Corporatism and Capital Accumulation:
The Fate of the Social Democratic Model

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Abstract
The recent crisis of the Anglo-Saxon capitalism has generated renewed interest in more co-operative national arrangements. Recent contributions, though, have focused almost exclusively on the labour market and largely accepted mainstream economics explanations of economic performance. Nevertheless, the post-war success of corporatist economies, notably in Nordic countries rested on high rates of investment, particularly in internationally tradable industries. This was seen by both policy-makers and scholars as central to generating prosperity throughout the economy and sustaining living standards and government expenditure. Maintaining the profit rate in the tradable sector was seen as central to sustaining growth and welfare in these economies. Recent mainstream contributions miss the capital side of the bargain. The neglect of corporatism's disciplining effect on business and the investment response in the 1990s is to miss a key part of the story of corporatism. From a post-Keynesian perspective, capital accumulation is crucial to determining employment levels, as well as growth and prosperity, and there is clear evidence that amongst Nordic economies, as elsewhere, that investment plays a key role in determining employment. This paper examines how the performance of these economies from the 1990s reflects investment having become less responsive to profits, and tests how far this reflects an erosion of corporatist relationships. What role globalization and financial liberalization has played in this shifting investment response is also examined further.

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Introduction

The recent crisis of the Anglo-Saxon capitalism has generated renewed interest in more co-operative national arrangements, partly in view of the resilience of Nordic economies. Earlier studies in the 1970s and 1980s found that developed economies with broadly corporatist wage bargaining systems were able to achieve low levels of unemployment without an adverse impact on inflation or growth. However, more recent studies have queried these findings, whilst the bargaining systems in the relevant countries have undergone significant changes. The reported demise of corporatist systems, or at least the reported decline in their ability to deliver has variously been attributed to ‘Euro sclerosis’, globalisation, deindustrialisation, new work practices and combinations of these factors. A more recent literature has focussed almost exclusively on labour market institutions; for all its insights this neglects an earlier literature on the ability of corporatist to generate high levels of capital accumulation, particularly in the tradable sector. This paper is organised as follows

2. Wage Bargaining Systems and Macroeconomic Performance

Since Calmfors and Driffill (1988), there has been a well-known literature on the potential for corporatist strategies in Nordic economies and other countries with similar co-ordinated wage bargaining systems to achieve relatively low levels of unemployment. Their economic arrangements were seen as having avoided the worst unemployment effects of the downturns after the post-war Golden Age. More recent literature in this field has typically been more critical, paralleling developments in these economies themselves; the critique of the Scandinavian model now includes not just a free market economics version but one deriving from analysis of the political economy of social democracy. Over the 1990s the relative and absolute unemployment performance of these economies has worsened and growth has often been sluggish; employment rates have typically remained relatively high by OECD standards but fallen from their earlier heights. By contrast, during the 1990s and 2000s before the financial crisis the Anglo-Saxon economies experienced sustained economic growth and falling unemployment rates. Further, the wage bargaining systems in these economies underwent considerable transformation.

Numerous cross-section and panel studies have attempted to test the Calmfors-Drifflil hypothesis that there is a ‘hump-shaped’ relationship between unemployment and the degree of centralisation of wage bargaining. Overall it has not proved possible to obtain definitive results for this hypothesis. This is hardly surprising. There are problems common to cross-country studies of unemployment, essentially an over-fitted model with few data points and many potential variables. Although some countries’ bargaining systems have undergone significant change, institutional
arrangements of this form are often highly persistent – estimating their impact on economic performance over shorter time periods is likely to yield inconsistent results. Results are largely driven by cross-section variations and provide little basis for explaining evolution of unemployment rates over time. Further, there are particular problems in devising variables to proxy for the degree of wage bargaining coordination. Studies of countries with broadly corporatist wage bargaining emphasise the multi-dimensional nature of these systems and their evolution over time.

