THE CORPORATIST POLITICAL ECONOMIES: FROM INDUSTRIAL CORPORATISM TO THE SOCIAL INVESTMENT STATE IN THE KNOWLEDGE INTENSIVE SERVICE ECONOMY*

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Working Paper #388 – December 2012

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* Earlier versions of this paper were delivered at conferences on the "Transformations of the State" at the Center for European Studies, University of North Carolina, Chapel Hill, February 23–26, 2012, and at the Hanse-Wissenschaftskolleg, Delmenhorst, Germany, November 3–7, 2011. We thank Rainer Baubock, Evelyne Huber, Stephan Leibfried, Jonah Levy, Frank Nullmeier, Herbert Obinger, David Soskice, Peter Starke, and the other conference participants for comments on a previous draft. An abbreviated version of this working paper will appear as chapter 22 of *The Oxford Handbook of Transformations of the State*, edited by Stephan Leibfried, Frank Nullmeier, Evelyne Huber, Matthew Lange, Jonah Levy, and John D. Stephens. Contact: jjhuo@uwaterloo.ca or jdsteph@email.unc.edu

ABSTRACT

In this paper, we discuss the role of the state in corporatist economies and its ongoing transformation in a globalizing economy. In these small open economies, the postwar state developed a distinctive supply-side Keynesianism model for growth and employment creation. Based on this model, the state lowered labor cost by coordinating centralized wage bargaining, lowered investment cost through favorable lending policies, and reduced workers' risk-aversion towards skill training through generous social compensation. Since the 1980s, growing fiscal burden and capital liberalization led to a new supply-side model, focused instead on fiscal encouragements for investment in human capital and R&D. This strategy continues to prove successful for growth (in high tech market niches) and employment (in knowledge-intensive discretionary learning industries). Although the state reconfigured much of its supply-side function during the transition from the postwar to the early 21st century model, the exercise of wage restraint through tripartite bargaining remains a central pillar throughout.

RESUMEN

En este artículo discutimos el rol del Estado en las economías corporatistas y su transformación en curso en el contexto de una economía que se globaliza. En estas economías abiertas y pequeñas el Estado de la posguerra desarrolló un distintivo modelo de keynesianismo basado en la oferta para promover el desarrollo y la creación de empleo. Con base en este modelo el Estado redujo los costos laborales a través de la coordinación de la negociación salarial centralizada, redujo el costo de la inversión a través de políticas de préstamos favorables y redujo la aversión de los trabajadores a tomar el riesgo de entrenarse para adquirir habilidades a través de la compensación social generosa. Desde los años 1980s la creciente carga fiscal y la liberalización de capitales llevaron a un nuevo modelo basado en la oferta, concentrado en cambio en incentivos fiscales para la inversión en capital humano y en investigación y desarrollo. Esta estrategia continúa demostrándose exitosa en la promoción del crecimiento (en nichos de mercado de alta tecnología) y del empleo (en industrias intensivas en el uso del conocimiento y de aprendizaje discrecional). Aunque el Estado reconfiguró mucho de su función de estímulo a la oferta durante la transición del modelo de la posguerra al de principios del siglo XXI, el ejercicio de la moderación salarial a través de la negociación tripartita se mantuvo todo el tiempo como un pilar central.

CORPORATIST INDUSTRIAL POLITICAL ECONOMIES UP TO THE MID-1980S[1]

The Concept of Corporatism

The 1980s literature on corporatism presented two interrelated but different definitions of corporatism, one that emphasized the strength and centralization of employer organizations and union confederations, and one that focused on tripartite bargaining and policy formation by these centralized interest associations and the state (Schmitter 1982; Lehmbruch 1984). Our working definition of corporatism begins with the latter but incorporates the former: In corporatist political economies, peak associations of capital and labor meet with the state to strike bargains over broad social and economic policy, including state expenditure, taxation, wage policy, and so on. In practice, only highly centralized interest groups can enforce such a bargain. A key element, perhaps *the* key element, of the bargain is that the union confederations agree to restrain wage growth in return for expansion of the "social wage," that is, welfare state benefits, both transfers and services, that benefit their members.

There is some disagreement about which countries should be classified as corporatist. Lehmbruch (1984), Katzenstein (1985), and Stephens (1979) agree that Austria, Belgium, the Netherlands, Denmark, Norway, and Sweden are corporatist political economies. Stephens includes Finland, excluded by Katzenstein because he contends that it had no ideology of social partnership, which is one of his criteria for classifying a country as corporatist. However, Finland does fit both parts of our definition, so we include it in our group of corporatist countries in this paper. As one can see from Table 1,[2] Finland is similar to the other corporatist countries in its labor market institutions, such as union strength and contract coverage, wage coordination, and wage bargaining centralization, as well as in outcomes such as wage dispersion and strike rates.

Katzenstein includes Switzerland while Lehmbruch considers it a marginal case. Kriesi's (1980, 1982) network and decision making analysis shows that the unions and

[1] We chose the mid-1980s because we consider that to be the end of the era of postwar corporatism, at least as it operated in that period. Initially, the end of the Golden Age (circa 1973) did not undermine corporatist political economies; rather, it reinforced them.
[2] All tables can be found at end of paper.

political left are not very integrated into the Swiss decision making system. This is reflected in the very low level of redistribution effected by the Swiss tax and transfer system (Table 2). Thus, while it is clear that the Swiss industrial relations system delivers effective wage restraint (Fluder and Hotz-Hart 1998) and very low levels of industrial conflict (Table 1), workers are not compensated for their wage restraint with increases in the social wage as they are in the corporatist countries.

The same can be said for Germany which Lehmbruch (1984: 66) classifies as a case of "medium corporatism." While it does deviate somewhat from the corporatist countries in terms of indicators of labor market institutions and their outcomes (Table 1), the German welfare state is not any more redistributive than the liberal welfare states, though inequality is lower because of the low levels of wage inequality delivered by the wage bargaining systems. From Table 3, one can see that Switzerland and Germany differ from the corporatist political economies in two ways, central bank independence and external capital controls. The measure of central bank independence is from Freitag (1999). It varies from 1 to 3, with 1 indicating high levels of independence from government and 3 indicating low levels. The measure of capital controls is based on Quinn and Toyoda's (2008) measures. We take the average of the degree of capital account openness and the degree of current account openness and invert the scores so that a low score indicates few capital controls. The index varies from 0 to 100. One can see that Switzerland and Germany are distinct in that they have independent central banks and almost no capital controls. We will argue below that capital controls and dependent central banks were key elements of the economic models of the corporatist political economies in the Golden Age of postwar capitalism.

Our corporatist political economies and the two marginal cases of corporatism make up the universe of Soskice's (1999) industry coordinated market economies (CMEs). In making the distinction between coordinated market economies and liberal market economies, Soskice emphasizes employer organization and relationships between companies and financial institutions as defining characteristics of production regimes. Employer organization takes three distinctive forms: coordination at the industry or subindustry level in most continental and Nordic economies (industry-coordinated market economies, CMEs); coordination among groups of companies across industries in Japan

and Korea (group coordinated market economies); or absence of coordination in the deregulated systems of the Anglo-American countries (uncoordinated or liberal market economies, LMEs). In coordinated economies, employers are able to organize collectively in training their labor force, sharing technology, providing export marketing services and advice for research and development (R&D) and for product innovation, setting product standards, and bargaining with employees. The capacity for collective action on the part of employers shapes stable patterns of economic governance encompassing a country's financial system, its vocational training, and its system of industrial relations.

A central characteristic of CMEs and corporatist countries in the VoC and corporatism literatures is the generalized acceptance by all major actors of the imperative of successful competition in open world markets for tradable goods. Successful competition in turn requires a high skill level of the labor force and the ability of unions to deliver wage restraint to the extent needed to preserve an internationally competitive position. In the industry-coordinated market economies of Central and Northern Europe, initial labor skills are effectively organized in companies or with strong company and union involvement in public schools. Unions are organized mainly along industrial lines and play an important cooperative role in organizing working conditions within companies and in setting wage levels for the economy as a whole. Banks and industries are closely linked, providing industries with preferential sources of long-term credit, or the state plays a major role in bank ownership and performs a similar role in preferential credit provision for industry. In uncoordinated market economies, in contrast to both types of coordinated economy, training for lower level workers is not undertaken by private business and is generally ineffective. Private sector trade unions are viewed as impediments in employer decision making, have little role in coordinating their activities, and are weak. Bank-industry ties are weak, and industries must rely on competitive markets to raise capital.

