

Political and Economic Explanations for Unemployment: A Cross-National and Long Term Analysis

BY WALTER KORPI*

Over the present century Western unemployment rates have moved as short-term ripples superimposed on long waves. The turning points of these long waves have taken social scientists by surprise. Scholarly preconceptions of what are normal levels of unemployment have therefore had to be periodically readjusted to meet reality. Thus, writing against the background of mass unemployment during the Great Depression, William Beveridge saw 8.5 to 10 per cent as a realistic estimate of unemployment levels in the post-war British welfare state.¹ But the first decades of the post-war period ushered in the 'Golden Age' of Western capitalism when full employment prevailed in most countries.² At that time Arthur Okun was one of many who believed that the business cycle pattern had become obsolete.³ In the 1980s, however, two-digit levels of unemployment were back in many countries, and are now increasingly seen as normal by social scientists as well as others.

The presence of these world-wide, large and unexpected swings in unemployment rates makes the labour market a central area for the testing of competing hypotheses on policy making in Western societies. Economic explanations centred on the dysfunctioning of markets compete with political, conflict oriented interpretations that accord purposive political action a significant role. Thus in analyses of the causes of the dramatic increases in unemployment since the early 1970s, the clearly dominant approach, followed by a majority of economists, is focused on the supply side, on the dysfunctioning of labour markets as a result of outside interference with market mechanism. Although demand factors are accorded some role here, the drastic increases in raw material prices following the oil shocks and processes inhibiting necessary adjustments in the price of labour, i. e. wages, are generally seen as the cen-

tral ones. A contrasting political approach views unemployment as a reflection of conflicts between different interest groups. This view is held by a minority, mostly political scientists and sociologists, who have debated to what extent partisan politics have mattered for policy making in relation to unemployment and also discussed the role of labour market institutions and patterns of policy making in this context.⁴

The purpose of this article is to attempt to adjudicate between the above competing interpretations of the causes of unemployment in Western democracies. To get a fresh perspective on the causes of unemployment, I shall here focus on the two great transformations of Western unemployment levels – the general decrease of unemployment during the early post-war years and the widespread and drastic increases in unemployment after 1973. The analysis of these two turning points of the long waves of unemployment brings into the open often overlooked variations in unemployment rates in different countries during the Golden Age as well as during the crises since 1973. A key part of the empirical testing consists in determining whether the causal processes that in our hypothesis are believed to underlie the turning points of the long waves can also account for the remaining variations in unemployment in the different countries. This comparative, long-term approach offers us the opportunity to learn from the 'natural' but uncontrolled experiments in policy making that have been carried out in different countries sharing basic similarities. So it gives an effective base for testing competing theoretical approaches. The study includes eighteen OECD countries – Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. They all have a

record of political democracy during the post-war period (as well as populations of over a million).

Since the market-based approach has been most clearly developed in economic theories claiming to explain the latest turning point of the long waves – the post-1973 increases in unemployment – I shall begin by briefly reviewing this discussion. Hypotheses derived from this approach will be empirically tested through time-series analyses of factors affecting changes in unemployment from 1960 to 1986. Thereafter I shall discuss and test the competing conflict-of-interests or political approach to the understanding of unemployment and its long-term swings.

Supply shocks and wage gaps

The study of the increasing unemployment rates since 1973 has largely been the domain of economists.⁵ As is well known, the Keynesian position postulates that output and employment levels have been deteriorating because, as a response to supply shocks, governments have introduced tight fiscal and monetary policies and have thus not permitted sufficient demand to maintain full employment.

However, when faced with markets that fail to clear, most economists tend to fall back on the view that prices are too high. In this mainstream perspective, unemployment since 1973 is not seen primarily as Keynesian, in the sense that it can be reduced by expansion of aggregate effective demand, but is instead largely viewed as classical or structural. Thus the drastic increase in raw material prices in 1973–74 and 1979–80 following the oil shocks required a reduction of standards of living in the OECD countries. In these countries, however, real wages have been inflexible downwards and have thus failed to adjust to the unfavourable supply shocks. Since excessive real wages squeeze profits, employers have reduced output and investment and have substituted capital for labour. According to this widely accepted position, labour markets fail to clear because real wage increases have been out of step with the 'feasible' or 'warranted' real wage, i.e. the real wage which the economy can afford to pay a fully employed labour force. Thus wage rigidities have generated a real wage gap, defined as the difference between current and feasible real wages (or labour costs), and parts of the labour force have been priced out of the labour market.

This approach accepts that, over the long run, aggregate demand is controlled by government

but views governments as caught in the inflation-unemployment quandary. At any given time an economy is seen as having a unique rate of unemployment which is consistent with stable inflation, a rate usually referred to as the non-accelerating inflation rate of unemployment (NAIRU). Since the early 1970s, however, this 'inflation threshold' is assumed to have escalated to higher levels of unemployment, thereby forcing the hands of governments and making it necessary for them to accept increasing unemployment in order to avoid inflation. Many economists view the increasing inflexibility of wages as generated by the excessive intrusion of unions and politics into the market sphere. The persistence of high unemployment in many countries in spite of decreasing rates of inflation in the 1980s is often explained in terms of the concept of *hysteresis*, according to which a prolonged recession is assumed to create the conditions for its own continuation by decreasing investment, impairing human capital and creating differences in the interests of the unemployed 'outsiders' and the 'insiders' of the labour market.⁶ Since in many European countries labour market performance in the 1980s has been worse than that in the United States and Japan, this syndrome is often termed 'Euro-sclerosis'.⁷ The widely accepted view outlined above thus leads to the hypothesis that *changes and differences in unemployment levels in different countries since the 1960s can be accounted for in terms of variations in the severity of the supply shocks in combination with the differential capacity of their wagesetting processes to accommodate these shocks.*

This supply shock and real wage hypothesis, put forward by a number of scholars as well as by the OECD, has received its primary empirical support from econometric estimates of 'real wage gaps' and the NAIRU, which indicate an increasing trend in several countries over the past decade.⁸ It has thus been tested by relating the development of unemployment in a country to an index of the real wage gap measuring the difference between the actual level of real labour costs and the warranted level consistent with full employment. The definition of warranted wage increases is typically based on changes in productivity and changes in the terms of trade, indicating to what extent a country was affected by increasing prices for oil and other raw materials during the 1970s. In a modified form this 'labour cost gap' index has been used by the OECD since the late 1970s.

It has been claimed that in several Western nations excessive real wages were a major cause of the increases in unemployment after 1973.⁹

Possibly, however, the conclusion drawn by some economists and the OECD that unwarranted increases in real wages are a main cause of the rise in unemployment after 1973 is based on a misleading specification of the model to be tested. This is because the type of specification used in this context typically constrains the coefficients of real wages, terms of trade and productivity growth to be identical by combining them into an index of the real wage gap. But if the different components of this index have differing effects on unemployment, such a specification may lead to erroneous interpretations.

I shall therefore test the supply shock and real wage gap hypothesis on the basis of data for the period 1960 to 1986 for eighteen countries. I begin by replicating the basic specification in previous research, where unemployment is regressed upon the real wage gap. The wage gap measure is the one developed by the OECD.¹⁰ It reflects the difference between, on the one hand, actual increases in real compensation for employees as well as non-wage labour costs and, on the other hand, the 'warranted' level of wage increases defined as the sum of productivity increases and effects of changes in the terms of trade on national income (see the Appendix for details on variables and data sources). I shall also test a second specification where on the right-hand side the wage gap indicator is complemented by separate measures of changes in the terms of trade and productivity, the coefficients of which are allowed to vary freely. In this second specification, an indicator of changes in the world economic climate which may affect labour market performance is also introduced. This control variable is 'world unemployment', defined for each country as average unemployment in the other seventeen countries of the sample (weighted by the size of the labour force) and thus excluding the country under consideration.

In each of the eighteen countries the supply shock and real wage hypothesis is thus tested through two alternative specifications of time-series equations for the period 1960–86, the first of which is of the type used by Bruno and Sachs:¹¹

$$\Delta U_t = a_0 + a_1 \Delta \text{GAP}_{t-1} + e \quad (1)$$

$$\Delta U_t = a_0 + a_1 \Delta \text{GAP}_{t-1} + a_2 \Delta \text{PROD}_{t-1} + a_3 \Delta \text{TOT}_{t-1} + a_4 \Delta \text{WU}_t + e \quad (2)$$

where

U = unemployment rate

PROD = productivity (defined as real GDP per person employed)

TOT = terms of trade (reflecting relative import and export prices)

GAP = real wage gap = (real wage + non-wage labour costs) – (productivity + terms of trade effect) (see Appendix)

WU = world unemployment in the other seventeen countries

$\Delta U_t = U_t - U_{t-1}$ etc.

According to the supply shock and real wage hypothesis, the signs of the coefficients for real wage gaps are expected to be positive while those for productivity and terms of trade should be negative. The sign of the coefficients for world unemployment are expected to be positive. To decrease possible simultaneous effects of unemployment on wages and productivity, effects of changes in wage gaps and in productivity as well in terms of trade have here been lagged by one year. Two-year lags have also been tested but yield less clear results. Effects of world unemployment are, however, assumed to be simultaneous.

The specification Equation 1 differs somewhat from that of Bruno and Sachs, who used a lagged dependent variable and a time trend. The first difference specification is preferred here because it decreases the influence of unmeasured factors causing time trends and avoids the difficulties of using a lagged dependent variable. I have also tested the lagged specifications and they yield results similar to those presented below.

The results of the estimation of Equation 1 above indicate why scholars using the type of specification where the effects of changes in productivity, terms of trade and real labour costs are constrained to be identical have come to the conclusion that the real wage gap is of crucial importance for the development of unemployment (see Table 1). In all but two countries (Austria and Norway) the coefficient for the wage gap indicator has the expected positive sign and it is statistically significant in seven of them – Australia, Belgium, Canada, Finland, Italy, Japan and the United Kingdom.

But when the wage gap measure is complemented by indicators of changes in the terms of trade and in productivity, which are allowed to vary freely, the results change drastically. The coefficient for the wage gap is now significant in

Table 1. Effects on Changes in Unemployment 1960-1986 in Eighteen OECD Countries.

