

## REVIEW ARTICLE

### Labor Organization, Wage Restraint and Economic Performance

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**ABSTRACT:** This essay surveys recent literature analyzing the impact of variation in labor organization — specifically, union density and centralization — on workers' wage-bargaining strategies and, thereby, on economic performance. I evaluate the logic of the various arguments and offer a revised model which incorporates their strengths and clears up some of their inconsistencies. I then briefly discuss some strategic implications for labor.

#### INTRODUCTION

One characteristic which neoclassical and Marxian economic theory have in common is that both analyze an abstract capitalist economy. Both, that is, attempt to understand and explain the workings of a single, ideal-typical capitalism. In contrast, a good deal of recent work in political economy has focused on variation across different capitalist economies. Most of this literature has a strong empirical thrust, aiming primarily to describe and explain differences among the rich capitalist nations in their economic policy choices and performance.

The most convincing explanations of cross-national variation in performance center on differences in institutional factors, such as financial systems, governance relations between and within firms and state capacities for coordinated economic intervention.<sup>1</sup> Another institutional variable which has received considerable attention is the degree to which labor is organized and centralized. A number of commentators have blamed labor for the post-1973 worldwide stagflation, whether for its supposedly excessive wage demands or its asserted hostility to technological change and workplace flexibility. Other analysts contend that labor has behaved quite responsibly and contributed positively to efforts at economic adjustment. Proponents of both of these views tend to ignore the variability of labor strategies and effects across countries. There is reason to expect cross-national differences in union density and organizational form to produce variation in union strategy, and for those strategies in turn to result in divergences in aggregate economic performance.

What, then, is the relationship between a nation's scope and structure of worker organization and its economic performance, as measured by growth, unemployment and inflation? An interesting literature has developed over the

past decade which explores this link by using a rational-choice framework and quasi-formal modeling to theorize the effect of worker organization on union wage demands. This essay reviews six contributions to this literature, focusing on the microfoundational logic of the theoretical models used in these studies.<sup>2</sup>

Two basic assumptions are made in these models. One is that the principal aim of worker organizations is to maximize the material welfare of their members, which consists of some combination of the (present and future) real wage rate and the level of (un)employment.<sup>3</sup> Although growth, unemployment and inflation all bear directly on these desiderata, most of the models include only one or two of the three in the dependent variable. The second assumption is that unions try to use the most effective, or reasonable, means of obtaining this goal. There are of course limits on information and on the ability of decision-makers to accurately calculate the payoffs of multiple conceivable options. But the trade-offs, or alternatives, available to actors in these models are relatively simple and few, so calculation is assumed not to be problematic.<sup>4</sup> The general form of the models is roughly the following: they start from exogenous institutional structures and attempt to deduce outcomes by tracing what actors' rational choices would be, given their preferences and the incentives and constraints those structures present. More specifically, there are three steps in such explanations: (1) identify salient variations in institutional configurations — in this case, variation in union density and centralization; (2) determine what rational actors in these institutional contexts would choose to do in order to (more or less) maximize their material welfare; (3) determine what implications these choices have for aggregate economic performance.<sup>5</sup>

### DISTRIBUTIONAL COALITIONS AND ENCOMPASSING ORGANIZATIONS

The place to begin is with Mancur Olson's well-known and controversial thesis in his book, *The Rise and Decline of Nations*. Olson attempts to explain variation in rates of national economic growth by drawing out the implications of a simple observation about the differing incentives facing groups of different size. Olson (1982: 41-48) contends that size determines the way in which economic organizations try to serve their members' interests. If an organization represents a small portion of society, it is rational for it to direct its effort primarily toward struggle for redistributive gains. Suppose, for example, that an organization's members comprise 1% of a society. They will get 100% of whatever redistributive gains they win from society, but will pay only 1% of the cost of those gains (since they are only 1% of the entity — "society" — from which the gains are taken). By contrast, if they work to increase the size of the social product, they will receive only 1% of the benefit. Hence such a group will seek redistributive

gains unless the social costs equal or exceed 100 times the private gains, while they will seek to increase the social pie only if their effort produces social gains at least 100 times larger than the private costs of achieving that increase. The opposite logic would apply to an organization whose members comprise, say, 75% of the society. By seeking redistributive gains they would be taking largely from themselves, so they rationally choose instead to try to increase the size of the pie. Olson uses the terms "distributional coalitions" and "encompassing organizations" to refer to groups which act in these two ideal-typical ways.

Organizations which concentrate on winning redistributive gains rather than increasing the social product can be expected to lower a society's rate of growth. Thus, according to Olson, societies with the most distributional coalitions should have slower growth rates.<sup>6</sup> His primary empirical comparison is between Japan and West Germany on the one hand and Britain on the other. Since in the former many organizations were destroyed either by totalitarian governments or by World War II, these countries have not been plagued during the postwar period by redistributive struggles of well-entrenched distributional coalitions. Britain, by contrast, has enjoyed several hundred years of stability, and so is characterized by a sizeable array of small, decentralized organizations. This is said to explain the much superior postwar growth performance of Japan and West Germany as compared to Britain (pp. 75-80). The Scandinavian countries seem to represent an exception to this pattern, for they have enjoyed a relatively long period of stability, and yet have had reasonably high rates of growth since the war. Olson ascribes this to the prevalence of encompassing organizations in these societies, which he attributes to their relatively late development (pp. 90-91).

In his discussion of group redistributive struggles, Olson refers chiefly to efforts to lobby the state for special advantages such as tax breaks or direct subsidies or payments. But the logic of his argument could just as well be applied to wage demands by workers, which is the primary concern here. The question is: Under what conditions will workers moderate their wage demands and under what conditions will they bargain aggressively?

