Chapter 7.
Organised labour and varieties of capitalism

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Introduction

A decade ago the debate about the supposed detrimental effects of economic globalisation was at the centre of the research agenda of comparative political economists. The so-called conventional wisdom stated that increased economic interdependence and the frantic pace of capital movements across national borders would determine the fate of national political autonomy and economic institutions. However, confronted with both theoretical and empirical criticism, the idea of convergence across the advanced capitalist democracies has lost most, but certainly not all, of its adherents within the social science discipline. The popular debate and the world of politicians have been harder to convince. It is still a common practice among politicians to point to the imperatives of globalisation when justifying less popular decisions. For this reason alone it is worthwhile once again to present some evidence against the idea of converging political economies.

Thus, the starting point of this paper is to prove something that, at least in large parts of the academic world, is well established. Focusing on the fate of organised labour, I show that trends in unionisation, wage inequality and strike activity, if anything, indicate divergence among the advanced capitalist nations.

However, to once more refute simple convergence thinking by confronting it with real world facts is not the main purpose of this paper. I argue that it is not enough merely to conclude that trends in the strength of organised labour vary both cross-nationally and over time in a manner not in accordance with the idea of the convergence of political economies. At the heart of the discussion to follow is, instead, a more intriguing and theoretically grounded question. Given what we know about actual trends, how are we to explain variation in the strength of organised labour across time and space?

The basic theoretical argument of this paper is straightforward and can be stated briefly. Political, social and economic behaviour is highly context specific, and, since contexts vary both through time and across space, neglecting to take contextual variation into consideration in our attempts to grasp the complex of social reality will certainly lead us astray. At first glance, this statement may seem to border on the obvious. However, the implications of taking it seriously have far-reaching consequences for theory construction as well as empirical

testing. As I will show, we should expect the effects of virtually every conceivable factor hypothesised to influence the strength of organised labour to be conditional on certain spatiotemporally varying institutional settings.

The myths – worldwide convergence

Every so often research on political economy becomes fraught with more or less grandiose ideas about convergence among capitalist countries (Kerr et al., 1960; Offe, 1984; Castells, 1997). Capitalist development is conceived as evolutionary and functionalist. The national, and hitherto distinctive, political economies are subject to some form of necessitating pressure – be that an inherent contradiction in the capitalist system (Offe, 1984) or the logic of industrialism (Kerr et al., 1960) – that rewards the most efficient systems and penalises the rest. Under such circumstances, a common way of organising economic and political life will prove to be superior whereas less efficient systems will adapt or perish.

The current wave of socioeconomic change across the industrialised world has led to a forceful revival of the debate about convergence among capitalist societies. This time the focus is on the supposed imperatives of increased economic interdependence or globalisation. Severe competition for investment capital and export opportunities, the story goes, will irrevocably result in converging political and economic institutions (Lash and Urry, 1987; Gill and Law, 1989; Andrews, 1994; Cerny, 1995; Kapstein, 1996; Schmidt, 1995; Castells, 1997).[1] Other forces are hypothesised to amplify this development. Thus, technological change, the seemingly institutionalised high rates of unemployment in large parts of the western world and the contraction of the traditional industrial sector have, together with increased economic interdependence, forced nation states to adopt a market-liberal order characterised by severely reduced ability to conduct redistributive policies (Kurzer, 1991; Mishra, 1993) and deregulated labour markets (Katz, 1993).

The common denominator of this recent surge of convergence theories is that labour, in particular organised labour, in western democracies is under siege. Trade with low-wage countries and technological changes in the work process biased towards skilled workers will lower the demand for a large part of the work force and result in wage cuts or unemployment for the unskilled. The increased exit option of capital and permanently higher unemployment rates will weaken the bargaining position of unions. Further, marginalisation of the blue-collar worker at the Fordist assembly line and the concomitant rise of the service sector have tended to erode the internal cohesion of labour market organisations and deprive unions of their natural powerbase (Lash and Urry, 1987; Katz, 1993;

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[1] Similar scenarios are conjured up in popular novels; see, eg, Reich (1992) and Martin and Schumann (1997), some of which Krugman (1996) takes on in his thought-provoking book *Pop Internationalism.*

162

Traxler, 1996; Huber and Stephens, 1998; Teague and Grahl, 1998; Regini, 2000). All in all, whether these prospects are hailed or detested, the future for organised labour looks gloomy. Globalisation, technological change, unemployment and de-industrialisation entail radical changes in the workings of the labour market and unions.

Persuasive as this may sound, however, the story is dubious and convergence theories have not escaped criticism. First of all, there is no reason to leave these statements as pure speculations; they can easily be checked against data. For the convergence hypothesis to find support, union strength across the western world should have been deteriorating over the last decades. Further, the weakening of organised labour should have been more pronounced in countries where unions were well equipped to start with. Anyone with the faintest knowledge about the post-war development of industrial relations systems in advanced capitalist democracies knows that this is plainly untrue (Golden et al., 1997a; 1999; Ferner and Hyman, 1998). However, in spite of massive evidence against convergence among advanced capitalist economies, both social scientists and, in particular, political practitioners repeatedly point to the sweeping force of economic globalisation and its supposed effects. Therefore, there is reason to, once again, show the obvious – that the hypothesised influence on the strength of organised labour of recent socioeconomic changes is just not borne out by the facts.

The facts – continuing divergence

There are, certainly, many ways of understanding the strength of organised labour. In this chapter, I will use three commonly applied measures of union strength – the union density rate, the level of wage inequality, and the level of strike activity – to capture three different dimensions of union strength.

First, the most intuitive and widely used measure of the strength of organised labour is the simple ratio of union members to the total of wage and salary earners, ie the union density level. The possibility for the union to fulfil its most basic aim, to function as a bargaining cartel, is dependent on the proportion of unionised workers. The higher the union density, the more control the union will have over the supply side of the labour market (Freeman, 1989; Rothstein, 1989; Visser, 1991; Traxler et al., 2001).

Second, the main purpose of organising workers is, in the end, to influence the price of labour as a commodity. We will focus here not so much on the level as on the distribution of wages. The degree to which unions manage to compress the wage structure can be seen as an indirect measure of their strength (Iversen, 1999). The level of wage inequality generated by a country's labour market is fundamentally important for poverty and economic incentives facing workers and may also influence the solidarity that individuals feel towards one another. In this perspective, the unions' striving for more egalitarian wages becomes vital (Blau

and Kahn, 1996; Iversen, 1999; Wallerstein, 1999; Moene and Wallerstein, 2001).