Country		Coefficients for independent variables (× 100)					Summary statistics		
		a ₀	a ₁	a ₂	a ₃	a ₄	R ²	Standard error (× 100)	Durbin Watson
Australia	(1)	0.172 (0.161)	0.062** (0.024)				0.180	0.831	2.00
	(2)	0.383* (0.224)	0.007 (0.034)	-0.132* (0.073)	-0.002 (0.021)	2.906* (1.520)	0.308	0.764	2.05
Austria	(1)	0.052 (0.081)	-0.002 (0.027)				Neg.	0.420	1.20
	(2)	0.380** (0.156)	-0.025 (0.025)	-0.095** (0.037)	-0.016 (0.032)	0.853 (0.603)	0.225	0.362	1.82
Belgium	(1)	0.093 (0.151)	0.178** (0.061)				0.221	0.733	1.21
	(2)	0.247 (0.227)	0.141** (0.047)	-0.081 (0.062)	-0.129** (0.049)	2.559** (0.897)	0.595	0.529	1.53
Canada	(1)	0.088 (0.177)	0.177* (0.087)				0.109	0.904	1.57
	(2)	0.059 (0.265)	0.127 (0.077)	0.012 (0.112)	-0.20 (0.051)	4.397** (1.396)	0.347	0.774	1.64
Denmark	(1)	0.109 (0.281)	0.093 (0.085)				0.007	1.424	1.24
	(2)	-0.084 (0.413)	0.036 (0.092)	0.025 (0.121)	-0.064 (0.088)	3.078 (2.762)	0.028	1.409	1.62
Finland	(1)	0.040 (0.144)	0.169*** (0.046)				0.334	0.712	1.63
	(2)	0.613* (0.297)	0.107* (0.052)	-0.151* (0.068)	0.060 (0.052)	-0.158 (1.142)	0.396	0.682	1.96
France	(1)	0.276** (0.086)	0.053 (0.041)				0.024	0.422	1.56
	(2)	0.871*** (0.150)	0.002 (0.030)	-0.152*** (0.035)	-0.036* (0.020)	0.174 (0.591)	0.538	0.290	2.65
Germany	(1)	0.187 (0.147)	0.082 (0.062)				0.028	0.749	0.83
	(2)	1.101*** (0.227)	0.017 (0.046)	-0.229*** (0.054)	-0.063** (0.024)	0.084* (0.046)	0.509	0.532	1.51
Ireland	(1)	0.404* (0.207)	0.037 (0.062)				Neg.	1.036	0.73
	(2)	1.455** (0.464)	-0.142 (0.084)	-0.235** (0.095)	-0.071 (0.054)	2.410 (2.000)	0.205	0.912	1.55
Italy	(1)	0.077 (0.133)	0.086* (0.049)				0.078	0.671	1.03
	(2)	0.677** (0.220)	0.013 (0.050)	-0.142** (0.044)	-0.013 (0.029)	-0.328 (1.048)	0.299	0.585	1.18
Japan	(1)	0.050 (0.030)	0.038*** (0.009)				0.375	0.154	1.67
	(2)	0.131* (0.066)	0.010 (0.015)	-0.019* (0.011)	-0.002 (0.004)	0.409 (0.275)	0.432	0.147	1.69

Nether-lands	(1)	0.231 (0.192)	0.077 (0.059)				0.028	0.967	0.99
	(2)	0.461** (0.183)	0.046 (0.045)	-0.130** (0.046)	-0.009 (1.115)	5.082*** (1.399)	0.607	0.615	1.21
New Zealand	(1)	0.151* (0.080)	0.009 (0.016)				Neg	0.372	1.31
	(2)	0.265*** (0.057)	-0.030 (0.014)	-0.118*** (0.020)	0.005 (0.006)	1.696*** (0.441)	0.608	0.229	1.60
Norway	(1)	-0.051 (0.086)	-0.001 (0.026)				Neg	0.447	1.47
	(2)	0.029 (0.166)	0.014 (0.031)	-0.047 (0.046)	-0.008 (0.027)	1.553* (0.697)	0.148	0.404	1.71
Sweden	(1)	0.040 (0.082)	0.010 (0.019)				Neg	0.395	1.55
	(2)	0.173 (0.143)	0.001 (0.021)	-0.063 (0.047)	0.011 (0.027)	0.341 (0.683)	Neg	0.399	1.53
Switzer-land	(1)	0.000 (0.035)	0.024 (0.014)				0.061	0.161	1.24
	(2)	0.010 (0.009)	0.014 (0.013)	-0.22 (0.018)	0.010 (0.009)	0.622** (0.251)	0.306	0.139	1.53
United Kingdom	(1)	0.315* (0.182)	0.109* (0.066)				0.064	0.927	1.14
	(2)	0.812** (0.341)	-0.021 (0.066)	-0.216* (0.106)	0.036 (0.046)	3.073* (1.641)	0.379	0.755	1.81
United States	(1)	-0.018 (0.210)	0.136 (0.124)				0.008	1.026	1.93
	(2)	0.096 (0.338)	-0.046 (0.155)	-0.075 (0.137)	-0.105* (0.055)	1.029 (1.586)	0.171	0.938	1.93

$$^1 \Delta U_t = a_0 + a_1 \Delta \text{GAP}_{t-1}$$

$$^2 \Delta U_t = a_0 + a_1 \Delta \text{GAP}_{t-1} + a_2 \Delta \text{PROD}_{t-1} + a_3 \Delta \text{TOT}_{t-1} + a_4 \Delta \text{WU}_t$$

Significance levels (one-tail) of t-statistics * ≤ 0.05 ** ≤ 0.01 *** ≤ 0.001

Sources: see the Appendix.

only two countries (Belgium and Finland) and has an unexpected negative sign in five of them. Changes in the terms of trade also appear to have been of minor importance for increases in unemployment, having only four significant coefficients and unexpected positive signs in one-third of the countries. Instead, productivity changes come out as the main determinant of increasing unemployment, having sixteen expected negative coefficients, eleven of which are significant. The indicator of world unemployment also has considerable predictive power with sixteen coefficients having the expected positive sign, nine of them significant. Figures not given here because of restrictions of space indicate that dropping the world unemployment control variable does not have major consequences for the signs and significance levels of the other variables in Equation 2. On the whole, adjusted R^2 , standard errors and

Durbin-Watson statistics are more satisfactory in Equation 2 than in Equation 1, something which also indicates that the latter equation is incorrectly specified. Significant positive intercepts indicate that in several countries unemployment levels have been increasing over time in a way which is not fully accounted for by the present independent variables.

The analyses here show, therefore, that although in some countries high real wages may have been of some importance for increasing unemployment, the central role accorded to the wage factor in discussions of unemployment in the OECD countries since 1973 cannot be supported by empirical data. The previously favoured specifications, which have constrained the effects of changes in real labour costs to be identical with those of changes in productivity and the terms of trade and have not been tested for the in-

dependent effects of the latter two variables, have generated a misleading interpretation of the role of wages in this context. In these previous specifications what in fact are primarily effects of changes in productivity and in the terms of trade are erroneously credited to changes in wage gaps.

In the respecifications suggested here changes in productivity turn out to be the most important factor. The association between declines in productivity and increasing unemployment is, however, a very problematic one for causal interpretation. It has for instance, been argued that by hitting the least productive workers and firms first, recessions tend to increase the efficiency of the remaining parts of the economy. However, recessions are also likely to produce a slowdown in the growth of productivity because for example, economies of scale, capacity utilization and improvements in human capital can all decline, because labour hoarding increases and because resources are not reallocated between sectors as efficiently.¹² In almost all of our countries the decline in productivity starts in 1973–74, that is with the severe international recession. Therefore it appears reasonable to view the association between declines in productivity increasing unemployment as a spurious one, reflecting the onset of the economic crisis.

The real wage gap indicator can be expected to reflect the direct or indirect effects of different important supply-side factors that tend to increase real wage rigidity, such as the extent of unionization and social security provisions. However, it is obviously at best only an imperfect indicator of other supply-side factors.¹³ Yet although the oil shocks of the 1970s undoubtedly presented a serious disturbance to Western economies, economic factors alone apparently cannot explain the development of unemployment in these countries. Thus, for example, Japan and Sweden were obviously as severely hit by the oil crises as Germany and Belgium, but the labour market performance was much worse in the latter two countries. Because of North Sea oil the United Kingdom was not negatively affected by increasing oil prices after the second oil shock but its unemployment levels rose considerably that time. So it appears that an analysis of unemployment from a conflict-of-interest perspective and a discussion of the role of political factors in this context would be fruitful.

Conflicts of interest and the politics of unemployment

Apart from the insider-outsider theory, contemporary economists largely disregard conflicts of interest in the explanation of unemployment. Some of their predecessors, however, accorded conflicts of interest between businesses and their employees a central place in the generation of unemployment. Thus, for example, according to Kalecki, 'the assumption that a government will maintain full employment in a capitalist economy if it only knows how to do it is fallacious'.¹⁴ As is well known, Kalecki argued that business interests needed the economic insecurity generated by unemployment to keep wages low and to maintain discipline on the shop floor. Equally important, as long as the level of employment is dependent on the degree of confidence of business leaders in the government, these interests have a powerful indirect control over government policy.

In contrast to neo-classical economics, a basic assumption of much political analysis of policy making is the existence of conflicts of interest between different groups or collectivities in Western societies. In such analyses economic conditions enter as constraints for and frameworks within which political strategies are developed and government policy making takes place. From this perspective, then, conflicts of interest based on the social stratification system and centred around distributive issues play a key role in policy making.

A conflict-of-interest approach to the explanation of unemployment can be grounded in an analysis of the nature and distribution of power resources between different socio-economic interest groups in Western democracies.¹⁵ In modern Western societies, two main types of power resources – economic and political – are central. Economic power resources (including capital), which typically are used in the context of markets, are generally unequally distributed among citizens and socio-economically defined interest groups. In contrast political power resources, such as the capacity to organize for collective action and, in democracies, to exert influence through voting, are much less unequally distributed among these groups. The fact that in Western societies economic power resources are clearly correlated with the class and stratification system, while political power resources are more widely dispersed, is likely to generate a tension between markets and politics. Free-riding prob-

lems apart, citizens with few economic resources will find it rational to act collectively in order to use their relative advantage in political resources to set conditions for, and to modify, the outcomes of distributive processes on the markets.

Because of the macro-level consequences of unemployment discussed above, but also because the direct costs of unemployment fall primarily on categories of individuals who are relatively weak in terms of market resources, policy making affecting unemployment can be assumed to be a conflictual area in the sense that in the ranking of policy priorities, different interest groups are likely to give full employment policies differing ranks. This part of the conflict-of-interest or political hypothesis about unemployment receives some support in earlier works. Thus an analysis of legislative proposals, technical documents and reports of political parties in nine Western countries in 1960 indicates that the priorities of political parties differed in the predicted ways. Full employment tended to be the dominant objective for left parties but not for centrist and conservative parties, which instead gave the first priority to price stability.¹⁶

In the power resources perspective unemployment is thus seen as the labour market expression of distributive conflicts, i. e. as an outcome of conflicts and distributive struggles between socio-economic groups mediated via partisan politics and taking place under economic, institutional and other constraints. To the extent that left-wing political parties are based in and reflect the interests of relatively disadvantaged groups and collectivities in the socio-economic stratification systems of Western nations, they will play a key role in these conflicts. However, we should not expect a simple causal relationship between left-wing strength and unemployment. In this context variations in left-wing strength can instead be assumed to affect the strategies of all the main political actors and thus to affect unemployment indirectly. The alternative political or conflict-of-interest hypothesis thus *expects variations in unemployment to reflect settlements of distributive conflicts and predicts that, given the degree of economic and other constraints, an increase in the relative strength of the left is likely to have consequences for the strategies of the main political parties and, indirectly or directly, for the level of unemployment.*

The testing of the conflict-of-interest hypothesis on the political background to variations in unemployment is a more complicated matter than is

often assumed and differs from the tests of the effects of economic factors. Economic theory assumes that supply shocks work their way through the anonymous processes of the markets and that their effects can therefore be tested via causal analysis and regression models of the type used above. In political analysis we must, however, also consider the strategic choices of political actors. To test the effects of political factors we must rely on intentional as well as on causal analysis.¹⁷ This difference is often not observed so empirical attempts to determine whether partisan politics matters in policy making generally use a causal approach and correlate or regress policy outcomes on government composition. This type of approach implies that the political process is made up of 'transmission belts', where different groups articulate their interests and, if they are successful, put them into effect via control over government policy. While this approach is relevant it suffers from at least four limitations.