Vartiainen (2011) argues that there are both clear similarities between Nordic countries’ bargaining systems and clear continuity in aspects of them over time, but this is not simply reducible to single variables that can readily be used in cross-country estimations. Several studies do still find evidence that co-ordinated wage bargaining systems remain effective at delivering low unemployment (Baker et al., 2004; Storm and Naastepad, 2012; Sturn, 2013) and, relatedly, real wage flexibility. Latterly the view that such wage bargaining systems are viable has received quasi-official status. Since the onset of the 2008 financial crisis, labour markets in Nordic economies have held up relatively well; further, whereas other countries with relatively good post-crisis employment experience, notably Germany, appear to have achieved this through short-time working, Nordic labour markets remain dynamic – job separations have been high, but job creation rates have remained high.

There are two related, but distinct, lines of explanation period in the mainstream literature for the relative worsening of Nordic unemployment performance since the 1980s. The first is the orthodox economics explanation in terms of supply side rigidities, represented in particular by regular OECD country reports. On the OECD’s own measures employment protection legislation is below the developed country median level in Denmark and around average for Finland, but slightly above the median for Norway and Sweden (OECD, 2004, p. 117); moreover, since the 1980s both Denmark and Sweden in particular have seen clear declines in EPL on these scores. The effects of domestic product market regulations are repeatedly emphasised in these reports – as usual with discussions of ‘Euro-sclerosis’, the location of these economies within the highly competitive framework of the Single European Market is overlooked. Further particular concerns with these countries with low working hours, attributed to a combination of disincentive effects from high tax wedges, generous provision of opportunities for time off studying (especially in Sweden) and aforementioned problems with sickness absence. The main limitation of this line of argument is that it is hard to see how it constitutes an explanation for changes in unemployment rates in these economies. Overall this approach could only account for changes in unemployment in terms of some interaction between labour market institutions and macroeconomic shocks and/or structural shifts in labour demand.

More promising lines of explanation have recently come out of political economy work on these economies. In particular, Iversen (1999) attempts to explain reversals in the relative employment performance of economies with centralised wage bargaining systems. The key shifts in his analysis are central banks’ policy stance towards non-accommodation of inflation and changes in economic structure. If central banks accommodate inflationary wage increases by allowing prices to rise then the costs of inflationary wage bargaining can be partially externalised; this, he claims, was the basis of the Calmfors-Driffill (1988) result. However, if instead central banks place a
high weight on controlling inflation they would not accommodate inflationary wage increases leading instead to unemployment. Rational wage setters will incorporate this into their behaviour. This reverses the expected relationship between wage bargaining systems and inflation/unemployment. Ignoring the completely flexible extreme, initially higher levels of bargaining lead to superior outcomes but these now peak at intermediate bargaining levels where labour would not rationally push for inflationary wage increases because of non-accommodation. However, at very high levels of labour organization, if unions use their power to pursue solidaristic wage bargaining in support of equality objectives this is likely to lead to wage inflation pressures. This will particularly be the case if there is wage drift amongst the most productive workers which is anticipated and incorporated into wage claims by low productivity workers. Iversen’s analysis overlaps with others who stress the role of public sector unions (Garrett and Way, 2000). Relatively sheltered from competition, public sector unions may push for higher wages and if, by analogy, the fiscal authorities accommodate their demands then this can lead to higher unemployment through higher taxes and/or upward pressure on wage demands. Iversen (1999) thus offers an account of why strongly corporatist systems appear to have become less successful at delivering low unemployment together with an explanation for shifts away from centralized bargaining systems. Moreover, his account is a cogent synthesis of several points made more widely but in looser formulations. Non-accommodation would be expected to lead to lower inflation and unemployment with less variation across economies, as we have observed amongst most developed economies in the 1990s. The shift to non-accommodation was common amongst developed economies, initially amongst these economies with the adoption of hard currency policies followed by the general shift towards independent central banks. Iversen (1999) predicts that solidaristic wage bargaining will now have a greater adverse impact on employment since it will inhibit the growth of relatively low productivity private services jobs that have provided much of the increase of employment in the US and other Anglo-Saxon economies. Further, solidaristic wage bargaining provides incentives for the most skilled workers to defect from coordinated arrangements to the extent that such arrangements hold back their wage rises by reducing firms’ discretion to offer higher wages. Both employers and skilled employees therefore have a common interest in undermining centralized bargaining systems. Thus, this analysis appears to explain both the worsening of strongly corporatist countries’ unemployment record in the 1990s and the shifts away from centralized wage bargaining in these countries.