Yet another aspect of the bargaining process is whether an outcome is reached with or without conflict. Industrial conflict is a dramatic expression of labour-capital relations in general and working-class militancy in particular. As such, the strike as an instrument of labour's economic action poses a direct challenge to the authority of employers and capital (Hibbs, 1976; Korpi and Shalev, 1979). However, when interpreting levels and trends in strike activity one has to keep in mind that labour quiescence can indicate two very different situations for organised labour. The reason for a union organisation to refrain from using the strike weapon can be either weakness – possibly as a consequence of a more hostile socioeconomic climate – or the fact that it has far more effective channels to reach its aims.

Therefore, to confirm the convergence thesis we should observe decreasing union density rates, especially in countries heavily organised to start with and increasing levels of wage inequality. Regarding trends in strike activity, we have to be more careful in our judgements, since widespread labour quiescence as well as rising levels of labour market disputes can – depending on which country we focus on – be interpreted as a sign of union weakness. With this in mind we turn to the facts.

Table 7.1 shows the development of union density rates in 18 advanced capitalist democracies from the mid 1970s to the late 1990s and helps us reveal some distinct features of union growth across time and space, each of which contradicts the simple predictions of the convergence thesis.

First, few other basic features of the political economies of western democracies differ as much as the strength of organised labour, measured as the union density rate. Today the levels of unionisation cover a wide spectrum from a high of almost 90 percent in the Scandinavian countries to around ten percent in France and the US. Further, inter-country differences have remained over time, and indeed widened. Starting from the mid-1970s, union density rates have followed a distinct pattern of divergence. The most common trajectory is a falling density rate, albeit at a more rapid speed in countries where unions started from a comparatively low level of unionisation. But, in a few cases, notably the Nordic countries and Belgium, the union movements have actually gained more members and the union density level has risen. The gap between the most and the least thoroughly organised labour forces has in the last 50 years grown from 30 percentage points in the early 1950s to the current 80 percentage points (between Sweden and France). This tendency towards divergence is evident when looking at the relationship between the levels and time trends in union density. The correlation between the mean unionisation levels during the 1975-1979 period and the change over time (columns 2 and 7) is 0.51 (significant at the 0.05 level) and tells us something that is obvious when glancing at Table 7.1. Countries with low

levels of union density have become less organised over time whereas the high-scoring nations have fared better in this respect. This is exactly the opposite from what is hypothesised by the convergence theorists.

This pattern of divergence is clearly discernible also in Table 7.2, where the trajectories of wage inequality rates in 17 countries between 1975 and 1998 are presented. The ratio of earnings at the median to earnings in the tenth percentile (the '50-10 ratio') is used here to capture the degree of inequality in the wage distribution.

Concentrating on the levels (columns 2 through 6) and the trends (the last column) jointly, the countries can be broken down into three broad groups. The first, mostly Anglo-Saxon group, consists of Canada, the US, the UK, New Zealand and Austria. These countries are characterised by high as well as rising levels of earnings inequality throughout the time period covered. Together with Japan and Australia, the central European nations – Italy, France, Switzerland, Germany and the Netherlands – constitute a middle group. Here, we find modest levels of inequality that are either stable or decreasing over time. At the lower end of the table, we find a third cluster of countries consisting of the Nordic countries accompanied by Belgium. They stand out as the capitalist democracies with the most egalitarian distributions of wages. Just as was the case in the middle group the time trends of these countries are characterised by either stability or decrease.

From this brief description, it is obvious that there is a clear relationship between the levels and time trends in earnings inequality. However, this relationship is, once again, precisely the opposite of the one predicted by the convergence theorists. Countries with high levels of inequality have become more inegalitarian, whereas wage distributions in the low-scoring nations seem to have become more compressed over time. That is, despite the harsher socioeconomic climate, unions' ability to compress the wage structure has not collapsed in the more egalitarian countries. To the contrary, the pattern is one of divergence.

Table 7.3 presents data on strike frequency for 18 countries between 1975 and 1998. The impression when looking at these figures is one of increasing labour quiescence. Comparing the first (1975-1979) and the last (1995-1998) time-period, we can see that both the overall mean and the cross-national variation in strike volume have decreased considerably. In contrast to the trajectories of the union density rates and the wage inequality levels, the decrease in strike activity has been greatest in the traditionally more strike-prone countries. The correlation between the mean level of strike volume during the 1975-1979 period and the change over time is almost perfect (-0.94) and significant at the 0.001 level.

On the face of it, this development seems to render strong support for convergence theory. Economic globalisation, technological change, high rates of unemployment and de-industrialisation seem to have severely obstructed working-

Table 7.1. Union density rates in 18 advanced capitalist democracies, 1975-1998.

Country	1975-1979	1980-1984	1985-1989	1990-1994	1995-1998	Yearly Change
Australia	49.1	49.4	48.0	43.5	34.9	-0.70 (1975-1996)
Austria	51.0	50.2	47.7	42.4	38.3	-0.66 (1975-1996)
Belgium	55.0	56.4	55.6	57.6	59.8	+0.32 (1975-1995)
Canada	36.9	37.4	36.5	37.0	36.0	-0.00 (1975-1996)
Denmark	72.7	77.5	76.2	76.3	77.3	+0.35 (1975-1997)
Finland	67.5	70.0	71.0	76.7	78.0	+0.60 (1975-1997)
France	19.7	15.4	10.8	9.0	8.6	-0.62 (1975-1995)
Germany	33.6	32.5	30.6	29.6	25.2	-0.40 (1975-1997)
Great Britain	47.9	43.8	38.6	33.3	29.6	-0.85 (1975-1996)
Ireland	50.3	48.6	41.7	40.0	39.7	-0.50 (1975-1995)
Italy	44.9	41.4	34.6	33.6	31.6	-0.60 (1975-1997)
Japan	33.1	30.3	27.5	24.7	23.2	-0.52 (1975-1998)
Netherlands	34.8	28.4	22.7	22.6	22.6	-0.61 (1975-1997)
New Zealand	56.7	58.0	53.7	24.2	24.3	-1.43 (1975-1998)
Norway	51.3	54.0	53.3	52.5	52.2	+0.05 (1975-1996)
Sweden	75.7	79.5	83.1	85.6	86.8	+0.60 (1975-1997)
Switzerland	32.4	29.5	26.5	23.7	22.5	-0.46 (1975-1997)
United States	23.5	20.4	16.6	15.4	13.8	-0.50 (1975-1998)
Mean	**46.5**	**45.7**	**43.1**	**41.2**	**41.4**	**-0.33**
Standard deviation	**15.5**	**18.0**	**19.7**	**21.0**	**21.0**	**0.54**