### LABOR WAGE-BARGAINING STRATEGY AND STATE EMPLOYMENT POLICY

Peter Lange and Geoffrey Garrett (1985) have argued that while Olson's basic point about the differing incentives facing groups of different size is compelling, it is incomplete, and therefore incorrect, in the form in which Olson presents it. In particular, there is no reason to assume that encompassing organizations will automatically find it in their interest to contribute to the growth of the social product rather than to concentrate on redistributive gains.<sup>7</sup> According to Olson's thesis, an encompassing labor

organization should rationally choose to moderate its wage demands in order to contribute to growth, which will benefit its members in the form of higher future wages. But there is a hitch in this scenario. The link between wage moderation and growth is reinvestment of the foregone wages, and there is no automatic guarantee that this will occur. As Adam Przeworski and Michael Wallerstein (1982: 217) point out, how profits are utilized in a capitalist system is the province of employers. The amount of growth which results from wage moderation is thus heavily contingent upon their decisions. Hence, the choice by an encompassing labor organization to sacrifice immediate wage increases in favor of future gains depends upon the certainty of capitalist reinvestment of profits. The worst possible outcome for workers would occur if they moderate wage demands and then capitalists consume the profits or invest them in some way that yields no future payoff to the workers.

Lange and Garrett (p. 798) contend that *politics* plays a crucial role in this regard. A leftist party tied to the labor movement which has significant influence in the government can offer the necessary certainty to labor that profits will be reinvested. It does this by "promoting a propitious 'climate' for domestic investment (as opposed to capital export, speculation, conspicuous consumption, etc.)" (Lange 1984: 110). The institutional configuration under which we should expect wage restraint in order to promote growth, therefore, is what Alexander Hicks (1988a: 143) has termed "social democratic corporatism": a high-density, centralized labor movement which engages in central-level wage bargaining, combined with a leftist government.<sup>8</sup> Encompassing organizations alone are not enough. Lange and Garrett test their hypothesis by comparing the growth performance of 15 rich capitalist democracies during the years 1974-80 with that during the period 1960-73. They find that neither high-density, centralized union organization nor significant leftist party participation in government alone predict growth performance very well, but that when combined their predictive capacity is fairly strong (p. 808).<sup>9</sup>

Like Lange and Garrett, Colin Crouch (1985) uses Olson's argument to suggest that labor organizations which are encompassing are more likely to moderate their wage demands than those which are small and decentralized. (From here on I will refer to the former type as high-density, centralized unions (HDCUs) and to the latter as low-density, decentralized unions (LDDUs).)<sup>10</sup> In Crouch's model, wage restraint is compelled by inflation considerations. An HDCU recognizes that aggressive wage demands, if won, in many instances will be passed on by firms in the form of higher prices. If this happens across a large number of firms, there will be a general rise in prices, which may nullify the wage gains. In addition, the country's firms may price themselves out of the international market, with the result that some will shut down, leaving workers unemployed. Hence workers have a genuine self-interest in restraining wage increases. HDCUs, which bargain

for large portions of the work force, can and must take these considerations into account, and so are likely to moderate demands.

LDDUs, by contrast, have no incentive to do so. Aggressive bargaining is for them rational on purely defensive grounds, for they know that if workers in other firms or industries win high wage demands there will be inflation, so they need equivalent wage increases in order just to break even. Moreover, they may reasonably hope that workers elsewhere either do not demand or do not win high wage increases; the result would be a wage raise for themselves but no inflation, which is the optimal outcome among the various possibilities. Regardless of what they believe workers in other firms will do, therefore, their rational choice is to demand substantial wage increases.

Crouch too argues that participation in government by a political party tied to the encompassing labor organization(s) is important to securing the outcome of moderate wage demands by HDCUs. It is important, he says, because it helps "push centralized economic interests into a cooperative rather than a combative logic" (p. 113). Crouch dichotomizes 18 rich capitalist nations into corporatist and liberal types and finds that corporatism is correlated with lower inflation during the 1970s (p. 122). He also uses his thesis to offer a qualitative explanation of the divergent responses of West German (restrained) and British (aggressive) labor to the economic shocks of the 1970s.

David Cameron (1984b) has offered an alternative explanation of the role of leftist government participation in inducing wage restraint by HDCUs. Cameron asserts that a labor party with significant representation in the state does more than encourage capitalist reinvestment and foster cooperation between labor and business in wage bargaining. It offers labor a separate enticement for its wage moderation: low unemployment. The cooperation between labor and the state takes the form of a "political exchange": labor exchanges wage restraint for a guarantee of full employment.<sup>11</sup> Cameron (p. 157) writes:

Where full employment is maintained, labor is relatively quiescent and thus earnings, and prices, increase at only a modest rate. Where labor is relatively militant, earnings and prices tend to increase at a rapid rate, thereby providing employers with a rationale for further increases in unemployment. In both cases, there exists an implicit trade-off between the immediate economic gains of organized workers and the long-term likelihood of jobs for all workers. In some countries, labor is economically militant and opts for the former; in others, labor is quiescent and opts for the latter — and in doing so enables those nations to experience relatively full employment and price stability.<sup>12</sup>

Labor organizations are able to feel most confident that the state will pursue a full employment policy when a leftist party controls the government. But

the likelihood of left parties in government, in turn, depends upon the organizational strength and structure of the labor movement. HDCUs are highly correlated with left governments; LDDUs are not (p. 167). Social democratic corporatism, in other words, is a package deal. We don't often find one of its components without the other. Cameron examines the economic performance of 18 advanced capitalist democracies during the period 1965-82 and finds, as hypothesized, that the organizational strength and unity of labor and leftist control of government are each correlated with wage restraint, low inflation and low unemployment (p. 169).

