough, we have seen, to change the preference structure from defection to conditional cooperation. If the outcome of mutual cooperation over a long period can be shown to be great enough to counterbalance the risks of cooperation and the temptations of one-off gains (with their consequences), and if the risks of free-riding are high enough, then the corporatist game can become an assurance game.

1.2. Two Fundamental Problems.

While rational cooperation, by definition, benefits capital, may strengthen labour, and could be viewed as a stable, long-term policy regime for government, the political exchange is subject to a number of management problems. The root cause of many of these is the problem that rational cooperation must be undertaken in a changing environment. Iteration is both a help and a hindrance: while it allows actors to escape the more narrow confines of the one-shot prisoners' dilemma it produces relatively unpredictable consequences. This means effectively that the processes and the solutions to the iterated political exchange must themselves be constantly adapted. The renegotiation processes which must be undertaken in order to manage rational cooperation (in such a way as to achieve outcomes perceived by each of the three actors as pareto-optimal), are also costly and difficult.

The changing environment forces the three actors to make constant updates on their assessment of outcomes and strategy responses. But it also affects them materially, since shocks to the system invariably affect one or other of the actors in detrimental ways for at least as long as it takes for the system

to respond and make an adjustment. The three actors, of course, are unequal in power, and are not homogenous single entities.

In particular:

(1) over time workers are forced to bear costs even if they have long since ceased to cooperate;

(2) an equilibrium solution to the prisoners' dilemma in real life is never going to be attainable as pure equality. Instead, the "voluntary exchanges" are going to have to encompass unequal shares;

(3) If the outcome of (1) is worse than the outcome of (2) over the long term then the cooperative solution will be preferable. Otherwise, if (2) is worse than (1), the inequality or *degree of excess inequality* is too great and workers are better off continuing to defect.

1.2.1. Inequality.

A cooperative solution must be reached despite the competitive opposition of labour and capital in a corporatist exchange which is, after all, by definition capitalist. According to game theory, labour and capital are in a prisoners' dilemma which only appears to have the character of fundamental conflict. "Exploitation" can be solved by cooperation which yields a pareto optimal outcome for both actors, in which inequality persists but each actor rationally perceives itself to have maximised its utility.[41]

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[41] Since "exploitation" is such a value-charged term, we will attempt to avoid it as much as possible. Roemer, however, has developed a rational choice account of exploitation which is useful in this context. He defines exploitation as the consequence of "free" choices in a "perfect" market system in which actors have unequal endowments. Exploitation is derived from the fact that workers are paid a wage enabling them to buy only an amount of output embodying less labour than they expended in production, the remainder being embodied in profit. Given the scarcity of capital relative to available labour, workers compete for access and their wages are kept low enough for profits to be accumulated. J.E. Roemer, Free To Lose. An Introduction to

1 - Corporatism As Rational Cooperation

At what point does inequality become "excess inequality" or "exploitation"? One way of understanding wage restraint as "exploitation" is to recognise that wage-restraint entails an acceptance that profit is the necessary condition for future economic growth, and introduces capitalist profit criteria into the design of trade union wages strategy. This ties wages strategy to serving the interests of capital, and effectively represents the domination of capital over labour.[42]

The acceptance of capitalist profit criterion is an integral part in the calculation of the solution to the prisoners' dilemma but labour's primary mission is to fight excess inequality. Excess inequality, then, represents the excess income capitalists consume after capitalist profit criterion such as investment and improvements have been met. Labour must be satisfied that capital's level of consumption is low enough to obviate a disproportionate unloading of costs onto workers before it will cooperate.

The true level of excess inequality is given by the degree to which capitalists appropriate a share of profits as their own personal income which is not only above that of workers but should be used for investment and research and development. Formally, this can be demonstrated as follows: the increase in capitalist's income is equal to a proportion K of the profit (P_t) produced.

$$C_{t+1} = C_t + KP_t \qquad (1)$$

Marxist Economic Philosophy, Cambridge, Mass., Harvard University Press, 1988, pp.41-42.

[42] For more neo-Marxian analysis, with a rational choice flavour, see Adam Przeworski and A. Wallerstein, 'The Structure of Class Conflict in Democratic Capitalist Societies', American Political Science Review, 76, 1982, pp.215-38; Alan Carling, 'Rational Choice Marxism', New Left Review, 160, 1986, pp.24-62; J.E. Roemer, A General Theory of Exploitation and Class, Cambridge, Mass., Harvard University Press, 1982.

Total profit, in turn, is equal to total income minus all wages.

$$P_t = Y_t - (C_t + W_t + G_t) \quad (2)$$

Total income, in turn, is equal to income plus a fair weather growth parameter α minus a foul weather contraction parameter β.

$$Y_{t+1} = Y_t + \alpha - \beta \quad (3)$$

If the rate of output per investment slows, then the share taken by capitalists, K, will have, along with workers' wages, a dampening effect on productivity and output trends. This means that P_t will decline, which means that a constant rate of consumption will result in a relatively greater cost being unloaded onto W_t and G_t. In other words, excess inequality simply means that capitalists are not bearing a fair share of the wage restraint necessary to stimulate investment and output growth.

Thus, if capitalists appropriated a 75 percent share, and a constant rate of investment produced 1 unit of growth in output, and β was -.50, then in the following time period investment would produce only 0.50 units of growth and capitalists should then be expected to appropriate 75 percent of 0.50, or 0.37. Instead, if they still appropriate 0.75, this means that a cost of -0.25 must be distributed among the other actors.

If we imagine, on the contrary, that capitalists appropriate 75 percent, and $P_t = 1$ and $\alpha = +.50$, or that fair weather in combination with sufficient research and development, innovation and investment, efficient public policy and "labour quiescence" produced a growth of an additional 1/2 of total income (admittedly a fantastic sum), then although wages would still be unequal they would have increased (from 0.25 to 0.37).

So although workers will still be being outperformed in individual consumption terms by capitalists, they will perceive only an improvement in their own material wellbeing. Workers could find it rational to cooperate in fair weather conditions, since wage restraint would still result in gains that outweigh any continuing inequality. But if the long-term gains from

restraint or cooperation are outweighed by the perceived costs of the inequality, then until the employers cooperate labour would be acting rationally to defect.

Thus excess inequality would be perceived to increase in foul economic weather in cases where capitalists cannot stimulate growth with investment, but do not want to curb their conspicuous consumption. This would be so until labour and capital agree on a renegotiation of the shares of income and it became clearer that a more equal distribution of income fails to produce much more growth. It is disputable whether or not an "appropriation of capitalist's incomes for investment" would produce an economic solution to foul weather. Would the extra investment make a difference? In empirical terms, that would depend on how much of the national income is consumed by investment already, and how much of an addition the higher "tax" would make.

If we accept for the moment the Marxist proposition that labour is, by definition, being exploited through the operation of capitalist wage relations, then labour must rationally choose whether to cooperate and accept the exploitation or struggle to earn a larger share of the national income. The theory of cooperation and the economic theory of exploitation are then interwoven. Any understanding of a particular rational political exchange must recognise that labour, while gaining something, must live with the fact of a continuing inequality of outcomes in a capitalist economy.

Clearly, the rationality of cooperation depends to some extent on policies designed to reduce excess inequality, but the effectiveness of these policies are sensitive to the shock effect of increases in either fair or foul economic weather. The degree of excess inequality increases during foul economic weather because the relative shares (and by implication, the policies) remain unchanged for an indeterminant time. The three actors,

therefore, must make efficient bargaining decisions in order to minimise the effects of a foul weather shock.

1.2.2. Bargaining.

The distribution of material income in a rational cooperation model must be determined in a bargaining process between the three main actors, which is itself another related class of collective action problem. Jon Elster in fact argues that the pure free-rider problem is a less serious obstacle to collective action than problems which arise from the complexities of bargaining over the distribution of costs and benefits.[43]

In the bargaining theory developed by John Nash, bargaining is assumed to be a cooperative game.[44] That is, the difficulty is in deciding on which outcome both actors can agree on. Both actors face the possibility of disagreement, which might be very costly to one or both of them. In bargaining theory the set of feasible bargains is represented in terms of a set of feasible utility pairs. Nash constructed a bargaining function which could identify a rational solution to any bargaining problem of this type. He did this by laying down four conditions for rational bargaining, and then showed that only one function could meet them all. The four conditions are:

1. Pareto Optimality: the outcome cannot be improved for one party without loss for the other.
2. Invariance: the solution should be invariant with respect to positive linear utility transformations.
3. Symmetry: if the set of feasible solutions is symmetrical around the 45 degree line, and the disagreement point is on that line, then the solution should also be on that line.

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[43] J. Elster, The Cement of Society. A Study of Social Order, Cambridge, Cambridge University Press, 1990, p.155.

[44] See J. Nash, 'The Bargaining Problem', Econometrica, 18, 1950, pp.155-62; and J. Nash, 'Non-Cooperative Games', Annals of Mathematics, 64, 1951, pp.286-95.

4. Independence of Irrelevant Alternatives: if the solution in a game is still feasible after the set of feasible solutions has changed in size, it should remain the solution.

One important problem with bargaining theory is that of measuring and comparing the preferences of the actors for different outcomes, since this must crucially affect their bargaining power. In Nash bargaining theory we measure not interpersonal utilities for different distributions, but rather relative utilities for each actor (akin to hypothetical choices among lotteries). Each utility gives a ratio of the actor's relative preference for a distributive outcome. Thus an actor in a weak bargaining position would have a greater interest in achieving a small distribution than a stronger actor, who can afford the greater risk of going for more. According to the Nash solution, rational actors will end up consenting to a distribution which reflects the maximum product of their utilities (or all that they could reasonably expect to get, given their relative bargaining strengths). This would be on the Pareto-optimal frontier of distributions where no other outcomes could be achieved without one of the actors (at least) doing worse.

The core element of the Nash solution is that each actor gains equally, in terms of their relative utilities, from some assigned non-agreement point. This can lead to a very unequal result in absolute terms, of course, since the utilities depend crucially on relative bargaining strength. At the Nash point, each actor will have an equal amount to lose by risking non-agreement.[45]

Applying these ideas to our developing model, we can readily see that capitalists, workers and government are going to have

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[45] This discussion is derived from B. Barry, Theories of Justice. A Treatise on Social Justice, Volume I, London, Harvester Wheatsheaf, 1989.

different degrees of bargaining power, and that these degrees are going to depend upon a range of factors. Firstly, the actors will have different resources at their disposal. Using Elster's terminology, we can define these resources in terms of "outside options" and "inside options".[46] Outside options describe the resources available to the actors if cooperation broke down entirely and the actors had to rely on alternative sources of income. For workers, this means the likelihood of finding another job and the degree of government support available. For employers, it means the likelihood of finding replacement workers, or of relocating or selling out (if these latter two options are in fact viable). For government, it means the likelihood of successfully managing the economy without the cooperation of workers in the labour market.

Inside options, on the other hand, refer to the resources that are available in a conflict. They determine how credible threats to hold out will be. For workers, these consist of the strike fund, the degree of support which would be forthcoming from other workers in other sectors, and the damage the strike might cause employers and the economy if it were to be carried out. Employers also have strategies to enable them to survive industrial conflict, including their own strike funds, and strategic stockpiling. Governments have the inside option of changing the rules which determine the legal nature of the bargaining environment, but they are also answerable to the vote if the conflict becomes too costly.

Outside options only come into play when there is danger of the bargaining breaking down completely. An actor would not rationally agree to a bargaining offer that was worse than the

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[46] The link with "insider-outsider" theory in labour economics is explored in the next chapter. Jon Elster, The Cement of Society. A Study of Social Order, Cambridge, Cambridge University Press, 1990, p.77.

outside options which were available. Inside options determine the outcome of bargaining within these larger constraints. In a bargaining situation, then, actors can increase their bargaining power when they can credibly communicate that:

1. Their costs of waiting during protracted bargaining are low in comparison to the other actor(s).
2. The costs of conflict are not as high for them as they are for their opponent.
3. They do not have as much to gain from the agreement, hence their opponent has more to lose and is in a weaker bargaining position.
4. They are slower at reaching a decision, which makes the opponent anxious to speed up the process by making a better offer.

These bargaining strategies must be considered to lead to serious problems for collective action. As Elster writes:

> 'to increase their distributive shares, bargainers engage in tactics that either decrease the probability of reaching agreement or decrease the size of the total to be shared'.[47]

1.3. A Simple Model of Outcomes.

The tripartite corporatist process, to survive, must be seen to be delivering a material improvement to each of the three cooperating actors over iterations. Relying on this notion of "delivering the goods", there is a substantial body of the corporatist literature which argues that the stability of corporatism can be explained using "rational actor" assumptions.

In a number of models used by economists and political scientists, capitalists control investment and workers have variegated labour market power to determine how much profit is

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[47] Elster, The Cement of Society. A Study of Social Order, p.82.

left for investment.[48] If labour exercises restraint in squeezing profits, sufficient investment is made to ensure a steadily growing real share of income.[49] Both labour and capital are better off.

In game theory, much depends on whether or not we characterise the rational interaction between labour and capital as a cooperative game or as a non-cooperative game. If the game is cooperative, then workers can act as Stackelberg leaders knowing that their restraint will result in investment as the most likely rational response from capital, given the assumption that capital is also willing to cooperate. But if the interaction is uncooperative, then neither actor would want to be the leader and the actors are in stalemate.[50]

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[48] A. Przeworski and M. Wallerstein, "The Structure of Class Conflict in Democratic Capitalist Countries", American Political Science Review, 2, 76, June 1982, pp.215-38; Marick F. Masters and John D. Robertson, 'Class Compromise In Industrial Democracies', American Political Science Review, 82, 4, 1988, pp.1183-1201; G. Lehmbruch, "Concluding Remarks: Problems for Future Research on Corporatist Intermediation and Policy-Making", in P.C. Schmitter and G. Lehmbruch (eds), Trends Toward Corporatist Interest Intermediation, London, Sage, 1979, pp.299-309; K. Schott, "Investment, Order and Conflict in a Simple Dynamic Model of Capitalism", in J.H. Goldthorpe, Order and Conflict in Contemporary Capitalism, Oxford, Clarendon, 1984, pp.81-97; Matti Pohjola, 'Corporatism and Wage Bargaining', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, pp.44-81.

[49] In the model which follows several simplifying assumptions are made: (1) the economy operates at full employment; (2) inflation is assumed away: that is, wage militancy results in less income being available for investment. Since a successful corporatist economy should be characterised by full employment and low inflation, these assumptions seem applicable; (3) The wages impact on aggregate demand is assumed not to influence investment.

[50] See Matti Pohjola, 'Nash and Stackelberg Solutions in a Differential Game Model of Capitalism', Journal of Economic Dynamics and Control, 6, 1983, pp.173-86; Aart de Zeeuw, 'Note on

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In the following model, we assume some sort of conditional cooperation as the basis for the "Restraint Strategy" and the "Moderate Strategy" , whereas the "Militant Strategy" would be classic non-cooperation. The model is designed to demonstrate the material outcomes of cooperation in foul weather and to show how theoretically, at least, corporatism could be construed as a system which at times would be required to distribute only costs and not just adjust gains downward in order to maximise future gains. It supports the interpretation that rational cooperation can be a growth-strategy, but also demonstrates that there may be foul weather time periods in which there is negative growth.

In the model there are four time-dependent variables:

Y_t: output at time $_t$.

I_t: investment at time $_t$.

W_t: workers' wage at time $_t$.

C_t: capitalists income at time $_t$.

Wages are divided between two actors: labour and capital, which in turn distribute their share among their members.[51] Investment is determined by the amount of output after wages have been taken out:

$$I_t = Y_t - (W_t + C_t) \qquad (1)$$

Nash and Stackelberg Solutions in a Differential Game Model of Capitalism', Journal of Economic Dynamics and Control, 16, 1992, pp.139-145; Matti Pohjola, 'Union Rivalry and Economic Growth: A Differential Game Approach', Scandinavian Journal of Economics, 86, 3, 1984, pp.365-70.

[51] The choice of these two actors is for purposes of simplification. It would not add much to the exposition to include Government as an actor at this point. The point is that these two actors must distribute wages in such a way that future wages are maximised. Thus the two actors could also be "High Pay" and "Low Pay" workers within the trade union actor. The possibilities depend on the point of definition. Similarly, the inequality in consumption rates is not designed to make any specific point about inequality between workers and capitalists, it is meant to be suggestive.

An increase in the level of output from time $_t$ to time $_{t+1}$ is proportional to the level of output at time $_t$ plus the rate of increase in output per unit of investment:

$$Y_{t+1} = Y_t + \alpha I_t \qquad (2)$$

The parameter α represents the increase in output per unit of investment. The actors in the cooperative solution must choose as their wages a fraction ϕ of the realised increase in output:

$$(W_{t+1} - W_t) + (C_{t+1} - C_t) = \phi(Y_{t+1} - Y_t) \qquad (3)$$

The higher the value of ϕ, then, the more aggressive the actors are. According to (2) and (3) we have:

$$(W_{t+1} - W_t) + (C_{t+1} - C_t) = \phi\alpha I_t \text{ i.e.}$$

$$(W_{t+1} - W_t) + (C_{t+1} - C_t) = \delta I_t \qquad (4)$$

where $\delta = \phi\alpha$. The value, δ, then, signifies both the efficiency and the amount of investment, which in turn determines output. Assuming that α is positive, the cooperative solution is for the actors to choose an ϕ such that over time W and C are maximised. That is to say:

$$I_{t+1} = (1 + \alpha - \delta) I_t \qquad (5)$$

If the actors choose an ϕ which is less than α, then the growth path of I_t, W_t and Y_t will be positive, generating grounds for a positive sum agreement over time.

In the graphs which follow we have set a model which has the following characteristics at T:0:

Y_t = output = 100.

I_t = investment = 20

W_t = Workers = 40

C_t = Capitalists = 40

We assume, then, that workers and capitalists begin the "game" with equal shares and a given quantity of investment. Much now depends on the rate of α, since this will determine the rate of output growth per unit of investment.

α (rate of increase in output per unit of investment) = 0.1

α is our fair economic weather parameter. The increase in output per unit of investment will depend on technology, innovation, work efficiency, and global market conditions. Assuming wages remain constant, output now increases by 2 at every time unit. The rate of ϕ is thus important, since this determines the amount of investment left over after wages.

$\phi = \tau + K$

τ = workers' consumption rate

K = capitalists' consumption rate

The fraction ϕ is shared between workers and capitalists. We assume that capitalists will take a larger share of ϕ, and that both actors can choose between either a wage restraint line in which investment grows, a moderate line in which the rate of investment remains constant, or a militant line in which case the rate of investment shrinks.

The consumption rates, respectively, of labour (τ) and capital (K), are determined in relation to α, which we have assumed to be a constant: 0.1.

RESTRAINT: $\tau = 0.03$; $K = 0.05$. $[\alpha > \phi]$

MODERATE: $\tau = 0.04$; $K = 0.06$. $[\alpha = \phi]$

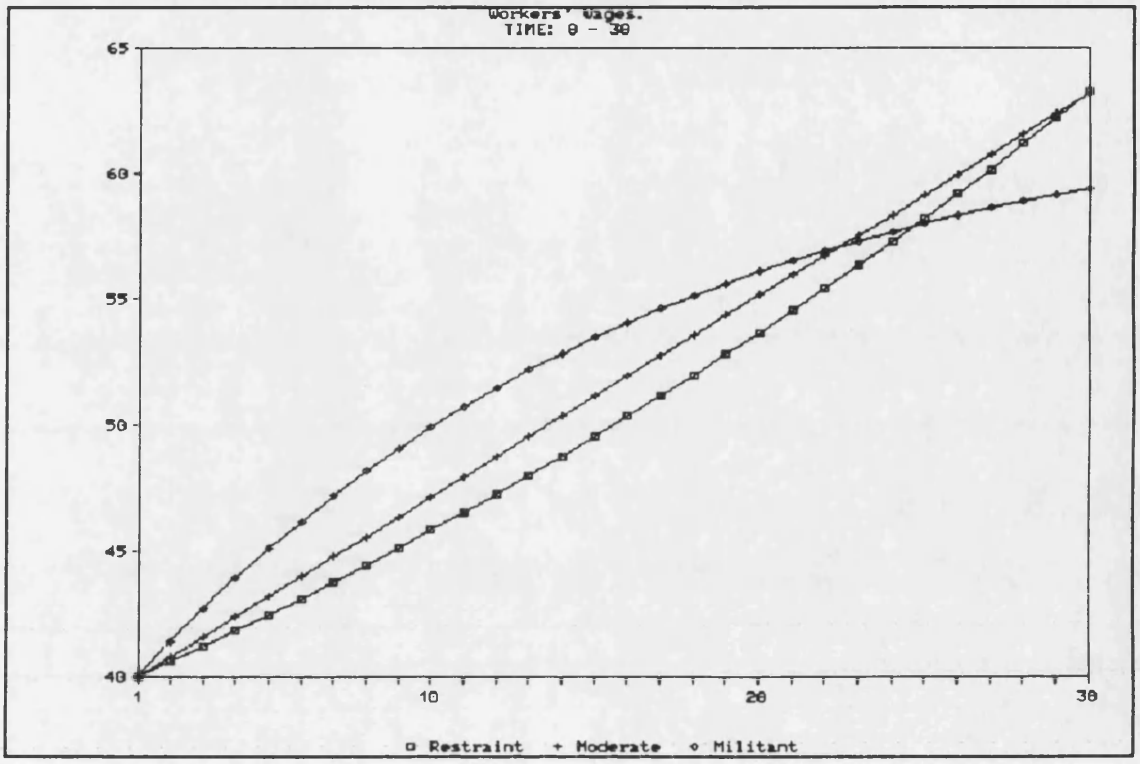
MILITANT: $\tau = 0.07$; $K = 0.09$. $[\alpha < \phi]$

Figure 1.1 shows the wage outcomes for workers given the three pairings of τ and K. We can see that "Restraint" is clearly a long-term strategy. It does lead, by an exponential increase, to enormous income levels after T30, but for much of the initial period it clearly does worse than the other two.[52] "Militant" maximises the short term, while "Moderate" simply maintains the steady "0.1 × 20 = 2" gain to output.

[52] At Time = 200, workers wages for "Restraint" are 1,553, compared to 199 for "Moderate". Similarly, investment at T200 is 1,029 compared to 20, and output is 5,145 compared to 498.

Figure 1.1.

Three Wages Strategies.



The effect on investment is clear in Figure 1.2., which over 100 time periods shows a clear upward trend for "Restraint", no change for "Moderate", and for "Militant" a trend to zero. If workers and capitalists cannot choose an τ and an K, such that $\phi \leq \alpha$, then future output and future wages will suffer. In this model the function of wage restraint is to prevent investment reaching zero. At $\tau = 0.07$ and $K = 0.09$ the economy will atrophy.

It is instructive to view this model from a game-theoretical perspective. We can say that the "Militant" scenario represents defection from mutual cooperation. We have seen that one equilibrium solution for workers and capitalists is $\tau = 0.04$ and $K = 0.06$, our "Moderate" strategy. In the "Moderate" strategy workers and capitalists simply have to agree on *any* τ and K so

Figure 1.2.

Three Investment Outcomes.

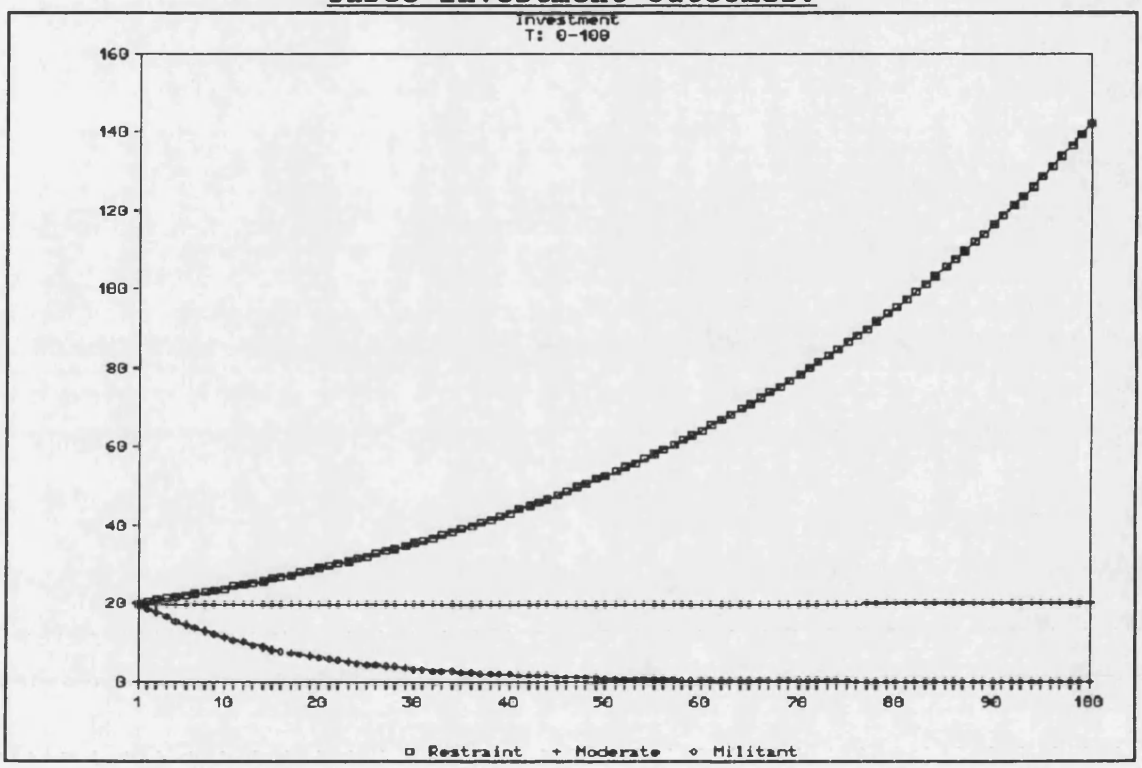


Table 1.2.

The Strategies Which Lead To A Prisoners' Dilemma.

		Capitalists	
		C	D
Workers	C	.04, .06	.01, .09
	D	.07, .03	.07, .09

long as ϕ equals α. Thus workers and capitalists struggle over their relative shares within the bounds of the "Moderate"

strategy, and a particularly militant struggle could yield a combination of strategies as illustrated in Table 1.2.

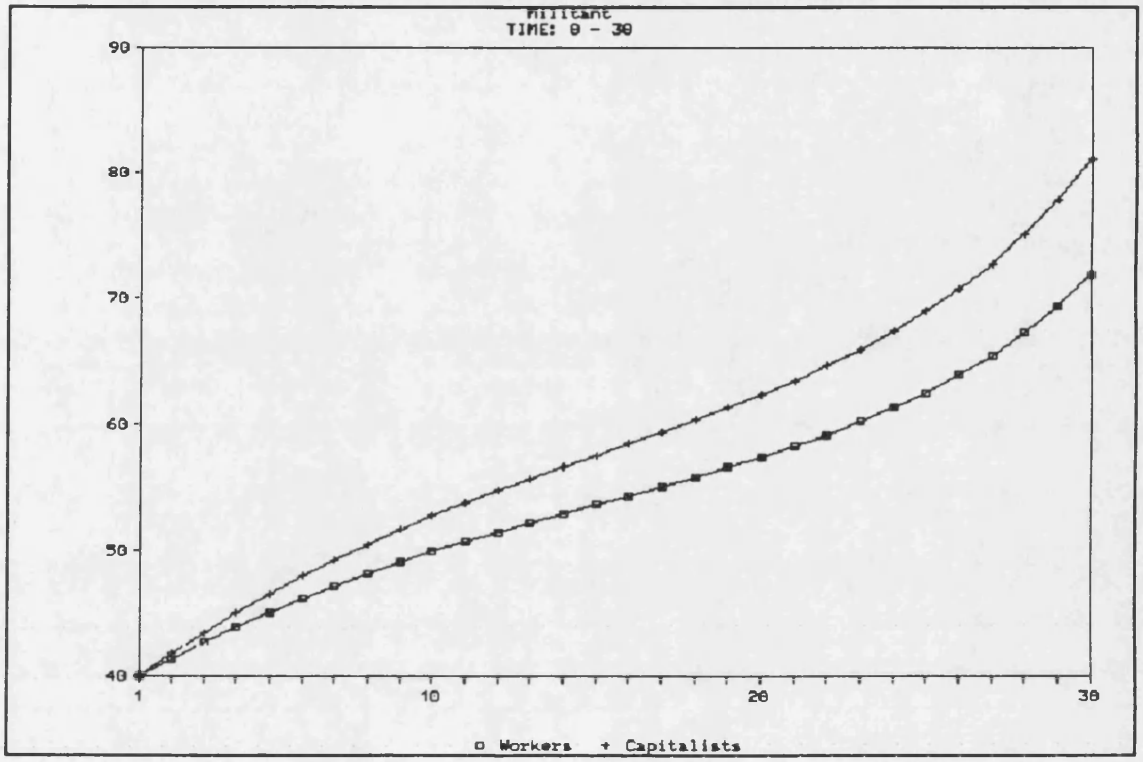
In Table 1.2. workers and capitalists each have a defection strategy which heavily exploits the other. In terms of *outcomes* over iterative encounters, the situation is a prisoners' dilemma, with mutual defection being the rational equilibrium in a one-shot game but mutual cooperation being the optimal long-term collective strategy. Over iterative encounters, the gains from (C,C) could become attractive enough to trigger conditional cooperation, especially since (D,D) leads to the atrophy of investment. The consumption rates may appear so high as to be unintelligible in terms of any real life experience of workers and capitalists, but the prisoners' dilemma construction of the collective action problem shown here is nevertheless instructive.

In our model so far there is only fair economic weather and it is constant. That is, α is 0.1, which generates 2 units of output under the "Moderate" strategy for every 20 units of investment, which workers and capitalists divide unevenly between themselves. But α can change. We illustrate the effect of an exponential improvement in α with Figure 1.3., which shows the effect on workers wages in the "Militant" strategy of an increase at T:10 of 0.0123 per time period. We can see that in relation to the new, growing α, the "Militant" strategy is no longer damaging to investment and output.

The lesson is clear. In fair economic weather the rate of militancy depends not only on the other actors' strategy choices and outcomes, but also on a shifting value: α. Innovation and productivity improvements can give such a boost to α as to make a previously unsustainable "Militant" strategy becomes effectively a "Restraint" strategy. Conversely, if α falls, even a "Restraint" strategy may turn into an unsustainable wage curve, where investment quickly shrinks to zero.

Figure 1.3.

The Impact of Growth in α on the "Militant" Strategy.



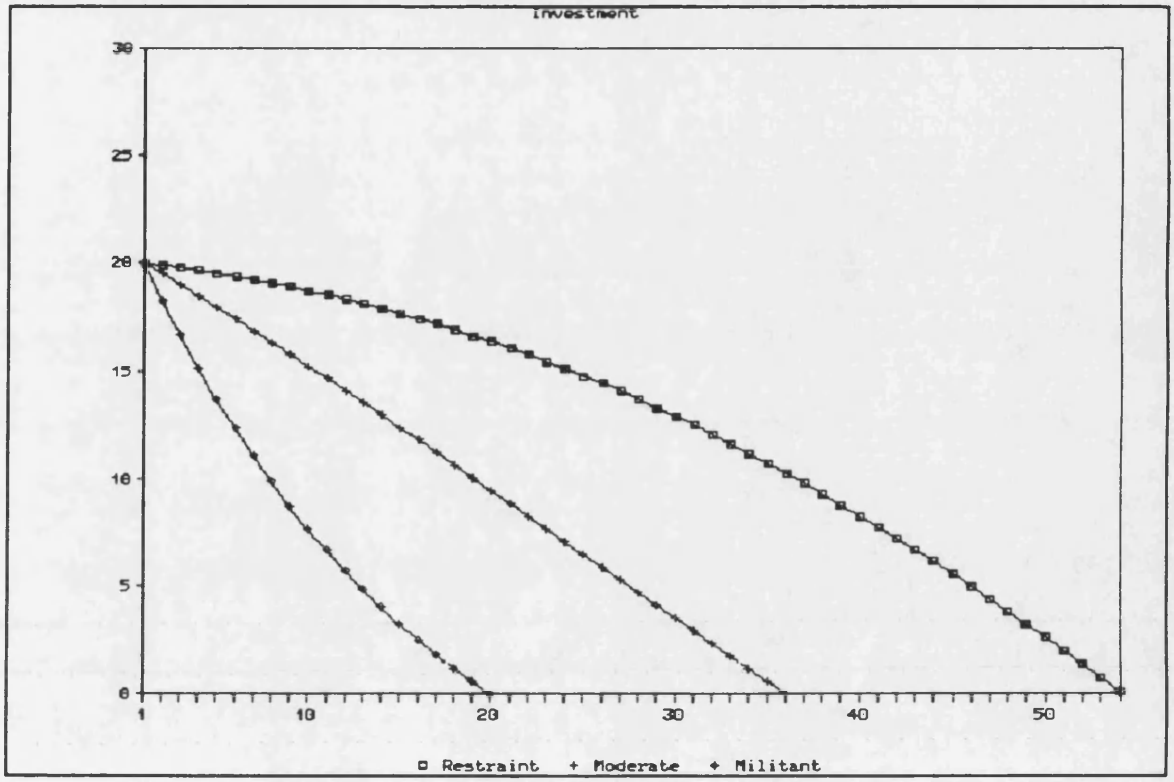
One interpretation of foul economic weather would be a declining α rate. But it seems counter-intuitive to imagine that the contribution to output of investment might fall away to zero, so in our model we will introduce a new parameter, β, which represents the rate of output depreciation.

β (output depreciation rate) = 0.005

Foul weather could be caused by a number of factors in this model: a price shock resulting from an increase in the cost of imported raw materials, such as oil; a loss of external markets due to changes in global production and demand, resulting from, for example, the decline of key export sectors such as steel and shipbuilding industries and/or deflationary macroeconomic policies pursued by major trading partners; an increase in the

Figure 1.4.

The Impact of Growth in β on Investment Outcomes.



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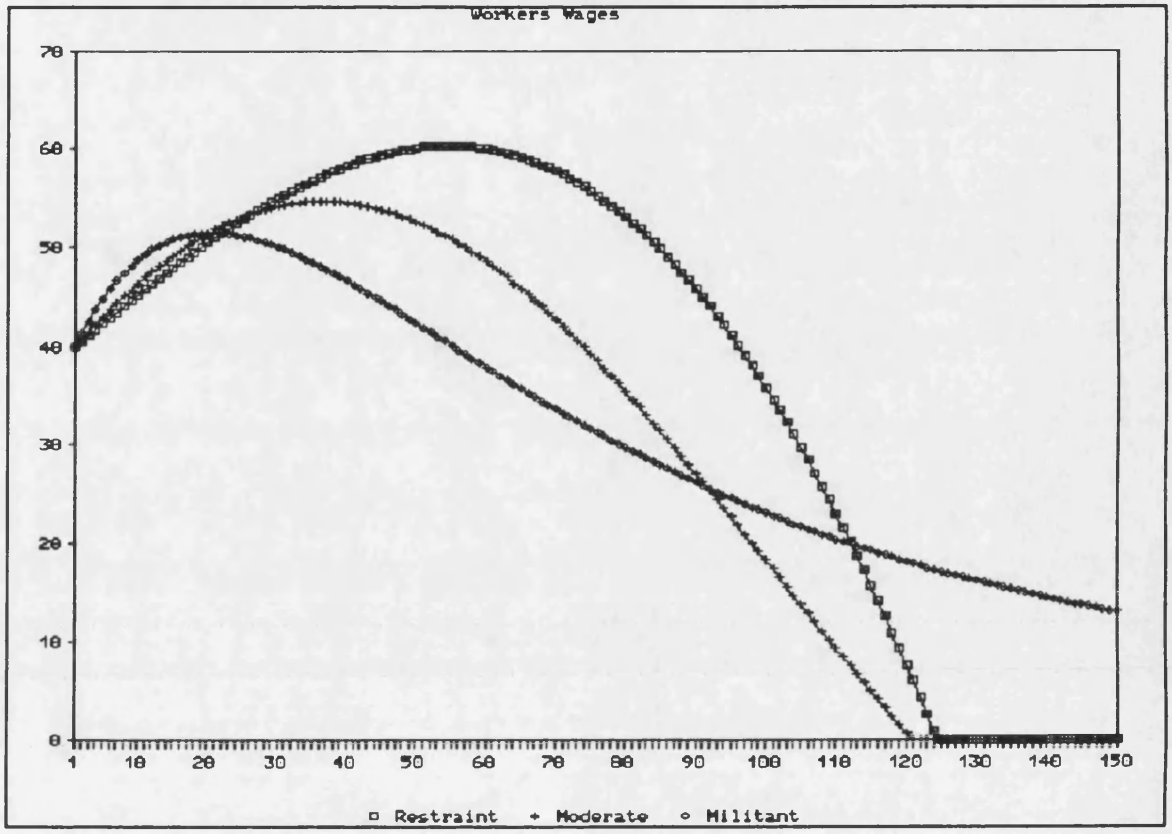
cost of full employment due to population growth, changes in age structure and the entry of new labour market participants, such as women, resulting in increased costs of maintaining employment and income provision; natural disasters such as drought; increasing costs of rapid technological change and restructuring, such as labour retraining and placement; and so forth. The depreciation parameter is a "catch-all" for all of these processes. Thus, modifying equation 2 we now have output growth being determined not only by investment at the rate of α but also by the depreciation of β.

$$Y_{t+1} = Y_t + \alpha I_t - \beta Y_t \qquad (6)$$

We set β at 0.005. Thus for Output = 100, the unit depreciation rate will be 0.5. We can see in Figure 1.4. that, with the new

Figure 1.5.

The Impact of Growth in β on Wages Outcomes.



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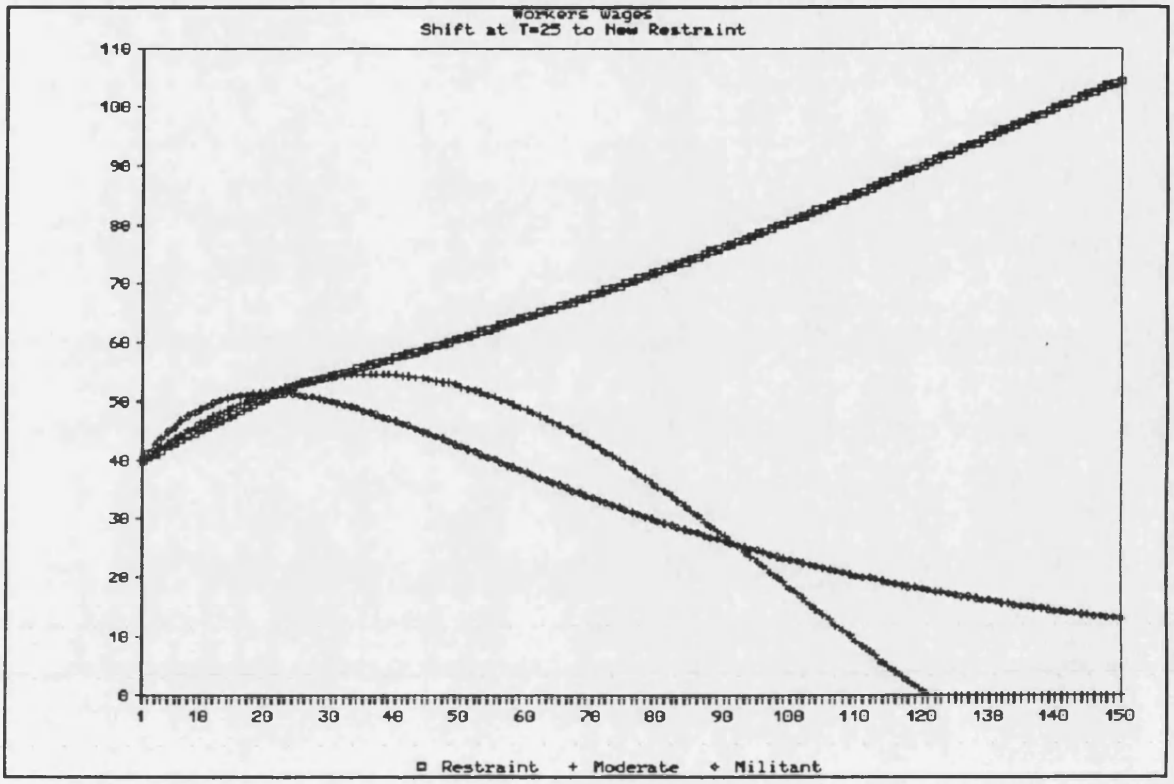
foul weather variable in operation, the old strategies all fail to achieve either "Moderate" or "Restraint" outcomes. Figure 1.5. shows the long-term prospects for workers' wages under the foul weather scenario. Interestingly, it can be seen that over the long-term, in terms of outcomes, the old "Restraint" strategy becomes the most "Militant" strategy. This is because the "Restraint" strategy achieves the largest gain in the middle-term, which in turn has the most damaging effect given β over the longer term. This may be an important factor in determining the impact of foul weather on a corporatist system, since it suggests that because the successful corporatist system in fair weather achieves the greatest income gains it has *further to fall* in

Figure 1.6.

Effect on Wages of a Shift to a "New Restraint" Strategy.



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making an adjustment. In the absence of an adjustment to β, those gains effectively become a greater liability.

In foul economic weather, α is gradually overwhelmed by β. In such a case, either investment or wages must fall. Since investment cannot fall without adverse consequences for both wages and output, wages must fall. In Figures 1.6. and 1.7. we see the effect of a shift at T=25 from τ = 0.03 and K = 0.05 to τ = 0.02 and K = 0.03. Moving to a lower collective rate of consumption is sufficient in this case to compensate for the 0.005 depreciation factor. The shift to a "New Restraint" strategy ensures that the overall increase in output, investment and wages is sustained. Workers and capitalists simply appropriate less of the increase in output, and leave enough

Figure 1.7.

Effect on Output, Investment, and Wages.

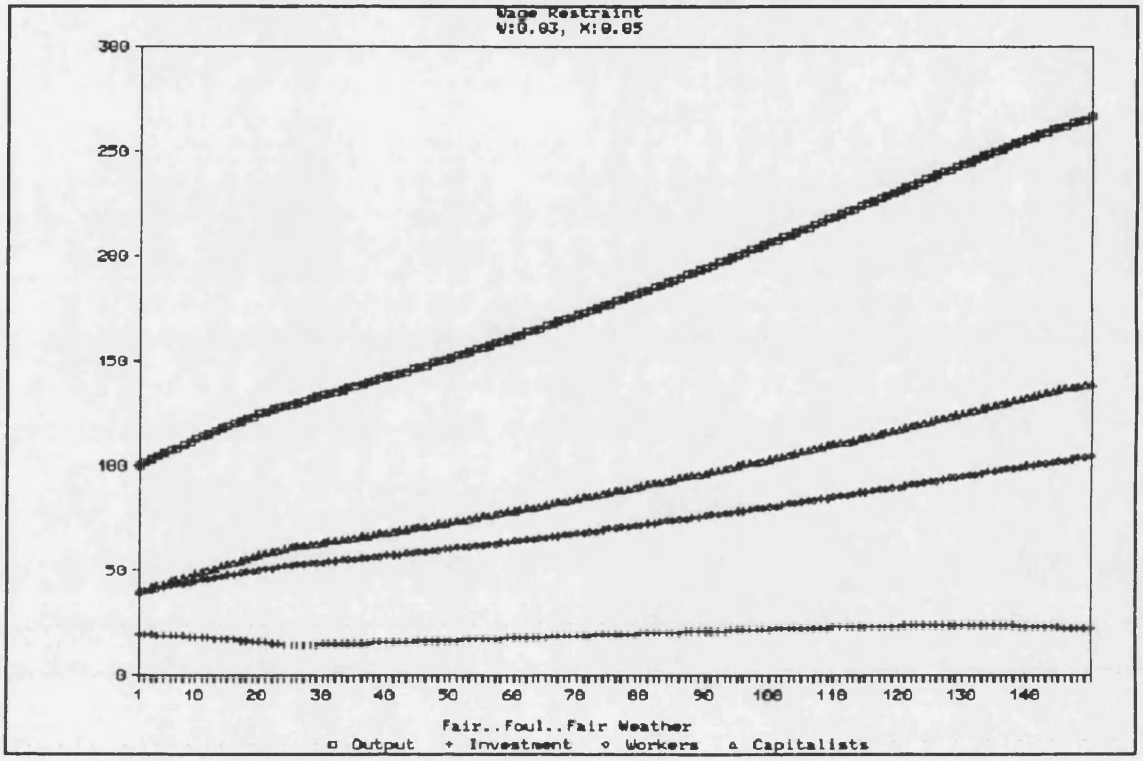


Table 1.3.

A Comparison of Outcomes Under Different Conditions and Strategies.

T = 30. Wage Restraint.

	Case 1	Case 2	Case 3
Output	177	133	168
Investment	35	13	44
Workers	63	55	57
Capitalists	79	65	65

Case 1: "Restraint" with fair weather. $\alpha = 0.1$; $\beta = 0.0$; $\tau = 0.03$; K = 0.05.
Case 2: "Restraint" with foul weather. $\alpha = 0.1$; $\beta = 0.005$;
$\tau = 0.03$; K = 0.05.
Case 3: "New Restraint" with foul weather. $\alpha = 0.1$; $\beta = 0.005$;
$\tau = 0.02$; K = 0.03.

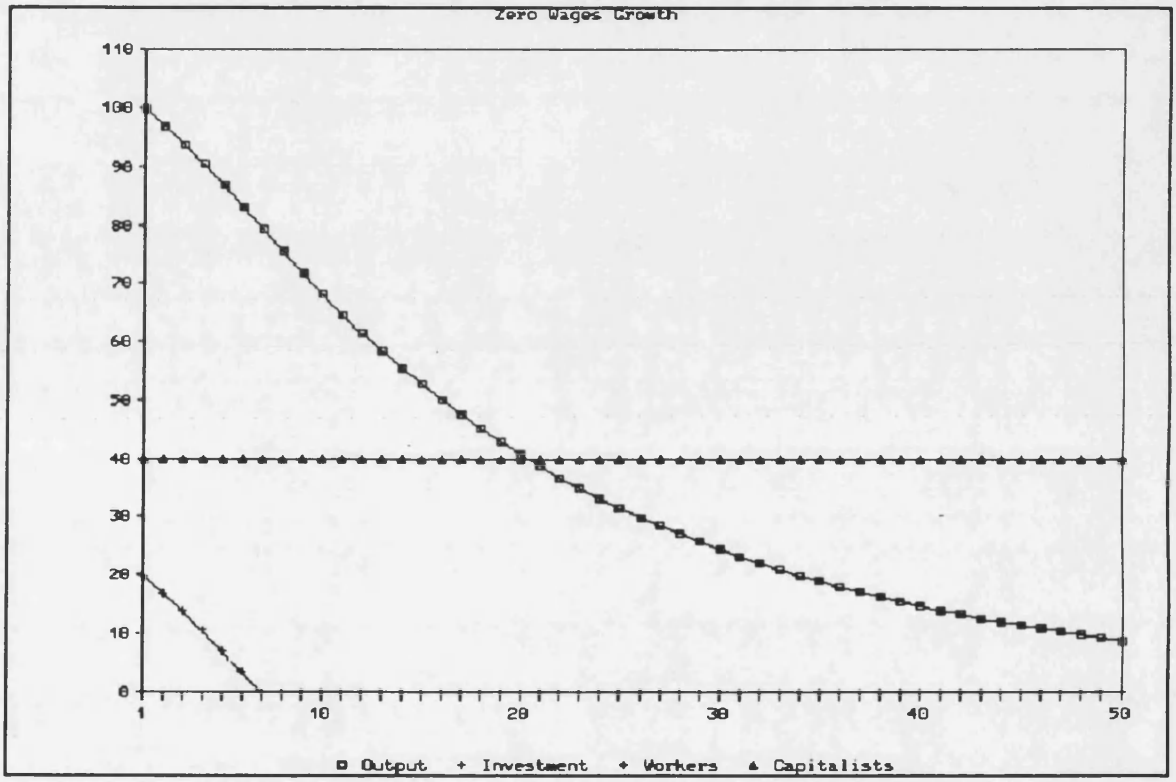
---

surplus for investment to be sufficient to generate growth despite the β value of 0.005.

Table 1.3. shows how the relative level of investment has had to rise in the "New Restraint" strategy to produce growth in output in the foul economic weather scenario. Even given the reduced rate of ϕ, it now takes more units of investment to produce less growth than was the case in the fair weather

Figure 1.8.

Zero Wages Growth With Increasing β.



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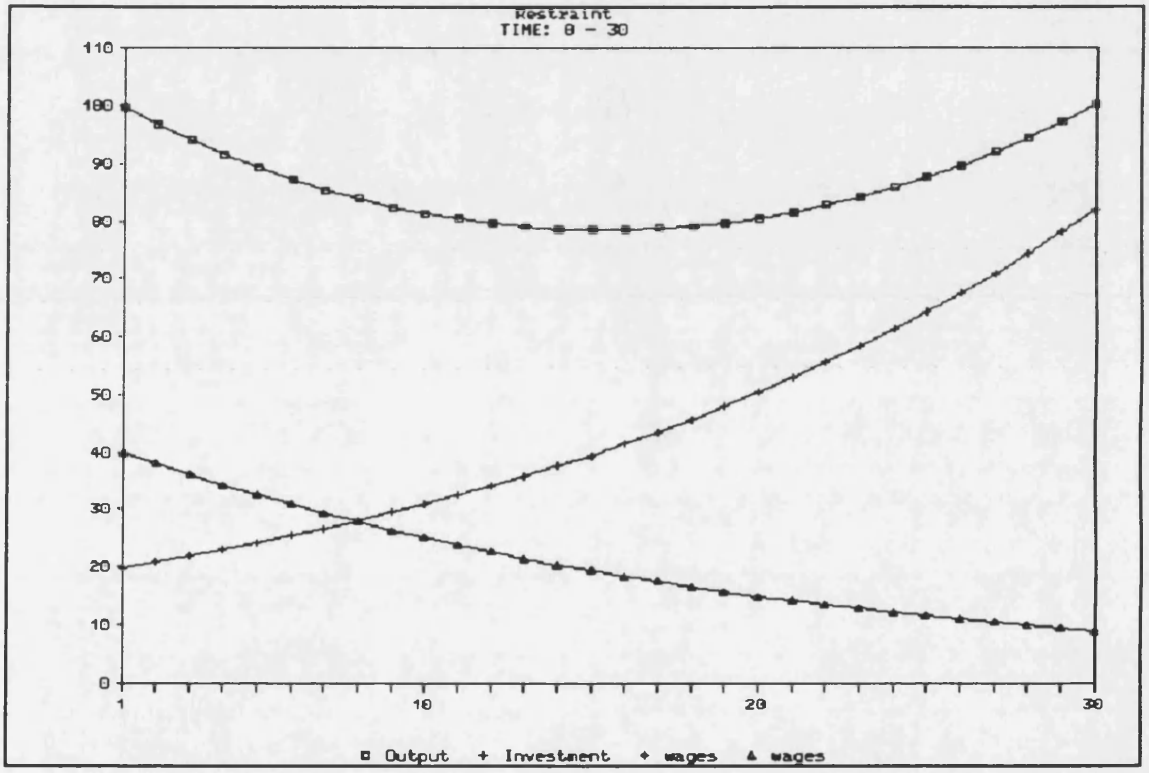
scenario. But with the new, reduced collective consumption rate, growth is once again achieved. In Case 2 it is clear that investment is declining and on the way to zero.

Reducing the rate of τ and K can, then, in some cases be sufficient to restore investment growth in response to an given rate of β. But what if the level of β can vary, like α? If foul

weather could increase, perhaps due to an oil shock, raw material limits, population growth, or other sources of uncompetitiveness, then we could imagine a situation in which even consumption rates of $\tau = 0$ and $K = 0$ are insufficient to prevent investment declining to zero. Figure 1.8. shows what happens if we raise β from 0.005 to 0.05 and reduce τ and K to zero. Wages stay at 40, but this is not enough. At this point, instead of increasing at a lower rate, some real wage restraint is needed.

Figure 1.9.

The Effect of a Fall in Wages on Investment and Output.



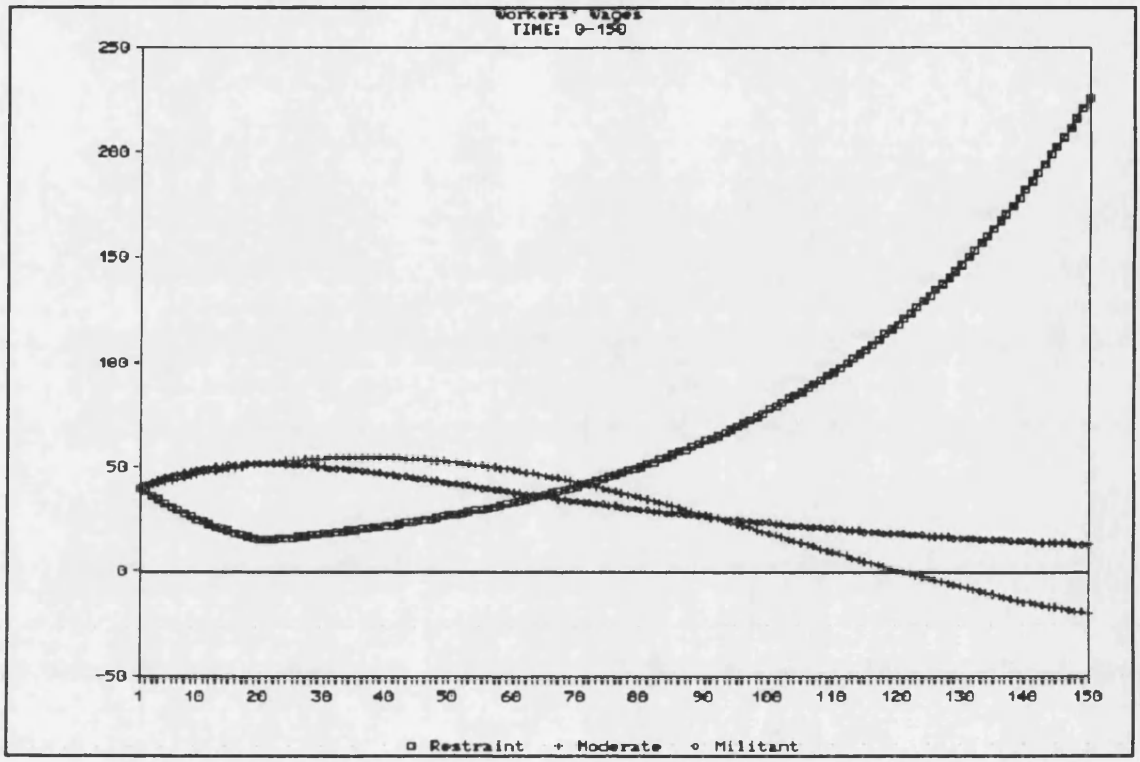
To achieve the necessary wage restraint, we amend formula 4 by adding the depreciation factor to wages.

$$W_{t+1} = W_t + \delta I_t - \beta W_t \qquad (7)$$

Thus wages now make an adjustment for β. Figure 1.9. shows that the effect of the drop in wages on output is dependent upon

Figure 1.10.

The Return to Consumption Growth.



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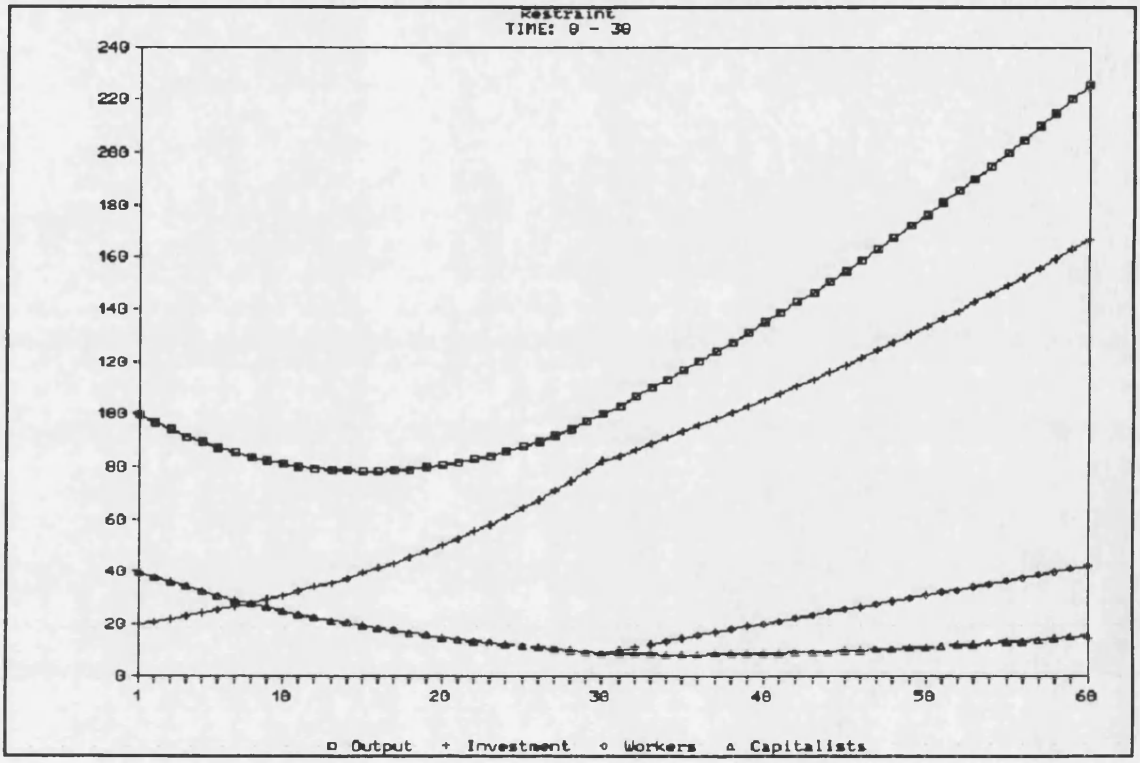
investment reaching a level high enough to turn the output decline around. Where the output line flattens out is the point where wages have fallen enough. Obviously, wages could keep on falling to the point where investment produces a maximum increase in output, but at some point the actors are going to prefer to consume rather than produce. Thus once growth is resumed there is once again room for the consumption rates of workers and capitalists to increase.

Figures 1.10. and 1.11. show what happens if workers and capitalists shift to a τ of 0.02 and K of 0.03 at T=30. Given the initial real wage restraint, output once again begins to increase, and from that point on the two actors are able to consume part of that increase, although unequally.

Figure 1.11.

The Adjustment Effect on Output, Investment, and Incomes.



From our model we can see that the cooperative solution to the prisoners' dilemma functions much less problematically in fair economic weather than in foul. In fair weather, thanks to the presence of α and the absence of β, the actors are better off in absolute terms despite cooperating and exercising restraint in determining income shares of growth. Moreover, if α is growing then a wage strategy can involve quite substantial improvements while still remaining a "Restraint" strategy. Cooperation to achieve future gains becomes somewhat meaningless if α approaches infinity, since virtually any strategy would be sustainable over the long term.

In "foul" weather the demand upon available income for both wages and investment threatens to outstrip output growth, so that

wages must fall in real terms. Here the outcome of mutual cooperation is still positive sum, but until the negative effects of β have been compensated for by the wage restraint, the actors are not any better off. In fact, they are worse off. Thus much will depend upon the capacity of the corporatist actors to agree upon some rate of real restraint that is sufficiently high enough to reverse the fall in output. In Figure 1.9. we assumed that τ and K are set at zero, and that the depreciation factor β applies equally to both series of incomes, but in the real world actors with different capacities and power resources are likely to distribute the restraint unequally. Each of the three actors in a corporatist exchange are dependent upon the others for the achievement of a pareto-optimal outcome, and at the same time each are vulnerable to exploitation in offering cooperation to achieve such an outcome.

Conclusion.

Labour, Capital, and Government must reach a cooperative equilibrium agreement in a corporatist economy despite the presence of inequality, and the shifting impact of relative changes in fair and foul economic weather. Rational cooperation must be achieved in a costly and difficult bargaining process.

We have seen in the literature a range of positions which differ in the degree to which they argue that corporatism is in the interests of, respectively, the state, capital and trade unions. Yet given our definition of corporatism as fundamentally a tripartite system, it must be that these are the three actors who cooperate in some way and reduce prisoners' dilemmas. Therefore we adopt the view that a corporatist solution must benefit all three actors.

The impact of foul weather on the trend line of iterative outcomes strengthens the argument that corporatist processes operate far more effectively in fair weather, where the underlying growth in incomes assuages both the continuance of

inequality and the costs of bargaining. Schwerin specifically examines the impact of "resource constraint" with respect to Norway. He concludes, in strikingly similar fashion, that *perceived outcome inequity* is a greater problem than resource constraint, but argues that it may be more of a problem in periods of rapid economic growth. We argue that foul weather destabilises intended equity outcomes and fair weather covers up most of the ill-effects of continuing inequality. Schwerin writes that in foul weather lower level actors might be more likely to cooperate because:

> 'organisational authority and rank-and-file compliance increase as opportunities for wage drift decline. The fall in opportunity costs makes wage moderation less burdensome'.[53]

This may be true to an extent, but it seems odd that corporatism should even be necessary if the actors are rationally likely to exercise restraint anyway.

A number of institutional variables assist labour, capital and government in the construction and management of a rational cooperation process. As recognised in the corporatist literature, chief among these are centralised peak organisations of labour and capital and institutions of interest intermediation. Centralisation of collective bargaining and a strongly unified trade union movement are said to enable the leadership to authoritatively deliver the cooperation of affiliates to a wage-restraint strategy.[54] Interaction between the central,

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[53] Don S. Schwerin, 'The Limits of Organisation as a Response to Wage-Price Problems', in Richard Rose, Challenge To Governance. Studies In Overloaded Polities, London, Sage, 1980, p.80.

[54] See the following chapters. Sources which discuss centralisation with special reference to the UK include: C. Crouch, Trade Unions: The Logic of Collective Action, Glasgow,

encompassing actors, however, involves the management of the interests of vast agglomerations of individual actors. This implies that very large-scale centralisation, as would be necessary in large closed economies, may be impractical and that smaller sub-collectivities in a large state may be more optimal for cooperation. The vulnerability of small states to external markets has been argued to be strongly associated with policies of social protection and intervention. The rationale of economies of scale can enhance economic centralisation and specialisation, and the common fear of economic vulnerability can generate support for a corporatist policy.[55]

Rational cooperation depends to a great practical extent on the government actor, which tends in practice to be a left-wing government. Ideological similarity between the government and trade union movement allows greater possibility of agreement on policy goals.[56] The government actor is required to make redistributive interventions that are designed to maximise employment spreading and income spreading. The cynical interpretation of this holds that the connection between Left control of government and union centralisation implies that

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Fontana, 1982; L. Panitch, Social Democracy and Industrial Militancy. The Labour Party, the TUC, and Incomes Policy, 1945-1974, Cambridge, Cambridge University Press, 1976; L. Panitch, "The Development of Corporatism in Liberal Democracies", in P.C. Schmitter and G. Lehmbruch (eds), Trends Towards Corporatist Intermediation, London, Sage, 1979, pp.119-46.

[55] P. Katzenstein, Corporatism and Change: Austria, Switzerland, and the Politics of Industry, Ithaca, Cornell University Press, 1984; P. Katzenstein, Small States in World Markets. Industrial Policy in Europe, Ithaca, Cornell University Press, 1985.

[56] B.W. Headley, "Trade Unions and National Wages Policies", The Journal of Politics, 32, 1970, pp.407-39; K. Armingeon, "Determining the Level of Wages: The Role of Parties and Trade Unions", in F.G. Castles (ed), The Impact of Parties, London, Sage, 1982, pp.225-82.

government "buys off" trade union acquiescence to wage restraint.[57]

But understood in terms of rational cooperation, the role of government as well as that of labour and capital is best understood in terms of concepts such as "political exchange" and "consensus".[58] Whatever possible intervention the government makes in an efficient corporatist exchange, it would have to result in an equitable outcome, or at least be perceived as the best attempt at the fairest intervention. Without this element of fairness, there would be no consensus and no cooperation. Redistributive elements would be necessary, as would the taxation levels required to fund them, to achieve any agreement about fairness.[59] Similarly, whatever investment and income restraint rational cooperation between labour and capital produces it must be perceived to be fair and equitable over time. In foul weather these outcomes can change in abrupt and unforseen ways.

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[57] See W. Korpi and M. Shalev, "Strikes, Industrial Relations and Class Conflict in Capitalist Societies", British Journal of Sociology, 30, 1979, pp.164-87; and D. Cameron, "Social Democracy, Corporatism, Labour Quiescence and the Representation of Economic Interest", in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon, 1984, pp.170-74.

[58] Alessandro Pizzorno, 'Political Exchange and Collective Identity in Industrial Conflict', In C. Crouch and A. Pizzorno (eds), The Resurgence of Class Conflict in Western Europe Since 1968, Volume Two, London, Macmillan, 1978, pp.277-98; Franz Lehner, 'The Political Economy of Distributive Conflict', in R. Wildenmann (ed), The Future of Party Government, Berlin, Walter de Gruyter, 1988, pp.54-96.

[59] Bureaucratic structures shape the style and capacities of government to intervene through public investment, and industrial and labour market policies. Private firms cannot be sanctioned by corporatist policy, leaving trade unions dependent upon the public sphere for delivery of policy goals. R. Czada, "The Impact of Interest Politics on Flexible Adjustment Policies", in H. Keman, H. Paloheimo and P.F. Whiteley (eds), Coping with the Economic Crisis, London, Sage, 1987, pp.44-45.

CHAPTER TWO.

FOUL ECONOMIC WEATHER AND TRADE UNION COOPERATION.

> 'For the corporatist compromise to survive, the underlying problems of the economy must be tackled. An acceptable rate of growth must be achieved and fundamental weaknesses in economic structure eliminated. If this is not done, the institutions of social solidarity will come under increasing strain and eventually disintegrate'. *Andrew Glyn and Bob Rowthorn.*[1]

Thus far we are armed with a model of the corporatist political economy in which three unequal actors interact in an environment dominated by the economic requirements of capital. According to game theory, a collective strategy which maximises gains is possible, but we have raised serious questions about its feasibility in foul economic weather.

In addition, we hinted that centralisation as a solution may have to rely more on persuasion and compulsion than cooperation, in foul economic weather. In this chapter we explore the limits of centralisation further by making a distinction between the interests of high and low pay groups within Labour as an actor. The structural conflict between labour and capital, which is empirically defined by the rate of excess inequality, increases

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[1] Andrew Glyn and Bob Rowthorn, 'West European Unemployment: Corporatism and Structural Change', The American Economic Review, 78, 1, 1988, p.199.

in foul economic weather. This reduces the relative gains of cooperation, and further restricts the possibilities of making an accurate assessment of the parameters needed to estimate an equilibrium solution to a constantly changing prisoners' dilemma.

Cooperation among unions in foul economic weather is weakened by an imbalance in power between high and low pay workers. The distribution of high and low pay workers in a capitalist economy is typically uneven, with high pay workers being concentrated in certain industrial sectors.[2]

The labour economics literature faces a challenge in explaining why the inter-industry wage structure does not conform to expectations generated by laissez-faire competitive theory. In other words, why are workers with similar measurable characteristics paid different wages in different industries? Why does a high pay industry pay basically the same worker more than a low pay industry in a competitive labour market?

Interestingly enough, in finding some answers to these questions, empirical studies do not support the view that levels of unionisation are strongly correlated with industry wages. Although some labour economists find a positive correlation between union density and industry wages for both union and non-union employees, Krueger and Summers point out that historical evidence shows that high-wage industries tended to pay higher wages even before the advent of high levels of unionisation.[3]

The inter-industry wage structure across countries is similar regardless of the strength of unions and the degree of collective bargaining. So what does explain this apparent market

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[2] A.B. Krueger and L.H. Summers, 'Reflections on the Inter-Industry Wage Structure', in K. Lang and J. S. Leonard, Unemployment and the Structure of Labor Markets, Oxford, Basil Blackwell, 1987, p.20.

[3] A.B. Krueger and L.H. Summers, 'Reflections on the Inter-Industry Wage Structure', p.36.

failure? Dickens and Katz conclude that three factors have a consistent-enough empirical association with the pattern of wages across industries to be contenders: first, average years of education of employees; second, profits in the industry; and third, average establishment size and a high capital-to-labour ratio.[4] In plain language, product market rents are more likely to be shared with workers when the establishments are large, capital-intensive and profitable, and the workers are "high quality" labour.

It seems obvious that unions could potentially thrive in such conditions by exploiting the "ability to pay" characteristics of such industries. The question we wish to raise is what consequences this fact has for corporatist cooperation between high and low pay unions in fair and foul economic weather. The structural nature of this characteristic income inequality in a capitalist economy implies that in the absence of norms, traditions and political interventions designed to reduce the gap between high and low pay workers, the inequality simply widens. While in fair weather both groups may be better off over time despite this inequality, in foul weather the game becomes more zero-sum.[5]

2.1. Trade Unions as Economic Actors.

In order to develop our model of the behaviour of high and low pay unions in fair and foul economic weather, we first must begin with a more general economic account of trade union wages strategy. Economic analysis of trade union behaviour using a rational-choice approach has been a relatively recent

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[4] W. T. Dickens and L. F. Katz, 'Inter-Industry Wage Differences and Industry Characteristics', in K. Lang and J. S. Leonard, Unemployment and the Structure of Labor Markets, Oxford, Basil Blackwell, 1987, pp.83-84.

[5] Richard Hyman, 'Trade Unions and the Disaggregation of the Working Class', in Marino Regini (ed), The Future Of Labour Movements, London, Sage, 1992, p.152.

development. Dunlop was among the first to treat trade unions as rational agents seeking to maximise their utility functions.[6] Most of the recent studies treat wage setting as a function of rational and strategic choices on the part of trade unions influenced primarily by inflation, employment, tax, and government policy. The latter is seen as a problem for economic analysis of trade union utility maximising behaviour, as Hersoug et al put it:

> 'If we have to resort to changes in policy reactions to explain the actual development [of trade union choice of wages and employment], the theory of the utility-maximising trade union is somewhat incomplete until one has specified criteria for determining when there has been a change in policy. Otherwise, everything can be explained by referring to policy shifts'.[7]

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[6] J.T. Dunlop, Wage Determination Under Trade Unionism, New York, Macmillan, 1984. For other examples in this area, see Bertil Holmlund, 'Centralised Wage Setting, Wage Drift And Stabilisation Policies Under Trade Unionism', Oxford Economic Papers, 38, 1986, pp.243-258; J. Pencavel, 'Wages and Employment under Trade Unionism: Microeconomic Models and Macroeconomic Applications', Scandinavian Journal of Economics, 2, 1985, pp.197-225; A.J. Oswald, 'Wage Determination in an Economy With Many Trade Unions', Oxford Economic Papers, 31, 1979, pp.369-385; A.J. Oswald, 'The Microeconomic Theory of the Trade Union', Economic Journal, 92, 1982, pp.576-595; A.J. Oswald, 'The Economic Theory of Trade Unions: An Introductory Survey', Scandinavian Journal of Economics, 87, 1985, pp.160-193; C. J. Parsley, 'Labour Union Effects on Wage Gains. A Survey of Recent Literature', Journal of Economic Literature, 18, 1980, pp.1-31; J. N. Dertouzos and J. H. Pencavel. 'Wage and Employment Determination under Trade Unionism. The International Typographical Union', Journal of Political Economy, 89, 1981, pp.1162-1181; Tor Hersoug, Knut N. Kjaer and Asbjorn Rodseth, 'Wages, Taxes And The Utility-Maximising Trade Union: A Confrontation With Norwegian Data', Oxford Economic Papers, 38, 1986, pp.403-423.

[7] Tor Hersoug et al, 'Wages, Taxes And The Utility-Maximising Trade Union', p.422.

2 - Foul Economic Weather And Trade Union Cooperation

In our case, we have to address this issue since we assume that in corporatist countries trade union wage-setting behaviour will indeed be an important function of government policy, particularly with respect to public sector employment, industrial policy and labour training schemes. The point is that in foul economic weather the ceiling of public spending will have to fall, and thus corporatism would have to shift from distributing gains to costs.