Notes: The figures represent net union density rates, ie union members, excluding the unemployed, self-employed, and pensioners, as a fraction of wage and salary earners. The change column presents the average year-to-year change in union density from earliest to latest available observation in each country time series.
Sources: Ebbinghaus and Visser (2000), complemented by OECD, *Statistical Compendium*.

Table 7.2. Wage inequality (50-10 ratio) in 17 advanced capitalist democracies, 1975-1998.

Country	1975-1979	1980-1984	1985-1989	1990-1994	1995-1998	Yearly Change
Australia	1.61	1.68	1.67	1.65	1.62	-0.000 (1976-1998)
Austria	—	—	1.94	1.99	—	+0.010 (1980-1994)
Belgium	—	—	1.45	1.44	1.43	-0.003 (1985-1995)
Canada	—	2.24	2.41	2.29	—	+0.002 (1981-1994)
Denmark	—	1.41	1.40	1.37	—	-0.005 (1980-1990)
Finland	1.57	1.49	1.47	1.42	1.41	-0.009 (1977-1996)
France	1.70	1.64	1.62	1.63	1.59	-0.006 (1975-1996)
Germany	—	1.76	1.64	1.60	1.59	-0.015 (1984-1995)
Great Britain	1.75	1.76	1.81	1.82	1.83	+0.001 (1975-1998)
Italy	1.96	1.74	1.59	1.66	—	-0.015 (1979-1993)
Japan	1.70	1.72	1.71	1.66	1.62	-0.006 (1975-1997)
Netherlands	1.59	1.55	1.55	1.56	1.64	+0.003 (1977-1995)
New Zealand	—	1.70	1.72	1.75	1.79	+0.007 (1984-1997)
Norway	—	1.39	1.45	1.33	—	-0.006 (1980-1993)
Sweden	1.36	1.31	1.33	1.34	1.39	+0.000 (1975-1996)
Switzerland	—	1.41	1.40	1.37	—	-0.005 (1980-1990)
United States	1.93	1.96	2.03	2.06	2.10	+0.007 (1975-1998)
Mean	**1.70**	**1.65**	**1.64**	**1.67**	**1.67**	**-0.003**
Standard deviation		0.15	0.21	0.24	0.26	0.22	0.007

Notes: The change column presents the average year-to-year change in wage inequality from earliest to latest available observation in each country time series.
Sources: OECD (1996), complemented by data from Jonas Pontusson.

Table 7.3. Strike frequency per 1,000 Workers in 17 advanced capitalist democracies, 1975-1998.

Country	1975-1979	1980-1984	1985-1989	1990-1994	1995-1998	Yearly Change
Australia	0.427	0.415	0.263	0.128	0.074	-0.018 (1975-1998)
Austria	0.003	0.002	0.002	0.002	0.000	-0.000 (1979-1998)
Belgium	0.075	0.035	0.023	0.013	0.049	-0.001 (1975-1998)
Canada	0.116	0.086	0.065	0.040	0.029	-0.004 (1975-1998)
Denmark	0.111	0.078	0.136	0.092	0.376	+0.014 (1975-1998)
Finland	1.031	0.891	0.479	0.125	0.054	-0.050 (1975-1998)
France	0.198	0.141	0.088	0.079	0.027	-0.009 (1975-1998)
Great Britain	0.100	0.061	0.040	0.014	0.009	-0.005 (1975-1998)
Ireland	0.189	0.169	0.097	0.048	0.030	-0.008 (1975-1998)
Italy	0.188	0.125	0.090	0.061	0.060	-0.007 (1975-1998)
Japan	0.051	0.010	0.011	0.005	0.003	-0.002 (1975-1998)
Netherlands	0.007	0.003	0.008	0.004	0.003	-0.000 (1975-1998)
New Zealand	0.472	0.263	0.156	0.054	0.038	-0.022 (1975-1998)
Norway	0.012	0.011	0.007	0.007	0.009	-0.000 (1975-1998)
Sweden	0.026	0.032	0.029	0.011	0.005	-0.001 (1975-1998)
Switzerland	0.004	0.001	0.001	0.001	0.001	-0.000 (1975-1998)
United States	0.030	0.001	0.001	0.000	0.000	-0.002 (1975-1998)
Mean	**0.188**	**0.137**	**0.088**	**0.040**	**0.048**	**-0.007**
Standard deviation	**0.275**	**0.223**	**0.130**	**0.046**	**0.093**	**0.013**

Notes: The change column presents the average year-to-year change in strike frequency from the first to the last period in each country time series.
Sources: International Labour Office, *Yearbook of Labour Statistics* (various years).

class militancy, and the only way labour nowadays can ensure employer co-operation is by good behaviour.

However, as noted previously, one should not rush to this conclusion too quickly. Keeping in mind that labour quiescence can indicate strong as well as weak unions, we can actually identify very much the same pattern in Table 7.3 as in tables 7.1 and 7.2. The most radical changes in the fortunes of organised labour, in this case decreases in strike activity, are once again found in the Anglo-Saxon countries.[2] In the Nordic and continental European economies, however, strikes have never been a very good predictor of labour strength, since institutionalised bargaining systems have made strikes less tempting (Streeck, 1993; Western, 1997; Thelen, 2001).[3] The strikes that do occur in these countries tend to be sporadic but quite voluminous, indicating that union confederations – sometimes, and irrespective of the socioeconomic climate – have to embark on, in the short run costly, industrial action in order to stop their chief weapon and ultimate manifestation of strength from growing rusty and ineffective in the long run (Paldam and Pedersen, 1982).