The implication of Cameron's thesis is that Crouch's model is at best incomplete, and perhaps simply wrong. Crouch does assert that a leftist or labor government is an important precondition for assuring wage restraint by an HDCU, but he does not attribute that importance to the party's ability to offer the HDCU full employment in exchange. Circumstances may exist in which a leftist party is either unable or unwilling to offer such an exchange. If Crouch is correct we would in such a scenario still expect wage restraint on the part of the HDCU. Cameron's argument, on the other hand, would predict non-restraint.

In a recent paper, Fritz Scharpf (1987) has challenged Cameron's thesis that it is rational for encompassing unions to moderate wage demands (only) when a leftist party committed to full employment is in the government. Let us suppose there are two basic policy choices the state can make with regard to unemployment: Keynesian and monetarist. In the first the government pursues full employment, while in the second it is willing to allow substantial unemployment in order to contain inflation.<sup>13</sup> An HDCU has two options with respect to wage demands: restraint and aggression. According to Scharpf (p. 233) the inflation/unemployment payoff matrix looks like that shown in Figure 1.

Contrary to Cameron, Scharpf contends that an HDCU would rationally prefer cell 3 over cell 1 (p. 239). That is, where a government pursues a full

**FIGURE 1**  
Scharpf's Model of Government and Union  
Strategies and Macroeconomic Performance

		Government Employment Policy			
		Keynesian		Monetarist	
Union Wage Strategy	Restrained	1	I - moderate U - low	2	I - low U - high
	Aggressive	3	I - very high U - low	4	I - high U - very high

employment strategy, an encompassing union organization will bargain for high wage increases. The reasons for this are as follows. First, unemployment turns out the same regardless of wage strategy; price increases caused by wage militancy may drive some firms out of business, but the state's commitment to full employment diminishes the negative utility associated with job loss. Second, Scharpf assumes that aggressive bargaining yields wage increases which more than compensate for the increase in prices; thus, workers' real wages are higher with aggressive bargaining than with restraint. Given equivalent unemployment outcomes, an HDCU should prefer the strategy which yields higher real wages — in this case, militancy. After several rounds of wage increases, however, inflation may reach a politically intolerable level. According to Scharpf, governments which favor full employment either will be forced to adopt a monetarist strategy, or will be defeated electorally by a party which does so. HDCUs will likely switch to wage moderation in order to preempt such a course of events (pp. 249-51).

There are two problems with this argument. First, it is not clear that under a Keynesian employment strategy, workers' real wages will in fact turn out higher if their wage bargaining is aggressive rather than moderate. As with the reinvestment of profit, decisions about price levels are the preserve of management. Prices can often be increased after wage levels are established. It is probably more reasonable, therefore, for unions to predict real wages to end up roughly equivalent under the two bargaining strategies. An HDCU nevertheless might favor aggressive demands in this circumstance. Since the *raison d'être* of a worker organization is to win gains for its members, if wage moderation offers no identifiable payoff it may be difficult to justify. In other words, if unemployment and real wages are likely to be the same irrespective of union bargaining strategy, organizational (as opposed to economic) considerations could perhaps lead an HDCU to demand high wage increases. But this is questionable, and in any case it is a different logic than that suggested by Scharpf.

A second and more damaging weakness of Scharpf's thesis is that it ignores growth. As Lange and Garrett stress, future wage gains depend upon sacrifices of immediate wage gains. If workers take too much now, a smaller portion of profits will remain to be invested, so future gains will be reduced. Were growth (future wage gains) included in the payoff matrix, HDCUs in a context of full employment would likely prefer cell 1 over cell 3. This is the conclusion reached by Cameron, but it is arrived at here via a different route (i.e., by emphasizing the importance of growth in workers' calculations).

Scharpf also challenges Cameron's assertion that a political exchange is a precondition for wage restraint by HDCUs. If the government is committed to a monetarist policy, Scharpf claims an HDCU will in fact moderate its wage demands; that is, it prefers cell 2 over cell 4. Most importantly, wage restraint in this context protects jobs. If an HDCU bargains militantly,

"profit-gap unemployment caused by excessive wage increases is added to the demand-gap unemployment created by government policy" (p. 239). Moderation is also clearly logical if inflation considerations are primary. What about growth, which Scharpf does not address? Lange and Garrett suggest that HDCUs will moderate demands only if they feel confident that the foregone wages will be reinvested in productive ways, and that a leftist government which pursues policies favorable to labor is a prerequisite for this confidence. Surely there is some truth to this. Yet HDCUs are forced by their organizational structure to take into account the long-term interests of the broad mass of workers they represent. Though a government pursuing a monetarist strategy may not inspire compromise, it should be clear to an HDCU that wage militancy must lead to a slowdown in growth, and thus to smaller wage gains in the future. In any event, in terms of welfare maximization, a job and a wage increase are lexicographically ordered; that is, a wage increase is possible only if one has a job to begin with. Given this consideration, wage moderation in a non-full employment context seems understandable.

For HDCUs, then, wage restraint is the optimal choice regardless of whether government employment policy is Keynesian or monetarist.

### FIRM-LEVEL UNION STRATEGY

Let's now consider the incentives facing workers in an individual firm or plant who are part of a high-density confederation which engages in centralized wage bargaining with an employer federation. Peter Lange (1984) has discussed this situation in detail. The wage levels set by the central negotiations in this scenario in principle are binding on all affiliates of the union confederation, but in practice workers in a particular firm may be able to exceed those levels through separate firm- or plant-level bargaining. The choice situation facing workers at the firm level is analogous to a Prisoner's Dilemma. They (let's call them  $U_i$ ) have two available strategies: cooperation (accept the centrally determined wage levels) and defection (try to get more). There are four possible outcomes, as depicted in Figure 2.