The analysis of Iversen and related studies reflect what has been dubbed the ‘new consensus’ in macroeconomics (Arestis and Sawyer, 2004). Market economies are seen as essentially stable, with activity fluctuating around a level consistent with the non-accelerating inflation rate of unemployment, a rate determined by supply-side factors. With assumed stability of the economy and an absence of effective demand problems, monetary policy is directed at ensuring price stability, preferably through a constitutionally independent central bank. Correspondingly there is no role for active fiscal policy (although automatic stabilisers may operate), which should aim for a balanced budget or even surplus over the business cycle. Interestingly, though, there is a family resemblance between this approach and the classic post-war Swedish macroeconomic policy which aimed at budget surpluses under a mildly restrictive stance; this was designed to promote restructuring in the Swedish economy by
encouraging the growth of relatively profitable firms at the expense of less profitable ones and build up public savings (Erixon, 2002).

Whilst this approach represents a detailed attempt to explain changes in the performance of co-ordinated economies – and consistent with other analysis that the 1980s employment of Sweden in particular owed more to accommodating macroeconomic policy than co-ordinated bargaining or active labour market policies (Calmfors, 1993) – the analysis turns on several key assumptions. In particular, in order to explain worsening of employment performance of these countries it needs to be able to demonstrate that the periodisation is consistent with shifts in macroeconomic policy and why the private services employment position would be significantly more important in the 1990s than earlier. There are interrelated issues here of cyclical versus persistent factors in explaining the 1990s unemployment performance of these economies and the degree to which longer term shifts have adversely affected their ability to maintain high employment.

There are several grounds for scepticism over the analysis of Iversen and others. Their theoretical predictions and econometric results do not appear to be robust. Baker et al (2004) review key studies of the determinants of unemployment levels amongst OECD countries, finding that results for the conventional supply side explanatory factors are not robust and do not support the strong policy conclusions drawn from them. Interestingly they indicate that co-ordinated wage bargaining systems continued to be associated with lower unemployment levels throughout the 1990s, although they caution that the implied effects from regression analysis are implausibly large and are probably picking up other country-specific effects. Iversen’s analysis predicts that with non-accommodating monetary policy the traditional relationship ‘hump-shaped’ relationship between unemployment and wage bargaining co-ordination would be reversed and flattened, but not only is the evidence of reversal of this relationship not clear the dispersion of unemployment rates has largely persisted through the 1990s.

The Finnish experience is clearly strongly affected by the 1990s crisis. Kiander and Pehkonen (1999) found that around half the rise of Finnish unemployment in the 1990s was due to the rise in real interest rates. Pahkonen (2000) found evidence that the relationship between growth and unemployment/employment rates didn’t change in the 1990s from the previous two decades, thus indicating that the rise in Finnish unemployment over this period can largely be explained by the recession; he does, though, find some evidence that the wage elasticity of demand for labour has risen over this period and that links between wages in different sectors have weakened overall leading to a rise in the equilibrium unemployment rate. Honkapohja and Koskela (1999) also find aggregate demand factors to have been important and question how far underlying unemployment rates rose in Finland over this period; they find some evidence that equilibrium unemployment rose as a result of heavily indebted firms increasing their mark-ups even in the face of declining market share. In the Norwegian case 1990s crisis effects were much less severe. Both Finland and Sweden there is evidence of overheating in the 1980s and the unemployment performance over that decade may reflect this (Calmfors, 1993; Honkapohja and Koskela, 1999). Akram (2005) found evidence for two unemployment equilibria at
2.3 and 5.1 per cent, respectively for Norway from the 1980s with movements between the two from either one large shock or a series of smaller ones (although if the latter the cumulative impact needs to be larger to effect a shift). Barkbu et al. (2003) utilise time series on institutional conditions in Norway and Sweden to test the impact of wage bargaining structures on unemployment. They find that aspects of bargaining systems have differential effects, with centralised wage bargaining having a negative impact on profitability and employment, thus supporting Iversen (1999). Overall Barkbu et al. (2003) find that Norway’s co-ordinated bargaining system has been more consensual and this may be a key reason why it has persisted whereas Sweden’s has become more decentralised. Jespersen (2006) provides detailed evidence of the role of aggregate demand factors in explaining employment developments in Denmark. Further evidence of the role of demand factors can be seen in figure 1: real interest rates peaked sharply in the early 1990s, even relative to high rates in the EU, before dropping back to comparable levels. Other analyses of the Scandinavian economies also indicates that there is no clear evidence of rising equilibrium unemployment rates and indicates the importance of demand side factors in explaining their unemployment levels over time (Holden and Nymoen, 2002; Nymoen and Rødsæth, 2003) – these studies find evidence that the NAWRU may not have changed significantly in these countries over this period. Overall Vartiainen (2004) carefully evaluates analysis of unemployment trends amongst the Scandinavian countries in the 1990s. Definitive conclusions cannot be derived yet, but it is far from clear that the underlying unemployment rate has risen in these countries. Although the absolute and relative position of the Scandinavian countries worsened in the 1990s, and their employment growth records were poor, they retained above-average employment/population levels. Thus, the major limitation of Iversen’s analysis here is that it concentrates almost exclusively on the supply side. There are also questions over why the 1990s should see a regime shift. The strongly corporatist economies were operating largely non-accommodating monetary policies in the 1980s from their fixed exchange rate regimes. The emphasis on private sector employment implies major structural change from the 1980s, unless it is being argued that employment levels were sustained by an expansion of public sector employment that has now reached its limit. It is far from clear that the 1990s experience reflects such structural changes rather than an adjustment process to major negative demand shocks.