Interpreted in this way, the strike data – together with the different trajectories of union density rates and wage inequality levels – not only contradict the convergence hypothesis but also lend support to the opposite scenario, namely that the strengths of organised labour across western countries have clearly diverged over the last few decades. In countries where labour strength was firmly rooted in the mid-1970s, union density has risen or been stable, wages have become more compressed, and strike activity has been unaffected by the socioeconomic climate. By contrast, the fates of labour in countries where union strength was relatively fragile three decades ago follow the predictions of recent convergence theorists; unionisation rates have plunged, wages have become more unequal, and strikes are now rare curiosities.

How to explain the divergent developments – a theoretical framework

If we are solely interested in refuting simple convergence hypotheses, the figures presented in the tables above are convincing enough. However, the results are

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[2] The exception to this pattern is the US where strikes seem to have been rare events throughout the time period. However, this exceptionality is a methodological artefact. From 1977 strike statistics for the United States are restricted to labour disputes involving at least 1,000 workers. This, of course, implies a significant underestimation of the strike frequency level. Looking instead at the strike volume – number of workdays lost per worker – a measure less sensitive to the restriction in strike size, the trend in the US parallels the decrease in strike activity in countries such as New Zealand, Canada and Australia.

[3] Once again there is an obvious exception, namely Finland. Above all, the very high levels of strike frequency in the 1970s and 1980s in Finland are signs of organisational weakness. First, the Finnish trade union movement was stricken by political rivalry, leading to bargaining demands that could not be accommodated within the framework agreed in centralised contracts. Second, significant inter-union and inter-confederation competition tended to increase the unions' strike proneness.

question-begging. How do we explain the divergent fates of organised labour over the last decades? Or, to put it in more general terms, how do we account for the fact that supposedly similar factors – increased economic globalisation, rapid technological change, higher unemployment and de-industrialisation – have had different implications for labour in different countries?

This is the question to which I devote the rest of this chapter. In brief, I argue that certain configurations of the institutional framework within which unions, employers and workers interact can be conceived of as a powerbase for labour, enabling unions better to further their goals. However, institutional settings such as the level of wage coordination in the bargaining system, the local capacity of the union organisation and the organisation of the unemployment benefit system are more than power resources. These institutional constraints will intrinsically alter the causal logic of the labour market and can thereby explain the diverging impacts – on the unionisation process and bargaining outcomes – of common explanatory factors.

The importance of institutional constraints

In order better to understand the basic mistake in convergence theories, and also the vital importance of institutional constraints, when trying to understand labour market outcomes, we have to be very clear about what a market actually is. The textbook type of market is a self-regulating mechanism, where the supply of goods at a particular price will equal the demand at that price. That is, apart from rules and policies that help to ensure its self-regulation, such as contract laws, the ideal market is unfettered by institutional constraints. Under these conditions, the predictions of convergence theorists seem highly plausible. Whatever strengths adhere to labour are derived from market conditions, and as these worsen unions will weaken. Consequently, as increased economic globalisation, rapid technological change, higher unemployment and de-industrialisation have intensified competition among workers, the strength of organised labour may be expected to have decreased all over the western world.

However, this type of *labour* market has not prevailed always and in all places. To the contrary, as a rule labour markets are constrained by institutional arrangements that, to a greater or lesser extent, will counteract the self-regulating process of the ideal market. The reason for this is often forgotten. The crux of the matter is that labour is not just *any* commodity (Offe and Wiesenthal, 1980). It cannot be separated from its owner, ie the worker, and it does not come into being due to any expectation of saleability. Thus, the worker is more or less forced to enter into a wage contract. If labour was a pure commodity one should not hesitate to prevent that commodity from deciding where it should be offered for sale, to what purpose it should be used, at what price it should be allowed to change hands, and in what manner it should be consumed or destroyed.

Certainly, there have been and still are proponents of treating labour like any other commodity. However, the social consequences of such a system would, as is clear from Polanyi's (1944) vivid description of early 19th century Britain, be disastrous. Accordingly, to at least partly insulate labour from the whims of the market, real world labour markets are constrained by social legislation, unemployment insurance systems, work regulation and collective bargaining institutions.

Thus, so far we have argued that – given a pure textbook-like labour market – the strength of organised labour would be expected to fluctuate in response to market forces. Further, since institutional constraints in real world labour markets distort the market principle, we have to take these arrangements into account when explaining labour market outcomes (such as unionisation, wage distribution and strike activity). In principle, this suggests two sorts of institutional effects. First, we should expect a direct influence on the strength of organised labour, since certain institutional configurations will function as a power resource for labour. Second, and more importantly, by distorting the market principle we should expect common explanatory factors to work out differently under different institutional conditions. That is, the fundamental effect of institutional constraints is to alter the causal logic of the labour market (Schumpeter, 1954; Western, 1997; Iversen and Pontusson, 2000).[4]

However, to explain the divergent fates of organised labour across the western world we have to be more precise than this. First, we must pinpoint which institutional arrangements have what effects. Second, we should take a step back and counter a more subtle argument of proponents of the convergence thesis. Might it not be that the very institutional framework that hitherto has insulated organised labour from market fluctuations in some countries will break under the pressure of recent socioeconomic changes and pave the way to a new market-conforming institutional order? If this is the case, we should indeed expect the strength of organised labour to converge in the long run, albeit at a slower pace than has commonly been assumed. In the sections to follow I will confront these two problems with reference to the growing literature on what has been referred to as 'varieties of capitalism'.

The path dependency of institutions – the 'varieties of capitalism' approach

From research into what has become known as 'varieties of capitalism' (VOC) we have learned that advanced capitalist economies form distinctive clusters, distinguished by interconnected institutional arrangements (De Jong, 1995; Gourevitch, 1996; Rhodes and Apeldoorn, 1997; Hall, 1999; Soskice, 1999; Hall

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[4] It should be noted here that this logic transcends the debate about convergence or divergence in the wake of economic globalisation, since the influence of *any* factor that affects the market position of labour is expected to be contingent on the institutional framework of the labour market.

and Soskice, 2001). Emphasised in the literature as the most important institutions contributing to this framework are the corporate governance system, the industrial relations system, the inter-company system, the vocational training and education system, and the social welfare system. At the centre of the approach lie the multiple interrelationships between the agents of a capitalist system – companies, customers, owners of capital, employees, unions, employer organisations, and the state. The framework of incentives and constraints, given by a set of institutions within which the actors are embedded, will – to a large part – determine the actions and strategies of these actors and the relationships between them.