First, such a simple causal model overlooks the role of strategic, intentional action by government elites. It neglects the possibility that changes in party competition may induce government elites to implement not their own preferred policies but instead a policy which is advocated by their political competitors and which they perceive as highly appealing to the electorate. Thus, if election outcomes indicate increasing support for the full employment alternative, the strategic incentives facing party leaders in the competition between parties may also lead centrist and conservative governments to accept and to carry out such policies.

Secondly, economic theories of voting assume that party choice by voters is determined by differences in their past or future, real or hypothetical, utility income (i. e. flows of benefits) from the policies of competing government alternatives.¹⁸ This assumption is incomplete, however. In addition to such utility at least two other circumstances surrounding policy making will affect the choice of voters and must be systematically taken into account. These are the availability of realistic policy tools to achieve a policy goal and the presence of a credible alternative government willing to use such tools. The degree of utility or the desirability of a policy alternative will matter primarily when a voter believes that it can be put into practice and that at least one of the parties contending for government is capable of doing this. Perceived realism and credibility are affected by voters' experiences of policy outcomes but al-

so by inventions of new policies, such as Keynesianism.

Thirdly, institutional and other types of constraints on the choice of government policy must be systematically considered. Given the distribution of political support for the government, basic institutional structures such as constitutions which allow minority parties to block political decision making, but also more ephemeral ones such as the degree of centralization of collective bargaining, may facilitate or generate certain types of policies while discouraging others.

Fourthly, in the long run policy choices may influence institutional structures and thus affect conditions for their own continuation. This means that we must also consider feedback effects of policy making on institutions, power structures and modes of conflict regulation.

For the above reasons the political hypothesis about the determinants of unemployment cannot be formulated or tested only in terms of the effects of left-wing government participation on the level of unemployment. We have to consider the presence of long-term policy strategies and their institutional underpinnings in addition to short-term variations in government composition.

Recent causal studies of the effects of government changes on unemployment in a number of Western countries give qualified support to the 'trans-mission-belt' version of the political hypothesis. Decreases in unemployment after the coming to power of left-wing governments have indeed been found to depend on whether or not unemployment was a major issue in the election campaign and may be limited to the early part of a left-wing government's term.¹⁹

A detailed causal analysis of the short-term effects of changes in government composition on unemployment cannot be undertaken here. Instead I shall complement this type of research by considering the possible effects of strategic political action on the turning points of the long waves of unemployment. Because of data limitations such processes are difficult to test via regression techniques and we have to use less elegant and more cumbersome methods, relying on qualitative as well as on quantitative empirical information. I propose to extend the time horizon of the analysis and to try to understand the two great transformations of unemployment levels in terms of strategic policy choices by governing elites. In both cases the analyses of the background to these turning points of the long waves of unemployment are complemented by analyses of the

remaining variations in levels of unemployment in the different countries in order to test whether the causal mechanisms assumed to generate the general turning points can account also for the remaining variation among countries.

From the Great Depression to the Golden Age

The nearly full level of employment during the Golden Age, which strikingly deviates from the more or less normal pattern of high unemployment up to the 1930s, is widely interpreted as the result of rapid economic growth generated by factors such as faster technical progress, liberalization of trade barriers, an abundant labour supply, demand generated by reconstruction after the Second World War and stable exchange rates. However, in line with the alternative political or conflict-of-interests hypothesis, Andrea Boltho has argued that the increased influence of government macroeconomic policy activism was a major factor behind the economic stability during the early post-war decades. Earlier, Andrew Schonfield pointed out 'the conscious pursuit of full employment' by governments as a crucial factor behind this exceptional situation and at the central role of 'political will and skill' for the achievement of full employment.²⁰

The conflict-of-interest approach to the understanding of the low unemployment rates during the Golden Age suggests that to a large extent this was the result of a political strategy generated in the new conditions for party competition that were present in the years following the end of the Second World War. A crucial part of this new context was the generally increased strength of left-wing parties and labour movements as well as the improved credibility of their traditional full employment policy alternatives. Thus although in some countries left-wing parties had entered government even before 1939, the period following the Second World War was the first in the history of most Western states when left-wing parties emerged as major government alternatives. Compared with the inter-war period, the average electoral support for left-wing parties in our eighteen countries increased strongly during the post-war decades, unionization was doubled and the extent of left-wing government participation more than doubled (see Table 2 a, b and c). In addition, Keynesian ideas now provided a policy tool, which it was widely assumed would make it possible to create and maintain full employment. Furthermore, experiences of wartime full em-

Table 2: *Left Political Strength, Unionization, Industrial Disputes, and Inflation in Eighteen OECD Countries 1900–1985. (Period Averages.)*

	1900–1913	1920–1938	1950–1973	1974–1985
a. Percent left votes in elections	14.8	25.9	36.4	37.0
b. Percent of time with left representation in governments	0.1	14.3	39.3	43.3
c. Union density in non-agricultural labor force, percent.	9.6	20.6	39.7	45.2
d. Workers involved in industrial disputes per 1000 in non-agricultural labor force	18	26	45	76
e. Average duration of industrial disputes, days	25.4	23.2	8.6	6.9
f. Man-days of idleness in industrial disputes per 1000 persons in non-agricultural labor force	505	606	264	270
g. Average annual rise in consumer prices, percent	0.4*	-0.7**	4.5	9.1

* 1870–1930. Ireland and New Zealand excluded.

** Ireland and New Zealand excluded. 1924–38 for Austria and Germany; 1921–38 for Belgium.

Source: see the Appendix.

ployment were still fresh in the memories of voters and showed that full employment was a realistic policy alternative.

The above circumstances suggest the interpretation that while centrist and conservative parties tended to give priority to price stability over full employment during the post-war years, their conscious pursuit of full employment while in government reflected strategic, pre-emptive action generated through what Maurice Duverger once called a 'contagion from the left'.²¹ This political contagion occurred where centrist and conservative governments perceived that full employment policies were seen as desirable and realistic policy options by crucial sectors of the electorate.

To what extent can the economic and political hypotheses of the background to full employment during the Golden Age help to explain often overlooked variations in levels of unemployment among Western countries during this period? We shall make a crude test of the above hypothesis by relating economic growth and inflation rates as well as the political situation in the different countries to their levels of unemployment during this period.

The economic hypothesis, which assumes that

the various factors favouring economic growth also generated full employment, is not consistent with the data. As Table 3 indicates, the four countries with exceptionally high unemployment – the United States, Canada, Italy and Ireland – have had about the same average annual rates of economic growth (3.7 per cent) during the 1960–73 period as the fourteen countries with low unemployment (3.9 per cent). Neither do the countries with high unemployment appear to have suffered more from an inflation constraint on full employment policies than the other countries. Their average annual increase in consumer prices (4.3 per cent) was not higher than in the low unemployment countries (4.7 per cent). These four countries do not appear to have shared economic constraints which made their unemployment rates deviate clearly from those of the full employment countries.

In party competition, the 'contagiousness' of the Left depends on the extent of its credibility as a government alternative, something which reflects the longterm experiences of the electorate. These long-term experiences up to the time when our countries entered the 1960–73 period will here be roughly summarized by averaging the

ranking of the eighteen countries in terms of two indicators – the average percentage of votes for left-wing parties during the period 1919–59, and the proportion of the time from 1919 to 1959 that left-wing parties participated in government.²² The average rank of the countries on the above two indicators is taken to show the extent to which the political Left was likely to be seen by the electorate as a realistic and desirable government alternative around 1960. When we relate this rank to average levels of unemployment during the 1960–73 period, we find a ‘threshold level’ of left-wing strength below which party competition and left-wing contagion with respect to full employment policy did not take place (see Table 3). In the four high unemployment countries (and in Japan) the left-wing political alternative was weaker and less credible than in the countries with low unemployment.

Table 3: Average Rank of Eighteen OECD Countries in Terms of Left Votes and Left Government Participation, 1919–59, Related to Average Levels of Unemployment, GDP per capita Growth, and Inflation, 1960–1973.

Average rank on Left political position 1919–1959*	Economic performance, 1960–1973		
	Percent unem- ployment	GDP/ capita growth	Inflation
1. Sweden	1.9	3.4	4.6
2. Denmark	1.3	3.6	6.2
3. Norway	1.0	3.5	5.1
4. New Zealand	0.3	2.2	4.9
5. Australia	1.9	3.2	3.5
6. Belgium	2.2	4.4	3.6
7. United Kingdom	1.9	2.6	5.1
8. Finland	2.0	4.5	5.7
9. Austria	1.7	4.3	4.2
10. Netherlands	1.0	3.6	4.9
11. Switzerland	0.4	3.0	4.2
12. France	2.6	4.4	4.6
13. Germany	0.8	3.5	3.4
14. Italy	5.2	4.6	4.7
15. Ireland	5.2	3.8	5.9
16. Japan	(1.3)	8.3	6.2
17. Canada	5.1	3.8	3.2
18. United States	4.8	2.7	3.2

* Based on combined ranks in terms of proportion of Left votes and time with Left government participation 1919–1959.

Source: see the Appendix.

Thus, as is well known, the United States never had a socialist party of major significance and this was by and large also true of Canada. The Irish Labour party was small and relatively insignificant in a party system originating in different strands of political opinion on the question of national independence. In Italy the Left had been repressed during the long period of Fascist rule. After the war the Left's share of votes was relatively high, actually somewhat higher than in Germany, the political history of which to some extent resembles that of Italy. But the Italian Left was dominated by a Communist party, the democratic credentials of which were widely denied, a factor which undercut its credibility as a government alternative. While the Germans had experienced governments led by a fairly strong reformist socialist party before the Nazi period, the Italians had only known left-wing participation in coalition governments during the exceptional years of 1944–48. In Switzerland and the Netherlands social democratic parties had participated in long-term coalition governments. France also had a history of Left-led governments before as well as during the years after the Second World War. In the other full employment countries, the left-wing parties were even stronger political actors.

The above circumstances are thus consistent with the political hypothesis that during the first post-war decades, where a relatively strong left-wing party was seen as a realistic government alternative, party competition stimulated strategic, pre-emptive action also by centrist and conservative governments in pursuit of full employment policies although full employment probably was not the first priority of these parties. In the few countries where the left-wing alternative lacked credibility, in spite of the world-wide boom period during the Golden Age, unemployment levels were retained at relatively high levels. Thus, for example, in the United States, a coalition of business and agrarian interests defeated the Full Employment Bill in 1945, and thereafter full employment was not a political top priority.²³ In this context, however, Japan is an exception and will be discussed below.

Strikes, inflation and the post–1973 resurgence of unemployment

As has been demonstrated above, economic factors reflecting the severity of supply shocks and wage developments can explain only a limited

part of the general increase in unemployment and of variations in unemployment in different countries after 1973. Can the alternative political hypothesis – that government policy making in relation to unemployment is an aspect of distributive conflicts – give a plausible account of the resurgence of unemployment after 1973 and also of the variation between countries? In order to answer this question it is helpful to take a long-term view of the development of distributive conflicts between socio-economic interest groups and to consider their alternative expressions in the Western countries.