This corporatist cost distribution might be circumvented by actors who wish to maintain their rate of increase at the expense of other actors. One of the most interesting developments in recent labour economics has been theoretical modelling of "insider" power in wage determination. The central idea here is that workers and their employers in some industries are in a position to share out the economic surplus (over and above production costs) which they have extracted from consumers: i.e., engage in rent seeking behaviour. This can still occur even when there is no trade union organisation, since skilled workers cannot be easily or cheaply replaced.[8]

Insider-outsider theory challenges the classical competitive model of wage determination, which holds that there is no room for bargaining over any rents between insiders at the expense of outsiders. In the classical model wages are set by the

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[8] "Insider-outsider" theory essentially views labour turnover costs as an economic rent which insiders tap, generating involuntary unemployment for outsiders. These costs range from "harassment" to hiring, training and firing costs. See A. Lindbeck and D. Snower, 'Wage Setting, Unemployment and Insider-Outsider Relations', American Economic Review, 76, 1986, pp.235-9; A. Lindbeck and D. Snower, 'Cooperation, Harassment and Involuntary Unemployment: An Insider-Outsider Approach', American Economic Review, 78, 1988, pp.167-88; A. Lindbeck and D. Snower, 'Wage Rigidity, Union Activity, and Unemployment', in W. Beckerman (ed), Wage Rigidity and Unemployment, London, Duckworth, 1986, pp.97-125; A. Lindbeck and D. Snower, 'Efficiency Wages Versus Insiders and Outsiders', European Economic Review Proceedings, 31, 1986, pp.407-16.

competitive market and insiders and outsiders are equal.[9] This competitive model has been questioned at least since the 1950s, however, because it had often been noted that certain wage differentials cannot be explained simply by demand and supply conditions for labour.

The last decade or so has seen even greater interest in the labour economics of wage determination, largely in an attempt to explain persistent unemployment in the face of classical economic assumptions. Unemployed workers do not seem to make the wage-cutting offers expected of them, which poses problems for classical competitive assumptions about the labour market. It serves to underline the general limitations of rational choice theory.[10]

In the absence, however, of economic explanations of the passivity of outsiders, labour economists have focused on the insiders and their bargaining over pay determination. The fact that outsiders do not make the most "rational" use of their market position gives the insiders an even stronger capacity to exploit their own market position. In wage bargaining models, the equilibrium wage is positively related to the employer's profitability. Thus, if we imagine that a trade union is

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[9] D. G. Blanchflower, A. J. Oswald and M. D. Garrett, 'Insider Power in Wage Determination', Economica, 57, 1990, pp.143-70.

[10] As Robert Solow writes: 'I hasten to confess that I, personally, do not find this reluctance to be so great an intellectual problem; but that is only because I, personally, do not find it hard to imagine that the unemployed do so little undercutting of the wage because they think it is an improper or undignified thing to do, and because they would not like others to do it unto them if roles were reversed, as they might be next time. But I realise full well that this is not the way economics is supposed to model the world, and so I mention it only as a Galilean remark (i.e., something best muttered to oneself)'. Robert M. Solow, 'Insiders and Outsiders in Wage Determination', Scandinavian Journal of Economics, 8, 1985, pp.412-13.

indifferent to employment because of a "layoff-by-seniority" rule or because the costs can be passed on to other groups, the possibility arises that a fall in employment can produce higher wage demands as the insiders who are left share out the available rents rather than letting in outsiders.

Most recent writing on the utility functions of trade unions assume that the union is concerned with real wages and employment in the industry. There are then two related ways to proceed. In the first, which Oswald describes as the "monopoly model", the union attempts to maximise a quasi-concave utility function of real wages and employment while taking the labour demand curve as given.[11] The union fixes the wage, and the firm sets employment (this approach is somewhat at variance with the facts, since unions seldom unilaterally set the wage rate). The union's preferred wage rate is then found at the point at which the marginal benefit from raising the wage (the increase in utility for each worker multiplied by the number of workers) equals the marginal cost (the decrease in utility for each worker made unemployed multiplied by the number of workers who lose their jobs). This model predicts that an increase in variables such as unemployment benefit and employment subsidies to firms will raise the preferred union wage rate, but changes in the prices of some other variables, such as the CPI, can have ambiguous effects.

The second approach is the "efficient bargains" model, which views the union and firm as bargaining over their positions on a contract curve, and jointly agreeing on wages and employment. Efficiency theory holds that the equilibrium reached in the monopoly model is inefficient because the outcome reached is simply the point at which the union's desired wage rate, represented by a tangency curve of indifference points between

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[11] A. J. Oswald, 'The Economic Theory of Trade Unions: An Introductory Survey', Scandinavian Journal of Economics, 2, 1985, pp.160-193.

wages and employment, touches the firm's labour demand curve. Instead, it may be the case that the union maximises its utility function in respect of some minimal level of profit, which opens up an unlimited number of possible efficient equilibria at points of tangency between the union indifference curve and iso-profit contours. If the union maximises profits and not just a utility function, much more is possible: there are wage-employment points at which both actors are better off.[12] The locus of such points where efficient bargains are possible is the contract curve.

The efficient bargains model is similar to the more general model of corporatist cooperation we have outlined so far. Under efficient bargaining, the union obviously has to have some say over the level of employment, since there is little point in bargaining over a variable that the firm will set unilaterally in any case. This is the more so because everywhere along the contract curve the marginal revenue product of labour is less than the supply price of labour; in other words, the union is squeezing profits to obtain excessive wages and/or employment. At the point at which the contract curve intersects the zero-isoprofit curve, the firm has no profits left to squeeze.

In efficient wage theory it seems that employment, more than the wage, is susceptible to reduction in a recession or downward business cycle. This is because the firm would prefer a lower rate of employment at the bargained wage, and in recession this employment reduction is rather unavoidable. But for the union to accept a lower rate of employment the firm would have to compensate by raising the wage for the remaining workers (all within the constraint of the iso-profit curve).

Efficient wage theory, then, also provides a possible explanation for the downward stickiness of real wages in a

[12] For a discussion of efficient bargains, see I. M. McDonald and R. M. Solow, 'Wage bargaining and Employment', American Economic Review, 71, 1981, pp.896-908.

recession. In sum, the labour economics literature suggests that it may be quite rational for insiders, that is, workers and employers, to share the rents skimmed off consumers at the expense of unemployment for outsiders.

An important variable with implications for our analysis is union membership. If trade unions include in their utility function maximisation of membership, this could mitigate somewhat any tradeoff between employment and real wages. In most of the literature membership is assumed to be exogenously given at a fixed level. Kidd and Oswald, however, have recently developed a model which is more in accordance with the facts; namely, that unions face choices along a intertemporal maximisation curve.[13] In this case, membership is endogenously given, and is dependent on employment (an assumption which is supported by both macroeconomic and microeconomic evidence). Unemployed workers are assumed to leave the union, and new workers to join it. If the union is utilitarian, and cares about membership (because more members means more utility), then we have a counterforce operating against the implications of insider-outsider theory.

In view of the fact, however, that trade unions face a prisoners' dilemma of cost distribution, it seems that maximising overall utility through maximising membership at low real wages is a strategy that requires precisely the level of inter-union cooperation that we are investigating. Why should individual members, already employed and hence insiders, prefer to maximise some aggregate utility rather than their own? It is by no means clear that union members are, in the absence of a highly integrated consensus over the distribution of restraint, utilitarians in this sense.

Thus insider-outsider theory can be supplemented by a model which predicts that in foul weather union members and the union

[13] D. P. Kidd and A. J. Oswald, 'A Dynamic Model of Trade Union Behaviour', Econometrica, 54, 1986, pp.355-365.

leadership will face a conflict of interest over not only relative wage levels but also membership. In the following sections we examine the logic of the prisoners' dilemma at this lower level of union interaction and show that there are yet further grounds for questioning the capacity of centralisation and corporatist arrangements to secure cooperative wage restraint in foul economic weather.

2.2. The "New Institutionalism".

What exactly are the capacities of centralisation, in a game theoretical sense, to enforce or achieve cooperation between a large number of actors? As Colin Crouch writes:

> 'There does seem to be a case for taking seriously the argument that, once economic actors have become organised, the sociopolitical context most likely to be consistent with relative freedom from economic distortions will be one that encourages coordination of action and centralisation of organisation rather than one that tries to reproduce among organised interests situations analogous to a free market'.[14]

We have seen that encompassing, centralised actors are more likely to cooperate, in a prisoners' dilemma situation, due to the "size effect", but centralisation may be a poor predictor of corporatist performance because cooperation and consensus between low and high pay groups are a necessary condition to prevent centralisation relying on compulsion.[15]

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[14] Colin Crouch, 'Conditions for Trade Union Wage Restraint', in Leon Lindberg and Charles S. Maier (eds), The Politics of Inflation and Economic Stagflation. Theoretical Approaches and International Case Studies, Washington DC., The Brookings Institution, 1985, p.137.

[15] See Matti Pohjola, 'Corporatism and Wage Bargaining', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.76.

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According to the bargaining theory of trade union interaction, corporatist cooperation among a large number of actors appears to be difficult to account for and these actors must voluntarily accept the centralised plan negotiated by the more encompassing organisations which represent unions at the peak level. Despite this it remains true that effective centralisation represents the institutional "glue" which is missing from the more atomistic rational choice approach of equilibrium theory. The "new institutionalism" in economic theory is concerned with structural features and procedures which counter the otherwise instability of decentralised cooperation.[16]

The emerging theory of "structure-induced equilibria" notes how organisational forms of interaction strengthen the capacity of rational actors to achieve and sustain cooperative strategies in a capitalist distributional-struggle context. These begin with the observation that institutions can function to enhance the enforcement of agreements. Thus, central organisations can function as an "HQ" which punishes free-riders, either by expelling them, withholding incentives and/or the benefits of cooperation, or by imposing rewards on the remainder of the group.[17] Another potential stabilising factor is the intervention of "leaders" acting as rational agents within institutions

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[16] For a useful discussion, see Kenneth A. Shepsle, 'Studying Institutions. Some Lessons From The Rational Choice Approach', Journal of Theoretical Politics, 1, 2, 1989, pp.131-147; J.C. March and J.P. Olsen, 'The New Institutionalism: Organisational Factors in Political Life', American Political Science Review, 78, 1984, pp.734-49.

[17] Jonathan Bendor and Dilip Mookherjee, 'Institutional Structure And The Logic Of Ongoing Collective Action', American Political Science Review, 81, 1, 1987, pp.129-154.

equipped with "trigger strategies and punishments" to enforce cooperation.[18]

Other theorists are suspicious of attempts by rational choice theorists to modify their self-interest models by incorporating these utility-influencing aspects of institutions and stress instead the functional importance of institutions for integrative social norms. As Bo Rothstein points out, norms modify instrumental rationality within institutions because the institutions force actors to confront the moral consequences of their strategies.[19]

The new institutionalism is still undecided as to the conditions under which institutions can successfully overcome the free rider problem. The literature clearly recognises a number of constraints and difficulties with this form of explanation. Thus, the use of trigger strategies and punishments requires stringent informational and monitoring requirements, the use of punishments depends on leadership capabilities and credibilities, leadership responses need time for implementation, experimentation and maturation, and the approach tends to assume away Michel's "iron law of oligarchy".[20]

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[18] William T. Bianco and Robert H. Bates, 'Cooperation By Design: Leadership, Structure, And Collective Dilemmas',American Political Science Review, 84, 1, 1990, pp.133-147.

[19] Bo Rothstein, 'Just Institutions Matter. The Moral Logic Of The Universal Welfare State', paper presented at the 1992 Annual Meeting of the American Political Science Association, Chicago, September 3-6, 1992.

[20] The assumption of perfect information, in particular, seems very important, because cheating becomes irrational through the welfare loss caused by retaliation, which requires the immediate detection of cheating. Alain Haurie and Matti Pohjola, 'Efficient Equilibria in a Differential Game of Capitalism', Journal of Economic Dynamics and Control, 11, 1987, p.76. See also Wolfgang Streeck, 'On the Institutional Conditions of Diversified Quality Production', in Egon Matzner and Wolfgang Streeck (eds), Beyond Keynesianism. The Socio-Economics of

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In this thesis we offer the fair weather/foul weather distinction as a key part of the puzzle. In most accounts of the role of institutions in securing cooperation, it is noted that the weaknesses of centralisation are countered by iteration. As we saw in Chapter One, the "shadow of the future" is crucial in the sense that the actors must not discount the future too heavily. Fair economic weather is likely to increase the potential gains to be made from cooperation and shorten the waiting phase between cooperation and results, enabling a Nash or Stackelberg equilibrium to be achieved around a *growth-strategy*. But in foul weather, future gains might recede into the far distance, so that gains only become achievable at the cost of some other actors.

The gains from cooperation in foul weather, as we have argued, must instead be characterised in terms of the collective limitation of *costs*. In this case, the rational choice problems of a corporatist cooperation which depends on a growth-strategy emerge in a strengthened form and "insider-outsider" theory may become much more apposite to wage bargaining behaviour even with the presence of integrative institutions.

Michael Wallerstein develops this line of thought by making a distinction between unions which are <u>complements</u> in production (meaning a wage increase for union A negatively affects other workers in union B) and unions which are <u>substitutes</u> in production (meaning increases for union A lead to increases in employment and/or wages for union B). He argues that centralisation functions to unite unions which are otherwise in conflict by internalising the effects of wage increases on <u>all</u> union members, but notes that this conflict still poses problems for cooperation:

<u>Production and Full Employment</u>, London, Edward Elgar, 1991, p.56.

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> 'There may be times when union members find the prospect of poorer aggregate economic performance less repellant than assenting to a wage distribution that they regard as unfair'.[21]

This is precisely the sort of problem that we intend to investigate in this chapter by making a distinction between the rational interests of the central organisation and high and low pay groups in fair and foul economic weather.

The debate over how effective institutions really are reflects a central issue in political economy: recognising the existence of distributional conflict. Mainstream economic theory tends to assume this conflict away, by narrowing the focus to the unreality of a market equilibrium which is disturbed by "imperfections" which, upon closer examination, are only reduced by changing the balance of power in the distributional struggle.[22] Corporatism, in contrast, emphasises the institutional framework for providing societal consensus around a collective strategy which maximises gains in such a way that distributional conflict is contained. As Michael Kalecki argued in the 1940s, in the absence of an institutional framework for achieving this societal consensus over income distribution, the consequences of rational behaviour by actors under capitalism must lead to the political infeasibility of collective outcomes which entail full employment.[23]

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[21] Michael Wallerstein, 'Centralized Bargaining and Wage Restraint', American Journal of Political Science, 34, 4, 1990, pp.999.

[22] Andrew Henley and Euclid Tsakalotos, 'Corporatism, Profit Squeeze and Investment', Cambridge Journal of Economics, 15, 1991, pp.425-450.

[23] Michael Kalecki, 'Political Aspects of Full Employment', Political Quarterly, 14, 4, 1943, pp.322-30.

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But, as increasingly becomes apparent, it is not the degree of institutional centralisation in the labour market which alone determines the degree of cooperation, but instead the degree of shared consensus and "political exchange", by which is meant a common understanding of how the economy works and shared objectives concerning future outcomes.[24] The actors in the corporatist exchange must, typically, share an understanding of the economy which entails the sort of economic modelling we saw in Chapter One. That is to say, over iteration they can see that the benefits of mutual cooperation outweigh the gains of mutual defection. The key element in this equation, by definition in a capitalist economy, is the extent to which cooperation or wage restraint by wage earners is rewarded with investment, technology and aggregate demand conditions regarded as *satisfactory recompense* by wage earners. This, in turn, depends upon α and β, corporate strategy, and the design of government policies.

It is also typical, in a corporatist political economy, for these conditions to be most often met under a social democratic or Left political incumbency. In fair weather, the virtuous circles implied by such an argument imply that growth would enable an expanding stable, social democratic administration, macroeconomic, microeconomic, fiscal and monetary policies aimed at maintaining full employment and maximum competitiveness, and thus optimal levels of technology adaptation, efficient investment, and real productivity gains.[25]

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[24] A. Pizzorno, 'Political Exchange and Collective Identity in Industrial Conflict', in C. Crouch and A. Pizzorno (eds), The Resurgence of Class Conflict in Western Europe Since 1968, London, Macmillan, 1978, pp.277-98.

[25] For a discussion on "virtuous circles of class cooperation", see Francis G. Castles, The Social Democratic Image of Society, London, Routledge and Kegan Paul, 1978, pp.124-128.

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But in foul weather, the dependence on growth and investment stability would become a weakness. In foul weather, poor growth is unavoidable, and full employment requires real costs to be distributed and not just gains. Since gains are not available the shared consensus enjoyed during the period of fair weather could disappear, as the underlying distributive conflict that had been smothered by the economic growth reasserted itself.[26] Such a conclusion appears to negate, in part, the claims made for integrative institutions by the corporatist theorists. To the game theorist, however, the cooperative solution still remains the best long-term strategy over iterations. To sum up, while some scholars are beginning to argue that a system of 'flexibly coordinated systems' is better suited to international economic competition, a sizeable doubt remains as to the capacity for actors to cooperate in foul weather, when the question is how to distribute not gains but costs.[27] In the following sections we explore this distributional conflict and its consequences for cooperation among trade unions in a corporatist setting.

2.2.1. The Central, Peak Federation.

Among the trade union actors in the corporatist exchange, the central, peak trade union confederation is unique in respect of the fact that it functions at the interface of representing

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[26] Note that here most of the examples of declining corporatism were given as the Netherlands, the UK, Germany, and Italy. Countries such as Austria, Sweden and Norway were thought by Gerhard Lehmbruch to have sufficient "structural conditions" for success. See Markus M.L. Crepaz, 'Corporatism In Decline? An Empirical Analysis of the Impact of Corporatism on Macroeconomic Performance and Industrial Disputes in 18 Industrialised Democracies', Comparative Political Studies, 25, 2, 1992, pp.140-41.

[27] David Soskice, 'The Institutional Infrastructure for International Competitiveness: A Comparative Analysis of the UK and Germany', in Anthony B. Atkinson and Renato Brunetta (eds), Economics for the New Europe, New York, New York University Press, 1991, p.48.

the material interests of affiliates and their members and "public" or collective interests at the level of the political economy as a whole.

From a rational choice perspective, the pre-eminent interest of the central union organisation is to maintain the conditions for its reproduction and to increase its "power"[28]. This latter variable can be measured by the organisation in terms of authority and influence over the trade union movement as a whole, and by what Claus Offe calls "the attribution of public status" by government.[29] Power can be enhanced by a high rate of mobilisation, a strong financial position and a wide breadth of policy responsibility, particularly in wages strategy. It can be increased by the granting of special rights, subsidies and privileges on the one hand, and reduced by the imposition of obligations, expectations and restrictions on the other.

The peak organisation, however, can never usurp the fundamental autonomy of its affiliates. Constitutionally and normatively, power is likely to be partly decentralised. The peak organisation must achieve its aims therefore by representing and serving the expressed interests of its affiliates and their members. To the extent that it can shape and exert influence over the formulation of these interests, its probability of being decisive is further enhanced, and this power increases automatically in fair economic weather. However, the peak organisation depends upon providing certain indispensable

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[28] The rational choice literature has not developed an adequate theory of "power" thus far, preferring to conceptualise it in terms of the probability of an outcome being reached (usually in a voting situation). Here we use power to refer to the probability of an actor achieving its policy goals. Factors which enhance the probability of goals being realised are said to contribute to the actor's power.

[29] C. Offe, "The Attribution of Public Status to Interest Groups", in C. Offe, Disorganised Capitalism, Cambridge, Polity Press, 1985, pp.235-6.

services. If its services are not needed, the peak organisation will lose some of its potential sources of influence.

Due to the requirements of coordination among a collection of unions which are spatially and functionally dispersed, the central organisation has a foundational reason for its existence.[30] But the key issue for the purpose of our enquiry is whether or not the peak organisation shapes, controls or directs the process of formulating and bargaining a wages policy. If a trade union movement lacks the capacity to coordinate and sustain a wages strategy, it is not a viable partner from the point of view of government and employers. This capacity depends to a large extent on the role of the peak organisation, hence its power in this area is crucial.[31]

Whether this latter service is as indispensable as some of the others mentioned, however, depends upon the degree to which

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[30] The central body provides information, rationalises certain functions with economies of scale, supplies a strike fund, and employs professionals in numbers which smaller unions would be unable to afford. It also plays a political and symbolic role of leadership, dealing with the public through the media and providing a high-powered delegation of officials to deal with government and employers' groups. For a discussion of the processes of centralisation (at the national trade union level) which result from the interest held by some employers in placing a floor under low wages, see L. Ulman, The Rise of the National Trade Union: The Development and Significance of its Structure, Governing Institutions, and Economic Policies, Cambridge, Harvard University Press, 1955.

[31] According to our rational actor model, we would expect the peak organisation to prefer to have maximum influence over the direction of wage strategies. This influence could range on a continuum from proffering advice and facilitating negotiation between affiliates (e.g., no poaching agreements), to actually acting as agents for the affiliates and carrying out wage negotiations on their behalf with employers and/or government as part of the peak federation's service. See Richard A. Sandlant, The Political Economy Of Wage Restraint: The Australian Accord And Trade Union Strategy In New Zealand, unpublished MA thesis, University of Auckland, New Zealand, 1989.

affiliates and their members perceive that they are unable to achieve similar gains on their own. The success of the peak organisation, therefore, must depend upon achieving tangible results for affiliates, or at least upon their perception that the next alternative, namely the affiliates determining independent wage strategies in a decentralised environment, would lead to a worse outcome.

The central trade union federation, then, is defined in our model as having a mixture of rational interests or utilities, some of which are given from its position as an encompassing actor with responsibilities for the collective outcomes produced by the political economy and some of which are much more determined by the particular interests of affiliates and their members. A useful way to understand the *layered nature* of the strategy choices adopted by the central organisation is the "nested games" approach developed by Tsebelis.[32]

In fair and foul weather, the central organisation is likely to prefer at level one a strategy choice which optimises the collective interests of its affiliates. But at level two the individual interests of powerful affiliates and their members are the dominant preference. Corporatism, we argue, can achieve a harmonisation of both of these preferences in fair weather, but in foul weather the second level predominates. At level two the central organisation has a choice between siding with the government and employers against the unions, or leading the unions in the direction they want to go. Most central federations, we might say with little controversy, would choose to lead their unions to the best of their ability. Thus in foul weather the underlying power of the affiliates over the central federation is likely to weaken any capacity of *purely centralised*

[32] George Tsebelis, Nested Games. Rational Choice in Comparative Politics, Berkeley, University of California Press, 1990.

integrative institutions, leadership, trigger strategies and punishment phases, to prevent uncooperative wages distributions.

2.2.2. High Pay Unions.

The rational interests of high pay unions can be modelled as those of the leadership counterbalanced by the membership. All high pay union members, we can say with little controversy, have an interest in maximising their incomes.[33] The union leadership will measure their success, in large part, in terms of meeting this demand for results.

High pay unions, however, are likely to seek to maximise their wage share, even at the expense of profits and the wage share of other workers. Since high pay unions are typically to be found in high profit sectors, this will mean that on average high pay unions can achieve a significantly higher rate of wage increase than low pay unions. This wage differential will therefore increase, in the absence of mechanisms such as a solidarity framework, which are designed to keep the relative pay rates in line.

The leadership of the high pay unions will be aware that this comparative advantage is a major interest of their members. Since pay is the currency not only of income but also of power and influence for the leadership, union leaders will have a strong sense of what their members' "worth" is relative to the expected gains of other groups.

High pay unions also have a structural capacity for pursuing high rates of pay. The high profit sectors they work in are more likely than low profit sectors to be able to pass extra costs on

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[33] Fishbein cites a study of incomes policies prior to 1970 in Britain which concluded that trade unions did not cooperate because wage restraint "contradicted their fundamental mission" to secure the "best possible terms of employment" for their members. W.H. Fishbein, Wage Restraint by Consensus, Britain's Search for an Incomes Policy Agreement, 1965-79, Boston, Routledge and Kegan Paul, 1980, p.227.

in the form of higher prices, or to absorb the higher wage share through increased productivity. High pay unions may contribute to inflation through their labour market strength in sectors of an economy, but they also are the best placed group to be able to withstand inflationary pressure reducing their real income. Labour market strength allows them to index their wages to inflation or do better, while their high pay status softens the burden of higher prices for the necessities of life.

Pressure from international competition, however, would provide a greater restraint than the domestic market, so that high pay unions in open and vulnerable sectors would be expected to be more conscious of limits to wage growth.[34] Also, high pay union leaders at some point still face a trade-off between wage gains and membership growth. The trend rate of membership growth and the degree of importance attached to high membership will be a constraint on high pay wage strategies. High pay unions, then, would be expected to become more conscious of limits to their wages growth in foul economic weather, since in those conditions wages growth might threaten future employment and hence membership levels. But still, overall, of the three trade union actors in our model, high pay unions would be expected to have the least interest in a corporatist policy of wage restraint. High pay union members' strong labour market position, often a function of scarce skills or investment in training, gives them greater job security and less concern with reducing unemployment in other industries affected by economic rationalisation. High pay unions are predicted by rational choice theory to defend their wage differentials, to maintain their status and hence to preserve autonomy in wage bargaining.

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[34] Colin Crouch, 'Trade Unions in the Exposed Sector: Their Influence on Neo-Corporatist Behaviour', in Renato Brunetta and Carlo Dell'Aringa (eds), Labour Relations and Economic Performance, London, Macmillan, 1990, pp.68-91.

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In a corporatist system of wage restraint, where the objective is, in part, to boost the profit share of national income so that investment and production growth follow, high pay union members would have to exercise wage restraint in sectors which already enjoy high profits. High pay unions will thus also be expected to oppose a widening of the gap between wages and profits. Such growth would make wage restraint appear unnecessary and against the members' interests. High profit firms would benefit disproportionately, and high pay members would expect their leadership to gain a larger share of the income available.

Several possibilities exist as motivation for high pay unions to contribute to a wage restraint strategy. The first is that, the alternative would be a complete failure of the trade union movement to achieve a corporatist solution, since the low pay unions would not cooperate either in such a situation. Thus, high pay unions might conclude that the generalised economic costs incurred as a result of their wage strategy in the long term outweighed their short-term benefit. The second is that international market pressure could make high pay unions vulnerable to redundancy and unemployment, and threaten membership growth rates.[35] We argue that the dampening effect of foul economic weather on wage growth may be enough to induce some voluntary wage restraint, but that it is not likely to be enough to induce cooperation by high pay unions with a wider corporatist wage restraint strategy. The third is that high pay unions might exchange the wage restraint necessary to sustain a corporatist strategy for other gains. These can be delivered in a number of ways: either through the public sphere via state intervention or

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[35] Survey evidence indicates that high pay unions might support wage restraint if unemployment is high and inflation is rising. See K. Armingeon, "The Compatibility of Economic, Social, and Political Goals in Incomes Policies", in H. Keman, H. Paloheimo and P.F. Whiteley (eds), Coping with the Economic Crisis, London, Sage, 1987, p.118.

through negotiation with employers over fringe benefits, working conditions, productivity deals, and so on.

A fourth possibility is to allow the high pay unions effective exemption from the policy. This can be achieved by creating a second round of wage bargaining for stronger unions and/or restricting the pay norm or guideline to a minimal level. Evidence of high wage drift (the gap between contractual and actual wages) in fair weather corporatist countries would indicate that this strategy was being used. High pay unions can also be given the right to opt out of compliance with the national award, letting potential troublemakers leave without taking too many other unions along with them. However, in both these cases, it has to be explained how the low pay unions cooperate in the face of such uneven advantage, and how the policy of wage restraint can have much meaning when high income sectors of the trade union movement are not even participating.

Incomes policies should be expected, on the basis of rational choice theory, to fly apart at the seams given the existence of conflicts of interest among the cooperating parties. There are many candidates for destabilising tendencies. The timing of the policy, for example, can lead to differentials between unions who have already settled high wage deals and those whose bargaining strength has to be restrained by adherence to the incomes policy. The coverage of the agreement can be so narrow that it makes a mockery of the term "incomes policy", or so broad that strong groups are frustrated by the existence of tantalisingly high profits in their sectors. A flat rate element in the wage policy might allow low pay groups to improve their relative position (such a solidaristic or egalitarian wage rule appears to be quite common in corporatist arrangements, indicating that it was a necessary element to gain the support of the low pay unions). But the question remains, how can high pay unions sacrifice their own rational interest, if in fact they do?

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The answer we offer in this thesis is that, in fair economic weather, the interests of high pay workers in maintaining both real incomes growth and sufficient differentiation in wages from low pay workers, can be maintained without threatening the collective interest or the competitiveness of the general political economy. If α is high enough and growing, then "cooperation" with a wage restraint strategy on the part of high pay workers need not entail threatening either of these interests. In foul economic weather, however, where a wage restraint strategy designed to maintain output growth and employment necessitates high pay workers sacrificing their level of wages growth and/or narrowing their degree of wage differentiation, the stability of a corporatist agreement is likely to become upset by precisely the factors we have identified.

2.2.3. Low Pay Unions.

Rational members of low pay unions will have interests in maximising their own share of the national income as well. But low pay members will also want to close the gap with other unions' wages, particularly when other union sectors make great gains. This explains the "ratchet effect" of wage growth in centralised negotiating systems where an incomes policy does not have a restraining effect: high pay unions achieve substantial gains which are then "passed on" to weaker unions through legal provisions for comparability.

This also indicates that low pay unions will have an interest in delegating wage bargaining power to centralised union organisations, whenever they calculate that a peak federation will promote wage levelling between high and low pay sectors and ensure that the gains achieved by high pay unions can be passed on. If this is the case, low pay unions should be the greatest supporters of a centralised wage fixing system and the greatest

opponents of decentralisation and flexibility in wage determination.

Centralisation of pay negotiation might also represent a conduit for other gains to low pay unions. A corporatist arrangement with government, in which the peak trade union delivers the wage restraint of high and low pay unions, might produce pay-offs such as tax trade-offs which the low pay union lacks the power resources to achieve on its own.[36] Low pay unions will have an interest in marshalling the power resources of other social institutions in its favour, principally the peak trade union federation, but also government, in order to obtain the redistributive benefits of government intervention and subsidisation.

Low pay unions will also be aware that the alternative to a corporatist system is likely to be a flexible labour market to which low pay unions are particularly vulnerable. Since low pay unions exist in low profit sectors, unemployment is a greater threat than it is for high profit sectors. While there may be shortages of labour in some high pay sectors even in the midst of a recession, low pay sectors are nearly always open to new labour market entrants. Competition is sharper in a slack labour market, and union viability is correspondingly weakened.

However, low pay unions might find it extremely difficult, at the same time, to participate in a wage restraint strategy. Whereas the leadership of low pay unions might see benefits from participating in a corporatist system, the members of the union might see the concept of wage restraint as another excuse to reinforce their low pay status. Low pay members are more likely,

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[36] On levelling high wages down as a means to reduce the pressure on tax and fiscal mechanisms of redistribution, and thus as the primary quid pro quo for wage-restraint from low-pay unions, see B. Wootton, The Social Foundations of Wage Policy, London, Allen and Unwin, 1962, pp.189-90.

therefore, to find the notion of participating in a strategy of wage restraint as normatively unacceptable.

This means that low pay unions are more likely to demand of a corporatist system that they must bear relatively less of the burden of restraint. Their leadership can argue, with the backing of normative traditions in the labour movement, that low pay members should actually improve their position in the labour market.[37] Low pay members will feel that they come top of the list of union members who need the most protection from exploitation by capital. Low pay unions will be expected to drive for the burden of wage restraint to fall on high pay unions, while the public sphere will be expected to act as a redistributive conduit.

Three broad types of incomes policy designed to meet the demand by low pay unions for special consideration can be identified:

1. Incomes policies which provide for the low pay to be excepted from national norms and guidelines.
2. Incomes policies which allow specific increases to groups of wage earners, but which include provisions favouring the low paid.
3. Incomes policies which primarily make use of flat-rate increases, having the effect of reducing percentage differentials.[38]

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[37] For the view that inclusion of low pay criterion in incomes policies is little more than a cynical "totem", designed to secure low-pay union support for cooperation but with little effective impact on comparability, see B. Towers, British Incomes Policy, Occasional Papers in Industrial Relations, Universities of Leeds and Nottingham, 1978; also R. Hyman and I. Brough, Social Values and Industrial Relations: A Study of Fairness and Equality, Oxford, Basil Blackwell, 1975.

[38] See R. Steele, "Incomes Policies and Low Pay", in J.L. Fallick and R.F. Elliott (ed.s), Incomes Policies, Inflation and Relative Pay, London, Allen and Unwin, 1981, p.128.

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The leadership of low pay unions are likely to measure their success in terms of meeting the expectations of members for upward levelling of the wages share, and for diminution of the rate of exploitation. Low pay unions will be looking for some concrete gains from an incomes policy strategy.[39] If the union movement appears to be dominated by the interests of the stronger, high pay unions, the low pay unions will tend to break away and the authority of the central peak federation will suffer accordingly.

It is also likely that the union leadership of low pay unions will be radicalised by the high rate of exploitation in low pay sectors. Low pay union leadership may actually prefer to represent their members in an economy characterised by a normal state of labour market struggle over the economic pie than in a corporatist economy which extracts wage restraint. This is because the risk of the wage restraint strategy failing to deliver any gains to the trade union movement is greatest from

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[39] Steele argues that the experience of low-pay trade unions in Britain during the incomes policies of the period 1968-1979 demonstrates that incomes policies did little to improve the relative position of the low paid, despite this objective having a high profile in the stated aims of the policy. He writes: "On balance the 'decade' of incomes policies has hardly even led to a maintenance, let alone an improvement, of the relative position of low-paid industries; indeed in the aggregate it led to a fall". See R. Steele, "Incomes Policies and Low Pay", in J.F. Fallick and R.F. Elliott (ed.s), Incomes Policies, Inflation and Relative Pay, London, Allen and Unwin, 1981, pp.141-42. Swenson, on the other hand, notes that the Swedish "solidaristic wage policy", designed to increase the relative rate of low-pay earnings while also delivering redistribution through social policy, has achieved an "astonishing compression of pay levels since the 1950s" and a large welfare state financed by progressive taxes. P. Swenson, Fair Shares, Unions, Pay, And Politics In Sweden And West Germany, London, Adamantine Press Limited, 1989, p.6. See also C. Crouch, "The Drive for Equality: Experience of Incomes Policy in Britain", in L. Lindberg et al (ed.s), Stress and Contradiction in Modern Capitalism, Lexington, Mass., Heath, 1975, pp.223, 229.

the perspective of low pay union leaders. If they challenge their own definition of class interests by cooperating with employers, only to find that the collaboration was a failure, their loss of credibility is very costly. High pay unions are not as badly hurt by the collapse of a wage restraint strategy, since in most cases it means they can achieve higher gains than during the policy. The failure of an incomes policy would have different implications for low pay unions, where it would imply that their employers would have an excuse to get "tougher". In contrast to the risks attending participation in a corporatist incomes policy, some low pay union leaders will find life under more "normal" conditions of class struggle easier. The leadership can appeal to the exploitative nature of the system as the cause of high unemployment and low wages in their sector, and present their own activity as the only defence of low pay workers' interests.

The ideal incomes policy from the perspective of the low pay union will consist of a slow-down in the growth of higher wages or even wage reductions at the higher end of the wages structure. Low pay unions would want to see government intervene to provide some concrete gains for their members in the form of employment growth financed by fiscal expenditures, or tax cuts to low pay incomes, or investment in troubled sectors, or the reduction of inflation.[40]

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[40] The Swedish strategy, which we examine shortly, is often viewed as use of wage restraint as a means to achieve wage levelling. Supra-industrial bargaining enables the achievement of uniform wage rates within industries, with the intention of avoiding the conflict that would arise from some groups achieving more through "ability to pay" criterion. The result is expected to be lower average wage growth and less wage rivalry, both of which are supposed to relieve pressure on inflation. See A.M. Ross, Trade Union Wage Policy, Berkeley, University of California Press, 1948, p.48; also, with respect to West Germany and the United States, see R.B. Freeman and J.L. Medoff, What Do Unions Do?, New York, Basic Books, 1984, pp.61-73. When we examine

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The most interesting question is whether low pay unions can be expected to support a corporatist incomes policy when the likelihood of absolute sum gains is minimal. The government, for example, may face a fiscal crisis which prohibits tax cuts and instead requires cut-backs in government expenditure. Is it possible that low pay unions might support a wage restraint strategy because the outcome would be to minimise cost rather than maximise gain?

Our argument is that, in foul economic weather, the low pay unions are just as likely, although for their own reasons, to challenge any centralised wage restraint guidelines which entail a reduction in their status. Since we have seen that high pay groups are more likely to "break out" of corporatist wage restraint policies in foul weather, this seems to be a real possibility. In foul economic weather, the conflict between high and low pay groups is likely to be heightened in a way which is not apparent in fair economic weather.

2.3. Cooperation in Fair and Foul Weather.

How can we model the foul weather interaction between the interests of the low and high pay trade unions, the central federation, and employers and government, as an iterated prisoners' dilemma? To capture the iterated nature of the game, it is necessary to model the interaction of these interests over time and to show how the consequences of strategy choices in previous encounters influence collective outcomes in future encounters.

To understand that the situation is a prisoners' dilemma, it is necessary to establish that the game also operates in such a way that the low and high pay groups are faced with a situation in which non-cooperation is a rational choice whether the other

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Sweden we will find that this *growth-based* strategy depends on fair economic weather.

actors cooperate or not, and that collectively all the actors would be better off by cooperating.

The prisoners' dilemma aspect of the game, as we argued in Chapter One, is given by the requirements for wage restraint given in a capitalist economy in fair and foul economic weather. The cooperative solution to the prisoners' dilemma in fair and foul economic weather will consist of a wage restraint strategy underpinned by a set of policies designed to promote employment growth and reduce income inequality. In fair weather, cooperation maximises gains, and in foul weather it minimises costs in such a way that the prospects for future growth are maximised.

The central, peak federation, and the low and high pay groups, must cooperate with capital and the government in a complex exchange which maximises gains and minimises costs. In fair weather, they achieve this by setting rates of wage increase which satisfy two conditions. The first is that they enable increasing material well-being (a growing standard of living), and the second is that they enable the continuing reduction of inequality. Overall growth ensures that cooperation is rewarded by the satisfaction of both conditions. But in foul weather, the actors may simply not be capable of improving material well-being at the collective level without incurring costs at the individual level. Instead, in zero-sum fashion, any particular improvements must be made at the expense of other groups. The reduction of inequality, which we might operationalise as a wages and welfare mix coupled with active labour market policies, becomes sustainable only at a greater *relative cost* to the actors. The maintenance of full employment, most often achieved through public sector employment growth, requires a greater relative share of private incomes to be taxed.

Since low pay actors typically demand that the burden of restraint be spread in such a way that they improve their relative position, the high pay groups are often required to fund

the majority of the restraint. This is not easy to achieve when it is often the low pay workers who are most vulnerable to economic pressures which require wage restraint. The proceeds of the high pay groups' wage restraint are then envisaged to fund investment in growth-sectors of the economy, leading to an increase in employment and an increased capacity to provide for fiscal expenditures designed to support labour placement and social welfare.

Instead, these proceeds could be used to fund high wages for workers in the high pay sectors, where employers often prefer to offer high wages as an inducement to attract higher quality labour, and without the competitiveness of the high pay sectors being adversely affected in the short to medium term. Expenditures designed to provide for employment growth and social compensation aimed at the low pay actors would then have to be funded out of general taxation. In the long term, we argue, the relative costs of this taxation would increase for both low and high pay trade unions and their employers. The high pay groups, and their employers, would then effectively be appropriating a larger share of the national product without any appreciable benefit to the general economy. During corporatist cooperation in fair weather, of course, they would be able to do this without causing a loss of competitiveness or requiring low pay actors to bear a greater relative burden of taxation or wage restraint. But in foul weather, the need for investment in employment-generation and capital requires a reduction in the total wages share of output commensurate with that funding requirement.

How, then, do these actors cooperate under foul weather corporatism, in game-theoretic terms? First, let us consider a "game" between government and the peak trade union federation. We will assume that government in this case is politically disposed to cooperate with the trade union movement, provided it can be

certain that the risk of embarking upon a corporatist policy and losing the cooperation of the trade unions is not too great.

We will assume also that the peak organisation prefers to achieve a cooperative agreement which maximises gains and minimises costs, but is sensitive to the democratic wishes of its affiliates and their members. Table 2.1 presents hypothetical payoffs for such a game involving a peak trade union organisation and government. Let us imagine that a strategy of cooperation for the government

Table 2.1.

Government and the Encompassing Trade Union Actor.

		"Left" Government.	
		Corporatism C	**Non-Corporatism** D
Wage Restraint	C	Active Labour Market Policy; Welfare; Solidarity	Insider-outsider theory; Unemployment
Peak Trade Union			
No Wage Restraint	D	Wage Explosion	High Interest Rates; Distributional Conflict; Restriction of Public Sector Growth

(corporatism) involves making positive contributions to the welfare of trade union members through redistributive policy mechanisms. A non-corporatist strategy, by contrast, does not involve targeting such selective benefits to trade unions, instead it represents a net loss to unions.

The first characteristic to note of such a game is the fact that it is iterative: both players are not looking at a one-off game. Thus the peak trade union can be sure that a (D,C) strategy (offer no wage restraint and receive the benefits of corporatist

exchange) would be unsustainable and would destroy the corporatist bargain. The government would simply change its strategy from corporatism to non-corporatism, shifting the payoffs to (D,D). This would happen even in fair weather, if the costs in terms of unit labour costs became too great, but it is neither necessary nor logically coherent in fair weather.

What does this "logical coherence" refer to? Notice that the degree of wage restraint is entirely relative. Thus, in the midst of fair weather trade unions could be "offering wage restraint" which is enough for those economic conditions but which could become no longer enough in foul weather. In fair weather, the wage-breakout temptation of the (D,C) strategy is less of a problem for actors otherwise tempted to free-ride, since within the confines of a corporatist "wage-restraint" strategy (the (C,C) strategy), high rates of real increases could still be achieved without affecting the competitiveness of the wider economy.

The central, peak federation would be able to ensure continuing cooperation in fair weather much more easily because the gains from cooperation over time would be enough to reduce the pressure for a wage boom. In foul economic weather, however, the incapacity of the economy to support further increases of the same magnitude would, if trade unions then struggled to maintain their rate of improvement, result in a wages boom virtually by definition. Any such failure to achieve "real wage restraint" would eventually necessitate a policy response by government and employers, which would eventually succeed in squeezing wage-restraint out of the unions in any case.

The final outcome of pursuing a (D,C) strategy over iterated games in foul weather, for the trade union federation, would be a type of (C,D) outcome in which trade unions are *forced* to offer wage restraint (in which they are, effectively, cooperating under coercion) under circumstances of high unemployment, legislation

designed to weaken the power resources of the union movement, and increasing pressures for decentralisation and greater sectoral autonomy; i.e., the worst outcome for the peak federation, even with a Left government.[41]

In fair weather, a (C,D) outcome is somewhat different and is somewhat logically incoherent, because it implies that the peak federation cooperates in offering wage restraint while the government responds by tightening fiscal and monetary policy, and allows unemployment to increase. In fair weather, it does not seem likely that such a policy strategy would be necessary or even the preferred option of the Left government. But this could happen in foul weather, if the government perceives that the wage restraint, either offered by the peak federation or achieved after wage drift has been taken into account, is not enough, even with the unions attempting to avoid a wage boom, and that tougher macroeconomic measures are necessitated by the severity of the crisis. Employers could similarly be much more interested in decentralised strategies of wage determination, enabling greater flexibility in labour utilisation.[42]

In an important sense, the wage boom, the failure of government to commit enough resources to employment and investment, and the employers' response to labour market pressures are two sides of the same coin. In foul weather, the shift in the α and β parameters changes the relative value of all previous strategies *by definition*. What was previously wage restraint becomes a wages boom, prudent macroeconomic management becomes restrictive and disinflationary, and efficient management

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[41] For a discussion of forced consumption and employment spreading, see Andrew Glyn, 'Corporatism, Patterns of Employment, and Access to Consumption', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.134.

[42] See Marino Regini (ed), The Future Of Labour Movements, London, Sage, 1992.

at the firm level requires flexible systems of labour utilisation.

Note that in foul weather a (C,D) outcome for government, in which wage restraint has been forced out of the labour market through policies that involve unemployment, does not represent the same gain that a (D,C) outcome holds for the peak trade union. The wages boom represents a very temporary victory for labour. For government, the (C,D) outcome is likely to be much more long lasting. An engineered recession exacts a political cost and becomes difficult to disengage from, and any wage restraint achieved thereby is in an important sense artificial: for quite some time, at least, in any upturn it can be expected that the trade union movement will seek to even the score.[43]

The (D,C) outcome for government is marginally better than a (D,D) result for government for the reason that the distributive conflict is politically and economically more costly than the foul weather non-corporatist equilibrium. The government is likely to take decisive steps in a (D,D) crisis, which will depend to a large extent on the capacity of the peak federation to rein in the wages boom. If it is not possible to return to corporatist cooperation the government will shift to a non-corporatist strategy. Any (D,D) outcome is likely to be only temporary, it will only last as long as it takes for the government's strategy to bite.

The main characteristic to note of this game, then, is that the pay-offs should really be written as:

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[43] It is possible that, as a result of a successful monetarist strategy, the trade union actors might be reduced to a decentralised and disparate set of labour market competitors. In this case, there is effectively no peak organisation left, the whole game changes, and government achieves a (C,D) outcome through market processes which can be expected to be relatively impervious to an economic upturn.

2 - Foul Economic Weather And Trade Union Cooperation

For the Peak Federation

(C, C) > (D, C) = (D, D) = (C, D)

For the Government

(C, C) > (D, C) = (D, D) = (C, D)

That is, the peak trade union really only has a choice between a strategy of mutual cooperation and its worst possible outcome: (C,D). The (D,C) outcome can only represent a temporary gain, the (D,D) outcome a temporary loss, to be followed soon by a greater loss. If we accept that over time the gains to be achieved from mutual cooperation outweigh the sum of gains and losses to be achieved from shifting temporarily among the other strategies, then we would expect the "shadow of the future" to make a (C,C) strategy the dominant strategy for the peak trade union organisation.[44]

Given this payoff ranking, cooperation would also represent the dominant strategy for government in both fair and foul weather, since we assume that a Left government would prefer a successful corporatist policy to a successful non-corporatist strategy, especially if the political costs of making the non-corporatist strategy work were high enough.[45]

If life were as simple as this, we would expect corporatism to emerge smoothly in periods of Left incumbency. But the problem encountered in foul weather is that neither player can expect the other to be able to deliver the material benefits of cooperation, even if they want to. The capacity of these two encompassing actors to cooperate is limited by their dependence on lower level actors. Table 2.2 shows a set of outcomes for the low and high

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[44] In particular, corporatism ensures a role for the peak trade union organisation, while the alternative decentralised scenario represents a net loss.

[45] A Labour government will also know that the problems of sustaining a monetarist strategy will give the more-market Opposition parties the opportunity to claim that they could "do the job" far more efficiently and comprehensively.

Table 2.2.

The Attraction of Corporatism in Fair Economic Weather.

		Corporatism.	
		Fair Weather	**Foul Weather**
		C	D
Wage Restraint	C	Welfare	Cost Distribution
No Wage Restraint	D	Unnecessary	Insider Theory
Wage Restraint	C	Welfare	Cost Distribution
No Wage Restraint	D	Unnecessary	Insider Theory

Strong Union

Weak Union

pay trade union actors from the two possible outcomes of a game between trade unions and the other actors, which include employers, government, and the peak federation. In its games with individual trade unions, the "success" or "failure" of the corporatist system is a measure of the alternative outcomes which can be achieved in a game with the two trade union groups in fair and foul weather. "Fair weather" represents strong political and material support from government, "foul weather" represents strong support, and the continuation of measures designed to maximise equality in the distribution of costs, but only minimal or negative real gains.

Looking at the payoffs in Table 2.2., it can be seen that the choice for both high pay and low pay unions in foul weather is between offering wage restraint in a context of uncertain and unequal costs, or non-cooperation. Here we have used insider-

outsider theory as the best way to characterise the temptation to opt out of the corporatist strategy. The outcome of the (C,D) strategy entails that the distribution of costs is achieved but without the payoffs achieved in the fair weather (C,C) strategy. The (C,C) outcome is only attainable in fair weather, and is preferred to the (D,C) outcome in a centralised system because the latter is not necessary to attain real gains. The (D,C) outcome is of course the best short-term outcome for both types of union, and individual unions might be tempted to free-ride on the cooperation of others in order to achieve this double payoff, but the unions will have a relatively weaker interest in pushing wages growth far enough to destabilise the welfare-generating mechanisms of the corporatist system in fair economic weather. Unions may also view the game as a chicken situation, and reason that the government will be loathe to rely on a non-corporatist strategy which involves unemployment. But in fair weather where employment growth is strong this is less likely to become a difficulty for wage cooperation.[46]

The payoffs for strong unions can be taken as being relatively larger in each of the cells, to represent the higher resistance enjoyed by strong unions to conditions of restraint. Thus, even when wage restraint is achieved from the strong unions (C,D), the loss is not as great as that to weak unions. For both types of unions, the outcome (D,D) is preferred to (C,D), which implies that the costs are unloaded onto "outsiders".

For the peak, central federation, the employers and the government, the payoffs from (C,C) in fair weather are preferred:

[46] It is likely that the central, peak federation will reason that governments are more likely to choose strategies which entail costs in foul weather, so that the chicken-like aspects of the game will weaken at that level. Overall, the (D,C) strategy is risky and unnecessary in fair economic weather, and in an already functioning corporatist system should not have a high probability of occurring.

for the peak federation, the benefit of increased authority and political influence is a major component of the gains which are represented by corporatism, employers enjoy high profits and good growth, and government can expand services and employment without threatening the competitiveness of the economy. The gains from a wage boom do not represent a better outcome for the peak federation, because they represent in effect the breakout of unions from a negotiated wages strategy, diminish the peak organisation's authority, and are only likely to be temporary.

The peak trade union is more likely, however, to passively support the breakout of insiders in foul weather than in fair weather, since in the former case the individual unions will be pressing for their traditional rights and the peak federation will be unable to promise a return to the payoffs achieved in fair weather. If the government shifted from corporatism to non-corporatism, the peak federation would have a more active interest in supporting affiliates who wanted to break away from government guidelines, since in that case the union movement is effectively resisting, if only temporarily, the government's restrictive strategy, while if the peak federation continued to support the government against the wishes of its affiliates morale will be very low and the peak organisation will be held to a certain extent accountable for the state of trade union affairs.

In sum, the preferences of the peak trade union remain the same as in the game with government represented by Table 2.1., but the preferences of the two types of trade unions are far more dependent upon the material outcome of the corporatist strategy than are the preferences of the peak trade union. The affiliated unions do not count the gain of participating in a corporatist political economy in the same way that the peak organisation does. In fact, if we look at the relative outcomes from the point

Table 2.3.

Corporatism in Foul Weather.

		High Pay Unions.	
		Wage Restraint	**No Wage Restraint**
Low Pay Unions	**Wage Restraint**	Low Wages; Little Improvement; High Profits	Wage Breakout
	No Wage Restraint	Wage Breakout	Insider Theory

of view purely of the two types of trade unions in foul weather, this becomes even clearer.

It can be seen in Table 2.3. that the dominant strategy for low pay unions will be non-cooperation, as long as the outcome of (C,C) entails real costs and increasing inequality. The best outcome for low pay unions is (D,C), and they are likely to argue that something approximating this is the fairest outcome. Centralisation and solidarity mechanisms may help to achieve this, but in foul weather the high pay groups are more likely to break out. (D,D) is also always to be preferred by low pay unions to (C,D). For high pay unions, it is likely that (D,D) will be preferred to (D,C), because the latter outcome will entail a narrowing of pay differentials while the former enables the high pay unions to make use of their labour market strength. High pay unions will know that the (C,D) outcome is unsustainable in practice: low pay unions will not supply wage restraint while high pay unions are free to push for increases commensurate with their strength. For high pay unions, then, the (C,C) outcome has to be very high to improve upon the (D,D) outcome, since high pay unions are not as threatened by restrictive policies as low pay unions (although they may be vulnerable to exchange rate changes and international competition). Before high pay unions support

(D,C), then, they must overcome their aversion to pay levelling and accept real cost distribution.

The dilemma here is that, in foul weather corporatism, for both types of unions, non-cooperation is preferred on material grounds to cooperation, unless the payoffs from (C,C) can be made substantial and certain. Low pay unions expect high pay unions to bear the burden of restraint, but high pay unions are likely to prefer (D,D) to this outcome. One solution to this dilemma could be for a third party, namely the government, to step in and add to the payoffs which high pay unions and low pay unions can expect from cooperation. This will shift the dominant strategy to (C,C), making the game an assurance game. But how can government offer selective incentives when the reason for the wage-restraint in the first place is the need to reduce unit costs of production? Government subsidies must be paid for out of general taxation or borrowing, both of which exact a cost to the private sector and threaten to negate the benefits of achieving wage-restraint. Either Government must use negative incentives, or the subsidies must be repaid out of economic development generated by a successful policy.

In foul economic weather, then, the stability of the (C,C) outcome, even over iteration, is weakened by the temptation to free-ride by passing the costs of adjustment onto outsiders. While the encompassing actors may view this strategy as sub-optimal over the medium to long-term, the individual unions are more likely to prefer to maintain their position at the expense of other actors in the political economy.

What exactly does the temptation to become an "insider" consist of, in foul economic weather? Why is it that in the fair weather prisoners' dilemma, the collective solution over iterated games is to cooperate and this becomes rational given conditional cooperation, while in the foul weather prisoners' dilemma, the

Table 2.4.

The Prisoners' Dilemma of Cost Distribution.

		Player A: Co-operate	Player A: Defect
Player B	Co-operate	-1, -1	-3, 1
	Defect	1, -3	-2, -2

collective solution is still to cooperate, but conditional cooperation is less likely?

The question is whether or not cooperation can be sustained when the objective is not to attain some material gains but rather to minimise costs. What happens, for example, when cooperation cannot guarantee material pay-offs to all the participants? Table 2.4. presents some hypothetical payoffs for two actors in a game with a prisoners' dilemma configuration. The payoffs in this game are arranged in such a way that, not only is it better to defect no matter what the other player does, but the only positive outcome arises from free-riding. Cooperating simply shares the cost equitably. The successful free-rider obtains the only gain that is available, at the expense of the other player, who must bear all the cost. The sum of gains and losses, however, for (C,C), (C,D), and (D,C) is exactly the same. Thus, in aggregate terms, it makes no difference whether both players cooperate or one successfully free-rides on the other. Who pays the costs doesn't matter. The (D,D) outcome, however, suggests a scenario in which the failure of both players to cooperate leads to a worse collective outcome.

How can such a model be related to our game-theoretic model of corporatism? If we suppose that the two actors in this example

are trade unions, then we could treat the values here as representing real income variables. Cooperation in this context means wage-restraint. If both players cooperate, their real incomes decline. Obviously, we might ask: why cooperate then? The answer, in this case, is that a rejection of wage restraint by the two unions leads, sooner or later, to economic damage which is of greater (negative) value than the wage restraint. Here we could assume two possible cases: first, that the (D,D) cost is borne directly by the two unions, and is not passed on to other actors who are not participating in this exchange. Thus, perhaps the workers belonging to the unions lose their jobs as a direct result of unsustainable wage increases, or perhaps the firms raise domestic prices in response. In the second case, the costs are passed on to outsiders in the form of unemployment and reduced social compensation for actors excluded from the labour force, but again the outcome (especially over the long term) represents a cost for the insiders. This could be so if the macroeconomic consequences of the high unemployment rate debilitate the general economy through hysteresis effects on training, skills, and investment confidence and generate social and political conflicts which degrade the context in which future gains can be realised.

In the (C,D) and (D,C) cases, one union or group of outsiders bears all the restraint, allowing the other to enjoy a small positive gain in real income. The overall effect on inflation is, however, no better or worse than if the two unions had shared the restraint more equitably. The problem such a scenario poses for achieving cooperation in a corporatist context is, then, that free-riding in this sense is not necessarily going to produce a worse overall outcome than mutual cooperation in the short term. <u>If it is successful</u>, free-riding can net the only positive gain that is available, and not damage the economy. Much

will then depend on what the likelihood of successfully passing on costs is.

Two unions in a situation such as this will only cooperate if neither is unable to successfully free-ride on the other or pass costs onto other non-union actors. In a one-shot game, both would probably attempt to free-ride, with the (D,D) outcome. Over iterated games, however, they might decide that the (C,C) outcome, although negative, is still better than the (D,D) outcome, and conditional cooperation could get started. Ellis and Heath have coined a term to describe such a situation in which the best choice for an actor is to cooperate, but in which the actor is not better off than they were through having cooperated: "coerced exchange".[47]

In fair weather, free riding can be controlled through solidarity and institutional mechanisms, but the primary factor, we argue, is the iterative nature of the *gains* that are achieved through cooperation. In foul weather, over time cooperation simply builds up costs. Free riding and insider behaviour is made much more attractive as a result. Individually, then, workers can be tempted far more strongly by free riding in foul weather than in fair.

Conclusion.

Corporatist cooperation in "foul weather" is a special case of coerced exchange which is particularly vulnerable to limited free-riding. This implies strongly that we have to examine the context in which the corporatist countries have been successful: are the corporatist countries as successful in foul weather as in fair? Does centralisation and solidarity function as efficiently

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[47] Adrian Ellis and Anthony Heath, 'Positional Competition, Or An Offer You Can't Refuse', in Adrian Ellis and Krishan Kumar (ed.s), Dilemmas of Liberal Democracies. Studies in Fred Hirsch's 'Social Limits to Growth', London, Tavistock Publications, 1983, pp.1-22.

in foul as fair weather? Are there any examples of successful corporatism in foul weather?

In foul weather the strategic choices faced by union actors change somewhat. The wage restraint required is likely to be deeper, the time horizon before wages begin to improve following a period of wage restraint is likely to be longer, and the temptation to free-ride and reap the only positive gains available is likely to be stronger. Workers face strategic choices which will depend, in part, on how long their time horizon is and on how high their discount rate is. A union actor might decide that it is not worth waiting around until h_2 in "foul weather". This might be because the likelihood of ever reaching h_2 without an adverse change in the strategy of one's partner(s) is too low. Or it might be because the physical environment might change before then and adversely affect the expected upward trend in wages at h_2. The union actor might calculate that the expected benefits at h_1 outweigh the expected benefits at h_2 because the cost of waiting is too high and must be taken into account.

In foul economic weather, high pay unions are expected to bear the brunt of wage restraint, and to allow a narrowing of their pay differentials. Yet wage restraint in high-profit sectors is very hard to justify to members and pay comparability is often strongly defended. Similarly, low pay unions face the problem of having a membership which is already suffering from relative deprivation, and the leadership are likely to face high political costs for the failure of any corporatist incomes policy to deliver results. Low pay unions might have an interest in the benefits of corporatism, but they depend on the cooperation of high pay unions to achieve them. Low pay union leadership is likely to be volatile in its allegiance: if the risk of failure is too high, they will appeal to their members' antipathy to wage restraint.

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In order to secure the cooperation of both groups of trade unions, government might be expected to intervene. But what if the costs of government intervention and redistribution are likely to be greater than the benefits of the corporatist strategy in terms of economic outcomes? The theoretical modelling we have presented has raised several interesting questions concerning the functioning of corporatist cooperation in foul weather. The most important point is that cooperation has been shown to be still collectively optimal in both fair and foul weather: the same game theoretical arguments apply to both cases. But the difficulty involved in achieving and sustaining cooperation is not the same. In foul weather, corporatism becomes susceptible to free riding, and agreements designed for fair weather produce unintended equity outcomes, even despite the presence of solidarity and institutional mechanisms for resolving distributional conflict. In foul weather, the "shadow of the future" does not consist of the promise of gains, it consists of costs and has the appearance of failure to actors within a system that is predicated on a growth-strategy.

In the following chapters we examine empirically the evidence for the performance of corporatist systems in fair and foul weather, with a view towards (1) demonstrating that corporatism is not capable of generating its own fair weather and (2) identifying a critical case study of corporatism in foul weather. Armed with this case study, we examine whether or not the experiences of a corporatist country in foul weather support the theoretical analysis we have undertaken.

CHAPTER THREE.

CORPORATISM AND ECONOMIC COMPETITIVENESS.

'Corporatism has always been connected to its ability to provide better macroeconomic performance and lower industrial disputes than in pluralist countries'. *Markus M.L. Crepaz.*[1]

In the late 1970s and 1980s, a growing literature in comparative public policy examined the performance of capitalist economies, mostly in the 1960s to early 1980s period.[2] These

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[1] Markus M.L. Crepaz, 'Corporatism In Decline? An Empirical Analysis of the Impact of Corporatism on Macroeconomic Performance and Industrial Disputes in 18 Industrialised Democracies', Comparative Political Studies, 25, 2, 1992, p.142.

[2] Key early examples of work which argued that corporatism outperformed other political economies in the 1970s include Gerhard Lehmbruch, 'Liberal Corporatism and Party Government', Comparative Political Studies, 10. 1977, pp.91-126; Phillippe Schmitter, 'Modes of Interest Intermediation and Models of Societal Change in Western Europe', Comparative Political Studies, 10, 1977, pp.7-38; Michael Bruno and Jeffrey D. Sachs, Economics of Worldwide Inflation, Oxford, Basil Blackwell, 1985; Colin Crouch, 'Conditions for Trade Union Wage Restraint',in Leon Lindberg and Charles S. Maier (eds), The Politics of Inflation and Economic Stagnation, Washington, DC., The Brookings Institution, 1985, pp.105-39; David Cameron, 'Social Democracy, Corporatism, Labour Quiescence, and the Representation of Economic Interests in Advanced Capitalist Society', in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon Press, 1984, pp.143-78; Manfred G. Schmidt, 'The Role of Parties in Shaping Macroeconomic Policy', in F.G. Castles, The Impact of Parties: Politics and Policies in Democratic Capitalist States, London, Sage, 1982, pp.97-176.

studies attempted to distinguish between two generic causes of relative poor performance or economic stagnation: those causes related to worldwide economic, technological and demographic changes, and those causes more specifically located in the organisation of each state's political-economic structure.[3]

One important stimulus for this comparative exercise was the fact that during the 1970s to early 1980s period of economic stagnation, there was a larger degree of variation among the OECD capitalist economies in terms of performance on key economic indicators than had been observed previously. A second, theoretically-derived stimulus, was to test the hypotheses which arose from evolving theoretical work on systems of collective action as a key determinant of socio-economic performance. This work was based on some of the theory we examined in the previous chapters.

Perhaps the most interesting hypothesis to emerge suggested that large encompassing interest organisations should be expected, if they act rationally, to take into account the wider redistributive effects of their economic strategies. If this were true, it seemed reasonable to expect that cross-national comparison would discover a strong correlation between encompassing systems of interest intermediation and superior economic performance.

Corporatist theory combined game theory which investigated interest group strategy from the perspective of encompassing behaviour and the iterative consequences of non-cooperation, and institutional theory which linked socio-economic performance to

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[3] For the generalised causes of economic stagnation after 1973: i.e., the internationalisation of the world economy, ageing of industrial structure, limits to labour supply and raw materials, limits relating to productivity gains and export capacity, oil shocks, and an increase in distributional conflict, see Herman Van Der Wee, Prosperity and Upheaval: The World Economy 1945-1980, London, Penguin, 1987, pp.330-333.

the existence of institutional arrangements for comprehensive interest intermediation. Together, these two elements predicted that economies would perform better when their interest group structures were dominated by large encompassing organisations, when they encouraged comprehensive interest aggregation and provided institutional structures which could inhibit narrow distributional strategies on the part of key economic interest groups.[4]

The emphasis was on *performing better*, hence the cross-national empirical work was undertaken on the premise that corporatist countries should be more successful in comparative terms than non-corporatist countries. They would perform better because their encompassing groups would be choosing strategies that maximised the general welfare, instead of choosing narrow distributional strategies that generated harmful economic costs and inefficiencies. Virtually the entire literature on corporatist performance was testing an underlying hypothesis: namely, that corporatism is more "successful" than the next best alternative because it represents a pareto-optimal, positive-sum outcome of a game-like contest between class-based economic actors. According to game theory, rational cooperation produces the best collective outcome, hence the hypothesis that corporatism should produce the best material outcome.

As we have seen, however, the possibility is raised that corporatism need not have to function at maximum efficiency in order to achieve many of these "virtuous circle" outcomes. In

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[4] For example, the hypothesis tested by Franz Lehner in 1988 was: 'The more organised interest intermediation is institutionally integrated, the more constrained is the power of special interest groups, and the more balanced is interest aggregation, the higher is the efficiency of public policy'. F. Lehner, 'The Political Economy of Distributive Conflict', in Rudolf Wildermann (ed), The Future Of Party Government, Volume Three. Managing Mixed Economies, Berlin, Walter de Gruyter, 1988, p.74.

fair economic weather, actors may only have to reach cooperative agreements which are characterised by a degree of restraint but which nevertheless still ensure constant improvements. In fair weather, the "greed of capitalists" may not be punished and yet labour may still enjoy growing real gains, whether through political means or through constantly growing real wages.[5]

Rational cooperation theory predicts that corporatism should produce superior economic performance as well as low unemployment and high welfare spending. As we shall see, in terms of economic performance, corporatism did not quite live up to its expectations. The question this raises is whether corporatism benefitted economic performance at all. Because the effect of foul weather variables over time is relatively unpredictable we should in fact expect to find that economic performance is causally linked more with these sorts of variables than with the degree of cooperation, which can never be perfect in any case.[6]

Corporatism, in other words, should produce a better result for a given country than distributional conflict and high unemployment (two possible stages of non-cooperation), but this does not necessarily mean that it will outperform some other country in economic terms. As Paul Whiteley has said, the

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[5] 'If trade unions are to cooperate in making the "national cake grow bigger and bigger", they must have the assurance that they possess an agency which can punish the greed of capitalism', Francis G. Castles, The Social Democractic Image of Society, London, Routledge and Kegan Paul, 1978, p.124.

[6] Economic outcomes, for various structural-functional reasons, are not completely amenable to corporatist strategies. See Hans Keman and Paul F. Whiteley, 'Coping with Crisis: Divergent Strategies and Outcomes', in H. Keman, H. Paloheimo, and P.F. Whiteley (eds), Coping With The Economic Crisis, London, Sage, 1987, pp.205-214.

influence of politics on economic outcomes is significantly greater in the long run than in the short run.[7]

3.1. Identifying a Foul Weather Corporatist Country.

How can we empirically measure corporatism? The theoretical interest in encompassing-actor interaction suggested that size might be an important variable. As an indicator of encompassingness, however, group size and membership density alone cannot suffice. As partial illustration of the fact that size and membership density are not good predictors of corporatism, Czada found only medium-strength correlations among a sample set of 18 OECD countries between measures of membership density and centralisation of unions and measures of inflation (-0.57), economic adjustment (0.49) and economic growth (-0.36).[8]

Czada found that, while union centralisation was negatively associated with inflation (i.e., the expected direction), indicating a possible relationship between union centralisation, encompassing interest group structures, wage restraint and low inflation, membership density was positively associated, if only weakly (0.26), with inflation. This could imply that membership density is not a very good measure of encompassing group behaviour and that, in the absence of restraining institutional arrangements, strong interest group mobilisation simply tends towards free-riding.[9]

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[7] P. Whiteley, Political Control of the Macroeconomy: The Political Economy of Public Policy Making, London, Sage, 1986, p.133.

[8] Roland Czada, 'The Impact of Interest Politics on Flexible Adjustment Policies', in Hans Keman, Heikki Paloheimo, Paul F. Whiteley, (ed.s), Coping With The Economic Crisis. Alternative Responses to Economic Recession in Advanced Industrial Societies, London, Sage, 1987, p.23.

[9] The effect of central coordination, as Colin Crouch writes, is to offset the impact of the level of unionisation. Colin Crouch, 'Conditions for Trade Union Wage Restraint', in Leon Lindberg and Charles S. Maier (eds), The Politics of

This weakens any supposition that *large group size* automatically tends toward encompassing interest group behaviour, especially when we use membership density as a measure (since it hardly measures encompassingness anyway). It underlines the importance of *institutional factors* which mediate between encompassing organisations and their political-economic strategies.

All in all, the economic strategies adopted by interest groups such as unions cannot effectively be predicted from variables which measure their membership density and degree of centralisation alone. We have to take into account other, institutional, political, and economic-structural factors, which might mediate between the economic strategies of even highly organised and centralised trade unions and economic outcomes. As Franz Lehner writes:

> 'integrative institutions may compensate for the deficiencies of pluralist interest structures, while the potential advantages of more centralised and integrated interest structures may not come into effect within fragmented governmental structures'.[10]

What indicators are available to measure the degree to which an economy makes use of institutional structures which promote comprehensive interest aggregation? Rather than group size and encompassingness, a better measure is the degree to which

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Inflation and Economic Stagnation, Washington DC., The Brookings Institution, 1985, p.139.

[10] See Franz Lehner, 'The Political Economy of Distributive Conflict', in Rudolf Wildermann (ed), The Future of Party Government, Volume Three. Managing Mixed Economies, Walter de Gruyter, Berlin, 1988, pp.54-96, and F. Lehner, 'Interest Intermediation, Institutional Structures and Public Policy', in Hans Keman, Heikki Paloheimo, and Paul F. Whiteley (eds), Coping With The Economic Crisis: Alternative Responses to Economic Recession in Advanced Industrial Societies, London, Sage, 1987, pp.54-82.

economies provide for *consensual* collective bargaining strategies and *political exchange* between major economic interest groups and government. The degree of consensus and political exchange determines whether or not iterative encounters, encompassing organisation and institutions of intermediation lead to corporatist outcomes. Lehner has developed a typology which enables us to derive an ordinal scaling of this aspect of corporatism by focusing on different degrees of collective bargaining, which we reproduce as Table 3.1. and use for the rest of the thesis.[11]

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[11] Lehner's typology is itself a modification of an earlier typology devised by Gerhard Lehmbruch. See G. Lehmbruch, 'Concertation and the Structure of Corporatist Networks', in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon Press, 1984, pp.60-80. A literature survey of composite measures of corporatism would not be of much usefulness here. Compare Lehner's typology to the composite measure based on 12 expert judgements devised by Markus M. L. Crepaz and Arend Lijphart: except for Japan and Switzerland, which we treat as a unique category, the operationalisation is little different. Markus M. L. Crepaz, 'Corporatism In Decline? An Empirical Analysis of the Impact of Corporatism on Macroeconomic Performance and Industrial Disputes in 18 Industrialised Democracies', Comparative Political Studies, 25, 2, 1992, p.149. For a comparison of the classifications developed by H. Wilensky, P.C. Schmitter, G. Lehmbruch, and M.G. Schmidt, see A. Cawson, Corporatism And Political Theory, Oxford, Basil Blackwell, 1986, Table 5.2, p.99. Other important classifications are the Calmfors and Driffil centralisation index and Tarantelli's measure which explicitly takes the degree of consensus into account. See L. Calmfors and J. Driffil, 'Bargaining Structure, Corporatism, and Macroeconomic Performance', Economic Policy, 6, 1988, pp.14-61 and E. Tarantelli, 'The Regulation of Inflation and Unemployment', Industrial Relations, 25, 1986, pp.1-15. See also Sule Ayse Kut, Corporatism And Political-Economic Performance In Advanced Capitalist Countries. A Comparative Study, unpublished Ph.D thesis, State University of New York at Binghamton, 1986.

Table 3.1.
A Scale of Corporatism: Encompassingness, Centralisation, Political Exchange and Consensus.

Pluralism	fragmented and segmented interest intermediation	US Canada France
Weak Corporatism	institutionalised partic-ipation of organised labour in certain areas; narrow scope of collective bargaining	UK Italy
Medium Corporatism	sectoral participation; but broad scope of collective bargaining	Ireland Belgium FRG Denmark Finland Australia
Strong Corporatism	tri-partite concertation with broad scope; compre-hensive coordination of incomes policies	Austria Sweden Norway Nether-lands
Concor-cordance	comprehensive coordination of the interactions of the private and public sectors	Japan Switz.

Source: Franz Lehner, 'Interest Intermediation, Institutional Structures and Public Policy', in Hans Keman, Heikki Paloheimo, and Paul F. Whiteley (eds), Coping With The Economic Crisis, London, Sage, 1985, pp. 54-82.

A few points are in order about this typology. First of all, it covers the period of the 1970s to the early 1980s, and so, if we want to look at the 1980s separately the typology must be revised. We present in Table 3.2. an updated typology (with most of the countries reexamined individually) for the 1980s. It can be seen, interestingly, that Sweden shows clear signs of having shifted away from corporatism (from strong corporatism to weak corporatism) in the 1980s. Even among the non-corporatist countries, only the UK has made such a clear shift in the same direction, (from weak corporatism to pluralism). With the exception of the Netherlands, other countries, such as Italy and

Belgium, have if anything strengthened their corporatist systems, and the remaining countries remain largely unchanged.

Bearing in mind the changes in Sweden in particular, the procedure we will follow in the remaining sections of this chapter is to retain Lehner's basic typology, but to use data updated to include the 1980s. This will enable us to see whether the performance of the capitalist economies in our OECD data set in the two time periods (1965-80 and 1980-1989) has changed in ways which are consistent with our theoretical assumptions about the fair weather/foul weather comparative performance of the corporatist countries.