As we indicated in the initial paragraph, the VoC literature is firm focused. This was certainly an advance in our understanding of these production systems. However, it also served to obscure the role of the state in precisely the subsystems highlighted by this

literature. Thus, we refocus the analysis on the role of the state in industrial relations, the education and training systems, the systems of business finance, and R&D.

The Functioning of the Corporatist Political Economy

Both Katzenstein (1985) and Cameron (1978, 1984) note the strong association of corporatism with economic openness. These are all small countries with small domestic markets. Due to economies of scale, they are forced to export and thus to maintain international competitiveness. For Katzenstein, trade openness is a precondition for corporatist compromise; it provides the incentive for compromise on the part of capital and labor and political parties of the left and right. As one can see from Table 3, the corporatist countries are distinctive in term of their degree of trade openness.

As noted, the core of the corporatist compromise is social wage expansion in return for wage restraint. With strong unions and high union contract coverage, it is essential that wage bargaining be centralized and coordinated, and this is enabled by centralized union and employer confederations. The state's role in these economies goes far beyond simply providing a social wage, or, in Katzenstein's (1985: 78) terminology, domestic compensation to facilitate adaptation to international economic change in an open economy. Katzenstein (1985: 27, 78) describes the role of the state as pursuing an industrial policy of "flexible industrial adjustment." By this, he means that these countries are too small to embark on a policy of developing "national champions" to break into entirely new product markets and thus policy concentrates on helping enterprises make incremental adjustment to remain competitive. In recent work on changing patterns of corporatism in the Nordic countries, Ornston (2009, forthcoming) has termed the traditional corporatism of the countries discussed here "conservative corporatism," which sounds pejorative but does accurately catch the idea that upgrading change in the product markets, though constant (that is, constantly changing), is incremental. This, of course, is consistent with Hall and Soskice's (2001) observation that CMEs are good at "incremental innovation" while "radical innovation" is the strong suit of LMEs.

According to Katzenstein (1985), the actual policy instruments by which the state in corporatist systems implemented flexible industrial adjustment varied during the postwar to 1980s period. For example, in Austria and Norway (and we would add Finland), state ownership was very important while in Denmark and Sweden the state sector in industrial production was small. There are, however, several generalizations we can make with the help of Table 3. First, as previously noted, in the Golden Age, all of our corporatist countries except the Netherlands were characterized by high degrees of capital controls and low levels of central bank independence. This combination facilitated a policy of low real interest rates, since, with capital controls, the countries could have lower interest rates than other countries without currency depreciation, and government control of central banks allowed governments to set interest rates. This means that these countries were stimulating the economy on the monetary side. In order to avoid inflationary pressures, these countries (with the exception of Belgium) had conservative fiscal policies, running surpluses across economic cycles.

Table 3 also includes the Organisation for Economic Co-operation and Development (OECD) measure of product market regulation in seven non-manufacturing sectors: telecoms, electricity, gas, post, rail, air passenger transport, and road freight.[3] The overall measure and public ownership measure are included in the table. The corporatist countries rank high on both of these measures in this period, but they are rather similar to the other countries in the table except for the UK, the US, and Canada.

Table 4 lists various indicators of welfare state effort. The corporatist countries rank high on all of these indicators, which is consistent with the argument of the 1980s corporatist literature on the role of the social wage in delivering domestic compensation. The Nordic countries are distinctively high on government service employment, which Huber and Stephens (2000) have shown to be a good proxy measure of public health, education, and welfare employment; parental leave; and daycare. There were no large differences between the Nordic countries and the continental welfare regimes on any of these three variables in 1970. As Huber and Stephens show (2000, 2001), these variables

[3] The indicators focus on regulations that affect competitive pressures in areas where competition is economically viable and on potential costs that these regulations entail. Indicators may include information regarding barriers to entry, public ownership, market structure, vertical integration, and price controls (vary by sector). Each indicator is measured on a scale from 0 to 6, with 0 indicating the least regulation and 6 indicating the most regulation.

are interrelated and represent a feedback process between public-service expansion and increasing gender equality in the workplace and family. As we show in the final section of this paper, these developments had important unintended consequences for the development of the Nordic welfare and production regimes.

Sweden

Sweden shares with Finland and Norway a high degree of concentration in the secondary sector and concentration on nonagricultural exports. It differs in that Swedish industry, particularly the export industry, has been dominated by a small number of privately owned, internationalized, oligopolistic firms since the very onset of industrialization. This powerful business class explains why the Social Democrats failed in their immediate post WWII attempt to move Sweden to a more statist direction of investment characteristic of Norway and Finland. As a result the Swedish version of the Nordic supply side model focused on labor supply, influencing investment only indirectly. The contours of this policy emerged in the famous Rehn-Meidner model named for the two Landsorganisationen i Sverige (the Swedish Confederation of Trade Unions, LO) economists who developed it (Meidner and Öhman 1972; Pontusson 1992: 57–96). The model called for LO to demand equal pay for equal work across the economy, the so-called "solidaristic wage policy." This wage policy would force labor intensive, low productivity enterprises to rationalize or go out of business. The displaced labor would then be moved to high productivity sectors through the active labor market policy. Wages in high productivity, often export oriented, sectors would be restrained to facilitate international competition. The active labor market policy, by reducing structural unemployment, would further facilitate wage restraint and thus reduce the tradeoff between unemployment and inflation, moving the Phillips curve down and to the left.

Restrictive fiscal policy should be pursued in order to facilitate wage restraint. In the face of restrictive fiscal policy, full employment would be achieved through the active labor market policy and other selective measures and loans at low interest rates from public savings such as pension funds. State controls in currency and credit markets facilitated macroeconomic adjustment and low real interest rates. Acceptable distributive outcomes for labor were achieved by tight fiscal policy, which dampened domestic

demand and thus profit levels, and by expansion of transfer payments and free or subsidized public goods and services. Given modest profit levels, levels of business investment adequate for economic growth were to be achieved through the low interest rate loans from public savings. The tax regime also heavily favored investment over distribution of profits.

As we mentioned above, the demand side to this essentially supply side model was taken care of in part by growth in demand for Swedish export products in the rapidly growing capitalist core economies. The growth of the economy was, of course, essential for the expansion of the welfare state that occurred in this period. An expanding pie made it easier to expand the welfare state share. At least as important was the pattern of employment production that was generated by the welfare state and production regime. Low levels of unemployment and high levels of labor force participation meant that high proportions of the total population were working and thus supporting the welfare state with taxes and contributions and lower proportions (in relative terms) were entirely dependent on it. Thus, the same level of entitlements in Sweden and elsewhere in Scandinavia was much less costly than it would have been had these countries had the labor force participation rates of the continental European countries, not to mention the unemployment levels that some of them suffered beginning in the mid-seventies.

Norway

Norway lacked the internationalized, large-scale, haute bourgeoisie that characterized Sweden. The hegemonic, and economic, weakness of Norwegian capital is important in accounting for the trajectory of economic policy as compared to Sweden's. At a time when the idea of economic planning was under intense attack by the employers' federation and the bourgeois parties in Sweden, the bourgeois parties accepted state leadership in economic planning in Norway. In large part, this reflected the objective reality that it would be difficult for Norwegian business to mobilize the capital necessary for an ambitious program of industrialization and structural transformation and, also in part, their weaker ability to oppose such a program had they wanted to. The Norwegian model was characterized by direct intervention of the state through active industrial policy, low interest rates and channeling of credit to industry facilitated by extensive state

ownership of industry and of banks, and tripartite wage bargaining in which the state (unlike in Sweden) played an active and not just facilitative role. The credit policies of the government were sufficiently important for the growth and employment policies that Mjøset (1986: 121) have characterized the Norwegian model as "credit socialism." Active labor market policy was less central to the Norwegian model.

Finland

Finnish economic and political development up to the mid-1980s can be divided into two distinct phases (Alestalo and Uusitalo 1986; Andersson, Kosonen, and Vartiainen 1993). The first phase stretches from the late 1940s to the mid-1960s. Politically, this period is characterized by a divided left and split unions and by Agrarian Party dominance. Economically, it is a period of state-led industrialization based on export of wood and wood products. If anything, the state was more involved in the industrialization process than in Norway, with the state not only promoting and subsidizing industrial diversification but also directly owning and creating new industrial concerns. As in Norway and Sweden, the state used low interest rates and channeling of credit to industrial users to spur industrial transformation. In order to create public savings the model was fiscally very conservative, running consistent surpluses. Unlike labor in the other two countries, Finnish labor was largely excluded from the planning process in this period; it is a case of what Lehmbruch (1984) calls "concertation without labor," bearing similarities to Japan and East Asian NICs (Vartiainen 1997).