Further, as Varghese (2001) notes in a critique of Iversen, there is no clear relationship in recent years between wage moderation and unemployment rates; even the OECD (2004b, ch. 3) found no clear relationship between wage moderation and unemployment and only a weak negative one after controlling for other factors. (Their rationalisation here is that the wage share consistent with full employment will vary between countries; this is critically dependent on their estimates of countries NAIRUs, which the studies of Scandinavian countries cited above show are distinctly problematic.) The 1990s saw generalised wage moderation amongst OECD countries with consequently stable or declining wage shares, even though in a low inflation environment firms would presumably find it hard to raise profits through increasing margins. Table 6 reproduces OECD figures for the evolution of wage shares in the business sector. Accepting that there may not be any clear cross-country relationship between wage moderation and employment growth one might still expect the periodisation within countries to be consistent. With Denmark the wage share
declined roughly in line with OECD averages from the early to mid-1990s and then stabilised at historically low levels; on the measure of real wage change reported here these fell in the first half of the 1990s relatively sharply stabilised in the latter half of the decade and have risen back strongly in this decade; referring back to table 4 this does appear to be consistent with developments in unemployment. It is less clear, though, that it is consistent with trends in employment levels which have now reached unprecedented levels. The Finnish case is obviously affected by the 1990s recession, the labour share fell to unprecedented low levels in the latter half of the 1990s and has remained at such levels; similarly the adjusted real wage rates fell sharply through the 1990s and have only recovered slightly since. Whilst the timing may be consistent with changes in unemployment and employment rates these reductions in real wages have been insufficient to restore earlier levels consistent with other studies cited above indicating that the NAWRU may have risen in Finland following the recession. For Norway wage shares have been in continuous decline since their 1980s peaks and real wage costs have either been falling or static since mid-1970s, save for a small increase this decade. There is no clear relationship here with evolution of employment or unemployment rates; in principle it could be argued that this helped sustain strong employment performance. Nevertheless, this would have to be sustained by more detailed analysis; the study cited above indicated shifts between two equilibrium unemployment levels governed by shocks and the evidence here doesn’t indicate that wage shocks are likely to have played a key role. For Sweden, changes in wage indicators have been fairly small with a decline in wage shares from their late 1970s peak through the 1980s and 1990s but then a sharp rise in this decade; real wage costs fell sharply in the early 1980s – probably reflecting the major devaluation – changed little over the next 10 years and have risen since the mid-1990s. Again it is far from clear that these patterns can account for observed changes in Swedish employment/unemployment rates over this period. Overall the most one can say is that there is no clear relationship between evolution of wage costs and employment in these economies.
Table 6: Wage share in the business sector, 1960-2003
Average in percentage for the indicated period