Following Soskice (1999), we can summarise the relevant institutional settings as two distinct production regimes or types of capitalism.[5] First, we have the social or coordinated market economy, which tends to encourage the development of long-term cooperative relations among the actors of the capitalist economy through corporate governance systems that allow long-term financing of companies, cooperative industrial relations systems within companies and coordinated bargaining across companies, education and training systems that emphasise the in-depth initial vocational training of younger workers, inter-company systems that enable cooperation concerning technology and standard setting among companies, and comprehensive, publicly financed social welfare systems. These institutions will promote a triad of high-wage, high-skill and high-quality production typical of the export industries of the Nordic or the continental European countries.

The social or coordinated market economies can be contrasted with liberal or uncoordinated market economies that are first and foremost associated with the Anglo-Saxon countries, which are characterised by market deregulation and shorter-term and more competitive relations among actors. These relationships are promoted by corporate governance systems that emphasise short-term and high-risk financing of companies, deregulated industrial relations that facilitate unilateral management control, education and training systems focusing on general education, inter-company systems that encourage strong competition between companies, and small-scale and commodifying welfare states. This mix of institutional features tends to give an advantage on product markets where flexibility is highly valued (such as international services).

More important than such simple descriptive categorisations of national economies are the hypothesized effects of institutional frameworks. The central argument of the VOC approach is that existing production regimes or types of capitalistic orders strongly condition the strategies of actors in any capitalistic

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[5] This is, of course, an analytical simplification. Other authors have instead distinguished three or more different types of production regimes (De Jong, 1995; Moerland, 1995; Rhodes, 1996; 1998; Rhodes and Apeldoorn, 1997; Hall and Soskice, 2001).

system (North, 1990; Iversen, 1999; Kitschelt et al., 1999; Iversen and Pontusson, 2000; Hall and Soskice, 2001).

This is, of course, a very general idea, and needs to be more accurately defined in order to be useful. The statement can be decomposed into two causal claims, each of which is highly relevant to solving the two problems pointed to at the end of the previous section. The first claim concerns the influence of given institutional constraints, and corresponds to the need for us to pinpoint which institutional arrangements have what effects on unionisation, wage inequality and strikes. The second claim is about the path dependent dynamics of institutional change, and provides us with an argument against possible convergence of the strengths of organised labour as a consequence of withering overall institutional frameworks. We shall briefly outline both arguments, starting with the second.

The argument about path dependent institutional change rests on an assumption about institutional complementarities (Soskice, 1999; Hall and Soskice, 2001). Two institutions can be said to be complementary if the presence or efficiency of the one (eg the corporate governance system) increases returns from the other (eg the industrial relations system). This suggests that nations with a particular set of institutions in one sphere of the economy tend to develop complementary institutions in other spheres. Thus, institutional complementarities can explain the clustering of countries along the dimensions that distinguish coordinated from liberal market economies.

Further, institutional complementarities generate disincentives to radical change. In essence, this argument is based on increasing returns as it focuses on the costs of switching from one institutional order to another (North, 1990; Pierson, 2000). Actors in the politico-economic system may attempt to preserve arrangements in one sphere of the economy in order to protect valuable complementary institutions in other spheres. For instance, drawing conclusions about the breakdowns of previously centralised industrial relations systems (Katz, 1993; Golden and Wallerstein, 1997a), first and foremost in Sweden, seems to be premature. On closer inspection, the dynamics only reveal incremental changes, as a consequence of renegotiations of traditional institutional arrangements in the face of heightened economic competition (Golden and Wallerstein, 2000; Thelen, 2001).

The second causal claim deriving from the VOC approach is that the effects of common explanatory factors will be conditional on the nation specific institutional arrangements that constitute different production regimes (Kitschelt et al., 1999; Hall and Soskice, 2001). That is, institutional constraints will alter the causal logic of the actors in such a way that pressures for change, be they from economic globalisation, technological change, de-industrialisation or increased unemployment, will be perceived differently by actors in coordinated and in liberal market economies. More precisely, the VOC approach claims that the institutional constraints in a coordinated market economy will fix the power

relationship between labour and capital, and – to a greater or lesser extent – insulate the actors from destabilising market forces (Pontusson and Rueda, 2000).

Empirical results

Before concluding, we will embark on an empirical detour and test some of the hypotheses generated by the VOC approach. Reinterpreting the results presented in tables 7.1 through 7.3 in light of the distinction between liberal and coordinated market economies enables a first rough check on the validity of these claims. Among the 18 countries for which trends in unionisation, wage inequality and strike frequency were described in the previous section, six can be classified as liberal market economies (Australia, Canada, Ireland, New Zealand, the UK, and the US) and the other twelve as coordinated market economies (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, and Switzerland), see Soskice (1999).[6] In Table 7.4 the over-time changes in unionisation rates, wage inequality and strike frequency are presented separately for countries belonging to the two different production regimes.

At first glance, the distinction between liberal and coordinated market economies seems to be important when trying to explain the divergent fates of organised labour. Comparing the average trends between the two groups we can see that the changes are much larger in the cluster of liberal countries than among the coordinated nations.[7] In the group of Anglo-Saxon countries unionisation rates have plunged, wages have become more inegalitarian, and strike waves are now rare events. This pattern fits neatly into the predictions of the convergence theorists. By contrast, looking at the group of coordinated market economies, the main impression is that of stability or, in the case of wage inequality, an unexpected change towards a more egalitarian wage structure.

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[6] France and Italy are sometimes, together with Greece, Portugal and Spain, characterised as a third cluster of countries – a Mediterranean style of market economy – distinguished by a large agrarian sector and a history of extensive state intervention (Rhodes, 1998; Pontusson and Rueda, 2000; Hall and Soskice, 2001). However, on most dimensions, France and Italy bear closer resemblance to the coordinated than to the liberal countries. In order to keep the presentation as simple as possible I have, therefore, retained these two countries in the group of coordinated market economies.

[7] The three differences in average change between the coordinated and uncoordinated market economies are all significant at the 0.10 level or better.

174

Table 7.4. Trends in union density, wage inequality and strike frequency in liberal and coordinated market economies.