The mid-1960s mark a system shift in the Finnish welfare state and production regime strongly in the direction of the Swedish and Norwegian regimes. The 1966 election resulted in a left majority in parliament and ushered in a period of Social Democratic rule in cooperation with the Communists and/or Agrarians. In the same period, divisions in the trade union movement were overcome and union membership began to increase from about 40 percent of the labor force in the mid-1960s to twice that figure two decades later. As a result, the Finnish regime moved from "concertation without labor" to tripartite corporatism, with the agreement on the comprehensive incomes policy in 1968, the first of its kind in Finland, symbolically marking the

transition. In this same period, economic policy shifted to an emphasis on diversification of large industrial firms, both state and private; manufacturing exports; and increasing exports to Sweden and the Soviet Union, the latter of which accounted for 19.4 percent of Finnish exports by 1980 (Andersson, Kosonen, and Vartiainen 1993: 10). In the ensuing two decades, Finland also continued its impressive growth record, effectively catching up with its Nordic neighbors.

Denmark

Danish industrial structure and the economy differ from the other Nordic countries, which goes far in explaining why the Danish welfare state and production regimes, specifically the employment and growth policies, were also different. Denmark's only natural resource is fertile soil, thus agricultural products, above all processed foods from the dairy and animal husbandry branches, dominated exports until the 1960s. Though Denmark, like the rest of Scandinavia, lacked large estates, landholding was more differentiated creating a division of political interests in the countryside. In sharp contrast to, above all, Sweden, industry was traditionally small scale and craft oriented. Even after the "second industrial revolution" beginning in the late 1950s, small-scale manufacturing dominated the new niche-oriented manufacturing export industries. Moreover Denmark lacked the finance-industry linkages characteristic of other CMEs. As a consequence of the above, agrarian interests were stronger and the left weaker in Denmark than in Sweden or Norway.

Given the Social Democrats' weakness and need for bourgeois coalition partners, it is not surprising that the Social Democrats' postwar statist planning initiative went nowhere (Esping-Andersen 1985: 206). The petty bourgeois character of both the rural and urban sectors and the lack of finance-industry ties also militated against a more modest Swedish style supply side policy encouraging industrial development and structural rationalization. In sharp contrast to the other Nordic countries, Danish financial markets were strongly integrated with international credit markets in the Golden Age and thus interest rates were higher than in the other countries (Mjøset 1986). With no long-term supply side policies, government efforts to combat unemployment were predominantly short-term Keynesian demand management measures, which fueled

inflation thus threatening the balance of payments and consequently leading to contractionary measures, the "stop-go" cycle familiar to students of British political economy (Esping-Andersen 1985: 207).

Austria

Industrial development in early postwar Austria was relatively slow, with 12.2 percent of its labor force still in agriculture in 1970. Similarly to Norway's, the Austrian private sector did not produce large enterprises with international presence and was instead dominated by small and medium-sized firms. As result of the postwar nationalizations, Austria began the postwar period with a large nationalized sector of large enterprises. The government promoted investment directly through the nationalized sector and indirectly through a large number of investment funds that had originated in the postwar reconstruction effort (Huber and Stephens 1998: 369). By the 1970s, 33 percent of manufacturing, 40 percent of construction, and 70 percent of banking, credit, and insurance fell under state ownership (Kurzer 1993: 38). Austrian corporatism is notable for its organizational strength: the Austrian Economic Chamber had compulsory membership (100 percent), and the Austrian Confederation of Trade Unions, with a unitary structure, covered 60 percent of workers. The state's early nationalization endeavors played a direct role in reinforcing organizational encompassing-ness, especially on the labor side, because unions were concentrated in large, key industries in the public sector, such as mining, chemicals, and engineering. Unionization was close to 80 percent in the public sector (as opposed to 54 percent in the private sector). The Austrian state's penetration in its economy was accompanied by the state's autonomy in politics: the Constitutional Court was the only substantive veto player, and when government changed hands, beginning with the breakup of the Grand Coalition in 1966, clear breaks in policies followed, for example, in welfare state reforms (Hermerijck, Unger, and Visser 2000; Obinger et al. 2010; Afonso and Mach 2011).

The social partners in Austria explicitly prioritized full employment over wage increases and, from the union side in particular, over the goal of wage equality. To sustain job creation, the state combined demand stimulation (such as subsidies and public

investments) with a hard currency to ride out shocks in the 1970s.[4] The success of this approach required containment of inflationary pressure. As a result, the state's ownership and macroeconomic strategies became mutually complementary: public sector unions took the lead in exercising wage restraint, which allowed the state to engage in demand pumping more effectively. Before the onset of the mid-1980s, the unemployment rate did not exceed 4 percent, in sharp contrast to the high levels suffered in Belgium and the Netherlands. The three components of this success (demand stimulation, hard currency, and wage restraint) came to be known as Austro-Keynesianism (Hermerijck, Unger, and Visser 2000; Obinger et al. 2010).

Belgium

In Belgium, postwar industrial growth was not only early but also heavily concentrated in sectors such as coal and steel and raw materials. After the 1960s, decline set in, and the center of gravity shifted to light industrial sectors. The state assumed an important role in absorbing labor in the aftermath of the 1970s shocks, with public sector employment growing by 35.5 percent between 1970 and 1984. By 1982, public sector employment had reached 32 percent. Unlike the Austrian case, however, systematic nationalization did not accompany industrial development. The state seized an important macroeconomic tool when it nationalized the Belgian national Bank in 1948, replacing shareholders as the main principal with the authority to appoint the Bank's regents and governors. However, direct absorption of economic assets into the public sector turned out to be rare and exceptional in Belgium. Instead of extending ownership, the Belgian state relied on intensifying its legislative intervention, especially in incomes and price policy. Belgian unions were strong in membership and deeply integrated with affiliated political parties, but weak in organizational capacity. Peak union organizations were unable to exercise centralized authority over members, who faced severe coordination difficulties as a result of linguistic and regional divisions among them and among the political parties they sponsored. On the employers' side, especially in manufacturing, investment decisions

[4] Note that, as Table 3 shows, fiscal stimulation was not part of the model. In the Golden Age, fiscal policy was conservative, and during the stagflation of the 1970s and early 1980s it was only mildly stimulative.

were concentrated in a few cross-sector holding companies such as the Banque de Bruxelles and Société Générale de Belgique. Because they could pool losses across sectors, the holding companies had no strong incentives to enter into trilateral bargaining (Jones 2008; Hermerijck, Unger, and Visser 2000; Houwing and Vandaele 2011).

In contrast to Austro-Keynesianism, the Belgian state did not engage in systematic demand pumping and was unable to achieve wage restraint. Wage explosion since the 1960s stemmed directly from the lack of interest and organizational capacity among social partners. To contain inflation, the state had to step in via decree. Between 1963 and 1964, the state intervened with twenty-six price restrictions and restrictions on commercial credit, and from 1982 to 1986, it suspended wage negotiations. In the absence of either wage peace or fiscal stimulation, the state's macroeconomic adjustment consisted primarily of a combination of hard currency and an aggressive push (together with the Netherlands) toward regional integration to find new markets (Jones 2008).

The Netherlands

Manufacturing did not take center place in early postwar Dutch industrial development, which was concentrated instead in service-producing sectors such as international finance, trade, business services, and transportation. The country is home to various large Anglo-Dutch multinational enterprises such as Shell, Unilever, and Philips, plus large banks (Hermerijck, Unger, and Visser 2000). The international and service-oriented pitch of its industrial core made the option of state ownership unattractive. To facilitate the growth in exporting-manufacturing industries, the state initially focused on broadening access to the more prosperous Belgian consumer market, and later to more extensive regional trade integration in Western Europe. As in Belgium, the state did not attempt to direct industrial development by expanding its asset ownership to acquire fuller control of resource allocation. Instead, it focused on intensive adjustment through legislation, primarily in incomes policy.

Between 1945 and 1963, a statutory wage policy was in place. As a result, collective wage agreements needed direct approval by a State Board of Directors and were bound by annual guidelines issued by the Ministry of Social Affairs. The 1970s

coincided with a significant decline in the organizational strength of unions. Employer associations, on the other hand, remained strongly organized. The growing asymmetry in bargaining capacity between the two sides led to persistent wage increases above productivity increases, which forced the Dutch state to return frequently with wage freezes. Direct state intervention persisted until the Wassenaar Agreement of 1982, which is considered the beginning of the reorientation of the Dutch model and the advent of the Dutch "miracle" in most accounts of the development of the Dutch political economy (Visser and Hermerijck 1997).