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<td>Finland</td>
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The cross-country evidence to support claims that egalitarianism inhibits creation of private service employment is less strong than it first appears. The relationship between wage inequality and unemployment rates in Europe has fluctuated between being positive and negative over the past forty years and the direction of causality is unclear (Galbraith and Berner, 2001: ch. 6). Other studies also found that any negative impact of egalitarian wage policies on private sector employment was relatively small (Kenworthy, 2003). As Glyn (2001) points out, the contrast between the supposed greater ability of the US and similar economies to generate employment amongst the least skilled due to wage flexibility at the bottom end is rather overdone.
4. Capital Accumulation

To recap: recent critical studies of corporatist economies largely reflect the ‘new consensus’ in macroeconomics. The 2008- financial crisis itself has raised major questions over this approach, but even before then the evidence for a unique NAIRU in these economies was weak. Their emphasis on labour market adjustment is based on arguments that structural and institutional changes in these economies have rendered traditional policies and attributes of these models unsuitable for generating high levels of employment. Nevertheless, the empirical evidence for this is less clear than claimed and other evidence indicates that aggregate demand factors remain important in explaining unemployment trends in these economies. There are good grounds for following Varghese (2001: 720) in concluding that the capital side of these economies’ performance has been unreasonably neglected; as he notes: ‘What mars… and what also distinguishes them from earlier treatments of social democracy is their complete silence on how the supply and content of private capital and investment can be channeled in such a way as to further an egalitarian project.’ This is noteworthy in the current climate; Baccaro (2014) notes that, contrary to many expectations, latterly there has been a revival of corporatist arrangements, particularly in Europe. However, such arrangements are noteworthy for being less egalitarian, largely unable to extract side payments from the state in terms of greater welfare provision and to have achieved pay settlements that run below the productivity growth rate.

By contrast, for an older literature co-ordinated wage bargaining systems in these countries were not, from the point of view of labour at least, simply designed to achieve high levels of employment wage restraint – decentralised bargaining in principle can achieve that. Nor is it simply a device to ensure wage restraint and adjustment without major increases in wage inequality. For organised labour, in particular, the aim here of corporatist strategies was to achieve full employment through high productivity-high wage employment in the tradables sector particularly (e.g. Landesmann and Vartiainen, 1992). An older literature emphasised capital accumulation in these economies. Earlier analyses of corporatism stressed its ability to achieve negotiated adjustment preventing a profits squeeze and thereby preserving employment and investment (Henley and Tsakalotos, 1991) and the possible effects of corporatism on capital accumulation and growth (Landesmann and Vartiainen, 1992). Recent accounts considered here downplay by accepting the mainstream macroeconomics assumption that levels of unemployment are invariant to the capital stock; to some degree it also assumes that they are relatively unimportant in determining growth. Acceptance of a mainstream macroeconomics framework thus leads to a neglect of capital accumulation.

Second, whereas standard analysis assumes unitary elasticity between labour and capital and therefore wage moderation would have a strong impact on employment, Rowthorn (1999) shows this is empirically implausible and capital accumulation – considered further below – is likely to have a significant impact on employment. Co-ordinated bargaining in response to earlier shocks was successful, at least according to its proponents, because unions were prepared to accept wage moderation in return for an expectation that this would result in higher investment and hence higher income and employment. Further, this was achieved on an at least tacit acceptance by both sides of the relatively egalitarian levels of income distribution (Pohjola, 1992).

Earlier concerns at profit squeeze, particularly in non-financial corporations, from organised labour and the state with concomitant effects on investment (Schwerin, 1984).