In the power resources perspective, distributive conflicts between socio-economic interest groups in Western countries have three alternative expressions: not only unemployment, but also strikes and inflation. Industrial conflict obviously concerns the distribution of the results of production. Inflation determines the value of paper money, the central medium of exchange in modern societies, and therefore also affects the outcomes of distributive struggles. As the discussion on the Phillips curve indicates, unemployment and inflation are generally seen as related and as influencing each other.

The two theoretical approaches to unemployment discussed here differ also in their conception of the role of distributive conflicts for inflation. Mainstream economics tends to view inflation as a reflection of the operational malfunctioning of an economy, resulting from political intrusions and outside collective actions which have destroyed the balance of the market. An alternative approach, however, is to view the market economy itself as generating social divisions and distributive conflicts of which inflation is one expression.²⁴ If we view inflation and industrial disputes as significant expressions of distributive conflict in Western societies, their long-term development shows interesting, partly divergent, partly complementary developments which can be linked to unemployment.

During the early decades of this century, as a reflection of the increased capacity of collectivities of wage earners to engage in distributive conflicts, the level of industrial conflict clearly increased (see displays Table 2 d, e and f). The inter-war period saw some divergence between our eighteen countries in levels of industrial conflict, which on average, however, were maintained at a high level. During the post-war period, in spite of deviating developments in some of the countries, industrial conflict did not wither away, as many

had expected.²⁵ Instead they changes shape, involving more workers in shorter disputes. The average proportion of employees involved in industrial disputes nearly doubled from the inter-war period to the Golden Age period, an increase which has continued during the period since 1973. At the same time, however, the average duration of industrial disputes in these countries fell drastically, from about four weeks per striker before 1939 to around one week in the period 1950–85. The decrease in the duration of disputes did markedly bring down the number of man-days of idleness resulting from the disputes.

The secular trend in Western inflation rates shows equally interesting changes (see display Table 2 g). Up to 1939, rapid inflation tended to be associated with major upheavals, such as wars, and periods of inflation were followed by disinflation. From 1870 to 1913 the average annual inflation rate in peacetime in these countries was negligible. Excluding periods of hyperinflation in a few countries, on average the 1920s and 1930s actually saw some disinflation. During the post-war period, however, inflation rates have increased drastically with no tendencies to disinflation. The average annual increase in consumer prices in our eighteen countries was 4.5 per cent from 1950 to 1973 and twice as much from 1973 to 1985.

Is there any relationship between these increases in inflation rates and changes in the shape of industrial conflict? The link connecting them is the fact that wage bargaining between employers and employees only concerns nominal wages while inflation determines real wages. Up to the Second World War, however, in the absence of rapid inflation wage settlements largely determined real wages. Industrial disputes were, therefore, generally long, fought by both parties to the bitter end. During the inter-war period, however, changes such as the general abandonment of the gold standard made it much easier to manipulate the value of paper money. My interpretation is that since the inter-war period, inflation has gradually become a complement and partial alternative to industrial disputes for settling distributive conflicts.²⁶ During the post-war period, wage negotiations have therefore gradually turned into first-round skirmishes on the determination of nominal wages. Employers have often been able to withdraw rather quickly from costly industrial disputes to the second round, the raising of product prices and thus the determination of real wages.

The shifting role of industrial disputes, inflation and unemployment in distributive conflicts appears to be related to changes in the distribution of power resources in the Western nations. As indicated above, in a historical perspective the Golden Age of the post-war years stands out as a period during which the position of wage earners in distributive conflicts was stronger than ever before. Increased organizational capacity in unions and left-wing political parties, as well as the generally high demand for labour, contributed to strengthening their position. As a result the functional distribution of income was changed in their favour, with the share of wages showing an increasing trend and profits becoming squeezed.²⁷ In the 1960s and 1970s widespread conflicts flared up, such as the events in France in May 1968, the 'hot autumns' of 1969 in Germany and Italy, and the prolonged miners' strike in Britain in 1973–74. These developments appear eventually to have led to a reconsideration of conflict strategies.

During in 1960s many governments in the OECD countries thus came to view wage inflation and the profit squeeze as increasingly serious problems. Yet up to the early 1970s, the changing functional distribution of income was grudgingly accepted and full employment continued to be given top priority, probably largely because of the fear that a serious recession would have electoral repercussions. Income policies were tried as a way to keep wage increases within limits, but with meagre success. It is hardly surprising that in this situation several governments came to consider other alternatives. In 1970 the OECD produced an important policy document, *Inflation: The Present Problem*, which illustrates the views of influential policy makers in the years before the first oil shock. This policy statement, published well before the oil crisis, comes surprisingly close to recommending unemployment as a cure to inflation and the profit squeeze, and is therefore worth detailed consideration.

In arguing for 'the urgent need to give higher priority to price stability', the OECD made the key observation that 'the problem of inflation arises in part from the very successes of post-war economic policies in other directions – notably in achieving high levels of employment'. Furthermore, the OECD recognized that 'giving higher priority to price stability means giving lower priority to something else' and that 'in a number of countries this may temporarily have to be' growth and employment. The first recommendation of

the OECD for restoring price stability included the statement that 'excess demand should be eliminated and governments should be prepared, where necessary, to accept a temporary reduction in the rate of activity until there are signs that better price stability has been achieved'.²⁸

In its cautious discussion of the proposal to recreate 'the fear of a real recession' as a cure for inflation, the OECD regarded the negative political reactions to such a policy as a major obstacle. 'Today a serious recession would be clearly recognized to be the result of a deliberate policy being followed by the government', while in the 1930s 'it could be thought that this was the result of a natural disaster'. Therefore, 'the fundamental problem is how to get people to exercise the moderation that they would do if they believed that a major recession was possible, without actually having to administer the lesson'.²⁹

The first oil shock hit the Western nations like a natural disaster. OPEC became the catalyst in the administration of the lesson of increasing unemployment, which under these circumstances was not perceived primarily as a result of deliberate government policy. An interpretation close at hand is that the relatively mild political reactions to increasing unemployment strengthened the courage of many policy makers. As Rehn puts it: 'It is possible that the sudden increase in unemployment after the first oil price jump in 1973 was not planned by governments. But when it occurred, they were pleased to see that unemployment was not as dangerous politically as many had thought'.³⁰ Again the OECD urged caution with expansive policies and argued that it was better to accept 'a less rapid reduction of unemployment now, in order to achieve lower levels of unemployment later on'.³¹

The conflict-of-interest or political hypothesis thus suggests that the post-1973 resurgence of unemployment to a considerable extent was a result of strategic choice by governments. The new international economic situation initiated by the OPEC decreased the electoral risks of allowing unemployment to increase and tempted many governments into using unemployment as a cure for inflation, the profit squeeze, and political unrest. This political interpretation would be strengthened if it can be demonstrated that differences in power distributions between countries tended to modify strategic action of government elites and thereby labour market performance after 1973. To analyse this issue we shall have to look at differences in power relations between major

interest groups in these countries as they entered the period of crisis and the patterns of conflict strategies that they generated.

Societal bargaining, pluralism and state-led capitalism

According to the conflict-of-interest hypothesis, in the Western nations differences in the distribution of power resources, institutional structures and historical traditions combine to generate different modes of regulation of class and interest-group conflicts as well as political strategies that affect policy making in relation to unemployment. The dominant patterns of conflict settlement during the 1973–86 period in these countries is assumed to depend on their internal distributions of power resources before 1973 as well as on their long-term modes of conflict regulation. In describing internal distributions of power resources I shall again apply the combined ranking of the two indicators for the long-term strength of the Left – the average proportion of votes for left-wing parties and the proportion of time with Left participation in government – but now for the period 1946 to 1973 (see the Appendix). In the classification of countries according to dominant patterns of conflict settlement in the period 1973–86, it is essential not to use information on the dependent variable – unemployment – but to rely, instead, on independent empirical data, partly quantitative, partly qualitative. Three modes of such long-term conflict strategies – societal bargaining, pluralism and state-led capitalism – can be discerned.

Societal bargaining requires conflicting interest groups to take the interests of the other parties seriously into account over wide fields of potential controversy. This mode tends to rely on different types of informal or formal tripartite bargaining, involving the state, the employers and the unions. The development of societal bargaining is induced by the distribution of power resources between conflicting interest groups, as well as by the circumstances and institutional structures in which this conflict takes place. Societal bargaining is most likely to emerge in countries where during long periods left-wing parties receive a majority of votes and dominate governments. In the West, such left-wing governments have to seek negotiations and informal or formal understandings with the main economic and business interests. If these interest groups accept such a course of action, societal bargaining will devel-

op. This is what has happened in three countries, Sweden, Norway and Austria, which according to our combined ranking stand out as having the highest long-term left-wing strength during the 1946–73 period.

Societal bargaining can also be induced, however, in situations where the Left is relatively weak but where basic institutional factors, such as the form of the constitution, give minority groups a pivotal role in political decision making. In two – but only in two – of our countries, Switzerland and Finland, constitutions give something approaching veto power to relatively small parties. The Swiss constitution, which allows small interest groups to introduce referendums and thus renders the decision-making process cumbersome and uncertain, drives the conservative and liberal parties as well as business interests also to bring the relatively small Social Democratic party and the rather weak unions into formal and informal negotiations before decisions are taken and to accept a minority representation of Social Democrats in the Bundesrat.³² The Finnish constitution, which requires qualified majorities in the Eduskunta for significant legislation to become valid for more than one year, favours broad coalition governments. In the late 1960s some of the severe splits within the Finnish labour movement were overcome, something which generated a change in the mode of conflict regulation in the direction of societal bargaining. Since the early 1970s and up to 1991 Finland has thus had stable Social Democratic minority representation in different coalition governments and long periods of income policies with state involvement.³³

In the remaining countries, according to our indicators, the Left has been either weak or of medium strength with at most only temporary government participation. The dominant or normal mode of regulation of interest group conflict in these countries is a pattern which we can term pluralism. Important characteristics of the pluralist mode are that no enduring understanding is reached between the dominant forces representing business interests and wage-earners and that conflicts of interest are handled more as zero-sum than as positive-sum situations. To some extent, however, the outcome of policy making under pluralism is expected to reflect variations in the relative strength of the Left and the unions.

In taking account of qualitative as well as quantitative data, most comparativists appear to agree that in terms of the pattern of economic

policy making, Japan differs from Europe and North America in significant ways. The mode of economic policy making in Japan has been termed 'state-led capitalism' and involves close co-operation between elites in the state and in the business sector with only a marginal participation by weak and divided labour unions and left-wing parties.³⁴ It is rarely noted, however, that the Japanese pattern of policy making can be seen as an application of a mode of regulation of class and interest group conflicts, which has an intellectual pedigree going back to the time of Bismarck. Central to this mode is a reliance on the classical corporatist strategy to deter the organization of interests among citizens on the basis of class and to hinder broadly-based collective action through measures designed to divide and to segment employees on the bases of occupation and/or enterprise. Thus corporatism, in the original sense of the term, encouraged the segmented integration between employers and employees within enterprises and industries.³⁵ The state elites behind the Meiji restoration and the ensuing modernization of the Japanese economy were directly influenced by Bismarckian conservative, corporatist ideas.³⁶ When adapted to the Japanese situation, the big enterprises became centres for vertical integration and horizontal segmentation.