Country	Union density	Wage inequality	Strike frequency
Liberal market economies (LMEs)			
Australia	-0.70	-0.000	-0.018
Canada	-0.00	+0.002	-0.004
Ireland	-0.50	–	-0.008
New Zealand	-1.43	-0.007	-0.022
Great Britain	+0.85	+0.001	+0.005
United States	-0.50	-0.007	-0.002
Mean	**-0.66**	**-0.003**	**-0.010**
Standard deviation	**0.47**	**0.003**	**0.008**
Coordinated market economies (CMEs)			
Austria	-0.66	+0.010	-0.000
Belgium	+0.32	-0.003	-0.001
Denmark	+0.35	-0.005	+0.014
Finland	+0.60	-0.009	-0.050
France	-0.62	-0.006	-0.009
Germany	-0.40	-0.015	–
Italy	-0.60	-0.015	-0.007
Japan	-0.52	-0.006	-0.002
The Netherlands	-0.61	+0.003	-0.000
Norway	+0.05	-0.006	-0.000
Sweden	+0.60	+0.000	-0.001
Switzerland	-0.46	-0.003	-0.000
Mean	**-0.16**	**-0.005**	**-0.005**
Standard deviation	**0.51**	**0.007**	**0.016**

Notes: Trend in union density is the average year-to-year change in density from earliest to latest available observation in each country time series (Table 7.1, column 7). Trend in wage inequality is the average year-to-year change in wage inequality from earliest to latest available observation in each country time series (Table 7.2, column 7). Trend in strike frequency presents the average year-to-year change in frequency from first (1975-1979) to last (1995-1998) period in each country time series (Table 7.3, column 7).

However, capturing the divergent trends in unionisation, wage inequality and strike activity across these 18 capitalist democracies by distinguishing between these two broad production regimes both obscures and reveals. First, the discussion so far has concerned average trends. As is evident from Table 7.4, the within-group variations in changes over time are still significant, especially among the coordinated market economies. Clearly, something is missing. A coherent explanation of divergence should be able to account for within-group variance.

Second, as of yet the analysis above is purely descriptive. To be able to support any causal claims, we have to specify a number of exogenous factors hypothesised to affect unionisation rates, wage inequalities, and strike frequencies.

To overcome these problems, values for the following equations will be estimated:

$$Union_{it} = \beta_{0i} + \beta_1 Union_{it-1} + \beta_2 Glob_{it} + \beta_3 Unemp_{it} + \beta_4 Partisan_{it} + \varepsilon_{it}$$

$$Wage_{it} = \beta_{0i} + \beta_1 Wage_{it-1} + \beta_2 Glob_{it} + \beta_3 Unemp_{it} + \beta_4 Partisan_{it} + \beta_5 Union_{it} + \varepsilon_{it}$$

$$Strikes_{it} = \beta_{0i} + \beta_1 Strikes_{it-1} + \beta_2 Glob_{it} + \beta_3 Unemp_{it} + \beta_4 Partisan_{it} + \beta_5 Union_{it} + \varepsilon_{it}$$

where the subscripts t and i refer to the particular year and country, β_1 to β_5 to the slopes of the explanatory variables, and β_{0i} to individual country intercepts; ε_{it} is an independent random error term.

We estimate the three regression equations separately for the samples of liberal and coordinated market economies. In this way, we are able directly to test the main prediction of the VOC approach. Do common explanatory factors have divergent effects in different institutional settings?

In focus here is the relationship between globalisation and union strength. If the VOC approach is right, deepened economic integration over the last decades should have worked to the detriment of organised labour in the liberal market economies, while globalisation should be unrelated to union strength in the coordinated economies. Thus, given a liberal market economy, we expect the globalisation effect to be negative in the union density and strike equations but positive in the wage equality equation.[8]

However, it is not only the impact of globalisation that should differ between the two production regimes. The effects of essentially every factor hypothesised to affect labour strength should be expected to be contingent on type of capitalistic economy. In this analysis we will include controls for the factors most often highlighted in earlier research on union density, wage inequality and strike frequency (Western 1997; Gottschalk and Schmeeding 1997; Franzosi, 1989).[9] These are the unemployment level, government partisanship, and, in the wage inequality and strike equations, the union density rate.

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[8] Regarding wage inequality, this hypothesis has already been tested by Pontusson and Rueda (2000). They find that common explanatory factors have different effects in social and liberal market economies. However, they cannot find any positive evidence for an interactive effect of their measure of globalisation (trade with less developed countries). As we will see, using a less restrictive measure of globalisation, the expected interaction effect does appear. More importantly, Pontusson and Rueda (2000) concentrate on one dependent variable (wage inequality). My point here is that the distinction between different market economies should be crucial to explanations of any measure of union strength, whether it be wage inequality, union density or strike frequency.

[9] Of course, other factors have been tested, and sometimes been found significantly to influence union density, wage inequality and strike frequency, eg inflation, industrial sector employment, public sector employment, wage rates, and trade flows. However, in the analysis to follow I have restricted the number of independent variables to those that consistently have been found strongly to explain labour strength.

In liberal market economies we should expect unemployment to be negatively related to union density and strikes and to have an egalitarian impact on the pay distribution.[10]

The impact of leftist governments should be the opposite. Thus, in liberal market economies we expect government partisanship positively to influence unionisation and strike frequency and to compress the wage distribution. The working mechanism here is the supposed positive relationship between labour strength in the political and market arenas.

Lastly, rising union density levels should equalize wages and have a positive effect on willingness to strike in liberal market economies.

If we instead turn to the countries categorised as coordinated market economies, we should find no or much weaker relationships in all three equations, with the relationship between unemployment and wage inequality as the only exception (see note above). The reasons for this have already been touched upon; the institutional constraints in a coordinated market economy will fix the power relationship between labour and capital, and to a greater or lesser extent insulate the actors from destabilising market forces. Therefore, we should expect trends in union density, wage inequality and strike frequency to develop without any relationship to shifts in economic openness, unemployment or government partisanship. These predictions are presented in Table 7.5.

Table 7.5. Expected effects on union density, wage inequality, and strike frequency.