Lancaster (1973) first formalised the dynamic analysis of the workers’ and capitalists’ dilemmas when workers have bargaining power over real wages and capitalists determine
investment: the workers’ dilemma is that if they do not forgo consumption they will be unable to realise future increases in income, but they have no guarantee that this will result in sufficient investment to bring this about. The capitalists’ dilemma is that if they invest they cannot guarantee that they will be able to realise their expected returns. Although much of the subsequent literature has focused exclusively on wage bargaining, Lancaster notes that there may also be indirect means through which workers may appropriate returns from investment, notably through any political influence over government taxation and expenditure. The combination of these dilemmas leads to sub-optimal capital investment; Lancaster (1973) claimed this sub-optimality result was very robust. Versions of these games have been developed further in the literature. Schott (1984) developed a finite horizon version where workers and capitalists attempt to maximise their consumption; key here is that if returns to investment tend to fall over time, organised labour may rationally switch from a co-operative strategy to a conflict one of not foregoing any consumption. This may approximate to the widespread breakdown of industrial relations amongst industrialised countries from the late 1960s. Grout (1984) extended the sub-optimality result, but also found that even relatively simple models lead to complex solutions for the effects of marginal changes in the power of either side. Van der Ploeg (1987) found similar results, but with indefinite bargaining it may pay for unions to develop a reputation for co-operative behaviour. Haurie and Pohjola (1987) and Kaitala and Matti Pohjola show that in infinite games, memory strategies can produce a perfect equilibrium where the two sides play a trigger strategy; they do note, though, that this is unable to explain key features of the evolution of post-war industrial relations in developed economies. As solutions these would therefore not require outside agencies to enforce any agreements, but in general it cannot be assumed that repeated games will lead to optimal solutions (e.g. Henley and Tsakalotos, 1995). Repeated interaction may lead to higher capital accumulation, although such bargains are likely to be fragile and may require the state to hold the ring in bargains and make side payments to induce co-operation. Under certain conditions, co-ordinated unions with wide coverage can lead to co-operative solutions with higher capital accumulation and thereby higher growth of incomes over the medium-long term. As with Calmfors-Driffill results on wage bargaining and unemployment, it is unclear how generalizable such results are. In developments of these models, however, both sides may have incentives to develop co-operative arrangements and to operate trigger strategies (Pohjola, 1992).

There have been few direct attempts to test whether corporatist arrangements lead to higher capital accumulation and/or whether the Calmfors-Driffill U shaped relationship holds for capital accumulation. Again, problems of definition and measurement of wage bargaining systems recur. Chowdhury (1994) explicitly attempted to test this literature and did find evidence for a U shaped relationship over 1960-90. Padovano and Galli (2003) do not consider the literature on capital accumulation directly, but find the U shaped relationship between centralization of wage bargaining systems and growth. Turner (2006), however, found that from the 1990s liberal market economies with decentralized wage bargaining systems outperformed the corporatist economies.

Further work along these lines is likely to be chimerical. As with attempts to test for Calmfors-Driffill relationships, there are distinct problems on a number of levels: measuring the levels of wage bargaining poses a number of difficulties; typically with at most around 20 OECD economies there are degrees of freedom issues in these studies; although some countries’ bargaining systems have undergone significant change, institutional arrangements of this form are often highly persistent – estimating their impact on economic performance over shorter time periods is likely to yield inconsistent results.
Teulings and Hartog (1998) extend work here by theorizing corporatism as a solution to the hold-up problem in wage bargaining; this work – loosely designed to theorize the Dutch experience – has a particular merit in building up from the micro level; Vartiainen (1992), in particular, had earlier identified the issue that workers can and do move firm, which may undermine the development of co-operative relations. Teulings and Hartog explicitly theorize the development of corporatist relations within firms. However, in terms of investment essentially they theorize the development of investment in the workforces’ human capital and do not consider (physical) capital accumulation directly. Indirectly their work indicates the continuation of at least some features highlighted in the Rein