Since the post-war reconstruction with the challenge from the Left being subdued in the early 1950s, elites in the business sector as well as in the state bureaucracy and the dominant Liberal Democratic party have co-operated closely to bring about a state-led capitalism, where employees are segmented according to the size of enterprise and the nature of their contracts of employment, permanent workers in the big enterprises being especially favoured. Statistical artefacts can probably partly explain the very low levels of unemployment reported in Japan, especially during the early post-war years.³⁷ However, the avoidance of mass unemployment during the first post-war decades appears to have been a price which the conservative leadership in business as well as in politics was willing to pay for a segmented, malleable, and hard-working labour force with only a limited capacity for persistent militancy.³⁸

In Table 4 our eighteen countries are grouped into 3 × 3 categories according to the long-term position of the political Left during the 1946–73 period and according to their dominant strategies in the conflict settlement between the main interest groups in 1973–86. The table indicates that

the long-term strength of the Left is of relevance for modes of conflict settlement. As discussed above, the societal bargaining countries are distinguished from the pluralist ones on the basis of hard, quantitative data referring either to long-term left-wing political strength (Austria, Norway and Sweden) or to the presence of constitutional characteristics giving a pivotal position to minority interest groups (Finland and Switzerland). It goes without saying that a considerable degree of give and take as well as informal understandings between the government, unions and employers also occurs in the pluralist countries, for example in Germany and the Netherlands. The relatively weak position of the Left in these countries is here used as an indicator that this type of exchange takes place in the context of a power distribution which differs from that in the societal bargaining countries. As discussed above, quantitative as well as qualitative information indicates that the political strategies of governing elites in Japan differ from those in the other countries with relatively weak unions and left-

Table 4: Long-Term Strength of the Political Left 1946–73 and Dominant Patterns of Conflict Settlements in Eighteen OECD Countries, 1973–86.

Dominant pattern of conflict, settlement, 1973–86			
Longterm position of political Left, 1946–73*	Societal bargaining	Pluralism	State-led capitalism
Strong	Sweden Norway Austria		
Medium	Finland Switzerland	Denmark United Kingdom Belgium New Zealand Australia Netherlands Italy Germany	
Weak		France Ireland Canada United States	Japan

* Based on combined ranks in terms of percentage for the Left votes and time with Left government participation, 1946–1973.

Sources: see Appendix.

wing parties, something which in this context puts it in a category of its own.

Have long-term left-wing strength and patterns of conflict strategies, as outlined above, been of importance for the development of unemployment during the post-1973 crises? To this question we now turn.

Strategies of conflict regulation and the post-1973 crises

The relationships between dominant modes of conflict strategies and the development of unemployment in our eighteen countries during the 1973–86 period can be only briefly sketched here. On the whole the political or conflict-of-interest hypothesis can generate plausible accounts of the differences in unemployment between the countries (see Table 5). The average level of unemployment in 1985–86 was thus clearly lower in countries with either societal bargaining (3.1 per

cent) or state-led capitalism (2.7 per cent) than in the pluralist countries (9.7 per cent). New Zealand, with a history of practically no registered unemployment up to the 1970s, is the only pluralist country with a comparatively low level of unemployment.

Changes in average levels of unemployment from 1972–73 to 1985–86 follow an interesting pattern. The largest increases in unemployment have tended to come in the pluralist countries with a Left of medium strength. In countries characterized by societal bargaining increases in unemployment have been small. The bourgeois governments in Sweden (1976–82) and in Norway (1981–86) came to power when long periods of full employment had been associated with, and also largely maintained by, Social Democrats. Full employment was thus still seen by voters not only as a desirable but also as a realistic goal. The new bourgeois governments therefore faced strong strategic incentives not to be the first ones

Table 5: Unemployment and Labour Force Participation (as Percentage of Population, 15–64 Years), 1973–1986 in Eighteen OECD Countries According to Dominant Pattern of Conflict Settlement, 1973–86, and Long-Term Strength of Political Left, 1946–73.

Pattern of conflict settlement and longterm left strength		Unemployment		Male labour force participation		Female labour force participation	
		Level 1985/86	Change 1972/73 to 1985/86	Level 1986	Change 1973 to 1986	Level 1986	Change 1973 to 1986
<i>Societal bargaining</i>							
Strong Left	Sweden	2.8	0.2	84.1	-4.0	78.3	15.7
	Norway	2.3	0.7	87.3	2.6	71.0	20.4
	Austria	4.3	3.1	78.5	-8.6	54.0	2.1
Medium Left	Finland	5.2	2.8	81.9	-2.2	73.5	6.8
	Switzerland	0.9	0.4	89.5	-11.1	53.9	-0.2
<i>Pluralism</i>							
Medium Left	Denmark	8.5	7.6	88.4	-1.2	76.5	14.6
	United Kingdom	11.2	7.7	87.9	-5.1	61.0	7.9
	Belgium	11.3	8.6	75.4	-9.2	51.3	8.8
	New Zealand	4.3	4.0	83.2	-6.0	47.6	8.4
	Australia	8.1	5.6	85.6	-5.8	57.3	9.5
	Netherlands	10.3	8.1	75.1	-10.5	41.1	11.9
	Italy	10.7	4.4	79.3	-5.6	42.3	8.4
Weak Left	Germany	7.1	6.3	79.8	-9.3	51.1	1.5
	France	10.3	7.6	76.3	-9.0	56.3	6.3
	Ireland	17.4	11.4	85.1	-7.2	37.2	3.1
	Canada	10.0	4.1	85.1	-1.0	63.5	16.3
	United States	7.0	1.8	84.4	-1.0	64.9	13.8
<i>State-led capitalism</i>							
Weak Left	Japan	2.7	1.3	87.6	-2.4	57.4	3.3

Source: see the Appendix.

to allow major increases in unemployment, a development which could have discredited this political tendency for a long time to come. In the 1980s, however, the Austrian socialists were unable to maintain unemployment at the earlier very low levels.³⁹

Among the societal bargaining countries we can discern some effects of the long-term political strength of the Left on labour market performance. Thus Austria, Norway and Sweden (with a politically strong Left) have lower levels of unemployment than Finland, a country with a Left of medium strength. However in Switzerland the extremely low level of recorded unemployment does not fully reveal the contours of a class compromise involving a weak labour movement. Whereas in Norway, Sweden and Finland male labour-force participation rates have been largely maintained and female rates have markedly increased, in Switzerland full employment has been limited to the native male labour force, while a large proportion of foreign labour has been expelled and female labour-force participation has been frozen.⁴⁰ Similar tendencies, although much less marked, can also be observed in Austria and in Germany.⁴¹

In Japan the first oil shock came when popular support for the ruling LDP was crumbling for the first time during the post-war period. So here, too, the government had a strong incentive, as well as the capacity, to avoid drastic increases in unemployment.⁴² Male participation rates have been relatively stable, while female rates have increased less than in most other countries.

Among the pluralist countries, left-wing governments (with much weaker political support than those in Sweden, Norway and Austria) failed in their efforts to maintain full employment, while centrist and conservative governments also permitted a high unemployment level. Thus all major government alternatives were discredited on the issue of full employment, which therefore may have come to be seen as unrealistic by voters. In these countries, male labour-force participation has decreased considerably, while female rates have increased in varying degrees. In the United States, Canada and Denmark, however, male rates have been largely maintained while female rates have markedly increased.

Labour market institutions

In the political interpretation of unemployment proposed here, labour market institutions and

wage-setting procedures appear as intervening variables, which mediate the effects from, and are affected by, the distribution of power resources.⁴³ 'Neo-corporatist' explanations of unemployment, however, do accord central roles to labour market institutions and wage-setting procedures as independent variables.⁴⁴ The interest in neo-corporatism signifies a potentially valuable attention to the role of institutions for labour market performance.⁴⁵ The various rankings of countries according to degree of neocorporatism may perhaps tap something of relevance for unemployment.⁴⁶ Yet it is highly problematic to view institutions and patterns of policy making on the labour market as causal variables. While institutions which are very difficult to change, such as constitutions, may have long-term constraining effects on policy choices, labour market institutions and patterns of wage setting in the European countries and more recently in Australia have varied over time in ways which are often not reflected in the indices of neo-corporatism or centralization. Furthermore, efforts to classify Western countries according to their degree of neo-corporatism show only modest agreement among themselves and with the classification proposed here.

Thus, while Austria, Norway and Sweden, which in the power resources perspective are characterized by societal bargaining resulting from politically strong labour movements, are usually classified as highly neo-corporatist, the Netherlands as well as Germany, Belgium and Denmark also tend to be regarded as neo-corporatist and this has not prevented them from accepting high levels of unemployment. On the other hand, Finland and Switzerland, with low levels of unemployment, are generally not seen as neo-corporatist. It has also been very difficult to fit Japan into a unidimensional scale of neo-corporatism.⁴⁷ The approach proposed here suggests that while institutions on the labour market to some extent have constrained policy choices, their role in this context has been limited.

Discussion

Against the background of the 1920s and 1930s, the present rates of unemployment in the Western nations do not appear as anomalous. In a historical perspective it is instead the rise and demise of full employment during the post-war decades that cries out for an explanation. We have here contrasted a market-oriented, neo-classical

economic approach with a conflict-oriented political approach in attempts to explain these turning points of the long waves of unemployment as well as the remaining variations in unemployment in the eighteen countries.

The neo-classical view that unemployment is a result of the raising of the price of labour above its warranted level can contribute only a little to the explanation of the reversals of the long waves of unemployment and its variation between countries. Claims made by some academic scholars as well as by the OECD that the supply shock and real wage gap hypothesis can explain the post-1973 upsurge of unemployment turn out to be largely based on an incorrect specification of the models to be tested. The widely used 'Euro-sclerosis' interpretation based on contrasts in labour market performance between Europe on the one hand and the United States and Japan on the other fails to account for the considerable variations in unemployment among European countries as well as for the contrasting post-war histories of unemployment in Japan and the United States.

Furthermore the wage gap hypothesis comes close to making the assumption that it is possible, in some objective sense, to determine the 'warranted' level of wage increases, and thereby the functional distribution of income between profits and wages. This approach thus tends to define away basic conflicts of interest in Western societies. Alternatively, this approach assumes that the functional distribution of income should remain stable over time, and then overlooks the fact that in the past it has changed considerably without obvious repercussions on unemployment. Therefore this economic approach must be complemented by a conflict or political approach.

The conflict-oriented political approach recognizes that while economic power resources are unequally distributed between socio-economically defined interest groups, political power resources are less unequally distributed, something which tends to create tensions between markets and politics in Western societies. Distributive strife finds its expression in areas such as industrial disputes, inflation and the determination of unemployment levels. In a long-term perspective one of the most salient political changes in Western societies during the twentieth century has been the gradual strengthening of left-wing parties and labour unions, and their dramatic move in the years following the Second World War from the fringes to the centre of the political

scene. I have argued that this underlying change in the distribution of power resources between the main interest groups has affected the intensity and forms of distributive strife, changing the character of industrial conflicts, bringing inflation into a key role and making variations in unemployment both a means and an outcome of these conflicts.

The conflict-oriented political hypothesis assumes that the relative strength of left-wing political parties is of importance for the development of conflict strategies and for policy-making about unemployment. Contrary to what is often done, however, in the testing of this hypothesis we must not only apply causal but also intentional analysis. Thus, in addition to the direct, 'transmission belt' type of effects studied in the conventional causal approach, we must consider indirect effects of partisan politics generated by strategic action in varying contexts of party competition, where shifting distributions of power resources, the credibility of different policy alternatives, as well as institutional structures are of significance. Because of data limitations it is not possible here to subject this political hypothesis to an elegant formal empirical test. Analyses and data adduced here would, however, appear to give plausible accounts of the turning points of the two latest long waves of unemployment. This approach can also largely account for the generally ignored variation in unemployment between countries during the Golden Age as well as the post-1973 period.