According to Lange the payoffs are such that for  $U_i$  the optimal outcome is cell 2, in which it defects and everyone else cooperates. Members of  $U_i$  will have higher wages and there will be low inflation. In fact, no matter what strategy other workers choose, it is rational for  $U_i$  to defect, because cell 1 is better than cell 3 and cell 2 is better than cell 4. So it appears that the logic described by Lange and Garrett, Crouch and Cameron does not hold up after all. Even if an HDCU chooses restraint in central-level wage negotiations, its affiliates will struggle for higher wages at the firm level.

FIGURE 2  
Firm-level union bargaining strategies

		Other Firm-Level Unions	
		Defect	Cooperate
$U_i$	Defect	1	2
	Cooperate	3	4

The result will be massive wage drift and high inflation, which is precisely what wage restraint at the national level aimed to prevent.

However, Lange has not sufficiently specified the context within which the choice to defect at the firm level is rational. When workers win a wage increase from their own firm, one of two things happens: either that increase is passed on in the form of higher prices or the firm has less profit to reinvest. Each makes the firm less competitive, and reduced sales may lead to job cutbacks. Thus, it would seem rational for workers at the firm level *not* to try to increase their wages above those agreed-upon at the central level, for fear that such a strategy will result in loss of their jobs. At least that is the case in a situation of non-full employment. If the government pursues a Keynesian strategy, on the other hand, it is much less difficult for workers to find another job if they are displaced. Workers in this context thus would not worry so much about the effects of wage increases on their firm's competitiveness. They might often choose to defect, as Lange's argument suggests.

Is there any way out? Will affiliates of an HDCU in a context of full employment ever rationally choose to moderate their wage demands at the firm level (assuming their principal aim is to maximize their members' material welfare)? Lange suggests one reason why they might, which has to do with the fact that wage bargaining is not a one-time occurrence but, rather, an iterative process. If all or most affiliates bargain aggressively, they will soon learn that high inflation is the result. They may be able to agree, if only tacitly, to moderate their demands the next time around in order to avoid this collectively suboptimal outcome (p. 103). A second reason is that sacrificing wages today increases wages in the future if the foregone wages are reinvested. When a leftist party is in the government, HDCU affiliates can typically have reasonable confidence that such investment will occur. Third, centralized labor confederations may be able to sanction local affiliates — e.g., by withholding resources or information — to prevent them from surpassing the wage targets established in centralized negotiations. A final reason for restraint, I suspect, is that workers desire continuity in their work situation. Even if other jobs are relatively easily found, they may

be willing to forego some increase in income in order to avoid having to relocate.

Now, if it is rational for a local affiliate of an encompassing union to moderate wage demands in a context of non-full employment, for the reasons just noted, why isn't the same true for a low-density, decentralized union? It would appear that wage moderation in this context is indeed the rational strategy for an LDDU. Recall that in Crouch's model, in which LDDUs opt for a militant bargaining strategy, only inflation is taken into account by the unions. Government employment policy and the potential effects of wage demands on employment levels are not considered. But LDDUs surely realize that high wage increases will put their firm at a competitive disadvantage, resulting in a loss of jobs. As Scharpf (1987: 253) remarks:

If the government shifts to a monetarist strategy, wage restraint ... no longer depends on the centralization of collective-bargaining decisions. The reason is analytically straightforward. Job losses, unlike inflation, are primarily experienced not as a collective evil but as an individual risk whose avoidance is in the immediate self-interest of individual workers and hence not vulnerable to free-riding. As soon as unemployment is allowed to rise, therefore, the overriding interest in protecting existing jobs will motivate wage concessions not only by the union movement as a whole, but also at lower levels of collective bargaining. Under such conditions, there is no reason to assume that decentralized and fragmented union movements that are otherwise characterized by greater militancy should be any less "docile" than highly centralized and disciplined corporatist unions are said to be.

Thus, contrary to the expectations of Crouch, Cameron, and Lange and Garrett, wage restraint is likely.

What about LDDUs in a context of full employment? Four reasons were just presented for why an affiliate of an HDCU might moderate wage demands in a full employment context despite the existence of contrary incentives. Of those four, only the last would seem to apply to an LDDU. Without centralization, the communication necessary to cooperate is much less likely; the investment climate is likely to be less propitious in nations with LDDUs; and the sanctions of a central confederation obviously do not apply. Workers in an LDDU might, however, be willing to forego increased income in favor of job continuity, and may therefore in some instances choose to moderate demands. But in general, we should expect an aggressive bargaining strategy in this situation.

### THE BIG PICTURE

Let me briefly summarize what seem to be the central conclusions that can be drawn from the literature reviewed here. With regard to the bargaining strategies chosen by unions we can say: An LDDU has little incentive to

moderate wage demands in a context of full employment (all agree on this). In a context of non-full employment, moderation by an LDDU appears quite reasonable (Scharpf). An HDCU can be expected to moderate demands in order to secure growth (Lange and Garrett), to keep inflation low (Crouch) and/or if it receives full employment in exchange (Cameron). In a monetarist policy context, an HDCU is likely to opt for wage restraint primarily to keep unemployment reasonably low (Scharpf). Where the government pursues a full employment strategy, there are strong incentives for local affiliates of an HDCU to exceed centrally determined wage levels through separate firm-level bargaining (Lange). This might not happen, however, for the various reasons specified above.<sup>14</sup> These predictions are indicated in Figure 3.