This dramatic change highlighted the primacy of employment in Dutch policy making, which takes explicit priority over the goal of price stability. Armed with the right of ministerial instruction, the state was able to imprint this preference directly on the Dutch central bank. The bank had the mandate to pursue price stability without jeopardizing economic growth, and to do so, it prioritized the balance of payments through the liquidity ratio. Combining exchange rate stability with regional integration to enlarge the export market, the Dutch state promoted industrialization primarily through market-conforming measures rather than intervention (except for incomes policy) (Jones 2008).

All of the corporatist countries developed generous and redistributive welfare states, but they differed in that in the Nordic countries the welfare states were shaped under social democratic dominance while in Austria, the Netherlands, and Belgium they were the product of social democratic/Christian democratic compromises. For this reason, the latter did not follow the Nordic countries into a second stage of welfare state development in which women found employment in an expanding public sector and increasingly mobilized to demand expansion of policies that facilitate combining work and family, such as daycare and parental leave. As a result women's labor force participation did not expand in the three continental countries at the pace that it did in the Nordic countries.

THE TRANSFORMATION OF THE CORPORATIST POLITICAL ECONOMIES AFTER THE MID-1980s

Globalization and Changes in Economic Policies

As Scharpf (2000) points out, many of the state interventionist policies of the corporatist countries had been greatly reduced or abandoned by the turn of the century. Many state owned enterprises had been privatized, even by social democratic governments. Those that were not privatized were directed to operate by market, profit-seeking principles, operating without subsidies and no longer supporting employment. Capital controls were eliminated and domestic capital deregulated. Devaluation was abandoned as a policy tool and Austria, Belgium, the Netherlands, and Finland joined the European Monetary Union (EMU), completely eliminating even the possibility of using currency adjustment as a policy instrument. The combination of the elimination of capital controls and the fixing of currencies meant that international markets set national interest rates, effectively eliminating monetary policy as a counter-cyclical tool and cheap interest rates as a measure to stimulate investment. External financial decontrol also limits a government's ability to employ fiscal stimulation as a tool, as fiscal deficits are considered risky by financial markets and either require a risk premium on interest rates or put downward pressure on foreign exchange reserves. The deepening of European integration after 1990 further limited monetary and fiscal policy latitude and prohibited non-tariff trade barriers and subsidies to support investment and employment. All the countries discussed in this paper reluctantly retrenched welfare state entitlements, though the welfare state regimes of these countries would still be considered generous after the cutbacks (Stephens 2010: 520), and Scruggs' overall generosity index is actually higher for 2000–02 than it was for 1971–85 (see Table 4).

The fact that there are parallel trends toward globalization and reduction of state intervention in the market does not, of course, establish that they are causally linked. Let us first take increased exposure to trade, where the effects of increased economic internationalization have been most limited because the corporatist political economies were very trade open at the beginning of the globalization era and increases in trade openness have been much smaller than the increases in capital flows (Table 3). The one

area where one does detect a significant impact of increased trade openness is the trend toward privatization and “marketization” of state enterprises. Even here the process is complex and the lowering of tariff barriers does not figure strongly in the picture. Perhaps the most dramatic change is the public service monopolies, particularly telecommunications. Here rapid technological change made what were once natural monopolies into enterprises exposed to international competition. The cost of using state enterprises to support employment, a common response to the crisis of the 1970s, forced government after government to abandon the practice in the course of the 1980s and attempt to put state enterprises on a profit making basis. Once this was accomplished, the logic of even having the enterprises in the state sector disappeared and privatization was often the next step. The large budget deficits faced by many governments made this a yet more attractive option. Another pressure toward privatization was growth of the scale of enterprises, as the optimal size for competitiveness in sectors such as manufacturing outgrew the scale of the national enterprises in these small countries and the search for partners through merger or absorption resulted either in the dilution of the state owned portion of the resulting enterprise or in outright privatization.

With regard to increased capital mobility, there is compelling evidence that the opening of capital markets and the very large increases in capital flows shown in Table 3 have had a large constraining influence on macroeconomic policy. As Simmons (1999: 41–43) points out, while the early popular accounts stress technological innovation as the impetus for removing capital controls, later more nuanced academic analyses add market competitive, political, and ideological factors. Leftist governments tended to resist competitive deregulation, but by the mid-1980s, the ability of multinational businesses and financial institutions to circumvent national controls and to exploit them for arbitrage influenced most governments to abandon controls. The final vestiges of controls were eliminated in European Union countries by the beginning of 1993 under the provisions of the Single European Act of 1987.

As a result of the elimination of controls on capital flows between countries, governments cannot control both the interest rate and exchange rate. If a government decides to pursue a stable exchange rate, it must accept the interest rate that is determined by international financial markets. The absence of capital controls makes the option of

setting low interest rates while accepting a depreciating currency unattractive, as it results in inflation which greatly complicates wage bargaining (see below). As a result of the decontrol of financial markets, competition from non-OECD countries for investment funds (Rowthorn 1995), and the worldwide debt build up in the wake of the two oil shocks, real interest rates increased from 1.4 percent in the 1960s to 5.6 percent in the early 1990s (OECD 1995: 108). As a result of decontrol of domestic financial markets (which was in many cases stimulated by international financial deregulation), governments' ability to privilege business investors over other borrowers also became more limited. Countries that relied on financial control to target business investment were particularly hard hit, as businesses moved from a situation in which real interest rates offered to them via government subsidies, tax concessions, and regulations were actually negative to a situation in which they had to pay the rates set by international markets. These developments put great pressure on wage bargaining systems in all of the corporatist countries where unions were at least moderately strong, at the same time as they pushed huge responsibilities for maintaining macroeconomic balance and external competitiveness onto these systems. With EMU membership or fixed exchange rates, the wage gains above the European norm are translated immediately into loss of export markets and thus into higher unemployment. In this environment, inflation is the number one enemy of the bargaining system because nominal not real increases in wages undermine export competitiveness. Without the fiscal and monetary tools once available to combat unemployment, the responsibility increasingly falls on the wage bargainers.

With containing inflation as the central policy goal and interest rates set by international markets, it is not surprising that countries with central banks dependent on government authority moved to increase the independence of their central banks since such a move could increase the credibility of government policy in the eyes of international money markets and thus reduce interest rate premiums (Table 3). The monetary policy and institutional arrangements favored by the German Bundesbank and conservative economists became the norm.

We can flesh out these trends with the help of Tables 1–4. Table 1 shows that, despite the tremendous pressures on the wage bargaining systems, the basic indicators that tap various dimensions of corporatist wage bargaining—union density, union

coverage, wage coordination, and wage-bargaining centralization—have been amazingly stable, the decline in union density in Austria and Netherlands excepted. As to the outcomes, wage dispersion has also been stable while strikes have now for the first time truly "withered away." We would argue that the latter is an indicator of the realization on the part of unions, employers, and governments of the critical centrality of successful wage restraint for the health of the macroeconomy. Governments have been important in goading the labor market partners, especially employers, into continuing coordinated wage bargaining in all of our cases. The increases in active labor market policy spending and the cutbacks in employment protection legislation show the trend toward flexibilization of labor markets not only in the corporatist countries but in all continental European countries. Here we see not the withdrawal of government intervention in labor markets but rather the reshaping of it to achieve different ends. Loopholes that led to early exit from the labor market were closed, opportunities for entry by labor market outsiders such as part-time workers, women, or young people were expanded. Besides direct funding of active labor market policies, the state also increased fiscal incentives to work, such as tax credits and cuts in social security contributions (Huo 2009).

As we have mentioned, while modest retrenchment occurred in all of our countries, there has been no regime change in any of them (Table 4). We note, however, that the welfare state generosity index, which includes pensions, rather underestimates the *future* cuts in pension replacement rates because the pension component of the measure refers to the benefits of a newly retired worker. However, based on OECD estimates of projected replacement rates for a new worker entering the labor force in 2008, of the corporatist countries, only in Belgium will replacement rates decline significantly, once private mandatory pensions, such as the negotiated earnings related tiers in Netherlands and Denmark, are taken into account (Huber and Stephens 2012). The areas of work and family policies, represented in the table by daycare spending and parental leave, follow a different pattern: here we see expansion, particularly in the Nordic countries, right through the era of retrenchment in other welfare state policies.