For those viewing the Western democracies as societies in basic harmony, where free competition contributes to the welfare of all, the conflict-of-interest interpretation of the post-1973 increase in unemployment may suggest a conspiracy. However, as the OECD has amply documented, influential policy-makers saw the prevailing full employment as causing wage inflation as well as a profit squeeze some time before the first oil shock. The conflict-of-interest hypothesis only implies that in the face of the severe economic disturbances generated by the oil shocks, some governments have been less than maximally engaged in the complicated efforts to maintain full employment. This became politically possible since the oil shocks made increased unemployment appear more as a natural disaster than a deliberate government policy.

I am not postulating a linear relationship between left-wing strength and unemployment. Instead, historical and national circumstances form the stage for the development of modes-of-con-

flict regulations, party competition and strategic action which affect levels of unemployment. Up to 1973 party competition generated near full employment in all but those countries where the Left was not a realistic government alternative. After the oilshocks, when unemployment was more frequently seen as the result of international developments rather than of national policies, near to full employment could be maintained only in the few countries, apart from Japan, where the Left had traditionally formed majority governments or where constitutions gave minority parties a strong leverage in coalition governments.⁴⁸

The *hysteresis* interpretation of the persistence of unemployment gives it the character of inertia, yet, as we have seen, during the years after the Second World War it was possible in most countries to break the vicious circle of unemployment. In the late 1980s, however, among the pluralist countries, unemployment had receded to its – in this case relatively high – pre-1973 level only in the United States. This difference between the pluralist countries can be interpreted in terms of the conflict-of-interest hypothesis. In the United States the Left in the European sense is weak and in recent decades unionization has decreased to the extent that the US labour market is now practically non-unionized. This situation has generated a high degree of real wage flexibility, whereas in Europe wage earners have been better able to cushion themselves against inflation. In contrast to Europe, in the United States the need to maintain a very high level of unemployment to counteract wage increases would therefore appear to be lower.⁴⁹

While the long debate on neo-corporatism has drawn attention to the potential significance of institutional structures in policy making, attempts to force industrialized Western countries into an one-dimensional neo-corporatism continuum have failed. In the power-resources perspective, institutions are seen not as actors or as independent variables. In this perspective institutions appear instead as the product of investments of power resources intended to increase efficiency in the use of power resources, or as the residues of open conflicts which were settled through the creation or modification of institutions. Once in existence institutions play the role of intervening variables which mediate the effects of the distribution of power resources and set the stage for distributive conflicts as well as for different types of long-term conflict strategies. From this per-

spective the Japanese model can be seen as an adaptation of the classical corporatist strategy. The Finnish and Swiss constitutions have been of significance in modifying the conflict strategies which the distribution of power resources in these countries would otherwise have generated. In Sweden, Norway and Austria the long-term strong position of the Left generated strategies of action in the conservative and centrist parties which kept unemployment at low levels up to the mid-1980s.

While economic factors clearly put constraints on policy making, the analysis here indicates that power distributions and partisan politics have been of significance for policy making in relation to unemployment. The political factors, however, have not only or primarily worked through 'transmission belt' processes but rather by affecting the conditions for party competition as well as the alternative forms which distributive conflicts take in Western societies.

Notes

* Swedish Institute for Social Research, Stockholm University. This article also appears in *The British Journal of Political Science*. It is part of an ongoing study of welfare state development in eighteen OECD countries based at the Swedish Institute for Social Research, Stockholm University. It has been supported by the Swedish Social Science Research Council and the Bank of Sweden Tercentenary Foundation. I wish to thank Ulla Carlstedt and Ingemar Kåreholt for superb assistance towards my work on this article. It was presented at the sessions of the Research Committee on Poverty, Social Welfare and Social Policy at the 1990 ISA Congress in Madrid and the European Association of Labour Economists in Lund 1990. My thanks are also due to George Alogoskoufis for giving me access to the LSE macroeconomic data bank. For helpful and generous comments on the manuscript I wish to thank Rune Åberg, Jaime Behar, Francis G Castles, Robert Erikson, Ante Farm, Ian Gough, Ed Granic, Peter Hedström, Olli Kangas, Martin Paldam, Joakim Palme, Manfred Schmidt, Michael Shalev, Robin Stryker, Göran Therborn and Eskil Wadensjö as well as anonymous referees and the editor.

¹ W Beveridge, *Social Insurance and the Allied Services* (London: HMSO, 1942), p 164.

² A Maddison, *Phases of Capitalist Development* (Oxford: Oxford University Press, 1982).

³ A Okun, *The Political Economics of Prosperity* (Washington, DC: The Brookings Institution, 1970).

⁴ For example, J E Alt, 'Political Parties, World De-

- mand, and Unemployment: Domestic and International Sources of Economic Activity', *American Political Science Review*, 79 (1985), 1016–40; M G Schmidt, 'The Welfare State and the Economy in Periods of Economic Crisis: A Comparative Study of Twenty-three OECD Nations', *European Journal of Political Research*, 11 (1983), 1–26; G Therborn, *Why Some Peoples Are More Unemployed Than Others* (London: Verso, 1986; D A Hibbs, 'Political Parties and Macroeconomic Policy', *American Political Science Review*, 71 (1977), 1467–87.
- ⁵ For introductions to and reviews of this large literature, see J F Helliwell, 'Comparative Macroeconomics of Stagflation', *Journal of Economic Literature*, (1988), 1–28; R Z Lawrence, and CL Schultze, eds, *Barriers to European Growth: A Transatlantic View* (Washington, DC: The Brookings Institution, 1987); CR Bean, PR G Layard and SJ Nickell, 'The Rise in Unemployment: A Multi-Country Study', *Economica* (Supplement), 53 (1986), 1–22; G E Johnson and PR G Layard, 'The Natural Rate of Unemployment: Explanation and Policy', chap 16 in OC Ashenfelter and R Layard, eds, *Handbook of Labor Economics*, vol 2 (Amsterdam: North-Holland, 1986); CA Greenhalgh, PR G Layard and A J Oswald, eds, *The Causes of Unemployment* (Oxford: Clarendon Press, 1983).
- ⁶ For example, R Cross, ed, *Unemployment, Hysteresis & the Natural Rate Hypothesis* (Oxford Basil Blackwell, 1988); JO Blanchard and LH Summers, 'Hysteresis and the European Unemployment Problem', in S Fischer, ed, *NBER Macroeconomics Annual* (Cambridge, Mass: MIT Press, 1986).
- ⁷ The exceptionally high rates of unemployment in many European countries have also been interpreted as a failure of European management systems, labour relations, capital market institutions and government policies to adapt from the Golden Age based on catch-up technologies and to move up to the technological frontiers of post-industrial society, involving automation and microprocessors. Competition from the newly industrializing countries has also been suggested as a cause of increasing unemployment in the OECD area.
- ⁸ For example, D Grubb, R Jackman and R Layard, 'Causes of the Current Stagflation', *Review of Economic Studies*, 49 (1982), 707–30; DT Coe and J Gagliardi, 'Nominal Wage Determination in Ten OECD Economies' *OECD, Economics and Statistics Department Working Papers* (Paris: OECD, 1985); J D Sachs, 'Real Wages and Unemployment in the OECD Countries', *Brookings Papers on Economic Activity*, 1 (1983), 225–304; M Bruno and J D Sachs, *Economics of Worldwide Stagflation* (Cambridge, Mass: Harvard University Press, 1985); M Bruno, 'Aggregate Supply and Demand Factors in OECD Unemployment: An Update', *Economica* (Supplement), 53 (1986), 35–52; *Economic Outlook*, No 21 (1977), 61–4; OECD, *Economies in Transition: Structural Adjustments in OECD Countries* (Paris: OECD, 1989).
- ⁹ For example, OECD, *Economies in Transition: Structural Adjustment in OECD countries*, p33ff; Bruno and Sachs; *Economics of Worldwide Stagflation*, chap 9; M Bruno, 'Aggregate Supply and Demand Factors in OECD Unemployment: An Update', *Economica* (Supplement), 53 (1986), 35–52.
- ¹⁰ The wage gap measure is illustrated in OECD, *Economies in Transition*, p35. Although this type of measure differs somewhat from the one originally developed by Bruno and Sachs, it has been used also by them (Bruno and Sachs, *Economics of Worldwide Stagflation*, pp229–30). Non-wage labour costs are not available for Australia, Denmark and New Zealand, but are known to be comparatively small in these countries.
- ¹¹ Bruno and Sachs, *Economics of Worldwide Stagflation*, p185.
- ¹² JW Kendrick, 'International Comparisons of Recent Productivity Trends', in W Fellner, ed, *Contemporary Economic Problems* (Washington, DC: American Enterprise Institute, 1981); Bruno and Sachs, *Economics of Worldwide Stagflation*, chap 12; A Maddison, 'Growth and Slowdown in Advanced Capitalist Economies: Techniques of Quantitative Assessment', *Journal of Economic Literature*, 25 (1987), 649–98.
- ¹³ Examples of such factors are the search intensity of unemployed workers and the degree of mismatch between vacancies and the unemployed. In Britain, however, the degree of mismatch does not appear to have increased. See R Layard, *How to Beat Unemployment* (Oxford: Oxford University Press, 1986; R Jackman and S Roper, 'Structural Unemployment', *Oxford Bulletin of Economics and Statistics*, 49 (1987), 9–36.
- ¹⁴ M Kalecki, *The Last Phase in the Transformation of Capitalism* (New York and London: Monthly Review Press, 1943, 1972), p75.
- ¹⁵ W Korpi, 'Power Resources Approach vs Action and Conflict: On Causal and Intentional Explanation in the Study of Power', *Sociological Theory*, 3 (1985), 31–45.
- ¹⁶ ES Kirschen, J Benard, H Besters, F Blackaby, O Eckstein, J Faaland, F Hartog, L Morissens and E Tosco, *Economic Policy in Our Time*, vol 1 (Amsterdam: North-Holland, 1964), pp224–9. The study included Belgium, France, Germany, Italy, the Netherlands, Norway, the United Kingdom and the United States.
- ¹⁷ For a discussion of causal and intentional explanations see J Elster, *Explaining Technical Change* (Cambridge: Cambridge University Press, 1983).
- ¹⁸ A Downs, *An Economic Theory of Democracy*, (New York: Harper, 1957).
- ¹⁹ Alt, 'Political Parties, World Demand, and Unemployment: Domestic and International Sources of