With regard to the effects of differences in labor organization and government employment policy upon economic performance, we would predict the following: Where there is significant governmental participation by a leftist party committed to full employment, HDCUs will likely agree to wage moderation but there will tend to be a nontrivial degree of wage drift. The result will be moderate growth, low unemployment and moderate inflation. National cases roughly corresponding to this pattern (through the 1970s) include Austria, Belgium, Denmark, Finland, the Netherlands, Norway, Sweden and West Germany. In a context of state commitment to full employment LDDUs can be expected to push aggressively for wage increases. Where they are fairly strong the result will be low growth, moderate unemployment and high inflation. Britain during the 1970s is the classic instantiation of this pattern. Where LDDUs are weaker, they will be unable to win high wage increases — and thus, after time, unlikely to press for them. Labor relations will tend to take on a paternalistic and cooperative tenor. The outcome will be high growth, low unemployment and low inflation. Japan and Switzerland fall into this category.<sup>15</sup> Finally, in a context of non-full employment, even strong LDDUs should be willing to

FIGURE 3  
Labor Organization, Government Employment Policy  
and Union Wage-Bargaining Strategy

		Government Employment Policy	
		Keynesian	Monetarist
Labor Organization	HDCU	Very Restrained	Very Restrained
	HDCU Affiliate	Aggressive (?)	Restrained
	LDDU	Aggressive	Restrained

moderate demands, though perhaps less so than HDCUs. The resulting pattern will be moderate growth, moderate unemployment and moderate inflation. Australia, Canada, France, Italy and the United States approximate this type. Figure 4 summarizes these predictions.

Classifying national labor movements in terms of their degree of encompassingness is, for obvious reasons, a difficult and contested enterprise. No consensus has emerged in the literature on this issue, nor is one likely to. Some analysts use a categorical classification, with countries organized into two or three or four groups. Others prefer to rank-order the various nations. Others still have developed an index of "encompassingness" or "corporatism," locating labor movements along a continuum.<sup>16</sup> Indexes have the advantage of permitting more sophisticated statistical evaluation of the relationship between union organization and economic performance, but they run the risk of becoming somewhat arbitrary in the values assigned to national labor movements. Rank-orderings are perhaps less arbitrary, but can only convey differences of degree, whereas the variation between, say, the Swedish and U.S. labor movements is plainly one of type. A simple categorical classification avoids these pitfalls. I follow Crouch (1985) in using a dichotomous categorization. A potential objection to a twofold classification is that in some countries, such as West Germany and the Netherlands, wage bargaining occurs primarily at the industry level, rather than through national or local negotiations (Calmfors and Driffill 1988). But as David Soskice (1990b) has recently argued, in these nations the coordination between industry-level negotiations is such that they are more accurately characterized as centralized cases rather than as some intermediate type.

FIGURE 4  
Labor Organization, Government Employment  
Policy and Economic Performance

		Government Employment Policy	
		Keynesian	Monetarist
Labor Organization	HDCU	G - mod	G - mod
		U - low	U - mod
		I - mod	I - low
	Strong LDDU	G - low	G - mod
		U - mod	U - mod
		I - high	I - mod
	Weak LDDU	G - high	
		U - low	
		I - low	

As Table 1 reveals, wage behavior and economic performance in these 16 OECD countries during the period 1960-80 conformed fairly well to the theoretical expectations laid out here.<sup>17</sup> There are only two real anomalies. One is the large wage increases in Japan and Italy, both of which were expected to exhibit restraint. The rate of productivity growth in these nations, however, was almost double the OECD average during this period. Hence, unit labor costs (change in nominal wages minus change in productivity) were increasing much less rapidly than wages and more in line with our predictions.<sup>18</sup> Second, unemployment in Britain, the only strong LDDU/Keynesian case among the countries, was lower than expected. This perhaps indicates that a government commitment to full employment can compensate even for rather large wage increases. The performance of other nations such as Denmark and Finland supports this supposition.

The 1980s witnessed a change in policy orientation among several HDCU nations. Governments in Belgium, Denmark, the Netherlands and West Germany all pursued a more monetarist strategy during the past decade. (The Thatcher government in Britain, of course, did so as well.) In this scenario encompassing unions should, if Scharpf is correct, bargain moderately. Wage drift should be minimal. The performance results will be moderate growth, moderate unemployment and low inflation. The data in Table 2 indicate that labor organization and state employment policy continued to predict wage changes and macroeconomic performance reasonably well during the past decade. The chief surprise here is the relatively sluggish growth in the HDCU/Keynesian and HDCU/monetarist nations. It is necessary, however, to take into account the greater vulnerability of these small countries (other than West Germany) to the international recession of the early 1980s, due to their extensive export dependence.

It scarcely needs to be pointed out that wage restraint is only one of many factors which affect aggregate economic performance. The point of the arguments reviewed here is simply to focus attention on this particular causal variable. All science entails a trade-off between explanatory precision and explanatory parsimony. The researcher can try either to provide a full, complete explanation by including as many relevant variables as possible, or to simplify matters by concentrating on a smaller number of variables. These theorists have chosen the latter option. While the individual arguments obviously vary in their cogency and predictive capacity, as a group they do provide substantial insight into one factor — wage moderation — which appears useful in accounting for variation in performance among the rich capitalist countries.