Variables	LME:s	SME:s
	Union / Wages / Strikes	Union / Wages / Strikes
Globalisation	- / + / -	towards zero
Unemployment	- / − / -	towards zero (except for wage inequality)
Government partisanship	+ / − / +	towards zero
Unionisation	not applicable / − / +	not applicable / towards zero

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[10] The egalitarian effect of unemployment necessitates a brief comment. Normally, we expect rising unemployment to weaken labour strength. However, if this is the case, how might it be that rising unemployment rates decrease wage inequalities? The logic is rather simple. It is reasonable to assume that employers are more likely to lay off unskilled than skilled workers during a recession (Bradbury, 2000). Therefore, since the unemployed are disproportionately drawn from low-income groups, and the unemployed are not part of the wage dispersion data, we should expect unemployment to be associated with less wage inequality. It should also be pointed out that this accounting relationship is valid irrespective of institutional setting. That is, we expect unemployment to have an egalitarian impact in both liberal and coordinated market economies.

Before proceeding with the results of the regression equations a brief comment on the measure of economic openness is needed.[11] To capture the expected effect of globalisation, I use Quinn's and Inclán's (1997) measure of the extent of formal economic openness across countries and time.[12] This indicator measures, on an annual basis between 1950 and 1997, the severity of a nation's financial restrictions on exchange payments (imports, capital) and exchange receipts (exports, capital) on a 14-point scale, where 0 represents a closed and 14 an open economy.

To emphasise the dimension of interdependence, the original Quinn and Inclán indicator is weighted by the average openness of other economies. There is reason to believe that it is more important for the rest of the countries if a big economy lifts its restrictions. Therefore, the weight – the average openness of the other countries – will, in turn, be weighted by the relative size of each country's economy, measured as gross domestic product (GDP).

All the 21 countries for which Quinn and Inclán coded financial restrictions are used in this double weighting procedure.[13] The measure of formal economic openness is based on the following formula:

$$\text{Weighted Openness}_{it} = \text{Openness}_{it} \times \sum \frac{\text{Openness}_{jt} \times \text{GDP}_{jt}}{\sum \text{GDP}_{jt}}$$

where Weighted Openness is the weighted index of economic openness used in the further analyses; Openness is Quinn and Inclán's original measure; GDP is the gross domestic product; and the subscripts t, i and j (i = 1-21, j = 1-21 and i ≠ j) refer to the particular year and country. The resulting openness scores are standardised in the range 0-1.[14]

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[11] I use the fraction of social-democratic and other left parties of total cabinet posts as a measure of government partisanship. Data and a codebook on government partisanship can be downloaded from http://www.ipw.unibe.ch/mitarbeiter/armingeon/Armingeon Klaus/cpd. Data on unemployment are taken from OECD, *Labour Force Statistics* (various years). For sources and explanations of the union density, wage inequality, and strike frequency measures, see tables 7.1 through 7.3.

[12] I wish to thank Dennis Quinn for generously providing these data.

[13] Apart from the 18 countries examined below, the financial openness measure can also be computed for Greece, Portugal and Spain. Ideally, of course, all the economies of the world should be included in this indicator of formal globalisation. But, for so long as the advanced capitalist countries predominantly trade with and invest in other rich countries the limitation to 21 counties is a minor problem.

[14] More traditional measures of economic globalisation, such as trade flows, trade with less developed countries, and flows of direct investment, were also tested but not retained in the final models. First, the effects of these net and gross flow variables on union density, wage inequality and strike frequency were, without exception, non-significant. Second, there are theoretical as well as methodological reasons for avoiding these more usual measures of economic openness. For a more thorough discussion of the weighted index, of Quinn and Inclán's original indicator, and of other measures commonly used to capture different dimensions of globalisation, see Oskarsson (2002).

The results of the analyses are presented in Table 7.6.[15] Looking first at the column for all countries, we can see that, when not taking the distinction between different production regimes into account, the analyses confirm earlier research on explanations of labour strength. Increasing unemployment and economic openness negatively affect unionisation and strike frequency, whereas leftist governments seem to raise union density levels and strike rates (although the latter effect does not reach conventional levels of significance). In the wage in-equality equation unemployment has an egalitarian impact, whereas economic openness increases the wage gap. We can also note that the effects of increasing unionisation follow expectations – negative in the wage inequality equation and positive in the strike model.

However, as the preceding discussion has shown, we should expect the effects of the explanatory variables to be contingent on broad institutional settings. A quick glance at the two rightmost columns makes this obvious. Here, it is evident that the estimated effects for the full sample are weighted averages of the effects estimated separately for liberal and coordinated market economies.

The results of the union density equations are the most clear-cut. Among the liberal market economies, the effects of all three explanatory factors are signifi-cant and have the expected signs. Increasing unemployment and economic open-ness have a negative impact on union density levels, whereas leftist governments promote unionisation. This should be contrasted with the coordinated market economies where the effects are weaker (unemployment) or non-significant (government partisanship and economic openness).

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[15] To avoid undue influence of extreme observations in the strike frequency distribution I use the natural logarithm of strike frequency in the models. For some years in some countries there are no reported strikes. Since the natural logarithm of 0 is undefined I add a small constant (0.0001) to the strike frequency before taking the logarithm. To account for the possibility of country specific intercepts the models include a full set of country (n-1) dummies. Further, it has been widely recognised that the error structure of a pooled model will, almost by definition, be very complicated and result in violations of many OLS assum-ptions (Stimson, 1985; Kmenta, 1990; Hicks and Janoski, 1994; Kittel, 1999). To obtain un-biased standard errors in the face of contemporaneous correlation and heteroskedasticity I use Beck and Katz' panel corrected standard errors (Beck and Katz, 1995). A final question to be dealt with is how to account for the dynamics of the model. In order to separate short-term and long-term effects and, from a more technical point of view, to correct for timewise autocorrelation, the models include a lagged dependent variable on the right-hand side (partial adjustment model). The estimates shown in Table 7.6 are short-term effects. To obtain the long-term effects, divide each estimate by $(1 - \beta_1)$.

Table 7.6. Union density, wage inequality, and strike frequency equations, 1970-1997 (panel corrected standard errors in parentheses).