Table 2 shows changes in poverty, inequality, and redistribution from the 1980s to the mid-2000s. The poverty figures show that the corporatist countries continue to be

effective at minimizing poverty in the population as a whole and particular among the children of single mothers, a new social risk group which is growing in all countries.

By contrast, many of our indicators in Table 3 on the macroeconomy show dramatic change, documenting the trends outlined at the beginning of this section. All of the countries in the table experienced increases in trade, sharp declines in capital controls and increases in capital flows. Countries with central banks dependent on the sitting government increased the independence of the central bank. All countries decreased product market regulations and state ownership in the public service monopolies (telecom, electricity, gas, post, rail, air passenger transport, and road freight). Though we do not have precise comparative data on the question, our research on the seven corporatist countries shows that there was extensive privatization of state enterprises in all cases but it is especially significant in the three countries with high levels of state ownership: Austria, Finland, and Norway.

The steep rise of inward and outward direct foreign investment is indicative of the transnationalization of production. Most of this investment consists of acquisitions and mergers of existing enterprises, not new investment. In the Norwegian and Finnish cases, divisions of state enterprises were often spun off and sought foreign owners or partners (Lilja, Laurila, and Lovio 2011; Moen 2011).

With regard to deficits and research and development expenditure, the corporatist countries, particularly the Nordic countries, exhibit a different pattern from that of most of the other countries. After the turn of the century, these countries returned to the conservative fiscal policies characteristic of their Golden Age models. The corporatist countries are the only ones to have moved to markedly higher levels of research and development expenditure in the current era. It is worth noting that this is not because of higher levels of or large increases in government R&D expenditure. Government R&D expenditure is similar across the political economy regimes and periods of time at about 0.7–0.8 percent of Gross Domestic Product (GDP).

Toward a Social Investment State in the Knowledge Intensive Service Economy

After the end of the Golden Age, corporatist countries faced new economic challenges in both production and job creation, which turned out to be opportunities for the state to

assert itself in the economic landscape. In some countries, the state assumed an important role on the supply side of the economy: the creation and preservation of high quality human capital. The corporatist state implemented this new task of social investment through two channels. First, the state used public *funding* to support policy instruments that *increase the stocks* of high quality human capital, such as early childhood education and care (daycare), active labor market training, sick pay, and formal education at all levels. Second, the state used additional *intervention* to reshape traditionally self-governing coordination institutions so that they *increase the economic returns of human capital stocks*, in particular in capturing large market share in knowledge intensive industries through successful radical technological innovation.

On the production front, as the VoC literature points out, the corporatist economies had for many years consolidated an institutional foundation for comparative advantages in skill-intensive incremental innovation, in relatively mature and traditional manufacturing industries (Hall and Soskice 2001). However, the core manufacturing sectors went into decline and were eclipsed by the growing importance of radical innovation in knowledge intensive sectors, such as telecommunications and biotechnology. From a pure Varieties of Capitalism perspective, according to which corporatist advantages stem largely from non-state self-governing coordination mechanisms, these countries appear ill prepared for this sectoral transition. Indeed, the focal mechanisms of self-governing coordination, such as patient capital and the internal labor market, all seem to impede rather than facilitate radical innovation. However, as it turns out, at least in the Nordic subset of corporatist countries, the state played a crucial role in recasting the functions of these indigenous coordination networks, so that their synergies are put to use in the competition for leading-edge radical innovation sectors. These countries, in the end, succeeded in outcompeting even the Anglo-Saxon economies normally understood to be advantaged in radical knowledge intensive innovation. These are precisely the corporatist countries where political and popular support for the role of the state has been historically strong and enduring, that is, the Nordic countries (Steimno 2010). By contrast, corporatist countries with less state penetration (such as Belgium and the Netherlands) or with large public sectors but without Nordic levels of political or

popular support (such as Austria) failed to make a similar breakthrough as their mature industries declined.

Kristensen and Lilja (2011) provide a detailed account of how the Nordic countries transformed themselves from exporters of processed primary products (agricultural goods for Denmark, wood and wood products for the other three countries) and Fordist manufactured products, especially in the case of Sweden, to producers of high-tech goods and services, particularly in information and communications technology (ICT). The ICT breakthrough was especially phenomenal in Finland and Sweden, resulting in annual per capita growth rates of over 3 percent in those two countries in the period 2000–07, well above the average of 2.3 percent of all advanced economies. This success, as it turns out, is not pumped up by direct and large increases in state spending on R&D. While Table 3 shows a large increase in aggregate R&D expenditure in Sweden, Finland, and Denmark, the state portion of such increase was five to ten times smaller (0.1 percent, 0.4 percent, and 0.2 percent of GDP respectively) (Stephens 2012). Norway, furthermore, did not experience more than marginal R&D growth in either the state or private sector, which according to Kristensen and Lilja (2011) is because continuing windfalls from oil exploration are delaying the moment when economic adjustment becomes imperative.

Without increasing public sector R&D funding, what did the state do to promote radical innovation? As alluded to above, while the Nordic corporatist state increased *stocks* of human capital through *funding* (more on this strategy later), when it comes to innovation as an instrument of increasing the *economic returns* of human capital, the state has relied instead on *policy intervention* in traditional corporatist institutions. Ornston (2009, forthcoming) characterizes this state-directed transformation of non-state, firm-level coordination institutions as "creative corporatism," in contrast to two other possible developments for corporatist countries, respectively "conservative corporatism" (which preserves pre-existing coordination institutions tuned toward incremental innovation in mature industries) and "competitive corporatism" (which dismantles these institutions to close the gap with more market-oriented liberal market economies, as in Ireland).

How did Danish, Swedish, and Finnish firms and unions transform their corporatist institutions from "conservative" to "creative" without radically retrenching

them in the direction of "competitive" corporatism? Although not implemented in reality, the threatening prospect of competitive corporatism as the ultimate consequence of reform inertia increased social partners' willingness to promptly embrace institutional adaptation. As Ornston (2009, forthcoming) explains, this firm-level transformation was not possible without state-level, political, intervention by policy makers. Although the exact process of reform differed by country, in all three cases the state prodded economic actors to adapt their existing institutions to creative corporatism, by making a credible threat of otherwise unilaterally imposing cost-cutting reforms. Although the state encouraged both firms and unions to change, its intervention was particularly active with regard to organized labor. Just as the state used its own weakness in the international economy (for example, the growing constraint of the European Union) as a credible commitment to reform, the growing weakness of unions (for example, Finnish unemployment was 17 percent in the early 1990s) prevented them from credibly committing to resist reform. Instead, organized labor's rational best response was to accept investment-oriented new practices in exchange for some control over the content of these new practices.

In creative corporatism, rather than abandoning coordination, the Nordic state took advantage of pre-existing stocks of cooperative apparatus to implement changes in three areas: finance, the labor market, and industrial policy. In finance, industry- and labor-managed pension funds were invested in venture capital markets to create institutional cooperation in early stage finance of high-tech enterprises. In the labor market, skill formation took priority over job protection. More specifically, organized labor shifted from job security for the core workers to collaboration in skill investment for non-core workers. In industrial policy, the state took a conscious backseat, encouraging instead private sector peak-level inter-firm cooperation in R&D. These three turns toward high-tech competition would have been much more difficult without the existing institutional resources of coordination. For example, firms are willing to share private and sensitive information in radical R&D collaboration precisely because they have already had a long history of informational exchange in incremental R&D of mature sectors. Similarly, the state created research consortia out of existing banking blocks and

price-taking cartels typical of traditional conservative corporatism (Ornston 2009, forthcoming).

One obvious question is why other corporatist countries failed to replicate the Nordic success. In essence, the set of conditions jointly necessary for creative corporatism is hard to find: (1) the state, being economically vulnerable, can credibly commit to reform (a condition absent in oil-rich Norway); (2) labor, being politically vulnerable to unilateral state intervention, cannot credibly commit to resist (absent in *Tarifautonomie* Germany or *Kollektivvertrag* Austria); and (3) there is pre-existing strength in cooperation (absent in more conflict-ridden Belgium and the Netherlands).