Even if this model helps explain economic performance patterns through the 1980s, however, there may be reason to doubt its continued relevance. This skepticism stems from some important changes occurring in many advanced capitalist economies — in particular, the shift toward flexible specialization, the increasing prominence of the service sector and the

**TABLE 1**  
Wage Increases and Economic Performance  
in 16 OECD Countries, 1960-80

	Nominal Wage Changes <sup>a</sup>	GDP Growth	Unemployment	Inflation
<b>HDCU/Keynesian</b>				
Austria	10.6% <sup>b</sup>	4.2%	1.7%	4.9%
Belgium	12.0	4.1	3.3	5.2
Denmark	14.0	3.4	2.4	7.9
Finland	14.2 <sup>b</sup>	4.2	2.9	8.0
Netherlands	9.8	4.0	2.1	5.6
Norway	11.7	4.4	1.8	6.4
Sweden	10.9	3.3	1.9	6.6
West Germany	8.6	3.7	1.7	3.9
Average	11.5	3.9	2.2	6.1
<b>Strong LDDU/Keynesian</b>				
Britain	15.3	2.3	2.8	8.8
Average	15.3	2.3	2.8	8.8
<b>Strong LDDU/Monetarist</b>				
Australia	13.2 <sup>b</sup>	4.2	3.0	6.4
Canada	10.3	4.6	5.8	5.3
France	13.8	4.6	2.8	6.8
Italy	20.1	4.4	5.7	8.8
United States	7.8	3.5	5.5	5.3
Average	13.0	4.3	4.6	6.5
<b>Weak LDDU/Keynesian</b>				
Japan	13.6	7.7	1.5	7.4
Switzerland	6.3 <sup>b</sup>	3.0	0.1	4.2
Average	10.0	5.4	0.8	5.8

<sup>a</sup>1970-80, manufacturing sector

<sup>b</sup>Figure is for earnings rather than wages

Sources: OECD, *Historical statistics*, various years; ECE 1989; Maddison 1982

**TABLE 2**  
Wage Increases and Economic Performance  
in 16 OECD Countries, 1981-89

	Nominal Wage Changes <sup>a</sup>	GDP Growth	Unemployment	Inflation
<b>HDCU/Keynesian</b>				
Austria	5.1% <sup>b</sup>	2.0%	3.5%	3.5%
Finland	9.0 <sup>b</sup>	3.5	4.9	6.8
Norway	9.2	2.7	2.9	8.1
Sweden	8.4	2.1	2.5	7.3
Average	7.9	2.6	3.5	6.4
<b>HDCU/Monetarist</b>				
Belgium	4.4	1.8	11.5	4.7
Denmark	6.8	2.0	8.2	6.3
Netherlands	2.7	1.6	10.2	2.5
West Germany	4.1	1.9	7.1	2.6
Average	4.5	1.8	9.3	4.0
<b>Strong LDDU/Monetarist</b>				
Australia	7.5 <sup>b</sup>	3.4	7.6	8.2
Britain	9.5	2.8	10.0	6.3
Canada	5.8	3.3	9.5	6.1
France	7.6	2.1	9.3	6.7
Italy	11.2	2.3	10.2	10.1
United States	4.2	3.2	7.2	4.7
Average	7.6	2.9	9.0	7.0
<b>Weak LDDU/Keynesian</b>				
Japan	3.7	4.1	2.5	1.9
Switzerland	4.0 <sup>b</sup>	2.0	0.7	3.2
Average	3.9	3.1	1.6	2.6

<sup>a</sup> Manufacturing sector

<sup>b</sup>Figure is for earnings rather than wages

Source: OECD, *Historical Statistics*, various years

growing dissension among private-sector blue-collar, private-sector white-collar and public-sector workers. As a number of commentators have noted, these shifts may encourage or accelerate the dissolution of encompassing union organizations and centralized wage-bargaining structures.<sup>19</sup> Moreover, the integration of the European Community's internal market in 1992 may substantially diminish the scope for national-level corporatist arrangements in EC nations.<sup>20</sup>

## IMPLICATIONS FOR LABOR STRATEGY

What are the strategic implications of this analysis? Two questions are worth engaging here. First, supposing it were feasible for U.S.-type unions to dramatically increase their membership and centralization, would the change in organizational form be desirable? (There is little dispute among progressives that increased union membership would be beneficial.) More specifically, even if we assume the persistence of capitalism, are there no attractive alternatives for labor movements to centralized structure and corporatist wage-bargaining arrangements with business and the state? Would it not, for instance, be preferable to design mechanisms to enhance unions' influence upon economic decision-making in a more localized fashion?<sup>21</sup> After all, decentralized decision-making is held in high esteem by many in this country, and by much of the political left.

My own view is that workers would certainly benefit from greater decision-making power at any level, particularly at the level of the firm, and especially in the sphere of production (rather than, or in addition to, that of consumption). Since we have considerable evidence that worker participation enhances efficiency, this would seem to be a viable strategy.<sup>22</sup> But there is no reason why increased union influence on decision-making at local and central levels should be mutually exclusive. Indeed, corporatist Sweden has some of the most extensive and institutionalized mechanisms of firm-level employee participation in the world.

Centralization has desirable effects on both the preferences and the power of unions. Regarding the former, centralized decision-making encourages union representatives to take into account the broad interests of union members as a group. With respect to the latter, centralization provides unions with greater leverage to extract benefits from employers and the state. This results from the fact that workers are better able to coordinate their interests and actions, and because centralized unions are often closely tied to a leftist political party which has influence in the government.

Three types of benefits follow. First, centralized labor movements have the incentive and capacity to participate directly in national-level policymaking. In areas in which they do so — such as incomes, labor market and perhaps social policy — this permits major economic decisions to be

formulated in a democratic and cooperative, rather than anarchic and competitive, fashion.<sup>23</sup>

Second, in most instances centralization leads to union wage restraint. This does not in and of itself produce superior macroeconomic performance; for as we have seen, in a non-full employment context LDDUs are also likely to moderate their wage demands. The payoff to centralized form stems from its interaction with government employment policy. HDCUs tend to restrain wages even where the government pursues a Keynesian policy, which enables the achievement of reasonably strong growth and moderate inflation as well as very low unemployment. Strong LDDUs are much less likely to moderate wage demands in a full employment context. Consequently, while government policy can hold unemployment in check, growth and price levels suffer. Where government policy is monetarist, HDCUs again appear able to achieve greater wage restraint than strong LDDUs, thereby contributing to lower levels of inflation.