Secondly, Lehner has created a special category for Japan and Switzerland, which he ranks as being above "strong corporatism" and calls "concordance". We accept this categorisation, for the following reasons. Although Switzerland has a pluralist interest group structure, it also makes use of consultation and accommodation between key interests, parties and local governments. This form of decision-making, which has also been described as "consociation", differs from corporatism in respect of the fact that it does not make use of formalised tripartite bargaining and a high degree of union organisation and centralisation to achieve cooperation with strategies designed to benefit the wider economy.[12] Instead, extensive consultations are

[12] Whether or not Switzerland does fit the "consociation" model as defined by political scientists such as Arend Lijphart is debatable. See the discussion by Brian Barry in: 'Political Accommodation And Consociational Democracy', Chapter Four in Democracy And Power. Essays in Political Theory I, Oxford, Clarendon Press, 1991, pp.105-116. In any case, Switzerland is sufficiently different in the institutional organisation of its corporatist cooperation to warrant a separate terminology. "Concordance" seems quite sufficient as a concept to make this point.

Table 3.2.

Change In The Corporatist Typology, 1980s.

1. Pluralism.	
US	No change.
Canada	Industrial-sector agreements, statutory wage restraint in the public sector (1981-2); non-intervention in private sector, plant and sector agreements (1986), high unemployment in mid-1980s, pay restraint, trade union focus on job security and job protection. No change.
France	Statutory freeze on wages and prices (1982); sectoral agreements, increasing firm level agreements; 'solidarity contracts' allowing early retirements (1984); breakdown of national negotiations on flexibility, widespread 'industrial conversion contracts' (1985). No change.
2. Weak Corporatism.	
UK	Shift to more decentralised wage determination, increase in local agreements. Shift to Pluralism.
Italy	Sectoral agreements; negotiations on wage restraint at national level (1982-); central agreements on automatic wage indexing (1983); wage restraint in sectoral agreements; breakdown of tripartite consensus (1984); sectoral agreement between Institute for Industrial Reconstruction and CGIL-CISL-UIL trade union federation (1985); discussions on 'political exchange' and wage restraint; 'bipolar model' achieved, sectoral and plant level bargaining conducted within framework of tripartite policy experimentation. Shift to Medium Corporatism.
3. Medium Corporatism.	
Belgium	Unprecedented wage indexing, two-year central statutory agreement (1981); sectoral agreements; distributional conflict over austerity program and issue of 'wage moderation' (1984); trade unions shift

Table 3.2. Continued.

	priority to employment, wage restraint (1985); Liberal Christian-Socialist government policy: work sharing and incomes policy (1986); unindexed wage increases legally restricted (1982-1986); 'Framework Agreement' lays guidelines for joint negotiations at sectoral level (1986-87); return to free collective bargaining in highly centralised national-level framework (1986-1989). No Change.
FRG	IG Metall accepts wage restraint in engineering sector, acts as wage pace setter (1982); wage restraint (1983); sectoral agreements in banking and finance (1983); increasing pressure from public sector and IG Metall (1985-89). No Change.
Denmark	Basic Agreement between LO and DA (employers) (1981); government suspends pay indexation (1982); extensive strikes (1985); breakdown of negotiations between LO and DA, harsh emergency legislation imposed by Conservative-led coalition (1986). No Change.
4. Strong Corporatism.	
Sweden	Breakdown of centralised wage determination, increase in sectoral agreements and plant bargaining (1982-1989); general price freeze (1984); unsuccessful attempt to return to central bargaining (1989). Shift to Weak Corporatism.
Norway	No Change.
Neth.	Tripartite agreement between trade unions and employers on employment and labour market (1981); first central agreement in private sector for 10 years, agreement to avoid income policy and achieve employment and wage restraint through collective bargaining (1983); increase in sectoral agreements (1986-89). No Change.
5. Concordance.	
Japan	No Change.
Switz	No Change.

Source: ILO, Social and Labour Bulletin, ILO, Geneva, various issues 1981-1989.

designed to maintain consensus at a broad range of policy-making levels. Thus concordant decision-making could in fact be thought of as a more comprehensive means of integrating the strategies of important economic interests than corporatism, which is more institutionalised around trade unions as an organisational framework to achieve wage restraint and the quid pro quos delivered through public policy.

In the case of Japan, which has been described as 'corporatism without labour'[13], again concertation is a decision-making process which is not centered around tri-partite bargaining between labour, capital, and the government. Incomes policy in Japan is, in effect, privatised; it is managed by a paternalistic private sector. But again, in Japan, interest group strategies and public policy-making are extremely well coordinated through structures which achieve as great or even a greater rationalisation of the interests of collective actors and the wider requirements of the Japanese economy than is the case with corporatism.[14] Concertation in Japan is designed to enhance the general performance of the Japanese economy, and achieving

[13] See T.J. Pempel and K. Tsunekawa, 'Corporatism without Labour? The Japanese Anomaly', in P. Schmitter and G. Lehmbruch, Trends Towards Corporatist Intermediation, London, Sage, 1979, pp.231-70; Harold L. Wilensky, The "New Corporatism", Centralisation, and the Welfare State, London, Sage, 1976; and Will Hutton, 'Why jobs come first in land of the rising sun', The Guardian, July 12, 1993, p.11.

[14] The "deviant" status of Japan is underlined in a number of comparative studies, among which Muller finds that Japan enjoys a surprisingly low level of income inequality given its decentralised labour unions, intermediate level of union membership (35 percent) and absence of socialist incumbency. Such a low level of income inequality would certainly facilitate cooperation between actors in choosing levels of wage extraction (δ) compatible with growth in investment and output, but so also would fair economic weather. Edward N. Muller, 'Distribution of Income in Advanced Capitalist States: Political Parties, Labour Unions, and the International Economy', European Journal of Political Research, 17, 1989, pp. 377, 393-4.

wage consensus and low distributive conflict are important elements of this system of collective action. Thus, in our view, it is quite legitimate to place Switzerland and Japan in this "special category".

The individual examination of countries in our typology inevitably raises questions about how accurately corporatism can be measured using indicators which inevitably gloss over case-specific characteristics. Our definition of corporatism is couched in rational choice terms and focuses on institutional mechanisms in the sphere of wage bargaining which are designed with the intention of achieving an iterative, consensual, political exchange solution to a macroeconomic collective action problem of cost distribution. Whether this is achieved through strong centralised unions and employers engaging in collective bargaining, and whether governments play a key role in bargaining and negotiation or not, the problem is that there are several paths to the same destination. An example is Germany, which lacks the requisite centralisation of collective bargaining to be classed as "strong corporatist" and yet enjoys a comparatively low level of distributive conflict.[15] Lehner ranks it in the "medium corporatism" category.

German industrial relations are, in fact, geared toward the solution of collective action problems in the labour market of the type we have been investigating. It is interesting that Germany then achieves social partnership without centralised institutions of collective bargaining and yet Lehner does not consider it has a sufficient degree of consultation and social

[15] For other corporatist theorists who also give Germany a low ranking in terms of the importance of union confederations in collective bargaining, see Walter Korpi and Michael Shalev, 'Strikes, Industrial Relations and Class Conflict in Capitalist Societies', British Journal of Sociology, 30, 1979, p. 178, and Harold Wilensky, The Welfare State and Equality, Berkeley, University of California Press, 1975.

partnership to warrant its inclusion in the "concordance" category. Although German union organisational structures, centralisation and membership density are far from "encompassing", the German wage round makes use of a form of decision-making known as *'lohnfuhrerschaft'*, or wage-leadership. Key national unions and regional sectors achieve collective agreements which are then followed more or less closely by other unions and regions.

In the case of Germany, the "glue" which holds this economic coordination of interest group strategies together is less given by institutional or organisational structures, and more by an ideological commitment to social partnership which has its roots in the German experience with class conflict in the Weimar Republic and the fascist *interregnum*. In our view the ranking of Germany in Lehner's typology should therefore be questioned, but for the present we will continue to place it in the "medium corporatism" category.

In such a small data set (the largest comparative studies use 18 OECD countries including New Zealand, Australia and Finland) how corporatism is measured obviously matters very much if we rely on correlations and other purely statistical indicators. Thus, if we were to identify as "corporatist" a group of countries that included Austria, Sweden, Switzerland, Japan, and Germany then the chances are that the performance of "corporatism" would look pretty good in comparison to "non-corporatist" countries which might include the UK, Italy, New Zealand and Ireland. The former group of countries just happens to include most of the economic "success stories" of the past four decades, and we have argued that much of this success is due to fair economic weather and to factors which are independent of the degree to which those countries solved prisoners' dilemmas of cooperation through "corporatist" means. For this reason we make less use of such a broad comparative approach, hoping to avoid

this sort of pitfall, and instead look specifically for corporatist countries which have had to deal with foul economic weather.

We need to find a corporatist country which has large centralised actors, organised in the spheres of labour, capital and government, which has also experienced sufficiently strong foul economic weather as to require a real distribution of costs. Germany will not do as such a case, because it is so economically strong that the 1970s-1980s economic crisis has been effectively met by adjustments in τ and K and not yet translated into a cost distribution crisis. With the economic ramifications of reunification, this has changed, so that Germany could be regarded as providing an emergent test case.

Similarly, Japan and Switzerland have also succeeded in reducing costs and have been placed well and adapted well to the foul weather, but without the necessity of cooperation between powerful trade union actors.[16] They provide confirmation of the expected high performance of encompassing systems of interest intermediation, but we cannot learn much from them about the prospects of cooperation between trade union actors in foul weather.

Sweden fits the bill perfectly because it is a "classical" corporatist country with centralised union and employer actors, and as a result of a relative deterioration in its comparative advantage, it clearly entered a phase of cost distribution from the mid-1970s on. Unlike Norway, it is a case study that is not affected by North Sea oil incomes, and unlike any of the

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[16] Japan and Switzerland are, in this respect, less collectivist and more "post-liberal", in the sense that their institutional structures reduce the number of collective decisions which must be taken to secure adequate cost distribution. On the subject of post-liberal, or limited government, see John Gray, Post-Liberalism. Studies in Political Thought, London, Routledge, 1993.

remaining corporatist countries, it exhibits the clearest rankings both in terms of strength of corporatism and indicators of foul weather. Sweden, then, is a case which we argue indicates strongly the possibility of a corporatist system failing to make the shift from fair to foul economic weather and thus raises questions about the type of corporatist cooperation actually achieved in fair economic weather.

Not all of the 18 potential capitalist economies are used consistently in our empirical work, in particular Austria makes only sporadic appearances. Austria is a corporatist country that shows signs of having to deal with severe economic problems of the type we are investigating.[17] But it can be argued that Austrian corporatism, despite the presence of strong and centralised labour market institutions, is a different type of corporatism to Sweden, relying less on the cooperation of low and high pay groups and more on a conservative "social consensus".[18] For this reason, and because our intention is less that of making some generalisation about the performance of corporatist countries as a group and more that of identifying a clear example of foul weather corporatism to which our theoretical modelling can apply, we focus more on Sweden. The Netherlands is perhaps a

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[17] The performance of the Austrian nationalised industrial sector over the period 1973-1982 has been described as 'an example of an important failure of social corporatist arrangements'. See Michael Landesmann, 'Industrial Policies and Social Corporatism', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.274.

[18] As Bob Rowthorn points out, the Austrian "historical compromise" between labour and capital freezes post-war power relationships and inequalities, evidenced by extremely high wage dispersion and a large substratum of low pay workers (of whom women form a large component). See Bob Rowthorn, 'Corporatism and Labour Market Performance', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, pp.124-125.

more interesting candidate, but we also pass over the intricacies of the Dutch corporatist system, for the similar reason that it provides less of a clear-cut example of the sort of corporatist cooperation we have modelled in Chapter One than Sweden.[19] The large variation in institutional form which characterises the sort of cooperative mechanisms we are interested in reminds us of relying on too mechanical a model, or of expecting a deterministic relationship to hold between organisational and institutional attributes and economic performance in all cases.

Armed with our typology of corporatism, in this chapter we will begin our examination of the comparative performance of the corporatist countries in terms of major economic indices. We will look at strikes, economic growth, economic output and productivity, all of which are indicators of the general economic performance of a capitalist economy. We will also devise a "competitiveness index", which produces a joint measure of inflation and current account balances and enables us to identify those countries most under pressure to achieve wage restraint.

A common argument in the corporatist literature is that corporatism is conducive to good economic performance, on the condition that Left parties govern.[20] The hypothesis that

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[19] The Netherlands, despite being ranked with Sweden and Norway in the "strong corporatism" category, relies less on cooperative wages policies and more on paternalistic welfare policies and industrial and labour market policies. Like Belgium, which employs a similar strategy, it experienced relatively high rates of unemployment in the 1970s and 1980s, largely due to reliance on rather restrictive monetary and fiscal policies. See R. Czada, 'The Impact of Interest Politics on Flexible Adjustment Policies', in Hans Keman, Heikki Paloheimo, Paul F. Whiteley (eds), Coping With The Economic Crisis, London, Sage, 1987, pp.41-44; R.E. Rowthorn and J.R. Wells, Deindustrialisation and Foreign Trade, Cambridge, Cambridge University Press, 1987, Appendix 13, pp.374-381.

[20] For example, Alexander Hicks, 'Social Democratic Corporatism and Economic Growth', Journal of Politics, 50, 1988, p.677.

corporatism generates its own fair weather, we will see, is incorrect. The mid-1970s to 1980s period has been one of generalised foul weather, and the corporatist countries have not escaped the effects of the slowdown in economic and productivity growth. According to our theoretical work, corporatism should function to adjust the parameters τ and K in order to counteract the deterioration in the efficiency of investment and maintain both output growth and employment growth.

If corporatism functions as we have modelled it, we should, then, see evidence of efficient economic performance by corporatist countries in fair weather and relative imperviousness to foul weather. Foul weather in this case has included two large oil price shocks, a generalised slowdown in innovatory and productivity growth, and generalised problems caused by deindustrialisation. The two primary indicators are inflation and unemployment, both of which reflect the distributional conflict which arises when growth of national income deteriorates while individuals continue to press for increases more commensurate with fair weather. Our theoretical work predicts that corporatism has to succeed in foul economic weather by distributing costs and not gains. Thus, if corporatism of the type we have been investigating exists, it should minimise the costs associated with the foul weather.

3.2. Corporatism and Distributive Conflict.

Distributive conflict manifested in the form of strikes has obvious economic ramifications: it can be regarded as an indicator of the wastage of productivity due to lost days in production and a lack of cooperation and efficiency in the workplace. Heikki Paloheimo uses labour dispute activity as a proxy measure for the level of economic consensus in decision-making, and comparing Table 3.3. with Table 3.1., we can see that countries ranked by Paloheimo as having a "strong economic consensus" are almost exactly the same as those countries Lehner

Table 3.3.

Corporatism and Strike Activity.

1. Countries with a strong economic consensus	Average annual days lost in labour disputes per 1000 workers 1960-1969	Ibid 1970-1979	1980-1987	1965-1981
Japan	84	85	5	71
Switzerland	3	2	0.5	1
Austria	36	7	2.5	10
Sweden	15	41	185	95
Norway	56	38	102	28
Netherlands	17	36	13	22
FRG	12	46	31	28
Countries with a medium economic consensus				
Belgium	75	222	---	156
Denmark	135	212	198	148
France	886	171	---	278
Countries with a weak economic consensus				
Australia	186	541	217	427
Canada	422	802	549	707
Finland	119	499	---	358
Ireland	398	544	386	484
Italy	728	1049	1964	849
UK	143	526	326	375
USA	382	457	98	411

Source: Heikki Paloheimo, 'Distributive Struggle, Corporatist Power Structures And Economic Policy Of The 1970s In Developed Capitalist Countries', in Heikki Paloheimo (ed), Politics in the Era of Corporatism and Planning, Tampere-Kurajoki, The Finnish Political Science Association, 1984, p.11; David Cameron, 'Social Democracy, Corporatism, Labour Quiescence, and the Representation of Organised Interests in Advanced Capitalist Society', in J.H. Goldthorpe (ed), Order and Conflict in Contemporary capitalism, Oxford, Clarendon Press, 1984, pp.143-78; OECD Labour Force Statistics, various volumes; ILO, Yearbook of Labour Statistics, various volumes.

places in the "strong corporatism" and "concordance" categories. It certainly seems reasonable and intuitive to expect that corporatist countries should be characterised by a comparatively low level of distributive conflict.

In Table 3.3. the countries are arrayed in three groups according to the average number of days lost annually in labour disputes per 1000 workers in three time periods: the 1960s, 1970s and 1980s. The groups are described as countries with a strong, medium and weak economic consensus, with the degree of distributive struggle (measured by strike activity) determining the ranking of each country.[21]

A comparison of corporatism and strikes reveals that in the fair weather period of the 1960s there is indeed a close correlation between centralised strategies of collective bargaining and low strike levels, and a more general correlation between pluralist bargaining strategies and high strike levels.

This supports the hypothesis that corporatism performs better in fair weather, but note that Sweden and Norway perform considerably worse in the 1980-1987 period than in previous periods. Their performance, if we were only to take account of this latest period, is bad enough to place them in the second category, of countries with a "medium economic consensus".

In a similar vein, the United States does significantly better in the 1980s than might be predicted either from past performance or from its ranking as a "pluralist" capitalist economy. Moreover, Australia, Canada, Ireland and the U.K. all perform better in terms of distributive conflict in the 1980s than in earlier periods, but the United States appears to have

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[21] The most suitable index of overall strike activity is volume, which is a measure of frequency × duration × size. The advantage of this measure is that it is not affected badly by changes in a single dimension of conflict. This is the measure used here. Strike volume is a measure of man-days lost per 1000 non-agricultural civilian workers; frequency is the number of strikes per 1000 non-agricultural civilian workers; duration is the number of man-days lost per worker involved; and size is the number of workers involved per strike. See M. Shalev, "The Uses and Abuses of Strike Statistics", in C. Crouch and A. Pizzorno, The Resurgence of Class Conflict in Western Europe, London, Macmillan, 1978, pp.1-20.

leapt up two categories to be among those countries with a "strong economic consensus". Why should the non-corporatist countries perform better in terms of strikes in the 1980s?

The answer here is probably that very decentralised systems in foul economic weather effectively weaken the capacity of labour to engage in sustained strike behaviour.[22] Whether the economy is growing, as in the US, or contracting, as in the UK, makes little difference, as in the first case the strike activity lacks an organisational basis and is relatively unnecessary and in the second case it incurs high costs in terms of unemployment, and anti-labour legislation.

Conversely, why do Sweden and Norway perform worse in terms of their level of distributive conflict in the 1980s than in the previous decade? Is this because the relatively lower strike activity of the 1970-1979 period was associated with not only the mode of interest intermediation but also the prevalence of "fair weather"? Or if the low strike activity in these two countries is most strongly associated with the degree of consensual interest intermediation, as we have measured it, is it this which has weakened in both of these countries during this latter period?

In the remainder of the comparative chapters and in our individual case study on Sweden we will attempt to answer this question. We saw in Table 3.2. that, in the case of Sweden, corporatism has indeed weakened and we will also see that Sweden has clearly entered a phase of foul economic weather in the 1980s. At this stage we will simply note that the performance of two corporatist countries in the 1980s already raises questions about corporatism in foul economic weather, while the UK and the

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[22] Supporting the celebrated "hump-shaped" relationship between economic performance and centralisation. See L. Calmfors and J. Driffil, 'Bargaining Structure, Corporatism, and Macroeconomic Performance', Economic Policy, 6, 1988, pp.14-61.

USA perform better in terms of strikes than might be expected from our theory concerning encompassing groups and social-economic consensus. Otherwise, there is clear evidence that corporatism performs better in terms of strike activity than non-corporatist countries in fair weather.

3.3. Corporatism and Economic Growth, Output and Productivity.

Economic growth is the most general indicator of performance. Table 3.4. presents rankings in terms of two measures of economic growth in two time periods: average yearly percent changes in GNP and average yearly percent changes in manufacturing output in 1965-73 and 1973-87. Low ranks again represent the best performance.

In terms of GNP growth, we can see that only three countries improved their ranking from the period 1965-73 to 1970-80: namely, the USA, the UK, and Sweden. All three, however, were the worst performers in the 1965-73 time period and their improvement is, in the case of the UK and Sweden, only marginal.The best performers are Japan, Canada, France and Italy.

We must be careful when comparing growth rates, because of the "catch-up" phenomenon. That is, a country like Sweden may already be so wealthy that its economy can only grow at a lower rate than a country which is catching up, and hence growing at a faster rate but from a lower starting position. Thus the US, Sweden and even the UK already had relatively high rates of GDP per capita in the 1950s and 1960s. Nevertheless, we can see that the corporatist countries did not produce higher rates of economic growth overall than the non-corporatist countries US and

Table 3.4.

Corporatism and Economic Growth.

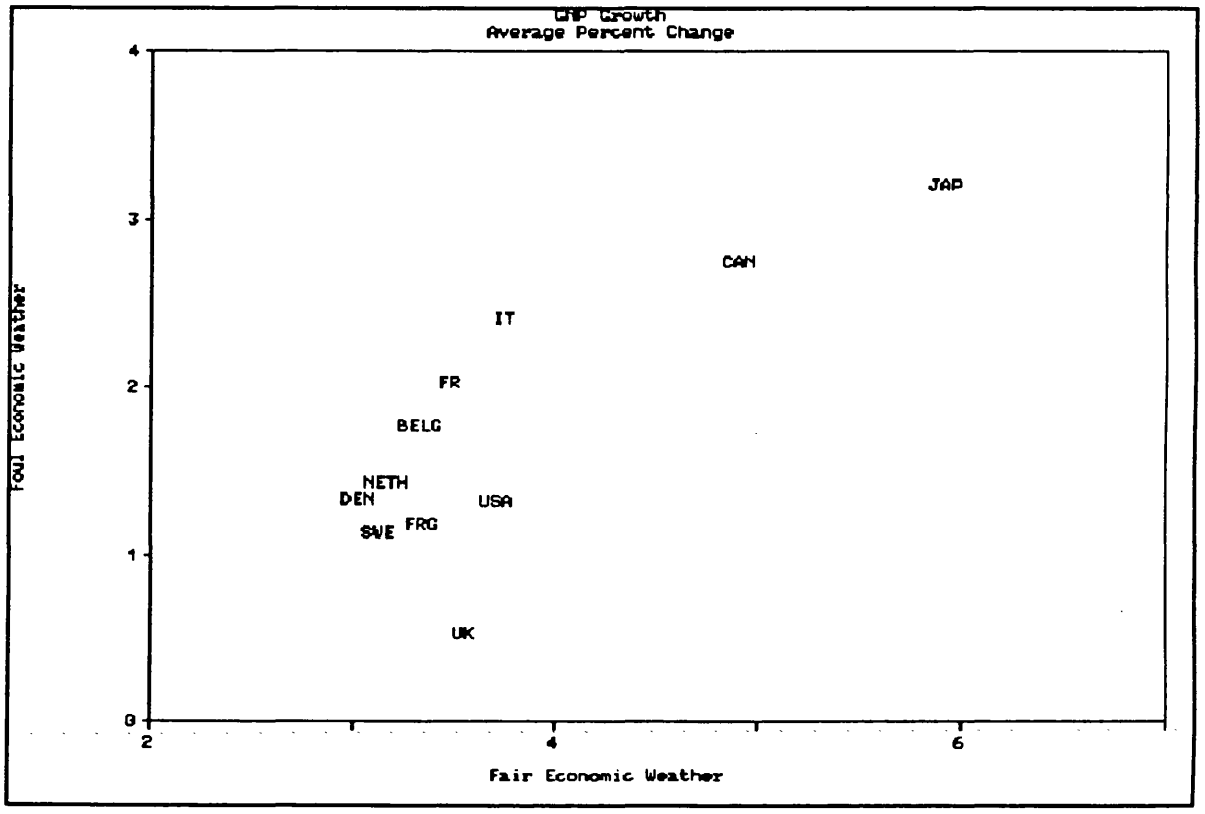
	GDP Growth Ranking 1965-1973	GDP Growth Ranking 1970-1989	Manufacturing Output Ranking 1960-1973	Manufacturing Output Ranking 1973-1987
1.Pluralism.				
USA	9 (3.8)	6 (2.7)	10 (4.8)	4 (2.2)
Canada	2 (5.6)	2 (3.9)	5 (6.5)	3 (2.3)
France	3 (5.2)	4 (2.9)	3 (7.2)	10 (1.0)
2. Weak Corporatism.				
UK	11 (3.1)	8 (2.3)	12 (3.0)	12 (-0.3)
Italy	3 (5.2)	3 (3.2)	2 (7.3)	2 (2.7)
3. Medium Corporatism.				
Belgium	5 (5.0)	5 (2.8)	4 (6.6)	5 (1.8)
FRG	6 (4.3)	7 (2.5)	8 (5.2)	9 (1.1)
Denmark	7 (4.1)	10 (2.1)	7 (5.3)	6 (1.6)
4. Strong Corporatism.				
Sweden	10 (3.4)	9 (2.2)	9 (5.1)	8 (1.2)
Norway	7 (4.1)	--	11 (4.7)	11 (0.6)
Neth.	4 (5.1)	7 (2.5)	6 (6.0)	7 (1.5)
5. Con-cordance.				
Japan	1 (9.8)	1 (4.8)	1 (12.8)	1 (5.1)
Switz	8 (3.9)	--	--	--

Average percent change in brackets.

Source: For growth of GNP 1965-73: Michael Bruno and Jeffrey D. Sachs, Economics of Worldwide Inflation, Oxford, Basil Blackwell, 1985, p.21. For growth of GNP 1970-89: Table R 1. 'Growth of real GNP/GDP in the OECD area', OECD Economic Outlook, 47, Paris, June 1990. For annual percent change in manufacturing output 1960-73 and 1973-89: Arthur Neef and James Thomas, 'International Comparisons of Productivity and Unit Labor Cost Trends in Manufacturing', Monthly Labor Review, US Dept. of Labor, Bureau of Labor Statistics, 111, 12, 1988, p.29.

Figure 3.1.

GNP Growth In Fair And Foul Weather.



Source: OECD, Economic Outlook, Paris, 47, June 1990, p.181. See Appendix for data.

UK, either in fair or foul weather, and Sweden in particular shows signs of deteriorating performance.[23]

Another way of comparing the performance of these countries in fair and foul weather is to look not at the 1970s and 1980s separately, but to isolate the years within both decades in which foul weather was the strongest. Figure 3.1. defines fair and foul weather as follows: fair weather is represented by the years

[23] See Bernhard Heitger, 'Corporatism, Technological Gaps and Growth in OECD Countries', Weltwirtschaftliches Archiv, Band 12, 1987, pp.463-73.

1970-1973, 1978-1979, 1984-1989, while foul weather is represented by the years 1974-1977, 1980-1983 (see Appendix). This fairly closely models the foul weather impact of the two oil shocks. The deterioration in GNP growth performance in foul weather can be seen clearly, with again no indication that corporatism performs particularly well. Although we lack data on Norway and Austria, the performance of Sweden, the FRG, the Netherlands and Denmark is not distinguished in any particular way. Instead, the UK, Canada, Italy and Japan are the only countries that either underperform or overperform relative to the others in foul weather.

In terms of manufacturing output, if we return to Table 3.4., the best performers are again Japan, Canada and Italy, while France has contracted severely in the 1980s. Again, the corporatist countries, Norway in particular, have not performed the best and in fact their performance is not much better than that of the UK which is the worst performer with the 12th rank.

Looking at comparative growth and output rates, then, provides no evidence of corporatism generating its own fair economic weather. There is no evidence here that the corporatist countries have overtaken non-corporatist countries in their average GDP growth or in manufacturing output. This provides support for our argument that corporatism cannot produce a better result than that allowed by the existing parameters which determine comparative advantage. Corporatism could maximise gains and minimises costs within the confines of a space delineated by other economic and social variables, but it does not generate its own "virtuous circles". In this respect, corporatist countries are unlikely to become "super-performers" unless they enjoy a good trading position, are exploiting new innovations, have access to raw material deposits, and so on.

Table 3.5. examines another indice of economic performance over two time periods: manufacturing productivity. The best

Table 3.5.

Corporatism and Manufacturing Productivity

	Ranking 1960-1973	Ranking 1973-1987
1. Pluralism.		
USA	10 (3.2)	9 (2.5)
Canada	7 (4.5)	11 (2.1)
France	5 (6.4)	5 (3.7)
2. Weak Corporatism.		
UK	9 (4.2)	6 (3.2)
Italy	2 (7.5)	4 (4.0)
3. Medium Corporatism.		
Belgium	4 (6.9)	1 (5.7)
FRG	6 (5.8)	6 (3.2)
Denmark	5 (6.4)	10 (2.3)
4. Strong Corporatism.		
Sweden	5 (6.4)	7 (2.9)
Norway	8 (4.3)	8 (2.6)
Neth.	3 (7.4)	3 (4.2)
5. Con-cordance.		
Japan	1 (10.3)	2 (5.3)
Switz	..	..

Source: Arthur Neef and James Thomas, 'International Comparisons of Productivity and Unit Labor Cost Trends in Manufacturing', Monthly Labor Review, US Dept. of Labor, Bureau of Labor Statistics, 111, 12, 1988, p.28.

performers are Japan, the Netherlands, Belgium, Italy, and France. The worst performers are Canada, the USA, and Denmark.

Again there is no clear evidence of the corporatist countries generating unusually good performances in terms of manufacturing productivity. We see that a decline in the rate of productivity growth over the two time periods has been a generalised economic phenomenon across all the countries, and that neither Sweden nor Norway show any signs of coping with the crisis any better than non-corporatist countries. Sweden's

ranking is actually worse in the 1980s and Norway remains in 8th rank. Otherwise the distribution of performance bears no relationship to the typology of consensual bargaining we have adopted.

The fact that corporatism made no appreciative difference in the transition from fair to foul economic weather is interesting because it contradicts the hypothesis that corporatism generates its own fair weather. Corporatism doesn't produce unusually high levels of growth in manufacturing productivity. Instead, corporatism tends to generate lower overall productivity levels in foul weather because it maintains employment spreading in the public and sheltered domestic sector - productivity is greatest in the export sector. Overall productivity performance is better in the high unemployment countries like the Netherlands and Belgium, at an obvious cost.[24]

All corporatism can achieve is a pareto-optimal collective maximisation of the trade off between employment and productivity, at given levels of α and β. However efficient that collective agreement, the level of productivity growth is not necessarily superior to that of non-corporatist countries.

3.4. A Competitiveness Index of Foul Weather.

Table 3.6 shows the ranking of our OECD data set according to performance on two additional indices of economic performance:

[24] For a discussion, see Nicholas Crafts, 'Productivity Growth Reconsidered', Economic Policy, 15, 1992, pp.388-414; S. Turner, 'The Swedish Model: What Went Wrong?', in G. Eliasson (ed), The Economics of Institutions and Markets, Stockholm, Institute for Economic and Social Research, 1987, pp.57-68; Roland Czada, 'The Impact of Interest Politics on Flexible Adjustment Policies', in Hans Keman, Heikki Paloheimo, Paul F. Whiteley (eds), Coping With The Economic Crisis, London, Sage, 1987, p.34; L. Calmfors and H. Horn, 'Employment Policies and Centralised Wage-Setting', Economica, 53, 1986, pp.281-302.

Table 3.6.

Corporatism, Inflation and Current Balance Performance.

	Rank Order: Inflation			Rank Order: Current Balances			
	75-80	81-89	75-89	75-80	81-89	75-89	(*)
Pluralism							
USA	7	6	6	7	14	10	C
Canada	8	8	8	10	11	10	mid
France	11	11	11	3	9	5	C
Weak Corporatism							
UK	15	9	12	8	7	7	mid
Italy	17	17	17	6	10	8	C
Medium Corporatism							
Ireland	16	14	16	..	..	..	O
Belgium	5	7	5	9	5	6	O
FRG	2	3	1	3	3	4	mid
Denmark	10	10	10	14	15	15	O
Finland	13	13	14	12	13	14	mid
Australia	14	11	9	..	..	..	mid
4. Strong Corporatism							
Austria	3	5	7	12	7	9	mid
Sweden	12	16	15	10	12	13	mid
Norway	9	15	13	15	6	10	O
Netherlands	4	2	3	3	2	2	O
Concordance							
Japan	5	1	3	2	3	2	C
Switzerland	1	4	1	1	1	1	O

Source: Table R 11., 'Private consumption deflators', and Table R 21., 'Current balances of OECD countries as a percentage of GNP/GDP', OECD, Economic Outlook, June 1990. (*) = measure of openness of the economy, D. Cameron, 'The Expansion of the Public Economy', American Political Science Review, 72, 1978, pp.1243-61.

inflation and the current balance between exports and imports (as a percentage of GDP). Low scores indicate that the country enjoyed a low rate of inflation or a good balance of payments relative to the other OECD capitalist economies. Of course, the

rankings do not provide us with interval level measures, but they do give a reasonable indication of relative performance.

Rankings for "openness of the economy", or "exports and imports as a percentage of GDP in 1960", are also given. We can see that the corporatist countries are, largely, characterised by open economies. Australia substantially liberalised its economy in the 1970s to 1980s, and Switzerland is a concordant country. Most of the closed economies, bar Japan, are either pluralist or weak corporatist. Despite the confirmation of David Cameron's link between openness and corporatism, however, the corporatist countries have not done noticeably better either in terms of inflation or their current balances.[25]

We can see that those countries with the lowest inflation rates relative to their neighbours also tended to perform the best in terms of their current account balance. Japan, Switzerland, the FRG, and the Netherlands are clearly in this group. All countries which performed relatively well with inflation tended to do well with their current balances. There are some countries which performed worse in terms of inflation and better than might be expected in terms of their current balance, namely, France, the United Kingdom, and Italy. This might seem to indicate that a high inflation rate does not necessarily impede competitiveness in international markets(!), but we believe it is more likely to reflect, given these countries, policies which have been designed to limit the damage of a high inflation rate by squeezing import growth relative to exports.

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[25] David Cameron, 'The Expansion of the Public Economy: A Comparative Analysis', American Political Science Review, 72, 1978, pp.1243-61. See also Peter Katzenstein, Small States in World Markets: Industrial Policy in Europe, Ithaca, Cornell University Press, 1985, and Peter Katzenstein, Corporatism and Change: Austria, Switzerland and the Politics of Industry, Ithaca, Cornell University Press, 1984.

3 - Corporatism And Economic Competitiveness

There is a third group of countries whose performance is neither exceptionally good or exceptionally bad, in terms of either inflation or their current balance: the United States, Canada, and Belgium. Finally, there is a corporatist group of countries whose relative performance on both counts was poor: Denmark, Finland, Sweden and Norway. It seems likely that Ireland and Australia would fall into this latter category as well, but we lack data on their current balances.

What does relative performance in terms of these two variables tell us? We suggest that these variables provide a reasonably good index of the degree of "fair" or "foul" weather that an economy is experiencing in terms of international competitiveness.

We are interested in ascertaining whether or not corporatist countries such as Sweden have come under increased pressure in the 1980s due to not only the impact of the oil shocks and the generalised economic crisis, but also due to deeper, structural problems requiring a large adjustment in wages. One indicator of this, it seems to us, is the mix of inflation and trade competitiveness. A relatively high inflation rate, combined with pressure on the balance of payments, is likely to lead to a high degree of pressure to reduce costs of production. The demand for wage restraint is likely to be higher in such circumstances. This index, then, which we can see more clearly in Table 3.7., measures a rather specific aspect of "foul" weather.[26]

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[26] If we were to include the rate of unemployment as a component of our "foul weather" measure, we would find that the corporatist countries appeared to enjoy better weather than is the case due to their low relative unemployment rates. Since we are looking specifically at likely sources of pressure on wage-restraint strategies, our "competitiveness index" seems more appropriate.

Table 3.7.

Comparison of Competitiveness and Strike Rates.

	Competitiveness Index (Combined ranks for Inflation and Current Account Balances)			Strike Activity Ranks	
	75/80	81/89	75/89	70/79	80/87
Pluralism					
USA	5	9	6	10	6
Canada	9	8	9	15	13
France	5	9	6	..	..
Weak Corporatism					
UK	11	6	10	12	11
Italy	11	14	12	16	14
3.Medium Corporatism					
Ireland	..	..	..	14	12
Belgium	5	5	5	9	..
FRG	2	4	2	6	5
Denmark	13	12	12	8	9
Finland	15	13	15	11	..
Australia	..	..	..	13	10
Strong Corporatism					
Austria	8	7	6	2	2
Sweden	10	15	12	5	8
Norway	13	11	11	4	7
Netherlands	3	2	2	3	4
Concor-dance					
Japan	3	1	2	7	3
Switzerland	1	3	1	1	1

Sources: See Table 3.3. and 3.6.

What do Tables 3.6. and 3.7. tell us about the performance of Sweden and Norway in the 1980s? We can see that both countrieshave had high inflation rates and poor current balances, relative to their OECD competitors. We can also see that Sweden and Norway's performance on both counts has indeed worsened from the 1970s to the 1980s. In fact, these two countries have the

largest fall in ranking on inflation performance from 1975-1980 to 1981-1989 (only Italy performs worse in the 1980s). Sweden's current balance ranking also drops by two places.

This would indeed seem to point to increased pressure on Sweden's international competitiveness, and to a comparatively severe increase in "foul weather". Since Sweden was already performing badly in the 1970s, this increase can only have had more impact. Turning to our "competitiveness index", we see that Sweden is the worst overall performer in the 1980s and, over the decade-and-a-half 1975-1989 is among the bottom four performers. Although Sweden's strike activity ranking is not among the worse, the large increase in strike volume from 41 (1970-1979) to 185 (1980-1987) (see Table 3.3.) would appear to be related, in part at least, to Sweden's deteriorating performance on our "competitiveness index".[27]

The case of Norway is equally interesting. In terms of inflation Norway drops by the largest number of ranks in the 1980s, to be only two ranks behind Sweden. Its current balance was the worst in the 1970, but it actually improves in the 1980s to just nudge Norway into the top six performers. This still, however, gives Norway a "competitiveness index" rating which is among the five worst performers in the 1980s. In terms of inflation, Norway definitely ran into "foul weather" in the 1980s, and its performance on current balance may be masked by oil product revenues.[28]

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[27] In fact, Sweden's share of the world market supply of industrial goods shrank remarkably from 1975, and in the 1980s despite two devaluations her export share was only stabilised. Lennart Ohlsson, 'Comparative Advantage Strategies for Swedish Industry Facing the 1990s', in Lars-Gunnar Mattsson and Bengt Stymne (eds), Corporate And Industry Strategies for Europe, London, North-Holland, 1991, p.75.

[28] For a discussion of the problems in evaluating Norway's economic performance as a corporatist country, due to the North Sea oil boom, see Don S. Schwerin, 'The Limits of Organisation as

It seems that Norwegian performance provides some additional support for the view that the increase in strike activity in these two Scandinavian countries was related to an onset of "foul weather". Finally, the degree of correlation between the competitiveness ranking (1975-1989) and the strike activity ranking (1980-87) is very high ($r = 0.62$), although the available data set is quite small ($n = 12$).

Conclusion.

These findings are interesting, because they place two "classical" corporatist countries into a group of relatively poor performers on several rather important indices. The increase in strike activity, in particular, as an indication of distributive struggle, appears to cast a bad light on the hypothesis that consensual structures of interest intermediation and certain organisational characteristics such as encompassingness solve collective action problems and lead to better performance.

It must be noted that it is the 1980s which are responsible for the greatest divergence of performance in the corporatist countries from what we might expect. In the case of Sweden in particular, corporatism seems to have fared much worse in the 1980s. But even when we consider their performance in fair economic weather, corporatist countries seem to be of only average productivity and to generate only average (at best) growth in output and economic growth. Corporatist countries also tend to produce higher inflation and worse current balances than many non-corporatism countries.

In mitigation, Austria and the Netherlands, which form the remainder of the "strong corporatist" group, have not done as badly as Sweden and Norway. In fact, apart from Austrian

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a Response to Wage-Price Problems', in Richard Rose (ed), Challenge To Governance. Studies in Overloaded Polities, London, Sage, 1980, pp.73-106; Robert Jackman, 'The Politics of Economic Growth in Industrial Democracies, 1974-1980', Journal of Politics, 48, 1986, pp.242-56.

inflation performance (which falls by two ranks), both countries have done better in the 1980s than in the 1970s in terms of our competitiveness index. The Netherlands consistently outperforms other strong corporatist countries, as can be shown by its productivity performance, but even here rankings in terms of growth of output and economic growth have slipped with the onset of foul weather.

Sweden and Norway, then, appear to provide an interesting test case of two corporatist economies which have experienced a bout of "foul weather" in the 1980s. Because of Norway's dependence on north sea oil, for the remainder of this thesis we shall focus most of our attention on Sweden. The question arises as to whether or not "foul weather" has made Sweden's corporatist mode of finding collective solutions to the strategic problems of economic adjustment dysfunctional. In other words, is corporatism still alive and well in Sweden? Can it survive in "foul weather"? Have the rational actors in the corporatist exchange in Sweden been able to cooperate in achieving outcomes which represent a collective reduction in costs?

CHAPTER FOUR.

THE IMPACT OF CORPORATISM ON SOCIETAL WELFARE.

'What is most striking in Sweden especially is that the transition to a period of less redistributive 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'. *Andrew Glyn*.[1]

In the first part of this chapter, we will examine the performance of our data set in absolute terms with respect to inflation and unemployment. Ranking only gives us an indication of relative performance, so we must look at the size of the differences and the direction of changes. We will examine the inflation-unemployment trade-off to see whether the corporatist performance is any better than the non-corporatist.

In the second part, we will use a pair of indexes which are known as the misery index and the happiness index.[2] Both these

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[1] Andrew Glyn, 'Corporatism, Patterns of Employment, and Access to Consumption', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn, Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.160.

[2] See F.G. Castles, 'Neocorporatism and the "Happiness Index", Or What the Trade Unions Get for their Cooperation', European Journal of Political Research, 15, 1987, pp.381-393. The joint indexing techniques used in this chapter are drawn from this paper by Castles. Rankings for different indicators are

indexes are additive, and can be used either to gain an impression of the joint impact of two variables or, as Francis G. Castles shows, to capture possible trade-offs between two variables.

In the third part, we will look at the comparative performance of corporatism in terms of more specific indicators of public employment and overall welfare spending.

4.1. Unemployment versus Inflation.

Inflation is more an indicator of economic performance, perhaps, than economic welfare, since high inflation has implications for competitiveness and investment confidence. But it also affects economic welfare in two respects, firstly, by reducing real income growth in ways that necessitate some compensations being targeted to the low pay and by reducing the capacity of the economy to make these redistributions without a corresponding measure of restraint from high pay groups. Secondly, inflation requires a policy response which may impact on welfare through its employment effects.

In the short term, Samuel Brittan argues, inflation can be tolerated as a conscious policy objective by governments to respond to a low-growth dilemma.[3] But in the long term the implications of inflation for export competitiveness through the impact on unit labour costs and public deficit mechanisms require restraint or costs to be distributed among the major actors.[4] In

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added and the new totals are then re-ranked. If two or more countries fall on the same rank, then the following country is ranked as if the previous countries had each been ranked separately.

[3] See S. Brittan, 'Inflation and Democracy', in F. Hirsch and J.H. Goldthorpe (eds), The Political Economy of Inflation, Cambridge, Mass., Harvard University Press, 1978, pp.161-85.

[4] The OECD McCracken Report of the late 1970s concluded that the main impediment to economic growth had become inflation itself, even if the original causes of the low economic growth

the absence of cooperation, these costs are likely to be distributed with the use of blunter fiscal and monetary tools which require increasing unemployment to get the NAIRU down.[5]

Inflation, then, ironically signals a greater tolerance of economic inefficiency with a view to avoiding zero-sum conflicts and maintaining low unemployment. As Fred Hirsch writes:

> 'inflation has served as a vent for distributional strife, an escape hatch through which excess demands are automatically channelled'.[6]

At some point, however, unless the economic pressure eases up, this underlying distributional conflict must be either solved by consensual interest intermediation which shares the costs in such a way to maximise future gains or snuffed out through the disempowerment of weaker actors, or *outsiders*, typically with unemployment.[7]

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lay elsewhere. P. McCracken et al, A Report to the OECD by a Group of Independent Experts. Towards Full Employment and Price Stability, Paris, OECD, June 1977, pp.108, 141.

[5] For a discussion on the Non-Inflation-Accelerating-Rate-Of- Unemployment (NAIRU) see Jonathan Boston, The Theory And Practice Of Voluntary Incomes Policies With Particular Reference To The British Labour Government's Social Contract 1974-79, unpublished D.Phil Thesis, Nuffield College, Oxford University, 1983, pp.35-39.

[6] F. Hirsch, 'The Ideological Underlay of Inflation', in F. Hirsch and J.H. Goldthorpe (eds), The Political Economy of Inflation, Cambridge, Mass., Harvard University Press, 1978, p.270. See also Brian Barry, 'Does Democracy Cause Inflation? The Political Ideas Of Some Economists', in Brian Barry, Democracy And Power. Essays in Political Theory 1, Oxford, Clarendon Press, 1991, pp.69, 72; and Colin Crouch, 'Conditions for Trade Union Wage Restraint', in Leon Lindberg and Charles S. Maier (eds), The Politics of Inflation and Economic Stagnation, Washington DC., The Brookings Institution, 1985, p.105.

[7] The "cure" for inflation, as envisaged by the McCracken Report, involved a "narrow path to growth" in which unemployment and engineered disinflation forced restraint from some groups in society. R.O. Keohane, 'Economics, Inflation, And The Role Of The

Table 4.1.

Corporatism and Inflation, Unemployment, and Government Outlays.

	Inflation			Unemployment			Outlays		
	A 75/80	B 81-89	Change B-A	A 75/80	B 81/89	Change B-A	A 74/80	B 81/88	Change B-A
Pluralism.									
USA	7.9	4.6	-3.3	7.1	7.3	0.2	32.7	36.2	3.5
Canada	8.6	5.7	-2.9	7.5	9.5	2.0	39.4	45.7	6.3
France	10.7	6.6	-4.1	5.2	9.4	4.2	43.7	50.9	7.2
2. Weak Corporatism.									
UK	15.5	6.0	-9.5	4.8	10.0	5.2	44.6	46.3	1.7
Italy	16.6	10.3	-6.3	7.1	10.6	3.5	42.7	49.2	6.5
Medium Corporatism.									
Ireland	16.4	7.7	-8.7	6.8	15.0	8.2	45.8	54.5	8.7
Belgium	7.1	4.7	-2.4	6.6	11.5	4.9	46.1	53.7	7.6
FRG	4.4	2.6	-1.8	3.0	5.9	2.9	47.5	47.8	0.3
Denmark	10.1	6.3	-3.8	6.2	9.1	2.9	50.1	59.4	9.3
Finland	11.6	6.7	-4.9	4.9	4.9	0.0	36.3	40.3	4.0
Australia	11.9	6.6	-5.3	5.6	7.6	2.0	33.7	37.0	3.3
Strong Corporatism.									
Austria	5.8	3.7	-2.1	1.5	3.3	1.8	47.0	51.3	4.3
Sweden	11.2	7.9	-3.3	1.5	2.2	0.7	55.3	63.5	8.2
Norway	8.7	7.8	-0.9	1.8	2.9	1.1	48.4	48.2	-0.2
Netherl'd	6.9	2.3	-4.6	3.5	9.0	5.5	53.4	60.3	6.9
Con-cordance.									
Japan	7.1	1.7	-5.4	2.0	2.5	0.5	29.0	33.3	4.3
Switz'd	3.2	3.3	+0.1	0.3	0.6	0.3	29.1	30.4	1.3

Source: OECD, Historical Statistics, Paris, 1990.

In Table 4.1., we can compare the average performance of our data set in two time periods, 1975-1980 and 1981-1989, as well as

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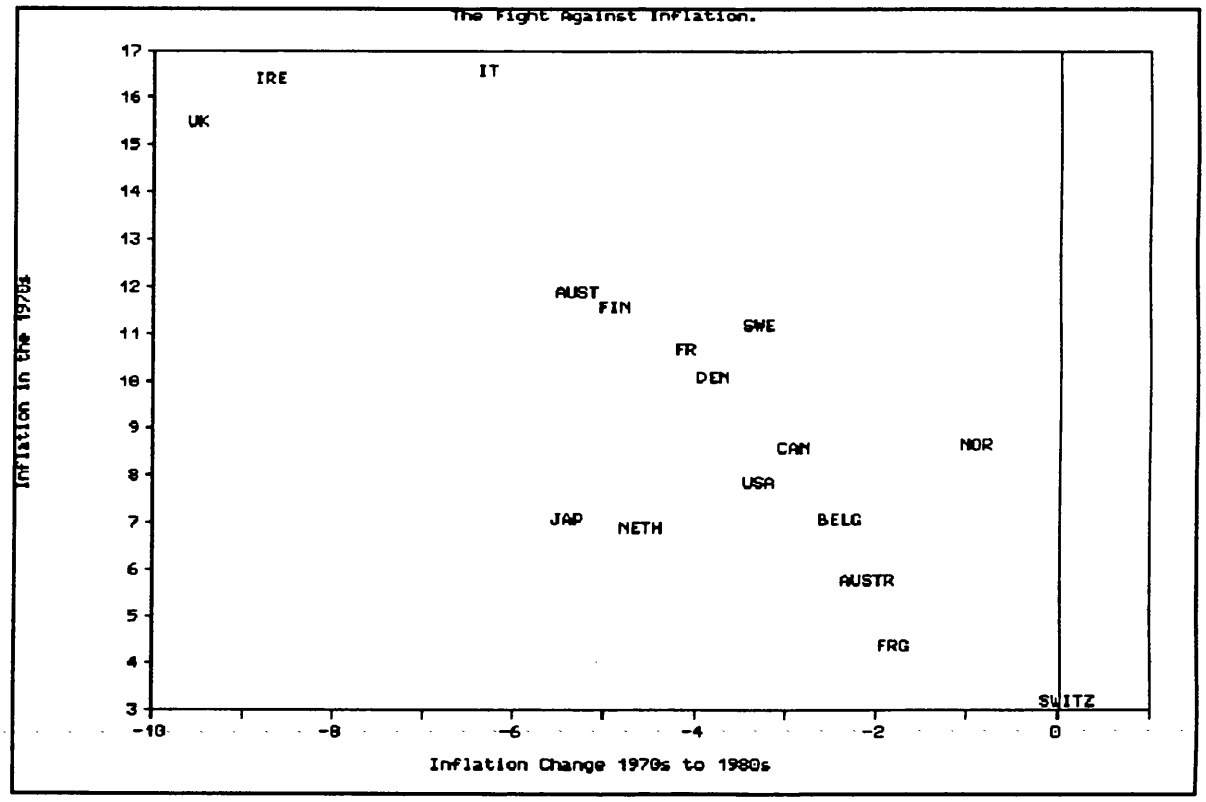
State: Political Implications of the McCracken Report', World Politics, 31, 2, 1979, p.117.

Figure 4.1.

The Fight Against Inflation in the 1980s.



Source: Table 4.1.

the difference between these two time periods. Data are given for inflation, unemployment, and government outlays. The latter variable will be discussed in the following section.

We can see, in terms of performance on inflation, that every country except Switzerland has managed to reduce the average level of inflation in the 1980s from its average level in the second half of the 1970s. This is in sharp contrast to the

dramatic increase in the rate of change of prices which David Cameron shows occurred between 1965-1967 and 1980-1982.[8]

In the 1980s, over half of the countries experienced a decline in inflation of more than 3 percent, and two - the UK and Ireland -experienced a reduction in inflation of 9.5 and 8.7 percent respectively. We can see in Figure 4.1. that those countries with the highest rate of inflation in the 1975-80 period were generally also those with the largest decrease in inflation over the 1975/1980 - 1981/1989 period. The correlation here is reasonably strong, with a r-sq of 69.3 percent.

This overall reduction in inflation, coupled with the association between the degree of change and the rate of inflation in the latter 1970s, shows rather clearly that inflation has been a key macroeconomic policy target of capitalist governments in the 1980s. It also shows that governments have succeeded in reducing inflation only partially; Figure 4.1. shows that the mean reduction in inflation is about -4.0 while the mean inflation rate for the 1975-80 period was 9.6 percent. This means that the capitalist economies reduced their inflation rates, on average, by only about half.

Some countries clearly did better than others, however. It is the countries with the very high rates in the 1970s which have the biggest reductions: the UK, Ireland and Italy, which are in the upper left-hand corner. In the upper right-hand corner, Sweden and Norway both have relatively high inflation rates but low reductions, which is not unexpected given our previous findings. Switzerland, Germany and Austria are clearly the best performers here. Japan is not included in this group due to its

[8] D. Cameron, 'Social Democracy, Corporatism, Labour Quiescence and the Representation of Economic Interest in Advanced Capitalist Society', in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon Press, 1984, pp.148f.

high rate of inflation in the 1975-80 period, but it does post one of the four largest reductions in inflation.

It seems clear that in the 1975-89 period governments have used high levels of unemployment to reduce inflation. This fact is modelled in economic theory by the "Phillips Curve hypothesis". Phillips observed an inverse relationship between unemployment and the rate of change of nominal wages.[9] This observation supported the hypothesis that there was a trade-off between unemployment and inflation. The logic of the argument ran as follows: high unemployment would weaken labour's bargaining power in the labour market, and therefore slow the rate of change in money wages, and therefore, by a set of mutually reinforcing effects upon other key planks of the economy, reduce pressure on inflation. Full employment would have the opposite effect, generating upward pressure on wages and inflation.

Douglas Hibbs carried out a cross-national comparison for the period 1960-1969 which supported the hypothesis by showing that there was a strong, inverse relationship ($r = -0.45$). Relatively high unemployment countries such as the United States and Canada in that period had relatively low rates of inflation compared to the relatively low unemployment countries such as Denmark, Finland, the Netherlands, Sweden, and Norway.[10] (Even in this early period, Sweden and Norway's inflation rates were considered relatively high).

David Cameron carried out a similar cross-national comparison of the average rate of unemployment between 1965 and 1982 and the average rate of change in consumer prices between

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[9] A.W. Phillips, 'The Relationship between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957', Economica, 25, 1958, pp.283-99.

[10] D. Hibbs, 'Political Parties and Macroeconomic Policy', American Political Science Review, 71, 1977, pp.1467-87.

1965-7 and 1980-2 and found, contrary to Hibbs and Phillips, that there was a strong, positive relationship between inflation and unemployment ($r = 0.70$).[11] This implied two interesting conclusions: first, that low unemployment levels did not always and everywhere produce the Phillipsian boost in inflation; and second, that high rates of unemployment did not always reduce inflation as might have been expected.

Cameron found that Japan, Switzerland, Austria, Germany and the Netherlands enjoyed both relatively low inflation and low unemployment; while Italy, Ireland, Britain, Canada, France and the United States had the worst of it on both counts. Norway and Sweden did, however, provide some support for the hypothesis. They combined low rates of unemployment with relatively high inflation rates. Cameron's study, which examined the stagflationary years of high inflation and high unemployment, seemed to imply that Phillips was wrong. It also implied that the corporatist and concordance countries performed better than the pluralist countries.[12]

We have carried out a similar procedure for the 1980s, comparing the change in the average rate of inflation in the period 1975/80 to 1981/89 with the change in the average rate of unemployment in the 1975/80 to 1981/1989 period. Figure 4.2.

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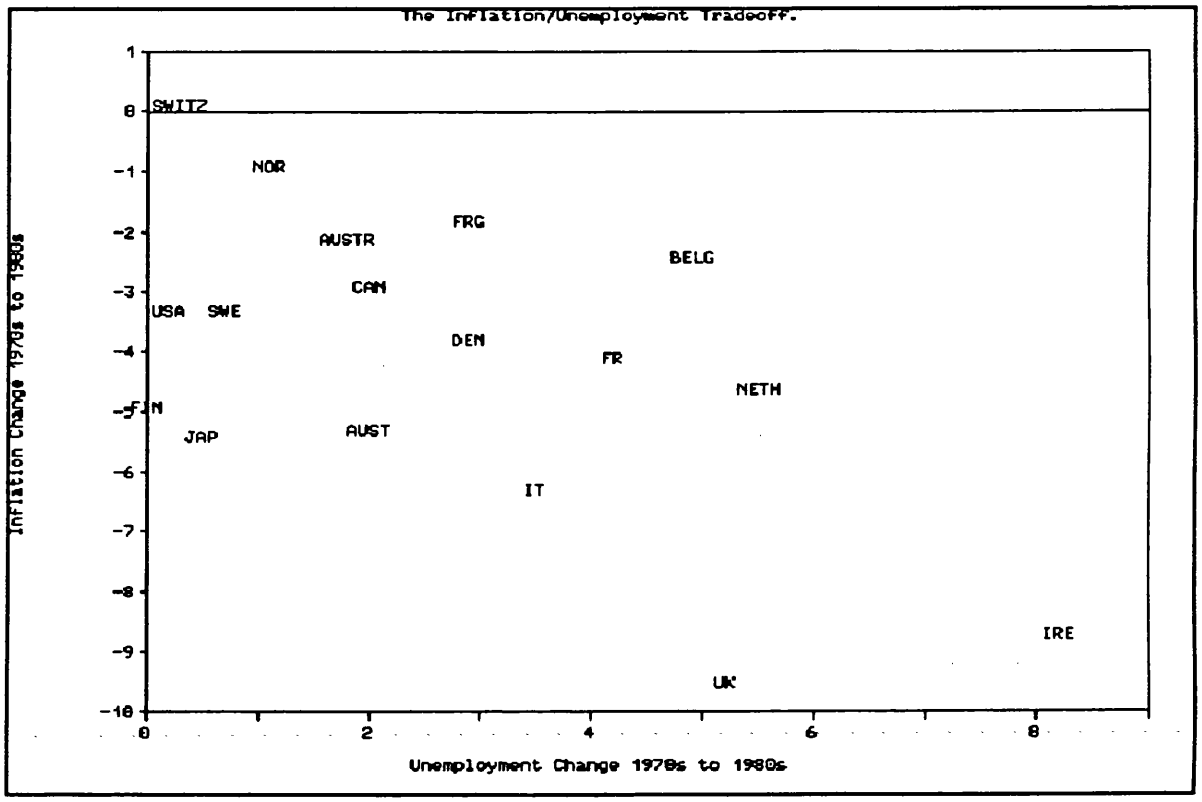
[11] D. Cameron, 'Social Democracy, Corporatism, Labour Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society', in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon Press, 1984, pp.143-78.

[12] See also M.G. Schmidt, 'Does Corporatism Matter? Economic Crisis, Politics and Rates of Unemployment in Capitalist Democracies in the 1970s', in G. Lehmbruch and P. Schmitter, Patterns of Corporatist Policy-Making, Beverly Hills, Sage, 1982, pp.237-58, who found a weak negative relationship between inflation and corporatism (defined in terms of labour union density and the degree of Left-representation in government).

Figure 4.2.

The Tradeoff Between Inflation and Unemployment.



Source: Table 4.1.

shows that there is some support, contra Cameron and pro Hibbs and Phillips, for an inverse relationship between inflation and unemployment in the 1980s (r-sq = 32.9 percent).

Two points are in order here: first, we can see that our measure of the change in the average rate of price inflation is negative, since virtually every country managed to reduce inflation from the heights it had reached in the late 1970s and early 1980s. Second, this means that the association between the two variables is positive; i.e., the higher the unemployment rate, the greater the reduction in inflation.

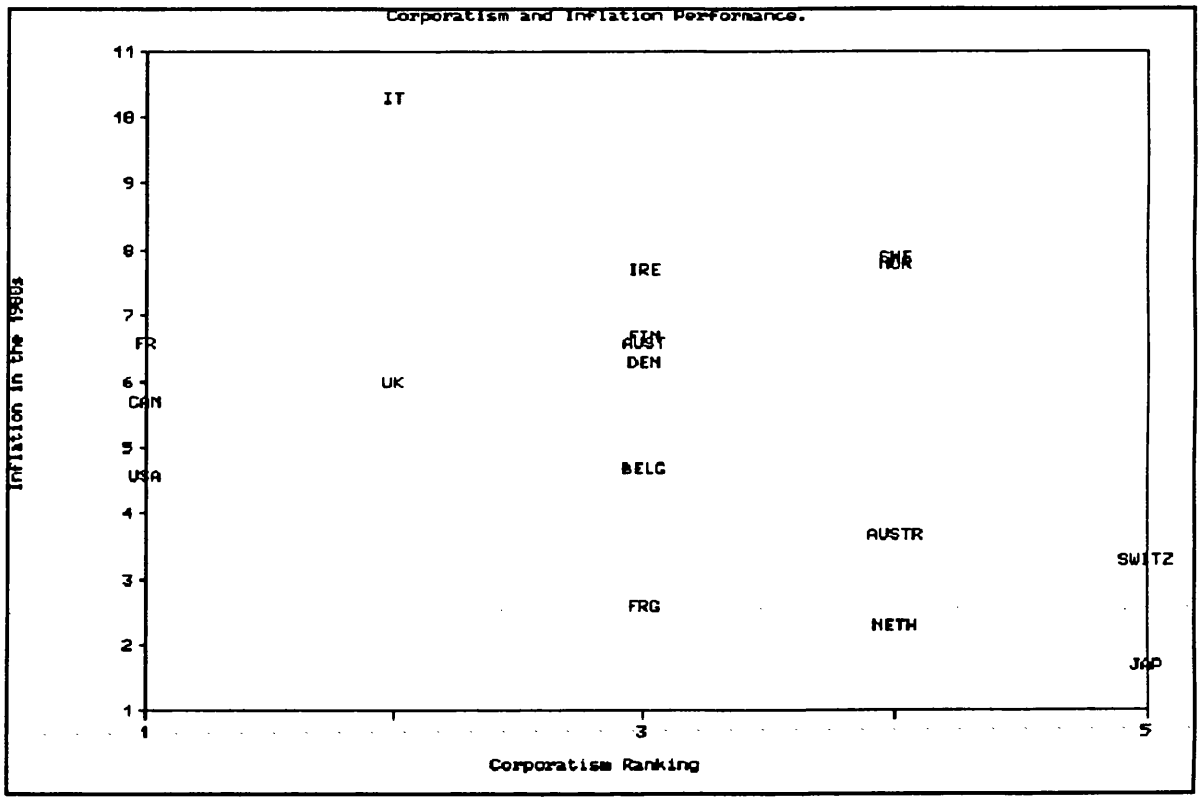
We can see that this does not contradict Phillips or Hibbs, who found a negative relationship between the rate of inflation and the rate of unemployment; i.e., the higher the unemployment rate, the lower the inflation rate (and vice-versa). It indicates that the fair weather corporatist countries may have had more success in combining low levels of unemployment with low inflation in the initial stages of the economic crisis, and that the non-corporatist countries were more successful at reducing inflation by using high unemployment in the 1980s than they were when Cameron made his analysis.

Nevertheless, this result provides only mixed support for the Phillips curve hypothesis. The Netherlands, Belgium and France have reduced inflation by an average of only -3.7 percent and yet their unemployment rates have increased in the same period by an average of 4.8 percent. At the same time Finland, Japan, the United States, and Sweden have had average unemployment levels of 0.3 percent and yet have reduced their inflation rates by an reasonably high average of -4.2 percent.

One possible explanation for these findings is that the countries with low unemployment growth and large reductions in inflation over the two periods had high average inflation rates in the 1975-80 period, so that despite the reductions they in fact still do have high inflation rates and low unemployment. We have to examine these countries individually, since they are too small a group to treat in aggregate. We can see that Finland and Sweden both have high rankings for inflation in the two periods (see Table 4.1.), and that the United States and Japan have reasonably high rates in the 1970s but appear to have reduced their inflation rate in the 1980s without generating high unemployment. Therefore, in Finland and Sweden, two corporatist

Figure 4.3.

Corporatism and Inflation Performance.



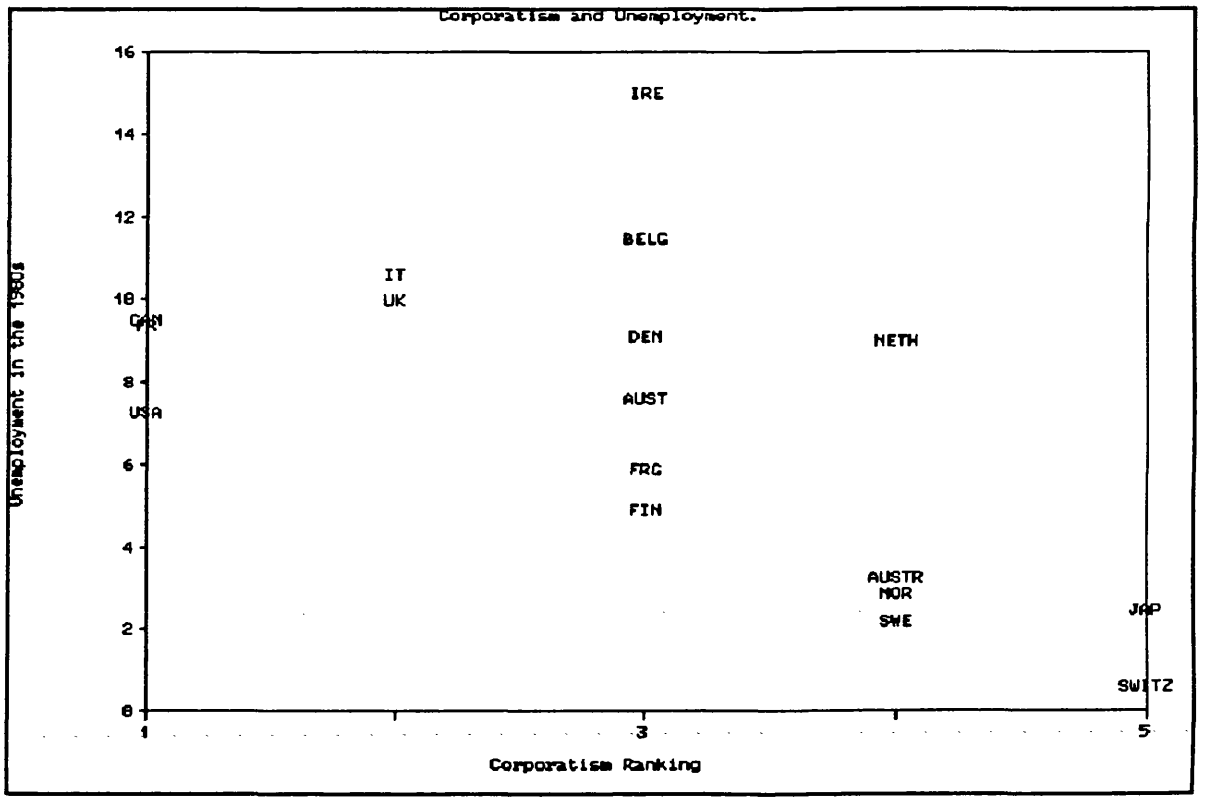
Source: Table 4.1.

countries, low unemployment does seem to be associated with high inflation, but in the United States and Japan, the Phillips curve relationship does not appear supported.[13]

[13] Two conclusions, which might merit a case study, might follow from the performance of the US and Japan. First, they achieved large inflation reductions without generating unemployment because they lacked strong trade unions prepared to fight low pay employment spreading. Second, they were so wealthy that the low pay groups perceived only gains.

Figure 4.4.

Corporatism and Unemployment Performance.



Source: Table 4.1.

In the case of the Netherlands, Belgium and France: each has relatively high rates of unemployment in the 1980s. This time, we would expect that low reductions in inflation over the two periods would mask a lower actual rate of inflation. In the case of the Netherlands, this is true, since it has the second-lowest average rate of inflation in the 1980s after Japan. But in the case of Belgium and France, both are close to the mean average rate of inflation in the 1980s for the entire group. Therefore,

in these countries the Phillips curve is also not well supported.[14]

The complex, case-specific interaction between inflation and unemployment means that the question we must now ask is how well the corporatist countries have done overall in terms of inflation and unemployment. In Figures 4.3. and 4.4., we can see the comparative performance of our five categories of corporatism in terms of inflation and unemployment in the 1980s. What becomes apparent from both Figures is that, first, the "pluralist" group of countries does better on both inflation and unemployment than might be expected. They still do not, on average, do as well as the strong corporatist and concordance countries (and Germany), but in terms of the remaining middle categories they do well, especially the US. Second, the "weak corporatism" group does relatively badly on both indices. Italy and the UK have not succeeded very well in trading off unemployment and inflation. Third, the "medium corporatism" group is very widely spread, but Ireland is a consistently poor performer and only Germany consistently does well in both categories. Fourth, in the "strong corporatism" group
Sweden and Norway have traded high inflation for low unemployment while the Netherlands has done the opposite. Austria has kept both unemployment and inflation low. Finally, the "concordance" group contains the best performers, but Austria and Germany are not far behind.

We can see, then, that the foul weather corporatist countries perform better overall with unemployment than inflation, and that the weakness of the Scandinavian inflation performance and the Dutch unemployment performance correspondingly weakens any argument for corporatist superiority

[14] Providing some persistent support for Cameron's view that high unemployment does not always and necessarily lead to low inflation.

over pluralist systems in the 1980s.[15] However, our examination of the Phillips curve hypothesis for the 1980s showed that pluralist governments have succeeded in exploiting the trade-off between unemployment and inflation only at a relatively increased and substantial cost in unemployment. Therefore, in terms of *welfare*, the corporatist performance in maintaining low unemployment is better than it may at first appear.

The question is how sustainable this low unemployment is when the pressures of lost competitiveness build up. A number of comparative studies have demonstrated that it is a mix of interventionist, labour market, and training policies which are the strongest causal variables associated with low rates of unemployment and not merely corporatist wage restraint policies.[16] In the absence of active labour market policies, and

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[15] Manfred Schmidt found that, in the 1970s, corporatism was associated with not only low inflation, but also low distributive conflict (i.e., strikes), and international competitiveness. M.G. Schmidt, 'The Role of the Parties in Shaping Macroeconomic Policy', in F.G. Castles (ed), The Impact of Parties: Politics and Policies in Democratic capitalist States, London, Sage, 1982, pp.153-154. We argue that, for the 1980s, this assessment of corporatist performance has to be revised with respect in particular to Sweden. In a separate paper, he showed that unemployment in the corporatist countries was 'too low' after allowing for the effects of economic-structural shocks. This remains largely true of the 1980s, but may have to be revised for the 1990s if the long awaited OECD upturn fails to materialise and corporatism fails to adapt to the foul economic weather. See M.G. Schmidt, 'The Politics of Labour Market Policy: Structural and Political Determinants of Rates of Unemployment in Industrial Nations', in Rudolf Wildermann (ed), The Future of Party Government Volume 3. Managing Mixed Economies, Berlin, Walter de Gruyter, 1988, pp.4-53.

[16] See Paul Boreham and Hugh Compston, 'Labour Movement Organisation and Political Intervention. The Politics of Unemployment in the OECD Countries, 1974-1986', European Journal of Political Research, 22, 1992, pp.143-170; Goran Therborn, Why Some Peoples Are More Unemployed Than Others. The Strange Paradox of Growth and Unemployment, Verso, the Thetford Press, 1986, pp.37-68; Richard Jackman, 'Where Corporatism Works', LSE

policies designed to provide public employment, the capitalist market system will not necessarily produce employment growth in the private sector, even in response to successfully implemented incomes policies. How sustainable are these policies, in the long-term? In fair economic weather relatively high inflation can be sustained without adverse consequences for investment, growth and competitiveness. In foul weather, however, the funding of these policies might need some degree of commensurate restraint from high pay groups, in which case the importance of party control of government, policy design and institutional structure may evaporate away.[17]

It is true that wage restraint policies, despite their economic rationale, are less important in the final instance than active interventionary policies for low unemployment. But while necessary, such interventionary policies are not sufficient in foul economic weather and, in particular, where cooperation designed to distribute costs cannot be maintained the economic consequences in terms of high government deficits and lost competitiveness increasingly lead to pressure to moderate or even abandon policies designed to maintain low unemployment.[18]

Quarterly, 3, 3, 1989, pp.213-235.

[17] Foul weather in this case need only be thought of in terms of vulnerability to world demand and the degree of fiscal and monetary restriction practiced by trading partners for the economic consequences in terms of pressure on unemployment to be understood. James E. Alt, 'Political Parties, World Demand, and Unemployment: Domestic and International Sources of Economic Activity', American Political Science Review, 79, 4, 1975, pp.1016-1040; S. Nickell, 'The Determinants of Equilibrium Unemployment in Britain', Economic Journal, 92, 1982, pp.555-575.

[18] For the argument that accommodatory public employment policies in combination with centralised bargaining can produce a weakening in the responsiveness of wages to unemployment, see Lars Calmfors, 'Employment Policy, Wage Formation and Trade Union Behaviour in a Small Open Economy', Scandinavian Journal of Economics, 84, 1982; T. Gylfason and Assar Lindbeck, 'Endogenous

There are two reasons for making this argument. The first is that while it may be the case that wage restraint policies do not necessarily produce low unemployment, it is the case that in the absence of wage restraint policies low unemployment becomes increasingly difficult to sustain. The second is that, as the economic difficulties in sustaining such policies increase the political conditions for shifting towards a policy mix which allows for an increase in unemployment are relaxed. Actors can rationally prefer to shift the costs of making the adjustment onto other actors, through mechanisms such as unemployment, because they have the option of remaining "insiders" and achieving the few gains that are available. Governments can survive this process, despite the long-term collective costs, because the absence of an alternative policy of cooperative restraint validates reliance on a second-best strategy.[19]

The welfare achievements of the corporatist countries in terms of low unemployment, then, might need to be reassessed in the light of how effective the implementation of wage restraint in response to the economic foul weather has been. The high inflation and poor competitiveness ranking of Sweden raises serious questions about this.