Closely related to the transformation of production in corporatist countries is a transformation of the nature of employment. After all, Kristensen and Lilja (2011) attribute the Nordic success in innovation to fundamental changes in work organization, toward non-hierarchical, horizontally integrated, autonomous, flexible, and communicative practices. In other words, the pattern of work on the production floor becomes increasingly characterized by "discretionary learning" (Lorenz and Lundvall 2011) (see Table 5). This kind of employment involves high levels of problem solving and learning on the job and high levels of freedom for the worker to organize his or her work activity (European Survey on Working Conditions, cited in Lorenz and Lundvall 2011). What did the state in corporatist countries do to increase the stocks of human capital that are suitable for high quality, knowledge intensive employment? As previewed at the beginning of this section, the state increased public funding of a range of policies that upgrade human capital and in turn raise employment in the knowledge economy. In other words, along with *intervention* to change patterns of innovation, *funding* to change the quality of human capital is another key element of the social investment state.

Nelson and Stephens (2011) examine the effect of public funding across 17 OECD countries, directly on the quality of human capital (measured alternatively through years of education and performance scores in the International Adult Literacy Survey, IALS), and indirectly through human capital on high quality employment (measured alternatively as knowledge intensive employment and discretionary learning employment). The authors found that generous short-term unemployment replacement rates, high public spending on compulsory education, active labor market policy, daycare,

and sick pay all serve to boost employment and, with the exception of sick pay, increase high quality employment in particular.

The causal mechanism that connects each of these policies to knowledge intensive employment growth is the accumulation and preservation of skills valuable for high quality employment. Daycare, as a key instrument in early childhood education and care (ECEC), not only helps mothers avoid skill atrophy by helping them to remain in the labor market after childbirth but also helps children to improve cognitive skills that are now established in the literature as important for future employment in the knowledge intensive economy (Broberg et al. 1997; Campbell et al. 2001; Waldfogel 2002; Brooks-Gunn 2003; Magnuson, Ruhm, and Waldfogel 2007). Beyond ECEC, the content of compulsory education increasingly moves beyond basic writing and numeracy to areas crucial for the knowledge intensive service economy, such as creative development, life-long learning, technological and scientific knowledge, and employability (Benavot and Braslavsky 2007). While daycare and education spending accumulates skills primarily for the young, the remaining policies protect and deepen skills for working adults. Through retraining, active labor market policies not only prevent skill atrophy but also facilitate further skill acquisition for the unemployed. High but short-term unemployment replacement prevents the unemployed from being forced, by financial pressure, to prematurely end their search on the labor market before being matched to a job with a skill set sufficient enough to be skill-preserving or deepening. Similarly, sick pay prevents workers from being forced to return to the labor market before complete recovery, which avoids the consequence of suboptimal utilization (and hence deterioration) of human capital while on the job (Bradley and Stephens 2007; Huo, Nelson, and Stephens 2008).

Public expenditure on these social investment policies has important implications for the long-term job creation prospects of corporatist countries. As the literature has long pointed out, since the decline of the Golden Age and transition to the service economy, non-corporatist liberal market economies have surged ahead of their European counterparts in employment levels. The impressive Anglo-Saxon job growth is primarily a massive increase in low-skill, low-wage elementary service sector employment driven by high wage inequality. By contrast, the more compressed wages in corporatist countries

have the potential to weigh these countries down as they attempt to scale the barrier of job decline in manufacturing (Iversen and Wren 1998). However, some corporatist countries outgrew these dim expectations. Where the political and public support for state funding is consolidated (again, the Nordic countries), the state used the above mentioned social investment policies to increase service employment, not at the low end but in the knowledge intensive top end sectors characterized by discretionary learning.

Table 5 documents the Nordic breakthrough in human capital and in discretionary learning employment. The Nordic countries lead in the percentage of workers in discretionary learning jobs, followed by continental European countries, with LMEs trailing behind. This is all the more striking given that Anglo-Saxon countries actually do well when the quality of employment is disregarded, as in overall employment. Data on human capital stocks illuminate the reasons behind the Nordic success in knowledge intensive employment. Although LMEs and Nordic countries are similar in average years of education of the adult population, the latter have much higher average literacy scores in IALS, and this difference is sharper in the bottom half of the skill distribution, especially at the fifth percentile (Table 5). In other words, the Nordic countries have succeeded in creating high quality employment from sectors that are associated in Anglo-Saxon economies with low skills and wages instead. Finally, data on public funding help us trace such differences in human capital quality back to the role of the state. As seen in Tables 1 and 4 of this paper and additionally in Nelson and Stephens (2011), the Nordic countries lead others in the size of all the previously identified, publically funded, social investment policies: ECEC, active labor market policies, public education, sick pay, and unemployment replacement rates. For example, the Nordic states invest on average 9.7 percent of GDP in education, daycare, and active labor-market policies altogether, while their corporatist continental counterparts spend 7.5 percent, and the remaining countries only 6.3 percent.[5]

[5] See Pontusson (2011) for a similar argument about the centrality of investments in human capital for the new Nordic model.

CONCLUSION

As we explained at the beginning of this paper, the corporatist political economies developed a distinctive supply side version of Keynesianism in their models of economic growth and employment creation. On a moment's reflection, this is not very surprising: a demand stimulation strategy is not likely to be very effective in small, very open economies as so much of the demand created would leak outside the borders of the countries in increased consumption of imported goods. The corporatist countries used different tools: most used capital controls and dependent central banks to deliver low interest rates, some had large state sectors, and all depended on wage restraint delivered by the unions. The unions and left parties were "compensated," in Katzenstein's apt terminology (1985), with redistributive social policy. The political mechanism that delivered these sets of policies was tripartite concertation between the state and centralized peak organizations of employers and unions. Globalization, above all through the dismantling of capital controls and resulting exponential growth of capital flows but also with the transnationalization of production, destroyed the bases for almost all aspects of the macro political economy of the Golden Age supply side model, save the labor relations system which, after some bumps in the 1980s and 1990s, continued to deliver effective wage restraint in the first decade of the twenty-first century. In place of the Golden Age model, a new supply side model developed, though only completely in the Nordic countries, which was based on investment in human capital, private research and development, and employment and production in knowledge intensive goods and services.

The state can increase the rate of returns from the supply side in two ways, either by reducing the cost of input (for example, restraint on wages or restriction in money supply) or by increasing output (for example, higher productivity and innovation). However, as long as input to production is characterized by positive returns (even if marginal returns are decreasing), output and input are correlated. As a result, supply-side manipulation on one margin is offset by the changes it triggers on the other margin. For example, attempts to increase the rate of returns by lowering cost can be undermined by the corresponding fall in productivity and skills. Similarly, attempts to increase

productivity often result in more, rather than less, costly investment. The rational response of the state to this potentially self-defeating nature of reform is to pick the margin that has the less offsetting effect. This theoretical perspective allows us to separate the supply-side history of the corporatist state into two phases.

In the earlier phase, the large decline of mature, skill intensive manufacturing industries was yet to set in, and the need to adapt to the service-oriented knowledge intensive transition still nascent. During this period, the seven corporatist economies continued to enjoy some comparative advantage in asset-specific high quality manufacturing or natural resources processing. This traditional stock of strength in high quality output, stemming precisely from a long history of corporatist coordination, loosened the otherwise tight tradeoff between input and output, allowing the state to lower cost from the input side without immediately hitting the constraint of lower productivity. As a result, from the 1960s through the mid-1980s, state intervention in all seven cases was characterized by a flurry of attempts to rein in wages through incomes policy, and to rein in money supply through exchange rate or interest rate policies, as detailed in the case narratives.[6]

Gradually, however, this traditional stock of manufacturing advantage was depleted, as mature industries went into decline and competition for market share moved to knowledge intensive, often service-oriented, sectors. On the one hand, the corporatist economies are traditionally behind in producing radical innovation. On the other hand, unlike incremental innovation, radical innovation relies less on cost-efficient processes than on newer products (Evangelista 1999). As a result, the tradeoff now loosened on the input side, allowing the state to invest public expenditure aggressively without immediately hitting the constraint of excessive R&D cost. This is reflected in a dramatic turn to the social investment strategy by the state in the Nordic countries documented in the previous section, followed by a correspondingly visible success in knowledge intensive human capital formation and eventually a breakthrough in radical innovation and discretionary learning employment. Although the state in some corporatist economies

[6] The Swedish solidaristic wage policy, an instrument on the input margin, was of course more than cost cutting. Because it also artificially raised wages from the low end, forcing low-productivity companies to increase output, the Rehn-Meidner model in this aspect had the same effect as manipulating the output margin (at the expense of higher investment cost).

has thus significantly altered the nature of its supply-side strategies across the two phases, the drastic policy shift does not necessarily imply miscalculation or mistake in either time period. Within each phase, the policy chosen was a rational, and optimal, response to the economic circumstance of the time. By contrast, in continental states where the lack of political and public support for supply-side pumping prevented policies from shifting, the seeds of long-term mistakes have possibly been sown.