Third, centralization encourages and enables unions to pursue strategies that decrease inequality among wage-earners and within society as a whole. The solidaristic wage policy pursued by the main Swedish labor confederation (LO), for instance, lowered the wage differential among union members in Sweden by 50% between 1959 and 1979, and helped raise women's wages from 70% of men's wages in 1959 to 92% in 1984.<sup>24</sup> And it is no accident that nations with encompassing unions have higher levels of public social and welfare spending and less overall societal inequality.<sup>25</sup>

The second question of strategic interest is: Is it in fact possible for low-density, decentralized unions to become encompassing unions? What, if any, are the obstacles to doing so? With the exception of Olson's, none of the arguments discussed here attempts to explain the variation among nations in union density and centralization; as noted earlier, this institutional variation is treated as exogenous. Several factors appear to have contributed to the development of HDCUs. First, union centralization is in part a defensive reaction to the organization of employers. In Sweden, for example, a central labor confederation was created in response to the formation of a number of sectoral employer associations in the 1890s. Union density and centralization then increased dramatically during the following two decades, owing in large measure to the formation of a central employer confederation (SAF). Second, in countries that did not participate in World War I, no major split occurred between Social Democratic unions, which in other West European nations were branded as capitulationist for supporting the war effort, and Communist unions. Instead, the Social Democrats retained their hegemony in the labor movement. Third, unions which later became HDCUs entered the electoral arena at an early stage. Affiliation with Social Democratic parties and sustained electoral success encouraged membership and centralization. Finally, Michael Wallerstein (1986) has offered a negative rationale for the existence of HDCUs in nations with small domestic

markets. Since these countries are dependent upon exports, no incentive exists for unions to participate in sectoral alliances with employers to demand protectionist measures or export subsidies, for this would invite retaliation by foreign governments. Hence unions in these nations have the least to lose in giving up their autonomy to a central confederation.

The prospects for transformation of LDDUs into HDCUs do not appear especially promising. The various economic shifts noted earlier are making it more and more difficult for even encompassing unions to avoid fragmentation and to maintain or increase membership. Furthermore, as Joel Rogers (1990) has recently argued, LDDUs often face strong incentives to focus on short-run concerns and to direct the bulk of their efforts toward satisfying the interests of their current members, rather than toward attracting new members. If competitor firms are also unionized, labor costs tend not to be a source of competitive disadvantage for employers, who may then resign themselves to the existence of unions. On the other hand, if the current level of unionization is low, and particularly if there is intra-industry variation in unionization, employers may well feel the optimal strategy is to attempt to roll back unions entirely. An attack strategy by employers puts unions on the defensive. It encourages focus on narrow, short-run interests of existing membership, such as job conditions and wage levels. Moreover, in the case of the United States at least, powerful legal barriers to increasing membership further direct unions' attention toward promoting the interests of present members.<sup>26</sup>

In light of these considerations, Richard Freeman's (1988: 78) conclusion seems rather astute:

It is not evident that the labor market institutions developed in any one country can successfully be transferred to another. Centralized corporatist labor markets are found primarily in small countries. Decentralized markets characterize larger economies. Whatever its virtue, it is not certain that "corporatist" wage setting could flourish in economies like the US and UK in the way it does in Sweden or Denmark; conversely for decentralized systems in the smaller economies. If so, the central issue for future policy is not the identification of a particular set of labor market institutions which "work better" but rather the assessment of specific policies and programs which can succeed in particular environments.

Regardless of whether or not country size is the determinant factor, it does appear that the transformation of low-density, fragmented unions into encompassing unions faces considerable obstacles. As Freeman suggests, the task then is to design and implement performance-enhancing institutional mechanisms which do not presuppose high levels of union density and centralization.

On the other hand, we should not be too quick to assume away the possibility of currently fragmented labor movements at some point

significantly increasing their membership and unity. Institutional configurations are "sticky"; they tend to have an inertial quality. But they are not immutable.

## NOTES

1. On financial systems, see, for example, Cox (1986); Ellsworth (1985); Zysman (1983). On governance mechanisms see Aoki, (1990); Dore (1986); Ferguson (1990); Friedman (1988); Herrigel (1991); Piore and Sabel (1983); Womack, Jones and Roos (1990). On state capacities for intervention, see Kurzer (1987); Magaziner and Reich (1983); Scharpf (1984); Shonfield (1965); Therborn (1986); Wilensky and Turner (1987); Zysman and Tyson (1983).
2. Olson (1982); Lange and Garrett (1985); Crouch (1985); Cameron (1984b); Scharpf (1987); Lange (1984). See also Alvarez, Garrett and Lange (1991); Bruno and Sachs (1985: Ch. 11); Calmfors and Driffill (1988); Castles (1987); Freeman (1988); Hicks (1988b); Katzenstein (1985); Newell and Symons (1985); Panitch (1986); Schmidt (1982); Soskice (1990a, 1990b); Tarantelli (1986); Therborn (1987).
3. The various possible combinations of these two components of worker welfare are for the most part ignored in the literature. It seems generally to be assumed that the preference is for some stable sum of the two.
4. A third, implicit assumption is that unions face no formal constraints on their choice of wage-bargaining strategy. This is obviously false in instances where wage levels are mandated by the state (or by international financial institutions). See Flanagan, Soskice and Ulman (1983); Marks (1986).
5. This approach differs from the traditional neoclassical methodology in its consideration of variation in institutional context. In this respect, this strategy is representative of one strand of what is sometimes referred to as "new institutional political economy." This strand retains the neoclassical assumption of self-interested, maximizing (or satisfying), calculating individuals, but attends to the ways in which particular, actually existing institutional configurations determine both the strategies best suited to realization of actors' preferences and the capacities of actors to achieve what they desire. This approach is widely followed in the comparative work mentioned earlier (see note 1). Neoclassical economic theory, of course, assumes an institutional configuration of perfect competition and the availability of perfect information.
- The other current in this new institutional political economy draws attention to the fact that institutions may promote reliance on routine (habit) or imitation, and that in many instances actors are motivated by altruism or "values" rather than by selfish concerns. On this approach see Etzioni (1988); Hirschman (1985); Hodgson (1989); Langlois (1986); Nelson and Winter (1982).
6. Olson asserts that, because many of the benefits organizations provide are public goods, small groups are more likely than large groups to organize. Since an individual can consume a public good without participating in its production and since there are often nontrivial costs associated with such participation, every individual has an incentive to free ride. In a small group, however, each person's contribution makes a noticeable difference to the existence or success of the group, so there is less incentive to free ride (Olson 1965: 43-45). Olson claims that even for small groups, organization is not easy, so it will take some time for them to develop. Once organizations come into existence, however, they are likely to survive because they develop a capacity to offer selective incentives to their members to prevent free riding. Thus we should expect countries which have been "stable" for a longer time period to have more organizations, and mostly small organizations (Olson 1982: 38-41).
7. Olson's thesis has of course been challenged on other grounds as well. Two of the more systematic criticisms are Cameron (1988) and Whitely (1983).
8. This supposition dates back at least to Headey (1970). For some evidence on the relationship between left government and wage restraint, see Armingeon (1982).