Unions and Governments: A Game-Theoretic Approach', European Economic Review, 30, 1986, pp.5-26. For the economic consequences of accommodating policy which is not matched by effective cooperation in the distribution of costs, see H. Soderstrom and S. Viotti, 'Money Wage Disturbances and the Endogeneity of the Public Sector in an Open Economy', in Assar Lindbeck (ed), Inflation and Employment in Open Economies, Amsterdam, North-Holland, 1978, pp.71-98.

[19] Wessel Visser and Rien Wijnhoven, 'Politics Do Matter, But Does Unemployment? Party Strategies, Ideological Discourse and Enduring Mass Unemployment', European Journal of Political Research, 17, 1990, pp.71-96.

4.2. The "Happiness Index" and the "Misery Index".

To develop our examination of the performance of corporatism, we turn now to a measure which also makes use of inflation and unemployment performance, but specifically examines the trade-off aspect: the "Misery/Happiness Index". In Table 4.2. we can see rankings for our data set in terms of inflation, unemployment and outlays of government as a percentage of GDP. By adding these rankings together we can create two indexes, a "misery index" which measures joint performance on inflation and unemployment, and a "happiness index", which measures joint performance in terms of unemployment and government outlays. These indexes are displayed in Table 4.3. Again, low numbers indicate the best performance and high numbers the worst, relative to the other countries.

The rankings in Table 4.3. in terms of "misery", i.e., inflation and unemployment performance, allow us to see that the group of countries with the overall worst performance lies in the pluralist, weak and medium corporatist categories. The concordance countries are the best performers. Although the strong corporatist countries are the next best performers, Sweden and Norway's high rates of inflation and the United States' relatively low rates of inflation affect their relative performance.

We would expect that countries with both a low level of unemployment and a high level of government outlays as a percentage of GDP would provide the best environment for trade unions in material and strategic terms. Hence, our "happiness index" which combines these two rankings. Low unemployment implies a strong labour market position for trade unions, with a positive effect on labour's bargaining position. High government outlays imply security of employment in a large public sector, and supportive public policies in the fields of employment,

Table 4.2.

Rankings: Inflation, Unemployment and Government Outlays.

	Inflation		Unemployment		Govt. Outlays	
	75/80	81/89	75/80	81/89	74/80	81/88
Pluralism.						
USA	7	6	15	8	15	15
Canada	8	8	17	13	12	12
France	11	11	10	12	10	7
Weak Corporatism.						
UK	15	9	8	14	9	11
Italy	17	17	15	15	11	8
Medium Corporatism.						
Ireland	16	14	14	17	8	4
Belgium	5	7	13	16	7	5
FRG	2	3	6	7	5	10
Denmark	10	10	12	11	3	3
Finland	13	13	9	6	13	13
Australia	14	11	11	9	14	14
Strong Corporatism.						
Austria	3	5	2	5	6	6
Sweden	12	16	2	2	1	1
Norway	9	15	4	4	4	9
Netherlands	4	2	7	10	2	2
Con-cordance.						
Japan	5	1	5	3	17	16
Switzerl'd	1	4	1	1	16	17

Source: previous tables.

Table 4.3.

A Comparison of Performance on Joint Indicators.

	Rankings: "Misery Index" Inflation + Unemployment		Rankings: "Happiness Index" Unemployment + Outlays	
	75/80	81/89	75/80	81/89
Pluralism.				
USA	10	5	17	13
Canada	14	11	16	16
France	9	13	9	8
Weak Corporatism.				
UK	13	13	7	16
Italy	17	17	15	13
Medium Corporatism.				
Ireland	16	16	11	11
Belgium	8	13	9	11
FRG	3	3	5	6
Denmark	10	11	6	5
Finland	10	9	11	8
Australia	14	5	14	13
Strong Corporatism.				
Austria	2	7	2	2
Sweden	7	8	1	1
Norway	6	9	2	4
Netherlands	5	4	4	3
Con-cordance.				
Japan	4	1	11	8
Switzerland	1	2	7	7

Source: previous table.

training, health and education. Rankings on government outlays as a percentage of GDP show, interestingly, that the two concordance countries, Japan and Switzerland, have the smallest government expenditure as apercentage of GDP in our data set. The countries with the highest level of government outlays are, not

surprisingly, in the strong and medium corporatist countries: Sweden, the Netherlands, Norway, Austria, and Denmark, Belgium and Ireland.

Looking at Table 4.3., we see that the countries with the highest ranking on our "happiness index" in the 1980s are: Sweden, Austria, the Netherlands, Norway, Denmark and Germany. This time, the order is reversed, and it is the strong and medium corporatist countries which perform best. The next group of countries are: Switzerland, Japan, Finland, and France. The two concordance countries do well despite their low rankings on government outlays because their employment performance is so good. Finland also posts a good ranking due primarily to low unemployment. France is the only non-corporatist country to do well on this ranking, largely because its level of government outlays is the highest among the pluralist and weak corporatist countries.

The foul weather corporatist countries, then, do better in terms of generating "happiness" than they do in avoiding "misery", which is simply to say that they produce inflation as a by-product of low unemployment and high government outlays. This implies that in Sweden, in foul weather at least, corporatism has not yet succeeded in its anti-inflationary goal. In turn, this implies that the distributional consequences of the foul economic weather are not being managed with enough effectiveness to maintain both low unemployment and low inflation. Still, comparing Table 4.3. with Table 4.2., where we can see ranks for inflation and unemployment separately, it is clear that by taking consideration of the trade-off between unemployment, inflation, and government outlays, Sweden and Norway perform better than when we consider just performance on inflation (or unemployment) alone.

Corporatism achieves the best performance in terms of what may be characterised as "socialist" goals: low unemployment and

high public spending, rather than in terms of the more narrowly economic measures of performance we have been considering thus far. The economic achievements of corporatism are in a sense hidden from immediate view. The question is whether these outlays, and the inflation they produce, can be sustained in foul economic weather. Certainly the increase in distributive conflict and the poor "competitiveness index" rankings for Sweden indicate that these welfare payoffs were becoming costly relative to the degree of growth and productivity produced in the economy.

4.3. Public Employment.

Public employment and general employment growth can be regarded as two crucial components of performance in terms of economic welfare. The former is more directly influenced by government spending, but the latter will also be subject to outlays on retraining, relocation, and various other public subsidies affecting the labour market. We can see in Table 4.4. data presented in four categories: "government employment as a percentage of total employment", "government employment percent change", "government wages as a percentage of total spending", and "general employment percent change".

If we look at the total ranking column, we see that Sweden, Canada and Denmark were the best performers. The worst performers are France, Belgium and the UK. This provides some evidence that Sweden achieved a higher degree of public compensation in terms of employment growth in the public and private sector than the non-corporatist countries with the exception of Canada in the first instance. But this is weakened by the fact that the pluralist country Canada and the strong corporatist country the Netherlands do better and worse, respectively, than would be expected. Canada performs well in all categories, while the Netherlands had only a small increase in public employment (which nevertheless received a large proportion of total government spending in wages). Although we lack data for Japan on one

Table 4.4.

Rankings: Public Employment and Employment Growth.

1.Govt. Empl.(i) 2.Govt. Empl.(ii)

3.Govt. Wage. 4.Empl. Growth.

	1.	2.	3.	4.	Total
1. Pluralism.					
USA	7 (16.1)	10 (1.1)	6 (13.4)	2 (2.2)	25
Canada	4 (19.7)	3 (2.4)	4 (10.6)	1 (2.4)	12
France	5 (18.5)	7 (1.8)	10 (16.0)	7 (0.3)	29
Weak Corporatism.					
UK	3 (20.8)	11 (0.9)	7 (14.3)	7 (0.3)	28
Italy	9 (14.4)	4 (2.2)	5 (12.2)	6 (0.5)	24
Medium Corporatism.					
Belgium	6 (17.8)	6 (1.9)	9 (15.9)	8 (0.2)	29
FRG	10 (14.3)	5 (2.0)	2 (9.5)	8 (0.2)	25
Denmark	2 (26.1)	1 (3.9)	8 (15.6)	5 (0.6)	16
Strong Corporatism.					
Sweden	1 (28.5)	2 (3.3)	1 (7.5)	4 (0.8)	8
Norway	--	--	--	--	
Netherlands	8 (14.5)	8 (1.4)	3 (10.0)	8 (0.2)	27
Con-cordance.					
Japan	11 (6.4)	9 (1.2)	--	3 (0.9)	--
Switz	--	--	--	--	

Source: 1. Average Yearly Government Employment as a Percentage of Total Employment, 1970-89, OECD Economic Outlook, Historical Statistics, 1960-89, Paris 1991.
2. Average Yearly Government Employment Percent Change, 1970-89, ibid.
3. Average Yearly Central Government Current Expenditure on Wages and Salaries as a Percentage of Total Expenditure and Lending Minus Repayments, 1972-87, International Monetary Fund, Government Financial Statistics Yearbook, IMF, 1988.
4. Average Yearly Percent Change in Employment, 1970-89, OECD, Economic Outlook, Paris, June 1990.

category, its performance in terms of general employment growth is very good while public employment is characteristically small.

4.4. Societal Welfare.

Public employment and employment growth are two key components of general welfare, but this wider category also encompasses spending on education, health and social services. When we consider the performance of corporatism in terms of social welfare, we have to control for a number of complementary and competing hypotheses. These include: the political or electoral cycle thesis, public choice theories of bureaucratic budget expansion, incrementalist theory, "politics matters" hypotheses, welfare-warfare tradeoff theories, hypotheses concerning the mode of tax collection and the degree of state centralisation, "protest politics" theories, and structural-functionalist theories of demographic need and economic development.[20]

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[20] For 'political' and 'electoral cycle' theses, see E. Tufte, Political Control of the Economy, Princeton, Princeton University Press, 1978; on public choice theory, see R. Rose and B.G. Peters, Can Governments Go Bankrupt?, New York, Basic Books, 1978; on incrementalism, see A. Wildavsky, Budgeting: A Comparative Theory of the Budgetary Process, Boston, Little Brown, 1975; on 'politics matters', see F.G. Castles and R.D. McKinlay, 'Does Politics Matter: An Analysis of the Public Welfare Commitment in Advanced Democratic States', European Journal of Political Science, 7, 1979, and F.G. Castles, 'How Does Politics Matter? Structure or Agency in the Determination of Public Policy Outcomes', European Journal of Political Research, 9, 1981, pp.119-32; on welfare-warfare, see B.M. Russett, What Price Vigilance?, New Haven, Yale University Press, 1970; on tax and centralisation, see D. Cameron, 'The Expansion of the Public Economy: A Comparative Analysis', American Political Science Review, 72, 1978, pp.1243-61, and F.G. Castles (ed), The Impact of Parties: Politics and Policies in Democratic Capitalist States, London, Sage, 1982; on structural functionalism, see H. Wilensky, The Welfare State and Equality, Berkeley, University of California Press, 1975, and A. Wagner, 'The Nature of the Fiscal Economy', in R.A. Musgrave and A.R. Peacock (eds), Classics in the Study of Public Finance, London, Macmillan, 1958, pp.1-8; and on protest politics, see F.F. Piven and R. Cloward, Regulating The Poor, New York, Vintage, 1971.

4 - The Impact Of Corporatism On Societal Welfare

As this literature is already extensive, we will only schematically refer to it when necessary. The "*corporatist hypothesis*", for want of a better term, has usually been operationalised in similar ways to those we have been using: using either indexes of unionisation and centralisation or indexes of neo-corporatist institutional and social arrangements. The hypothesis generally takes the following form: highly unionised work forces and centralised union structures provide statistical indicators of class-based, political mobilisation on the part of the labour movement. This mobilisation leads to increased spending on welfare in two ways: through Left-party governmental hegemony and through the redistribution of economic wealth generated by cooperation and encompassing group behaviour.[21]

This latter argument, that the public spending is financed by the economic growth which arises from encompassing group behaviour, is what we question in this thesis. In foul economic weather encompassing group behaviour does not produce gains, it minimises costs. Hence to sustain the rate of growth in public spending, taxes would have to grow. As can be seen in Figure 4.5., in Sweden the tax rate is near-legendary. Moreover, public employment creates a third actor: the public sector, which complicates the game.

Table 4.5. provides some support for the hypothesis that the corporatist countries spend more on welfare, operationalised here

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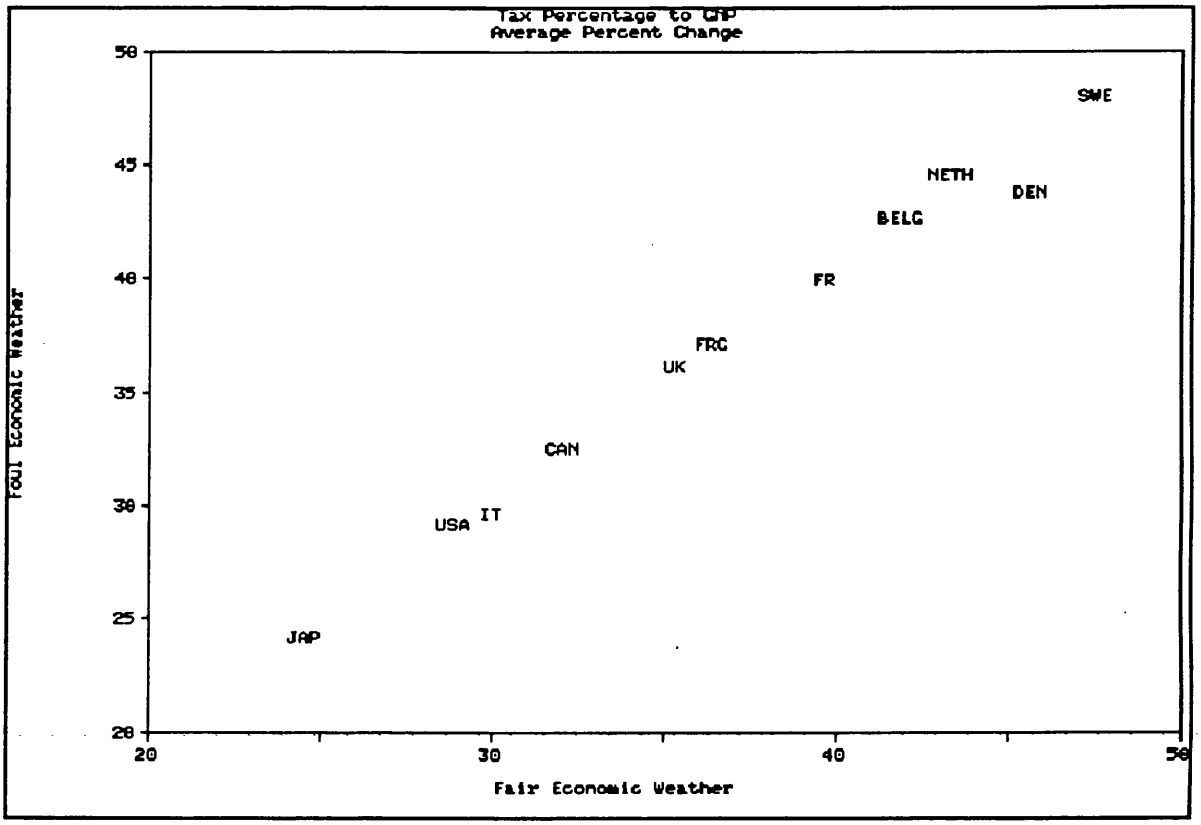
[21] Walter Korpi argues strongly for a "power-resources" explanation for low unemployment performance which stresses the intentionality of strategies and the strength of the Left, and which views institutions as intervening variables. He also accepts that economic factors place constraints on policy making, but does not explore these constraints in the same way as we do here. W. Korpi, 'Political and Economic Explanations for Unemployment: A Cross-National and Long-Term Analysis', British Journal of Political Science, 21, 1991, p.346.

Figure 4.5.

Taxation as a Percentage of GDP.



Source: OECD, Revenue Statistics Of OECD Member Countries, 1965-1989, Paris, 1990, p.71.

as the percentage of GDP spent on education, health, and social security. The best performers here are France (1983) and the Netherlands (1984), followed by Belgium (1985), Germany (1883) and Norway (1985), followed by Sweden (1984), Denmark (1984), Italy (1986) and the UK (1985), and lastly, Canada (1983) and the USA (1986). The influence of corporatist arrangements is most clearly visible in the middle strata of this range, suggesting that corporatism does produce increased welfare spending but that other factors are also important.

Table 4.5.

Mid-1980s Expenditure on Welfare.

	1. Education	2. Health	3. Social Security	Total
1. Pluralism.				
USA	12 (1.7)	11 (11.5)	5 (28.4)	28
Canada	9 (3.6)	8 (6.3)	9 (35.6)	26
France	1 (8.1)	6 (14.5)	2 (43.9)	9
2. Weak Corporatism.				
UK	9 (2.1)	10 (12.5)	4 (28.5)	23
Italy	9 (7.2)	7 (10.0)	8 (29.0)	24
3. Medium Corporatism.				
Belgium	5 (12.9)	1 (1.7)	10 (39.3)	16
FRG	2 (0.8)	12 (18.6)	1 (50.0)	15
Denmark	8 (9.6)	3 (1.1)	12 (37.1)	23
4. Strong Corporatism.				
Sweden	6 (10.0)	4 (1.3)	11 (46.7)	21
Norway	7 (8.8)	5 (10.5)	7 (35.1)	19
Neth.	2 (10.7)	2 (11.0)	6 (37.4)	10
5. Concordance.				
Japan	..	..	..	
Switz	2 (3.1)	9 (13.1)	3 (49.9)	14

Source: Rose Schumacher, Gail K. Stevens, Timothy S. O'Donnell, Lee Torrance, Kate Carnoy (eds), World Economic Data, Clio Press, 1989.

Size and openness are variables which have been associated with compensatory public spending, and have been linked to corporatism. As an example, Cameron argues that small, open economies will tend to produce industrial concentration, which in turn lends itself towards high unionisation and encompassing forms of interest intermediation and wage determination. These in turn, by generating a strong and centralised labour movement, provide the political foundation for strong Left-dominated

government, and hence, comparatively large increases in welfare spending.[22]

Swank and Hicks point out that capital has a structural-functional interest in socialising the costs of maintaining industrial peace and legitimising capitalism, which explains why some non-corporatist countries spend more on welfare than might be expected. But they also present statistical evidence which supports the proposition that high levels of union organisation, through the mechanism of class-based political mobilisation, lead to increased "income transfer" spending. The "politics matters" hypothesis that trade union and Left-party political mobilisation generates increased welfare spending remains the strongest in their view.[23] Borg and Castles showed, in addition, that the strength of the Right was itself an independent explanatory variable, since the Netherlands was a country which combined very high levels of welfare spending, despite a very low degree of electoral success for Left-parties, because it had a divided Right.[24]

The bottom line, however, is that the degree of economic surplus available to distribute determines whether or not institutional mechanisms of consensual wage distribution have to distribute gains or costs. This is the problem that foul weather corporatism must deal with. There are several economic-structural

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[22] D. Cameron, 'The Expansion of the Public Economy: A Comparative Analysis', American Political Science Review, 72, 1978, pp.1243-61.

[23] Duane H. Swank and Alexander Hicks, 'The Determinants and Redistributive Impacts of State Welfare Spending in the Advanced Capitalist Democracies, 1960-1980', in Norman J. Vig and Steven E. Schier, Political Economy In Western Democracies, London, Holmes and Meier, 1985, pp.128-130.

[24] S.G. Borg and F.G. Castles, 'The Influence Of The Political Right On Public Income Maintenance And Equality', Political Studies, 29, 4, 1981, pp.604-21.

hypotheses, which focus on the degree of economic productivity of the country and level of development in relation to welfare, in particular, before the onset of economic foul weather. In his latter work, Castles showed that economic growth determinants indeed acted as a limiting-factor beyond which outcomes could be determined by the interaction of political and institutional variables.[25]

The corporatism hypothesis is essentially a hypothesis concerning the degree to which the wage determination system solves prisoners' dilemmas of cost distribution, enabling fair and efficient welfare distribution and employment distribution outcomes to be sustained. The complicating factor in this hypothesis is that high welfare spending is shown in a number of studies to be statistically associated with the extent of union mobilisation and Left party dominance. Thus welfare is influenced by trade unions in two ways: through their ability to solve prisoners' dilemmas and produce "collective gains", and through their political mobilisation and impact upon the dominant Left-party. Trade unions, the major constituency of Left-parties, obviously have a material interest in income transfer programs and social policies.[26] Left-parties in government will face electoral pressure to meet the expectations of their voters. Considered in isolation, this causal mechanism has got nothing to do with corporatism at all.

But in terms of solving prisoners' dilemmas, strong centralised trade unions and powerful Left parties are two key

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[25] F.G. Castles, 'Economics, Politics And Needs: Towards a Balanced View of Contemporary Welfare State Development', paper presented at the Australasian Political Studies Association Conference, Sydney, 1986.

[26] A. Hicks and D. Swank, 'On the Political Economy of Welfare Expansion: A Comparative Analysis of 18 Advanced Capitalist Democracies, 1960-1971', Comparative Political Studies, 17, 1984, pp.81-119.

conditions for the development of concertation between trade unions, employers, and government. This concertation is in turn conducive to encompassing group behaviour, which as we have seen is a crucial variable in the case made for corporatism. The role of the Left-party in relation to welfare is thus intimately connected with the corporatist model. Any collective gains produced by cooperation and wage restraint have to be partly redistributed through the state and any costs associated with economic adjustment have to be cushioned by redistributive policies. Trade unions will act rationally, as far as possible, to ensure that the outcomes of corporatism are distributed in a socially "responsible" manner.[27] As Lange and Garrett argue, Left-government is crucial to successful corporatism because the state can affect the degree of risk attached to wage restraint by improving trade union expectations that the gains produced by restraint will eventually be redistributed to workers.[28]

Conclusion.

Corporatism in fair weather, it seems reasonable to say, produces "virtuous circles" consisting of positive sum gains, low

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[27] As Goldthorpe writes: 'unions engaging in political bargaining in the context of stagflation may be expected to take as their first objective that of 'equality of sacrifice' - or, in other words, that of ensuring that governments do not deflect on to labour an excessive part of the costs involved in the adaptation of national economies to less favourable conditions'. J.H. Goldthorpe, 'The End of Convergence: Corporatist and Dualist Tendencies in Modern Western Societies', in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon Press, 1984, p.337.

[28] Peter Lange and Geoffrey Garrett, 'The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974-1980', Journal of Politics, 47, 1985, p.797. See also Motoshi Suzuki, 'Domestic Political Determinants of Inflation', European Journal of Political Research, 23, 1992, pp.245-259, who argues that trade unions exchange non-inflationary wages for state welfare and political influence.

distributive conflict, economic growth, and the twin outcomes of full employment and enhanced welfare provision.[29] This was the argument which was put forward quite strongly in the 1970s and early 1980s. But with the damage suffered by corporatism in countries like Sweden, and increasing impotence of Left-governments and corporatist mechanisms to sustain growth in the public sector, growth in employment and maintain international competitiveness, many of the voices fell silent. In foul weather, it appears, corporatist countries such as even Sweden have found it difficult to rediscover the virtuous circle.

There were always some reservations in the literature as to whether or not corporatism could succeed in producing the economic performance necessary to redistribute income via the state and welfare spending.[30] If any doubts still remain, we have shown that the corporatist countries were not necessarily any more economically successful than the non-corporatist countries even before the 1980s. In terms of reducing inflation and

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[29] Francis G. Castles, The Social Democratic Image of Society, London, Routledge Kegan Paul, 1978, p.128.

[30] By the late 1980s, theorists had come to recognise the constraints imposed by the economic crisis on corporatism producing absolute and not relative gains (and hence, performing better than non-corporatist countries), but there remained no discussion of the fact that even negative outcomes would still remain positive sum. For example, Manfred Schmidt wrote in 1989 of the weakness of the 'political hypothesis': 'Its major weakness consists of disregarding the impact that constraints and structurally-given imperatives have on political decision-making processes... Even perfect autonomy on the part of decision makers does not count much as long as the decision makers do not have material resources at their disposal!'. M.G. Schmidt, 'Social Policy in Rich and Poor Countries: Socioeconomic Trends and Political-Institutional Determinants', European Journal of Political Research, 17, 1989, p.644.

improving international competitiveness, corporatism was apparently no more successful than other countries.[31]

This underlines the fact that corporatism is a mechanism which primarily functions to distribute gains and losses, its impact upon the capacity of an economy to produce gains is limited by other, structural factors. The manifest failure of the corporatist countries to generate unusually good economic performance rather clearly undermines the thesis that corporatism generates its own fair economic weather. Nevertheless, the fact that corporatism was not a Golden Goose should not obscure the fact that it was successful, at least in fair economic weather. First of all, why should we expect cooperation between economic interest groups to produce outstanding economic growth, output, and productivity? These variables depend far more on technological and system variables which are equally available to non-corporatist systems. Secondly, the achievement of low levels of strike activity, low unemployment and high welfare spending in combination must be regarded as somewhat extraordinary. These achievements are, moreover, most clearly collective gains.

[31] See also Gary W. Marks, 'State-Economy Linkages in Advanced Industrialised Societies', in Norman J. Vig and Steven E. Schier (eds), Political Economy In Western Democracies, London, Holmes and Meier, 1985, pp.53, 54-55.

CHAPTER FIVE.

EVOLVING THEORETICAL MODELS OF SWEDISH CORPORATISM.

'There is no policy of redistribution without economic growth'. *Swedish Proverb*.[1]

As a case study of corporatism, Sweden has earned a deservedly famous reputation for its "Swedish Model". However, there seem to be almost as many different interpretations of what this model is as there are observers (and certainly most Swedes will confess to not knowing exactly what it is).[2]

In this chapter we focus primarily on the evolution of cooperation in the labour market between trade unions and employers. This means we make an analytical distinction between the *Swedish Model*, understood in the broad sense as a mix of Welfare policies, Keynesianism, and social democratic policies designed to aid economic restructuring and maintain competitiveness, and *corporatism*, with our usage of the latter term referring more specifically to a cooperative strategy of

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[1] Bernt Schiller, 'The Swedish Model Reconstituted', in M. Donald Hancock, John Logue and Bernt Schiller, Managing Modern Capitalism. Industrial Renewal and Workplace Democracy in the United States and Western Europe, London, Greenwood Press, 1991, p.150.

[2] See J.-E. Lane, Understanding the Swedish Model, London, Frank Cass, 1991; John Madeley, 'Death and Taxes: The Waning of Swedish Social Democracy', Review Article, Government and Opposition, 28, 1, 1993, pp.118-125.

maximising collective gains and minimising collective costs through cooperation in the determination of wages (and hence, prices, productivity, competitiveness, and so on).

5.1. The Swedish Model as a Growth-Strategy.

The term "Swedish Model", in its broadest interpretation, would refer to the various components of Sweden's political-economic profile, as a package.[3] Individually, these elements are not totally unique to Sweden, but in combination, they amount to what can justifiably be described as a socialist-corporatist strategy. Swedish economic commentator Per-Martin Meyerson describes it as a hybrid system, combining competitive markets and cooperative distribution of the proceeds:

> 'The Swedish model may be described as an attempt to synthesise capitalism and socialism. The aim is to reap the harvest of a market-controlled and internationally oriented production system, while at the same time distributing profits on the basis of indigenous objectives of solidarity and justice which are relatively advanced in comparison with other countries'.[4]

Most of the academic interest in the Swedish Model in past decades has been inspired by the fact that it appeared to work so well in the 1950s and 1960s.[5] Low unemployment, strong economic

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[3] Hans Goran Myrdal, 'The Swedish Model - Will It Survive?', British Journal of Industrial Relations, 25, 1, 1980, pp.57-69.

[4] Per-Martin Meyerson, Eurosclerosis: The Case Of Sweden. A Critical Examination of Some Central Problems in the Swedish Economy and in Swedish Politics, Federation of Swedish Industries, Caslon Press AB, 1985. This and Swedish Economy at the Cross Roads, Federation of Swedish Industries, Caslon Press AB, 1979, were produced with the support of employers. Meyerson, as the title of his publication indicates, uses Mancur Olson's theory of economic-social sclerosis in his arguments.

[5] As Erik Lundberg writes, the Swedish Model is sometimes viewed as coterminous with the performance of the Swedish economy around the middle of the 1960s: full employment (with

growth, an extensive welfare system and so on, almost guaranteed the attention of foreign observers. It was also of particular interest because the model was clearly socialist in its strategic objectives. The Swedish Social Democratic Party (*Socialdemokratiska Arbetareparti*, SAP) maintained a comfortable hegemony in government, the trade unions were among the most powerful in the world, and income distribution was clearly shaped by the socialist goals of equality and welfare.[6] Sweden could be comfortably described as an *archetype* of a corporatist social democratic political economy. Because it was so far advanced, in fact, we would go even further and argue that Sweden can be said

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unemployment varying between 1.5 to 2.5 percent); relatively low inflation (around 3 percent); cyclical stability; good balance of payments; rapid rise in the public sector; no visible structural imbalances; good growth of total output (about 4 percent). Erik Lundberg, 'The Rise and Fall of the Swedish Model', Journal of Economic Literature, 23, March 1985, p.3. Lundberg, in passing, is by no means a supporter of the Swedish Model, e.g.: '[T]he disturbances and shocks to the economy [from the 1970s] put an end to praise of the Swedish Model. *And rightly so*', (emphasis added), p.2. Even critics of the Swedish Model appear to recognise its achievements. For example, Samuel Brittan and Peter Lilley, The Delusion of Incomes Policy, London, Temple Smith, 1977, p.124.

[6] Leading to the 'labour movement theory' approach to Social Democratic policies in Sweden, which stresses the activism of labour in shaping the corporatist political economy rather than emphasising the "subjugation" of labour in a system designed to moderate socialist tendencies and support capitalist institutions. There is a large literature on this debate which we do not examine here, since it is somewhat peripheral to our main concerns. See, for example, James Fulcher, 'Labour Movement Theory Versus Corporatism: Social Democracy In Sweden', Sociology, 21, 2, 1987, pp.231-52, for a discussion. The main authors include: Walter Korpi, The Democratic Class Struggle, London, Routledge and Kegan Paul, 1978; John Stephens, The Transition from Capitalism to Socialism, London, Macmillan, 1979; Gosta Esping-Andersen, Politics Against Markets, Princeton, Princeton University Press, 1985; Frank Parkin, Class Inequality and Political Order, London, MacGibbon and Kee, 1971; and Leo Panitch, 'The Limits of Corporatism', New Left Review, 125, 1981, pp.21-43.

to occupy the role of a test case for the functional efficiency of political-economic cooperation in a socialist-democratic country.

Sweden for a long time occupied the role of illustrating what corporatism, understood as cooperation between labour and capital in the determination of wages, might achieve if all the conditions necessary for sustaining cooperation in the labour market existed. With its highly centralised peak organisations of labour and capital, and its highly centralised system of wage determination, it was virtually the preeminent example of a corporatist political economy.[7] Its economic success, moreover, came to be seen as strong evidence for the superiority of the corporatist system (often not distinguished from the Swedish Model) over more market-orientated systems.[8] A host of comparative studies in the 1970s and early 1980s showed that corporatist systems did indeed seem to perform better in a range of economic indicators (the most important of which was full employment).[9] This empirical evidence was further supported by

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[7] Certainly, it has been widely described as the country which comes closest to realising corporatism in practice. See, for example, C. Crouch (ed), State and Economy in Contemporary Capitalism, London, Croom Helm, 1979; G. Lehmbruch, 'Neo-Corporatism in Comparative Perspective', in P.C. Schmitter and G. Lehmbruch (eds), Trends Toward Corporatist Intermediation, London, Sage, 1979, pp.1-28; and P.C. Schmitter, 'Still the Century of Corporatism?', Review of Politics, 36, 1984, pp.85-131.

[8] Even the Swedes were not immune, as Lundberg writes: '[T]he relative success of Swedish economic and social performance, beginning in the 1930s, sometimes created among Swedes a kind of national hubris, built on a myth of political and economic superiority'. Erik Lundberg, 'The Rise and Fall of the Swedish Model', Journal of Economic Literature, 23, 1985, p.4.

[9] Grouped together: Michael Bruno and Jeffrey Sachs, Economics of Worldwide Stagflation, Cambridge, Mass., Harvard University Press, 1985; Peter Lange and Geoffrey Garrett, 'The

theoretical work which showed that corporatism was a political economy which solved prisoners' dilemmas in key economic sectors such as the labour market.[10]

In implying causality between corporatism and good economic performance, however, a rather neat logical syllogism was generated: since economic success seemed so important to the perceived success of the Swedish Model, and the success of the Swedish Model in turn contributed much to the perceived functional efficiency of corporatist cooperation, economic success became a crucial variable in the case generally made for corporatism. As a result of assuming that successful corporatism should produce "economic success", an economic crisis in a corporatist country would have negative implications for any assessment of the performance of corporatism.

The Swedish Model, particularly in its corporatist guise, bears a strong similarity, in form and function, to the design of the iterative, conditional-cooperation solution to the prisoners'

Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974-80', Journal of Politics, 47, 1985, pp.792-827; Alexander Hicks, 'Social Democratic Corporatism and Economic Growth', Journal of Politics, 50, 1988, pp.677-704; David R. Cameron, 'Social Democracy, Corporatism, Labour Quiescence and the Representation of Economic Interests in Advanced Capitalist Society', in John H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon Press, 1984, pp.143-78; Frank G. Castles, 'Neocorporatism and the "Happiness Index", Or What the Trade Unions get for their Cooperation', European Journal of Political Research, 15, 1987, pp.381-93; Manfred G. Schmidt, 'The Welfare State and the Economy in Periods of Economic Crisis: A Comparative Study of Twenty-Three OECD Nations', in N.J. Vig and S.E. Schier, Political Economy in Western Democracies, New York, Holmes and Meier, 1985, pp.140-70.

[10] See the theoretical chapters. A good example is Jonathan Boston, 'Corporatist Incomes Policies, the Free-Rider Problem and the British Labour Government's Social Contract', in Alan Cawson (ed), Organised Interests and the State, London, Sage, 1985, pp.65-84.

dilemma. The assumption in the corporatist literature that we alluded to appears to be that, by cooperating and avoiding the prisoners' dilemma, the actors exercise restraint and paradoxically the economic well-being of the economy is improved to the maximum extent. If we accept the logic of the prisoners' dilemma, it is true that cooperation and the best possible economic outcome can be said to be logically equivalent, while rational self-interested behaviour in a strongly organised labour market (such as Sweden's) should produce a collectively suboptimal outcome. The paradox appears in the fact that by exercising restraint the actors are apparently better off: how can this be?

In fact, there is no paradox, because the collective wellbeing of an economy is maximised in relative terms, and not necessarily in absolute terms. In fair economic weather, it might appear as if the cooperation produces the economic success, but this, we argue, misses the point. In fact, the cooperation maximises the collective gain which is largely already determined by other, independent economic variables (it is these variables which can be more directly influenced by economic strategies such as those characterised by the Swedish Model). Cooperation produces efficiencies, maximises employment and maintains competitiveness, but beyond that other factors become more significant in determining productivity growth and output growth.

In foul economic weather, cooperation maximises collective gain through a cooperative reduction in income shares, or to put it another way, through the cooperative distribution of costs, which reduces distributional conflict during the process of adjusting to the economic contraction, and maximises the underlying sustainable growth of the economy. The outcome of the cooperation is not in foul weather that the actors are better off (necessarily) in absolute terms, but rather that they are better off in relative terms, i.e., better off than they would have been

if they had not cooperated. They may in fact be worse off through having cooperated and exercised restraint, but this may still be "the best possible economic outcome". All other *collective* alternatives may simply be worse.

Thus corporatism may still produce "economic success" in foul weather by solving the prisoners' dilemma, but this success will not be the same as that produced in fair weather. To some observers, it may not look like success at all. We argue in this thesis that in the earlier comparative literature on corporatism the implications of this line of analysis had not been adequately explored. It had been left unclear as to whether cooperation produces gain in an absolute or a relative sense, and under what conditions.

Even the "authors" of the Swedish Model believed that, by solving the prisoners' dilemma in the labour market, using effective fiscal and monetary policy, and promoting economic restructuring, they could maximise their collective well-being in the form of growing shares of a growing economic surplus. The Swedish Model was a corporatist *growth-strategy*, consciously designed to boost the productivity of the economy and supply collective gains to all the actors through economic growth. As Walter Korpi writes:

> 'The historical compromise implied that the parties should work together to increase economic growth. They were to help each other to make the cake bigger so there would be more to share'.[11]

This emphasis on growth, as we shall see, was not unrealistic as

[11] Walter Korpi, 'The Historical Compromise and its Dissolution', in Bengt Ryden and Villy Bergstrom, Sweden: Choices for Economic and Social Policy in the 1980s, London, Allen and Unwin, 1982, p.133.

an expectation during the Golden Age of the 1950s and 1960s. As Rudolf Meidner writes:

> 'The labour movement felt that its policy was justified by its results. Economic growth through higher efficiency was the goal which few dared to call into question.'[12]

With Sweden's undeniable economic success in the 1950s and 1960s, it seemed that the Swedes had successfully solved the prisoners' dilemma and that the Swedish Model was working. "Collective well-being", i.e., economic growth, seemed to support this because Sweden was so wealthy.

But from the 1970s on, the "Swedish Miracle" was superceded by poor performance in a huge range of economic indicators such as productivity, exports, inflation, output, investment, and deficits in the public and current accounts. It seemed that the Swedish Model and with it, corporatism, had failed to produce the high performance it promised, and that therefore both the Model and the corporatist strategy had been somewhat discredited.[13] From a comparative perspective, it seemed that corporatism increasingly looked like failing in a country previously thought a clear example of corporatist success, which further seemed to underline its political irrelevance in the Anglo-Saxon world (excluding Australia). The economic crisis coincided with the progressive breakdown of the centralised system of wage bargaining, failure to achieve cooperative reductions in incomes

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[12] Rudolf Meidner, 'Swedish Union Strategies Towards Structural Change', Economic and Industrial Democracy, 7, 1986, p.87-88.

[13] As Lundberg writes: 'From [the point of view of earlier assumptions about Swedish exceptionalism] the deterioration of the model in the 1970s came as a psychological shock, especially to the earlier strong believers'. Erik Lundberg, 'The Rise and Fall of the Swedish Model', Journal of Economic Literature, 23, 1985, p.4.

through wage restraint, and the reemergence of prisoners' dilemma outcomes.

The apparent failure of corporatism to continue to produce growth in income shares, output and employment contributed to a crisis of confidence in the system. But as we have just argued, corporatism should be considered more as a *distributional system*, in the sense that it maximises collective values through the distribution of gains and/or costs in such a way that costly prisoners' dilemmas are minimised, and not a *production system*, which might be expected to produce economic success understood narrowly as constant improvements in income shares and economic output. Therefore there is actually no logical reason why corporatism should not still be seen to be maximising the potential well-being of the economy even when the economy in question is contracting. It is thus a mistake to assume that a corporatist system must be failing if it is not producing "economic success" in the narrow sense.

This raises several questions which are closely linked and must be separated: first, did corporatism really fail in Sweden, or did the actors perceive that it failed, given the economic crisis, and abandon it? Second, did corporatism ever really successfully function, in terms of minimising prisoners' dilemma outcomes, before the economic crisis, or was it sustained and "cushioned" by other factors which independently produced "economic success"? Third, if Swedish corporatism in economic foul weather did fail to produce the best collective outcome, was this because of the loss of centralisation or because of the foul economic weather? Did Sweden never really have cooperation except in terms of distributing gains?

In the following sections we examine the evolution of corporatism in Sweden with the help of our game-theoretical understanding of cooperation in fair and foul economic weather. We will keep in mind throughout that we should not logically

expect success defined in terms of *growing shares* of economic output in a functioning corporatist system, and therefore in Sweden, simply because it is the only country to attempt such a sophisticated version of what is a radical and challenging policy experiment. Growth in economic output may not really be so amenable to social-economic cooperation as had been supposed. Instead, we will provide answers to the three questions above, assessing the impact of the economic crisis on the actors' own perceptions of the corporatist model, assessing the efficiency of the overall system in fair weather, and assessing the breakdown of the centralised system in foul weather in the light of the problems for corporatist cooperation in foul economic weather we investigated.

Can the evolution of the Swedish Model and its corporatist component can be understood in terms of the concepts and ideas we have developed? That is, was the system designed to maximise collective gains through conditional cooperation between actors whose strategies were encompassing? Did the actors regard themselves as being in a prisoners' dilemma, and how important was centralisation, iterated encounters, and the "shadow of the future" in determining the cooperative nature of the process? More to the point, how important was the role played by the distribution of gains in the strategy and how compatible was this dependence with the distribution of costs in foul weather and the problems associated with the high pay-low pay conflict?

5.1.1. A Strong Starting Position.

By the end of the 19th century, Sweden had a comparatively well organised agricultural sector and a nascent industrial sector which made use of a ready supply of raw materials such as iron ore and wood. By about 1900, half of Sweden's exports were textiles, pulp and paper and engineering products, and the other half were raw materials such as iron, grain, metal ores and

timber.[14] Although Sweden at this time, by comparison with many other industrialised countries, was relatively backward in terms of industrial development, it enjoyed a strong potential for future growth.[15]

Much of this growth potential came from the emergence (in the period 1860 to 1914) of more than ten Swedish companies that later became the backbone of international competitiveness and domestic production: AGA, Alfa-Lavel, ASEA, Atlas, Copco, Bofors, Electrolux, L.M. Ericsson, Husqvarna, Saab-Scania, Sandviken, SKF, Stora Kopparberg, the Swedish Match Company, Uddeholm, and Volvo.[16] Moreover, in those 50 years, Sweden had the third highest per capita growth of GDP in the world (after the USA and Japan), and by the 1980s, was still estimated to have one of the highest levels of per capita GNP of the advanced capitalist countries.[17]

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[14] Stig Hadenius, Swedish Politics During the 20th Century, the Swedish Institute, Centraltryckeriet AB Boras, 1990, p.9.

[15] Despite industrialising late, Sweden achieved a lot in just three generations. Guy De Faramond, Michael Harrington and Andrew Martin, 'Sweden Seen from the Outside', in Bengt Ryden and Villy Bergstrom, Sweden: Choices for Economic and Social Policy in the 1980s, London, Allen and Unwin, 1982, p.16; Erik Lundberg, 'The Rise and Fall of the Swedish Model', Journal of Economic Literature, 23, 1985, p.1; Stig Hadenius, Swedish Politics During the 20th Century, p.8.

[16] Swedish industrial development is also associated with a number of successful inventions such as dynamite (Nobel Industries), the cream separator (Alfa-Laval), the ball bearing (SKF) and the automatic lighthouse (AGA). Other important industries grew from the application of technological innovation to new products such as steam engines (Copco), the telephone (Ericsson), motor vehicles (Volvo and, later, Saab-Scania) and portland cement (Skanska). See Stig Hadenius and Ann Lindgren, On Sweden, The Swedish Institute, Helsingborg, Schmidts Boktryckeri AB, 1990, pp.42-43.

[17] Gustavson, for example, estimates that in 1981 it had the highest level of per capita GNP. The figure for 1981, in American dollars, is $13,327. See Carl G. Gustavson, The Small Giant.

This early productivity, it must be stated, absolutely cannot be attributed to the Swedish Model and the corporatist system because *it simply did not exist at that time*. Instead, it has to be attributed to other factors, some of which are undoubtedly Sweden's access to iron ore and timber, its level of technological development, and its proximity to European markets.[18] The underlying determinants of growth are linked to what might be called fundamental conditions such as relative location, technological development and resources. These conditions are in turn limited in their impact on growth by global tendencies in the world economy.

With the establishment of its industrial base, Sweden was well placed on a useful launching pad, ready to exploit the enormous growth potential of the world economy during the twentieth century. The application of the Swedish Model and the corporatist system to the development of the Swedish economy in these favourable conditions, which we have called fair economic weather, was to prove a very successful marriage.

A key contributory factor in the development of the Swedish Model was the early adoption of Keynesian macroeconomic policies designed to achieve full employment. The Swedish anti-depression program has been long-identified as one of the earliest instances of Keynesianism, and owed much to Ernst Wigforss, the Minister of

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Sweden Enters the Industrial Era, Ohio, Ohio University Press, Athens, 1986. Other sources, however, give Sweden a slightly lower ranking. For example, Lehner ranks Sweden third after Switzerland and Germany for 1980. Franz Lehner, 'The Political Economy of Distributive Conflict', in Rudolf Wildenmann (ed), The Future of Party Government, Berlin, Walter de Gruyter, 1988, p.86. Fulcher notes that Sweden ranked second after the United States in the 1960s. James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, p.202.

[18] Lars Nabseth and Jan Wallender, 'Can Sweden Remain a Leading Industrial Nation?', in Bengt Ryden and Villy Bergstrom, Sweden: Choices for Economic and Social Policy in the 1980s, London, Allen and Unwin, 1982, pp.75-79.

Finance in the Social Democratic Labour Party (*Socialdemokratiska Arbetareparti*, SAP) government. It employed elements of demand stimulation and deficit financing.[19]

This development of government economic stabilisation policy coupled with a growing social welfare concept was not linked explicitly with the development of corporatist approaches to wage determination, but it was to have a crucial bearing on the later capacity of the government to compensate for shocks in the wage determination process. Social welfare policy was derived from a strong collective policy tradition, and was aided in its implementation by economic growth and SAP political incumbency.[20] Key elements of later policy innovations were present even at this early period, such as support for more active programs to deal with unemployment, by offering the unemployed work (such as road-building projects) and wages (at market rates). The costs of these policies were covered by higher progressive taxes on income, inheritances and wealth.[21]

These Keynesian and welfare components, in combination with Sweden's strong starting position, were rewarded by a series of fortuitous economic conditions. Global economic growth nurtured the Swedish Model in its early development virtually from the end of the Great Depression, when the export of pulp and paper, light

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[19] Wigforss also did much to popularise the concept of the *folkhemmet* - the "Peoples' Home".

[20] As Weir and Skocpol argue, Sweden was uniquely placed among those states that adopted Keynesian policies in the 1930s because it had by far the most powerful central administration and governmental direction. M. Weir and T. Skocpol, 'State Structure and the Possibilities for Keynesian Response to the Great Depression in Sweden, Britain, and the United States', in P. Evans et al (eds), Bringing the State Back In, Cambridge, Cambridge University Press, 1985, pp.107-63.

[21] Significantly, corporate taxation was kept low: the SAP was a socialist government, but it had a good understanding of the need to support industry.

engineering products and iron ore expanded. In the 1930s there was further expansion in sectors oriented to domestic markets.[22] Wartime cooperation between the political parties during WWII, and the policy of neutrality, contributed further to the economic basis of the developing Swedish Model. Sweden was able to ship exports despite the conflict, and it even exported ball bearings to Nazi Germany. At the close of the war, Sweden enjoyed an enviable position: political and social stability and an intact production system. GDP growth from 1946-1950 averaged 4.5 percent annually.[23]

In the 1944 Social Democratic Party programme, full employment policy topped a list of 27 points for change. Full employment was a necessary condition in obtaining the continued cooperation of the trade unions, as well as being an ideologically central plank in the policy platform of the SAP. In 1948 a new Labour Market Board was created, the *Arbetsmarknadsstyrelsen* (AMS), and active labour market policy ideas began to be more fully worked out. Job creation was aided by two manpower boards which eventually drew on some 2 to 3 percent of GDP from public funds.[24]

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[22] See Per Martin Meyerson, Swedish Economy at the Cross Roads, Stockholm, Federation of Swedish Industries, 1979, p.16. For a discussion of the 1930s, see Erik Lundberg, 'The Rise and Fall of the Swedish Model', Journal of Economic Literature, 23, 1985, pp.5-12.

[23] Stig Hadenius, Swedish Politics During the 20th Century, the Swedish Institute, Centraltryckeriet AB Boras, 1990, p.58.

[24] For further information, see Malcolm MacLennan, Murray Forsyth and Geoffrey Denton, Economic Planning and Policies in Britain, France, and Germany, New York, Praeger, 1968, pp.286-88; OECD, Regional Problems and Policies in OECD Countries, vol. 1, Paris, 1976, pp.91-104; OECD, Selected Industrial Policy Instruments: Objectives and Scope, Paris 1978, pp.14-15; Harold G. Jones, Planning and Productivity in Sweden, London, Croom

5 - Evolving Theoretical Models Of Swedish Corporatism

At the start of the 1950s, the Swedish labour movement initially expected a post-war depression and had intended interventionary policies designed to kick-start production. Instead, a boom in production and output among the developed countries ensued, external demand grew and capital was invested by employers, which allowed the unions to continue to deliver their cooperation.[25] The economic growth meant, of course, that wage restraint was never severe enough to challenge the cooperation of the high pay groups. In the 1960s, for example, productivity increases were large enough so that unit labour costs only rose by an average of 2 percent while real hourly wage increases were at an average annual rate of nearly 5.5 percent.[26] As Rune Aberg, a Swedish professor of Sociology, writes:

> 'even if the higher paid workers lost in relative terms, they nevertheless earned more than they had

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Helm, 1976, pp.202-203; Kenneth Hanf, Benny Hjern, and David O. Porter, Networks of Implementation and Administration for Manpower Policies at the local level in the Federal Republic of Germany and Sweden, Berlin, International Institute of Management, 1977, pp.77-16; OECD, The Industrial Policies of 14 Member Countries, Paris, 1971.

[25] Anna Hedborg and Rudolf Meidner, 'The Swedish Welfare State Model', in Gregg M. Olsen, ed., Industrial Change and Labour Adjustment in Sweden and Canada, Toronto, Garamond Press, 1988, pp.62.

[26] See Robert J. Flanagan, David W. Soskice and Lloyd Ulman, Unionism, Economic Stabilisation, and Incomes Policies, Washington, D.C., The Brookings Institution, 1983, p.308. Of course, a part of the high productivity rates in the 1960s was due not only to fair economic weather but to the shut down of inefficient plants as a result of the application of the Rehn model policies. See Erik Lundberg, 'The Rise and Fall of the Swedish Model', Journal of Economic Literature, 23, 1985, p.20.

before and therefore distributional conflicts were not as serious as they would become in the 1980s'.[27]

In the 1950s and 1960s, on average, wages growth did not outstrip improvements in competitiveness, so that the balance of payments on current account did not get seriously out of equilibrium. If wages growth did put pressure on the balance of payments, the Social Democratic government countered this with Keynesian stabilisation policy the following year. Profit margins were squeezed by "employer taxes", wages and indirect tax during the 1950s and 1960s, but the effects were not appreciated due to the very advantageous starting position. During the 1960s, industrial productivity had a 7 to 8 percent annual increase.[28] As Lundberg writes:

> 'The growth rate, although a little below the OECD average, was satisfactory, having regard to the fact that Sweden's GNP per capita already was on a relatively high level at the start of the post-war period because of its neutrality in two world wars and because it had relatively high growth rates during the Twenties and Thirties'.[29]

Profits were further boosted to an historically high level due to devaluations of the Krona in 1949 and the Korean War boom.

The Swedish Model was expensive to run. Pensions, sick pay and child allowance systems were shifted from means testing to

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[27] Rune Aberg, 'Economic Work Incentives and Labour Market Efficiency in Sweden', in Greg M. Olsen (ed), Industrial Change and Labour Adjustment in Sweden and Canada, Toronto, Garamond Press, 1988, pp.70-86.

[28] Per-Martin Meyerson, Eurosclerosis: The Case Of Sweden, Federation of Swedish Industries, Caslon Press AB, 1985, p.59.

[29] Erik Lundberg, 'The Rise and Fall of the Swedish Model', Journal of Economic Literature, 23, 1985, p.3.

general availability. By 1965 social welfare expenditure amounted to almost 30 percent of the central government budget, and by the end of the 1960s total public expenditure accounted for 40 percent of GNP - the highest in the OECD area. But then GDP was increasing by an annual average of 3.5 percent in the 1950s and 5 percent in the first half of the 1960s. High public expenditures on labour market programs, the generous universal health, pensions and compensations schemes, and most of all, the full employment, made sure that in Sweden restraint on the part of labour was never defined in real negative terms. This was even despite taxes which grew to 40.5 percent of GNP by 1970 (and reached 53.4 percent by 1977).[30]

Wage restraint was thus always accompanied by an expanding collective compensation, and the values always summed in the positive direction. The costs of the Rehn strategy of economic restructuring were borne by the active labour market policy and the expansion of public employment. The restraint was always relative and not absolute. If we drew a game theoretical matrix for Sweden in the period up until 1965, we would find that the outcomes of cooperation between blue collar unions and capital in the competitive sector were always real improvements in economic well-being. This does not, we note, turn the situation into an assurance game, since successful free-riding would still remain the preferred strategy in a one-shot game, but it did lessen the relative attraction of free riding over repeated plays. Moreover, the low pay groups were kept cooperating by the wage policy of solidarity and the high pay groups by the strategy of minimising wage drift through squeezing profits.

All of this was made possible, we argue, by largely exogenous economic conditions, in combination with Sweden's

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[30] For these figures, see Robert J. Flanagan et al, Unionism, Economic Stabilisation, and Incomes Policies, Washington, D.C., The Brookings Institution, 1983, p.316.

strong starting position. In this context, the Swedish Model and the corporatist system did function successfully, and we accept the argument that they contributed towards much of Sweden's particularly outstanding achievements in terms of employment, welfare and restructuring.[31] But the Swedish Model and the corporatist system functioned well in part because they operated in the context of fair economic weather, and were in fact, functional in their contemporaneous design only in that context. As Fulcher writes, 'Economic growth was both a condition and a consequence of a corporatism that worked'.[32] In the context of the remarkable growth of the world economy during that time, in which countries both corporatist and non-corporatist prospered alike, it seems reasonable to attribute the more fundamental sources of this growth to what we term economic fair weather. Sweden's brand of socialism, then, functioned more to make an already strongly situated economy more equitable and responsive to change, than to produce or generate its prosperity in the first place.

5.1.2. Early Developments.

In the 1930s, in what was, at that time, a very favourable economic climate, the blue collar Swedish Confederation of Labour (*Landsorganisationen i Sverige*: LO) and the Swedish Employers'

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[31] As Fulcher writes: 'While Sweden's favourable post-war situation provided a good launching pad, continued and steady growth depended on structural change and growth in productivity.' James Fulcher, Labour Movements, Employers, And The State. Conflict and Cooperation in Britain and Sweden, Oxford, Clarendon Press, 1991, p.202. See also Olson's argument that Sweden's relative economic success was largely produced by its low levels of protectionism, its high level of economic understanding, its "encompassing" organisations, and its "explicit" redistribution system. Mancur Olson, How Bright are the Northern Lights? Some Questions about Sweden, Institute of Economic Research, Lund University Press, 1990, p.86.

[32] James Fulcher, Labour Movements, Employers, And The State, Oxford, Clarendon Press, 1991, p.203.

Confederation (*Svenska Arbetsgivareforeningen*: SAF) decided to work together to improve the efficiency of the wage determination system. After the shock of the most damaging labour conflict to date in Swedish history, in the 1920s and early 1930s, the Swedes' tendency to react by seeking consensus prevailed.[33]

The earliest origins of centralised bargaining as a means to manage the wage determination process can be traced back to the 1906 "December Compromise" between SAF and the Social Democratic Party, recognising freedom of association, but giving employers the right to engage and dismiss workers freely. This agreement gave an impetus to the development of collective agreements at the national level. From the point of view of SAF, which later took the lead in pushing for a more centralised system, it was preferable to recognise the unions and seek stability in the wage determination system, in the process avoiding government interference, than to continue with a system which had shown a propensity towards industrial and distributional conflict.[34]

Industrial militancy was linked to the existence of high pay and low pay conflicts in the 1930s, with the construction unions

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[33] This "consensus" element is one of those apparently unquantifiable *cultural* variables, which often serves as a cover-all for rational choices and processes that we do not as yet understand. As Hadenius puts it: 'The good economic situation naturally helped create a favourable negotiating climate, but this hardly sufficed to explain the spirit of compromise that emerged in Sweden'. Stig Hadenius, Swedish Politics During the 20th Century, 1990, the Swedish Institute, Centraltryckeriet AB Boras, p.42. Also, as Czada argues, LO's decision to cooperate could not have been a result of high levels of organisational centralisation and unionisation since both of these were relatively low in the 1930s. Roland Czada, 'The Impact of Interest Politics on Flexible Adjustment Policies', in Hans Keman, Heikki Paloheimo and Paul F. Whiteley (eds), Coping With The Economic Crisis, London, Sage, 1987, pp.34-35.

[34] Robert J. Flanagan, David W. Soskice and Lloyd Ulman, Unionism, Economic Stabilisation, and Incomes Policies, Washington, D.C., The Brookings Institution, 1983, p.303.

and the metal unions competing for high pay status. The solution was to press for greater centralisation, but the cooperation of the construction workers was also facilitated by the compensation of government spending on public housing projects (for the building industry).[35] It constitutes an early example of the linkage between economic growth and centrally agreed wages.

The negotiations during the 1930s reached a key juncture with the Saltsjobaden agreement of 1938, which set rules for disputes negotiations, limited third party disputes, specified the procedure for layoffs, and appointed a Labour Market Council, to include LO and SAF representatives, to function as a national negotiating body. It set the scene for later collaboration at the centralised level.[36]

The combination of a push by SAF for national agreements, the support of LO, and the Social Democrats and Agrarian Party, and the attraction of a full employment growth strategy, set the Swedish labour market actors on an historic path which had the effect of strengthening LO as a central actor and creating an organisational basis for further developments in centralised bargaining.[37] National agreements themselves contributed much to

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[35] Peter Swenson, 'Labour and the Limits of the Welfare State. The Politics of Intraclass Conflict and Cross-Class Alliances in Sweden and West Germany', Comparative Politics, 23, 1991, pp.383-387.

[36] See International Research Group, Industrial Relations in Europe, IIM Paper, /79-12, May 1979.

[37] It is, simply, not easy to account for just why LO should have later become quite so strong. As Anna Hedborg, a Senior Economist in LO, and Rudolf Meidner, put it: '[The] phenomenon itself lacks a really convincing explanation. The general Swedish tendency to organise all the various social areas (for example, employers, tenants, etc.) has been put forward as a hypothesis. So also has the long traditional collaboration between the trade union movement (LO) and the Social Democratic Party. Finally, the Swedish trade union structure - i.e., the organisation of trade unions in accordance with the industrial principle without

the development of LO. The blue-collar confederation's role as an organisation for developing economic and wage strategies in conjunction with SAP economic and social policy would later enable progress in the direction of expanding strategic focus beyond narrow labour market conflicts and toward a broader model of trade union involvement in Sweden's political economy.

5.2. The Rehn-Meidner Model.

The Swedish Model first began to be explicitly developed as a distinctive approach to the organisation of the Swedish political economy through the work of Gosta Rehn and Rudolf Meidner, who together developed a theoretical rationalisation of evolving policy components such as the wage policy of solidarity, the emphasis on economic restructuring, use of fiscal policy, and the active labour market policy. These elements, we argue, became inseparably linked with the centralised and cooperative mode of wage determination, which had developed as a result of initiatives by SAF and LO in a context of employment and output growth, and they were also dependent upon the active interventionist policy stance of the Social Democratic government.

Since the "Rehn model", as we refer to it, was based around a distribution of responsibilities and policies shared between LO, SAF and the Swedish left-government, we will examine it from a game-theoretical perspective, i.e., we will treat each of these "actors" as a homogenous entity and examine in turn their

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confessional, language or political division - has been pointed out as an important element'. See Anna Hedborg and Rudolf Meidner, 'The Swedish Welfare State Model', in Gregg M. Olsen, ed., Industrial Change and Labour Adjustment in Sweden and Canada, Toronto, Garamond Press, 1988, p.61. See also Michael Wallerstein, 'Union Organisation in Advanced Industrial Democracies', American Political Science Review, 83, 2, June 1989, pp.481-501, and John Stephens, The Transition from Capitalism to Socialism, London, Macmillan, 1979.

interests, preferences and subsequent roles in the developing Swedish Model.

The Swedish Model is sometimes characterised as a bipartite model of corporatist cooperation between labour and capital, that is to say, LO and SAF, with government playing a non-interventionary role in the wage determination sphere.[38] As Andrew Martin writes, the public budget was to be used:

> 'to shape the environment in which production decisions are made, while leaving the decisions themselves to managers whose authority and criteria for decision-making continued to be those derived from capitalist institutions'[39]

This unique division of labour is certainly one of the key defining aspects of the Swedish Model. Government's role was conceived to be primarily supportive of employment, income, public works and investment; its intervention in labour disputes was not appreciated.[40]

But despite the "hands off" approach of government to wage fixing, the model was always tripartite in the sense that government played a crucial role through policy choices in supporting the conditions under which cooperation by LO and SAF could be sustained. These policy choices were in turn enabled by a strong underlying rate of growth. Firstly, government was given the task of managing fiscal policy in such a way as to counter

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[38] Walter Korpi, 'The Historical Compromise and its Dissolution', in Bengt Ryden and Villy Bergstrom (eds), Sweden: Choices for Economic and Social Policy in the 1980s, London, Allen and Unwin, 1982, p.133.

[39] Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', in Peter Gourevitch, Andrew Martin, George Ross, Christopher Allen, Stephen Bornstein, Andrei Markovits, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, p.199-200.

[40] Lei Delsen and Tom van Veen, 'The Swedish Model: Relevant for Other European Countries?', British Journal of Industrial Relations, 30, 1, 1992, p.85.

demand fluctuations by boosting demand to bridge over small downturns and restricting it at the right time to cool down overheating.[41] Any mistiming in fiscal policy, however, would tend to exacerbate the effect of the shock and pass on most of the responsibility for dealing with the excess cost to wages and monetary policy. But despite the risk of this occurring, the centralised wage determination process was by and large dependent upon government getting its policy mix "almost right". The two labour market actors tended to base their bargaining strategies on the simplifying expectation that the government would be able to execute a successful stabilisation policy.

The underlying assumption was that government would help to sustain economic growth, thus ensuring the success of the Rehn model and ensuring that cooperation could be sustained in the corporatist sphere. The strategy came to rely heavily on the state budget, as government became expected to provide a labour retraining and relocation service, to provide the bulk of funds for investment in the private sector, and to maintain high levels of growth in public employment. The best way to characterise these aspects of the role of government in the Swedish Model is in terms of pay-offs for the cooperation of the labour market actors. As Lange and Garrett argue, the supply of compensatory payoffs by government is crucial to the continued cooperation of trade unions and employers in a corporatist wage determination system.[42] The success of Keynesianism, which achieved full

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[41] For a discussion of the effect on wage bargaining of economic stabilisation policy see Lars Calmfors, 'Stabilisation Policy and Wage Formation in Economies with Strong Trade Unions', in Micheal Emerson (ed), Europe's Stagflation, Oxford, Clarendon Press, 1984, pp.89-122.

[42] Peter Lange and Geoffrey Garrett, 'The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974-1980', Journal of Politics, 47, 1985, pp.792-827; Peter Lange and Geoffrey Garrett, 'The Politics of Growth Reconsidered',Journal of Politics, 49, 1987, pp.257-74;

employment and welfare expansion, was based on a historic compatibility between demand-expansion and capitalist expansion during the post-war period.[43] This historic compatibility was a function of the predominance of fair economic weather.

In terms of our distinction between fair and foul economic weather, the nature of compensatory payoffs is clearly very important. In fair economic weather, it will be possible for government to redistribute its share of the growing economic pie in ways that compensate workers for temporary unemployment and ensure sufficient investment for future growth in incomes. The restraint of the labour market actors will then be buttressed by the expectation that any short term costs will be translated in the medium to long term into real gains. In foul weather, of course, this dependence upon the compensation of restraint with gains will become a severe weakness. Our own argument is that, in foul weather, the compensation will be in terms of reduced costs, but it remains to be seen whether this outcome is sufficient to ensure the continued cooperation of the labour market actors.

A clear impetus for the development of fully centralised wage bargaining in the 1950s came from government and, in particular, SAF pressure on LO to deliver wage restraint. During

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Geoffrey Garrett and Peter Lange, 'Government Partisanship and Economic Performance: When and How Does "Who Governs" Matter?', Journal of Politics, 51, 1989, pp.676-78; R. Michael Alvarez, Geoffrey Garrett and Peter Lange, 'Government Partisanship, Labor Organisation, And Macroeconomic Performance', American Political Science Review, 85, 2, 1991, pp.539-56; see also Robert Jackman, 'The Politics of Economic Growth in the Industrial Democracies, 1974-1980', Journal of Politics, 49, 1987, pp.242-56; and Robert Jackman, ''The Politics of Growth, Once Again', Journal of Politics, 51, 1989, pp.646-61.

[43] As Przeworski writes: 'Keynesianism was not only a theory that justified socialist participation in government but, even more fortuitously from the social democractic point of view, it was a theory that suddenly granted a universalistic status to the interests of workers'. Adam Przeworski, Capitalism and Social Democracy, Cambridge, Cambridge University Press, 1985, pp.36-37.

the Second World War, the highest ever degree of government influence over wages was established, which contributed towards the growing use of LO as an instrument of restraint. Underlying the wartime centralised structure, however, distributional struggle over available gains continued and the encompassing actors, including LO, pushed for a centralised resolution of income distribution. By the beginning of the 1950s, as James Fulcher writes, SAF was 'seeking central negotiations in order to use the LO's central authority to press wage restraint on the unions, halt leap-frogging wage demands, and prevent weak employers conceding large increases'.[44]

A fact which underlines the fundamental limits of centralisation in sustaining cooperation was that, from LO's point of view, it remained unenforceable. The institutionalisation of central bargaining did not increase LO's formal authority, and LO never gained the power to impose settlements on its members unions. The unions were free to remain outside the central framework, if they wished, and did not need to submit any claims to LO for approval. Instead, the most important consequence of centralisation was within the LO unions themselves, where wage policy management became more professional and less directed from the shop floor.[45] Of course LO supported centralisation, both because as an encompassing organisation it was in a position to have an interest in wage outcomes which did not damage overall growth and employment prospects for the

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[44] James Fulcher, Labour Movements, Employers, And The State, Oxford, Clarendon Press, pp.191-92. Fulcher writes that in the course of the 1950s, the Swedish trade unions in the LO-area were by and large forced to accept central bargaining because SAF could credibly threaten lockouts and ensure through control over its own members that industry-level negotiations were made less attractive.

[45] James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, p.188-89.

Swedish economy and because it enhanced LO's power resources. But ultimately cooperation had to flow from the support of high and low pay unions for centralisation, and for this reason LO required a growth-strategy that met union interests.

LO used the opportunity given by SAF's pressure to develop a set of policies which exploited the possibilities offered from centralised bargaining and cooperation with capital. The strategy was grounded in the high and low pay unions' aversion to government-sponsored incomes policy and their desire to pursue a more egalitarian wages policy.[46] LO essentially traded a "solidaristic" wages policy, coupled with SAP public policy support, in exchange for capital getting centralised coordination of wages, some degree of wage restraint, and keeping managerial prerogatives.

The wage solidarity strategy, which is at the heart of the "Rehn Model"[47], was a masterful blend of fair economic weather

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[46] Robert J. Flanagan et al, Unionism, Economic Stabilisation, and Incomes Policy, Washington, D.C., The Brookings Institution, 1983, p.305.

[47] In this thesis, we focus on Rehn's model rather than Rudolf Meidner's collective capital formation plan of the mid-1970s, which is really a separate, and related issue. The Meidner plan intended to allocate a percentage of profits to employee investment funds. LO economists were attempting to force investment out of a recalcitrant private sector, but the policy proposals only succeeded in stirring debate and raising the political temperature. See P. Aimer, 'The Strategy of Gradualism and the Swedish Wage-Earner Funds', West European Politics, 8, 3, 1985. Similarly, rank and file pressure for industrial democracy, which resulted in the 1976 Codetermination law and the 1982 Development Agreements, is a separate issue that will not be discussed here. It reflected in part a growing frustration with centralisation and the power of the large confederations. Kristina Ahlen, 'Swedish Collective Bargaining Under Pressure: Inter-Union Rivalry and Incomes Policies', British Journal of Industrial Relations, 17, 1989, pp.330-346; Olaf Ruin, 'Participatory Democracy and Corporativism', Scandinavian Political Studies, 9, 1974; Mario Regini and Gosta Esping-Andersen, 'Trade Union Strategies and Social Policy in Italy and

and growth-based restraint. LO specifically rejected wage restraint in isolation as a means to reduce inflation on the grounds that wage drift would undermine it and that unions would be forced to respond to increasing differentials by performing their basic function: namely, defending members' relative income. As Rehn writes, the problem was:

> '[H]ow to keep investment in equipment and plants high enough for full employment to be obtained without profits being kept so high that it is impossible for trade unions to support non-inflationary wage demands'.[48]

Rehn believed that it would be infeasible for the Swedish labour market actors to exercise sufficient restraint in such conditions, a point which draws attention to the fact that, in the Rehn model, the prospects for unions delivering wage restraint in the absence of compensatory gains were seen to be very slim. This view was quite realistic, since LO had no intentions of offering its services in achieving unconditional restraint. As LO stated:

> [T]he trade union movement should make it perfectly clear that it cannot and should not accept any ...unconditional responsibility for the preservation of national economic stability'.[49]

Gosta Rehn's alternative was built upon achieving wage restraint through a policy which *distributed gains* and which operated within a broader context of active labour market

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Sweden', West European Politics, 3, 2, 1980, p.111.

[48] See Gosta Rehn, 'State, Economic Policy and Industrial Relations in the 1980s: Problems and Trends', Economic and Industrial Democracy, 8, 1987, p.65.

[49] LO, Trade Unions and Full Employment, Stockholm, LO, 1953, p.87, cited in Andrew Martin, 'Trade Unions In Sweden: Strategic Responses To Change and Crisis', in Peter Gourevitch et al, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, p.204.

policies, restrictive fiscal policy, and, most importantly, the "wage policy of solidarity", a term coined by LO's editor, Albin Lind. When the LO-Congress discussed wage solidarity for the first time in 1936, the early arguments focused on equitability and income distribution rather than the growth-based restructuring element, no doubt because many of the employment consequences of restructuring were still regarded as a critical issue by unions.[50] In Rehn's formulation, however, solidarity was designed to achieve both equitability and restructuring.

The essence of the wage policy of solidarity was "equal pay for equal work", not payment according to profitability. The solidaristic policy thus implied that low pay workers would have their differentials upgraded faster than high pay groups. Unproductive labour would become too expensive to sustain. This meant, importantly, that only the most efficient industries would survive and develop. In practice, since it was so difficult to measure what constituted equal work, solidarity came to mean simply the improvement of the low pay groups relative to the high pay groups. But the consequences of the egalitarian policy remained the same: the elimination of cheap and unproductive industries. Solidarity was designed to guarantee the labour force a decent job and strengthen the trading position of Sweden (by guiding it with the help of market competition to a point where the highest possible number of Swedish industries were high pay, high-profit).

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[50] Ake Dahlberg, 'Sweden's Labour Market Policies: Programmes and Costs', in Gregg M. Olsen (ed), Industrial Change and Labour Adjustment in Sweden and Canada, Toronto, Garamond Press, 1988, p.97. It should be noted that it was not the wage policy of solidarity which led LO to adopt centralised bargaining in the 1950s, although centralised wage negotiations certainly became a means to implement that policy. James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, p.190.

In terms of performance in reducing wage differentials, the solidaristic wage policy has had a mixed success. Compression of the wage structure has been most noticeable for blue collar workers since the 1960s. Although white collar workers never adopted the policy, their wage dispersion was in fact not much greater, a phenomenon which also occurred in other countries which lacked an explicit policy such as this. Between 1964 and 1982, about two-thirds of the objective sought by the wage policy of solidarity was undone by wage drift.[51] According to some authors, in Sweden there has been no marked change in income distribution since 1948: the number of workers with 40 percent or less of mean income has reportedly increased considerably, while those with "normal" incomes decreased. The proportion of workers with high incomes has still increased.[52]

The "wage policy of solidarity", then, did not perform quite as well in practice as in theory. But it did function in a key role as a highly visible means of securing and justifying higher wages growth in low pay sectors, whether or not it was successful in reducing wage differentials after wage drift in high pay

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[51] Robert J. Flanagan, 'Efficiency and Equality in Swedish Labour Markets', in Barry P. Bosworth and Alice M. Rivlin (eds), The Swedish Economy, The Brookings Institution, Washington D.C., 1987, pp.131-40.