- Economic Activity'; A Alesina, 'Macroeconomics and Politics', *NBER Macroeconomic Annual* (Cambridge, Mass: MIT Press, 1988).
- ²⁰ A Boltho, 'Did Policy Activism Work?', *European Economic Review*, 33 (1989), 1709–26. A Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London: Oxford University Press, 1965), p.63. See also A Maddison, *Phases of Capitalist Development* (Oxford: Oxford University Press, 1982), chaps 5 and 6.
- ²¹ M Duverger, *Political Parties: Their Organization and Activity in the Modern State* (New York: Wiley, 1958), p. xxvii.
- ²² For each country the average percentage of votes for the Left from 1919 to 1959 and the percentage of time with at least one left-wing party represented in the government, are given in the Appendix. To adjust left-wing strength for the severe splits among left-wing parties in Finland, France and Italy, only one-third of the time with left-wing government participation is taken into account in these countries. Left-wing parties are here defined as the traditional social democratic parties and the parties to their left.
- ²³ M Weir, 'Full Employment as a Political Issue in the United States', *Social Research*, 54 (1987), 377–402.
- ²⁴ F Hirsch, 'The Ideological Underlay of Inflation', in F Hirsch and JH Goldthorpe, eds, *The Political Economy of Inflation* (London: Martin Robertson, 1978), pp 263–84; JH Goldthorpe, 'The Current Inflation: Towards a Sociological Account', in Hirsch and Goldthorpe, eds, *The Political Economy of Inflation*, pp 186–216; A O Hirschman, 'Reflections on the Latin American Experience', in LN Lindberg and CS Maier, eds, *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies* (Washington, DC: The Brookings Institution, 1985), pp 53–77.
- ²⁵ W Korpi and M Shalev, 'Strikes, Power, and Politics in the Western Nations, 1900–1976', in M Zeitlin, ed, *Political Power and Social Theory; A Research Annual*, vol 1 (Greenwich, Conn: JAI Press, 1980), pp 301–34.
- ²⁶ Cf also W Korpi, *The Democratic Class Struggle* (London: Routledge, 1983), pp 182–3.
- ²⁷ OECD, *Inflation: The Present Problem. Report by the Secretary General* (Paris, OECD, 1970), pp 63–6.
- ²⁸ OECD, *Inflation: The Present Problem*, pp 8–10.
- ²⁹ OECD, *Inflation: The Present Problem*, p 35.
- ³⁰ G Rehn, 'State, Economic Policy and Industrial Relations in the 1980s: Problems and Trends', *Economic and Industrial Democracy*, 8 (1987), 61–79.
- ³¹ OECD, *Towards Full Employment and Price Stability* (Paris: OECD, 1977), p 26.
- ³² P J Katzenstein, 'Capitalism in One Country? Switzerland in the International Economy', *International Organization*, 34 (1980), 507–40; F Lehner, 'Con-sociational Democracy in Switzerland: A Political-Economic Explanation and Some Empirical Evidence', *European Journal of Political Research*, 12 (1984), 25–42; H Kriesi, *Entscheidungsstrukturen und Entscheidungsprozesse in der Schweizer Politik* (Frankfurt: Campus, 1980).
- ³³ J Nousiainen, *The Finnish Political System* (Cambridge, Mass: Harvard University Press, 1971). Up to 1987, the Conservative party in Finland was considered unfit to participate in the government because of its previous stands in relation to the Soviet Union, something which weakened the bourgeois side. Up to the end of the 1960s, however, Finland appears to have largely followed the pluralistic pattern of conflict settlements. Concerning incomes policies see K Armingeon, 'Formation and Stability of Neo-Corporatist Incomes Policies: A Comparative Analysis', *European Sociological Review*, 2 (1986), 138–47.
- ³⁴ T J Pempel, *Policy and Politics in Japan: Creative Conservatism* (Philadelphia: Temple University Press, 1982); T J Pempel, and K Tsunekawa, 'Corporatism Without Labor? The Japanese Anomaly', in PC Schmitter and G Lehmbruch, eds, *Trends Toward Corporatist Intermediation* (Beverly Hills, Calif: 1979), pp 231–70; M Shalev, 'Class Conflict, Corporatism and Comparison: A Japanese Enigma', in SN Eisenstadt and E Ben-Ari, eds, *Japanese Models on Conflict Resolution* (London: Kegan Paul, 1989).
- ³⁵ J Messner, *Die Soziale Frage im Blickfeld der Irrwege von Gestern, der Sozialkämpfe von Heute, der Weltentscheidung von Morgen*, 7th revised edn (Innsbruck: Tyrolia Verlag, 1964).
- ³⁶ B Martin, 'Japans Weg in die Moderne und das deutsche Vorbild: Historische Gemeinsamkeiten zweier "verspäteter Nationen" (1860–1960)', in B Martin, ed, *Japans Weg in die Moderne: Ein Sonderweg nach deutschem Vorbild?* (Frankfurt/New York: Campus, 1986), pp 17–44.
- ³⁷ A Ernst, 'Arbeitslosigkeit und Unterbeschäftigung in Japan. Eine Übersicht zum Stand der Empirischen Forschung', *Mitteilungen aus der Arbeitsmarkt und Berufsforschung*, II (1978), 34–49; K Taira, 'Japan's Low Unemployment: Economic Miracle or Statistical Artifact', *Monthly Labor Review*, 106 (1983), 3–10; C Sorrentino, 'Japan's Low Unemployment: An In-Depth Analysis', *Monthly Labor Review*, 107 (1984), 18–27.
- ³⁸ Up to the early 1970s, relatively short industrial disputes with a wide participation (the *shunto*) were important in Japan.
- ³⁹ F Scharpf, *Sozialdemokratische Krisenpolitik in Europa* (Frankfurt/New York: Campus, 1987).
- ⁴⁰ From 1973 to 1977 the immigrant proportion of the labour force in Switzerland declined by 5.3 per cent Cf. M G Schmidt, *Der Schweizerische Weg zur Vollbeschäftigung: Eine Bilanz der Beschäftigung, der Arbeitslosigkeit und der Arbeitsmarktpolitik* (Frankfurt: Campus, 1985, p 30). Note that in Switzerland

- a large number of 'guest workers' are not registered as inhabitants and therefore before 1973 among men the labour force participation rate exceeded 100 per cent.
- ⁴¹ Between 1973 and 1978 the decrease of the immigrant proportion of the labour force amounted to roughly 1.5 per cent in Austria and somewhat above 2 per cent in Germany (cf data in Scharpf, *Sozialdemokratische Krisenpolitik in Europa*, p72).
- ⁴² K Yamamura, 'The Cost of Rapid Growth and Capitalist Democracy in Japan', in LN Lindberg and CS Maier, eds, *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies* (Washington, DC: The Brookings Institution, 1985), pp 467–508.
- ⁴³ For a discussion of the concept of the intervening variable cf. T Hirschi and H C Selvin, 'Principles of Causal Analysis', in PF Lazarsfeld, A K Pasanella and M Rosenberg, eds, *Continuities in the Language of Social Research* (New York: The Free Press, 1972).
- ⁴⁴ For example, C Crouch, 'Conditions for Trade Union Wage Restraint', in Lindberg and Maier, eds, *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies*, pp 105–39; Bruno and Sachs, *Economics of Worldwide Stagflation*; JM Callum, 'Unemployment in OECD Countries in the 1980s', *Economic Journal*, 96 (1986), 942–60. For definitions of 'neo-corporatism' see, for example, PC Schmitter, 'Interest Intermediation and Regime Governability in Contemporary Western Europe and North America', in S Berger, ed, *Organizing Interests in Western Europe* (Cambridge: Cambridge University Press, 1981); G Lehbruch, 'Concertation and the Structure of Corporatist Networks', in JH Goldthorpe, ed, *Order and Conflict in Contemporary Capitalism: Studies in the Political Economy of Western European Nations* (Oxford: Clarendon Press, 1984), pp 60–80. For a discussion of the role of encompassing unions, cf M Olsson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).
- ⁴⁵ For the historically informed, however, the recent use of the term corporatism to refer to broad, class-based collective action involving encompassing unions appears as a misnomer, which stands the original concept of corporatism on its head. Up to the Second World War the theory of corporatism was in fact used to *counteract* this type of broadly based collective action via encompassing unions and to hinder the organization of workers' interests on the basis of class. The classical corporatist model prescribed, instead, the creation of segmented, much more narrow bases for collective action and organization of workers' interests, primarily occupations (corporations) or the enterprise. Cf J Messner, *Die Soziale Frage im Blickfeld der Irrwege von Gestern, der Sozialkämpfe von Heute, der Weltentscheidung von Morgen*.
- ⁴⁶ Rank correlations between average unemployment levels in 1985–86 and 'neo-corporatism', according to Bruno and Sachs, Lehbruch and Schmitter are –0.37, –0.29, and –0.60, respectively, while the corresponding correlations for increases in unemployment are –0.11, –0.14, and –0.33, respectively.
- ⁴⁷ Shalev, 'Class Conflict, Corporatism and Comparison: A Japanese Enigma'.
- ⁴⁸ As G Therborn (*Why Some Peoples Are More Unemployed Than Others*) has pointed out, the societal bargaining countries are outside the EEC and have therefore had more room for economic-political manoeuvring.
- ⁴⁹ It is striking that in the early 1980s the Reagan administration was much more daring in its use of expansionary measures than the conservative governments in Germany and also in Britain, although the latter country did not suffer from the second oil shock. See J Tobin, 'Impasse of the 1980s: Locomotives who Can't or Won't' *The World Economy*, 7 (1984), 5–22.

Literature

- Alesina, A, 1988, 'Macroeconomics and Politics', *NBER Macroeconomic Annual*, Cambridge, Mass: MIT Press
- Alesina, A, 1989, 'Politics and Business Cycles in Industrial Democracies', *Economic Policy*, 57–98
- Alt, JE, 1985 'Political Parties, World Demand, and Unemployment: Domestic and International Sources of Economic Activity', *American Political Science Review*, 79, 1016–40
- Armington, K, 1986, 'Formation and Stability of Neo-Corporatist Income Policies: A Comparative Analysis', *European Sociological Review*, 2, 138–47
- Bean, CR, PRG Layard & SJ Nickell, 'The Rise in Unemployment: A Multi-Country Study', *Economica* (Supplement), 53, 1–22
- Beveridge, W, 1942, *Social Insurance and the Allied Services*. London: HMSO
- Blanchard, JO & LH Summers, 1986, 'Hysteresis and the European Unemployment Problem', in S Fischer, ed, *NBER Macroeconomic Annual*, Cambridge, Mass: MIT Press
- Boltho, A, 1989, 'Did Policy Activism Work?', *European Economic Review*, 33, 1709–26
- Bruno, M, 1986, 'Aggregate Supply and Demand Factors in OECD Unemployment: An Update', *Economica* (Supplement), 53, 35–52
- Bruno, M & JD Sachs, 1985, *Economics of Worldwide Stagflation*, Cambridge, Mass: Harvard University Press
- Callum, JM, 1986, 'Unemployment in OECD Countries in the 1980s', *Economic Journal*, 96, 942–60
- Coe, DT & J Gagliardi, 1985 'Nominal Wage Determination in Ten OECD Economies', *OECD, Economics and Statistics Department Working Papers*, Paris: OECD