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TABLE 1

LABOR MARKET INDICATORS

	Female Employment		Union Density		Union Coverage		Wage Coordination		90:10 Wage ratio		ALMP Spending		EPL		Wage Bargaining Centralization		Working Days Lost	
	1970-85	2000-07	1970-85	2000-07	1970-85	2007-07	1970-85	2000-07	1970-85	2000-04	1980-85	2000-07	1985	2000-07	1970-85	2000-07	1970-85	2000-01
Corporatist CMEs																		
Denmark	62	72	72	72	71	81	4.6	3.3	2.2	2.6	n/a	1.7	2.4	1.5	0.553	0.468	534	92
Finland	65	67	65	73	77	89	4.0	3.8	2.5	2.4	0.8	0.9	2.3	2.0	0.411	0.395	970	169
Norway	57	73	56	55	68	72	4.2	4.0	2.1	2.1	0.6	0.7	2.9	2.6	0.591	0.508	77	119
Sweden	68	71	76	77	70	92	4.8	3.0	2.0	2.3	2.1	1.4	3.5	2.2	0.553	0.516	430	84
Austria	48	62	57	34	95	99	4.8	4.0	3.5	3.2	0.3	0.6	2.2	2.0	0.977	0.895	17	165
Belgium	40	53	52	52	92	96	4.1	4.3	2.2	2.0	1.2	1.1	3.2	2.2	0.465	0.456	771	260
Netherlands	33	66	35	22	78	84	4.1	4.0	2.5	2.9	0.7	1.4	2.7	2.1	0.501	0.575	137	150
Mean	*53*	*66*	*59*	*55*	*79*	*87*	*4.4*	*3.8*	*2.4*	*2.5*	*0.9*	*1.1*	*2.7*	*2.1*	*0.579*	*0.545*	*419*	*148*
Other CMEs																	-	
Germany	49	60	34	22	77	63	4.0	4.0	2.9	3.0	0.5	1.1	3.2	2.2	0.441	0.486	1096	162
Switzerland	55	75	30	20	50	45	4.0	3.0	n/a	3.2	0.2	0.6	1.1	1.1	0.346	0.268	4	112
Mean	*52*	*67*	*32*	*21*	*64*	*54*	*4.0*	*3.5*	*2.9*	*3.1*	*0.3*	*0.8*	*2.2*	*1.7*	*0.393*	*0.377*	*550*	*137*
Mixed Production Regimes																	-	
France	48	57	19	8	80	95	2.4	2.0	3.4	3.1	0.6	1.0	2.8	3.0	0.202	0.207	2645	433
Italy	33	44	46	34	86	80	2.6	4.0	2.6	2.4	n/a	0.6	3.6	2.0	0.309	0.345	17311	1478
Mean	*41*	*50*	*33*	*21*	*83*	*88*	*2.5*	*3.0*	*3.0*	*3.1*	*0.6*	*0.8*	*3.2*	*2.5*	*0.255*	*0.276*	*9978*	*956*
Liberal Market Economies																	-	
Canada	48	67	34	30	37	32	1.8	1.0	4.1	3.7	0.6	0.3	0.8	0.8	0.268	0.297	6769	2307
Ireland	33	57	62	38	n/a	n/a	2.5	5.0	n/a	3.3	1.1	0.7	0.9	1.0	0.357	0.524	420	61
UK	53	65	48	29	69	35	2.6	1.0	3.2	3.5	0.6	0.3	0.6	0.7	0.287	0.106	11721	721
USA	52	67	22	12	26	14	1.5	1.0	3.8	4.6	0.3	0.1	0.2	0.2	0.118	0.180	26960	4078
Mean	*47*	*64*	*42*	*27*	*44*	*27*	*2.1*	*2.0*	*3.7*	*3.8*	*0.6*	*0.4*	*0.6*	*0.7*	*0.258*	*0.277*	*11468*	*1792*

Source:
David Brady, Evelyne Huber, and John Stephens, 2013, Comparative Welfare States and Political Economy Dataset, Duke University, Wissenschaftszentrum Berlin, and University of North Carolina. The dataset will be posted at http://www.unc.edu/~jdsteph/common/data-common.html.

TABLE 2

INEQUALITY AND POVERTY

	Population 25–59				% of group in poverty			
	Post tax and transfer Gini		Redistribution resulting from taxes and transfers		All		Children of Single Mothers	
	early	recent	early	recent	early	recent	early	recent
Corporatist CMEs								
Denmark	22	21	29	38	10.1	5.6	7.3	7.9
Finland	19	23	32	36	5.4	6.6	6.9	12.9
Norway	20	24	29	29	4.9	7.1	15.7	14.8
Sweden	18	24	38	37	5.3	5.6	10.0	10.4
Austria	28	25	n/a	n/a	6.7	7.1	29.9	17.9
Belgium	22	26	n/a	37	4.5	8.1	20.0	28.0
Netherlands	25	25	37	26	3.9	6.3	9.3	22.8
Mean	*23*	*25*	*38*	*33*	*5.8*	*6.6*	*14.2*	*16.4*
Other CMEs								
Germany	23	25	21	25	5.3	8.4	7.3	37.8
Switzerland	29	28	9	10	7.6	8.0	24.4	18.2
Mean	*26*	*27*	*15*	*18*	*6.5*	*8.2*	*15.9*	*28.0*
Mixed								
France	29	28	24	n/a	8.2	8.5	25.4	33.4
Italy	30	33	n/a	n/a	10.5	12.0	19.6	29.8
Mean	30	31	24		9.4	10.3	22.5	31.6
LMEs								
Canada	30	30	17	21	12.4	11.9	49.8	44.3
Ireland	32	31	32	n/a	11.1	13.2	35.4	39.0
UK	26	34	21	24	9.1	11.2	26.0	29.1
USA	29	36	19	18	15.7	17.9	56.6	49.7
Mean	*29*	*33*	*22*	*21*	*12.1*	*13.6*	*42.0*	*40.5*

Source:
David Brady, Evelyne Huber, and John Stephens, 2013, Comparative Welfare States and Political Economy Dataset, Duke University, Wissenschaftszentrum Berlin, and University of North Carolina. The dataset will be posted at http://www.unc.edu/~jdsteph/common/data-common.html