[52] See L. Panitch, 'The Development of Corporatism in Liberal Democracies', in P.C. Schmitter and G. Lehmbruch (eds), Trends Towards Corporatist Intermediation, London, Sage, 1979, pp.119-46; and R. Scase, Social Democracy in Capitalist Society: Working Class Politics in Britain and Sweden, London, Croom Helm, 1977, p.162. For a more positive review of the solidaristic policy, see Gosta Rehn and Birger Viklund, 'Changes in the Swedish Model', in Guido Baglioni and Colin Crouch (eds), European Industrial Relations. The Challenge of Flexibility, London, Sage, 1990, pp.304-5. Also, Anne Hedborg and Rudolf Meidner estimate that the gap between average wages for the low and high pay groups *fell* from 29.6 percent in 1959 to 12.7 percent in 1982. See James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, p.190, footnote 3.

sectors had occurred. Success in the final instance hinged more upon the policy achieving two separate aims: to minimise wage drift as much as possible, particularly in the high pay sector, and to secure the compliance of the low pay actors with general LO wages policy strategy. To minimise wage drift in the high pay sector, the wage policy of solidarity in fact had to allow high pay wages to squeeze profits sufficiently, a fact which was hardly conducive to allowing low pay wages to catch up.

Profits were thus to be squeezed from below, through the solidaristic wage, and from above, through the application of restrictive monetary and fiscal policy, in such a way that 'employers effectively resist the inflationary wage demands'.[53] The employers themselves were thus expected to play as important a role in achieving wage restraint as the unions. The squeeze on profits in unproductive sectors would in turn generate economic restructuring, which would be facilitated by active labour market policies and government-supplied capital formation to ensure economic growth and full employment.

The profit-squeeze envisaged structural change and the generation of increased output and income from the hugely profitable competitive sector. This was the optimistic half of the Rehn model, since it rested on the somewhat unproven assumption that by forcing structural change increased output could always be produced. The restructuring element was designed to provide a self-generating stimulus to growth within the model. Wages would squeeze profits, but they would also be restrained by the centralised nature of the wage determination system. The payoff for the trade union actors, or to put it another way, their compensation for exercising restraint and remaining within the centralised framework, would be supplied precisely by this

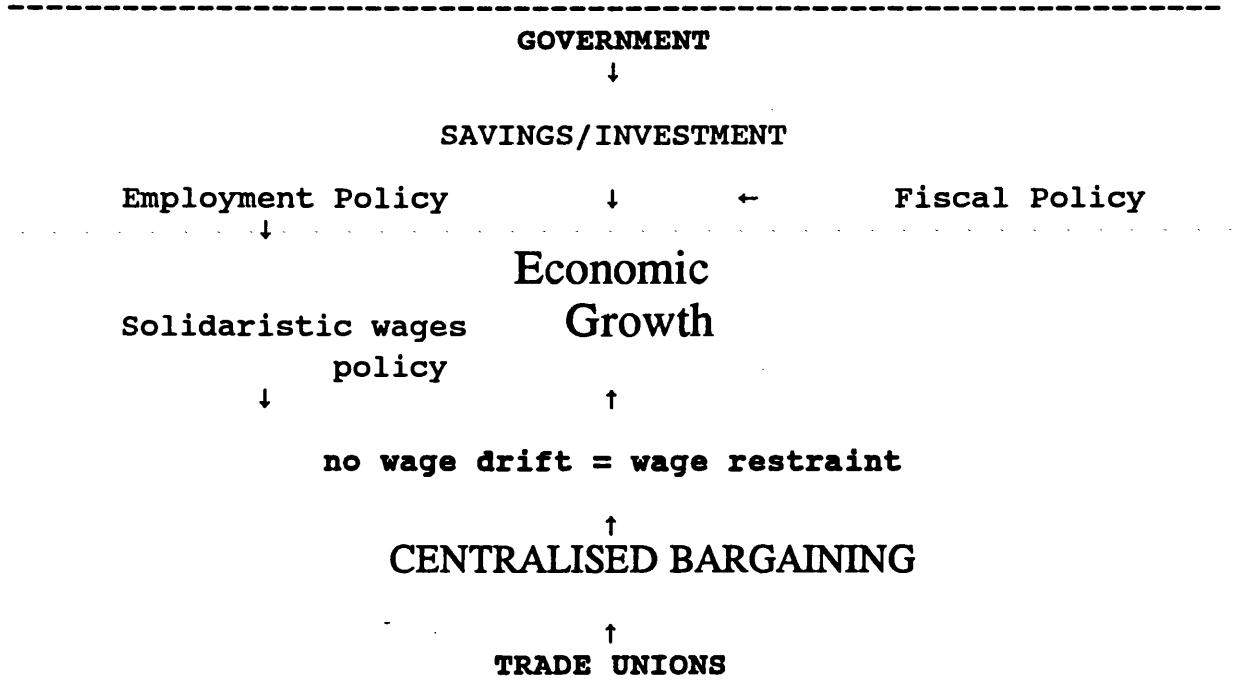
[53] Gosta Rehn, 'State, Economic Policy and Industrial Relations in the 1980s: Problems and Trends', Economic and Industrial Democracy, 8, 1987, p.68.

restructuring element and its growth-generating properties. Active labour market policies would serve to facilitate the structural adjustment and generate new employment. It is this *growth-based* aspect of the Rehn model which we wish to analytically distinguish from the corporatist model.

The argument for centralisation as a mechanism for achieving cooperation in the distribution of restraint was that centralised wage determination would minimise wage-drift price shocks. This was the corporatist element of the Rehn model which operationalised cooperation in the labour market to minimise prisoners' dilemmas.

Figure 5.1.

The Rehn Model.



The control and management of "wage drift" (i.e., *distributional conflict*), is precisely the gain that corporatism achieves (fully centralised wage determination really only began in Sweden in 1956).

Figure 5.1. presents a diagrammatic representation of the Rehn Model. In order for the Swedish economy to benefit from coordinated wage determination (i.e., wage restraint and relatively low wage drift), the centralised bargaining system had to be buttressed by the solidaristic wage policy, which in turn required the support of an active employment policy. Together, the Rehn model and the corporatist system were expected to produce continuing high levels of economic growth, which was a necessary condition for the stability of the model.

The Rehn model was devised, as we shall see, in a period of economic fair weather, in which external demand was very favourable. It was expected that high profits and continued productivity growth would be produced in stronger sectors of the economy. The only way, under these conditions, to reduce wage drift among affiliates in high-profit sectors would be to squeeze profits hard enough to secure the compliance of the local trade unions with centrally-determined contractual increases. Thus, paradoxically, the only way to restrain wage drift was to allow wages to be high enough to make it less attractive.[54]

Thus the Swedish Model was an economic strategy designed for fair economic weather, when there was little problem in finding investment funds. The public sector, in fact, became the principal source for investment finance, mostly through the national pension system, replacing the private sector whose profit was to be squeezed with collective savings. Capital retained control over its own investment decisions, however. The

[54] For a brief summary of the Rehn Model, see George Ross and Peter Gourevitch, 'Conclusion', in Peter Gourevitch et al, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, p.369.

growing state as a source of collective savings and employment was an integral part of Rehn's overall socialist strategy.[55]

We can summarise the Rehn model by listing the conditions required for its successful operation:

(i) successful structural change producing growth in output employment, and incomes;
(ii) solidaristic wages squeezing profits;
(iii) device of central negotiations to restrain wage drift;
(iv) fiscal policy squeezing profits and producing budget surpluses;
(v) government providing investment funds;
(vi) government subsidising employment and active labour market policy;
(vii) employer rights and prerogatives protected;
(viii) employers resisting inflationary wage demands.

In all, the model can be seen to depend foremost on the first condition - structural change generating growth in output and income shares - which is inherently problematic, since structural change does not always and necessarily produce growth in output and incomes, and without growth the solidaristic wage policy would begin to squeeze investment as well as profits. Moreover, if the economy contracted then the state would no longer be able to supply high levels of investment funds, run a budget surplus and subsidise employment. Finally, the device of centralised wage determination had to encompass all the key labour market actors, and the LO/SAF system ignored white-collar and public sector workers. This is a point we will return to in the next chapter.

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[55] See Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', in Peter Gourevitch et al, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, p.207.

5.3. The EFO and FOS Models.

The evolution of the Rehn Model was accompanied by a parallel development of cooperation in the determination of wages. In this process, which involved chief economists from the major peak federations collaborating on an econometric model and the implementation of their strategy through the existing mechanisms of wage negotiation, iteration was clearly important. At each stage the strategy was refined and elaborated theoretically, with the organisations relying on the promise of gains achieved through iterated outcomes as a motivation to sustain conditional cooperation. Perhaps the earliest example of this type of cooperation occurred in 1967, when SAF proposed a structured negotiation procedure designed to achieve the twin goals of greater centralised coordination of wage determination and an agreed ceiling on the sustainable room for wage increases. The Proposal had 5 stages:

Stage 1: experts calculate 'room for wage increase'.

Stage 2: the scope for contractual increases is calculated by deducting wage drift and increased labour costs from the 'room for wage increase'.

Stages 3,4,5: Industry level negotiations distribute the available room for increase among the unions.

The employers sought to provide for a means to determine what the solidaristic wage should be. SAF suggested a "group of economic experts" to determine the available room for wage increases, and to deduct extra costs, so that what was left was a truly "sustainable wage". But LO made an objection to this plan, on the grounds that it turned the union confederation into a 'government office for the determination of wages', with no recognition of its basic function as an organisation which fought

for 'the greatest possible share of the real gross national product'.[56]

From an early stage, LO's policy was to accept that there was a cooperative equilibrium, but that it could vary among different combinations of wages and profits. The trade union actors refused to cede the determination of wages to an econometric model or to a group of experts, and defended their right to increase their relative share. It can be seen that the solidarity model and SAF's plan focused respectively on each side's very different requirements for a centralised wage determination system. The unions would only agree to centralised bargaining if the solidaristic wage policy squeezed profits so that wage drift could be minimised and benefitted the low pay actors. Otherwise, LO saw no way to retain the support for centralised bargaining it needed from low and high pay union affiliates. The SAF proposal would only agree to centralised bargaining if a ceiling was placed on the amount of profit that could be squeezed.

In sum, these two uncompromising positions came to provide a basis for the development of a theoretical framework for wage determination practices and macroeconomic policy in the 1960s and early 1970s (and later in the 1990s) which we will distinguish as the corporatist "half" of the Swedish Model. The distinction is a little artificial, however, since as well as being an economic method of reaching collectively optimal wage outcomes, this new elaboration of corporatist practice produced an interpretation of centralised wage determination in a way which complemented the growth-oriented nature of the Rehn model. This becomes particularly apparent in the FOS model. But essentially the

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[56] See Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', in Peter Gourevitch et al, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, pp.241-246. The quotes are from Odhner, LO's research director.

EFO/FOS models can be viewed as being firmly planted in the corporatist sphere of the evolving Swedish Model.

The original EFO model was elaborated and published as a book, *Lonebildning och samhallsekonomi* (Wage Formation and the Economy) in 1970, by three confederation economists, Gosta Edgren, Karl-Olof Faxen and Claus-Erik Odhner, who worked respectively for TCO (the white collar confederation), SAF, and LO.[57] It was recently updated (as the FOS model) with Roland Spant taking the place of Odhner in *Lonebildningen i 90-talets samhallsekonomi* (Wage Formation And The Economy In The Nineties), published in 1988.[58]

Roland Spant describes the EFO model as an 'enormous intellectual revelation', comparable to Keynes.[59] The main innovative idea was that the EFO model borrowed a two-sector model of the economy from the Norwegian Aukrust report of 1966. The economy was divided into the competitive (C) sector, and the sheltered (S) sector. The competitive sector was designated the wage leader because it was the "engine of growth" for the Swedish economy. The EFO model thus recognised that future improvements in output and incomes would be dependent upon the competitive sector remaining internationally competitive and generating growth.[60]

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[57] The English translation is: Gosta Edgren, Karl-Olof Faxen, Clas-Erik Odhner, Wage Formation and the Economy, London, Allen and Unwin, 1973.

[58] Karl-Olof Faxen, Clas-Erik Odhner, Roland Spant, *Lonebildningen i 90-talets Samhallsekonomi*, Stockholm, Raben and Sjogren, 1988. At time of writing, the only English translation available is a monograph which summarises the main sections.

[59] Roland Spant, TCO Economist, interview, Stockholm, 9 June 1992.

[60] At this point, it is important to note a fact which is well known, namely that the Swedish economy is a very "open" economy. This means that the economy has a large proportion of

5 - Evolving Theoretical Models Of Swedish Corporatism

According to the EFO model, to achieve profitability in the export-oriented competitive sector (in relation to the internationally-determined return on capital), and to sustain a favourable trend in the balance of trade and the balance of payments on current account, the level of wages growth had to be within a certain "corridor". This corridor was defined, in practical terms, as the gap between contractual increases that left too much room for drift (i.e., too low), and increases that left too little room for investment out of profit (i.e., too high).[61] In strictly economic terms, however, the authors of the

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exports and imports to GDP and makes it particularly dependent on achieving a high degree of competitiveness. This "openness" has been argued by some authors to explain the high degree of consensus and cooperation in Sweden, since the sense of economic vulnerability is said to be highly conducive to the actors achieving cooperative outcomes. In game-theoretical terms, it increases the incentives for conditional cooperation. Other authors have also argued that the "openness" is conducive to promoting innovation and growth because it reduces the costly payment of inefficient subsidies to narrow distributional coalitions. See P. Katzenstein, Corporatism and Change, Ithaca, Cornell University Press, 1984; P. Katzenstein, Small States in World Markets, Ithaca, Cornell University Press, 1985; M. Olson, The Rise and Decline of Nations, New Haven, Con., Yale University Press, 1982; and M. Olson, How bright are the Northern Lights? Some Questions about Sweden, Institute of Economic Research, Lund University Press, 1990.

[61] The concept of such "corridors" was an innovative and crucial component in both the EFO and FOS models. It is a key aspect of the EFO and FOS models that they reject classical economic assumptions of an "equilibrium" outcome for prices and wages which could be strictly determined. Instead, following J. von Neumann and O. Morgenstern, Theory of Games and Economic Behaviour, Princeton, Princeton University Press, 1944, in their assumption of oligopolistic competition and use of game theory, the authors argue that only the limits of the areas of negotiation, or the corridor walls, can be determined using deductive methods. In general terms, the authors prefer a dynamic rather than an equilibrium model of economic outcomes. See Karl-Olof Faxen, Clas-Erik Odhner, Roland Spant, 'Wage Formation and the Economy in the Nineties', English translation monograph, pp.13, 23-24, 30.

EFO model showed how macroeconomic factors determined the position of the corridors' walls, between which lay "areas of negotiation" within which price and wage formation would remain theoretically undetermined. It was of course a crucial assumption of this model that the practical requirement that the corridor included enough room for real wage increases did not contradict the economic requirement that the corridor define the room for available wage increases (which may not in fact satisfy the trade union preference for increases to be high enough to restrain wage drift), a point we will return to in the following section.

Between the two walls of the corridor, labour and capital could remain free to pursue their distributional struggle without damaging the overall competitiveness of Sweden's export sector. This was an important and innovative aspect of the model, and essentially outlined a compromise between SAF's requirement for a rigid sustainable wage and LO's requirement for the unions to perform their basic function and fight for a larger share of profits. The corridor defined the sustainable level of wages, or the "main course", as the EFO and FOS authors put it, which consisted in wages growth being at most equal to the increase in productivity growth within the competitive sector plus changes in world market prices at given currency exchange rates.[62]

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[62] To give the full economic requirement of the corridor, the FOS authors write: 'The "main course" of the Aukrust and EFO models may be interpreted as the wage and price trend compatible with a macroeconomic development which fulfills the requirement for full employment, a balanced current account and a relationship between the wage and profit components of value added which allows both investment and consumption demand to be kept large enough to jointly maintain a strong pressure of demand and satisfactory capital stock growth,' p.11. For a useful discussion of the EFO model, see Barry P. Bosworth and Robert Z. Lawrence, 'Adjusting to Slower Economic Growth: The Domestic Economy', in Barry P. Bosworth and Alice M. Rivlin, The Swedish Economy, Washington, D.C., The Brookings Institution, 1987, pp.41-44.

The EFO model was thus somewhat dependent upon assuming stable currency exchange rates in order to calculate the room for wages growth in the competitive sector. It provided, however, a basis for making macroeconomic calculations of the "warrented" or "sustainable" wage. It was clearly the product of an encompassing perspective and depended on centralisation, but it also somewhat modified the problems of achieving conditional cooperation by allowing the actors *room* to bargain within a corridor that was expected to be wide enough, given economic growth, to minimise distributional conflict. The EFO model also recognised that wages in the Sheltered sector would tend to follow wages in the Competitive sector; the differential in productivity gains between the two sectors would produce an overall increase in inflation. Thus the EFO model, as developed by the three economists, envisaged the use of fiscal and monetary policy to promote price stability.

The FOS model, written during 1987, updated and amended the EFO model by taking into consideration the consequences of structural changes in the labour market and the dynamic effects of the economic crises in both international and domestic markets from the mid-1970s onward. Since it is the more recent and systematic treatment of the Swedish corporatist model, we will examine its main arguments and conclusions.

First of all, the FOS authors amend the EFO model from a two-sector to a three-sector model:

> 'The structure of the Swedish economy has changed dramatically since the EFO report. The competing sector now constitutes 20 percent of the economy, the private sheltered sector 50 percent and the public sector 30 percent. For this reason we have replaced the earlier two sector model with a

three sector model, the C-sector, the PrS-sector [Private Sheltered] and the PuS-sector [Public Sheltered].'[63]

The FOS authors note that the development of the PuS-sector can become a burden upon the C-sector if the wage development in the public sector outstrips the private sector, in which case the private sector will face an increased tax ratio and inflationary pressure will be increased.[64] The same effect is generated if employment trends, measured in terms of hours worked, do not show a parallel trend between the public and private sectors.[65] In the FOS model it is still the sector exposed to foreign competition, either by exporting or competing with foreign imports, which determines the margin for pay and profit increases in the economy.

The second key amendment the FOS authors make concerns the environment in which the "main course" must now be followed. The "main course", recall, is simply 'the pay and profit trend which is compatible with a macro-economically balanced sequence of events'.[66] In the original EFO model it was assumed that the development of investments, productivity, real wages and profitability would all tend to remain in the "main course" because continued economic and productivity growth would enable the joint application of wage policy and market forces to be

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[63] Karl-Olof Faxen, Clas-Erik Odhner, Roland Spant, 'Wage Formation and the Economy in the Nineties', English translation monograph, p.1.

[64] As Faxen views the situation, the central actors must find a way to counteract the 'rampant growth of the public sector'. Karl-Olof Faxen, 'Wages, Prices and Taxes in the 1980s', in Bengt Ryden and Villy Bergstrom (eds), Sweden: Choices for Economic and Social Policy in the 1980s, London, Allen and Unwin, 1982, p.192.

[65] 'Wage Formation and the Economy in the Nineties', p.66-67.

[66] 'Wage Formation and the Economy in the Nineties', p.4.

relatively unproblemmatic.[67] The process was thought to be virtually self-reinforcing, given the active responses of labour market actors and the government to any deviations within a context of fair economic weather.[68] In other words, the deviations were expected to be small and productivity and economic growth constant, in which case the "main course" would be an easy highway. It can be seen, then, that the EFO model made a similar assumption about the prospects for a continually growing pie as the Rehn model, with the difference that whereas the Rehn model placed its faith in the growth-generating properties of economic restructuring, the EFO model *assumed* that economic growth would continue and that conditions would remain amenable to adjustment through wage policy and market forces.

We argue, however, that the main reason for the previous capacity of the actors to remain in the main course was fair economic weather, which in economic terms meant high levels of productivity growth:

> 'The EFO model was based on the assumption that productivity growth would be constantly stable and kept at a high level by technological development and economic expansion...This assumption held true until the first oil price shock, but thereafter the rate of growth slowed down dramatically and instability increased sharply'.[69]

Since the scope for an increase in real income in both the EFO and FOS models is held to depend on an improvement in

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[67] The EFO authors wrote, for example, that: 'We have found no justification for predicting that the productivity growth of the competing sector or movements in international prices in the next few years will deviate systematically from the tendencies which we have been able to determine for the period 1960-8'. G. Edgren, Karl-Olof Faxen, Clas-Erik Odhner, Wage Formation and the Economy, London, Allen and Unwin, 1973, p.25.

[68] 'Wage Formation and the Economy in the Nineties', p.10.

[69] 'Wage Formation and the Economy in the Nineties', p.14.

productivity [70], a large portion of the FOS material is consequently devoted to examining the causes of the general decline in productivity growth in the industrialised economies since the 1970s.

The third key amendment in the FOS model thus concerns the authors' argument for reversing the decline in productivity growth. Reliance on corrective wage policy measures and market forces is no longer considered to be enough to address the problem. Interestingly, there is little discussion of the possible gains to be made by forcing restructuring, which is one reason why it is important to distinguish between this model and the Rehn model. Essentially the FOS authors recommend building into the model a neo-Keynesian approach to generating economic demand and growth. The FOS authors argue that over the long term the best explanation of stagnating productivity trends is low demand pressure and low capital stock growth, both of which are related to policies of economic restraint and unemployment pursued by the larger economies to reduce inflation:

> 'The improvement of work performance through better education and training, organisation and motivation is a social process, which takes place more rapidly when there is strong pressure of demand and high capacity utilisation.'[71]

The FOS authors develop their argument from Verdoorn's law, which posits a positive relationship between production levels and productivity growth:

> 'The higher the pressure of demand that can be maintained without leading to an inflation rate which will cause the

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[70] 'Productivity growth is the only possible foundation for a continuing rise in real incomes', p.14.

[71] 'Wage Formation and the Economy in the Nineties', pp.23-24, 27.

government to introduce measures of restraint, the stronger the productivity growth that can be expected.'[72]

The FOS model certainly does not discount the impact on productivity growth of factors related to the energy crisis of the 1970s and early 1980s, such as the increased turbulence and fluctuations in exchange rates, oil prices, inflation and interest rates. Nor does it discount the fact that improvements in technology and work-place organisation have, in terms of their contribution to productivity growth, flattened out. It simply argues that when an economy is closer to full-capacity utilisation, the flow-on effects actually increase productivity. This implies, as Roland Spant puts it, that:

'The best shelter for productivity is the full employment goal...Why should managers ask for price stability? They should ask for full employment. It is short-sighted.'[73]

The FOS model, then, makes the case for an economy based not on restrictive policies to cut costs in foul economic weather, which necessarily reduces capacity utilisation, but for expansionary policies.[74] The government, the authors write:

'must create confidence that its policy will lead to sustained high pressure of demand and satisfactory growth...

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[72] 'Wage Formation and the Economy in the Nineties', p.15. Elsewhere, the authors write: 'If stagflation is to be completely mastered productivity must thus again be brought to increase at a faster rate. We believe that economic policy has an essential task in this'. p.13.

[73] Roland Spant, TCO Economist, interview, Stockholm, 9 June 1992.

[74] The authors write: 'We mean by an expansive economic policy a monetary and fiscal policy which by means of the level of interest rates and the tax structure stimulates a high rate of growth and at the same time makes it financially possible. By a restrictive policy we mean a policy which does not create enough incentive nor sufficient scope for investments in business. In this sense monetary and fiscal policy within the OECD area was restrictive after 1974', p.71.

> Economic policy has here an important contribution to make by simultaneously creating incentives and financing opportunities in order to give a high investment level, by means of strong demand pressure, ample credits and low interest rates'.[75]

The FOS authors argue that policies of restraint designed to reduce inflation have unfortunate consequences for production which could be avoided by a more expansionary and cooperative strategy. For example, shut-downs produce relative increases in productivity, but at a cost in decreased industrial production, and the harsh regime of a restrictive economic policy encourages management to shift the use of capacity away from production and marketing to financial transactions.[76]

The fourth key element in the FOS model follows logically from this neo-Keynesian stance. Of necessity, such a strategy requires the cooperation of actors in the labour market to distribute incomes in such a way as to sustain full capacity utilisation and full employment without the economy overheating and producing inflation and lost competitiveness. The FOS authors are then, not surprisingly, advocates of corporatist coordination and cooperation between "strong" labour market actors in the determination of wages:

> 'Strong labour market organisations can alter the Phillips relationship for the purpose of maintaining high employment and simultaneously affecting strong economic growth and satisfactory real income increases. In a labour market whose

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[75] 'Economic policy has here an important contribution to make by simultaneously creating incentives and financing opportunities in order to give a high investment level, by means of strong demand pressure, ample credits and low interest rates', p.27.

[76] 'Wage Formation and the Economy in the Nineties', pp.29, 33.

> organisation is weak or non-existent no such possibility exists'.[77]

In other words, wage and price restraint through cooperation and coordination on the part of the labour market actors enables the economy to run at higher levels of demand and growth than would otherwise be possible without generating inflationary pressure. The demand in turn boosts productivity, which in turn supplies real income gains, making the restraint in the long-term collective interest of all the labour market actors. The "shadow of the future" is a crucial element in the EFO/FOS models.

Instead of using the term "wage restraint", the FOS authors prefer to speak of "inflexibility in wage and price formation", but it remains clear that this aspect of their model is absolutely crucial to the successful operation of their neo-Keynesian demand expansion strategy:

> 'It is the degree of inflexibility in wage and price formation which determines how strong the pressure of demand will be and how high a rate of growth the economy can stand without the demand pressure leading to inflation. Organised wage formation can augment the inflexibility and thus make a higher growth rate possible'.[78]

The key to full employment, growth, and growth in productivity and real income, the FOS authors argue, lies in the capacity of the wage determination system to deliver cooperative, coordinated restraint. Thus the authors state clearly: 'Regardless of the form of negotiation the overall margin [of wage developments] must be centrally determined'.[79] Moreover, the FOS authors accept that the degree of inflexibility required in wage and price formation is governed not just by the need for the C-sector to

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[77] 'Wage Formation and the Economy in the Nineties', p.52.

[78] 'Wage Formation and the Economy in the Nineties', p.68.

[79] 'Wage Formation and the Economy in the Nineties', p.5.

avoid wage explosions but may also in certain circumstances be governed by unfavourable exogenous changes in international unit labour costs:

> 'Such a policy means that the unit costs within the Swedish C-sector are not to be allowed to grow faster than the average unit costs in competitor countries. This is the requirement if we are to stay in the "benign circle" of growth, expansion and competitiveness'.[80]

To sum up, then, the FOS authors in effect make as strong a case as they can for an alternative economic policy to the general reliance on restrictive policies in the OECD area. Their alternative is a modified form of neo-Keynesian *growth* corporatism, which depends crucially on wage restraint. The FOS model does not, fundamentally, differ from previous neo-Keynesian corporatist growth strategies, with the exception that the authors argue strongly that full employment and high levels of demand generate growth in productivity and hence, real income. The FOS model, then, is very similar to the Rehn model in that both models require some growth-generating process, whether sustained by restructuring or high levels of demand. In both models it is only possible to achieve restraint if compensatory pay-offs are generated by some growth process. We will argue that this reliance on growth can, in certain situations, be both unfeasible and unnecessary. Moreover, we will argue that failure to achieve this growth has the consequence of making the corporatist rationalisation of the wage determination system appear also a failure, when it need not be so.

The Rehn model and the EFO/FOS models, then, are excellent examples of the type of neo-Keynesian corporatist models which this thesis argues have been designed fundamentally, if not intentionally, for only fair economic weather. In foul economic

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[80] 'Wage Formation and the Economy in the Nineties', p.78.

weather, failure to produce the necessary levels of growth and payoffs has the consequence of discrediting the corporatist aspect of the models, which we argue should work equally efficiently in distributing costs, if properly implemented. In the following section we outline a game-theoretical critique of these models based on our conception of cooperation in fair and foul economic weather.

5.4. Swedish Corporatism and Foul Weather.

If we accept that Keynesian demand expansion does boost productivity, on the basis of Verdoorn's law, does this mean that the corporatist model as elaborated in Sweden should produce constant gains? It seems that much hinges on how *relative* these constant gains are. Cooperation to put out a house fire produces constant gains but the building may still be relatively damaged. In the case of the house fire, β has increased by a large order of magnitude, but the actors are still likely to reason that collective action is necessary to minimise the destruction.

The problem with a growth-strategy is the built-in assumption that such policies can produce future increases of production and output sufficient to provide compensatory gains for all participating actors. The same criticism applies to the Rehn model, namely, that while we agree that restructuring pressure can maximise the productive potential of the Swedish economy, we doubt that in foul economic weather this will mean growth levels similar to the post-war golden age. If we allow for the possibility that, in foul economic weather, the outcome of such Keynesian expansion supported by corporatist cooperation in the labour market will simply be the minimisation of costs and not the production of new gains, then we have to also accept that the cooperation of the labour market actors will be contingent upon them accepting not restraint compensated with payoffs, but real restraint. It is this which neither model seems prepared to countenance.

5 - Evolving Theoretical Models Of Swedish Corporatism

The FOS authors themselves recognise that 'even the relationship between demand and productivity growth at each given demand level seems to have been more unfavourable during the most recent years'[81] If this is so, then the gains in terms of productivity growth might plausibly be "swamped" by the cumulative costs of a host of other foul economic weather tendencies. Similarly, the FOS authors accept that the prognosis for the immediate future, given unchanged economic policies by the large economies, is one of slow-growing export markets. Further:

> '[I]t is unknown what strains any new oil price rises and other international price rises, protectionist tendencies in world trade, European integration or an even weaker economic development in the industrialized countries may give rise to'.[82]

Finally, the FOS authors note that even the typically "minimum" real income increase currently expected by Swedish trade unions today is too much, particularly in combination with wage drift:

> '[A]lready within manufacturing this is clearly in excess of the present growth in productivity. When these pay increases are then transferred to the service sectors, where two thirds of the work force are at present to be found, and where productivity growth is close to 0, considerable cost and inflation effects cannot be avoided'.[83]

In sum, the FOS authors note, in passing, a number of intractable problems for any policy that depends on distributing gains without appearing to assess the capacity of neo-Keynesian demand-expansion policies to surmount them all. They appear to

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[81] 'Wage Formation and the Economy in the Nineties', p.34.

[82] 'Wage Formation and the Economy in the Nineties', pp.77-78.

[83] 'Wage Formation and the Economy in the Nineties', p.16.

regard the prospect of foul economic weather as so horrendous that it must be avoided, without questioning whether in fact it can be avoided:

> 'The sharp fall in productivity growth is a problem which we regard as extremely serious. It threatens the premises on which are based the continuing increase in living standards which we have become accustomed to in the industrialised countries for more than a century and around which we have built many of our norms, customs and institutions'.[84]

Yet this prospect, we argue, may be precisely the one that faces us, and in any case, even if it were not, such a prospect is at least theoretically possible.

Let us assume, hypothetically, for instance, that technological innovation, workplace reorganisation, labour training, discovery of new raw materials and so on do <u>not</u> in the short and medium term produce large growth in productivity and hence in output and income. This is a classic case of economic foul weather, in which there is effectively a smaller economic pie to be distributed among rising expectations. Further, let us assume the worst in terms of a requirement for massive restructuring in the competitive sector, support of extensive labour market policies and welfare policies to minimise unemployment and sustain living standards, a large trade deficit and high government debt. In this case, policies which boost demand will produce inflation and distributional conflict *to the extent to which* the boost in demand fails to produce a concomitant boost in productivity sufficient to cover the costs of the restructuring, the expensive public policies, the trade gap and the debt. Further, of course, the policy will depend on the capacity of the labour market actors to cooperate in their distribution of the available gains, if there are any. Most

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[84] 'Wage Formation and the Economy in the Nineties', pp.21-22.

importantly, it seems to us, the policy will depend on the labour market actors, and in fact all the actors in the political economy, cooperating in distributing the burden of costs in such a way that the productive potential of the economy is maximised.

In sum, it seems that it is entirely plausible that a situation might arise where the demand expansion policies can only be expected to minimise costs rather than to produce new gains. It is in this circumstance that we are interested in the operation of such a corporatist strategy, since it seems that such a strategy remains worthy of investigation but will not necessarily produce the sort of gains of the neo-Keynesian, corporatist growth strategies of the post-war golden age.

The only weakness of the EFO and FOS models, we argue, is that they characterise the "room for available wage increases" as a *positive* "corridor". This is entirely understandable, since we have seen that the support of the trade unions for cooperation in the wage determination sphere was historically conditional upon receiving "payoffs" which can only be generated by growth. We have also seen that LO had no intention of acting during a period of economic growth to unconditionally restrain wages in a context of high profits. And we have seen that wage restraint in Sweden during the period of fair economic weather was always within the positive corridor. Given the performance of the Swedish economy in the 1950s and 1960s, and the assumption that productivity growth would remain at the high levels sustained during those two decades, the trade union position is entirely rational. The problem for the wage determination system then was how to distribute the gains of a growing economy in such a way that competitiveness and full employment could be maintained.

But in foul economic weather, we argue, it becomes nonsensical to expect actors to cooperate on the condition of receiving payoffs and gains when these may not be available. In this situation it becomes important to face reality. If the union

actors want to fight for their share of available income within a corridor, this still remains possible even if the corridor has collapsed. Thus we argue that the operation of corporatist cooperation in the wage determination sphere in Sweden has become hostage to the expected success of the Swedish Model, i.e., the growth-generating elements we have distinguished. The corporatist idea was that, through centralised coordination of wages, the costly side-effects of unrestrained distributional conflict (such as wage-drift, strikes and lockouts, and investment being squeezed in the C sector), could be minimised. This strategic conception has become equated, during the process of its development, with another, entirely different idea, derived from expectations about growth; namely, that cooperation would have to be accompanied with compensatory gain. This would be in the form of high wages for workers throughout the economy, growing public subsidisation and employment, and investment in the C sector. As Andrew Martin writes of the Swedish Model, the actors believed that:

> 'there was a common interest in managing conflict [between labour and capital] in such a way as to maximise the material outcome for both by facilitating economic recovery and growth - in other words, as Korpi puts it, to turn the conflict into a "positive sum game"'.[85]

In fact, however, it was the restructuring and Keynesian aspects of the Swedish Model which produced the economic growth, and this only in the context of fair economic weather. In the absence of this growth, the "positive sum game" would have to operate in a

[85] Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', in Peter Gourevitch et al, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, p.200.

context of distributing costs, and the "wage corridor" would collapse.[86]

Conclusion.

In game-theoretical terms, the problem facing the three actors in the FOS model in foul economic weather is essentially a prisoners' dilemma: the actors are in a zero-sum relationship to each other because we have assumed total income growth be either slow-growing or negative. One actor can only get more by forcing a loss onto one or both of the others: if they each attempt to gain a larger share for themselves the others will cease cooperating. The result will be a costly distributional struggle. As LO states it:

> 'In the long term we cannot raise wages more than the economy can accommodate. If we do it results in inflation and unemployment. The purpose of wage negotiations and wage rises should be to distribute the margin for improvements in the standard of living created by means of increased output. If there has been no increase in output then there will be nothing to distribute and any pay rise awarded to one group

[86] Of course, if all the actors are better off by cooperating, a positive sum game still operates, even in a context of cost-distribution. With respect to the wage corridor collapsing, a better metaphor is perhaps to think of a ceiling which falls below the floor. In this case, the ceiling is the upper limit on sustainable wages, and the floor is the lower limit of union demands. According to the EFO/FOS models, the floor must be determined in relationship to the position of the ceiling, hence it is the floor which must adjust and not *vice-versa*. According to the EFO model: 'The negotiators have long ago become aware of the existence of a point beyond which no claims should be pushed lest it impairs the prospects for future wage increases'. Gosta Edgren, Karl-Olof Faxen, Clas-Erik Odhner, Wage Formation and the Economy, London, Allen and Unwin, 1973, pp.222-223.

which gives an improvement in real terms will be at the expense of some other group'.[87]

If the rate of growth of income remains stable or increases, it is relatively easy to achieve cooperation, since each group can continue to enjoy some real level of increase despite the restraint they exercise by cooperating. But if the rate of growth contracts, or total net income declines, then the groups must all agree on a level of restraint which is absolute and real. By cooperating in foul weather, they will still be better off relative to the outcome of unrestrained distributional conflict, but in real terms they may actually be worse off than they were.

We have argued in this chapter that the Rehn and FOS models cannot succeed in producing the levels of growth enjoyed during the golden age today, in a period of sustained economic foul weather. But we have not argued that these political-economic strategies are not worth pursuing. On the contrary, according to game-theory, proper implementation of such strategies should still produce maximum gains. These gains, moreover, will still be positive sum. It is simply that they will consist of the other side of the coin: that is, they will appear as costs that have been most effectively minimised. Is such a "least-cost" collective outcome really a gain? We argue that indeed it is.

An expansionary strategy can still be said to be producing expansion even when an economy is contracting. The apparent paradox dissolves when we consider that, in the absence of the expansionary strategy, the economy would contract still further. Similarly, collective wage restraint can still be said to be producing collective gain, even when growth of output and income is contracting. It may simply be that in the absence of the restraint, given the consequences of distributive conflict and

[87] LO, Wage Policy for the Future. Summary of a report to the 1991 LO Congress, 1991, p.8.

the measures governments have available to enforce wage reductions, the contraction will be worse.

It may seem that, in arguing the case for cooperative restraint and distribution of costs, we are in effect arguing for a contraction. That is, it may seem that the restraint will cause further contraction, and so on in a downward spiral. This might be so, if a wholesale expansion of demand (achieved by giving a boost to spending power) could succeed in producing, through "multiplier effects", growth in productivity, output and incomes. But we argue that such an expansion of demand can only produce growth when the utilisation of technology, resources and labour is far below potential capacity. At full employment, and this is the case for Sweden, the ceiling will be closely approached, if not reached.

Any profligate expansion of demand, in Sweden, would result in inflation (or in higher consumption of foreign imports that are cheaper to buy), rather than fair weather output growth. Yet despite all of this, our argument is not that expansionary policies should be avoided. On the contrary, in the context of a corporatist adjustment to slower rates of growth, fiscal and monetary policy should, in our view, have more opportunities to be expansionary. We have to, then, determine whether or not the historical dependence of corporatist cooperation in Sweden upon distributing continuing high levels of income and output growth is carved into stone. Could the Swedish actors ever cooperate in distributing costs?

CHAPTER SIX.

WHY CORPORATISM IN SWEDEN HAD TO CHANGE.

> 'The policy for which we have drawn up guidelines may seem to be so difficult to implement as to be unrealistic. Nevertheless, if it should prove to be impossible we believe there only remains stagnation and growing unemployment'. *Karl-Olof Faxen, Clas-Erik Odhner, Roland Spant.*[1]

As a growth-based strategy designed primarily for fair economic weather, the Swedish Model and the corporatist EFO/FOS models worked remarkably well. We have seen that Sweden enjoyed full employment and a relatively egalitarian distribution of societal welfare and we know that Sweden was already a relatively rich country, even among OECD nations. The contribution of rational cooperation to this performance is difficult to measure, but we can be certain that it did not produce all of it.

Similarly, we can be equally certain that rational cooperation would not be able to forestall an increase in β. In this chapter a number of foul weather shocks are examined and shown to have dramatically changed the conditions supporting the growth-based Swedish strategy. In addition, the following sections outline changes in the bargaining environment which, in

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[1] Karl-Olof Faxen, Clas-Erik Odhner, Roland Spant, Wage Formation and the Economy in the Nineties, English Language Monograph, p.6.

combination with the intermittent occurrence of the foul weather prisoners' dilemma, made the old centralised system inadequate as a means to coordinate an economy-wide wages strategy. The difficulties experienced even within the LO-SAF field of negotiation reveal the weaknesses of relying purely on centralised institutional mechanisms for achieving rational cooperation.

For the Swedish Model to cut costs effectively through the wage determination system, enough of the key actors in the labour market would have to agree on some "available room for restraint" through a bargaining process designed to incorporate an iterative and encompassing viewpoint. But the model had been constructed in an economy dominated by the blue collar competitive sector, and by the time foul weather appeared so also had two new labour market actors of increasing significance: white collar workers and public sector employees.

While these labour market changes undoubtedly rendered the LO/SAF area of negotiation of decreasing importance as a determinant of overall wage outcomes, the question remains as to whether the rise of the new actors obscures other important problems associated with attempting to reach a cooperative solution in foul weather. Given the nature of the prisoners' dilemma in foul weather, there are powerful reasons to hypothesise that the temptation to free-ride, or pursue "insider" strategies, is much stronger. The automatic wage boom consequences of a foul weather shift in β requires centralised agreements to restrain both wage drift and contractual increases.

This implies that, despite the rational choice arguments made for the expected relative success of encompassing groups and centralised agreements, foul weather requires this cooperation to be in fact more *decentralised*. High and low pay groups must themselves actively accept the wage strategy identified by the encompassing, centralised actors as the "main course". In foul

weather, the central actors can no longer simply pass down wage guidelines which are guaranteed to result in a real and substantial improvement. A more deeply institutionalised system for reaching collective agreements is dictated by the circumstances.

These requirements are highly stringent and *do not apply in fair economic weather*. Foul weather corporatism is a much more daunting challenge for systems of institutionalised bargaining designed to overcome prisoners' dilemmas. Such a depth of institutionalisation may well be an infeasible political project given the number of actors required to participate in the post-industrial era.[2]

6.1. Foul Economic Weather in Sweden.

There are three shocks which we characterise as variables which raised β: first, the coming to an end of the golden age "long wave" of output growth, which can be thought of as an underlying bedrock of growth possibilities; second, the OPEC "oil crises" which contributed towards a generalised slowdown in economic growth within the OECD region; and third, developments in the international distribution of production which evaporated much of Sweden's earlier comparative advantage.

6.1.1. External Shocks.

Perhaps the most insidious external shock was the slowdown in growth of output. The modern economic period is characterised by a generalised decline in the expansion of total industrial output. The annual average growth of industrial output in Sweden slowed from 3.3 percent in the period 1963-74 to 1.3 percent in 1974-84. Economists argue that this is due to a uniform,

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[2] For a discussion of "post-industrial politics" in Sweden, see Goran Therborn, 'Swedish Social Democracy and the Transition from Industrial to Postindustrial Politics', in Frances Fox Piven (ed), Labor Parties in Postindustrial Societies, Cambridge, Polity Press, 1991, pp.101-23; Marino Regini (ed), The Future of Labour Movements, London, Sage, 1992.

international slowdown in total factor productivity, i.e., assuming stable rates of labour force expansion, productivity gains have slowed. The most likely cause of slower productivity gains, according to economists, is a downward trend change in the underlying rate of technological change.[3]

This element in the generalised slowdown of output growth has little to do with political-economic strategies designed to deal with economic crisis. Policies designed around expansion, restructuring, and corporatist wage coordination can only slowly improve the bedrock-like nature of the underlying rate of output growth. They can maximise gains and minimise costs within the constraints that are given, but these constraints are themselves far less amenable to policy manipulation.

We argue that the slowdown in output growth can best be understood by referring to long-wave economic theories of technological change and productivity development. According to long-wave theory, the modern period is characterised by a slump in the development of dynamic capital innovation which leads, in plain language, to industry running out of steam. In response, industry moves into a phase of deaccelerated accumulation:

> 'Clearly, if the new capital goods are relatively labour-displacing, then their application, without the counterbalancing formation of new capital in the capital goods sector, will lead to unemployment in

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[3] Barry P. Bosworth and Robert Z. Lawrence, 'Adjusting to Slower Economic Growth: The Domestic Economy', in Barry P. Bosworth and Alice M. Rivlin (eds), The Swedish Economy, Washington, D.C., The Brookings Institution, 1987, p.28. According to figures cited by Flanagan et al, yearly growth of output per man-hour in manufacturing in Sweden declined from 7.3% in 1960-70 to 1.3 percent in 1973-77. At the same time, growth in productivity in 1973-77 was lower than every other OECD country except Britain, and this was partly because employment growth was not matched by output growth. Robert J. Flanagan et al, Unionism, Economic Stabilisation, and Incomes Policy, Washington, D.C., The Brookings Institution, 1983, pp.320, 322.

aggregate, without changes in the distribution of wealth, thus compounding a slow-down in economic growth'.[4]

Sweden was also a country which had at an early stage completed its own development of technological innovations and application of advanced production techniques from abroad.[5]

In general economic terms, the "golden age" of post-war growth in the OECD area can fundamentally be attributable to the large increase in average labour productivity, which in turn is best understood in terms of Schumpeterian innovation. Production innovation leads to reduced unit costs, or surplus profits, which enables investment and further innovation. If the innovation in the production process generates an increased market share, this in turn leads to a series of complementary innovations (for example, the use of synthetic fibres in the post-war period).[6] According to long-wave theory, the innovative boost to economic growth begins to be exhausted when surplus profits are reduced as

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[4] Phil Blackburn, Rod Coombs and Kenneth Green, Technology, Economic Growth And The Labour Process, New York, St. Martin's Press, 1985, p.67.

[5] See James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, p.202-203.

[6] See D. J. Frantzen, Growth and Crisis in Post-war Capitalism, Aldershot, Dartmouth Publishing Company Ltd, 1990, p.17. Modern neo-Schumpeterians who have developed long-wave and innovation theory in the field of political economy include C. Freeman, 'Technical Innovations and Long Waves in World Economic Development', Futures, 13, 4 and 5, 1981; C. Freeman, The Economics of Industrial Innovation, 3rd ed., London, Francis Pinter, 1982; C. Freeman, J. Clarke, L. Soete, Unemployment and Technical Innovation: A Study of Long Waves and Economic Development, London, Frances Pinter, 1982; G. Mensch, Stalemate in Technology: Innovations Overcome the Depression, Cambridge, Ballinger, 1979; J. Clarke et al, 'Long Waves, Inventions and Innovations', Futures, 13, 4, 1981, pp.308-22. Freeman, Clarke and Soete refer to 'swarming effects' with respect to integrated and complementary production innovations.

other competitors copy and adopt the innovative technologies. Supply then begins increasingly to exceed demand, leading to increased downward pressure on prices and profitability.

Moving on to the second externally-derived shock, the impact of the oil shocks is so well known we will only briefly describe it here, but the effect was enormous on the capacity of the developed economies to continue to sustain previously high levels of improvement in income. The oil price rise meant a redistribution of income from the industrialised countries to the oil-producing countries and, at the same time, a sudden increase in the cost of using and producing oil-based products. The increase in the relative cost of production generated a distributional conflict among those economic actors who continued to demand income improvements at previous levels.

Finally, concerning the third of our series of external shocks, a study by the Industrial Institute of Economic and Social Research (founded by the Employers' Confederation and the Federation of Swedish Industries), showed in 1979 that "sunset" Swedish industries in the competitive sector were not yet being replaced by new, expanding industries. Technical skills and raw materials had formed the basis for Sweden's prosperity since 1870, but by 1970 other countries had begun to exploit faster growing forests and more accessible high quality ores. In addition, Sweden's technological edge had fallen away in large scale installations such as the iron and steel industry, and in ship building.[7]

A Boston consulting group engaged by the Swedish Department of Industry in 1978 showed that industries in iron and steel, timber, paper and products, ship building and textiles - all of

[7] Per Martin Meyerson, Swedish Economy at the Cross Roads, Federation of Swedish Industries, Caslon Press AB, 1979, pp.16-18.

which had formed the backbone of prosperity - were being out-competed by newly developing countries. Sweden would have to radically restructure into mechanical engineering, electrical engineering, chemical and pharmaceuticals, and transport equipment, but even here other countries were also expanding or planning to expand.[8]

Together, these externally-generated shocks constitute a classic example of what we call economic foul weather, to which a political economic system must adapt. In the period 1973-1982, for example, the growth in total volume of Swedish exports was, on average, *half the size of the preceding ten years* and was borne by Sweden's four most important export sectors.[9] The slow-down was indisputably linked to these shocks: the slowdown in output growth, the relative increase in the costs of production due to the oil shocks, and the loss of comparative advantage in key sectors of production. Each also combined to produce a reduction in external demand for Swedish exports, since Sweden's trading partners simultaneously had less income to spend, more distributional conflict over less output, and cheaper competitors to choose from.

Importantly, these adverse developments were not caused by any fundamental dysfunction in the corporatist wage determination system, which had functioned sufficiently well in fair weather. They were caused rather by exogenous factors: foul weather. But the wage determination system did, certainly, take time to respond and adapt to the foul weather shocks. A large part of the problem was that its operation was predicated on the delivery of

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[8] Boston Consultancy Group, A Framework for Swedish Industrial Policy, Stockholm, Liber Forlag, 1979.

[9] Edward E. Palmer, Goran Schubert and Anette Nilsson, Swedish Commodity Exports and Imports: Models and Empirical Evidence. A Study of the Period 1963-1982, Occasional Paper 13, National Institute of Economic Research, Stockholm, 1985, p.13.

constant gains. As the authors of the Brookings Institute study put it:

> 'The slowdown in Swedish economic growth since 1973 has primarily been the result of exogenous factors affecting all industrial countries, and it cannot be attributed to domestic economic policies. Sweden does stand out, however, in the extent of its failure to adjust to the slowdown... Rapid growth had become crucial to a political and economic system that basically resolved conflicts by promising more to everyone. When growth slowed, the system lacked the mechanisms to scale back national consumption to conform to much slower increases in incomes'.[10]

The foul weather shocks provide an excellent test of the capacity of institutionalised rational cooperation to withstand the increased temptation for actors to adopt insider strategies. The dependence of the system on producing growth would have to be revised. The only course of action would be to agree on a short-term distribution of costs and make an efficient adjustment to the structure of the economy in order to counter the increase in β and perhaps even produce an improvement in the α coefficient. As Landesmann and Vartiainen write, 'Sweden has high labour costs and relies on technologically advanced industry. Corporatism therefore relies on technological progress and socialisation of the costs of readjustment'.[11]

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[10] Barry P. Bosworth and Robert Z. Lawrence, 'Adjusting to Slower Economic Growth: The Domestic Economy', in Barry P. Bosworth and Alice M. Rivlin, (ed.s), The Swedish Economy, Washington DC., The Brookings Institution, 1987, pp.22-54; A.B. Rivlin (ed). The Brookings Report on Sweden, Washington DC., The Brookings Institution, 1987.

[11] Michael Landesmann and Juhana Vartiainen, 'Social Corporatism and Long-Term Economic Performance', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon

6.1.2. Internal Shocks.

Sweden also faced a domestic "modernisation shock" in production technology and rationalisation which contributed to a decline in manufacturing employment of about 20,000 workers a year from 1976-1983. That this structural shock is a generalised foul weather phenomenon is shown by the fact that Sweden's percentile decrease was -1.8 percent, compared to a similar -1.7 percent for Germany, -1.9 percent for Japan, -1.3 percent for Britain and -1.3 percent for France.[12] Increased rationalisation and technological modernisation produced a reduced demand for labour in sectors of manufacturing, which then compounded with the effect of the external slowdown in demand for Swedish manufactured exports and the underlying reduction in the rate of growth of output, and contributed towards a growing, latent employment crisis.[13]

Loss of output growth has important consequences for manufacturing employment. Less workers were already needed due to advanced production techniques. The slowdown in output growth further squeezed the ability of the private sector to supply new employment. That growth of output is so important can be shown by considering that high productivity gains would have compensated for the effects of the other shocks: the oil price rise, the cheaper foreign competitors, and the fall in manufacturing

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Press, 1992, p.210.

[12] Jan Odhnoff, 'Crisis in Labour Market Policy', in John Fry (ed), Towards A Democratic Rationality. Making the Case for Swedish Labour, Aldershot, Gower Publishing Company Ltd, 1986, p.74.

[13] Such employment changes constitute a mammoth problem for the full employment policy objective. The ratio of part time to full time jobs created in the US, for example, is currently near two-thirds. Martin Woollacott, 'Nightmare proposition of a world that doesn't share', The Guardian, August 11, 1993, p.16.

employment.[14] But instead, the output slowdown in conjuncture with these other factors produced a prisoners' dilemma of cost distribution. A slowdown in the rate of growth of output implies that there is no longer sufficient output to supply income to cover current levels of wage demands. Expectations that were nurtured in the golden age, of future growth in output, income and consumption, would no longer be able to be met. The level of growth of output would no longer sustain rapidly rising and unrealistic expectations of income shares.

We can see this gap between expectations and reality by considering income and consumption data in Sweden, which show that from 1973-1982 national disposable income increased by just 0.2 percent (and was negative after 1976), compared to an annual increase of 3.8 percent in 1963-1973 (national income would have been 38 percent higher if the trend line for income growth from the previous decade had continued). Real national consumption, on the other hand, increased in relative terms by 18 percent. It would be wrong to conclude from these percentages, however, that the Swedish consumption rate remained unaffected by the crisis, since in real terms, consumption spending actually declined from an annual average of 3.5 percent in 1963-73 to 1.8 percent in 1973-82. The Swedes, then, did achieve a decline in their rate of growth of consumption, but in reality this was only half the decline of the growth in their national disposable income.[15]

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[14] Of course, it would be tautological to point out that high productivity gains would have compensated for the slowdown in the rate of growth of output, since they are effectively different ways of expressing the same phenomenon. In passing, we can note that productivity growth was still not high enough, despite the fact that loss of manufacturing employment has the effect of improving productivity figures.

[15] Barry P. Bosworth and Robert Z. Lawrence, 'Adjusting to Slower Economic Growth: The Domestic Economy', in Barry P. Bosworth and Alice M. Rivlin (eds), The Swedish Economy, Washington, D.C., The Brookings Institution, 1987, pp.25, 31.

The real nub of the impact of failing to adjust costs can be seen in the effect on investment and savings. In Sweden the net national saving rate fell from an average of 16.3 percent of GNP in 1963-73 to a figure of 2.7 percent in 1982. Most of this large fall resulted from the fact that the public budget went from a large average surplus of 10.2 percent in 1963-73 to a deficit of -4.4 percent in 1982. Most of Sweden's private sector capital accumulation had, in the past, been supplied by government saving: namely, social insurance funds. After central government began running deficits in 1973, private capital formation dropped by 50 percent and foreign borrowing for investment rose to 75 percent of total domestic investment. From 1973-1982 Sweden was a net borrower, spending more on imports than it earned from exports.[16]

6.1.3. Employment Consequences.

In the absence of rational cooperation in adjusting income levels, the effect of the combined foul weather shocks would be to increase unemployment. In 1982, Sweden, compared to Norway, Denmark, Finland, the USA, the UK, Germany and France, had the highest percentage of adult males aged 16-64 employed in the open labour market, in labour market policy programs, and the lowest (bar Norway) in unemployment.[17] In terms of the number of men and women employed as a percentage of the population in the

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[16] Barry P. Bosworth and Robert Z. Lawrence, 'Adjusting to Slower Economic Growth: The Domestic Economy', in Barry P. Bosworth and Alice M. Rivlin, The Swedish Economy, Washington, D.C., The Brookings Institution, 1987, pp.31-32.

[17] See Jan Odhnoff, 'Crisis in Labour Market Policy', in John Fry (ed), Towards A Democratic Rationality. Making the case for Swedish Labour, Aldershot, Gower Publishing Company Ltd, 1986, p.73.

economically active age groups (the activity rate), Sweden was in the top three with Denmark and Norway.[18]

This high activity rate is largely explained by the very high rate of employment of women. At the end of the 1980s, the rate of participation of women aged 16-64 in the Swedish labour market was the highest in the OECD area: 82.1 percent.[19] Sweden's low rate of unemployment is also explained by the fact that virtually all of the employment growth in the 1970s and 1980s was in part-time work, and by 1985 38 percent of all Swedes were public employees.[20]

From 1973-1982 economic growth fell by a third, and government estimates were suggesting an annual average industry employment loss of about 5 percent. The Swedish labour economist Rudolf Meidner has argued that the main cause of this employment loss is productivity gains, which implies that output remains at a rate sufficient to support compensatory public employment. He argues that the wage for education, health, child care, and care for the elderly, is not substantially greater than that for unemployment insurance, and that such forms of public employment are much preferable to open unemployment.[21]

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[18] SAF, The Dynamic 90s. Work and the Labour Market in Sweden, SAF Doc No 1092, January 1990, section 5.

[19] Eugenia Kazamaki, Firm Search, Sectoral Shifts, and Unemployment. Studies in Labour Market Adjustment in Sweden, Swedish Institute for Social research, 17, Almqvist & Wicksell International, Stockholm, 1991, p.18.

[20] Robert J. Flanagan, 'Efficiency and Equality in Swedish Labour Markets', in Barry P. Bosworth and Alice M. Rivlin (eds), The Swedish Economy, Washington, D.C., The Brookings Institution, 1987, p.127.

[21] Rudolf Meidner, 'Labour Market Policy in the Welfare State', in John Fry (ed), Towards a Democratic Rationality. Making the Case for Swedish Labour, Aldershot, Gower Publishing Company Ltd, 1986, pp.68. He argues that, when you consider that the public employee also pays tax, the actual cost of the public

Table 6.1.

GDP Growth Per Employee, 1960-1989 (Percent Per Year).

	1960-73	1973-80	1980-85	1985-89
Sweden	3.6	0.5	1.1	1.1
Denmark	3.3	1.3	1.9	0.2
Norway	3.6	2.9	2.2	3.4
Finland	4.4	2.5	2.0	3.6
Germany	4.2	2.5	1.8	2.0
United Kingdom	2.8	0.9	2.5	1.8
France	4.7	2.3	1.9	2.2
Belgium	4.1	2.6	1.5	2.1
Netherlands	3.7	2.5	1.9	1.0
Austria	5.0	2.6	1.5	1.9

Source: Lars Bergman, Ulf Jakobsson, Mats Persson, Hans Tson Soderstrom, The Swedish Economy at the Turning Point, Stockholm, SNS Economic Policy Group, Occasional Paper, No.26, May 1991, p.24.

Meidner is right, but leaves open the question of how to distribute available income when it is actually decreasing. The level of productivity growth in manufacturing has resulted in a reduction in the share of employment in manufacturing while the share of output of manufacturing to GDP has remained constant, but at the same time the rate of growth of productivity has slowed and so has output growth.[22] This means, as can be seen in

employment of one person is not much greater than that of unemployment insurance and other social subsidies.

[22] A study conducted in the late 1980s showed that while the share of manufacturing employment to total employment has declined since World War Two in the Western economies, manufacturing's total output share of GDP had remained constant, due to the fact that labour productivity in manufacturing increased faster than the productivity of the general economy. This might seem to support Meidner's argument, since it implies that there are fewer workers in manufacturing who nevertheless earn more pay and could therefore be taxed to support public sector employment and income transfers. But note that it is the share of GDP which has remained constant, while the rate of growth of the output itself has slowed. This implies that there will still be a problem because the share of manufacturing income demanded by the public sector will be increasing at the same time

Table 6.1., that the rate of growth of real income has also slowed, so that private sector demand for income growth is increasingly in conflict with public sector demand for income growth.

For the private sector to support compensatory public employment at a wage only a little higher than unemployment compensation the level of wages in the private sector would, in plain language, have to be determined by what then remained available. But the overall cost of this "public wage" is in part determined by size, and public sector employment grew by about 50,000 employees per year from 1976 until 1983. In percentage terms, it increased from 14 percent of the workforce in 1963 to 34 percent in 1984. Some 350,000 full-time jobs disappeared in the private sector between 1965 and 1982, but low unemployment was maintained through public sector growth and employment policy.[23]

In fact, as well as the 1.8 million people working in the public sector in the 1980s, there was another (approximately) 2.4 million people who were not employed or studying full time. This meant 4.2 million people, half the population of Sweden, were dependent on taxes and transfer payments.[24] At the same time,

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as the total growth rate of output in manufacturing is decreasing. See Randall W. Eberts and John R. Swinton, 'Has Manufacturing's Presence in the Economy Diminished?', Economic Commentary, Federal Reserve Bank of Cleveland, January 1, 1988, pp.1-4.

[23] Per-Martin Meyerson, Eurosclerosis. The Case of Sweden, Federation of Swedish Industries, Caslon Press AB, 1985, pp.58-59.

[24] SAF, The Dynamic 90s. Work and the labour market in Sweden, SAF Doc No 1092, January 1990, section 4.

since the productivity growth rate in manufacturing declined [25], the relative contribution of the private sector to income also declined. This implies a greater relative taxation burden upon the general economy.

In addition, the large public sector hid a huge measure of fiscal support for employment in the form of relief work or state-promoted employment. The key area focused on was training, since there still remained an imbalance in the labour market in the form of demand and shortages for well-educated labour. Odhnoff writes that if you consider Swedish unemployment to include this massive amount of people on publicly-funded employment, the level of unemployment would have been in excess of 10 percent in the period 1976-1986.[26]

Meidner's argument about the ability of the private sector to support public employment crucially hinges on two requirements: the first is that private sector wage negotiators must agree on a level of wages growth low enough to maintain competitiveness while at the same time allowing the necessary level of taxation to support a public sector wage only a little greater than unemployment insurance. The second is for the growing numbers of public employees to agree to this wage and to distribute it among themselves. Obviously, in foul economic weather this will become increasingly difficult to achieve, since if the rate of growth of output has slowed while the expected

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[25] See, for example, Barry P. Bosworth and Robert Z. Lawrence, 'Adjusting to Slower Economic Growth: The Domestic Economy', in Barry P. Bosworth and Alice M. Rivlin (eds), The Swedish Economy, The Brookings Institution, Washington D.C., 1987, p.29.

[26] Odhnoff notes that comparable data is lacking on other countries, but we might "hazard" a guess that Sweden ranks highly on a scale of such support. Jan Ordnoff, 'Crisis in Labour Market Policy' in John Fry (ed), Towards A Democratic Rationality. Making the Case for Swedish Labour, Aldershot, Gower Publishing Company Ltd, 1986, pp.72 and 75.

rate of increase of wages remains high (in either or both of the public and private sectors), a zero-sum distributional struggle will ensue.

6.2. The Rise of the New Actors.

In foul economic weather the pursuit of full employment, given relatively unchanged private sector wages, contributes towards massive growth in public sector employment. This in turn generates an increasing sectoral cleavage in the labour market. One of the most important changes in Sweden has been the shift in employment from a dominant industrial sector which required relatively little training to increasingly education-intensive public and private services. Even in the industrial sector, the use of new technologies has led to changes in job requirements which have widened the scope for potential conflict between low and high pay groups and eroded the boundaries between manual and non-manual work.

These developments have transformed rational cooperation in Sweden from what was predominately a two-actor interaction into a much more complicated n-actor interaction. In combination with changes in the payoff matrix given by the foul weather and the need to distribute costs, the changes mean that rational cooperation in Sweden faced a major challenge in adapting to the new environment. The following sections examine the new actors and their bargaining positions with a view towards making a first step in establishing to what degree cooperation has broken down due to such structural changes and, conversely, how much cooperation has been sustained despite the theorised impact of foul weather.

6.2.1. The Public Sector.

From 1980, public sector employees actually outnumbered private sector employees among Swedish union members, and public sector employees accounted for nearly 40 percent of all employees

in the labour market (see Table 6.2).[27] Stark evidence of the rapid growth in importance of public sector unions can be seen in the fact that at the same time as LO's share of the organised labour force in 1960-1980 declined from over 75 percent to about 62 percent, the Local Government Workers' Union (SKAF) passed the Metalworkers' Union (Metall) as the largest union affiliate in LO.[28]

Table 6.2.

Trade Union Federations as a Percentage of the Labour Force.

Percent of Labour Force

	1960	1987
LO	40.6	51.6
LO-public sector	7.8 (19.3)	19.7 (38.2)
TCO	10.7	28.3
TCO-public sector	4.8 (45.2)	14.3 (50.5)
SACO-SR	1.6 + 0.4	6.8
SACO-SR-public sector	1.0 + 0.4 (62.5 + 100)	4.0 (58.8)

Note: The figures in parenthesis refer to the percentage of the organisation's members who are public sector employees. Figures are also given separately for SACO and SR in 1960, which was before their merger.

Source: Lars Calmfors and Anders Forslund, 'Wage Formation in Sweden', in Lars Calmfors (ed), Wage Formation and Macroeconomic Policy in the Nordic Countries, Oxford, Oxford University Press, 1990, p.80.

The growth of SKAF, as a low pay union (with a largely female membership), generated new strains within LO. As the economy worsened, SKAF and Metall (the quintessential high pay union with a mostly male membership) developed a growing conflict

[27] Per-Martin Meyerson, Eurosclerosis. The Case of Sweden, Federation of Swedish Industries, Caslon Press AB, 1985, p.65.

[28] For these figures, see R. Kent Weaver, 'Political Foundations of Swedish Economic Policy', in Barry P. Bosworth and Alice M. Rivlin (eds), The Swedish Economy, Washington, D.C., The Brookings Institution, 1987, p.306.

of interest with respect to centralised wage bargaining and the wage policy of solidarity.[29] Essentially, Metall wanted more freedom to take advantage of high profits in the engineering sector, while SKAF claimed extra compensation for the low-paid. The formation of the "gang of four" bargaining cartel of public sector unions in the late 1970s (see further), which comprised central and local government LO and TCO unions, also indicated that the growth of the public sector had created a large, growing, amorphous low pay actor, with membership that spanned both blue and white collar union federations.[30]

These conflicts can be viewed as evidence of the sort of free-riding dilemmas shown in Chapter Two to be particularly problematic for overly centralised, growth-based corporatist systems. The fact that the conflicts occurred in the LO-SAF-Government area of wage negotiation weakens any supposition that the problems of cooperation can be traced solely to the independence of the newer trade union actors. But how do these conflicts measure up when placed in the wider picture of wage restraint and the response of the Swedish actors to foul economic weather?

6.2.2. The White Collar Unions: TCO, SACO-SR, PTK.

As well as the public/private cleavage, the manual/non-manual cleavage was also increasingly creating problems for centralised wage determination. From 1950 to 1970, white collar unions grew by 250 percent, compared to only 14 percent for LO unions. In the same period, their share of total union membership

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[29] See Scott Lash, 'The End of Neo-Corporatism? The Breakdown of Centralised Bargaining in Sweden', British Journal of Industrial Relations, 23, 1985, pp.215-38.

[30] James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, pp.212-214.

grew from just under one fifth to just under one third.[31] Most of this increase in white collar membership was in unions affiliated to TCO (*Tjanstemannens Centralorganisationen*), the Central Organisation of Salaried Employees. TCO was formed in 1944 following a merger of two white collar federations representing private and public sector employees, and unlike LO never developed any particular links with a political party. At its inception in 1944, TCO had 157,000 members and represented 30-40 percent of the white collar workforce. By the end of the 1980s, with an annual growth rate of nearly 2 percent, it had grown to 1.3 million members, with 20 affiliated unions representing 80-85 percent of white collar and professional workers.[32]

Of the remaining white collar employees, 6-7 percent belonged to SACO (*Sveriges Akademikers Central Organisation*), the Central Organisation of Professional Employees. SACO is a high pay group comprised almost entirely of university degree holders, with a strong anti-egalitarian bias and a faster growth rate than either LO or TCO. In 1970, it merged with SR (*Statstjanstemannens Riksforbund*), an organisation of state employees comprising about 1 percent of union membership, to form SACO-SR.[33]

As TCO describes itself: 'We are the offspring of the new industrial, social and economic configuration that is taking form in Sweden'.[34] TCO affiliated unions tend to represent workers who

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[31] Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', in Peter Gourevitch et al, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, pp. 215, 238.

[32] TCO, TCO - The Swedish Confederation of Professional Employees, undated booklet, p.7.

[33] Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', pp. 215, 238.

[34] TCO, TCO - The Swedish Confederation of Professional Employees, undated booklet, , p.7.

are educated and professional (almost 60 percent of TCO members are female), which translates into high expectations for income growth and improvements in living standards. TCO does not act as a bargaining agent for its affiliates. Instead, it sees its primary role as being to influence the economic conditions under which bargaining takes place by attempting to shape public policy. Until recently, one of its key forums of activity has been through membership on the large number of quasi-official administrative boards and authorities in Sweden, such as the National Labour Market Board (AMS), the National Board of Occupational Safety and Health, the Labour Court, the National Social Welfare Board, the National Board of Education, and the Swedish International Development Authority (SIDA).[35]

But although it does not bargain, TCO does have a general pay policy. This is based on three principles: first, the Rehn-Meidner concept of wage solidarity (equal pay for equal work), which reflects the enormous influence of this principle in Swedish unionism; second, pay differentials based on job requirements and performance, which is a principle reflecting both recognition that the labour market needs flexibility to change pay rates in line with changing job requirements and that many of TCO's members consider themselves to be deserving of high wages; and three, special measures for the low pay. This last principle is, of course, a stalwart of trade unionism in general. It can be seen that together these principles imply first, fairness; second, high pay for the deserving; and third, a floor for the low pay. In order to determine at what levels of pay increase these policy goals are realised, TCO pay policy recognises and accepts the fundamentals of EFO model:

> 'Our model in developing wage demands takes account of national economic needs, and takes as its starting

[35] For a discussion of recent developments concerning employer and trade union membership on these boards, see further.

point the economic scope for pay improvements as defined by international price movements and productivity growth'.[36]

In terms of stated pay policy, then, TCO is a typical *encompassing* trade union actor which, if it did bargain over wages, should be expected to offer conditional cooperation to LO and SAF in coordinating wage determination. The EFO/FOS models represent, in essence, a recognition of the prisoners' dilemma relationship facing unions and employers. But in foul weather cooperation would require greater vertical integration of institutional mechanisms for affiliate bargaining in order to secure their cooperation. The TCO policy of support for high wage differentials and low pay protection suggests that the interests of high and low pay groups may not be so easily reconciled. But in any case, TCO is not in a position to bargain for its affiliates, and while the centrally-located TCO economists are well aware of the prisoners' dilemma, as TCO economist Roland Spant puts it: 'The wage earners -they don't know about the prisoners' dilemma. *They have no history of solving such dilemmas'*.[37]

TCO union affiliates are represented in the public and private sectors, and are organised into three separate bargaining cartels. At the national government level, the cartel TCO-S (the TCO Section for State Employees) bargains with SAV (the Swedish National Agency for Government Employers). At local government level, the cartel KTK (the Federation of Salaried Local Government Employees) bargains with LF (the Swedish Association of Local Authorities). Finally, in the private sector, the industrial white collar unions have formed their own various

[36] TCO, TCO - The Swedish Confederation of Professional Employees, p.10.

[37] Roland Spant, TCO Economist, interview, Stockholm, 9 June 1992.

negotiating cartels, culminating in the formation of PTK (*Privattjanstemannans Kartellen*), the Federation of Salaried Employees in Industry and Services, in 1973.

The fact that the TCO affiliates have never ceded their bargaining rights to TCO means that the capacity of TCO to minimise uncooperative behaviour through centralised wage pronouncements in foul weather is vastly limited. The absence of this option reduces any incentive for TCO to explore EFO/FOS-derived cooperative agreements with LO. In fact, the forums for consultation between LO and TCO are mostly informal with no regular meetings between key actors in each organisation. Underlining the importance of the affiliates, as actors, most of the contacts between TCO and LO are between separate unions affiliated to each organisation. For example, SIF (The Swedish Union of Clerical and Technical Employees in Industry), which is TCO's largest member, has close contacts with LO's metalworkers' union (Metall). In the public sector, there is a greater degree of coordination, with TCO/LO central and local government unions discovering that their common interest as public employees has drawn them together despite their differences as blue and white collar employees.

The year 1956 was the first and the last time TCO ever participated in centralised negotiations with LO and SAF. From that time, the TCO affiliates made their own arrangements. In the old corporatist model, the fast-growing, low pay, white collar unions in the private and public sectors were virtually ignored. For its part, TCO demonstrated neutrality over the pensions controversy so vital to LO's Rehn Model of publicly-funded investment, despite the energetic political support mobilised by LO and the SAP.

The unique historical conditions that enabled LO to adopt the role as a bargaining agency for its affiliates simply did not apply to TCO. There was no effective leverage applied by the

employers as in the 1950s, and no comparable degree of ideological cohesion between the interests of the affiliates and the central federation or the Social Democratic party. The white collar unions in the private and public sector emerged with relative suddenness in a political and economic context that was very different to that of LO's origins, where the blue collar trade union movement and the political wing of the labour movement were virtually indistinguishable.

The new trade unions were more *apolitical*, and by comparison with LO were more devoted to "economistic" objectives. A corporatist strategy of cooperation in wage determination involves a strategy of aggregating collective interests rather than pursuing purely individualistic objectives. While the point of corporatist cooperation is actually to achieve the best outcome for individual actors, through avoiding the prisoners' dilemma, it also requires that collective interests are maximised. Free-riding activity in foul weather achieves individual gains at a growing collective cost, by passing those costs on to other actors. Protected by sustained gains, the successful free-rider can remain unconcerned about the consequences for the wider economy and for other actors. In the initial stages of such a crisis, moreover, the number of successful insiders is large and relative costs of forcing costs onto other groups small. The white collar unions appear to have been in a position, as a result of their growing strength, to play the role of insiders. They had no *iterative history* of solving prisoners' dilemmas and only a weak institutional link to an encompassing viewpoint. They seem, on the basis of the model we have developed, to be particularly susceptible to collective action dilemmas.

TCO presidents typically had no expertise with wage negotiations. In 1983 a new president was elected who had 20 years experience of wage negotiations with SKTF (the Swedish

Union of Local Government Officers), but this did not signify any increasing powers at the central level. The TCO affiliates used his expertise in wage negotiations with the government employers' organisations. Concerning TCO as an possible actor in the game-theoretical model of the Swedish wage determination system we have developed, Roland Spant has a brief reply: 'Sometimes when you really want to insult LO you say you will become a TCO'.[38]

Even more than TCO, PTK (Federation of Salaried Employees) could be characterised as an "economistic" federation, devoted purely to achieving the maximum gains for its members with little consideration for collective economic well-being. Unlike the more centralised blue collar federation, the white collar affiliates enjoyed the dominant position with respect to the central body, which acted as a cartel for their interests. PTK might even be argued to represent a type of centralisation which does not embody an encompassing viewpoint. But this is to make the argument too strongly. PTK at the central level still managed to impart a degree of encompassing criteria to collective wage outcomes.