- Cross, R, ed, 1988, *Unemployment, Hysteresis, & the Natural Rate Hypothesis*, Oxford: Basil Blackwell
- Crouch, C, 1985 'Conditions for Trade Union Wage Restraint', pp 105–39 in LN Lindberg & CS Maier, eds, *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies*, Washington, DC: The Brookings Institution
- Downs, A, 1957, *An Economic Theory of Democracy*, New York: Harper
- Duverger, M, 1958, *Political Parties: Their Organization and Activity in the Modern State*, New York: Wiley
- Elster, J, 1983, *Explaining Technical Change*, Cambridge: Cambridge University Press
- Ernst, A, 1978, 'Arbeitslosigkeit und Unterbeschäftigung in Japan. Eine Übersicht zum Stand der Empirischen Forschung', *Mitteilungen aus der Arbeitsmarkt und der Berufsforschung*, 11, 34–49
- Goldthorpe, JH, 1978, 'The Current Inflation: Towards a Sociological Account', pp 186–216 in F Hirsch & JH Goldthorpe, eds, *The Political Economy of Inflation*, London: Martin Robertson
- Greenhalgh, CA, PRG Layard & AJ Oswald, eds, 1983, *The Causes of Unemployment*, Oxford: Clarendon Press
- Grubb, D, R Jackman & R Layard, 1982, 'Causes of the Current Stagflation', *Review of Economic Studies*, 49, 707–30
- Helliwell, JF, 1988, 'Comparative Macroeconomics of Stagflation', *Journal of Economic Literature*, 26, 1–28
- Hibbs, DA, 1977, 'Political Parties and Macroeconomic Policy', *American Political Science Review*, 71, 1467–87
- Hirsch, F, 1978, 'The Ideological Underlay of Inflation', pp 263–84 in F Hirsch & JH Goldthorpe, eds, *The Political Economy of Inflation*, London: Martin Robertson
- Hirsch, T & HC Selvin, 1972, 'Principles of Causal Analysis' in PF Lazarsfeld, AK Pasanella & M Rosenberg, eds, *Continuities in the Language of Social Research*, New York: The Free press
- Hirschman, AO, 1985, 'Reflection on the Latin American Experience', pp 53–57 in LN Lindberg & CS Maier, eds, *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies*, Washington, DC: The Brookings Institution
- Jackman, R & S Roper, 1987, 'Structural Unemployment', *Oxford Bulletin of Economics and Statistics*, 49, 9–36
- Johnson, GE & PRG Layard, 1986, 'The Natural Rate of Unemployment: Explanation and Policy', chap 16 in OC Ashenfelter & R Layard, eds, *Handbook of Labor Economics*, vol 2, Amsterdam: North-Holland
- Kalecki, M, 1943, 1972, *The Last Phase in the Transformation of Capitalism*, New York & London: Monthly Review Press
- Katzenstein, PJ, 1980, 'Capitalism, in One Country? Switzerland in the International Economy', *International Organization*, 34, 507–40
- Kendric, JW, 1981, 'International Comparisons of Recent Productivity Trends', W Fellner, ed, *Contemporary Economic Problems*, Washington, DC: American Enterprise Institute
- Kirschen, ES, J Benard, H Besters, F Blackaby, O Eckstein, J Faaland, F Hartog, L Morissens & E Tosco, 1964, *Economic Policy in Our Time*, vol 1, Amsterdam: North-Holland
- Korpi, W, 1983, *The Democratic Class Struggle*, London: Routledge
- Korpi, W, 1985, 'Power Resources Approach vs Action and Conflict: On Causal and Intentional Explanation in the Study of Power', *Sociological Theory*, 3, 31–45
- Korpi, W & M Shalev, 1980, 'Strikes, Power, and Politics in the Western Nations, 1900–1976', pp 301–34 in M Zeitlin, ed, *Political Power and Social Theory; A Research Annual*, vol 1, Greenwich, Conn: JAI Press
- Kriesi, H, 1980, *Entscheidungsstrukturen und Entscheidungsprozesse in der Schweizer Politik*, Frankfurt: Campus
- Lawrence, RZ & CL Schultze, eds, 1987, *Barriers to European Growth: A Transatlantic View*, Washington, DC: The Brookings Institution
- Layard, R, 1986, *How to Beat Unemployment*, Oxford: Oxford University Press
- Lehmbruch, G, 1984, 'Concertation and the Structure of Corporatist Networks', pp 60–80 in JH Goldthorpe, ed, *Order and Conflict in Contemporary Capitalism: Studies in the Political Economy of Western European Nations*, Oxford: Clarendon Press
- Lehner, F, 1984, 'Consociational Democracy in Switzerland: A Political-Economic Explanation and Some Empirical Evidence', *European Journal of Political Research*, 12, 25.42
- Maddison, A, 1982, *Phases of Capitalist Development*. Oxford: Oxford University Press
- Maddison, A, 1987, 'Growth and Slow-down in Advanced Capitalist Economies: Techniques of Quantitative Assessment', *Journal of Economic Literature*, 25, 649–98
- Martin, B, 1986, 'Japans Weg in die Moderne und das deutsche Vorbild: Historische Gemeinsamkeiten zweier "verspäteter Nationen" (1860–1960)', pp 17–44 in B Martin, ed, *Japans Weg in die Moderne. Ein Sonderweg nach deutschem Vorbild?* Frankfurt/New York: Campus
- Messner, J, 1964, *Die Soziale Frage im Blickfeld der Irrwege von Gestern, der Sozialkämpfe von Heute, der Weltentscheidung von Morgen*, 7th revised edn, Innsbruck: Tyrolia Verlag
- Nousiainen, J, 1971, *The Finnish Political System*, Cambridge, Mass: Harvard University Press
- OECD, 1970, *Inflation: The Present Problem. Report by the Secretary General*, Paris: OECD
- OECD, 1977, *Towards Full Employment and Price Stability*, Paris: OECD

- OECD, 1977, *Economic Outlook*, No 21, 61–4
- OECD, 1989, *Economies in Transition: Structural Adjustments in OECD Countries*, Paris: OECD
- Okun, A., 1970, *The Political Economics of Prosperity*. Washington, DC: The Brookings Institution
- Olson, M., 1982, *The Rise and Decline of Nations*, New Haven: Yale University Press
- Pempel, T J, 1982, *Policy and Politics in Japan: Creative Conservatism*, Philadelphia: Temple University Press
- Pempel, T J & K Tsunekawa, 1979, 'Corporatism Without Labor? The Japanese Anomaly', pp 231–70 in P C Schmitter & G Lehbruch, eds, *Trends Towards Corporatist Intermediation*, Beverly Hills, Calif.
- Rehn, G., 1987, 'State, Economic Policy and Industrial Relations in the 1980s: Problems and Trends', *Economic and Industrial Democracy*, 8, 61–79
- Sachs, J D, 1983, 'Real Wages and Unemployment in the OECD Countries', *Brookings Papers on Economic Activity*, 1, 255–304
- Scharpf, F., 1987, *Sozialdemokratische Krisenpolitik in Europa*, Frankfurt/New York: Campus
- Schmidt, M G, 1983, 'The Welfare State and the Economy in Periods of Economic Crisis: A Comparative Study of Twenty-three OECD Nations', *European Journal of Political Research*, 11, 1–26
- Schmidt, M G, 1985, *Der Schweizerische Weg zur Vollbeschäftigung: Eine Bilanz der Beschäftigung, der Arbeitslosigkeit und der Arbeitsmarktpolitik*, Frankfurt: Campus
- Schmitter, P C, 1981, 'Interest Intermediation and Regime Governability in Contemporary Western Europe and North America' in S Berger, ed, *Organizing Interests in Western Europe*, Cambridge: Cambridge University Press
- Shalev, M., 1989, 'Class Conflict, Corporatism and Comparison: A Japanese Enigma' in S N Eisenstadt & E Ben-Ari, eds, *Japanese Models on Conflict Resolution*, London: Kegan Paul
- Shonfield, A., 1965, *Modern Capitalism: The Changing Balance of Public and Private Power*, London: Oxford University Press
- Sorrention, C., 1984, 'Japan's Low Unemployment: An in-Depth Analysis', *Monthly Labor Review*, 107, 18–27
- Taira, K., 1983, 'Japan's Low Unemployment: Economic Miracle or Statistical Artifact', *Monthly Labor Review*, 106, 3–10
- Therborn, G., 1986, *Why Some Peoples Are More Unemployed Than Others*, London: Verso
- Tobin, J., 1984, 'Impasse of the 1980s: Locomotives who Can't or Won't', *The World Economy*, 7, 5–22
- Weir, M., 1987, 'Full Employment as a Political Issue in the United States', *Social Research*, 854, 377–402
- Yamamura, K., 1985, 'The Cost of Rapid Growth and Capitalist Democracy in Japan', pp 467–508 in L N Lindberg & C S Maier, eds, *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies*, Washington, DC: The Brookings Institution

Appendix

In the time series regressions the measure of the real wage gap (GAP) is the following:

$$\Delta \text{GAP} = (\Delta \text{RW} + \Delta \text{NWLC}) - (\Delta \text{PROD} + \Delta \text{TOTEFFECT})$$

where

RW = real average compensation per employee in the total economy

NWLC = non-wage labour costs, defined as employers' social security contributions per employee

PROD = GDP per employed person, and

TOTEFFECT = terms of trade effect on national income.

There is currently no generally accepted best method for measuring the effects of changes in the terms of trade on real national income. I have used a slightly modified formula from the OECD, *Economic Outlook* (July 1977), p 152:

$$\text{TOTEFFECT}_t = (dp_x X_{t-1} - dp_m M_{t-1})/\text{GDP},$$

where X_{t-1} ; M_{t-1} = previous years exports and imports, respectively; dp_x , dp_m = changes in the deflators for exports and imports for goods and services respectively;

GDP = current year's gross domestic product.

The following sources for data have been used: (a) labour force participation and unemployment (standardized wherever possible) from OECD, *Historical Statistics* and *Employment Outlook*; and since 1960 from the macroeconomic data bank at Centre for Labour Economics, London School of Economics and Political Science; (b) inflation up to 1938 from Maddison, *Phases of Capitalist Development*, p 91, and since 1950 from the above-mentioned macroeconomic data bank; (c) cabinet participation from a data file at the Department of Political Science, University of Minnesota, complemented by information from *Keesings' Contemporary Archives*, while data on elections are from T. T. Mackie and R. Rose, *The International Almanac of Electoral History* (London: Macmillan, 1984), and the annual updates by the same authors in *European Journal of Political Research*; (d) unionization from a datafile at the University of Stockholm; and (e) terms of trade figures are from International Monetary Fund, *International Financial Statistics: Supple-*

ment on Trade Statistics.

The bases for the ranking of countries according to Left political strength in Tables 3 and 4 are the data on the percentages of Left votes and time with Left government participation in Table A1 (figures on government participation cut down to one-third in Finland, France and Italy to take account of severe splits within the Left):

Table A1: The Bases for Ranking of Eighteen OECD Countries

	1919–1959		1946–1973	
	Left votes	Time with Left government participation	Left votes	Time with Left government participation
Australia	45.5	25.4	47.2	18.1
Austria	30.7	38.7	47.2	85.5
Belgium	34.3	45.4	38.9	64.5
Canada	7.3	0	13.9	0
Denmark	42.2	48.9	46.1	68.7
Finland	42.0	(16.0)	47.3	(20.2)
France	31.1	(8.6)	41.0	(9.0)
Germany	21.2	11.5	31.1	25.3
Ireland	10.1	14.5	13.8	24.0
Italy	15.8	(3.1)	41.7	(10.6)
Japan	9.5	2.0	33.3	2.9
Netherlands	25.9	32.7	34.8	53.8
New Zealand	40.5	39.2	45.7	28.6
Norway	36.4	47.8	51.6	76.5
Sweden	50.0	77.7	51.9	100
Switzerland	28.4	24.4	28.7	78.6
United Kingdom	38.5	35.1	46.4	41.0
United States	1.0	0	1.8	0