9. Robert Jackman (1987, 1989) has argued that Lange and Garrett's findings are biased by the disproportionate influence of Norway in their statistical estimates. Norway's strong growth performance during the 1970s, he contends, is more reasonably attributed to its oil-richness than to its political-economic institutional arrangements. Lange and Garrett (1985, 1987) and Garrett and Lange (1989) show, however, that when oil-dependence among the sample of countries is controlled for, the results are basically unchanged.
10. This follows Rogers (1990).
11. The concept of political exchange was developed originally in Pizzomo (1978).
12. Cameron's assertion that labor wage militancy provides employers with an incentive for further increases in unemployment may seem to belie economic history, in which high inflation is generally thought to be associated with low unemployment (as postulated by the Phillips Curve). In a separate essay, however, Cameron (1984a) shows that unemployment and inflation trends during the postwar period in the U.S. do indeed conform to patterns he suggests. As he notes there (p. 240): "Recessions, accompanied by the sharp upsurge in unemployment, typically occur after a period of acceleration in the rate of change of prices. ... Thus, the recession that began in late 1948 was preceded by a dramatic surge in prices in 1946 and 1947. Likewise, the 1953-54 recession occurred after a steep increase in prices in 1951 and the existence of inflationary pressures in 1952 and 1953 (which were suppressed by price controls). Similarly, the recessions of 1957-58, 1970, 1973-75 and 1980 were all foreshadowed by sharp increases in prices." While it holds to an extent, this pattern is not as marked in other non-corporatist countries (e.g., Australia, Canada, France and Italy).
13. I follow this usage in the remainder of the paper. Note, however, that the terms are meant to denote general government strategies. Thus, for instance, a "Keynesian" strategy is one that aims to achieve full employment, not necessarily just via demand management but also perhaps through active labor market and other policies that go beyond traditional Keynesian measures.
14. Evidence is mixed, but wage drift clearly occurs. Schwerin (1982: 473) has reported, for instance, that in Norway "wage drift routinely accounts for about fifty percent of the total wage increase in a contractual period."
15. The full employment contexts in Japan and Switzerland are discussed in Therborn (1986: Part 3). The ability of strong, centralized employer associations to persuade their members to hold down wages also contributes to restraint in these two countries. See Soskice (1990b).
16. Crouch (1985), Lehmruch (1984) and Schmidt (1982) use categorical classifications. Those preferring rankings include Calmfors and Driffill (1988), Castles (1987) and Schmitter (1981). Indexes are developed by Bruno and Sachs (1985), Cameron (1984), Lange and Garrett (1985), Soskice (1990b) and Tarantelli (1986).
17. Comparative data on changes in nominal wages are available only for the manufacturing sector, and they cover only the years since 1970. The U.S. Bureau of Labor Statistics provides data on changes in hourly compensation (which includes wages, supplements and employer payments for social security and other employer-financed benefit plans) in manufacturing since 1960 for 12 of these 16 nations. The patterns indicated by these figures for the period 1960-80 are substantially similar to those for wage changes from 1970 to 1980 shown in Table 1. See BLS (1990: Table 1).
18. See BLS (1990: Table 1).
19. See Goldthorpe (1984); Lash (1985); Lash and Urry (1987); Offe (1985); Streeck (1984).
20. See Streeck (1990).
21. See Bowles, Gordon and Weisskopf (1983: Part 3) for a suggestion along these lines.
22. See Levine and Tyson (1990) and the references cited therein.
23. Corporatist concertation, at least in a tripartite form, may not be well suited to the implementation of certain types of policies, such as industrial policy. See Kenworthy (1990) and Pontusson (1991).
24. Svensson (1986: 273).
25. On social spending see Castles (1978); Esping-Andersen (1985); Hicks and Swank (1984a, 1984b); Korpi (1989); O'Connor (1988); Stephens (1979: Chs. 4-5). On societal equality, see Freeman (1989: Ch. 6) and Hewitt (1977).

26. See Rogers (1990) for extensive discussion of these legal constraints. The U.S. is alone in having suffered a massive decline in union density during the past two decades, from 31% in 1970 to 16% in 1990. See Visser (1989).

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