As can be seen from Table 6.3., during the course of the 1980s LO found that the relative size of the PTK bargaining area grew to the point where in 1987 it was only 4 percentage points (of the labour force) smaller than LO's own bargaining area. In addition, the various union cartels in the public sector bargaining with SAV, LF and SFO encompassed over 30 percent of

[38] Roland Spant, TCO Economist, interview, Stockholm, 9 June 1992.

Table 6.3.

The Wage Bargaining Areas.

Employer Organisation	Employee Organisation	Percentage of Labour Force 1980	1987
SAF	LO	18.0	16.1
	PTK	12.4	12.0
SAV	SF	3.2	2.4
	TCO-S	6.1	5.9
	SACO-SR-S	1.8	2.5
LF	SKAF	5.2	4.8
	KTK	3.0	2.8
	SACO-SR-K	----	0.9
KF	SKAF	6.0	6.6
	KTK	2.7	3.4
	SACO-SR-K	0.5	0.6
SFO	LO	1.6	1.6
	PTK	0.9	1.0
KFO	LO	1.4	1.1
	PTK	0.7	0.7
TA	LO	0.6	0.6
	PTK	0.3	0.5
BAO	BM	0.9	1.2

Abbreviations: SAF = central organisation for private-sector employees; LO = central organisation for blue-collar workers; PTK = central bargaining organisation for private-sector white collar workers including as members unions from TCO, SACO-SR and SALF; SAV = central government bargaining unit; SF = the union for central government blue-collar workers; TCO-S = bargaining organisation for central government white-collar workers; SACO-SR-S = bargaining organisation for central government employees with university training; LF = central organisation for regional government employers (mainly health care and public transport); SKAF = central organisation for regional and local blue-collar workers; KTK = bargaining cartel for regional and local government white-collar workers; SACO-SR-K = bargaining organisation for regional and local employees with university training; KF = central organisation for local government employers; SFO = central employer organisation for publicly-owned companies; KFO = central organisation for cooperative employers; TA = central employer organisation for the press; BAO = central employer organisation for the banks; BM = the union for bank employees.

Source: Lars Calmfors and Anders Forslund, 'Wage Formation in Sweden', in Lars Calmfors (ed), Wage Formation and Macroeconomic Policy in the Nordic Countries, Oxford, Oxford University Press, 1990, p.81.

the labour force by 1987. In practice, the wage bargaining on the public sector side has been highly coordinated on both the employer and union side, but cooperation with the private sector negotiating groups has been minimal. This is because, on the employer side, there has been a conflict of interest between the Swedish governmental tiers and SAF policy on public employment, and on the union side conflict over public sector compensation for private sector wage drift.[39]

To sum up so far, the old LO/SAF bargaining area, which had nurtured the development of fair weather corporatism, had been superceded by a new and more complex environment in which LO faced growing internal divisions between its low and high pay groups, such as SF (the union for central government blue collar workers), SKAF (the central organisation for regional and local blue-collar workers), and Metall, and also rubbed shoulders increasingly with newer, and less centralised bargaining cartels such as PTK, TCO-S, SACO-SR-S, SACO-SR-K, and KTK.

Throughout most of the 1970s and 1980s PTK was, next to LO, the main union bargaining cartel in the private sector. By the 1980s it had 22 white-collar union affiliates and some 525,000 members. Eight of them, including the largest, SIF (the Swedish Union of Clerical and Technical Employees in Industry), belonged to TCO and the remaining fourteen to SACO-SR. PTK had its beginnings in the late 1960s when SIF, SALF (the Swedish Union of Foremen and Supervisors), and CF (the Association of Graduate Engineers, affiliated to SACO) reached a collaborative negotiating position and achieved a five-year agreement (1969-1974, for 7 percent) with SAF. There was also some cooperation between SIF and HTF (the Swedish Union of Commercial Salaried

[39] Lars Calmfors and Anders Forslund, 'Wage Formation in Sweden', in Lars Calmfors (ed), Wage Formation and Macroeconomic Policy in the Nordic Countries, Oxford, Oxford University Press, 1990, p.80.

Employees). This watershed agreement was actually reached before LO and SAF had finished bargaining, and was designed strategically to both improve the relative position of the non-manual workers and stabilise relationships between the white collar unions over the five year period, so that PTK could be formed without a bargaining round to disagree over. The founders of PTK were SIF, HTF, SALF, and CF.[40]

The PTK cartel primarily negotiated with SAF, but also dealt with SFO (the Collective Bargaining Board for State-Owned Enterprises), KFO (the central organisation for cooperative employers), and other smaller employer organisations. Up until 1988, PTK had a statute which made union affiliate membership conditional upon all the unions having to join the bargaining round for the year. After that year, the affiliates were free to leave the bargaining round entirely if they wished. Despite this statute, PTK never had any legal right to make binding contracts for its affiliates in respect of salaries and terms of employment, or agreements on the basis of the Codetermination Act.

Its negotiated settlements consisted of recommendations to the individual unions, which then concluded their own collective agreements. If an affiliated union did not want to approve an agreement recommended by PTK, it retained the sovereign right to continue its own negotiations with the employer. Negotiations became, therefore, three-tiered, with the first tier consisting of the PTK Board, which negotiated with SAF, and a larger delegation consisting of 50 members appointed from the bargaining area which had to approve the central agreement. The second tier consisted of the branch negotiations, and the third tier local adjustments to the agreement. These factors severely restricted

[40] PTK, PTK, Gust Osterbergs Tryckeri AB, 1986, p.2.; Lars Wiklund, PTK Information Officer, interview, Stockholm, 12 June 1992.

any degree of centralisation that PTK could be said to have provided for white collar wage determination.

Like TCO, PTK had virtually no meetings with LO to discuss wages strategy. It might be concluded, then, that PTK was a rational opportunist, a classic insider or free-rider. But the question must be raised as to whether the purely economistic picture is warrented. There were examples of wage coordination in the 1977, 1978/79 and 1986/87 wage agreements, when LO and PTK presented common pay demands. In other areas of union activity there was also cooperation: in 1974 a joint agreement on security insurance, in 1977 a joint agreement on the working environment, in 1979 a codetermination agreement in the SFO and KFO sector, and in 1983 a SAF-LO/PTK development agreement. In respect of codetermination, joint councils have been set up by LO and PTK centrally, at the union level and locally, and SAF, LO and PTK together formed a joint policy body, the Council for Development Issues.[41]

Dialogue with respect to wages between the two central wage bargaining actors, with the exception of 1977, 1978/79, and 1986/87, also took place, albeit largely through newspapers, magazines, radio, television and occasional memos. It would not be possible for PTK, from the point of view of its affiliates, to look as if it were coordinating wages with LO. The differences between the two organisations over wage levels and wage drift for their affiliates are simply too great for agreement to be reached without the affiliates believing their interests have been sacrificed by the central organisation.

In practice, though, during the 1980s PTK and LO managed to minimise the degree of inflationary competition in their wage rounds by bargaining at the same time with SAF, and not one before the other. This was not an official policy of

[41] PTK, PTK, Gust Osterbergs Tryckeri AB, 1986.

coordination, and only the timing of the wage rounds was coordinated, but each side also knew approximately, through unofficial contacts as well as public channels of communication, what the other was going to do. Neither actor wanted to be the first (the "Stackelberg leader") to reach a settlement and then allow the other to reach a higher one in such a way that it looked as if the central negotiators had blundered by ceding the advantage. Even though the wage settlements may still have differed, by making them at roughly the same time the two organisations avoided the charge that they had given their opponents the option to do better.[42]

In sum then, we have to conclude that a certain degree of coordination was practiced between the new actors and the old actors, even without the institutional mechanisms usually associated with such cooperation. The picture, perhaps not surprisingly, is more complicated than the new actors simply being rational opportunists. But this is not to say that there was no conflict between high and low pay groups, and between white collar and blue collar, and private and public sector groups. There is evidence, as we shall see, of insiders attempting to free-ride and pass costs on to other groups, but the point is that this process varied over time and was tempered by coordination at many levels.

6.3. Wage Drift.

Many of the problems of rational cooperation in Sweden can be argued to revolve around wage drift: local, unofficial wage increases negotiated in addition to contractual agreements reached by the central negotiating bodies. Sectoral conflicts had never previously caused great difficulty for the corporatist system, but this certainly changed with the advent of foul weather and the new actors. The mechanism by which stronger

[42] Lars Wiklund, PTK Information Officer, interview, Stockholm, 12 June 1992.

actors sought to improve their position, effectively as insiders, was wage drift. While they could, the outsiders attempted to seek redress through the wage determination system.

In the period 1956-1966, the golden age of the Swedish Model and the corporatist system, SAF and LO enjoyed a priority rule which enabled then to negotiate first. Local, unauthorised wage increases in the private sector typically followed, but the public sector was not able to do the same. This meant that the competitive blue collar unions were the wage leaders, setting the rates that other groups could follow. Overall, public sector wages simply followed the negotiated rate, and were unable to catch up with blue collar wage drift. This was reinforced by the fact that public employees had virtually no negotiating rights under their state wage management rules. It was only in 1966 that white collar workers employed by the state and local authorities were given the right to strike and negotiate.[43]

Not surprisingly, when the public sector workers attained the right to bargain over wages, they attempted to catch up with their blue collar counterparts. Both white collar workers in the private sector and white and blue collar workers in the public sector had several reasons to develop an aggressive wage bargaining strategy: firstly, private sector salaried workers pay more tax than their blue collar counterparts: in the 1980s, their marginal income tax rates were as high as 80 percent, compared to 65 percent for most wage earners.[44] Secondly, public sector workers enjoyed lifetime job protection, but faced a much more compressed wage structure than the private sector. Thirdly, the

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[43] Anders S. Olsson, The Swedish Wage Negotiation System, Uppsala, Uppsala University, 1990, pp. 26-27, 29.

[44] Robert J. Flanagan, 'Efficiency and Equality in Swedish Labour Markets', in Barry P. Bosworth and Alice M. Rivlin (eds), The Swedish Economy, Washington, D.C., The Brookings Institution, 1987, pp.127-128.

white collar workers and the public sector workers enjoyed substantially less wage drift than the blue collar workers. In an average year, wage drift accounted for between 40 and 50 percent of the growth in hourly earnings for blue collar workers (see Table 6.4), compared to 20 to 50 percent for private sector white collar workers and 10 to 15 percent for public sector employees.[45] In sum, these factors made the white collar and public sector workers unwilling to accept contractual increases that did not contain a measure of compensation for blue collar wage drift, and in fact made it very difficult for them to agree on salary relationships between themselves (e.g., between private sector and public sector white collar workers).

Table 6.4.

Wage Increases and Wage Drift: A Comparison of the LO/SAF and PTK/SAF Areas.

Year	Wage Agreements		Wage Drift	
	LO/SAF	PTK/SAF	LO/SAF	PTK/SAF
1970-1973	5.2	6.8	4.5	1.2
1974-1977	7.5	10.2	5.6	1.6
1978-1981	4.8	5.1	3.2	1.6
1982-1985	4.6	4.1	2.7	2.3

Source: Figures are calculated from Diagram 4:3, in Karl-Olof Faxen, Clas-Erik Odhner and Roland Spant, Lonebildningen i 90-talets samhallsekonomi, Stockholm, Raben and Sjogren, 1988, p.232.

[45] Robert J. Flanagan, 'Efficiency and Equality in Swedish Labour Markets', pp. 166-67. From the mid-1960s until the mid-1970s, average annual wage drift was 4.78 percent compared to salary drift of 1.58 percent. See Robert J. Flanagan et al, Unionism, Economic Stabilisation, and Incomes Policy, Washington, D.C., The Brookings Institution, 1983, p.337.

6 - Why Corporatism In Sweden Had To Change

The 1969-70 round of wage negotiations, in retrospect, can perhaps be seen as the first encounter between the LO group of unions and the newcomers. As well as marking the moment when PTK began to emerge, it represented the first clear expression of the modern conflict between manual and non-manual groups in the Swedish labour market. Effectively, LO was determined to maintain its relative position and the PTK group of unions, SIF, SALF and CF, were determined to break it. The consequence was that overall wages were bid upwards, the central negotiations became much more complex and protracted, and SAF began to lose its remaining incentives to retain the centralised system.[46]

The Swedish corporatist system had been designed, in part, to reduce the cost entailed when other groups successfully compensated for wage drift, but in the original formulation these "other groups" were all blue collar unions. The blue collar workers in the high profit, competitive sectors were historically the high pay actor, and this was later reinforced by the solidaristic wage policy. When the public sector and the white collar sector became powerful enough to challenge this unequal relationship, largely through increase in union membership, they did so to the point of almost entirely reversing it. By the 1970s and 1980s, for example, low pay workers in the blue collar sector typically received less than low pay workers in the public sector, largely because the latter were able to compensate for high pay, blue collar wage drift.[47]

Thus in the 1970s and 1980s, LO's blue collar workers received smaller negotiated increases than public employees, while the public employees compensated for blue collar wage drift by including the drift in their negotiated increase. Between 1975

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[46] James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, pp.207-208.

[47] Robert J. Flanagan, 'Efficiency and Equality in Swedish Labour Markets', p.163.

and 1981 blue collar workers also received less than industrial white collar workers for the same reason. LO argued that the public sector and white collar workers should not receive wage drift compensation for high pay, blue collar achievements, since those increases were justified in the industrial sector, according to the EFO model, by high profits, productivity gains, technological rationalisation, and so on, whereas no similar productivity increases could justify them in the public and white collar sectors. The public sector cartels and PTK argued in turn that the wage achievements of the competitive sector had to be matched in their own sectors. From the point of view of PTK, this wasn't a wage policy of solidarity so much as a question of compensation and fairness.

Despite the intention of centralised bargaining in the LO/SAF area to minimise wage drift, association level and local bargaining was always beyond the influence and control of the central federations. In fair weather, where the central negotiations distributed gains anyway, this affiliate independence was never pressed. Foul weather awakened the low pay and high pay distributional conflict, even within LO. New actors such as PTK, which lacked any practical motivation to determine wage increases by the EFO model, were required by their affiliates to compensate for LO high pay, blue collar gains. Wage drift then, became the most important factor undermining any serious application of the EFO model to the wider economy. Because of the complexity of measuring wage drift and the unreliability of estimates, it was virtually impossible for PTK and LO to agree over the amount of wage drift in the blue collar sector. PTK, almost inevitably, would argue that wage drift was higher than LO would admit to.

In PTK's own wage determination process during the 1970s and 1980s no decision was made to calculate what the wage rates

necessary to maintain competitiveness would be and to follow them. As a PTK spokesman puts it:

> 'The question - "where's the money to pay the salaries?" At that time, we didn't ask that question. There was no reason at all to ask that question, at that time. Today [in the 1990s], we have to ask it, and answer that question'[48]

There were too many other factors involved which had to be addressed before the EFO model could be considered, if at all. The depth of the economic foul weather was not fully appreciated until the 1980s. PTK bargainers were more preoccupied with positional and strategic questions, given the complex game-like environment that characterised wage bargaining with such a large number of new bargaining cartels. For example: how would SAF respond? How would LO, or the government respond? Pragmatism and experience, and not an economic model such as the EFO model, were used to determine wages growth. In this situation, as Lars Wiklund, a PTK spokesman, puts it, the wage bargainer would just 'test the wind'[49]. In terms of the complex reality of jostling with several independent actors, and given the absence of agreement over wage drift, the EFO model as a means of determining the corridor of available gains and costs became simply an academic exercise.

Since neither TCO nor SACO-SR had the ability to restrain their affiliates in their wage bargaining, the result was that wage drift in the blue collar sector was transferred into higher negotiated increases in the public and white collar sector, which then transferred back to LO in the form of considerations of

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[48] Lars Wiklund, PTK Information Officer, interview, Stockholm, 12 June 1992.

[49] Lars Wiklund, PTK Information Officer, interview, Stockholm, 12 June 1992.

equality with negotiated increases in the public sector and salaried industrial sector.

The institutional mechanism which helped this inflationary spiral to function was known as "wage development guarantees". Before 1966, groups who wanted compensation for wage drift attempted to negotiate separately and ahead of the main bargaining rounds, but this quickly became far too complex and difficult to manage. In 1966 LO and SAF agreed to implement wage development guarantees as an instrument for managing the response of unions to wage drift: any company that did not allow wage drift would have to compensate its workers the following year anyway due to the legally-binding guarantees. The white collar and public sector employees were also given wage development guarantees that linked their negotiated increases to blue collar wage drift.[50]

Given these guarantees and the strength of the high pay actors, two factors merit attention with respect to wage drift in the Swedish labour market. The first is that, given the focus of the corporatist system on restricting wage drift, the amount that actually occurred is remarkably high. As Bosworth and Lawrence write:

> 'In general, the formal spring negotiations account for a surprisingly small proportion of the year-to-year variations in the wage rate - hardly the situation one would expect for an economy dominated by large centralised unions'.[51]

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[50] Anders S. Olsson, The Swedish Wage Negotiation System, Uppsala, Uppsala University, 1990, p.64.

[51] Barry P. Bosworth and Robert Z. Lawrence, 'Adjusting to Slower Economic Growth: The Domestic Economy', in Barry P. Bosworth and Alice M. Rivlin (eds), The Swedish Economy, Washington DC., The Brookings Institution, 1987, p.41.

Moreover, in Table 6.5, we can see that in the LO/SAF area, which is the area of principle operation of the corporatist model, wage drift in the 1960s was not significantly lower than that in the 1970s and 1980s. The centralised system of wage determination always produced wage drift in the LO/SAF area, which in fact is what we should expect given the requirement of the LO unions that their cooperation depended conditionally upon wage increases being high enough that there was an incentive for high pay unions to remain in the corporatist system. The corporatist system, then, did not "break down" because it suddenly started producing higher absolute levels of wage drift in the 1970s and 1980s, insofar as the LO/SAF area considered alone is concerned. On the contrary, the corporatist system in the golden age succeeded largely because it allowed so much wage drift.

This brings us to our second point, which is that the earlier success of the corporatist system, given such high levels of wage drift, was only made possible by fortuitous domestic and international economic conditions: i.e., fair economic weather. In the 1970s and 1980s, wage drift in the LO/SAF area is not significantly higher than it was in the golden age, but in relative terms it had become unsustainable. This is because, given the changes in Sweden's economic fortunes, the amount of "sustainable wage" allowed was becoming exceedingly small. From 1964-1973, average productivity growth was 6.9 percent, which after subtracting employment taxes, relative price deterioration, and deterioration in the terms of trade, summed to a total of 4 percent sustainable wage increase. This is, of course, according to the EFO model. From 1973-1984, this figure declined by an average of 3 percent so that blue collar, white collar, and

Table 6.5.

Wage Increases in the LO/SAF Area: Contractual Increases and Wage Drift.

Year	Increase	Contractual	Other
1961	8.2	3.9	4.3
1962	9.3	6.7	2.6
1963	7.6	3.6	4.0
1964	7.3	2.4	4.9
1965	8.7	4.2	4.5
1966	8.4	5.3	3.1
1967	8.0	4.0	4.0
1968	7.3	3.9	3.4
1969	8.8	4.6	4.2
1970	10.5	3.2	7.3
1971	9.2	5.7	3.5
1972	11.5	4.5	7.0
1973	8.1	3.8	4.3
1974	10.9	5.4	5.5
1975	18.4	11.7	6.7
1976	10.9	7.4	3.5
1977	9.4	6.2	3.2
1978	5.9	2.8	3.1
1979	7.9	4.2	3.7
1980	10.8	6.0	4.8
1981	9.1	3.2	5.9
1982	5.9	4.1	1.8
1983	6.2	4.5	1.7
1984	9.7	6.7	3.0
1985	7.1	4.1	3.0
1986	7.2	5.0	2.2
1987	6.9	4.0	2.9
1988	7.8	3.4	4.4
1989	10.8	6.6	4.2
1990	9.8	3.7	6.1
1991	6.3	3.0	3.3

Note: The contractual increase shown here is not the central LO/SAF agreement but the bargaining result obtained from the respective collective agreements. According to Bengt Blomqvist, the LO statistician who supplied these figures (originally for Mr Tony Worthington, Selwyn College, Cambridge), the frame agreement between LO and SAF is generally not exceeded in the collective agreements. The column 'other increases' includes not only wage drift but also the effect of reduced working hours and the abolishment of special wages for women. Weekly working hours were reduced, with full wage compensation, from 48 to 45 hours during 1957-60, to 42.5 hours during 1966-68, and to 40 hours from 1971-73. Source: Bengt Blomqvist, LO statistician, Stockholm.

public sector wages had a corridor of about 1 percent.[52] Moreover, while in the golden age LO/SAF wage drift had little secondary impact on the Swedish economy through the compensatory activities of white collar and public sector workers, in the 1970s and the 1980s this increasingly became no longer the case.

Thus public and private sector wages compensation for blue collar wage drift was not economically sustainable so long as the blue collar insiders continued to sustain their previous levels of wage increase. Through rational cooperation, both wage drift and compensation for wage drift might be curtailed in a way which all actors considered pareto-optimal, but this form of foul weather corporatism would have to surmount the lack of institutional mechanisms for rational cooperation between the new actors, monitoring difficulties and insufficient past encounters upon which to base judgements about the gains over time from cooperation. Rational cooperation between the blue collar and public/white collar sectors in determining the sustainable corridor of wage increases plus wage drift in each area had never been achieved before, let alone in foul weather.

The Swedish economy might have supported wage drift in the competitive sector alone, if this was supported by productivity gains, but it could not support similar levels of income increases in the public and white collar sectors. A cooperative redistribution of the available gains would have maximised the potential growth rate of those gains, but instead competitive distributional conflict threatened further reductions in the underlying growth rate. The insiders apparently got more, but in reality were achieving less than they might have.

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[52] Barry P. Bosworth and Robert Z. Lawrence, 'Adjusting to Slower Economic Growth: The Domestic Economy', pp.42-43. The authors performed regression calculations which showed that only 0.5 percent of wage increases could be passed on to prices, without profit margins being squeezed.

It might appear as if the new actors alone are responsible for such failures to adjust costs to the economic shocks, but wage drift created problems not only for the relationship between blue collar and white collar/public sector actors, but also for the determination of low and high pay wages in the LO/SAF area of negotiation. From the early 1960s, the low pay groups in LO protested strongly at the high levels of wage drift enjoyed by the high pay groups, leading to special increases for the low pay in 1966 and 1969. A wave of strikes, including the LKAB iron-miners strike of 1969-70, and strikes in 1970, 1974-75 and 1979, reflected in part a growing challenge on the part of both low and high pay groups to the wage policy of solidarity, which had, depending on your point of view, either been failing to erode differentials or succeeding too much.[53]

In conclusion, the problem of wage drift in the Swedish context does provide evidence for the sort of foul weather dilemmas of cooperation we have hypothesised. In fair weather, wage drift was less of a problem not only because the rate of productivity growth was high but also because the bargaining environment was simpler. But the growth of and lack of centralisation of the new actors also to an extent obscures the degree to which affiliates even in LO tended in foul weather to pursue rational strategies which resulted in a costly collective outcome.

6.4. Decentralisation.

It seems that, in the 1980s at least, the sheer momentum of over 30 years of centralised bargaining continued to keep the Swedish system from decentralising into truly association-level and local bargaining. But there had, nevertheless, been major changes and by the beginning of the 1990s these had begun to add up to momentous proportions.

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[53] James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, pp.205, 206.

Most obviously, SAF, which had led the way in pushing for the centralised model in the 1950s, had again taken the initiative and during the course of the 1980s adopted full decentralisation of pay bargaining as a policy goal. It is possible to argue that VF and employers in the engineering sector exerted disproportionate influence in this respect, since as a central organisation SAF would be expected to have an interest in maintaining its central role in pay negotiations and would oppose the resultant diminution of its power. Certainly, VF, as an association representing almost half of Swedish exporters, exerts more influence than employers in sectors such as sales, hotel and restaurants, clothing, grocery stores and so on, who have continued to support central negotiations.[54] But against this is also the reality that centralised bargaining was becoming increasingly impossible, with unmanageable agreements consisting of hundreds of pages, a profusion of competitive and uncoordinated negotiating cartels, and little success in relating wage outcomes to productivity.

Progress in formalising SAF's new pay bargaining stance was made at the 1987 Congress, where SAF announced a new policy which defined wages as an instrument for supervisors to encourage and reward good work, and not as an instrument of macroeconomic planning.[55] This was aimed more at ruling out central negotiations between SAF and LO as a means of achieving macroeconomic goals than at relinquishing any role for SAF as a coordinator of bargaining among its associates. As we shall see, neither SAF nor LO want to see wage explosions occur through associate level bargaining. SAF's main objective was to remove

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[54] Kristina Ahlen, 'Swedish Collective Bargaining Under Pressure: Inter-Union Rivalry and Incomes Policies', British Journal of Industrial Relations, 27, 3, 1989, p.335.

[55] Kristina Ahlen, 'Swedish Collective Bargaining Under Pressure: Inter-Union Rivalry and Incomes Policies', p.336.

the central level of negotiations (which would hopefully also reduce the strength of LO as a force on the political scene as well as in the industrial arena), since wage increases at that level were always added to by yet further bargaining at associate and local levels. The policy was also designed to encourage the employer associates to take up more bargaining responsibilities, and dovetailed neatly with a long-standing SAF policy with respect to the wage policy of solidarity, which held that:

> 'Pay is the reward for labour, not an instrument of distribution policy'.[56]

Recently, in a formal decision in February 1990, SAF announced it would henceforth take no more part in centralised negotiations, leaving pay bargaining entirely to its affiliated employer associations. This left the two-year period of the Rehnberg agreement (see following chapter) as an opportunity for all the labour market organisations to prepare for March 1993, from when there would be association-level and local bargaining only. For the first time, SAF also made a programme outlining its goals for the 1990s, which entailed the objective of eventually shifting pay bargaining to the enterprise level. Its new role in wage negotiations, which is in the process of evolving, will be primarily as a coordinating body for employers and their associations, providing information and statistics, although in the near future SAF will continue to negotiate at branch level for some of the associations because they lack the personnel and resources to do it for themselves.

In line with these policies, SAF has also taken other measures to redefine its role in the wider policy environment. An important example of this has been its announcement in January 1991 of withdrawal from the vast number of corporatist policy-

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[56] SAF, Swedish Employers' Confederation, Stockholm, Thor and Co, 1991, p.15.

implementation authorities and boards in Sweden.[57] Representation on these boards, of which the most important perhaps is the National Labour Market Board (AMS), had been shared by trade unions and employers as well as political parties, the civil service, and other interest groups. Effectively, however, employer proponents of a more free-market approach were a minority on boards such as the AMS, which had always been a rather powerful instrument in the hands of the Swedish labour movement. On the AMS, for example, the trade unions had seven members and the employers six members on a directorate of sixteen representatives.[58]

Since decisions were consensual, and not by majority voting, SAF found itself in the invidious position of accepting policies on the board which it would then have to protest against, sometimes with the same individual, in another forum. As a SAF spokesman relates: 'In a way we had to work for the government

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[57] The use of the term "corporatist" here is somewhat different to that which we have been using. Here it refers to what Offe calls "the attribution of public status to interest groups". See Claus Offe (John Keane, editor), Disorganised Capitalism, Cambridge, Polity Press, 1985. These boards played a uniquely important and independent role in Sweden's policy implementation. As Bo Rothstein writes: 'Sweden's civil service is not organised as large ministries with a minister at the top. Instead, the ministries are rather small units and function not as implementation agencies but more as policy organisations. The task of implementing government policy is given to semi-independent directorates, National Boards and Agencies, of which there are about 170, which have their own boards and director-generals. The individual ministries have no formal rights to issue specific orders to NBAs'. Bo Rothstein, 'State and Capital in Sweden: The Importance of Corporatist Arrangements', The Study of Power and Democracy in Sweden, Report No. 18, March 1988, p.2. Cited in a draft paper by Goran Ahrne and Wallace Clement, 'A New Regime?: Class Representation Within the Swedish State', 24 February 1992, p.14.

[58] Bo Rothstein, 'State and Capital in Sweden: The Importance of Corporatist Arrangements', *passim*.

more than for our members'.[59] Consequently, SAF argued, the boards were undemocratic. In June 1992 the new Liberal government supported this move by deciding to remove LO and TCO members as well from the boards, leaving the membership open only to "experts", civil servants and MPs.[60]

SAF's redefined role is thus evolving into a form of lobbying organisation, although SAF is quick to point out that Swedish-style lobbying is not like the United States where "pork barrel" politics has an infamous reputation. SAF envisages working through "open channels", writing reports, publishing books and supplying information. It argues that as an organisation it can be more effective using other ways to influence policy than representation on boards such as the AMS, and that it will be free to say what it really wants to say.

LO has also reviewed its own future strategy, and prepared a response to the new employer initiatives. From the point of view of LO, the bargaining environment has irretrievably changed. With the increase in the white collar and public sector bargaining areas, the LO agreement with SAF is much less important to the total wage sum in the Swedish economy. This means it is harder than ever to standardise the wage norm across the wage bargaining field. In this context, LO finds it surprising that SAF continues a policy strategy designed to weaken centralised control of trade unions, both through decentralisation of pay bargaining and the removal of trade union and employer representation on the boards of corporatist institutions such as the AMS.

As LO views the situation, the impact of the newly liberalised capital markets in conjunction with the threat of

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[59] Lars-Goran Redbrandt, SAF Bitr Director, interview, Stockholm, 11 June 1992.

[60] See European Industrial Relations Review, 218, March 1992, p.11, and 221, June 1992, pp.12-13.

unemployment has had the effect of shifting power away from the trade unions and towards the employers. These harsh conditions are having the effect of forcing union pay bargainers to accept virtual market solutions, even without decentralisation. According to LO, the employer argument that there is a power asymmetry in the Swedish labour market caused by too much centralisation is simply no longer true. As a LO economist put it:

> 'They don't understand they are winners. And therefore they are very dangerous to us. If they were wise they would just try to stabilise the situation'.[61]

SAF is aware of the employers' market strength in the current economic climate, and appears to be using the opportunity created by this strength to weaken the Swedish blue collar trade union movement, traditionally the power-base of the Social Democratic movement in the political arena.

To LO, it is somewhat ironic that the employer strategy is apparently forcing the Swedish trade unions to become more opportunistic, more militant, and more "English-like". The question is, however, whether or not in the Swedish context decentralisation implies the development of a wage determination system that is similar to Anglo-Saxon models. LO appears determined that it should not mean this:

> 'People are saying that LO's strengths are being depleted. What they don't see is that we still make very important decisions, and are building up a totally new organisation within the confederation for coordinating branch unions' negotiations... The new

[61] Dan Andersson, LO Economist, interview, Stockholm, 11 June 1992.

situation is that we have totally changed the way we are organised and work'.[62]

The "new LO" (at the time of writing in development), envisages the central federation still functioning to coordinate wage bargaining between affiliates, which are being asked to negotiate in a way which minimises prisoners' dilemmas. Each branch will negotiate directly with its employer counterpart but the overall strategy will be coordinated, so that the other trade union branches are, in fact, informed and aware of the sustainable level of wage increases.

From the point of view of LO, this form of "decentralisation" is actually a more cooperative, and rationalised, form of centralisation. Whereas in the past centralised pay bargaining meant just two or three people from LO were involved in negotiating with SAF, the new "decentralised process" means creating a larger, more representative general staff, as well as new guidelines and strategies that have been arrived at through a longer process of consultation and coordination among branch unions.[63] The general staff is expected to comprise at least eight to ten persons with interlocking sub-groups and the time frame envisaged for the negotiation process has grown from the previous practice of two to three months of consultation (capped off by two to four weeks of intensive negotiations between the leaders of LO and SAF) to a *one and a half year* time frame.

This new process, which is summarised in Figure 6.1, is viewed by LO as being much more democratic and open, and involving a much greater amount of "internal diplomacy" than in

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[62] Dan Andersson, LO Economist, interview, Stockholm, 11 June 1992.

[63] For a discussion of previous central bargaining practices between LO and SAF, see James Fulcher, Labour Movements, Employers, And The State, Oxford, Clarendon Press, 1991, p.198.

Figure 6.1.

The Decentralised LO Bargaining Strategy.

NEGOTIATING CONFERENCES.
(3,000 to 10,000 meetings)

↓

FORMAL INSTITUTE: CENTRAL NEGOTIATION CONFERENCE.

↓

NEGOTIATION GROUP.
(10-15 of strongest negotiators).

the past. Individual affiliates are expected to work on a forward plan for the year ahead, receiving information from LO about the bargaining environment and the activities of other labour market actors. At some stage they will have their own conferences, at which their plans and strategy for the upcoming year will be finalised. These plans will then be forwarded to a centralised conference which will make some final recommendations while the affiliates elect a negotiating group from their strongest local leaders. LO will not be directing this process, instead it is expected that the members of LO will be able to coordinate themselves. As Dan Andersson, an LO senior economist, puts it:

> 'We do not say "do this" *but instead provide a table for people to understand the prisoners' dilemma'*.[64]

As such, the new bargaining strategy constitutes a radical change in the style of organisation and bargaining practice within LO. Interestingly, SAF are also rationalising their own small branch sectors into eight large negotiating groups. As Andersson views these changes:

[64] Dan Andersson, LO Economist, interview, Stockholm, 11 June 1992.

'So now we are enormously much stronger, and much more rationalised, and professional. And SAF is doing the same thing. So from the outside we see that the Swedish system is breaking down but if you look closer you will find that it will survive in another form'.[65]

The significance of these changes must be viewed in the wider context. The LO/SAF bargaining area is no longer the preeminent field of wage determination in the Swedish labour market, and while PTK has indicated that it is likely to adopt a similar mode of organisation and pay bargaining, much still hinges on the capacity of the labour market to produce wage outcomes that are coordinated not just within negotiating cartels but also between them. The underlying problem which has, in a sense, forced the wage bargaining actors to modify their mode of operation remains the problem of how to distribute costs in foul economic weather. It may be that the exigencies of the present economic situation, in particular the pressure of growing unemployment, may force wage outcomes to more closely model market-driven outcomes, in which case the new coordinated bargaining system may succeed in achieving the requisite degree of cost-cutting without counterproductive outbreaks of distributional conflict. But the market will still decree that, for certain groups at particular times, the costs demanded from them will be quite high, and, for other groups, the gains disproportionately high, and it remains to be seen whether the coordination achieved through these new bargaining frameworks will be able to deal successfully with such pressures.[66]

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[65] Dan Andersson, LO Economist, interview, Stockholm, 11 June 1992.

[66] Lei Delsen and Tom van Veen, 'The Swedish Model: Relevant for Other European Countries?', British Journal of Industrial Relations, 30, 1, 1992, p.101.

In any case, LO and the blue collar unions must operate for the moment in a political context which has changed from one of support and payoffs from a SAP government to a context where a liberal government is embarking on policies of cost-cutting which depend to no great extent on the cooperation of labour market actors. The opposition Moderate and Liberal parties united for the 1991 election with a joint economic program which promised to reduce taxes by 10 percent of public income, and reduce public spending which amounted to over 60 percent of GNP.[67] In September 1991, they won the election, and Carl Bildt, the new conservative Prime Minister stated that:

> 'the doctrines of collectivism and socialism have been thrown on the scrapheap of history'.[68]

Conclusion.

In this chapter we have seen a combination of forces acting against rational cooperation in Sweden. Chief among these, the thesis argues, is the impact of foul economic weather. The mixture of external and internal shocks we examined has produced in Sweden conditions which closely resemble our model of cost distribution. It makes sense to say that β has increased.

The problem for rational cooperation in Sweden is focused in many ways on the employment consequences of such a series of foul weather shocks. We have seen that, given the slowdown in output and productivity growth, and given the increase in public sector employment, a classic confrontation has developed between insiders in the private sector and potential outsiders employed in the public sector. With the rise of the other "new actors",

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[67] Robert Taylor, 'The Economic Policies of Sweden's Political Parties', Current Sweden, Svenska Institutet, 383, June 1991, *passim*.

[68] Tony Samstag, 'Sweden seeks new niche in Europe', The Times, November 29, 1991, p.12.

this underlying conflict has been complicated in immeasurable ways.

Thus, in addition to the public sector unions the Swedish centralised system had to deal with private sector unions and their central federations and cartels such as TCO and PTK. None of these actors were encompassing organisations understood in the usual sense of the term. Conditional cooperation was limited to unofficial coordination, with little history of iterations to provide for much institutional memory of the relationship between previous strategy choices and current outcomes.

Given these ingredients, it is not surprising that wage drift became the most visible indicator of the apparent failure of the system to achieve rational cooperation in the distribution of costs. The actors' wage drift demands had not fundamentally changed from the period of fair economic weather, but the economic capacity of the system to support those claims had changed. The actors' strategy choices lagged behind these changes in the bargaining environment.

Finally, the most recent events in Sweden point towards an increasing decentralisation in wage bargaining. It seems, on the basis of the information presented in this chapter, that corporatism in Sweden did break down, both because of the impact of foul weather on gains-based cooperation and because of the impact of the rise of the new actors. But there were also signs that the picture may not be quite so simple: the decentralisation of LO is taking place in what we can only describe as an encompassing framework. LO is trying to get the actors around a table to discuss rational cooperation. Similarly, despite the foul weather shock and the implications for employment, we must remember that unemployment in Sweden has been low throughout this period. We have not, as yet, said very much about how well corporatism performed in Sweden in terms of outcomes. It is time, therefore, to take an empirical look at how well the Swedish

system coped with the combination of changes we have studied here.

CHAPTER SEVEN.

SWEDISH WAGE RESTRAINT: A COMPARATIVE PERSPECTIVE.

'Wage restraint is by now a classical economic argument for corporatism'. *Jukka Pekkarinen.*[1]

It seems only intuitive to accept that an economic crisis should impair cooperation, but the very meaning of cooperation, at least in a game-theoretical sense, entails choosing the best strategy in the long-term, from a collective perspective. Cooperation should still be collectively preferable to non-cooperation, even in foul economic weather. From this perspective, the notion that cooperation should become more *irrational* in foul economic weather is actually suspicious.

This chapter argues that corporatist cooperation was in fact still working relatively well in Sweden in foul weather, at least in its own terms, even if in real terms the Swedish economy faced such constraints that the system did not fully distribute enough costs. Thus, although there were wage booms from the mid-1970s and centralised bargaining broke down in the 1980s, *compared to other OECD countries Sweden overall still has a low real wage rate.*

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[1] Jukka Pekkarinen, 'Corporatism and Economic Performance in Sweden, Norway, and Finland', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn, Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.314.

This, however, was achieved at the cost of high inflation: Sweden's average nominal wage rate is unexpectedly high if we assume that a corporatist country with centralised wage bargaining should function to limit an increase in unit labour costs. It was high in a context, moreover, in which the Swedes enjoyed an already high standard of living, and yet real increases were quite small. High nominal wages were, then, a means of achieving an increasing share of an available income potential which was declining, not only because it was already pushing the frontiers of possible income growth, but because it was actually beginning to decline as a result of a massive structural shift in the Swedish economy.

The Swedish Model, as we saw in Chapter Five, was in fact a fair weather, growth-based corporatist system, with a restrictive fiscal policy, a wage solidarity policy that ruled out low wages, and consequently, produced high inflation. Corporatist cooperation in Sweden was predicated on distributing gains. Whether it could have made the transition to centralised cost distribution in foul weather is something of a moot point, since the breakup of centralised bargaining was achieved anyway by the disruptive arrival of the new, independent central federations which represented thousands of workers in the services and public sectors. But it might still make a transition to a more decentralised and encompassing cost distribution. What evidence is there that the foul weather produced non-cooperative outcomes, insider behaviour, and low pay-high pay conflicts even within the sphere of institutionalised corporatism in Sweden? And what evidence is there that the actors managed to achieve, despite all their problems, cooperative outcomes?

We begin in this chapter with a outline of the performance of the corporatist system and the actors in the 1970s and 1980s and then go on to an empirical examination of comparative wages performance and of Swedish data in isolation. We shall be

concentrating on the manufacturing sector as our primary data source, largely because comparable data on public and service sector employment and wages has not been systematically collected by the major statistical publishing bodies such as the OECD, the IMF, the World Bank and the UN.[2] Manufacturing nonetheless provides us with a workable proxy with which to draw conclusions about the structure of wage restraint and cost-cutting in our data set. The bulk of this section examines the comparative performance of several representative industries over the period 1970-1989 for five OECD economies: the US, the UK, Germany, Sweden and Japan. We take a close look at the 1980s wage performance and examine the implications our findings have, so far, for the rational choice hypotheses developed in Chapters One and Two about cooperation between low and high pay groups in fair and foul economic weather.

7.1. How Effective was the Swedish Response?

Given the depth of the economic challenge, and the seemingly intractable complications of the new bargaining environment and relative increases in wage drift, it might be expected that Swedish corporatism would fail to achieve any sort of outcome that we could characterise as rational cooperation. The academic community seems to be divided among those who focus on the disorganisation of the system and those economic conjunctures

[2] There is data on public sector employment, but little on wages in that sector. With public sector employment, a large part of the difficulty is that legal and institutional definitions of what constitutes a public sector job differ. Traditional national statistics obscure this. Newer definitions look at the function of the job and the source of employment authority rather than the legal definition or relying on national administrative convention, but generating comparable data on this subject is a large research project on its own. See Miceal Ross, Employment In The Public Domain In Recent Decades, Dublin, The Economic And Social Research Institute, 1986; B. Guy Peters, Public Employment In The U.S.: Growth And Change, Number 63, Centre for the Study of Public Policy, University of Strathclyde, 1980.

during which performance appears to be poor and those who stress the degree to which the system has actually made impressive adjustments. The following sections trace briefly the variation in performance of Swedish corporatism in the past two decades, showing that while rational cooperation seems theoretically to be extremely unlikely in foul weather there is paradoxical evidence that the actors responded to the crisis by cooperating *more*.

7.1.1. The 1970s.

When the first shock waves of the world recession began to hit Sweden in the early 1970s the SAP Government struggled to use fiscal policy as an effective counterbalancing instrument. The government attempted to "bridge over" the loss of external demand, but mistimed the policy implementation so that the macroeconomic intervention generated a boom which coincided with a temporary upturn and produced a profits boom. When the recession really did hit following the oil price shocks of 1973 and 1974, the wage determination system was producing high levels of wage drift in response to the previous year's profit boom.

An occasional failure in fiscal management such as this has to be regarded as unavoidable given the difficulty of predicting international economic trends. In terms of rational cooperation this probability adds yet another measure of difficulty to an already strained apparatus. In Sweden, the particularly unfortunate timing of this mistake contributed greatly to the strength of the initial shock wave by generating a surge in unit labour costs relative to OECD competitors at precisely the wrong time. Given what was to come, the huge wage explosion of 1975-1976 can be seen retrospectively as a last grasp (although at the time the negotiators probably did not realise it), by the blue collar, white collar and public sector workers of the declining

growth in the economic pie. In total, including payroll taxes and social charges, hourly labour costs rose by 39.2 percent.[3]

Such a combination of external shock and policy mismanagement made the EFO model practically obsolete even before it had really got started. The EFO model determined the frame for wage increases on the basis of expected wage and price increases abroad, as well as expected productivity improvements in Sweden, but the expectations on both counts proved to be wrong. The EFO model literally had to deliver high pay increases which, with the addition of wage drift and the increasing power of the white collar and public sector unions, proved to be completely unsustainable.

How did Swedish corporatism respond? As the economic crisis unfolded, the Swedish government responded to the decline of industrial sectors such as steel and ship-building by expanding active and passive industrial policy. The SAP government subsidised a large proportion of those industries in the competitive sector which were hardest-hit by the international market changes. It also injected massive amounts into programs designed to aid restructuring.[4] Expenditure on industrial policy programmes, in particular company-specific subsidies, grew from SKr 2.3 billion in 1970 to 15.4 billion in 1979 (1.3 and 4.9 percent of GDP, respectively). For the 1970s as a whole,

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[3] Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', in Peter Gourevitch et al, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, pp.388-294. See also Robert J. Flanagan et al, Unionism, Economic Stabilisation, and Incomes Policies, Washington, D.C., The Brookings Institution, 1983, p.322, who cite that in the period 1973-77 unit labour costs rose by an annual average of more than 15 percent.

[4] Roger Henning, 'Industrial Policy or Employment Policy? Sweden's Response to Unemployment', in Jeremy Richardson and Roger Henning (eds), Unemployment. Policy Responses of Western Democracies, London, Sage, 1984, pp.193-216.

industrial policy programmes amounted to some SKr 75 billion, compared to 50 billion for labour market and employment policy. After 1982, industrial policy support shifted towards the promotion of high-technology sectors in electrical engineering, transport, pharmaceutical, chemicals and mechanical engineering.[5]

The massive public expenditure was expanded during the incumbency of four different non-socialist coalition governments during the period 1976-82. The strategy has been regarded as a paradigm case of successful macroeconomic policy, and even the OECD has admitted it was wrong in making pessimistic forecasts.[6] Shipbuilding endured closures of yards such as Kockums and Uddevalla in the mid-1980s leading to massive reductions in productive capacity and manpower. Similarly, the labour force was

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[5] In this period industrial subsidies were primarily firm-specific rescue operations, three-quarters of which went to the ship building and steel industries. In 1978 and 1979 the ship building subsidies actually exceeded the value-added produced in that industry. Michael Landesmann, 'Industrial Policies and Social Corporatism', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, pp.263-265. See also Bo Carlsson, 'Industrial Subsidies in Sweden: Macroeconomic Effects and an International Comparison', Journal of Industrial Economics, 32, 1983, pp.1-23; Per-Martin Meyerson, Eurosclerosis: The Case of Sweden, Federation of Swedish Industries, Caslon Press AB, 1985, pp.60-61; Robert J. Flanagan et al, Unionism, Economic Stabilisation, and Incomes Policies, Washington, DC., The Brookings Institution, 1983, pp.319-20.

[6] Jim Tomlinson, 'Macroeconomic Management and Industrial Policy', in Paul Hirst and Jonathan Zeitlin, Reversing Industrial Decline? Industrial Structure and Policy in Britain and Her Competitors, Oxford, Berg, 1989, p.256; OECD, Country Study: Sweden, Paris, 1985, 1987; Bob Rowthorn and Andrew Glyn, 'The Diversity of Unemployment Experience Since 1973', in Stephen A. Marglin and Juliet B. Schor (eds), The Golden Age of Capitalism. Reinterpreting the Postwar Experience, Oxford, Clarendon, 1990, pp.252-53; Jukka Pekkarinen, 'Corporatism and Economic Performance in Sweden, Norway, and Finland', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthron, Social Corporatism: A Superior Economic System?, Oxford, Clarendon, 1992, p.311.

shrinking in the steel sector, which eventually merged into just two stainless steel companies: Avesta and Sandvik. The forestry sector was second only to engineering in terms of supplying exports (Sweden was the world's third largest producer of pulp and paper, after the USA and Canada, and was the leading Nordic producer). Rationalisation of the industry from the 1960s halved the number of pulp mills while leaving capacity and production levels high.[7]

Full employment was maintained through active labour market policy.[8] The government actor pinned much of its strategy for reducing costs on a series of devaluations of the Swedish Krona. Devaluations improved the competitiveness of the export-oriented competitive sector by lowering the prices of Swedish exports, but depended on the capacity of the domestic wage determination system to absorb the relative increase in import prices by not fully compensating for the resultant inflationary surge. Three devaluations adding to more than 15 percent were made in the late 1970s. The coalition also increased VAT to restrain domestic demand for imports and pay for the costly anti-unemployment expenditure programs. Increased relative taxation provided a mechanism to secure the measure of wage restraint sought after, with the foregone wages used to pay for active and passive policy measures designed to achieve economic restructuring at maximum employment. To help to restrain wages, the government implemented

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[7] Lloyds Bank, Sweden Economic Report, 1986.

[8] In 1982, Sweden's share of spending on active measures as a proportion of total labour market policy expenditure was 73.9 percent, compared to 35.2 percent for France and 34.1 percent for the FRG. Gunther Schmidt and Bernd Reissert, 'On the Institutional Conditions of Effective Labour Market Policies', in Egon Matzner and Wolfgang Streeck (eds), Beyond Keynesianism, The Socio-Economics of Production and Full Employment, London, Edward Elgar, 1991, p.94.

price restrictions, and to increase profits it eliminated payroll tax.

The trade unions responded to the devaluations by a traditional recourse to "price development guarantees". Price

Table 7.1.

1977: Decrease in Unit Labour Costs.

Wages	5.4%	Inflation Rate	16.3%
Wage Drift	3.3%		
Subtotal	8.7%	VAT + Devaluation	3.5%
		General Payroll Tax	4.0%
Social Charges and Hourly Wage Cost	2.3%		
TOTAL	10.5%	CPI	12.8%
RELATIVE UNIT LABOUR COSTS:	-2.3%		

Source: Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', in Peter Gourevitch et al, Unions and Economic Crisis: Britain, West Germany and Sweden, London, Allen and Unwin, 1984, pp. 300-303.

indexation in Sweden was a practice which predated central wage negotiations. Price development guarantees were applied to the negotiation of contractual wages in 1952, 1957, and 1977-83.[9] It might be expected, then, given all the problems we have discussed that the trade union actors would have engaged in classic insider behaviour. But in fact, looking at Table 7.1, we can see that relative unit labour costs were actually reduced by 2.3 percent in 1977-78. The main explanation for this, despite all of the changes and difficulties we have discussed, was rational cooperation achieved through the wage determination system.

[9] Anders S. Olsson, The Swedish Wage Negotiation System, Uppsala, Uppsala University, 1990, p.63.

Centralised bargaining facilitated the outcome it was designed to achieve: a macroeconomic wage adjustment.[10]

What produced the cooperation of the affiliates? The best explanation would appear to be that the active industrial policies, public sector employment and the centralised framework facilitated a collective response by the affiliates to the evident severity of the wage boom. As indirect support for such an interpretation, the affiliates succeeded only in adjusting wages for the impact of the 1975-76 wage boom, and still had further to go in making adjustments for the deeper, more permanent structural crisis which was afflicting Sweden.[11] But the system clearly did make an adjustment to the foul economic weather, and in cooperating the affiliates were not simply following orders from above. In Sweden the severity of the foul weather shock prompted the actors to respond by cooperating more.

In sum, over the period 1977-1979, average real hourly earnings declined by 7.8 percent, which was just over two thirds of the 11.5 percent increase in real wages produced by the 1975-76 wage boom. The average annual growth of real wages in this period was about 0.75 percent. Part of the improvement was due to

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[10] B. Ryden and V. Bergstrom, 'Sweden in the 1980s: How Gloomy Are The Prospects?', in Bengt Ryden and Villy Bergstrom (eds), Sweden: Choices for Economic and Social Policy in the 1980s, London, Allen and Unwin, 1982, p.8. Rehn and Viklund suggest that one explantion for the success of this partial adjustment was that the higher consumption enabled by the 1976 wage boom appeared rather suddenly and evaporated equally quickly due to inflation, so that wage earners had little time to accustom themselves to the higher rate. Gosta Rehn and Birgir Viklund, 'Changes in the Swedish Model', in Guido Baglioni and Colin Crouch (eds), European Industrial Relations. The Challenge of Flexibility, London, Sage, 1990, p.300.

[11] Evidence for this could be seen in the fact that, in 1979, the central government budget deficit was blowing out at 10.5 percent and the balance of current payments was in deficit by 2.2 percent of GDP. See Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', p.311.

a one-off reduction in general payroll tax by the bourgeois government, which was made just after the unions had finished signing contracts using the old figures.[12]

The response to the wage shock was, however, only short-lived. Despite the evidence for rational cooperation the system was unable to sustain a hold over all of the actors and particularly unable to sustain such foul weather cooperation beyond the short-term response. The "gang of four" public sector cartel administered the *coup de grace* to the old system in 1979-80 by presenting joint demands for 11-13 percent wage increases before LO and SAF had come to any agreement. The LO and TCO public sector unions argued that public sector union members were entitled to at least the same percentage increase in wages that the LO high pay unions were bargaining for, regardless of the fact that these groups based their bargaining on the available room for wage increases in the competitive sector, while productivity gains in the public sector could not justify such an increase. The principle cited was that of fairness and equality. The gang of four also argued that there was no need for the public sector to wait until LO and SAF had finished bargaining before determining their share. SAF, in vain, argued in turn that a real income cut of 2-3 percent was necessary. In fact, SAF argued that growth of public expenditure was one of Sweden's biggest costs, thereby making an outsider of the public sector and enticing private sector unions with the idea of insider wages growth achieved at the expense of public sector growth.

Since the gang of four had preempted the bargaining round with a figure, LO could hardly offer its members any less, especially given the fact that SKAF was by then larger in size than the blue collar Metalworkers. With the union actors all demanding about 11 percent while SAF argued that a real cut of 2

[12] Andrew Martin, 'Trade Unions in Sweden: Strategic Responses to Change and Crisis', pp. 300-303.

to 3 percent was required, the system disintegrated into widespread strikes and lockouts. As Bo Carlsson, a SAF Senior Economist relates: 'After this public sector agreement was signed, there was not much to be done. They had broken the ceiling in the private sector'.[13]

This failure of Swedish corporatism to adjust the corridor of sustainable wage increases in 1979 severely weakened the credibility of centralised wage determination as an instrument of economic adjustment in Sweden. The standoff in the labour markets produced a deadlocked bargaining round, to which the trade union actors responded with escalating industrial action. This grew into a historic strike and lockout in 1980 which affected over 20 percent of the labour force, to which the government capitulated by making an agreement with the public sector unions. SAF had in the end to accept 7.3 percent in the private sector and 6.8 percent in the public sector.

7.1.2. The 1980s.

The Swedish Model had suffered some reverses, but it also had made several important adjustments. The question is how badly the reverses outweighed the gains from those periods in which economic restructuring and wage restraint took place. The public sector had played its hand, so to speak, so that the next decade saw high pay unions in the private sector establishing their independence from centralised bargaining and *de facto* allowing the public sector to redistribute what was left over.

It was Sweden's large export companies which took the initiative to break the ratchet-like linkages between the competitive sector and the public sector by pushing for greater decentralisation. In this process *Verkstadsforeningen* (VF), the

[13] Bo Carlsson, SAF Deputy Director, Senior Economist, interview, Stockholm, 11 June 1992.

Swedish Engineering Employers' Association, one of SAF's four largest affiliate associations, played the vital role.[14]

VF's member companies, such as Volvo, Saab-Scania, Electrolux, LM Eriksson and Asea, enjoyed good profits throughout most of the 1980s, but faced labour shortages and problems in maintaining productivity growth and competitiveness. Ironically, then, the solution for them was to offer higher wages and greater wage differentiation in order to encourage better performance. SAF responded to pressure from VF by changing its statutes in 1982 to allow large companies in the engineering branch to achieve branch level agreements, which then paved the way for local agreements.[15]

In 1983, VF enticed away from PTK the white collar cartel's three founding members in the engineering industry: SIF (the Union of Clerical and Technical Employees in Industry), SALF (the Swedish Union of Foremen and Supervisors), and CF (the Association of Graduate Engineers). From LO it took away the heartland of blue collar unionism in Sweden: Metall. These unions did not adopt the central frame agreement negotiated between LO/PTK and SAF for that year.

The metalworkers and the three white collar unions broke away from the central bargaining frame, fundamentally, in order to pursue their own private rivalry, and to weaken the public sector unions' claims for wage drift guarantees. In 1986 and 1987 public sector automatic wage drift compensation was finally

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[14] For a useful discussion, see Scott Lash, 'The End of Neo-Corporatism?: The Breakdown of Centralised Bargaining in Sweden', British Journal of Industrial Relations, 23, 2, 1985, pp.215-239.

[15] SAF had always been more centralised than LO in the sense that it had the right to approve its members' collective agreements (although it could not impose them). The 1982 changes removed this requirement. James Fulcher, Labour Movements, Employers and the State, Oxford, Clarendon Press, 1991, pp.74, 189, 217-218.

ended.[16] The white collar workers, highly trained and having never adopted the wage policy of solidarity, were simply continuing to improve their relative position by exploiting the evolving structural importance to the modern production process of skilled white collar work. The metalworkers, who had seen even low paid white collar workers overtake them during the past decade, but who were now themselves increasingly highly trained and skilled, were determined to maintain their relative position and break the public sector connection with pay in the private sector. In addition, Metall faced the problem of losing high pay membership to SIF as technological changes created new job definitions. In 1985-86, largely for these reasons, Metall and the Factory Workers' Union formally renounced the wage solidarity principle, and in 1987 LO revised its wage policy to allow for more wage compensation for the 'wrongly paid'.[17]

The engineering sector, where about half of Sweden's 10 biggest companies can be found in areas such as automotive engineering, aerospace, electrical engineering and mechanical engineering, enjoyed the best profits in the mid 1980s. Workers in these plants made the most of high demand for training and expertise. The highly export-orientated chemical sector was also profitable, but employed only about 43,000 people (and produced 8 percent of total manufactured output) in 1985.

The consequences of the initiative by the employers and unions in the engineering sector was of quite some significance

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[16] Peter Swenson, 'Labor and the Limits of the Welfare State', Comparative Politics, 23, 1991, p.386.

[17] Kristina Ahlen, 'Swedish Collective Bargaining Under Pressure: Inter-Union Rivalry and Incomes Policies', British Journal of Industrial Relations, 27, 3, 1989, p.338. Metall's view of the public sector unions in 1986 is illustrated by Metall chairman Leif Blomberg: 'We have a gang of cuckoo chicks in the nest. Now that we've fed them, they're eating up the mother too'. Peter Swenson, 'Labor and the Limits of the Welfare State', Comparative Politics, 23, 1991, cited p.383.

for the distribution of incomes in the Swedish political economy as a whole. The high pay groups were insiders, able to charge a premium for their skill and thus shift the burden of the costs associated with the economic crisis to public sector wages. In this strategy VF, Metall and the government shared a common interest in restraining the public sector. Low pay private sector actors in LO were also, to some extent, able to take the role of insiders in relation to the public sector, since one payoff for LO dispensing with pay drift guarantees was SAF support for extra increases for low pay unions. The actors designated as suitable for bearing the brunt of the cost distribution consisted largely of nurses, nurses' aides, daycare and preschool teachers, and social workers.[18]

The individual rationality of such a successful free-rider strategy constitutes a classic example of the foul weather prisoners' dilemma, which was clearly operating in Sweden with respect to the distribution of costs. Increased wage differentiation, even in the public sector, allowed stronger actors to continue to enjoy gains at the expense of weaker actors. The real question is, however, to what extent this process of unloading costs onto the public sector actually succeeded in making a sufficient adjustment.

Here again the picture of Swedish performance appears to be mixed. Throughout the 1980s, Swedish governments (both bourgeois and SAP) grappled with the mounting series of economic problems. The early devaluation in October 1982, by 16 percent, encouraged profits in the competitive sector, but also encouraged wage drift in an already uncertain environment of high labour costs.[19] The budget deficit climbed to 12 percent of GDP in 1984, and a

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[18] Peter Swenson, 'Labor and the Limits of the Welfare State', Comparative Politics, 23, 1991, p.386.

[19] OECD, Economic Outlook, 33, July 1983, pp.123-24.

general price-freeze which lasted until 1987 was implemented to attempt to halt inflation and wage drift.[20] Swedish foreign debt in 1984 reached 25 percent of GDP with economic policy shifting towards combatting the accumulation of foreign debt and restoring the external balance.[21] In the 1985 and 1988 elections, the SAP lost seats in the *Riksdag*, but stayed in government thanks to the Left Party Communists. In October 1990, however, the economic situation had become so serious that the Minister of Finance ruled out any further devaluations and introduced an economic crisis package which placed inflation at the top of the list, overturning decades of commitment to full employment. The Finance Minister stated that Sweden's taxation, the highest in the world at 56 percent, would have to be reduced in stages. The austerity program included cuts of 15,000 million SKr in government spending to be spread over three years, a 10 percent reduction in public sector employment, reductions in sickness benefits, and partial privatisation.[22]

The wage determination system was in a state of flux in the 1980s. In 1984, for the first time since 1956, there was no central frame agreement and wages were determined at the industry level throughout the bargaining area. The metalworkers union again concluded its own 13-month agreement (for a 6.7 percent nominal wage increase).[23] From 1985 to 1990, different methods of

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[20] OECD, Economic Outlook, 35, July 1984, p.123.

[21] Katri Kosonen, 'Saving and Economic Growth from a Nordic Perspective', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.187.

[22] Europa World Yearbook, 1991, p.2493.

[23] ILO, Social and Labour Bulletin, 1982, ILO Geneva. This was actually less than the 8.9 percent nominal increase agreed between the unions in the food sector affiliated to LO and the Employers' Association of Swedish Food Producers, and the 11.7 percent increase in the chemical sector, one of the biggest LO

wage negotiation were tested with a one-year central frame agreement in 1985, a two-year central frame agreement in 1986-87, no central agreement in 1986, and a two-year central frame agreement which excluded VF in 1989-90.[24] In 1985, fiscal and monetary policy were tight and LO and TCO agreed to aim at a target of 3 percent inflation. This proved impossible to achieve, however, with wage increases clearly above official guidelines and also above increases in Sweden's main competitors.[25] A wage hike in 1986 of about 7 percent in the private sector, and more in the public sector, was luckily cushioned by a fall in the effective exchange rate, but the situation did not improve as Sweden entered the downturn of the late 1980s. In mid-1987 the price freeze was relaxed and firms rushed to compensate for their high costs while wages remained above competitive levels.

The mid-1980s were characterised by a brief lull between the effects of the first wave of the economic shock and the effects of the most recent wave, which began towards the end of the 1980s. The average growth in GDP from 1981-1985 was 1.7 percent, a figure small enough to provoke distributional conflict but still large enough to allow some groups to enjoy rising incomes at the expense of others. In 1985, to choose an example of a year in which the actors made a central agreement, this 1-2 percent GDP growth was produced mostly by the white collar and public sector (sharing 53.7 percent between them), blue collar workers in manufacturing and mining contributed 24.9 percent, and

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fields of agreement. Of course, the percentage increases may be higher while the actual wage rates are lower. These percentages are calculated from figures supplied by Bengt Blomqvist, an LO statistician.

[24] The 1985 agreement was a classical frame agreement similar to those negotiated during the 1952-1982 period. Richard B. Peterson, 'Swedish Collective Bargaining - A Changing Scene', British Journal of Industrial Relations, 25, 1, 1987, p.39.

[25] OECD, Economic Outlook, 39, May 1986, p.141.

the rest was divided among construction, various small groups, and agriculture.[26]

The size of the services share as a proportion of GDP growth compared to manufacturing shows that export income was constituting a falling share of total GDP demand. In 1985, exports produced 35.3 percent of GDP demand, with private consumption making up the bulk at 50.9 percent. Of those exports, 34.1 percent was contributed by manufactured goods, 25.9 percent by machinery, 24.9 percent by raw materials, and 15.8 percent by transport equipment.[27]

During the second half of the 1980s, neither a fully centralised nor a fully decentralised wage determination system could be said to be operating in Sweden. The central agreements which took place were primarily the result of LO always coming to the bargaining table, and with LO able to rely on the SAP government to strongly support the model there was substantial pressure on SAF to take part. But the 1985 central agreement was only a recommendation, and the 1986 one was settled in the context of the murder of Prime Minister Olaf Palme, which brought a greater than usual degree of calm to the negotiations.[28]

Despite the appearance of a progressive breakdown in rational cooperation, however, even in the years where there was no central agreement, wage determination was still a rather centralised process (with the exception of the engineering sector). On the whole, the activities of negotiating groups in each area were coordinated and everybody knew what everybody else did. The employers, for example, considered it important that

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[26] Lloyds Bank, Sweden Economic Report, 1986.

[27] Lloyds Bank, Sweden Economic Report, 1986.

[28] Kristina Ahlen, 'Swedish Collective Bargaining Under Pressure: Inter-Union Rivalry and Incomes Policies', British Journal of Industrial Relations, 27, 3, 1989, p.334.

there was cooperation between branches to determine what was acceptable, and agreements at branch level consequently in many cases weren't that much different to the central agreements. Moreover, although there had always been bargaining at the local level, the local employers still did not stray far from the agreements that were reached by their associations with the unions. Finally, incidents such as in 1984 when BKA, the Swedish Bakery and Confectionary Employers' Association, reached an agreement which was higher than SAF could accept demonstrated that there still remained a real need for coordination to prevent isolated wage explosions.[29]

In sum, then, it would be a mistake to characterise the periods in 1985-1990 where central frame agreements were not consistently reached as periods of uncooperative bargaining and in fact, as we saw in the previous chapter, some care should be taken when one uses the term "decentralisation" to describe possible future bargaining systems between employer and trade union associations as non-cooperative.

As evidence that rational cooperation had not broken down completely in foul weather, the beginning of the 1990s saw the achievement of the most advanced agreement ever in the Swedish labour market, the Rehnberg agreement, which was a unique two-year incomes policy for 1991-92. The agreement was named after Bertil Rehnberg, a former head of the AMS, (the National Labour Board (1973-80)), aged in his 70's, who headed the commission but was not himself a member. The idea was instigated by Alan Larsson, at the time the SAP Finance Minister but also a former head of the AMS. Rehnberg selected four "experts", including former LO chief negotiator H. Fjallstrom and former SAF chief negotiator L.G. Albage, who began by circulating a discussion paper and generating consensus around the search for a special,

[29] Bo Carlsson, SAF Deputy Director, Senior Economist, interview, Stockholm, 11 June 1992.

one-off incomes policy which could give the Swedish economy a boost.

The process was thus typically "Swedish style", with the group submitting its recommendations at the beginning of 1991. The commission proposed a flat rate, nominal wage increase across the entire labour market of 1 percent in the first year and 3 percent in the second, with those who exceeded the 1 percent in the first year having the difference subtracted from the 3 percent in the second. In addition, the government was to reduce income tax so that real income (after tax) increased by a small margin despite the small nominal wage increases.[30]

Negotiations with the affiliate-level trade unions proceeded through 1991 with both LO and TCO supporting the proposal. The main reason for their uncharacteristic and somewhat reluctant support for such an incomes policy was the threat of unemployment. In the case of LO, some of its affiliated trade unions faced up to 15 percent unemployment. It was thus regarded as a necessity by LO that the next wage rounds did not exacerbate the situation. The Rehnberg agreement was also made more palatable because it was strongly supported by the SAP government, while the commission itself was not a government body. TCO, which had stated clearly: "No to a State incomes policy" in its most recent 1990-1993 Programme, made an exception in the case of the Rehnberg proposal because of an economic forecast it made in 1989-90, about the time when the commission was developing its proposal. The forecast predicted, correctly, the slowdown in export growth and the world recession following the Gulf War, and estimated that TCO unions would lose thousands of jobs in the next few years.

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[30] Lois Recascino Wise, 'Whither Solidarity? Transitions in Swedish Public-Sector Pay Policy', British Journal of Industrial Relations, 31, 1, 1993, pp.81-82.

Since it normally takes a long time before market forces and unemployment press down wages, LO and TCO accepted the Rehnberg proposal because it enabled them to get the adjustment in wages at one time and in a much shorter period. PTK and SACO-SR had little influence over their affiliates and publicly opposed the idea. PTK, for example, had no discussion at all with the commission, and was consequently castigated publicly by the Swedish media and politicians. The public sector unions came under strong political pressure to go along with the government. SAF reluctantly accepted the extra two years of centralisation, under heavy political pressure, but only as an extraordinary and one-off measure. All the SAF associations accepted the commission's proposals.

The process of gaining the cooperation of the individual Swedish unions in the private sector was long and laborious and would make an interesting case study. Some unions were virtually directed to agree, others only agreed after long negotiations. With the added weight of SAP political pressure, a large number (approximately 100) of individual agreements were organised by about 15 to 20 major trade union affiliates. The negotiations continued throughout most of 1991 with only a small number of agreements failing to be reached. Within the white collar sector, for example, SIF (the clerical workers), HTF (the commercial salaried employees) and CF (the graduate engineers) could not accept the limitation of their bargaining rights, and in the blue collar area the transport unions also stayed out.

The Rehnberg agreement was a hybrid of decentralisation and centralisation. Once it had been accepted by the organisations in the Swedish labour market there was no need for LO and SAF to sit down and negotiate, it was then up to the lower level actors to implement it. The outcome was, surprisingly to some commentators who had predicted failure, a success. Nominal wage increases in 1991 came down from 10 percent to a little over 5 percent, with

3 percent expected for 1992. The real increases were estimated at 2.5 percent in 1991 and 1 percent in 1992, which was an even better performance than that recommended by the commission. But although there was a temptation on the part of the central trade union actors to ascribe the success of this incomes policy to the system of central bargaining, the reality was more that the deteriorating labour market situation was so bad, in Swedish terms, that wage increases would have been low anyway. As a SAF economist put it:

> 'I don't doubt that this Rehnberg agreement had importance and contributed to this development, but the fact that facilitated this change was of course the changed labour market situation'.[31]

And as a TCO economist put it:

> 'Maybe they [the economists] were right: unemployment and labour market conditions would have brought wages growth down anyway'.[32]

The Rehnberg agreement was a unique expression of the foul weather corporatist strategy of coordinating wages growth through a mixture of encompassing strategy and decentralised implementation. Unlike the 1950s and 1960s, agreement was reached through a comprehensive bargaining process that closely involved affiliates. It was designed to give <u>everybody</u> the same nominal increase, thus avoiding the prisoners' dilemma of inflationary leap-frogging in wage settlements, but clearly it would be impossible to continue such an artificial, flat-rate standardisation of nominal wages for more than a short period. The Rehnberg agreement was a one-off solution based around a

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[31] Bo Carlsson, SAF Senior Economist, interview, Stockholm, 11 June 1992.

[32] Roland Spant, TCO Senior Economist, interview, Stockholm, 10 June 1992.

simplified across-the-board increase, but it did indicate that the actors were interested in finding a cooperative solution.

To sum up the discussion of Swedish corporatism in the 1970s and 1980s in foul weather, we can see a somewhat mixed picture. On the one hand, over the period 1977-1984 Swedish workers accepted wage restraint which amounted to more than 10 percent, largely through increased direct taxation designed to maintain job preservation in the public sector.[33] On the other hand, the relative costs of maintaining employment spreading and achieving wage restraint appear to have increased, with the breakout of blue collar workers in the engineering sector in particular illustrating the sort of problems that we have hypothesised. In an important sense, corporatism in Sweden has performed well but not well enough given the depth of the foul economic weather, which is an indirect result of the dependence of the system on distributing gains and not real costs. The actors have shown a greater propensity to respond with restraint to immediate, short-term shocks such as the wage boom in the mid-1970s and the Rehnberg response to the threat of unemployment in the 1990s, than they have to the more long term problems of responding to the foul weather.

7.2. Cross-National Comparison of Wage Restraint.

The remainder of this chapter consists of an empirical comparison of Swedish performance in relation to four countries representing each of Lehner's categorisations of the degree of corporatism. These are the US (Pluralism), the UK (Weak Corporatism), the FRG (Medium Corporatism) and Japan

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[33] Andrew Glyn and Bob Rowthorn, 'West European Unemployment: Corporatism and Structural Change', The American Economic Review, 78, 1, 1988, p.198; see also Jukka Pekkarinen, 'Corporatism and Economic Performance in Sweden, Norway and Finland', in Jukka Pekkarinen, Matti Pohjola and Bob Rowthorn, Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.314.

(Concordance). In addition, where data is available a number of other countries are included for comparison.

The research design aims to answer the following questions: first, how efficient is nominal and real wage performance in comparative terms? Second, how significant is the problem of wage drift? Third, how significant is the problem of the new actors? Fourth, how efficient is employment performance in comparative terms?

In order to attempt to answer these questions, we examine wages trends in two manufacturing sectors representative of low and high pay groups respectively: the Swedish Clothing and Steel sectors, and examine inflation, unemployment and wages trends using a larger group of countries with the Food, Beverages and Tobacco industry (henceforth referred to as FBT), and the Chemical industry.[34] Most of the data covers the 1970s and the 1980s which models a period of foul weather.

It might be thought that by using the FBT and Chemical industries as proxies for low and high-pay groups respectively across different countries, and by using measures of average wages, we are in grave danger of making unsustainable assumptions about comparability. In actual fact, as Krueger and Summers write:

> 'The pattern of inter-industry wage differentials appears to be one of the most pervasive regularities generated by capitalist economies... The wage structure is amazingly parallel in looking at data for different countries or different eras, and it appears very similar for workers of

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[34] In looking at wage restraint time series in two manufacturing industries, especially in relation to unemployment, we have to be cognizant of the fact that manufacturing itself has been in a process of deindustrialisation in virtually all of our data set since the 1960s. See R.E. Rowthorn and J.R. Wells, Deindustrialisation and Foreign Trade, Cambridge, Cambridge University Press, 1987; R. Martin and R.E. Rowthorn, The Geography of De-Industrialisation, London, Macmillan, 1986.

different ages, sex, degrees of skill, and in different occupations'.[35]

Our methodological approach will be, of necessity, limited by the data we have at our disposal. The main source is OECD Industrial Structure Statistics, various volumes, which give us data on employment, and wages and salaries, in these two industries, and OECD Historical Statistics, various volumes (for data and further information, see the Appendix). For Sweden we use wage data provided by the Swedish Trade Union Confederation (LO).