Variables	All countries		LMEs		CMEs	
	Union density					
Unemployment	-0.089	***	-0.151	***	-0.062	**
	(0.024)		(0.027)		(0.031)	
Government partisanship	0.173		0.565	**	0.070	
	(0.149)		(0.207)		(0.189)	
Economic openness	-1.463	***	-2.981	***	-1.040	
	(0.560)		(0.731)		(0.723)	
Lagged dependent	0.953	***	0.917	***	0.946	***
	(0.013)		(0.021)		(0.013)	
	Wage inequality					
Unemployment	-0.004	***	-0.004	**	-0.006	***
	(0.001)		(0.002)		(0.001)	
Government partisanship	-0.014	***	-0.020	***	-0.000	
	(0.003)		(0.005)		(0.005)	
Union density	0.000		-0.000		0.003	***
	(0.000)		(0.001)		(0.001)	
Economic openness	0.063	***	0.060	**	0.034	
	(0.018)		(0.028)		(0.025)	
Lagged dependent	0.648	***	0.721	***	0.501	***
	(0.029)		(0.061)		(0.070)	
	Strike frequency					
Unemployment	-0.029	***	-0.015		-0.035	**
	(0.009)		(0.009)		(0.015)	
Government partisanship	0.060		0.029		0.068	
	(0.064)		(0.054)		(0.107)	
Union density	0.011	***	0.020	***	0.009	
	(0.004)		(0.005)		(0.006)	
Economic openness	-0.989	***	-1.371	***	-0.816	***
	(0.232)		(0.233)		(0.303)	
Lagged dependent	0.599	***	0.509	***	0.612	***
	(0.047)		(0.050)		(0.056)	
n	459		129		330 (Union density)	
	261		90		171 (Wage inequality)	
	441		155		286 (Strike frequency)	
R^2 (adjusted)	0.998		0.996		0.998 (Union density)	
	0.976		0.971		0.954 (Wage inequality)	
	0.951		0.986		0.928 (Strike frequency)	
Significance levels:* < 0.10;			** < 0.05;		*** < 0.01, two-tailed tests	

The wage inequality equations follow the same pattern. Significant effects of government partisanship (egalitarian) and economic openness (inegalitarian) are found among the liberal market economies. As was hypothesised, unemployment negatively influences wage inequality, irrespective of production regime. How-

ever, the positive and significant impact of unionisation in the CME cluster as well as the lack of a significant negative unionisation effect in the LME group is not expected. The egalitarian impact of unionisation is one of the most thoroughly supported results in research on wage inequality (Freeman, 1980; 1982). In light of this, the results presented in this chapter merit further investigation.

The results of the strike models are more mixed. Contrary to expectations, we find a negative effect of unemployment in the CME countries, and no effect at all in the liberal market economies. Further, government partisanship seems to be an irrelevant factor when explaining strikes, irrespective of institutional settings. However, the effects of unionisation and economic openness do conform to the stated hypotheses. The influence in the LME countries is cushioned by the institutional settings constituting coordinated market economies.

Thus, with a few exceptions – the effects of unionisation on wage inequality and unemployment, and governments partisanship on strike frequency – the results of the analyses render support to the causal claims of the 'varieties of capitalism' approach. The effects of common variables when explaining the strength of organised labour are clearly conditional on the nation specific institutional arrangements that constitute different production regimes.

Conclusions

The basic logic underlying this chapter can be stated succinctly. Political, social and economic behaviours are highly context specific, and, since contexts vary both through time and across space, neglecting to take contextual variation into account in attempts to grasp the complex of social reality will certainly lead us astray (Przeworski and Teune, 1970; North, 1990; Laitin, 2003). This premise will, by itself, make simpler notions about convergence among capitalist economies untenable. If behaviour is specific to particular contextual configurations, it is hard to see how a few sweeping explanatory factors can force hitherto nation specific political, economic and social systems to converge to some common denominator. In this sense, the convergence thesis is beaten beforehand.

Why then, one must ask, should one bother to refute something that, according to this basic premise, is plainly wrong? First, recent empirical and theoretical criticism may have turned the convergence hypothesis into what has increasingly come to resemble a straw man for most, but certainly not all, social scientists. However, the worlds of social researchers and political practitioners are not always in accordance. Politicians repeatedly use the so-called imperatives of globalisation as a scapegoat for justifying unpopular decisions. The political autonomy of the nation state is said to be irrevocably undermined because of severe competition for investment capital and export opportunities. Traditional social democratic reform policy as well as welfare state enlargements belong to the past.

Second, and more importantly, the main purpose of this chapter is not so much to refute ideas about convergence as to try to point towards a possible explanation of the apparent divergent fates of organised labour across the western world, with reference to contextual differences between nations. The empirical results clearly show that the effects on union density, wage inequality and strike frequency of common explanatory variables are contingent on specific production regimes. In liberal market economies, pressures for change from economic globalisation, increased unemployment, and shifts in government partisanship will shape the fate of organised labour. In coordinated market economies, on the other hand, institutional constraints will insulate the actors from these forces and trends in union density and wage inequality; strikes will develop without any relationship to changes in economic openness, unemployment or government partisanship.

Nonetheless, these results should not lead us to neglect the weaknesses of the 'varieties of capitalism' (VOC) approach. Above all, there is very little in the literature about the mechanisms underlying the different causal logics in coordinated and liberal market economies. The VOC approach does highlight a plethora of institutions, among which the key to the problem most definitely will be found. However, do common explanatory factors have different effects (leading to divergent trends) because corporate governance systems, industrial relations systems, inter-company systems, vocational training and education systems, and social welfare systems differ between the two clusters of countries? Is it the combination of all these institutional factors that matters? Or, have some important institutional constraints simply been neglected? The problem of pinpointing which institutions matter, how they matter, and for what outcomes, still awaits its solution.[16]

However, despite these shortcomings, the distinction between liberal and coordinated market economies does provide a preliminary answer to the question posed at the beginning of this chapter. That is, 'How are we to explain variation in the strength of organised labour across time and space?' The importance, both as a power base for the actors involved and as a precondition for different causal logics, of the institutional setting within which the unionisation process, wage setting and strikes take place, is clear enough.

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[16] Of course, there is research focusing on these questions. For unionisation, see Ebbinghaus and Visser, 1999; Western, 1997; Kjellberg, 1983; 2001; Oskarsson, 2002; 2003a. For wage inequality, see Pontusson and Rueda, 2000; Wallerstein , 1999; Iversen, 1999. For strikes, see Oskarsson, 2003b.

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