TABLE 3

INDICATORS OF THE MACROECONOMY

	Deficit % GDP			Trade openness		Central Bank Independence		Product Mkt. Regulation		Public Ownership (utilities, etc.)		Capital controls		Outward Direct Foreign Investment		Inward Direct Foreign Investment		R&D expenditure	
	1965-72	1973-85	2000-07	1965-85	2000-07	1965-85	1998	1975-85	2000-07	1975-85	2000-07	1965-85	2000-04	1965-85	2000-04	1965-85	2000-04	1973-85	2000-07
Corporatist CMEs																			
Denmark	3.3	-0.6	2.5	39.8	90.2	2.0	2.0	5.6	1.6	5.6	3.0	32.4	0.0	0.3	4.8	0.1	5.6	1.1	2.5
Finland	3.8	4.9	4.0	35.5	76.0	3.0	2.5	5.4	2.4	4.9	3.6	40.9	0.0	0.3	6.0	0.1	4.1	1.4	3.4
Norway	5.1	7.6	13.5	56.6	73.0	3.0	3.0	5.4	2.2	5.1	3.7	48.8	0.0	0.6	2.7	0.6	1.7	1.3	1.6
Sweden	3.2	-3.4	1.8	41.7	87.4	3.0	1.5	4.8	2.0	5.0	3.7	27.7	6.2	0.8	7.0	0.2	4.7	2.4	3.7
Austria	2.5	-0.7	-1.6	46.5	98.3	1.5	1.0	5.1	2.3	5.1	3.8	26.9	9.4	0.1	2.6	0.4	2.4	1.2	2.3
Belgium	-1.3	-5.5	-0.4	81.3	152.3	3.0	1.5	5.4	2.3	5.1	3.1	31.4	0.0	0.4	30.4	1.2	31.1	1.5	1.9
Netherlands	-0.5	-3.0	-0.6	58.3	125.6	1.5	1.5	5.4	2.0	5.5	3.2	11.9	0.0	3.1	10.5	1.2	8.0	1.9	1.8
Mean	*2.3*	*-0.1*	*2.7*	*51.4*	*100.4*	*2.4*	*1.9*	*5.3*	*2.1*	*5.2*	*3.4*	*31.4*	*2.2*	*0.8*	*9.1*	*0.5*	*8.2*	*1.5*	*2.5*
Other CMEs																			
Germany	1.5	1.8	-2.2	30.8	72.4	1.0	1.0	5.4	1.6	4.7	2.0	1.2	0.0	0.6	1.4	0.3	3.4	2.3	2.5
Switzerland	4.3	3.5	-0.4	43.7	88.2	1.0	1.0	4.2	2.9	4.5	4.0	3.4	n/a	2.0	8.0	0.9	4.0	n/a	0.2
Mean	*2.9*	*2.7*	*-1.3*	*37.3*	*80.3*	*1.0*	*1.0*	*4.8*	*2.3*	*4.6*	*3.0*	*2.3*	*0.0*	*1.3*	*4.7*	*0.6*	*3.7*	*2.3*	*1.4*
Mixed production regimes																			
France	1.2	-0.3	-2.7	23.5	52.3	3.0	1.5	6.0	3.0	6.0	4.5	26.8	3.1	0.4	5.8	0.4	2.9	2.0	2.2
Italy	-3.0	-7.5	-2.9	30.2	53.0	3.0	1.5	5.8	2.8	5.7	3.6	28.4	0.0	0.2	1.2	0.3	1.2	1.0	1.1
Mean	*-0.9*	*-3.9*	*-2.8*	*26.9*	*52.7*	*3.0*	*1.5*	*5.9*	*2.9*	*5.9*	*4.0*	*27.6*	*1.6*	*0.3*	*3.5*	*0.4*	*2.0*	*1.5*	*1.7*
Liberal market economies																			
Canada	-0.6	-4.3	1.1	38.1	71.7	2.0	1.5	4.4	2.1	3.1	2.1	8.9	0.0	0.8	4.4	1.7	3.4	1.3	2.0
Ireland	-2.3	-5.1	1.5	45.4	151.9	2.5	2.5	5.7	3.2	5.8	4.6	37.4	n/a	n/a	6.2	1.3	16.0	0.7	1.2
UK	-0.9	-3.6	-1.9	27.7	54.8	3.0	1.5	4.6	1.0	5.2	0.8	31.8	0.0	1.9	6.4	1.3	3.7	2.2	1.8
USA	-1.8	-2.8	-2.5	10.7	26.0	1.5	1.5	3.1	1.9	1.7	1.4	2.4	0.0	0.5	1.7	0.3	1.5	2.6	2.6
Mean	*-1.4*	*-4.0*	*-0.5*	*30.5*	*76.1*	*2.3*	*1.8*	*4.4*	*2.0*	*4.0*	*2.2*	*20.1*	*0.0*	*1.1*	*4.7*	*1.2*	*6.2*	*1.7*	*1.9*

Source:
David Brady, Evelyne Huber, and John Stephens, 2013, Comparative Welfare States and Political Economy Dataset, Duke University, Wissenschaftszentrum Berlin, and University of North Carolina. The dataset will be posted at http://www.unc.edu/~jdsteph/common/data-common.html

TABLE 4

WELFARE STATE INDICATORS

	Social Security Expenditure		Total Taxes		Government Service Employment		Welfare Generosity Index		Daycare Spending		Public Educational Spending		Parental leave - weeks of full pay		
	1980-85	2000-07	1970-85	2007-07	1970-85	2000-07	1971-85	2000-02	1980-85	2000-07	1970-85	2000-07	1970	1985	1999
Corporatist CMEs															
Denmark	24.4	26.8	46.8	55.9	17.5	21.9	34.7	35.2	1.5	1.7	7.1	8.4	12.3	21.6	30.0
Finland	20.1	25.3	42.9	52.9	10.1	14.4	27.7	30.5	0.8	1.0	5.3	6.3	3.5	34.4	36.4
Norway	17.6	23.6	48.4	57.3	14.2	23.3	34.9	41.7	0.4	0.8	6.0	7.2	3.8	18.0	42.0
Sweden	28.0	29.4	54.2	56.7	20.3	20.6	40.3	35.8	1.7	1.6	7.8	7.4	16.6	27.7	40.0
Austria	24.3	28.1	45.2	49.5	10.1	11.4	26.1	28.7	0.3	0.4	5.5	5.7	12.0	16.0	16.0
Belgium	25.4	26.2	43.7	49.3	8.2	10.6	29.3	32.3	0.1	0.8	5.9	6.3	8.4	11.1	11.6
Netherlands	26.4	21.1	49.0	45.0	6.0	6.5	34.4	35.2	0.5	1.0	7.0	5.1	12.0	12.0	16.0
Mean	*23.7*	*25.8*	*47.2*	*52.4*	*12.3*	*15.5*	*32.5*	*34.2*	*0.8*	*1.0*	*6.4*	*6.6*	*9.8*	*20.1*	*27.4*
Other CMEs															
Germany	24.1	27.9	43.5	44.3	7.9	7.1	28.9	27.1	0.2	0.4	4.9	4.6	14.0	14.0	14.0
Switzerland	16.4	26.4	31.6	34.5	7.0	8.1	27.3	19.0	n/a	0.3	4.8	5.5	0.0	0.0	0.0
Mean	*20.2*	*27.2*	*37.6*	*39.4*	*7.5*	*7.6*	*28.1*	*23.0*	*n/a*	*0.3*	*4.9*	*5.1*	*7.0*	*7.0*	*7.0*
Mixed Production Regimes															
France	22.7	28.8	42.8	49.8	11.3	14.4	28.3	27.4	0.2	1.2	5.3	5.8	7.0	14.4	16.0
Italy	20.8	25.9	33.9	44.9	7.1	8.4	19.0	26.9	0.1	0.6	4.8	5.5	13.6	17.2	17.2
Mean	*21.8*	*27.4*	*38.3*	*47.4*	*9.2*	*11.4*	*23.7*	*27.2*	*0.2*	*0.9*	*5.1*	*5.7*	*10.3*	*15.8*	*16.6*
Liberal Market Economies															
Canada	15.7	17.0	37.9	41.5	12.7	14.4	22.6	24.8	n/a	0.2	7.0	5.3	10.0	9.0	8.3
Ireland	15.3	15.3	37.9	35.2	7.0	7.5	19.9	28.3	0.1	0.2	5.6	4.3	4.1	9.8	9.8
UK	18.7	20.7	42.6	40.3	13.4	9.4	17.3	21.7	0.0	0.8	5.4	5.0	6.5	6.1	7.9
USA	13.9	16.0	31.4	33.2	8.8	10.3	17.7	18.4	0.2	0.3	6.5	5.7	0.0	0.0	0.0
Mean	*15.9*	*17.2*	*37.4*	*37.6*	*10.5*	*10.4*	*19.4*	*23.3*	*0.1*	*0.4*	*6.1*	*5.1*	*5.2*	*6.2*	*6.5*

Source:
David Brady, Evelyne Huber, and John Stephens, 2013, Comparative Welfare States and Political Economy Dataset, Duke University, Wissenschaftszentrum Berlin, and University of North Carolina. The dataset will be posted at http://www.unc.edu/~jdsteph/common/data-common.html

TABLE 5

LITERACY SCORES AND DISCRETIONARY LEARNING EMPLOYMENT

	Score on OECD Literacy Test			Discretionary
	5th Percentile	Mean	95th Percentile	learning employment 2005
Nordic Countries				
Denmark	213	289	353	55
Finland	195	288	363	45
Norway	207	294	363	n/a
Sweden	216	304	386	68
Mean	*208*	*294*	*366*	*56*
Other Corporatist Countries				
Austria				47
Belgium	163	277	359	43
Netherlands	202	286	355	52
Mean	*200.7*	*290.3*	*363.6*	*52.2*
Other CMEs				
Germany	208	285	359	44
Switzerland	150	271	349	n/a
Mean	*179.3*	*278.0*	*354.3*	*44*
Mixed				
France	n/a	n/a	n/a	48
Italy	114	237	325	37
Mean	*113.5*	*236.9*	*324.5*	*42*
LMEs				
Canada	145	280	372	n/a
Ireland	151	263	353	39
UK	145	267	360	32
USA	133	272	371	n/a
Mean	*144*	*271*	*364*	*35*

Source:
David Brady, Evelyne Huber, and John Stephens, 2013, Comparative Welfare States and Political Economy Dataset, Duke University, Wissenschaftszentrum Berlin, and University of North Carolina. The dataset will be posted at http://www.unc.edu/~jdsteph/common/data-common.html