There are unavoidable difficulties associated with using pay data. Pay surveys are almost always based on a sampling method, which means that the representativeness of the sample individuals and periods can be a problem. This probably affects our data to a certain extent. If we were trying to compare the average earnings for two similar individuals in each industry, we would run up against the difficulty of not knowing to what extent their income in the sample period was affected by overtime or bonus work. We would also need to know occupational grade, age, length of service and the size of the establishment in question.[36] We won't do this precisely because of these requirements.

Instead, we will look at differences in average earnings within the two industries taken as a whole. Such differences in average earnings between the FBT and Chemical industries will reflect in part the fact that more young workers, women and

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[35] Alan B. Krueger and Lawrence H. Summers, 'Reflections on the Inter-Industry Wage Structure', in K. Lang and J. S. Leonard, Unemployment and the Structure of Labor Markets, Oxford, Basil Blackwell, 1987, p.17.

[36] See David Marsden and Lydia Redlbacher, Eurostat: A guide To Current Sources Of Wage Statistics In The European Community, Luxembourg, Office for Official Publications of the European Communities, 1984.

unskilled workers are employed in the FBT than in the Chemical industry. They will also reflect differences in establishment size, profits and capital-intensity. This could be a problem if we were trying to compare the earnings of a similarly qualified person in the two industries, but we are not. We are precisely interested in the fact that the FBT workers are, on the whole, young, female, unskilled and hence are paid less than their older, skilled male co-workers in the Chemical industry.

7.2.1. Nominal and Real Wages.

How has foul economic weather influenced Swedish wages outcomes in the low pay and high pay sectors? While the "real wage gap" (the gap between growth of labour costs and growth of labour productivity) rose following the first oil shock, it actually decreased in most capitalist economies, including Sweden, after 1979.[37]

According to our theoretical work, the cooperative, gains-based strategy undertaken in corporatist countries such as Sweden would be expected to come under severe pressure in foul economic weather. High and low pay groups would become tempted to free-ride and pass costs on. Two empirical questions are raised here: first, if the FBT industry is indeed a low-pay industry, does it bear more of the brunt of wage restraint in non-corporatist countries (UK, USA) than it does in the corporatist countries (FRG, Sweden, Japan)? Second, is there evidence to suggest that the low pay actors in Sweden, our example of a foul weather corporatist country, have faced increasing non-cooperation by high pay actors determined to maintain real gains?

In Figure 7.1 we can see the nominal average hourly manufacturing wage for the US, the UK, the FRG, Sweden and Japan

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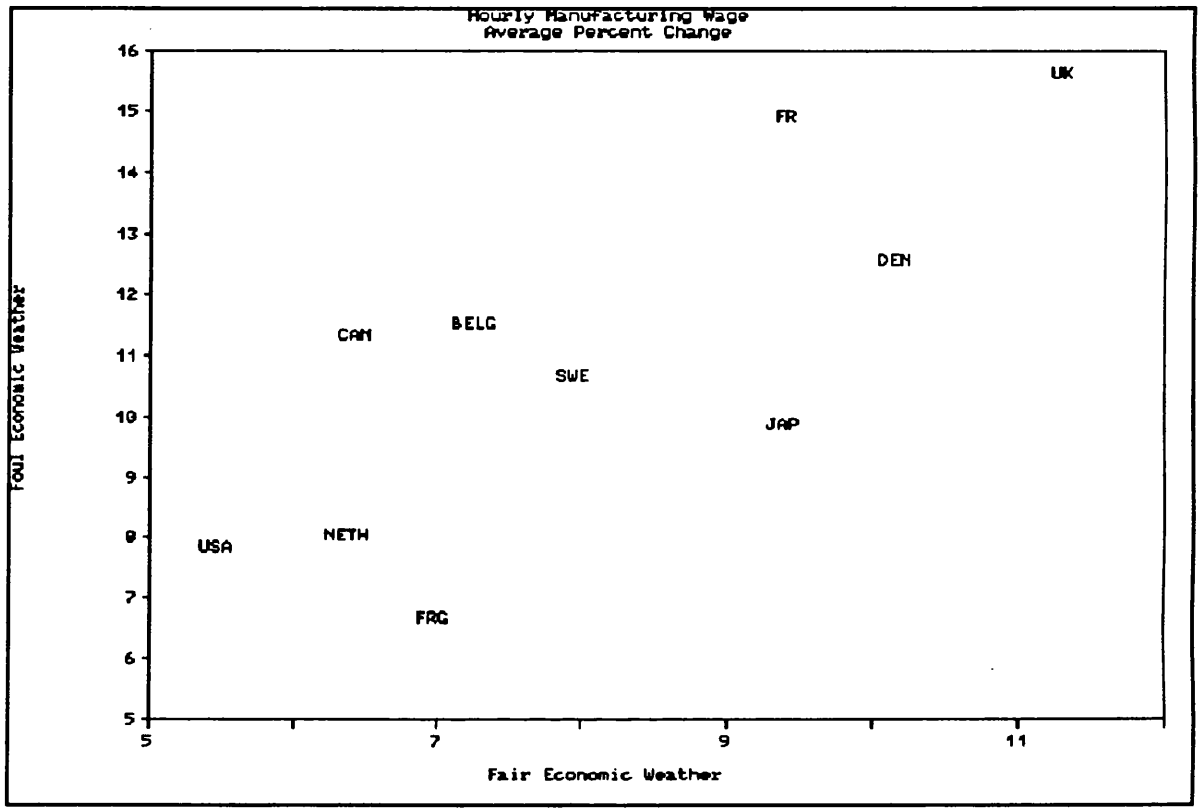
[37] Wouter van Ginneken, 'Wage Policies in Industrialised Market Economies from 1971 to 1986. Between Controls and Free Bargaining', International Labour Review, 126, 4, 1987, pp.380-81.

with the addition of several control countries. We can see that Sweden's nominal wage was not at all unusually low, being higher than the US, the FRG and the Netherlands in both fair and foul economic weather. Yet in Figure 7.2 Sweden's average real wage

FIGURE 7.1.

Nominal Manufacturing Wage in Fair and Foul Weather.

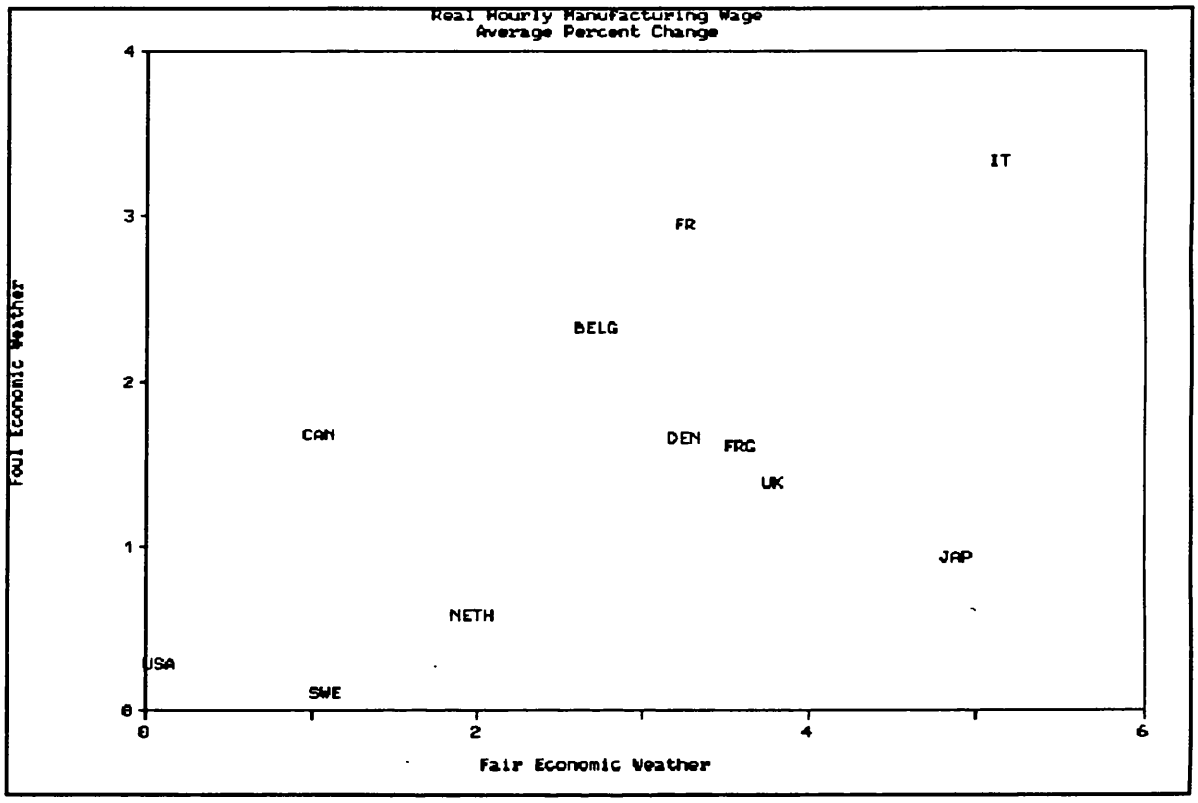


Source: OECD Economic Outlook, Historical Statistics 1960-89, Paris 1991, and various issues.

manufacturing is seen to be the lowest of all the countries in foul economic weather. We know, given Sweden's nominal wage performance, that high inflation is the cause of this low real wage growth but it still remains intriguing that the Swedish corporatist model succeeded in restraining real wage growth in

FIGURE 7.2.

Real Manufacturing Wage in Fair and Foul Weather.



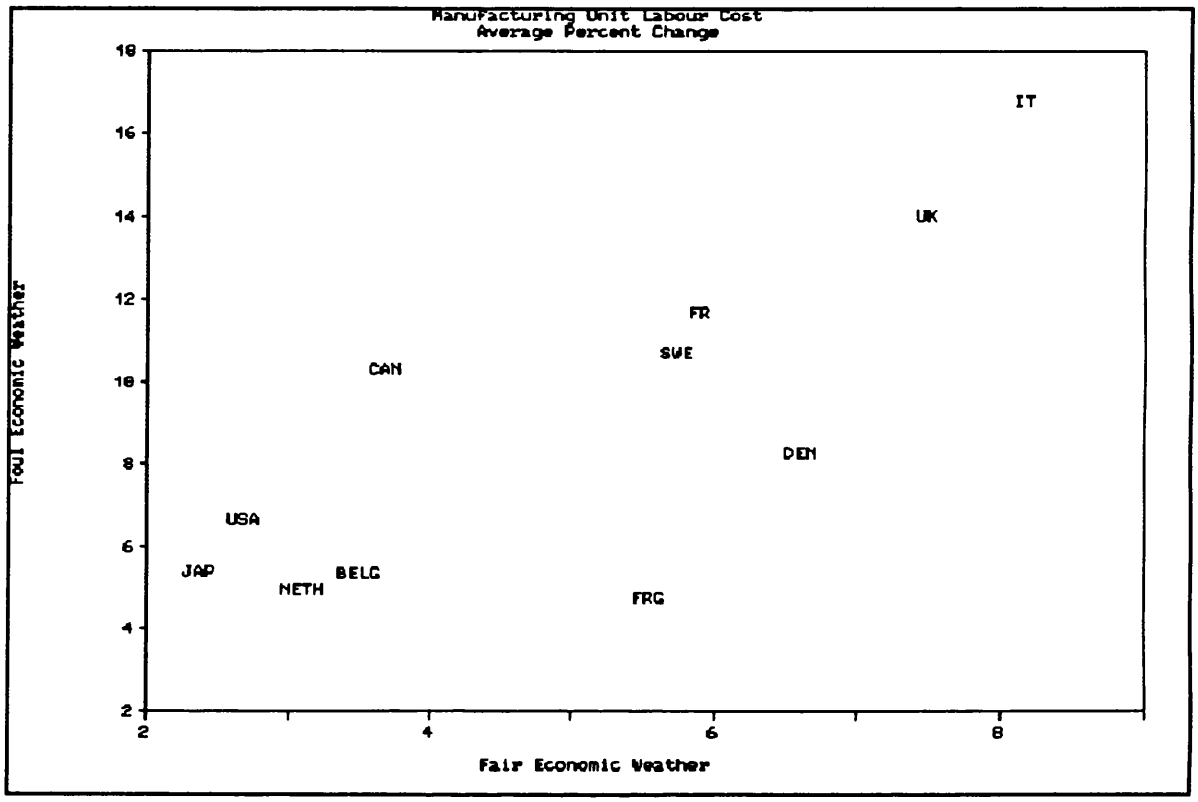
Source: OECD Economic Outlook, Historical Statistics 1960-89, Paris 1991, and various issues.

this way. At this level of achievement, the corporatist system stands unique in the entire data set.

The hidden weakness of such a high nominal rate is that it is passed on to prices and has the effect of increasing unit labour costs. In Figure 7.3 we can see that Sweden is clearly not

FIGURE 7.3.

Unit Labour Costs in Fair and Foul Weather.



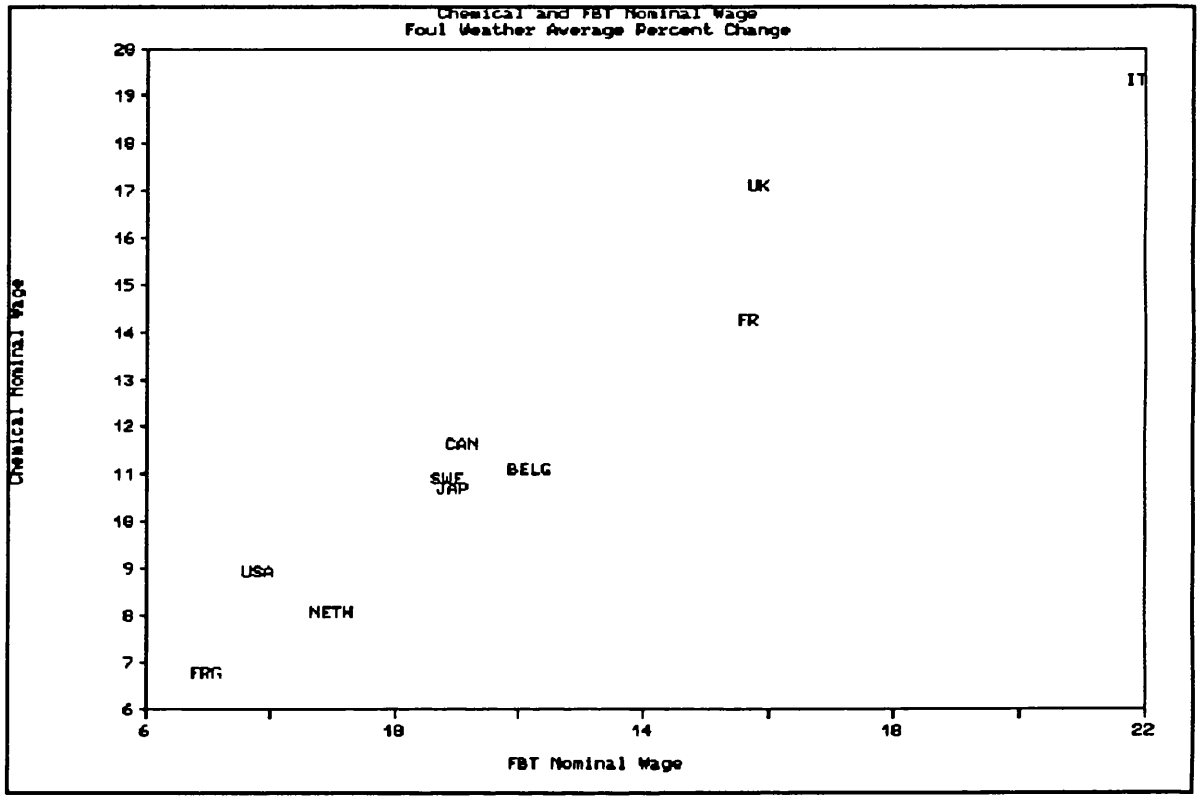
Source: OECD Economic Outlook, Historical Statistics 1960-89, Paris 1991, and various issues.

among the best performers in either fair or foul economic weather. Only the FRG succeeds in holding unit labour costs low, every other country suffers an increase in foul weather and Sweden is no exception.

What evidence is there that low and high pay groups in manufacturing in Sweden found it more difficult to maintain cooperation in the distribution of costs in foul economic weather? Figures 7.4 and 7.5 show that, for the FBT and Chemical industries, both nominal wages growth and real wages growth show only the slightest sign of departing from the diagonal line of

FIGURE 7.4.

Nominal Wages Growth: FBT and Chemical Industries.

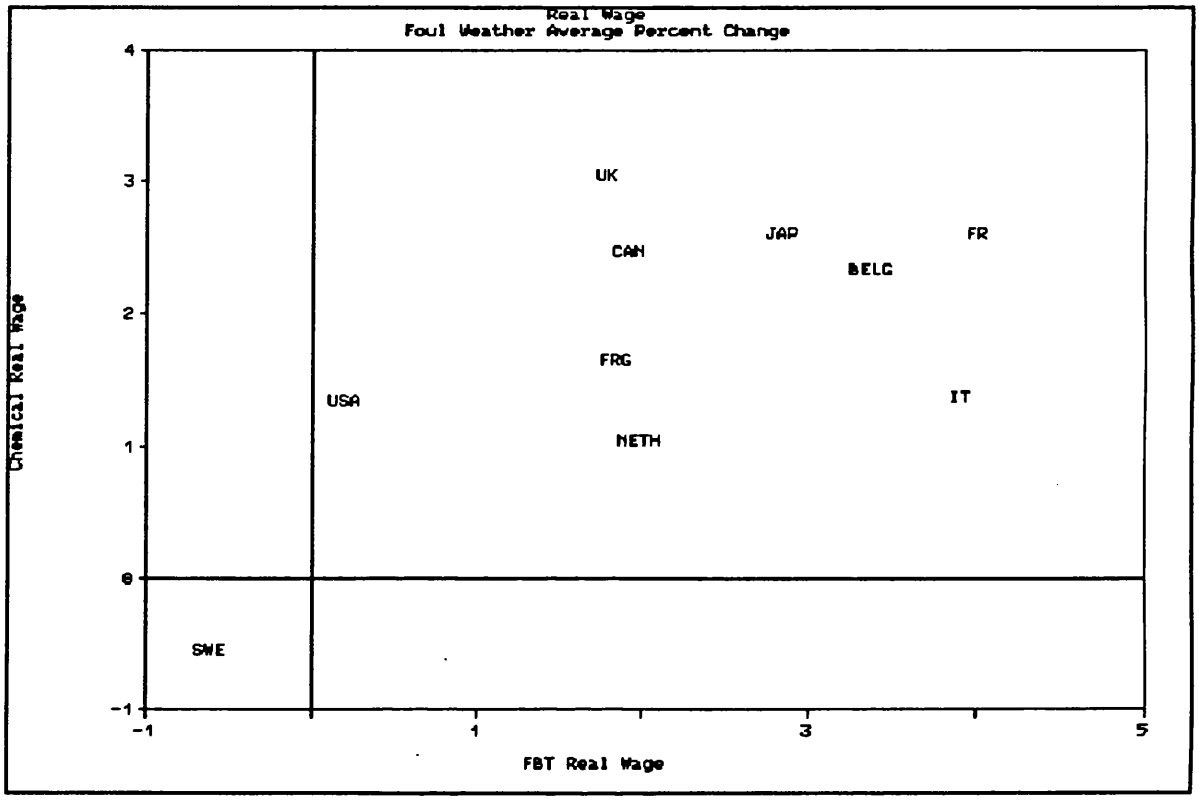


Source: OECD Economic Outlook, Historical Statistics 1960-89, Paris 1991, and various issues.

equality between the two groups. In both cases Sweden is moreover among the best performers in our data set. The performance of the US, UK and Canada support our expectation that in the non-corporatist countries the low pay groups bear relatively more of the burden of wage restraint. Figures 7.6 and 7.7 show that in the transition to foul weather both the FBT and Chemical workers in Sweden exercised a similar degree of real wage restraint. A look at the real wage percent change for the Swedish Clothing and

FIGURE 7.5.

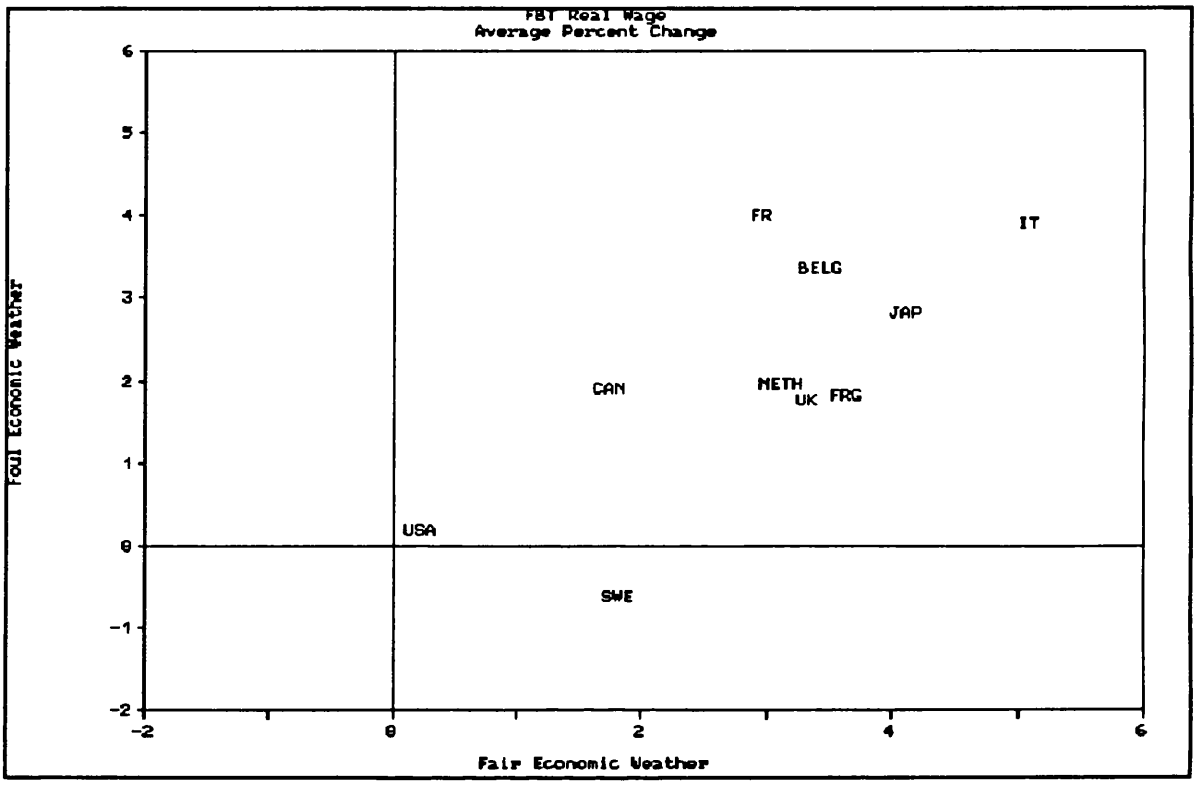
Real Wages Growth: FBT and Chemical Industries.



Source: OECD Economic Outlook, Historical Statistics 1960-89, Paris 1991, and various issues.

FIGURE 7.6.

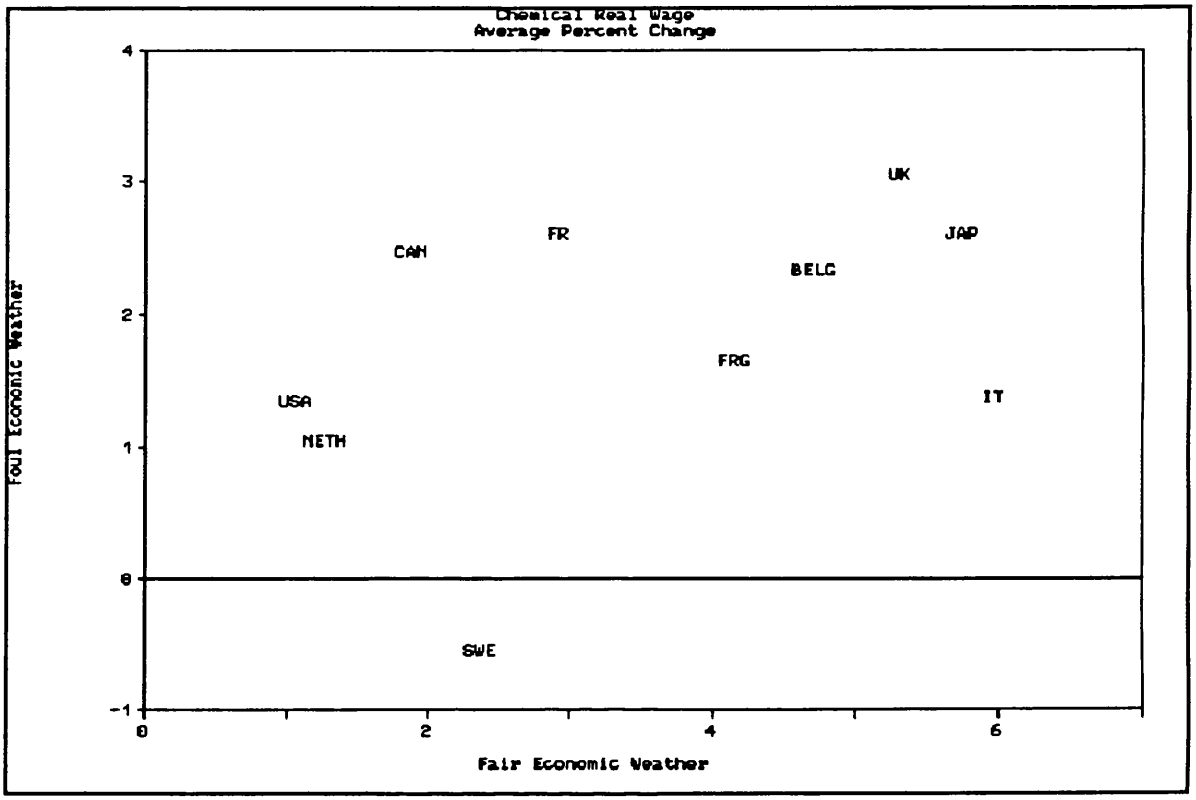
FBT Industry Wages in Fair and Foul Weather.



Source: OECD Economic Outlook, Historical Statistics 1960-89, Paris 1991, and various issues.

FIGURE 7.7.

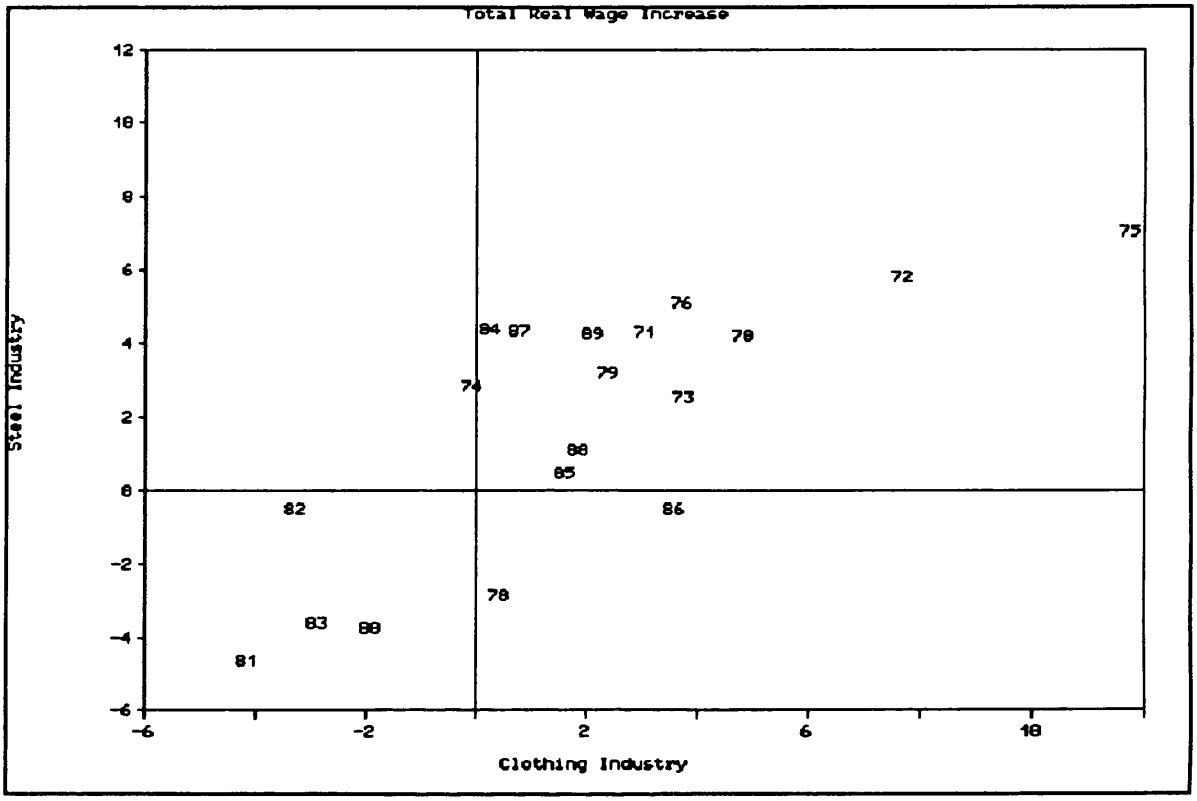
Chemical Industry Wages in Fair and Foul Weather.



Source: OECD Economic Outlook, Historical Statistics 1960-89, Paris 1991, and various issues.

FIGURE 7.8.

Real Wages In Sweden: Steel and Clothing Industries.



Source: Data supplied by Bengt Blomqvist, LO Research Statistician. See Appendix for information and data.

Steel industries in Figure 7.8. reveals if anything greater restraint on the part of the Steel Works industry.

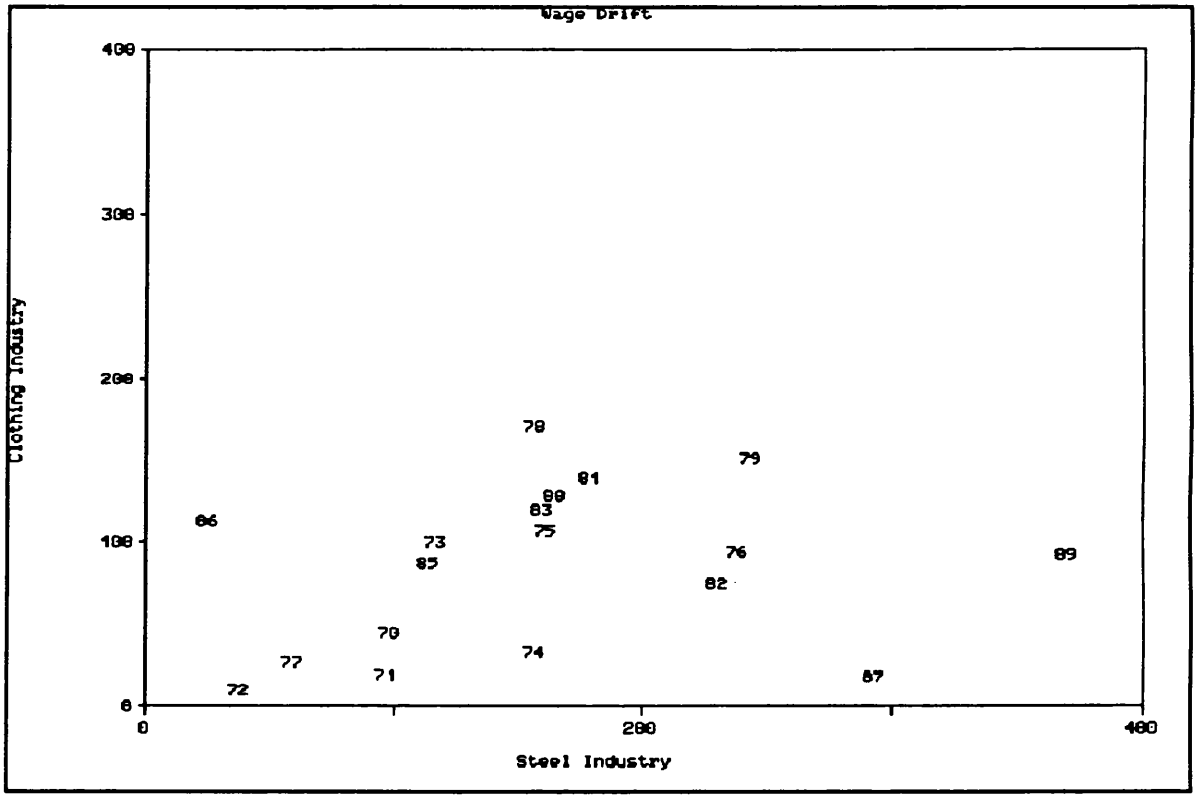
What we have to remember with these figures is that they refer to percent changes and not absolute figures. We know that the clothing industry is a low pay union and the steel industry is a high pay union, therefore we can assume that the two similar sized percent values served to maintain wage differentiation at a growing rate. A flat-rate increase would lead to a narrowing of differentials over time, but percentage increases inevitably favour the high pay groups.

7.2.2. Wage Drift and Contractual Increases.

One clear indication that high pay groups were breaking away from cooperation in an effort to sustain some sort of real increase given Sweden's high inflation rate would be the level of wage drift, or local increases negotiated outside of and in addition to centrally bargained agreements.

FIGURE 7.9.

Wage Drift in Sweden: Steel and Clothing Industries.

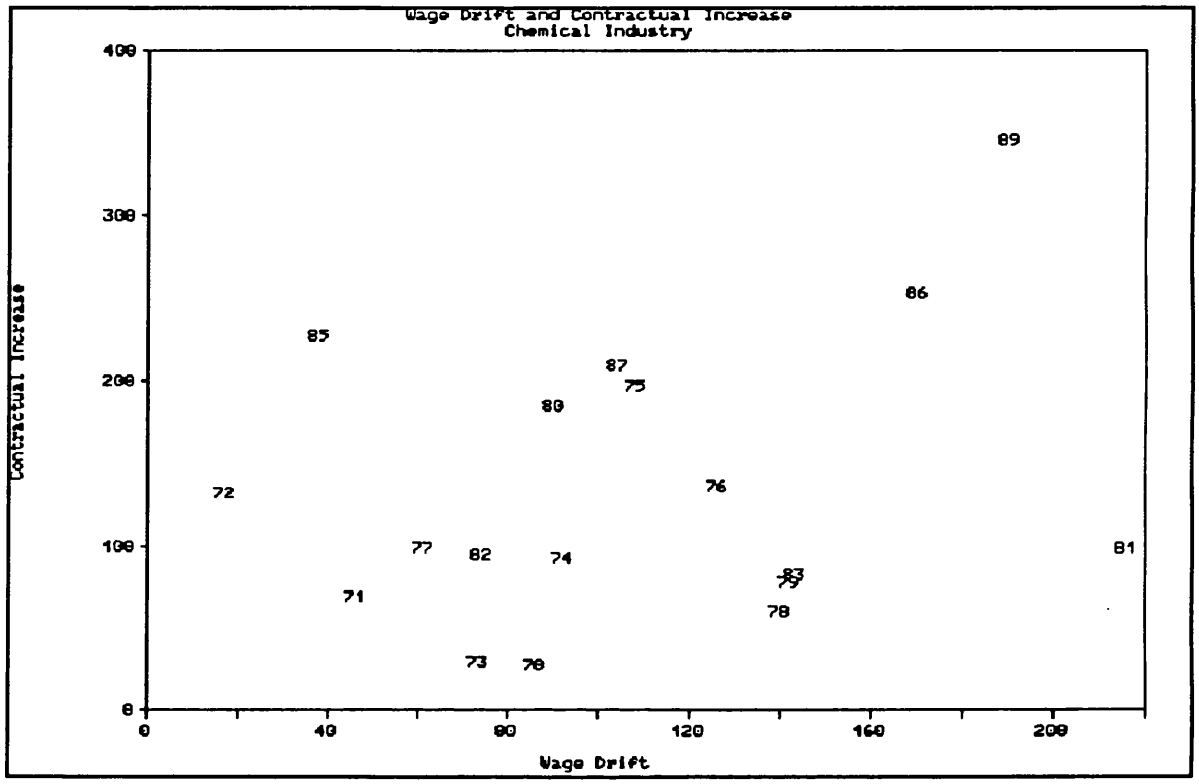


Source: Data supplied by Bengt Blomqvist, LO Research Statistician.

Figure 7.9 shows that wage drift was on the whole greater for the Steel Industry than for the Clothing Industry in Sweden in the 1970s and 1980s. Figure 7.10 is interesting because it shows the relation between wage drift and contractual increases for Chemical Industry wages. We would expect to see high wage

FIGURE 7.10.

Wage Drift and Contractual Increases: Chemical Industry.



Source: Data supplied by Bengt Blomqvist, LO Research Statistician.

drift associated with low contractual increases and vice-versa. The picture at first looks a little more complicated than that.

To help understand the significance of these values Table 7.2 provides a yearly breakdown and scaling of "the effectiveness of centralised cooperation". This is a composite measure which is based on the data itself, which makes it wholly inadequate as a measure of centralisation viewed alone, since this individually is not highly correlated with wages growth rates, but which

Table 7.2.

Swedish Wages Performance.

Year	Scale	Heuristic Interpretation
1970	1	strikes
1971-1973	0	centralised system operating "as normal"
1974-1976	1	wage blowout, strikes
1977	0	restraint, price-development guarantees, reduction in unit-labour costs
1978-1979	1.5	high inflation and low real increases
1980	1	large strike,
1981	1	"Gang of Four"
1982	0	devaluation
1983	1.5	VF entices away TCO, LO,
1984	1.5	no central agreement (estimated)
1985	0	central frame agreement
1986	2	no central frame agreement
1987	1	price freeze
1988	1	price freeze (estimated)
1989	2	weak central frame agreement (excluding VF)

NOTE: The scale given here correlates strongly with real wage percent changes over the same period, and provides an indirect measure of the strength of rational cooperation. The interpretations on the right hand side are events which are suggested to have a causal influence on these outcomes.

certainly reflects the data.[38] The fact that the composite measure reflects the data raises the possibility of providing a heuristic explanation, which we offer on the right-hand side of Table 7.2.

Returning now to Figure 7.10, we can see that in 1972 and 1985, when two central agreements were in place, contractual increases were relatively high, while wage drift was kept the lowest. As time progresses, it seems that a higher contractual increase is necessary to hold down wage drift. It appears that inflation and the wage blowout of the mid-1970s shifted this curve outwards. The key years here appear to be 1975 (wage blowout), 1980 (large strike), 1986, 1987 and 1989 (no central frame agreement). In all of these years both contractual and wage drift increases were relatively high, taking time into account.

In 1970, 1971 and 1973, contractual increases seem low and wage drift high compared to 1972, which provides some support for the view that the system was not "functioning" well but we must remember that this was at a lower rate of inflation. Overall, the years that seem most impressive are 1985, in terms of low wage drift, and 1982.

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[38] It is extremely difficult to make a meaningful comparative measure of central bargaining since in some cases even enterprise-level bargaining can be construed (e.g., Japan) as being geared towards achieving collective wage outcomes with the same intentionality as central bargaining. In other cases, the existence of central negotiations in any given year does not necessarily indicate the intentionality of the negotiations to achieve their expected effect. A hypothesis that simply links the existence of central bargaining with the achievement of collective cooperation or wage restraint misses the point. As van Ginneken writes: 'The critical issue is, therefore, probably not so much the existence or absence of central negotiations or consultations, but the way they are carried out'. Wouter van Ginneken, 'Wage Policies in Industrialised Market Economies from 1971 to 1986. Between Controls and Free Bargaining', International Labour Review, 126, 4, 1987, p.399.

7 - Swedish Wage Restraint: A Comparative Perspective

Reviewing the evidence so far, it seems that contractual, centralised agreements succeeded in reducing wage drift at a cost: namely by allowing the wage drift element to be incorporated into the contractual agreement. This worked in fair weather, when the contractual increases plus wage drift found a low enough equilibrium. But in foul weather the pressure on the contractual element increased and with it wage drift increased to the point where competitive pressures on the Swedish economy were no longer being effectively managed by the corporatist system of cooperation.

7.2.3. Wage Breakouts.

Can we say that this pressure increased solely because of the addition of the new actors? Our argument is that, given enough fair economic weather, such a development may not have been catastrophic, and that, given foul weather, even without the new additions and their influence on the bargaining table, the blowouts would be equally as likely to occur.

The clearest support for this lies in the fact that it was the high pay groups in LO which had been the traditional high pay actors and who eventually led the way in breaking out, as they became caught up to and in cases overtaken by the white collar unions in the engineering and service sectors and the public sector.[39] In the period 1970 to 1976, private sector wages were higher (98 percent) than in the public sector (75 percent). This was reversed in the period 1976 to 1979, when public sector wages increased by 39 percent and private sector wages by 31 percent.

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[39] During the period 1970-76 wage increases were higher in the private sector (98 percent) than in the public sector (75 percent). In the following three years the public sector reversed this relationship, with a 39 percent increase compared to a 31 percent increase in the private sector. From 1979 the private sector has regained a "slight relative advantage". Wouter van Ginneken, 'Wage Policies in Industrialised Market Economies from 1971 to 1986', International Labour Review, 126, 4, 1987, p.396.

Table 7.3.

Comparative Wages Performance in Sweden.

	Steel and PTK	Steel and Clothing
1970	S	E
1971	S	E
1972	S	E
1973	S	E
1974	S	S
1975	E	E
1976	S	S
1977	NA	E
1978	S	C
1979	S	S
1980	E	C
1981	E	E
1982	S	S
1983	PTK	E
1984	S	S
1985	E	E
1986	PTK	C
1987	S	S
1988	E	C
1989	E	S

S = Steel Industry
C = Clothing Industry
PTK = White Collar workers
E = Equality

Letter displayed indicates whether percentage increase for that year was equal for both groups or which group had the largest increase.

Source: Data supplied by Bengt Blomqvist, LO Research Statistician. See Appendix.

After 1979, the private sector again gained a slight advantage.[40] We can illustrate these trends by looking at data for the Steel, Clothing, and PTK/SAF wage percent changes. Table 7.3 arrays the performance for these groups and identifies three possible types: E for Equality (where the percentage increase is roughly equal), PTK as an indicator of the greater performance of a new actor (for the white collar federation PTK), C for the greater performance of the Clothing workers and S for the Steel workers in LO.

Table 7.3 indicates, at least, that prior to the advent of PTK as a serious bargaining force in the late 1970s and 1980s, the Steel Industry workers were a high pay group that also enjoyed the highest real increases. The 1975 blowout and the 1980/1981 "Gang of Four" episodes imply strenuous efforts by PTK to catch up, at least by matching the real wage increases of the Steel workers. From 1982 to 1987 PTK and Steel appear to alternate in terms of having the largest real percent increase with greater frequency, with PTK establishing a more competitive real wage rate. Similarly, with respect to the low and high pay groups Clothing and Steel, equality is broken by Steel alone during the period 1970 to 1977. In 1975, both the low and high pay groups take part in the blowout with equality. Only in 1978, 1980 and 1986 does Clothing outperform Steel. Overall, it seems that the high pay group was fighting to maintain some sort of differential in real wage increases and the low pay group responded by fighting for equality or better. This interpretation, however, should be backed up by a more in-depth case-study of these Swedish industries.

In sum, however, looking at this data alone the evidence is so far rather weak for the breakout by high pay groups in a corporatist country in foul weather. Wage differentiation between

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[40] ILO, World Labour Report. Incomes from Work: Between Equity and Efficiency, Geneva, ILO, 1987, p.144.

low and high pay groups in Sweden is comparatively low and real wage restraint comparatively high. Drawing strong conclusions on the basis of the yearly percentage wage increase achieved by the Steel industry in relation to the Clothing industry and PTK is not warrented, since the percentage differences in any case are quite small. Another possibility exists, however, which is that the insiders in this case are not so much the high pay groups alone as the entire private sector. The costs would then be passed onto the public sector in the form of an increased share in the responsibility for maintaining employment growth. We have already seen the Sweden is very highly taxed and has a very large public sector and public sector employment component. The competitiveness index performance moreover suggests that changes in α and β may have been rendering the private sector wages performance relatively less efficient by definition.

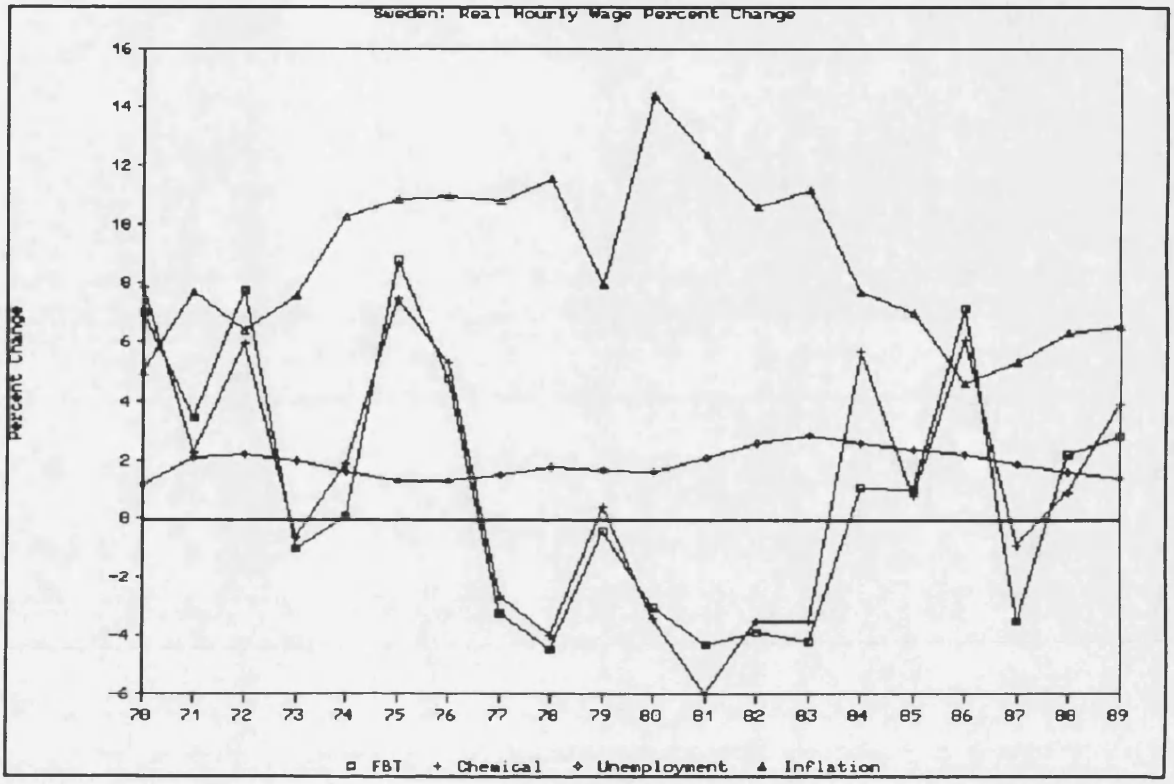
From this perspective, it may be that the data do indeed indicate a relative breakout of the type that our theoretical model predicts. The next step, therefore, is to look more closely at wages performance and employment performance, in order to determine to what degree costs are being passed on to outsiders even in a corporatist context.

7.2.4. Wages and Employment.

Figure 7.11. shows us inflation and general unemployment performance as well as the percent change in the average hourly wage rate for the FBT and Chemical industries in Sweden. This wage rate has been corrected for inflation, so that it represents the real wage change for these two industries. Unemployment shows little change and seems not to be affected by wages developments at all. Unemployment is, of course, subject to a unique public policy strategy in Sweden, so that we should expect workers forced out of firms which could not sustain costs to be employed in either the public sector or employment/training programmes.

Figure 7.11.

Sweden: Wages, Inflation, Unemployment, 1970-1989.



Source: OECD Economic Outlook, Paris, 47, June 1990, See Appendix.

Thus the consequences in terms of low and high pay groups failing to achieve an efficient equilibrium, or the consequences of relatively higher values for τ and K given changes in α and β, would be seen not only in an increased tendency for high pay groups to break out but also in mounting difficulties for Sweden in maintaining such low unemployment. Overall, the picture is of cyclical behaviour: continued restraint marked by occasional breakouts, but not enough restraint to lead to a marked reduction in inflation.

Running some simple Pearson correlations in Table 7.4. shows that it is the USA and Sweden which have the closest

Table 7.4. The Relationship Between Nominal and Real Wages in the FBT and Chemical Sectors, and Inflation and Unemployment, 1970-1989, in Five Countries.

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
USA										
Corr. Coef.	**0.93**	**0.81**	**0.71**	**0.83**	**-0.09**	**-0.34**	**0.03**	**0.35**	**0.04**	**0.47**
Stand. Err.	*0.03*	*0.08*	*0.11*	*0.07*	*0.22*	*0.20*	*0.22*	*0.20*	*0.22*	*0.17*
1-Tail Test.	*.000*	*.000*	*.000*	*.000*	*.350*	*.074*	*.448*	*.063*	*.428*	*.063*
UK										
Corr. Coef.	**0.80**	**0.86**	**0.68**	**0.59**	**-0.20**	**-0.10**	**-0.52**	**-0.54**	**-0.05**	**-0.21**
Stand. Err.	*0.08*	*0.06*	*0.12*	*0.15*	*0.21*	*0.22*	*0.16*	*0.16*	*0.22*	*0.17*
1-Tail Test.	*.000*	*.000*	*.000*	*.003*	*.197*	*.341*	*.010*	*.007*	*.419*	*.185*
FRG										
Corr. Coef.	**0.84**	**0.72**	**0.46**	**0.82**	**0.13**	**-0.04**	**-0.91**	**-0.76**	**-0.62**	**-0.45**
Stand. Err.	*0.07*	*0.11*	*0.18*	*0.07*	*0.22*	*0.22*	*0.04*	*0.09*	*0.14*	*0.18*
1-Tail Test.	*.000*	*.000*	*.021*	*.000*	*.292*	*.434*	*.000*	*.000*	*.002*	*.024*
SWE										
Corr. Coef.	**0.91**	**0.13**	**0.09**	**0.94**	**-0.51**	**-0.57**	**-0.41**	**-0.40**	**-0.34**	**-0.32**
Stand. Err.	*0.04*	*0.22*	*0.22*	*0.03*	*0.17*	*0.15*	*0.19*	*0.19*	*0.20*	*0.20*
1-Tail Test.	*.000*	*.290*	*.346*	*.000*	*.011*	*.004*	*.037*	*.038*	*.072*	*.088*
JAP										
Corr. Coef.	**0.89**	**0.90**	**0.85**	**0.62**	**0.46**	**0.32**	**-0.82**	**-0.83**	**-0.70**	**-0.64**
Stand. Err.	*0.04*	*0.04*	*0.06*	*0.14*	*0.18*	*0.20*	*0.07*	*0.07*	*0.11*	*0.13*
1-Tail Test.	*.000*	*.000*	*.000*	*.002*	*.021*	*.081*	*.000*	*.000*	*.000*	*.001*

1. = FBT NOMINAL WAGE and CHEMICAL NOMINAL WAGE
2. = FBT NOMINAL WAGE and INFLATION
3. = CHEMICAL NOMINAL WAGE and INFLATION
4. = FBT REAL WAGE and CHEMICAL REAL WAGE
5. = FBT REAL WAGE and INFLATION
6. = CHEMICAL REAL WAGE and INFLATION
7. = FBT NOMINAL WAGE and UNEMPLOYMENT
8. = CHEMICAL NOMINAL WAGE and UNEMPLOYMENT
9. = FBT REAL WAGE and UNEMPLOYMENT
10. = CHEMICAL REAL WAGE and UNEMPLOYMENT

NOTES: FBT = Food Beverages and Tobacco Industry
CHEMICAL = Chemical Industry

Significance Test: at 5 Percent Level = 0.45
N = 20 at 1 Percent Level = 0.56

Source: OECD, Industrial Structure Statistics, Paris, various volumes.
OECD, Historical Statistics, Paris, various volumes.

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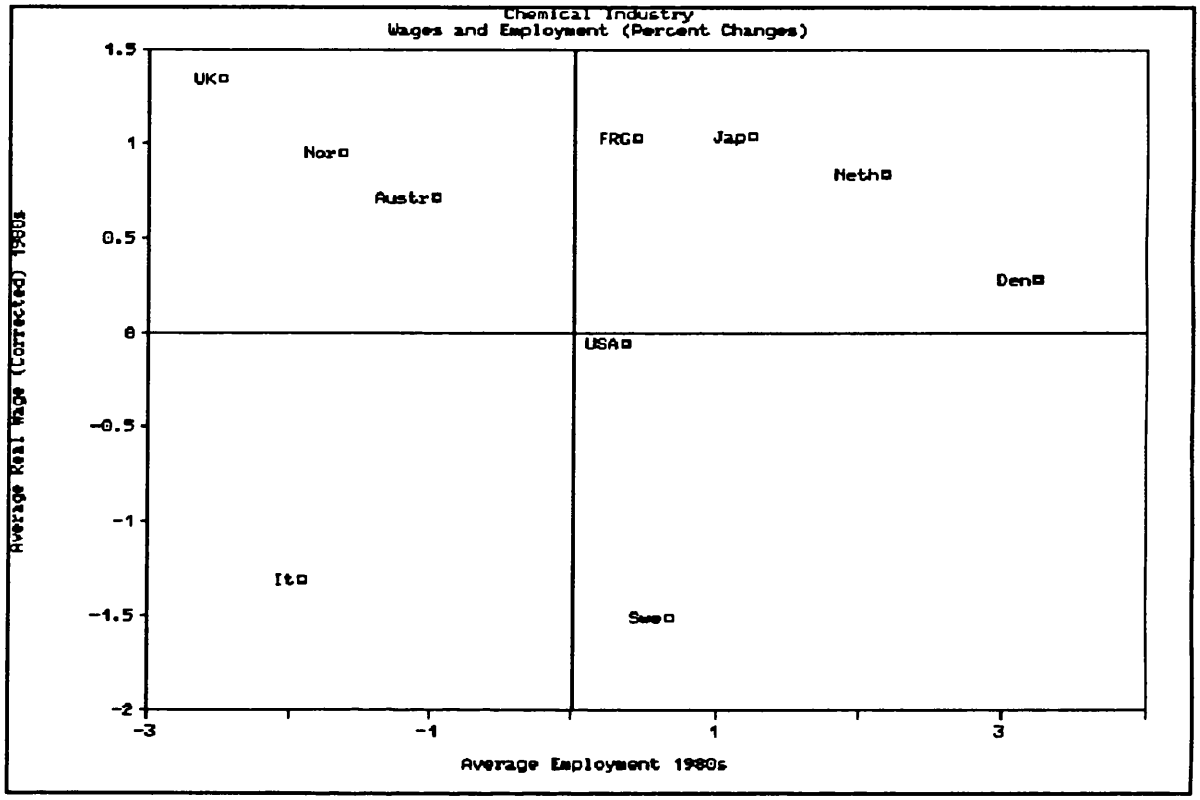
relationship, (0.93) and (0.91) respectively, between changes in low and high-pay nominal hourly wage rates in our sample of countries. In terms of the real wage the strongest correlation is Sweden with (-0.51). Since Sweden has also the weakest correlation for the nominal wage and inflation in both industries, (0.13) and (0.09) respectively, and the strongest correlation between real wages and inflation in both industries, (-0.51) and (-0.57) respectively, this indicates that the Swedish trade unions' exceptionally low responsiveness to its high inflation rate is largely responsible for the negative correlation with the real wage.

In Sweden, unemployment has had little influence on real wages growth because it has remained virtually constant at low levels. To check further the influence of unemployment on wage changes, regressions were run for Sweden using lagged unemployment measures (in view of the fact that wages may respond more to the previous year's unemployment), and using measures of employment growth. No relation of any significance was visible.

Although both real and nominal wages are only weakly and negatively correlated with unemployment in Sweden, we must bear in mind that unemployment in Sweden has not risen significantly. It is therefore not possible to draw any general conclusion about the corporatist cost distribution in foul weather, in Sweden, from the relationship between wages and general unemployment. On the whole, Swedish data show what we would expect from a corporatist country. On the face of it, Sweden still outperforms the other countries in terms of its low real wage rate and low unemployment, but we know that the first masks relatively high unit labour costs and inflation and the second is masked by the influence of a high level of taxation and public spending. In foul economic weather, both these factors cannot be ignored for very long before the difficulties in sustaining such low unemployment reach a critical level.

Figure 7.12.

Real Wages and Employment in The Swedish Chemical Industry.



Source: OECD, Industrial Structure Statistics, Paris, various volumes. See Appendix.

Perhaps employment changes in a particular industry are more closely correlated with wage developments than are general employment trends. To test this, we can see in Figure 7.12. a graph showing the average employment percent change in the period 1980-1987 for the Chemical industry, and the average real wage percent change (minus inflation) per employed person in that industry.[41]

[41] The measures used here for average wages and employment were calculated using OECD, Industrial Structure Statistics, various volumes. The average wage for each employed person (hence, average wage "corrected" for employment) is derived by

There are two rival hypotheses concerning employment changes in an industry and wage changes: first, it might be the case that a loss of employment equals a reduction in union bargaining strength, in which case we would expect to see employment loss being associated with wage restraint; second, it might be the case that a loss of employment simply allows those workers remaining employed to sustain wage increases not otherwise possible. We should, in that case, expect to be able to see whether or not loss of employment in the Chemical industry has been traded for higher real wages.

What we see in fact is evidence for the second hypothesis, but not in the case of Sweden. The UK, Norway and Austria all shed labour in the chemical industry over the 1980s and yet they still had a increase in real wages. In the FRG, Japan, the Netherlands and Denmark, we see the best of both worlds: an increase in employment in the Chemical industry and positive changes in real wages. Italy is the only country in which a loss of employment is associated with a reduction in real wages, but since Italy's real wage is so largely determined by a huge inflation rate, we have to treat this result carefully. Sweden is the only country in which there is an employment gain and wage restraint, which weakly supports the generalisation that more jobs have been traded for less wages in that country.

We can test these interpretations further by looking at the relationship between the total wage percent change minus inflation for the Chemical industry and employment changes. Figure 7.13. shows the expected relationship: the more people employed in the industry the larger the total real wage. The two countries which are outliers are Sweden and Italy. Only Sweden posted an increase in employment while showing a fall in the total wage, a possible indication of jobs traded for wages.

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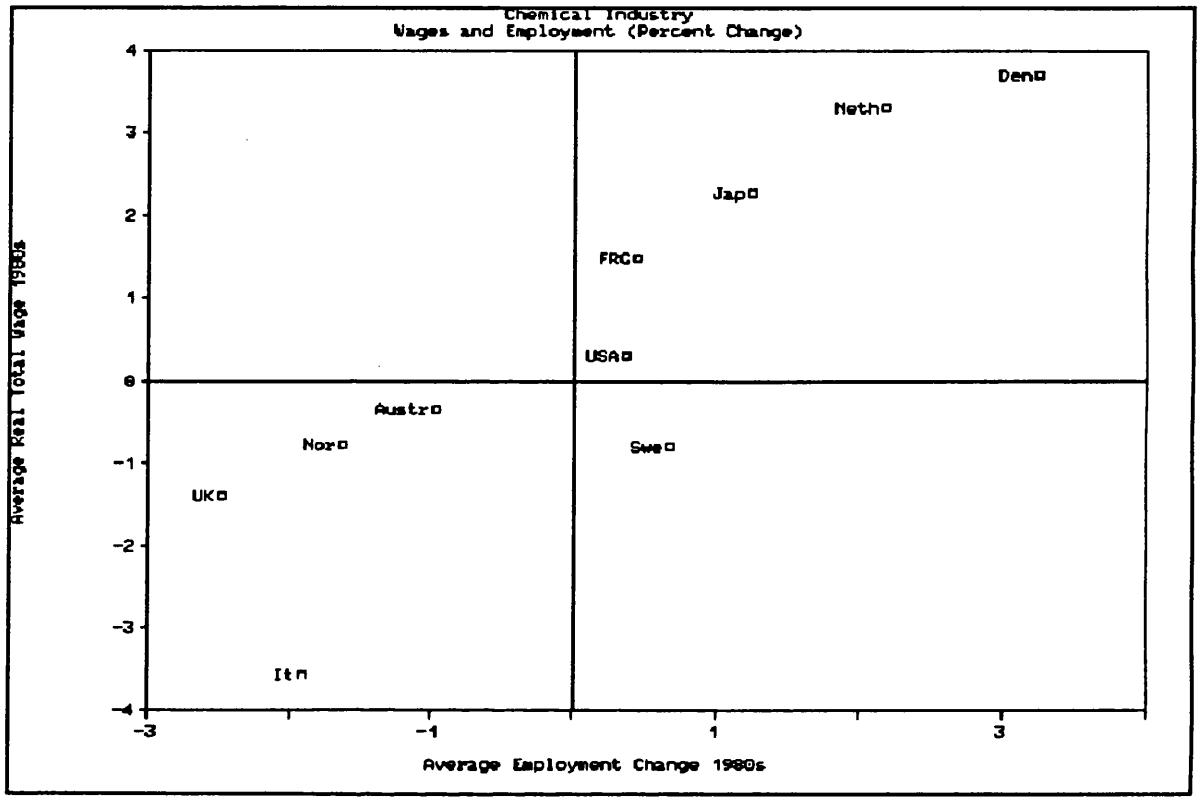
dividing the total wage by total employment in each industry for each year.

Figure 7.13.

Total Wages and Employment in the Swedish Chemical Industry.



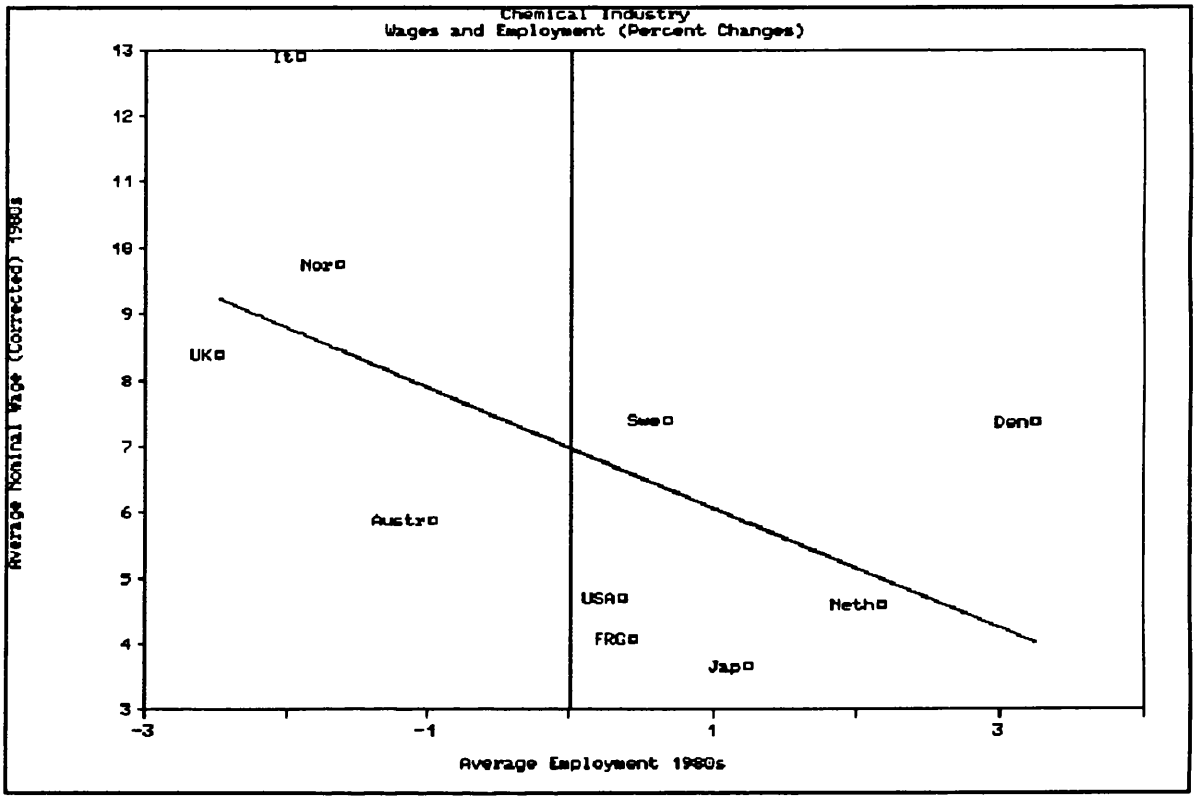
Source: OECD, Industrial Structure Statistics, Paris, various volumes. See Appendix.

Interestingly, there is no country in the upper left corner of the graph: that is, no country clearly traded jobs for an increase in the total real wage. Yet we have seen that several countries have traded jobs for an increase in the average real wage. What this implies is that the loss of employment has made the industry better able to sustain higher average real wages precisely because the employment loss has been enough, despite the increase in average real wages, to enable a fall in the total real wage.

Those countries which shed jobs in the Chemical industry managed to reduce their total real wage bill, so that if output

Figure 7.14.

Nominal Wages and Employment in the Swedish Chemical Industry.



Source: OECD, Industrial Structure Statistics, Paris, various volumes. See Appendix.

and productivity remained the same or improved those workers remaining employed were able to sustain an increase in their average real wage. In Figure 7.14., we can see a reasonably clear relationship between the nominal wage and employment in the chemical industry. Looking at the graphs in this way enables us to interpret correlation coefficients for the FBT and Chemical industries and employment changes in each industry respectively. Table 7.5. shows that the country which posts the strongest negative correlation between wages and employment is Japan. Examination of the data shows that the correlation is heavily

Table 7.5. The Relationship Between Nominal and Real Wages (Corrected for Employment) in Three Sectors, and Inflation and Sectoral Employment, 1981-1989, in Five Countries.

	1.	2.	3.	4.	5.	6.	7.	8.	9.
USA									
Corr. Coef.	-0.46	-0.60	-0.25	0.46	0.24	0.63	0.76	0.42	0.18
Stand. Err.	0.30	0.24	0.35	0.30	0.36	0.23	0.16	0.31	0.37
1-Tail Test.	.027	.022	.262	.015	.005	.422	.242	.277	.262
UK									
Corr. Coef.	-0.89	-0.89	-0.52	0.46	0.53	0.87	0.59	0.61	0.91
Stand. Err.	0.09	0.08	0.30	0.32	0.29	0.10	0.27	0.25	0.08
1-Tail Test.	.006	.008	.031	.011	.003	.009	.011	.017	.031
FRG									
Corr. Coef.	-0.69	-0.53	0.47	0.75	0.79	0.64	0.61	0.88	-0.14
Stand. Err.	0.20	0.27	0.29	0.17	0.14	0.22	0.24	0.09	0.37
1-Tail Test.	.011	.027	.045	.012	.001	.102	.130	.026	.045
SWE									
Corr. Coef.	-0.43	-0.16	-0.02	0.58	0.56	0.61	0.21	0.38	0.43
Stand. Err.	0.31	0.37	0.38	0.25	0.26	0.24	0.36	0.32	0.31
1-Tail Test.	.244	.241	.016	.233	.189	.032	.015	.016	.016
JAP									
Corr. Coef.	-0.95	-0.89	-0.89	-0.90	-0.86	-0.82	0.25	0.58	0.26
Stand. Err.	0.04	0.08	0.09	0.08	0.10	0.13	0.38	0.27	0.38
1-Tail Test.	.082	.085	.012	.096	.247	.042	.082	.013	.012

1. = FBT WAGE CORRECTED for EMPLOYMENT and FBT EMPLOYMENT
2. = CHEMICAL WAGE CORRECTED for EMPLOYMENT and CHEMICAL EMPLOYMENT
3. = FMP WAGE CORRECTED for EMPLOYMENT and FMP EMPLOYMENT
4. = FBT REAL WAGE CORRECTED for EMPLOYMENT and FBT EMPLOYMENT
5. = CHEMICAL REAL WAGE CORRECTED for EMPLOYMENT and CHEMICAL EMPLOYMENT
6. = FMP WAGE CORRECTED for EMPLOYMENT and FMP EMPLOYMENT
7. = FBT WAGE CORRECTED for EMPLOYMENT and INFLATION
8. = CHEMICAL WAGE CORRECTED for EMPLOYMENT and INFLATION
9. = FMP WAGE CORRECTED for EMPLOYMENT and INFLATION

Table 7.5. (Continued) The Relationship Between Nominal and Real Wages (Corrected for Employment) in Three Sectors, and Inflation and Sectoral Unemployment, 1981-1989, in Five Countries.

	10.	11.	12
USA			
Corr. Coef.	-0.33	-0.72	-0.71
Stand. Err.	0.34	0.18	0.18
1-Tail Test.	.276	.409	.422
UK			
Corr. Coef.	-0.85	-0.62	-0.42
Stand. Err.	0.11	0.25	0.34
1-Tail Test.	.028	.009	.009
FRG			
Corr. Coef.	-0.73	-0.73	0.89
Stand. Err.	0.17	0.18	0.08
1-Tail Test.	.042	.128	.102
SWE			
Corr. Coef.	-0.81	-0.76	-0.93
Stand. Err.	0.13	0.16	0.05
1-Tail Test.	.017	.025	.032
JAP			
Corr. Coef.	0.11	0.36	0.09
Stand. Err.	0.40	0.36	0.40
1-Tail Test.	.014	.073	.042

10. = FBT REAL WAGE CORRECTED for EMPLOYMENT and INFLATION
11. = CHEMICAL REAL WAGE CORRECTED for EMPLOYMENT and INFLATION
12. = FMP WAGE CORRECTED for EMPLOYMENT and INFLATION

NOTES: *N = 7 (US, FRG, SWE)*
N = 6 (UK, JAP)

FBT = Food, Beverages and Tobacco Industry
CHEMICAL = Chemical Industry
FMP = Fabricated Metal Products Industry

Significance Test: at 5 Percent Level = 0.94 (US, FRG, SWE)
1.02 (UK, JAP)
at 1 Percent Level = 0.76 (US, FRG, SWE)
0.82 (UK, JAP)

Source: OECD, Industrial Structure Statistics, Paris, various volumes.
OECD, Historical Statistics, Paris, various volumes.

influenced by two outliers: 1983, in which a negative change in wages was associated with a positive change in employment, and 1984, in which big gains in wages appear to be at the expense of a large loss of employment. The UK, which is the country in which employment fell the most in all three sectors, also posts some strong correlations. The reason for this is because wage increases occurred at the same time as large employment loss. If we take sectoral employment changes to be a proxy for membership changes, this seems to strengthen the view that in non-corporatist Britain, insiders are maximising wages at the expense of outsiders.

In Sweden, employment loss had actually been converted into growth by the middle of the 1980s in both industries, and we see again a positive correlation between the improvement in the real wage from its quite deep restraint in the early 1980s, and employment. In summary, we see a strong relationship between wage restraint and employment growth or sustainability in our three examples of corporatist wage determination: the FRG, Sweden and Japan. In the USA and the UK we see more evidence, particularly in the UK, of employment loss being exploited to sustain real wage improvements.

The correlations between nominal and real wages and inflation support, broadly, the results we obtained from the other data set. Sweden's nominal wage responsiveness to inflation does not seem strong, and its real wage responsiveness to inflation seems to be high in comparison to the other countries. If anything, the Steel workers in the FMP (Fabricated Metal products) sector appears to have posted the highest negative correlation between the real wage and inflation. The correlations confirm the general picture: Sweden is a country that has been characterised in the 1980s by a comparatively high level of wage restraint and employment protection.

Conclusion.

This chapter has attempted to assess the recent performance of Swedish corporatism in the light of our hypothesis that rational cooperation breaks down in foul weather. It must be concluded that there is both evidence and counter-evidence for this proposition. The evidence consists in the behaviour of the traditional high pay groups or insiders, such as the unions in the engineering sector, in relation to the outsiders who are typically the public sector workers. Despite the complication of the rise of the new actors it seems warrented to conclude that foul weather does indeed undermine rational cooperation by rendering previously sustainable strategies incapable of being maintained without an adjustment of costs.

But the counter-evidence consists of all those examples of restraint and cooperation, both through formal agreement and through informal and unofficial coordination, which enabled the Swedish actors to make adjustments to short-term foul weather shocks. The process of decentralisation also masks a possible deepening of rational cooperation. In sum it seems impossible to predict from either trend which one would overcome the other, and certainly impossible to make any prediction about the likely impact of foul weather on a corporatist country beyond the observation that it complicates proceedings immensely and either forces the system to go through several difficult and time-consuming processes before an adequate response can be implemented or leads to an eventual breakdown of cooperation.

Might Swedish corporatism be in yet another process of evolution? Or are we making too much of the instances of cooperation we have identified and not enough of the failures of the system to respond quickly and effectively enough? To answer this question we required some means of empirically assessing the overall performance of the Swedish corporatist system. The results we have seen in this chapter provide some empirical

evidence for insider-outsider theories in labour economics, but most strongly in the non-corporatist economies.[42]

In Sweden in particular, the evidence is more that employment has been spread in these sectors through the achievement of wage restraint. The evidence for high pay and low pay distributional struggle in corporatist Sweden is mixed. On the one hand, there is evidence that it is the high pay groups who lead the way out of strict equality, yet on the other hand, there is evidence that the Swedish low and high-pay workers delivered real wage restraint. Sweden clearly has narrow wage differentials, at least in terms of yearly percentage change. In both Sweden and Germany wages growth in the FBT and Chemical industries was much closer than in Japan, the USA and the UK. There is also a tendency in these countries for the Chemical industry to take a larger share of the burden in periods of high inflation. In the USA and the UK, on the contrary, differentials were wider and widened even further in periods of fair weather. Japan is unusual in respect of the fact that restraint is visible on the part of both low and high-pay groups without the narrow wage differentials characteristic of cooperation in Sweden and Germany.

We have seen that low and high pay groups have cooperated in adjusting real wages growth in the FBT and Chemical industries in Sweden, Germany and Japan, largely by exercising restraint following foul weather shocks when inflation was high and the threat of unemployment clear-cut. In the UK wages in both industries have tended more to follow inflation, which tends to account in part for why in that country inflation is the "number one" economic enemy. In the USA, restraint has been achieved more

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[42] See Carl M. Campbell III, 'Sectoral Wage Rigidity In The Canadian And French Economies', European Economic Review, 33, 1989, pp.1727-1749.

because of low nominal wage responsiveness than rational cooperation.

This chapter paints a picture of highly impressive corporatist wages performance in Sweden and does not immediately appear to support our hypotheses concerning the tendency of high pay and low pay groups to break out of corporatist arrangements in foul weather. It suggests that, compared to other OECD countries, the Swedish system was producing high levels of real wage restraint and employment spreading in combination with high public sector employment compensation. How do we account for this?

Part of this puzzle is resolved when we take into consideration a number of the performance indices we have considered in this and the previous two chapters. Thus, in terms of variables such as inflation, unit labour costs, the growing cost of maintaining low unemployment, the current balance, international competitiveness, and so on, we know that the Swedish economic performance has been characterised by comparatively severe foul weather. This casts the Swedish wages performance in a different light. It might be the case that what we are witnessing is a wages performance that is inadequate, if the severity of the foul weather is strong enough to render even this performance insufficient over the long term. It might be the case that, while the Swedish system has performed comparatively well, in terms of the foul weather it has performed insufficiently well. Foul weather has, effectively, rendered the system outcomes dysfunctional because the distribution of costs has not been deep enough despite the comparatively good performance.

CONCLUSION.

'When the weather gets rough, it is natural to assume you are on the wrong tack'. *Richard Layard.*[1]

The scholars who study corporatism are aware that "something important" is at stake here, and a large part of the explanation for this value judgement must be because corporatist theory makes certain provocative claims. The philosophers may still ask whether corporatism is a better solution than the alternatives, but the point is that corporatism claims in some sense that it is a solution.

This thesis has attempted to test one of the central arguments for corporatism, namely that it solves prisoners' dilemmas through collective action and, hence, through the organisation of individuals into bargaining groups. Against cries of "it doesn't work" the corporatist countries apparently proved the opposite, but the economic travails of the past two decades have apparently begun to change all that.

The thesis asks whether the success of corporatism is dependent upon the distribution of gains, and upon fair weather. It suggests that many of the arguments made for encompassing organisations, centralisation, and institutional forms of one sort or another with respect to collective action might need to be revised, and would at the very least be usefully served by an reevaluation of the consequences of a shift from the distribution of gains to the distribution of costs.

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[1] Richard Layard, Why Abandon the Swedish Model?, Stockholm, FIEF, 1991, p.1.

But in making this argument the notion of the corporatist solution itself is not rebutted, at least in its ideal-typical form. It is simply that the difficulty of actors agreeing to distribute gains pales somewhat into significance when they are actually required to distribute costs. It is only fair, then, that we attempt some sort of weighing up of the evidence, and do not avoid the question of whether or not the empirical material, both cross-national and case-specific, supports the view that corporatism breaks down in foul weather.

1. The Corporatist and Liberal Alternatives.

It is important to assess whether or not corporatism can survive in foul weather for two important reasons: first, because there certainly is evidence that it could survive, and prosper, in fair economic weather. The cross-national work showed that the corporatist countries, while not necessarily outstanding economic performers, nevertheless achieved an outstanding performance in terms of employment and welfare. From this wider perspective, corporatism does indeed appear to outperform alternative political-economic systems.

Secondly, and largely for this reason, corporatism has often been presented as an alternative, if not an antithesis, to the purely liberal solution to collective action problems and economic crisis. In the liberal strategy, free markets backed up by a minimal state provide a mechanism for self interest to produce collective maximisation, via the "invisible hand" of decentralised rational decision-making.

In Chapter Two we saw that under conditions of contraction, it may be equally possible for the well-being of the economy to be maximised by a more liberal regime of cost-cutting. This is essentially a crucial weakness in the stability of the corporatist model: in foul weather it may be supplanted by a liberal system even though there is no logical reason why the model should not function equally or even more efficiently. We

saw in Chapter Two that our game-theoretical model postulates a possible situation where the outcomes of mutual cooperation and mutual defection are exactly the same in overall terms. This is because, in the short term at least, the liberal system can succeed equally well in cutting costs, and perhaps even better.[2]

In a more liberal system, mutual defection does not imply an equitable sharing of cost, but rather an inequitable distribution. One actor can force the costs to be borne by another, weaker, actor. The overall outcome, however, is no worse in terms of the efficiency of cost-cutting than that which would be achieved by cooperation. Over the long term, however, we would expect that the more expansionary policies of the corporatist political economy would build up a more tenable economy, since the transition to the restrictive policies of the liberal alternative would produce costly hysteresis effects such as distributional struggle and unemployment and the liberal system would be less efficient to the extent that it is prone to generating costly prisoners' dilemmas.[3]

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[2] See Erik Lundberg, 'Perspectives on the Future of the Swedish Economy - Two Extreme Alternatives', in Bengt Ryden and Villy Bergstrom (eds), Sweden: Choices for Economic and Social Policy in the 1980s, London, Allen and Unwin, 1982, pp.217-233. Proponents of the liberal solution argue that open unemployment is more efficient than sheltering and subsidising policies (backed up by corporatist wages strategies) as a means to achieve restructuring. Corporatist theorists reply that the hysteresis effects of unemployment and deflationary policies outweigh any such benefits, but much of the argument hinges on the practical effectiveness of the corporatist component in making the adjustment. The deeper the foul weather, the more difficult this is to achieve. Jukka Pekkarinen, 'Corporatism and Economic Performance in Sweden, Norway, and Finland', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992.

[3] The latent conflict between the employed and the unemployed can reach an equilibrium through public employment, Blanchard and Summers argue, because the output of the public sector provides *increasing returns*. The living standard of the

Conclusion

Corporatism challenges liberalism as a mode of societal organisation on four counts: with respect to inequality, the role of the state, the role of free markets, and the possibility for steerage through collective action.

(1) Corporatist theory argues that free markets produce inequality, which breeds distributional conflict in foul weather and produces inefficiency. This is an argument which depends both on the prisoners' dilemma and on the indirect consequences of a shift to foul weather. In fair weather, the operation of free markets still produces inequality, but within the context of a generally improving social wellbeing. In foul weather, unless actors act to compensate for the shock and undertake redistributions, the consequences of unchanged strategy vectors lead to greater excess inequality, which is economically inefficient.

Corporatism also stresses equality because it is a necessary condition in securing the cooperation of actors. In a sense, corporatism implies that the degree of equality necessary to achieve cooperation is most conducive to economic efficiency over the long term. In terms of a political philosophy, corporatism is more closely related to socialism than liberalism: it implies a political agenda for the transformation of economic and social outcomes. The corporatist historical compromise prescribes a consciously fair distribution of employment and income within society, an "equality of sacrifice", and a sharing of the proceeds of growth.

(2) The role of the state in corporatism is anything but minimal. This can be seen most clearly in the role of the Swedish public sector as a welfare guarantor. Through public employment,

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employed actors improves despite the taxation levels for public sector employment. Olivier Blanchard and Lawrence H. Summers, 'Fiscal Increasing Returns, Hysteresis, Real Wages And Unemployment', European Economic Review, 31, 1987, pp.543-66.

active labour market policies, training and relocation, industrial subsidies, generous welfare and so on, the Swedish state attempted to balance distributional shocks to the Swedish economy with redistributions designed to maintain maximum efficiency.

The importance of a sympathetic and actively engaged governmental agency for the continuation of wages cooperation is shown by the Swedish Model, which clearly played a large part in underpinning the more narrowly focused EFO and FOS models of class cooperation. Corporatism may be, at heart, all about wage restraint, but wage restraint does not operate successfully in isolation from other mechanisms designed to spread employment, limit unemployment and promote efficient economic restructuring. In the absence of an economic strategy which actually addresses the central problems for economic competitiveness, in the longer term, a cooperative strategy of wage restraint is simply treading water and getting nowhere fast.

(3) Corporatism challenges the liberal claim that free markets alone produce collective maximisation, on the grounds that prisoners' dilemmas produce "market failures". However, this claim might have to be qualified. The possibility of there being two ideal-typical solutions, Corporatist and Liberal, is strengthened by the Calmfors-Driffil thesis, which suggests that perhaps purely decentralised rational decision-making solves prisoners' dilemmas after all, and that it is only in societies where actors are *organised enough* to achieve sub-optimal insider distributions but not enough to adopt an encompassing perspective, that distributive conflict produces economic inefficiency.

The idea of a continuum fits in neatly with Mancur Olson's distinction between "free markets", "distributional coalitions" and "encompassing organisations". The first consists of free decentralised labour markets, the second suggests greater levels

of unionisation, and the third indicates conscious steerage through collective organisation. The qualified corporatist claim for the advantages of associative action over reliance on purely free markets would rest on the fact that, in most countries, free markets do not exist. This means that actors face a choice between choosing to go in one direction or the other.

(3) Corporatism challenges the liberal idea that the possibility of steerage through collective organisation and associative action is a wild fight of fancy. It rejects reliance on the market mechanism alone as akin to blind adherence to dogma. On the other hand, it does not ditch the market mechanism. Corporatist practice in Sweden demonstrates rather clearly that the EFO and FOS models and the Swedish Model were compatible with free markets understood as rules establishing capitalist rights and prerogatives, a shared acceptance of market rules, and a shared understanding of what economic competitiveness required.

In sum, we are left with the statement that corporatism is a possible alternative political economy. The strongest part of the argument consists of saying that, in most countries, given the absence of purely free labour markets, corporatism is the one option for improvement which does not involve the use of blunt instruments to force costs to be borne. Thus the argument hinges on the claim that corporatism could be a least cost transition to a more optimal political economy. Further liberalisation would require a period of transition in which distributive conflict would produce severe inefficiencies. But this notion of the least cost is the weakest chain in the link, since the foul weather travails of Swedish corporatism have led many observers to the conclusion that corporatism is no longer a viable policy option, either for trade unions, employers or the government. At heart, corporatism is weakened by its dependence in practice and theory on producing growth.

2. The Future of Corporatism.

Does corporatism break down in foul weather, and what future does it have? To answer these questions, we can summarise the thesis and its findings. We first of all examined the Corporatist Model in Chapter One, applied the collective action problem to it and came up in Chapter Two with the apparent dependence of trade union cooperation on achieving gains in foul weather, which means indeed that corporatism should be expected to break down.

Most of the literature appears to accept the game theoretical basis for corporatism and focuses instead on historical and particularistic factors which undermine the sorts of corporatist historical compromises reached in the 1950s and 1960s. We take these factors somewhat for granted, accepting readily that the rise of new actors, generalised sociological changes, and the necessity for increased decentralisation and flexibility, even within the parameters of a corporatist strategy that depends on an encompassing viewpoint, poses substantial and real challenges for corporatist arrangements.[4]

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[4] Most explanations of the decline of corporatism and social democracy focus on factors such as the decline of blue collar workers, the decline of mass production, the weakening of class consciousness and the rise of new social movements, the increase in capital mobility and the internationalisation of production, the creation of the single market within the European Community, and so on. See Claus Offe, 'The Future of the Labour Market', in Claus Offe (John Keane, ed), Disorganised Capitalism. Contemporary Transformations of Work and Politics, Cambridge, Polity Press, 1985, pp.52-79; Claus Offe, 'Interest Diversity and Trade Union Unity', in Disorganised Capitalism, pp.151-69; John Keane and John Owens, After Full Employment, London, Hutchinson, 1988; W. Mueller-Jentsch, 'Labour Conflicts and Class Struggles', in Otto Jacobi et al (eds), Technological Change, Rationalisation, and Industrial Relations, London, Croom Helm, 1986, pp.238-60; Karl Ove Moene and Michael Wallerstein, 'The Decline of Social Democracy', paper presented at the 1992 Annual Meeting of the American Political Science Association, The Palmer House Hilton, September 3-6, 1992.

It may be that for these reasons alone, corporatism is a dead issue, and liberalisation is a much more attractive choice for countries experiencing "institutional sclerosis". There is no doubt that in Sweden the complicating factor of a huge public sector and an independent white collar sector overloaded any capacity of the old corporatist system to deal with the crisis. If corporatism does break down in Sweden, we may simply never know if the centralised solution to the prisoners' dilemma is fatally flawed in foul weather. But this thesis has attempted to distinguish between these two destabilising factors and it is necessary to review the evidence and try to come up with some conclusions.

We thus looked for a case study, and from here Sweden enters the picture. We saw in Chapter Three that the country is in foul weather, evidenced by increasing distributive conflict, decreasing growth, output and productivity, and a worsening competitiveness index. This shows, inductively at least, that corporatism in foul weather does not succeed in producing continuing gains. We also saw in Chapter Four, however, that in terms of societal welfare (and remember, Sweden is a relatively rich country) this case study performs very well.

The comparative data provides strong evidence of cooperation both in terms of societal welfare and employment performance but also clear signs of increasing unsustainability. The question is, are the gains made from the observed cooperation enough to strengthen α and/or overcome the increase in β? Or are insiders overall achieving a relative improvement in α by increasing the degree of inequality? Insider-outsider dichotomies are numerous, involving the unemployed versus the employed, and within the latter group, involving high and low pay workers, public and

private sector workers, and blue collar and white collar workers.[5] High pay for insiders may or may not result in an improvement in α, but the effect of the increase in inequality makes the insiders better off (if it is enough for them to increase their real standard of living at the expense of outsiders).

Our examination of the complexities of corporatist cooperation immediately raises serious questions about the type of cooperation that had been achieved in the fair weather period. Are lower-level actors really cooperating with their encompassing-level leaders when they accept outcomes which consist of real gains in any case? Encompassing organisations and centralisation work far better in fair weather than in foul. Cooperation cannot be perfectly sustained in foul weather both because the temptation to free ride becomes much higher relative to the gains from cooperation and because the actors' strategies by definition become dysfunctional as the parameters α and β change. It takes time for these strategies to be adjusted. Moreover, as the formal modelling in Chapter One implied, when foul weather affects a corporatist country which has hitherto become comparatively well off, such a corporatist country has, in an important sense, *further to fall* in order to make the adjustment.

Has corporatism broken down in Sweden, or is cooperation continuing albeit with great adaptation problems and reversals?

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[5] Interestingly, Schmitter sees corporatism possibly reorganising into more decentralised sectoral divisions which closely parallel our insider-outsider distinction. These include the periphery and the centre, the sunbelt and the rustbelt industries, light and heavy industry, importers and exporters, manufacturing and services, domestic and competitive sectors, and so forth. Philippe C. Schmitter, 'Sectors in Modern Capitalism: Modes of Governance and Variations in Performance', in Renato Brunetta and Carlo Dell'Aringa (eds), Labour Relations and Economic Performance, London, Macmillan, 1990, pp.3-39.

Conclusion

Does corporatism "contains the seeds of its own destruction" and is it "laden with inherent contradictions"?[6] To answer such questions we looked at Sweden more closely. In Chapter Five we examined the Swedish Model and found that it is a similar model to the theoretical model of corporatist cooperation we elaborated, and that it is a growth-dependent model. We found that Sweden only ever distributed gains in fair weather and now has to distribute real costs.

We saw that the very success of the earlier Swedish economy had made the actors wrongly expect that corporatism itself produces economic growth. The Rehn model and the EFO model had explicitly been constructed with the growth-objective in mind, hence economic growth tended to confirm the validity of the theory underlying the model. As a consequence of this belief, when the benefits stopped flowing, the actors had compelling reasons to conclude that the corporatist model itself must no longer be valid and so was no longer worth supporting. As Taylor writes:

> 'Many Swedes have become impatient and cynical at what they see as the failure of the [SAP] politicians to manage the economy competently. Many observers believe we are seeing what amounts to a crisis of national self-confidence in Sweden, which is undermining the popular belief held with various degrees of conviction for over forty years that the country could thrive by pursuing what was known as the Middle Way in economic

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[6] For example, Scott Lash and John Urry, The End of Organised Capitalism, Cambridge, Polity Press, 1987; Scott Lash, 'A Critical Theory', Economy and Society, 16, 1987, pp.143-58; James Fulcher, 'Labour Movement Theory Versus Corporatism: Social Democracy In Sweden', Sociology, 21, 2, 1987, pp.231-252.

policy between centralised planning and free market economics.'[7]

Any rational actors are likely to defect from cooperation when they think that the strategy no longer succeeds in its basic function: namely, maximising well-being.

In Chapters Six and Seven we made a detailed examination of the changes which have swept the old corporatist model in Sweden and found contradictory evidence of corporatist performance. On the one hand, the wage system has been in a process of massive disruption and development, characterised by wage breakouts and a decentralisation of wage determination practices. The impression of breakdown is strengthened by the election of a Liberal government. From the strikes in the late 1960s, through the wage blowout following the first oil shock, to the public sector blow out and massive distributional conflict of the early 1980s, to the breakaway from solidarity of Metall in the mid-1980s, there have been plenty of examples of a breakdown in cooperation. Added to this is the constant rate of wage drift and the apparent need for centralised agreements to be high enough to absorb it, both in theory and in practice. And finally, the growing polarisation between low and high pay actors, especially in the form of Metall versus the public sector, both of which it should be noted were members of the blue collar federation LO, which indicates that the stresses and strains we predicted have indeed destabilised corporatism independently of other disorganising tendencies. In combination, each of these factors suggests that the earlier corporatist system was successful because overall growth absorbed any shocks to the income demands of actors, at least until the mid-1970s. Swedish corporatism was based on distributing the proceeds of growth, with even the FOS

[7] Robert Taylor, 'The Economic Policies of Sweden's Political Parties', Current Sweden, Svenska Institutet, 383, June 1991, p.3.

model finding it difficult to countenance the prospect of achieving cooperation in the absence of it.

On the other hand, Sweden has managed to restructure quite effectively, has achieved an extraordinary across-the-board collective agreement (the Rehnberg Agreement) just before the formal close of central bargaining, and looking at wages performance overall we saw contradictory evidence of strong wage restraint despite signs of high pay defection from cooperation and high unit labour costs and inflation. In the 1980s Sweden achieved considerable wage restraint, largely through taxation and devaluation. There is always a danger of making sweeping generalisations. The possibility exists that Swedish performance is much better than might at first appear, with even the possibility that corporatism is still working even if with obvious inefficiencies and breakdowns.[8]

As support for this contrary view, there is some limited evidence of "green shoots" of corporatist cooperation that deals with the foul weather issue by both recognising the reality of cost distribution and deepening negotiation within the vertical dimensions of encompassing organisations. The LO strategy for more "decentralised centralisation" and the Rhenberg Agreement are two instances of the sort of corporatist cooperation which is implied by our modelling of foul economic weather. It may be the case that the political exchange, consensus and associative-action elements associated with corporatism are allowing the restructuring, adaptation and decentralisation of encompassing policy processes, producing corporatist forms which are less recognisable but equally efficient. In other words, despite the depth of the crisis which Swedish corporatism has apparently

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[8] For a positive assessment, with reservations about "recent overheating", see Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn, Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992.

fallen into, it may be premature to speak of either its demise or even of any relative underperformance of the Swedish economy.

The effect of foul weather on corporatist cooperation varies according to the depth of the shock and the degree of response. There are two forces coexisting and exerting influence in opposite directions at the same time. From one side is the capacity of the actors to make the necessary adjustment while maintaining full employment and societal welfare, and from the other is insider behaviour leading to a worsening of inequality and to open unemployment. The theory we have developed is strongly supported, and makes sense when applied to Sweden: corporatism is breaking down because of intensified prisoners' dilemmas in foul weather. But it is also renewing itself sufficiently to allow the possibility that this increasing inequality does not lead to a final break with the goal of cooperative full employment outcomes.[9]

The authors of the EFO and FOS Models argued that full employment generates maximum productivity growth and that there is an economic loss arising from the underutilisation of available labour. To sustain full employment, insiders must share part of their available income with outsiders, most likely through public employment. As Meidner argued, this would not be much more than the amount paid for passive unemployment transfers. But as predicted in our model, the amount of insider

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[9] As Lehmbruch writes, 'The optimum structure is, apparently, not rigid hierarchical centralisation but rather one which provides for some limited autonomy for lower organisational levels while giving sufficient authority to the peak association to coordinate these activities effectively'. Gerhard Lehmbruch, 'Concertation and the Structure of Corporatist Networks', in J.H. Goldthorpe (ed), Order and Conflict in Contemporary Capitalism, Oxford, Clarendon, 1984, p.69. For further explorations of this theme, see P. Schmitter, 'Five Reflections on the Future of the Welfare State', Politics and Society, 4, 16, 1988, pp.503-15; and P. Schmitter, 'Corporatism is Dead! Long Live Corporatism', Government and Opposition, 24, 1, 1989, pp.60-74.

behaviour increases in foul weather. Thus the high pay unions in LO have broken free, partly in response to the challenge from public and private sector workers and partly in response to the generalised slow-down in total income growth. The costs of maintaining full employment if everybody enjoyed the income of these insiders is simply beyond the income-producing powers of the economy, given the increase in β.[10]

The question is whether or not these actors are reaching, more times than not and despite the breakouts, some sort of changing equilibrium determined by relative bargaining power and hence resulting in increasing inequality (in the sense of Nash), but which still effectively meets the full employment requirement because the stronger actors act as Stackelberg leaders and the weaker actors accept the imposition of inequality. The public sector workers may be relatively chastened enough to accept a greater share of the burden. TCO, SACO-SR and the PTK group of unions may increasingly become active participants in a new, developing Swedish Model. LO has been working on a more decentralised approach to the prisoners' dilemma which can achieve cooperation around an encompassing strategy. There are, however, several important qualifications attached to such a sanguine picture. As Paul Windolf points out, it is impossible to negotiate "generalised political exchange" if such decentralised actors are cut off from more encompassing organisational structures.

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[10] Moreover, several economic studies have shown that at high levels of unemployment, wage flexibility is lowest. Jacques Dreze and Charles Bean, 'European Unemployment: Lessons from a Multicountry Econometric Study', in Bertil Holmlund and Karl-Gustaf Lofgren, Unemployment and Wage Determination in Europe, Cambridge, Basil Blackwell, 1990, pp.3-33; David G. Blanchflower and Andrew J. Oswald, 'The Wage Curve', Scandinavian Journal of Economics, 2, 92, 1990, pp.215-235.

'The politics of decentralisation are likely to destroy a network of institutions which was successful in pacifying industrial conflict'.[11]

In foul weather the encompassing solution is compromised by the lack of any real capacity, in the final instance, of central organisations to compel lower level actors to accept costs which alternatively can be passed on to other actors.[12]

In addition, due to the interdependence of nations, foul weather is always beyond the immediate control of actors.[13] It seems that only a much more sophisticated brand of corporatism can cope with the distribution of costs over the long term. The return of fair weather may save the neck of corporatism in Sweden, but if the economic crisis continues to deepen the

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[11] Paul Windolf, 'Productivity Coalitions and the Future of European Corporatism', Industrial Relations. A Journal of Economy and Society, 28, 1, 1989, p.18.

[12] As Crouch points out, different sectors have various levels of encompassingness, understood in terms of the "size effect". In the absence of a strong link with a centralised encompassing viewpoint, insider and outsider behaviour seems likely to be determined by these variations in the degree of vulnerability to the collective consequences of non-cooperation. Colin Crouch, 'Trade Unions in the Exposed Sector: Their Influence on Neo-Corporatist Behaviour', in Renato Brunetta and Carlo Dell'Aringa (eds), Labour Relations and Economic Performance, London, Macmillan, 1990, pp.68-91.

[13] On the subject of cooperation between countries, see A.J. Hughs Hallett, 'How Much Could The International Co-ordination of Economic Policies Achieve? An Example from US-EEC Policy-Making', in Homa Motamen (ed), Economic Modelling in the OECD Countries, London, Chapman and Hall, 1988, pp.71-102; Stephen J. Turnovsky and Marcelo Bianconi, 'Strategic Wages Policy And The Gains From Cooperation', in Frederick Van Der Ploeg and Aart De Zeeuw (eds), Dynamic Policy Games in Economics, Amsterdam, North-Holland, 1989, pp.191-222. Wage restraint strategies fail when they only facilitate consumption by privileged groups and succeed when they increase investment, leading to greater export output and the possibility of increasing import consumption. Otherwise, wage restraint is restrictive for international trade.

corporatist actors will have to reach a qualitatively higher level of cooperation in order to meet this challenge. Whether or not this is eventually within the capacity of the Swedish labour movement is impossible to say, but the evidence strongly suggests that at this point the outcome hangs in the balance.

APPENDIX.

THEORETICAL MODELS, DATA ANALYSIS, AND PRIMARY SOURCES.

1. THEORETICAL MODELS.

The model of outcomes of corporatist interaction in Chapter One is designed to illustrate the operation of the "Restraint" strategy in foul weather. The model was based on Figure 14 in Adam Przeworski, Capitalism and Social Democracy, Oxford, Clarendon Press, 1985, p.183, which showed that in the long term the "Restraint" strategy outperforms the other strategies. In Przeworski's model, however, it is assumed that the rate of growth in output per unit of investment is always positive. In my model I wanted to examine what happens when a fair weather *and* a foul weather parameter are introduced, as well as when these can vary.

The model is very simple, in part because I am not a econometrician, and was produced on the LOTUS 123 spreadsheet. Thus the fair and foul weather parameters α and β serve to represent what would be a very complex mixture of economic variables. But this serves a useful function by keeping the focus on the parallel logic of cooperation in fair and foul weather. Whereas Przeworski had depicted the "Restraint" strategy as a wages strategy which involved gains (although smaller gains than the more "Militant" strategies), I wanted to show that even when costs were involved the logic of cooperation still applied. I also wanted to demonstrate that the effectiveness of a "Restraint" strategy depends to a great extent on changes in the fair and foul weather parameters α and β.

Appendix

A serious problem with any model such as this is that it cannot represent reality. The time periods are not intended to represent years, or months, or any particular bargaining framework. They do, however, represent interactions over time. If in reality the time periods necessary to make an adjustment in incomes sufficient to compensate for foul weather are vast, this is not a problem for the model but for corporatist cooperation. The evidence from the Swedish case suggests that similar adjustments were made following foul weather shocks, such as the mid-1970s wage boom, and that these took several years of bargaining rounds. The model suggests that, with perfect information regarding α and β and no other complicating factors, cooperation produces the best long term outcome. This is a sufficiently robust finding to serve the purpose I had intended, which was to demonstrate formally that corporatism can function equally efficiently in foul weather, and that it need not always produce gains.

The use of two-actor and three-actor matrices of interaction in Chapter Two is useful primarily as a means of illustrating the shift in strategies and outcomes over time. Initially I had tried to incorporate values in the matrices in order to show, in true prisoners' dilemma fashion, how the actors are constrained by the logic of their interaction and hence fail to cooperate. As there was no empirical basis for such values, I decided that the best course with three of the tables was to use descriptive terms instead which denote the various outcomes of interaction under fair and foul weather. A similar approach has been used in David Soskice, 'Reinterpreting Corporatism and Explaining Unemployment: Coordinated and Non-co-ordinated Market Economies', in Renato Brunetta and Carlo Dell'Aringa (eds), Labour Relations and Economic Performance, London, Macmillan, 1990, pp.188-89.

2. DATA ANALYSIS.

The use of data analysis in the corporatist literature is extensive, so extensive that Goran Therborn writes that 'an nth rerun of corporatism and whatever variable between the OECD countries is hardly likely to add very much to our understanding of anything', ('Lessons from "Corporatist" Theorisations', in Jukka Pekkarinen, Matti Pohjola, Bob Rowthorn (eds), Social Corporatism: A Superior Economic System?, Oxford, Clarendon Press, 1992, p.40.). I certainly felt much the same way, hence my approach attempts to be somewhat different.

First, the comparative data analysis is designed not just to examine whether or not corporatism is associated with this or that variable, but to identify a case study of a corporatist country in foul weather. Second, the analysis is designed to distinguish between the performance of corporatism in fair and foul weather. Third, the analysis is designed to demonstrate that corporatism cannot necessarily generate its own fair weather or avoid the impact of foul weather and, with respect to wage restraint, to test whether the data supports expectations derived from the theoretical work.

The data analysis techniques that I use are mostly non-statistical and rely on visual confirmation. There are several reasons for this. First of all, I am probably only slightly more of a statistician than I am an econometrician, and I wanted to present my data in a fashion that would be appropriate to my abilities. Secondly, I wanted to turn this to advantage by making the data readily accessible to my readers. Third, I wanted to avoid reliance on correlations and regressions because I believe that they can obscure important relationships, particularly when a wide variation in cases is involved. It would not be of much use to show that corporatism and variable *n* had a correlation of *x* during the time period *y* when what I really want to do is identify a foul weather corporatist country and look more

specifically at its performance with respect to certain variables in comparison to other countries we know about.

Appendix

2.1. DATA RANKING

The first data analysis method I use other than Tables and Figures is a technique used by Francis G. Castles in which countries are ranked according to their performance on a variable. The presentation of these ranks, and of combinations of these ranks, allows a very clear indication of the comparative performance of the data set. Hence my Competitiveness Index serves to identify Sweden as a good example of a corporatist country experiencing foul weather. The data used in these Tables and Figures is presented in the text.

2.2. FAIR AND FOUL WEATHER PLOTS

A second technique I use is to plot using LOTUS 123 the performance of countries on a single variable in relation to other countries in a figure which has as the *X*-axis fair economic weather and as the *Y*-axis foul economic weather. This technique enables the reader to see visually how much divergence in performance there has been over time and which countries show the greatest divergence. As explained in the text, the fair weather variable is represented by the years 1970, 1971, 1972, 1973, 1978, 1979, 1984, 1985, 1986, 1987, 1988, and 1989, and the foul weather variable by the years 1974, 1975, 1976, 1977, 1980, 1981, 1982, and 1983. The following section presents the OECD data which was used in these figures, which are distributed throughout Chapters Three, Four and Seven.

Data are averages for the years listed above for the following countries:

USA, CANADA, UK, ITALY, FRG, DENMARK, SWEDEN, NETHERLANDS, JAPAN, BELGIUM, FRANCE.

The variables are:

(1) GNP percent growth

(2) Taxation as a percentage of GDP

(3) Percent increase in nominal wages for manufacturing

(4) Percent increase in real wages for manufacturing

(5) Percent increase in unit labour costs
(6) Percent increase in FBT nominal wage
(7) Percent increase in CHEM nominal wage
(8) Percent increase in FBT real wage
(9) Percent increase in CHEM real wage

Fair Weather	GNP	TAX	NOMINAL	REAL	U.L.C.
USA	3.71	28.90	5.47	0.09	2.69
CAN	4.90	32.02	6.42	1.04	3.68
UK	3.55	35.33	11.30	3.78	7.49
IT	3.75	29.98	13.91	5.14	8.16
FRG	3.34	36.37	6.97	3.58	5.55
DEN	3.03	45.63	10.16	3.24	6.60
SWE	3.13	47.52	7.94	1.09	5.74
NETH	3.16	43.28	6.38	1.98	3.10
JAP	5.92	24.57	9.39	4.88	2.38
BELG	3.33	41.83	7.25	2.72	3.50
FR	3.48	39.63	9.40	3.24	5.89

Foul Weather	GNP	TAX	NOMINAL	REAL	U.L.C.
USA	1.33	29.18	7.86	0.29	6.68
CAN	2.75	32.54	11.38	1.69	10.33
UK	0.54	36.23	15.64	1.40	14.04
IT	2.41	29.69	21.40	3.34	16.76
FRG	1.19	37.18	6.70	1.61	4.76
DEN	1.34	43.86	12.60	1.66	8.29
SWE	1.14	48.09	10.69	0.11	10.71
NETH	1.44	44.56	8.05	0.59	4.96
JAP	3.21	24.20	9.89	0.94	5.39
BELG	1.78	42.71	11.56	2.33	5.35
FR	2.03	39.98	14.94	2.95	11.70

Fair Weather	FBT-N	CHEM-N	FBT-R	CHEM-R
USA	5.21	6.05	0.22	1.06
CAN	6.55	6.68	1.74	1.87
UK	10.40	12.38	3.32	5.30
IT	14.07	14.96	5.08	5.97
FRG	6.89	7.40	3.64	4.15
DEN	NA	NA	NA	NA
SWE	8.91	9.46	1.82	2.37
NETH	7.36	4.39	3.12	1.27
JAP	8.40	10.05	4.10	5.75
BELG	7.54	8.83	3.42	4.71
FR	9.33	9.29	2.95	2.91

Foul Weather	FBT-N	CHEM-N	FBT-R	CHEM-R
USA	7.80	8.95	0.20	1.35
CAN	11.10	11.66	1.91	2.48
UK	15.84	17.11	1.79	3.06
IT	21.88	19.35	3.90	1.38
FRG	6.96	6.79	1.84	1.66
DEN	NA	NA	NA	NA
SWE	10.84	10.91	-0.61	-0.54
NETH	9.00	8.06	1.99	1.05
JAP	10.95	10.73	2.84	2.61
BELG	12.18	11.14	3.38	2.34
FR	15.68	14.29	4.00	2.61

2.3. DATA SUPPLIED BY LO

In addition to OECD data I also used data supplied by Bengt Blomqvist, a statistics researcher at the Swedish Trade Union Confederation (LO). The data was supplied in raw form as figures for hourly wages, total increase, and contractual increase, in ore per hour, and I made several transformations of the data. Since this data is not readily available elsewhere I present it as a complete set in the following section.

The variables are:

(1) Pay rise pro-Year LO/SAF total percent increase
(2) Pay rise pro-year LO/SAF contractual percent increase
(3) Pay rise pro year LO/SAF other percent increase
(4) Pay rise per hour SAF/LO ore per hour
(5) Monthly salaries PTK/SAF full-time employed professional employees percent change
(6) Pay rise per hour SAF/LO ore per hour percent increase
(7) Part of the amount of wages which needs to be redistributed in order to make all wage differentials disappear.
(8) Hourly wages ore per hour Steel Works total
(9) Hourly wages ore per hour Steel Works percent change
(10) Hourly wages ore per hour Clothing Industries total
(11) Hourly wages ore per hour Clothing Industries percent change
(12) Total increase ore per hour Steel Works total
(13) Total increase ore per hour Steel Works percent change
(14) Total increase ore per hour Clothing Industries total
(15) Total increase ore per hour Clothing Industries percent change
(16) Contractual increase ore per hour Steel Works total
(17) Contractual increase ore per hour Steel Works percent change
(18) Contractual increase ore per hour Clothing Industries

total

(19) Contractual increase ore per hour Clothing Industries percent change

(20) Difference between Contractual increase and Total increase for Steel Works

(21) Difference between Contractual increase and Total increase for Clothing Industries

(22) Hourly wages ore per hour Food Sector total

(23) Hourly wages ore per hour Food Sector percent increase

(24) Hourly wages ore per hour Chemical Sector total

(25) Hourly wages ore per hour Chemical Sector percent increase

(26) Hourly wages ore per hour Chemical-Technical Sector total

(27) Hourly wages ore per hour Chemical-Technical Sector percent increase

(28) Total Increase ore per hour Food Sector total

(29) Total Increase ore per hour Food Sector percent increase

(30) Total Increase ore per hour Chemical Sector total

(31) Total Increase ore per hour Chemical Sector percent increase

(32) Total Increase ore per hour Chemical-Technical Sector total

(33) Total Increase ore per hour Chemical-Technical Sector percent increase

(34) Contractual Increase ore per hour Food Sector total

(35) Contractual Increase ore per hour Food Sector percent increase

(36) Contractual Increase ore per hour Chemical Sector total

(37) Contractual Increase ore per hour Chemical Sector percent increase

(38) Contractual Increase ore per hour Chemical-Technical

Sector total

(39) Contractual Increase ore per hour Chemical-Technical Sector percent increase

(40) Difference between Contractual increase and Total increase for Food Sector

(41) Difference between Contractual increase and Total increase for Chemical Sector

(42) Difference between Contractual increase and Total increase for Chemical-Technical Sector

(43) Consumer price index percent change

(44) Hourly wages ore per hour percent change minus consumer price index percent change for Steel Works

(45) Hourly wages ore per hour percent change minus consumer price index percent change for Clothing Industry

(46) Hourly wages ore per hour percent change minus consumer price index percent change for Food Sector

(47) Hourly wages ore per hour percent change minus consumer price index percent change for Chemical Sector

(48) Hourly wages ore per hour percent change minus consumer price index percent change for Chemical-Technical Sector

(49) Hourly wages ore per hour percent change minus consumer price index percent change for PTK/SAF monthly salaries

	1	2	3	4	5
1970	10.50	3.20	7.30	1278.00	8.30
1971	9.20	5.70	3.50	1395.00	8.10
1972	11.50	4.50	7.00	1555.00	8.70
1973	8.10	3.80	4.30	1681.00	8.70
1974	10.90	5.40	5.50	1864.00	12.10
1975	18.40	11.70	6.70	2207.00	18.80
1976	10.90	7.40	3.50	2448.00	10.40
1977	9.40	6.20	3.20	2678.00	9.46
1978	5.90	2.80	3.10	2832.00	5.90
1979	7.90	4.20	3.70	3055.00	8.00
1980	10.80	6.00	4.80	3385.00	10.10
1981	9.10	3.20	5.90	3687.00	6.50
1982	5.90	4.10	1.80	3904.00	6.10
1983	6.20	4.50	1.70	4146.00	8.80
1984	9.70	6.70	3.00	4550.00	9.30
1985	7.10	4.10	3.00	4872.00	6.60
1986	7.20	5.00	2.20	5224.00	6.40
1987	6.90	4.00	2.90	5584.00	6.00
1988	7.80	3.40	4.40	6018.00	7.80
1989	10.80	6.60	4.20	6665.00	10.10

	6	7	8	9	10
1970	10.46	7.50	1270.00	11.01	992.00
1971	9.15	7.70	1422.00	11.97	1098.00
1972	11.47	6.40	1589.00	11.74	1247.00
1973	8.10	6.50	1736.00	9.25	1377.00
1974	10.89	6.50	1961.00	12.96	1515.00
1975	18.40	6.00	2293.00	16.93	1842.00
1976	10.92	5.30	2642.00	15.22	2096.00
1977	9.40	5.10	2785.00	5.41	2238.00
1978	5.75	4.90	2987.00	7.25	2473.00
1979	7.87	4.90	3293.00	10.24	2706.00
1980	10.80	4.70	3623.00	10.02	3026.00
1981	8.92	4.80	3893.00	7.45	3266.00
1982	5.89	4.80	4209.00	8.12	3440.00
1983	6.20	4.70	4434.00	5.35	3648.00
1984	9.74	4.80	4987.00	12.47	3951.00
1985	7.08	4.80	5329.00	6.86	4266.00
1986	7.22	NA	5580.00	4.71	4639.00
1987	6.89	5.00	6063.00	8.66	4873.00
1988	7.77	5.00	6482.00	6.91	5245.00
1989	10.75	5.20	7177.00	10.72	5694.00

	11	12	13	14	15
1970	11.59	126.00	31.25	103.00	66.13
1971	10.69	152.00	20.63	106.00	2.91
1972	13.57	167.00	9.87	149.00	40.57
1973	10.43	147.00	-11.98	130.00	-12.75
1974	10.02	225.00	53.06	138.00	6.15
1975	21.58	332.00	47.56	327.00	136.96
1976	13.79	349.00	5.12	254.00	-22.32
1977	6.77	143.00	-59.03	142.00	-44.09
1978	10.50	202.00	41.26	235.00	65.49
1979	9.42	306.00	51.49	233.00	-0.85
1980	11.83	330.00	7.84	320.00	37.34
1981	7.93	270.00	-18.18	240.00	-25.00
1982	5.33	316.00	17.04	174.00	-27.50
1983	6.05	225.00	-28.80	208.00	19.54
1984	8.31	553.00	145.78	303.00	45.67
1985	7.97	342.00	-38.16	315.00	3.96
1986	8.74	251.00	-26.61	373.00	18.41
1987	5.04	483.00	92.43	234.00	-37.27
1988	7.63	419.00	-13.25	372.00	58.97
1989	8.56	695.00	65.87	449.00	20.70

	16	17	18	19	20
1970	28.00	-41.67	58.00	-24.68	98.00
1971	55.00	96.43	87.00	50.00	97.00
1972	129.00	134.55	139.00	59.77	38.00
1973	30.00	-76.74	30.00	-78.42	117.00
1974	68.00	126.67	105.00	250.00	157.00
1975	171.00	151.47	220.00	109.52	161.00
1976	111.00	-35.09	160.00	-27.27	238.00
1977	84.00	-24.32	115.00	-28.13	59.00
1978	45.00	-46.43	64.00	-44.35	157.00
1979	63.00	40.00	82.00	28.13	243.00
1980	165.00	161.90	191.00	132.93	165.00
1981	91.00	-44.85	100.00	-47.64	179.00
1982	86.00	-5.49	100.00	NA	230.00
1983	65.00	-24.42	88.00	-12.00	160.00
1984	NA	NA	NA	NA	NA
1985	228.00	NA	228.00	NA	114.00
1986	226.00	-0.88	260.00	14.04	25.00
1987	190.00	-15.93	216.00	-16.92	293.00
1988	NA	NA	NA	NA	NA
1989	325.00	NA	357.00	NA	370.00

	21	22	23	24	25
1970	45.00	1157.00	12.33	1141.00	11.10
1971	19.00	1266.00	9.42	1256.00	10.08
1972	10.00	1457.00	15.09	1406.00	11.94
1973	100.00	1555.00	6.73	1509.00	7.33
1974	33.00	1723.00	10.80	1694.00	12.26
1975	107.00	2071.00	20.20	1999.00	18.00
1976	94.00	2385.00	15.16	2262.00	13.16
1977	27.00	2523.00	5.79	2422.00	7.07
1978	171.00	2739.00	8.56	2622.00	8.26
1979	151.00	2949.00	7.67	2842.00	8.39
1980	129.00	3204.00	8.65	3117.00	9.68
1981	140.00	3624.00	13.11	3432.00	10.11
1982	74.00	3821.00	5.44	3601.00	4.92
1983	120.00	4058.00	6.20	3827.00	6.28
1984	NA	4422.00	8.97	4275.00	11.71
1985	87.00	4743.00	7.26	4541.00	6.22
1986	113.00	5171.00	9.02	4964.00	9.32
1987	18.00	5420.00	4.82	5278.00	6.33
1988	NA	5832.00	7.60	5669.00	7.41
1989	92.00	6425.00	10.17	6205.00	9.45

	26	27	28	29	30
1970	1155.00	12.79	127.00	32.29	114.00
1971	1273.00	10.22	109.00	-14.17	115.00
1972	1439.00	13.04	191.00	75.23	150.00
1973	1546.00	7.44	98.00	-48.69	103.00
1974	1765.00	14.17	168.00	71.43	185.00
1975	2112.00	19.66	348.00	107.14	305.00
1976	2461.00	16.52	314.00	-9.77	263.00
1977	2597.00	5.53	138.00	-56.05	160.00
1978	2775.00	6.85	216.00	56.52	200.00
1979	2971.00	7.06	210.00	-2.78	220.00
1980	3234.00	8.85	255.00	21.43	275.00
1981	3627.00	12.15	420.00	64.71	315.00
1982	3807.00	4.96	197.00	-53.10	169.00
1983	4104.00	7.80	137.00	-30.46	226.00
1984	4647.00	13.23	364.00	165.69	448.00
1985	5050.00	8.67	321.00	-11.81	266.00
1986	5406.00	7.05	428.00	33.33	423.00
1987	5757.00	6.49	249.00	-41.82	314.00
1988	6325.00	9.87	412.00	65.46	391.00
1989	7016.00	10.92	591.00	43.45	536.00

	31	32	33	34	35
1970	6.54	131.00	47.19	28.00	-64.56
1971	0.88	118.00	-9.92	70.00	150.00
1972	30.43	166.00	40.68	139.00	98.57
1973	-31.33	107.00	-35.54	30.00	-78.42
1974	79.61	219.00	104.67	88.00	193.33
1975	64.86	347.00	58.45	196.00	122.73
1976	-13.77	349.00	0.58	136.00	-30.61
1977	-39.16	136.00	-61.03	100.00	-26.47
1978	25.00	178.00	30.88	57.00	-43.00
1979	10.00	196.00	10.11	75.00	31.58
1980	25.00	263.00	34.18	181.00	141.33
1981	14.55	393.00	49.43	100.00	-44.75
1982	-46.35	180.00	-54.20	94.00	-6.00
1983	33.73	297.00	65.00	74.00	-21.28
1984	98.23	543.00	82.83	NA	NA
1985	-40.63	403.00	-25.78	228.00	NA
1986	59.02	356.00	-11.66	245.00	7.46
1987	-25.77	351.00	-1.40	205.00	-16.33
1988	24.52	568.00	61.82	NA	NA
1989	37.08	691.00	21.65	342.00	NA

	36	37	38	39	40
1970	28.00	-62.16	28.00	-56.25	99.00
1971	69.00	146.43	64.00	128.57	39.00
1972	133.00	92.75	129.00	101.56	52.00
1973	30.00	-77.44	30.00	-76.74	68.00
1974	93.00	210.00	83.00	176.67	80.00
1975	197.00	111.83	187.00	125.30	152.00
1976	137.00	-30.46	127.00	-32.09	178.00
1977	99.00	-27.74	94.00	-25.98	38.00
1978	60.00	-39.39	53.00	-43.62	159.00
1979	78.00	30.00	71.00	33.96	135.00
1980	185.00	137.18	179.00	152.11	74.00
1981	99.00	-46.49	99.00	-44.69	320.00
1982	95.00	-4.04	94.00	-5.05	103.00
1983	83.00	-12.63	76.00	-19.15	63.00
1984	NA	NA	NA	NA	NA
1985	228.00	NA	228.00	NA	93.00
1986	253.00	10.96	235.00	3.07	183.00
1987	210.00	-17.00	197.00	-16.17	44.00
1988	NA	NA	NA	NA	NA
1989	346.00	NA	327.00	NA	249.00

	41	42	43	44	45
1970	86.00	103.00	6.79	4.23	4.80
1971	46.00	54.00	7.63	4.34	3.06
1972	17.00	37.00	5.91	5.84	7.66
1973	73.00	77.00	6.69	2.56	3.73
1974	92.00	136.00	10.10	2.86	-0.08
1975	108.00	160.00	9.81	7.12	11.77
1976	126.00	222.00	10.09	5.13	3.70
1977	61.00	42.00	11.52	-6.11	-4.74
1978	140.00	125.00	10.09	-2.84	0.41
1979	142.00	125.00	7.04	3.21	2.39
1980	90.00	84.00	13.75	-3.72	-1.92
1981	216.00	294.00	12.08	-4.63	-4.15
1982	74.00	86.00	8.59	-0.48	-3.27
1983	143.00	221.00	8.92	-3.58	-2.87
1984	NA	NA	8.06	4.41	0.25
1985	38.00	175.00	6.36	0.50	1.62
1986	170.00	121.00	5.17	-0.46	3.57
1987	104.00	154.00	4.26	4.39	0.78
1988	NA	NA	5.77	1.15	1.87
1989	190.00	364.00	6.44	4.28	2.12

	46	47	48	49
1970	5.54	4.31	6.01	1.51
1971	1.79	2.45	2.59	0.47
1972	9.18	6.04	7.13	2.79
1973	0.03	0.63	0.74	2.01
1974	0.70	2.16	4.06	2.00
1975	10.39	8.19	9.85	8.99
1976	5.08	3.07	6.44	0.31
1977	-5.73	-4.44	-5.99	-2.06
1978	-1.53	-1.84	-3.24	-4.19
1979	0.63	1.35	0.03	0.96
1980	-5.10	-4.07	-4.89	-3.65
1981	1.02	-1.98	0.07	-5.58
1982	-3.16	-3.67	-3.63	-2.49
1983	-2.72	-2.64	-1.12	-0.12
1984	0.91	3.65	5.17	1.24
1985	0.90	-0.13	2.32	0.24
1986	3.85	4.14	1.88	1.23
1987	0.55	2.06	2.23	1.74
1988	1.84	1.64	4.10	2.03
1989	3.73	3.01	4.48	3.66

2.4. OECD DATA 1970-1989

A third data source from the OECD was used for several of the Figures in Chapter Seven and for the Pearson's correlation coefficients presented in Table 7.4. This data covers the period 1970 to 1989 for the US, the UK, the FRG, Sweden and Japan for the following variables:

(1) Percent change in nominal wages for FBT Industries
(2) Percent change in nominal wages for Chemical Industries
(3) Percent change in real wages for FBT Industries
(4) Percent change in real wages for Chemical Industries
(5) Percent change inflation
(6) Percent change unemployment

It may be the case that instead of using Pearsons' correlation coefficients I should have used time series regressions. The wages, inflation and unemployment data are classic time series, and the variables almost certainly contain significant degrees of autocorrelation. After attending the Essex University ECPR Social Science Summer School learning how to do time series analysis, I came away with the belief that the Box-Jenkins approach or the ARIMA model were not the most useful and reliable techniques for my purposes. The main reason for this is that time series is more complex and I do not yet have the technical skills to be confident that any findings I produced would be useful. It would not be difficult to run the data through an ARIMA package, but it would be difficult to interpret the diagnostics. I concluded that, for the moment, time series with economic data is best left up to the econometricians.

Pearsons' Correlation Coefficients.

The correlations were produced using the statistical software package SPSS, and measure the closeness with which the pairs of values fit a straight line.

Standard Errors.

The standard error represents the standard deviation of a hypothetical distribution of correlation coefficients among samples of a given size drawn from the same population. The procedure I followed was to use LOTUS 123 and estimate the standard errors by squaring each correlation coefficient, subtracting it from one, and then dividing it by the square root of the number of pairs in the sample.[1]

A true correlation coefficient is certain to lie within three standard errors of the sample statistic. With a large correlation coefficient and a large sample of pairs we expect to find a small standard error, and can be reasonably certain that the relationship is genuine.

In our case the period 1970-1989 gives us a reasonably large sample of pairs and where the correlations are strong, as in the correlations between nominal wages in two sectors, the standard errors are small enough to support the correlations.

1-Tailed Test.

The 1-Tailed test is used to confirm or reject the null hypothesis that there is no significant difference between the mean score of each variable used in a correlation. If the null hypothesis is correct, then any apparently strong relationships observed will have occurred purely by chance. The 1-Tailed test is used because I wanted to test for specific expectations about the direction of the difference in values. The test requires a difference between means which is large enough to mean that the probability of its occurring by chance from the theoretical "no difference" population would be 1 percent or less. The procedure I followed was to use the SPSS 1-Tailed Test option. Most of the 1-Tailed tests for the relationship between wages and inflation are insignificant, which supports the view that the direction of

[1] Derek Rowntree, Statistics Without Tears. A Primer For Non-Mathematicians, London, Penguin Books, 1981, p.166.

causation is not one way. The data is presented below:

USA

1	2	3	4	5	6
6.80	6.30	4.50	2.30	1.80	5.00
7.00	7.60	4.80	2.20	2.80	6.00
6.50	7.30	3.90	2.60	3.40	5.60
6.90	5.90	6.10	0.80	-0.20	4.90
8.80	8.20	10.50	-1.70	-2.30	5.60
10.00	10.50	8.10	1.90	2.40	8.30
8.00	9.60	5.80	2.20	3.80	7.70
7.80	8.80	6.60	1.20	2.20	7.00
8.00	9.20	7.20	0.80	2.00	6.10
8.10	8.30	9.20	-1.10	-0.90	5.80
9.40	9.20	10.80	-1.40	-1.60	7.20
8.50	9.90	9.20	-0.70	0.70	7.60
6.50	9.20	5.70	0.80	3.50	9.70
3.40	6.20	4.10	-0.70	2.10	9.60
2.40	4.60	3.80	-1.40	0.80	7.50
2.10	4.40	3.30	-1.20	1.10	7.20
2.10	3.60	2.40	-0.30	1.20	7.00
2.20	3.30	4.70	-2.50	-1.40	6.20
1.90	2.50	3.90	-2.00	-1.40	5.50
2.40	3.00	4.40	-2.00	-1.40	5.30

UK

1	2	3	4	5	6
9.90	17.90	5.90	4.00	12.00	2.40
14.10	28.80	8.60	5.50	20.20	2.90
12.40	12.90	6.50	5.90	6.40	3.10
12.00	10.40	8.50	3.50	1.90	2.10
21.40	17.00	16.90	4.50	0.10	2.20
30.90	33.10	23.70	7.20	9.40	3.60
18.00	20.60	15.80	2.20	4.80	4.80
9.00	9.50	14.80	-5.80	-5.30	5.20
9.60	10.10	9.00	0.60	1.10	4.90
13.50	10.40	13.60	-0.10	-3.20	4.50
14.00	22.30	16.20	-2.20	6.10	6.10
13.70	13.70	11.20	2.50	2.50	9.10
10.30	11.30	8.80	1.50	2.50	10.40
9.40	9.40	5.00	4.40	4.40	11.20
7.60	8.50	5.10	2.50	3.40	11.40
8.70	8.60	5.20	3.50	3.40	11.60
8.70	7.90	4.30	4.40	3.60	11.80
7.50	8.30	4.10	3.40	4.20	10.40
8.00	8.60	4.80	3.20	3.80	8.20
9.30	9.00	5.50	3.80	3.50	6.20

FRG

1	2	3	4	5	6
10.80	20.20	3.60	7.20	16.60	0.60
12.90	10.90	5.60	7.30	5.30	0.70
10.00	8.80	5.70	4.30	3.10	0.70
10.30	9.60	6.30	4.00	3.30	0.60
12.90	12.50	7.00	5.90	5.50	1.30
9.40	8.70	6.20	3.20	2.50	3.10
6.30	7.20	4.20	2.10	3.00	3.20
6.70	7.30	3.60	3.10	3.70	3.30
6.20	5.10	2.70	3.50	2.40	3.10
5.10	4.20	3.90	1.20	0.30	2.90
6.00	4.80	5.80	0.20	-1.00	2.50
6.10	5.90	6.20	-0.10	-0.30	3.40
4.70	4.40	4.80	-0.10	-0.40	5.00
3.60	3.50	3.20	0.40	0.30	6.60
3.20	3.30	2.50	0.70	0.80	7.10
3.10	3.90	2.10	1.00	1.80	7.20
3.40	3.90	-0.50	3.90	4.40	6.40
3.90	4.10	0.60	3.30	3.50	6.20
3.40	3.10	1.20	2.20	1.90	6.10
3.70	3.30	3.10	0.60	0.20	5.50

SWEDEN

1	2	3	4	5	6
12.00	12.90	5.00	7.00	7.90	1.20
11.20	10.00	7.70	3.50	2.30	2.10
14.20	12.40	6.40	7.80	6.00	2.20
6.60	7.00	7.60	-1.00	-0.60	2.00
10.40	12.20	10.30	0.10	1.90	1.60
19.70	18.40	10.90	8.80	7.50	1.30
15.80	16.30	11.00	4.80	5.30	1.30
7.60	8.20	10.80	-3.20	-2.60	1.50
7.10	7.60	11.60	-4.50	-4.00	1.80
7.60	8.40	8.00	-0.40	0.40	1.70
11.40	11.00	14.40	-3.00	-3.40	1.60
8.10	6.40	12.40	-4.30	-6.00	2.10
6.70	7.10	10.60	-3.90	-3.50	2.60
7.00	7.70	11.20	-4.20	-3.50	2.90
8.80	13.40	7.70	1.10	5.70	2.60
8.00	7.80	7.00	1.00	0.80	2.40
11.80	10.70	4.60	7.20	6.10	2.20
1.80	4.40	5.30	-3.50	-0.90	1.90
8.50	7.20	6.30	2.20	0.90	1.60
9.30	10.40	6.50	2.80	3.90	1.40

JAPAN

1	2	3	4	5	6
17.40	18.20	7.20	10.20	11.00	1.20
15.00	13.30	6.70	8.30	6.60	1.20
13.50	14.40	5.60	7.90	8.80	1.40
18.50	24.60	10.70	7.80	13.90	1.30
28.50	30.90	21.20	7.30	9.70	1.40
18.10	8.70	11.30	6.80	-2.60	1.90
10.40	11.30	9.20	1.20	2.10	2.00
9.40	8.80	7.20	2.20	1.60	2.00
6.20	5.90	4.50	1.70	1.40	2.20
2.70	10.70	3.60	-0.90	7.10	2.10
6.50	7.80	7.10	-0.60	0.70	2.00
2.70	4.60	4.40	-1.70	0.20	2.20
9.60	9.70	2.60	7.00	7.10	2.30
2.40	4.00	1.90	0.50	2.10	2.70
1.40	4.40	2.10	-0.70	2.30	2.70
1.80	2.90	2.20	-0.40	0.70	2.60
5.20	2.60	0.60	4.60	2.00	2.80
2.30	3.50	-0.20	2.50	3.70	2.80
-0.70	4.00	-0.10	-0.60	4.10	2.50
5.20	5.20	1.70	3.50	3.50	2.30

2.5. OECD DATA 1981-1987

Finally, a fourth set of data was taken from OECD Industrial Structure Statistics, Paris, various volumes, for the FBT, Chemical and FMP (Fabricated Metal Products) industries. This data covers the period 1981 to 1987 for the following countries: the US, the UK, the FRG, Sweden, Japan, Norway, the Netherlands, Denmark, Italy, and Finland. The variables are:

(1) Employment in FBT Industries percent change
(2) Employment in Chemical Industries percent change
(3) Employment in FMP Industries percent change
(4) Inflation percent change
(5) Wage divided by Employment in FBT Industries percent change
(6) Wage divided by Employment in Chemical Industries percent change
(7) Wage divided by Employment in FMP Industries percent change
(8) Wage divided by Employment in FBT Industries percent change minus inflation
(9) Wage divided by Employment in Chemical Industries percent change minus inflation
(10) Wage divided by Employment in FMP Industries percent change minus inflation
(11) Total Wage in FMP Industries percent change minus inflation
(12) Total Wage in FBT Industries percent change minus inflation
(13) Total Wage in Chemical Industries percent change minus inflation

This data was also used to produce Pearsons' correlation coefficients which are presented in Table 7.5. The same procedures as described in the previous section were used here. There are several problems with the use of this data. First, the

measure of changes in nominal and real wages is derived by dividing total wages for each industry by total employment for each year. Hence this measure is at best a very rough estimate of the average wage per person corrected for employment. One test of the usefulness of this method is provided by comparing the correlation coefficients produced between nominal and real wages and inflation with those produced in the previous Table using a different data set. In fact, three separate data sets for the FBT and Chemical Industries are used in the thesis: the OECD Historical Statistics set, the OECD Industrial Structure Statistics set, and the set supplied by LO. A comparison shows that the data are not dissimilar enough to warrant a rejection of this method.

Second, due to the limited number of cases recorded the standard errors and the 1-Tailed tests are nearly always unfavourable. Why, then, proceed? The main reason is because I believe that we can have a reasonably firm expectation that the relationship observable (whether significant or not) did not arise purely by chance. Wages, particularly in Sweden, are negotiated in a process which does not produce random outcomes. The sampling methods used by the Swedish authorities to produce data on these wages are also comprehensive enough to warrant a strong degree of confidence in their representativeness. We know from the previous Table that, with a larger data set, the correlation coefficients and the standard errors are significant enough. I also examined each pair of variables using LOTUS 123 plots and found that the pairs exhibited a linear progression over each time period. For these reasons I believe the data are useful from the perspective of testing my hypotheses concerning the strategies of rational actors in foul economic weather, even if in purely statistical terms they cannot be regarded as significant.

The data is presented in the following section.

USA

	1	2	3	4	5
1981	NA	NA	NA	9.20	NA
1982	-1.27	-1.59	-5.28	5.70	7.15
1983	-3.35	-1.21	-3.57	4.10	5.54
1984	-0.73	1.86	4.64	3.80	3.40
1985	-1.28	-0.69	-0.79	3.30	3.93
1986	-1.02	-1.50	-3.26	2.40	2.68
1987	2.61	5.32	2.19	4.70	3.29

	6	7	8	9	10
	NA	NA	NA	NA	NA
	7.43	6.30	-2.05	-1.77	-2.90
	5.20	7.05	-0.16	-0.50	1.35
	5.76	6.53	-0.70	1.66	2.43
	3.72	5.11	0.13	-0.08	1.31
	4.04	4.23	-0.62	0.74	0.93
	2.07	2.70	0.89	-0.33	0.30

	11	12	13
	NA	NA	NA
	-8.51	-14.67	-3.47
	-2.47	-7.67	-1.78
	7.37	-6.68	3.63
	0.47	-6.34	-0.80
	-2.47	-4.91	-0.82
	2.54	-8.05	5.10

UK	1	2	3	4	5
1981	NA	NA	NA	11.20	NA
1982	-4.63	-6.17	-7.91	8.80	9.52
1983	-3.75	-4.40	-5.83	5.00	8.90
1984	1.63	0.20	-2.47	5.10	6.33
1985	-3.39	-2.40	-1.73	5.20	7.56
1986	-1.69	0.38	-2.71	4.30	8.11
1987	NA	NA	NA	4.10	NA

	6	7	8	9	10
	NA	NA	NA	NA	NA
	10.07	11.02	-1.68	-1.13	-0.18
	9.06	7.83	0.10	0.26	-0.97
	6.20	9.36	1.33	1.20	4.36
	9.57	8.79	2.46	4.47	3.69
	7.08	7.23	2.91	1.88	2.03
	NA	NA	NA	NA	NA

	11	12	13
	NA	NA	NA
	-8.96	-15.46	-7.92
	-7.25	-13.39	-4.54
	1.66	-12.45	1.41
	1.81	-8.86	1.84
	-0.87	-11.11	2.28
	NA	NA	NA

FRG	1	2	3	4	5
1981	NA	NA	NA	6.20	NA
1982	-3.26	-1.59	-2.49	4.80	5.22
1983	-3.86	-2.05	1.01	3.20	3.53
1984	-0.93	0.92	-0.56	2.50	2.34
1985	-0.91	1.54	3.34	2.10	2.61
1986	-0.67	2.27	3.77	-0.50	3.17
1987	-0.02	1.58	0.72	0.60	2.96

6	7	8	9	10
NA	NA	NA	NA	NA
4.90	4.12	-0.98	-1.30	-2.08
3.87	3.58	-1.27	-0.93	-1.22
4.36	3.13	-0.86	1.16	-0.07
4.17	4.27	0.11	1.67	1.77
3.36	4.46	1.07	1.26	2.36
3.82	3.34	3.46	4.32	3.84

11	12	13	
NA	NA	NA	
-4.68	-7.96		-2.97
-0.17	-4.34		-3.06
-0.64	-4.57		2.12
5.25	-4.15		3.27
6.30	-4.52		3.61
4.59	-2.35		5.96

SWEDEN	1	2	3	4	5
1981	NA	NA	NA	12.40	NA
1982	-2.82	-3.08	-3.58	10.60	7.64
1983	-1.02	-0.30	-3.87	11.20	7.25
1984	-0.59	3.03	2.07	7.70	9.18
1985	0.15	-0.29	1.35	7.00	7.69
1986	1.77	2.51	0.35	4.60	6.25
1987	-0.29	2.16	-0.35	5.30	7.75

	6	7	8	9	10
	NA	NA	NA	NA	NA
	7.78	8.36	-4.76	-4.62	-4.04
	7.72	8.20	-3.35	-2.88	-2.40
	9.64	9.84	-2.02	-1.56	-1.36
	8.82	6.50	-0.01	1.12	-1.20
	7.37	8.06	-0.75	0.37	1.06
	3.10	5.26	3.15	-1.50	0.66

	11	12	13	
	NA	NA	NA	
	-7.92	-16.8		-7.94
	-6.59	-16.4		-3.20
	0.91	-19.06		1.77
	0.24	-14.98		0.80
	1.44	-14.52		3.07
	0.30	-11.52		0.73

JAPAN	1	2	3	4	5
1981	NA	NA	NA	4.40	NA
1982	0.27	-0.21	-0.18	2.60	3.83
1983	7.79	5.44	7.85	1.90	-1.67
1984	-6.15	-2.12	-0.37	2.10	8.43
1985	2.39	1.45	2.90	2.20	4.82
1986	2.68	1.63	-0.36	0.60	2.60
1987	NA	NA	NA	-0.20	NA

6	7	8	9	10
NA	NA	NA	NA	NA
5.41	5.77	-0.57	1.01	1.37
0.49	-0.72	-4.27	-2.11	-3.32
5.59	6.73	6.53	3.69	4.83
4.82	4.76	2.72	2.72	2.66
2.10	3.77	0.40	-0.10	1.57
NA	NA	NA	NA	NA

11	12	13
NA	NA	NA
1.19	-8.35	0.78
4.47	-8.25	3.35
4.44	-3.64	1.45
5.70	-8.93	4.24
1.20	-7.28	1.56
NA	NA	NA

NORWAY	1	2	3	4	5
1981	NA	NA	NA	13.40	NA
1982	-1.26	-2.47	-1.45	11.00	10.28
1983	-4.01	-5.07	-8.49	8.40	11.85
1984	NA	NA	-0.71	6.40	6.94
1985	0.57	-3.44	1.66	5.90	-6.04
1986	0.95	1.58	1.37	7.70	11.26
1987	0.19	-0.39	-1.30	7.60	28.30

6	7	8	9	10
NA	NA	NA	NA	NA
9.01	10.23	-3.12	-4.39	-3.17
9.98	9.62	0.85	-1.02	-1.38
9.32	9.02	-1.46	0.92	0.62
-5.49	-4.88	-12.44	-11.89	-11.28
8.64	8.27	5.36	2.74	2.37
27.02	28.91	20.60	19.32	21.21

11	12	13
NA	NA	NA
-4.77	-21.56	-7.09
-10.69	-17.86	-6.60
-0.16	-14.89	0.92
-9.70	-0.58	-15.14
3.85	-16.87	4.46
19.54	-29.9	18.82

NETHERLANDS

	1	2	3	4	5
1981	NA	NA	NA	6.30	NA
1982	-3.20	-1.73	-5.01	5.30	8.52
1983	-4.38	8.50	-6.97	2.80	8.47
1984	1.28	-0.94	2.39	2.20	-2.39
1985	-1.48	3.44	2.78	2.20	3.80
1986	-0.75	2.33	4.94	0.20	4.74
1987	0.61	1.46	-0.09	-0.30	NA

	6	7	8	9	10
	NA	NA	NA	NA	NA
	7.54	7.77	2.22	1.24	1.47
	8.69	7.84	3.17	3.39	2.54
	1.73	-3.81	-5.19	-1.07	-6.61
	2.15	1.87	1.60	-0.05	-0.33
	2.88	-4.58	2.54	0.68	-6.78
	NA	6.20	NA	NA	6.00

	11	12	13
	NA	NA	NA
	-3.93	-11.10	-0.62
	-4.97	-8.89	12.63
	-4.32	-1.65	-2.03
	2.50	-4.41	3.46
	-2.06	-6.00	3.08
	5.91	NA	NA

DENMARK	1	2	3	4	5
1981	NA	NA	NA	12.00	NA
1982	-0.67	-1.16	0.28	10.20	10.77
1983	NA	1.75	-0.56	6.80	7.53
1984	5.23	6.90	5.91	6.40	0.82
1985	NA	5.91	10.43	4.30	4.81
1986	0.76	3.05	1.62	2.90	5.75
1987	-1.64	2.96	-4.09	4.80	7.43

6	7	8	9	10
NA	NA	NA	NA	NA
11.13	11.51	-1.23	-0.87	-0.49
7.83	8.17	-2.67	-2.37	-2.03
5.91	3.97	-5.98	-0.89	-2.83
4.01	3.52	-1.59	-2.39	-2.88
7.10	7.89	1.45	2.80	3.59
8.33	6.26	4.53	5.43	3.36

11	12	13
NA	NA	NA
-0.18	-21.12	-2.16
-2.64	-17.2	-0.48
3.32	-12.54	6.42
7.92	-10.99	3.76
5.35	-10.46	6.06
-0.98	-8.26	8.63

ITALY	1	2	3	4	5
1981	NA	NA	NA	18.10	NA
1982	-2.24	-10.05	-5.66	16.90	18.67
1983	3.67	3.35	1.58	15.20	9.99
1984	1.33	3.24	-0.82	11.80	17.59
1985	-3.49	-3.93	-5.30	9.00	7.27
1986	-4.52	-2.18	1.05	5.80	9.98
1987	NA	NA	NA	4.90	NA

6	7	8	9	10
NA	NA	NA	NA	NA
18.06	14.07	0.57	-0.04	-4.03
11.89	12.07	-6.91	-5.01	-4.83
12.20	16.01	2.39	-3.00	0.81
12.28	3.11	-4.53	0.48	-8.69
10.01	0.26	0.98	1.01	-8.74
NA	NA	NA	NA	NA

11	12	13
NA	NA	NA
-10.49	-31.9	-11.91
-3.05	-29.2	-1.26
-0.14	-31.28	0.63
-14.15	-15.2	-3.93
-7.69	-13.76	-1.39
NA	NA	NA

FINLAND	1	2	3	4	5
1981	NA	NA	NA	11.90	NA
1982	-1.81	-1.00	NA	9.40	9.93
1983	-2.01	-0.50	NA	8.90	9.00
1984	-0.68	0.25	NA	7.10	8.82
1985	-1.20	-1.26	NA	5.90	8.45
1986	-0.87	-0.51	NA	3.20	8.98
1987	-0.88	-0.51	NA	3.70	7.91

6	7	8	9	10
NA	NA	NA	NA	NA
10.39	NA	-1.97	-1.51	NA
10.65	NA	-0.40	1.25	NA
9.73	NA	-0.08	0.83	NA
8.79	NA	1.35	1.69	NA
7.86	NA	3.08	1.96	NA
8.11	NA	4.71	4.91	NA

11	12	13
NA	NA	NA
NA	-19.26	-2.61
NA	-15.77	0.70
NA	-16.37	1.11
NA	-13.76	0.32
NA	-13.33	1.41
NA	-9.71	4.36

3. PRIMARY SOURCES.

Writing a case study on Sweden I faced the problem that I do not read or speak Swedish, and apart from the one-week research trip I made to Sweden in 1992 have I have not lived in that country. Being a New Zealander I am very much an outside observer.

Because of this problem the thesis makes use of the great mass of secondary sources available on Sweden and on corporatism. In order to make the thesis as original as possible, I tried to look at the Swedish material from a fresh perspective. The corporatist literature is a well-trodden area and it was an important objective to avoid merely updating previous work. For this reason I started literally at the beginning and redefined the questions I was asking. Instead of producing another paper which demonstrates that corporatism arises because of this and that, and shows that corporatism produces low unemployment and so on, I took the approach of questioning the assumption that corporatism is a growth-strategy. I raised questions about the operation of corporatism in foul weather which I believe have not yet been explored.

This means that my use of previously published material is not simply repetition of well-known facts. The aim was to be comprehensive in marshalling evidence for my argument, and to show how previously known facts also had previously unconsidered implications when considered from the perspective of this thesis. The case study is, therefore, somewhat revisionist. It takes facts which have been used in other contexts to support various sorts of arguments and argues that these facts support the theoretical model of corporatism I have developed and that this model is a useful framework for explaining what has happened in Sweden.

The primary source material in the thesis is spread among the theoretical, comparative, and case study elements. The

theoretical modelling is original. All of the empirical data is primary source material, and most of the data analysis either updates this data or presents it in an original form. I collected considerable published information from the Swedish Consulate in London. In addition to the interviews conducted in Sweden I collected English-language publications not available at the LSE library or in London, in particular the monograph 'Wage Formation And The Economy In The Nineties', by Karl-Olof Faxen, Clas-Erik Odhner and Roland Spant. I made as much use as possible of this material, where it was directly relevant to the thesis.

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