Whilst the 1970s slump in profits and investment was universal across developed economies, subsequent developments showed important variations. As noted above, the corporatist economies in Scandinavia appeared to have effected orderly adjustment in response the early 1980s downturn and seen investment expansion thereafter. Moreover, this reflects longer run trends over the post-war period. The post-war success of European small open economies rested on high rates of investment, particularly in tradable industries. Organised co-operative social bargains can lead to higher levels of investment. In the presence of organised labour, capitalists investment may be below socially optimal levels since ex post labour may be able bargain away the some or all of the gains from investment. If labour can credibly precommit to not doing so then higher levels of investment and thus income can be achieved (Landesmann and Vartiainen, 1992; Pohjola, 1992; Vartiainen, 1999). In some models this is essentially an investment co-ordination problem; in others though it has the character of a non-cooperative game where both sides have incentives to defect and so the socially optimal solution cannot be assumed to arise for repeated bargaining (e.g. Henley and Tsakalotos, 1995; Moses, 1998). A co-operative solution would thus require organised labour to accept greater wage moderation than they would otherwise choose in return for capital delivering higher levels of investment relative to profits than capitalists would otherwise choose; even in the absence of organised labour there are several standard grounds for expecting private capital accumulation to be socially sub-optimal. Landesmann and Vartiainen (1992, p. 234) note that for the 1960-85 period ‘these [corporatist] economies seem to be able to maintain comparable or even higher investment activity compared to other OECD economies while showing significantly lower rates of return or profit shares in national income.’ Other conditions, particularly through economic policy, may buttress this and help maintain investment levels (Katzenstein, 1985; Kosonen, 1992). Side payments by the state to induce co-operation may be made to labour in the form of provision of a social wage and to capital in the form of support for investment and other industrial policy measures. In many of these countries the tax treatment of investment was generous even where corporate tax rates were high. Cautionary fiscal policies in the context of economies that were relatively closed financially enabled the authorities to keep real interest rates low. Sweden during the golden age period typically had net public sector savings, so although the private corporate sector was typically a net debtor this could be funded without recourse to foreign borrowing (Erixon, 2002). For both sides macroeconomic policy aimed at ensuring aggregate demand can help induce co-operation (Moses, 1998). Of course in practice matters were never quite as simple as the model implies, with post-war Sweden for example seeing fluctuations in profit shares and investment levels rather than an entirely orderly trade-off between wage moderation and high investment (Martin, 1985). Nevertheless, capital accumulation was generally sustained in these economies over the golden age and through the 1970s and early 1980s. The performance thereafter is less clear.
Henley and Tsakalotos (1991) found that investment in corporatist economies was relatively resilient to falls in the profit share. However, finding relative stability of investment in the context of profit squeeze conditions still raises the question of how investment then responds to the secular rise in the profit share from the 1980s.

Others too have argued that financial liberalization and integration has, by increasing the exit possibilities for capital, has acted to weaken the social bargain underwriting this investment effort (e.g. Moses, 2000). Governments have become increasingly constrained in making side payments to either group and in their ability to use macroeconomic policy to ensure effective demand (Moses, 1998). Thus, in some accounts the conditions underlying the corporatist bargains for capital accumulation have been significantly undermined since the early 1980s. The next section considers recent trends in profitability and capital accumulation amongst these economies in comparative context.

Table 12 reports trends in aggregate profitability relative to the golden age amongst the EU15 plus Norway, Japan and the US. This broadly confirms the received view that profitability slumped significantly at the end of the golden age; patterns of recovery thereafter varied between countries. Whilst it cannot systematically be asserted that corporatist countries experienced less pronounced slumps in profitability and more rapid recoveries in it but the figures do indicate that this is a broadly accurate characterisation.

Table 12: Index of Net Rate of Return on Capital, 1974-2003 (1961-73=100)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>76.9</td>
<td>86.6</td>
<td>96.8</td>
<td>122.1</td>
<td>132.0</td>
</tr>
<tr>
<td>Finland</td>
<td>77.1</td>
<td>81.5</td>
<td>75.7</td>
<td>133.6</td>
<td>144.3</td>
</tr>
<tr>
<td>Norway</td>
<td>93.3</td>
<td>76.8</td>
<td>103.7</td>
<td>137.7</td>
<td>159.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>85.3</td>
<td>100.3</td>
<td>106.7</td>
<td>123.0</td>
<td>112.6</td>
</tr>
<tr>
<td>EU15</td>
<td>76.5</td>
<td>94.2</td>
<td>99.6</td>
<td>117.0</td>
<td>119.6</td>
</tr>
</tbody>
</table>

Source: Calculated from European Economy, 2004, No. 6 and EU macroeconomics database.

These figures are for net rates of return. The mechanisms for corporatist restraint to sustain profitability and investment are concerned with wage restraint over periods of adjustment: this would tend to sustain gross profit shares in national income, whereas net profit rates depend too on capital productivity, depreciation and growth of the capital stock. Clearly social bargains themselves cannot directly affect these factors; turning to trends in profit shares of national income, table 13 indicates trends in these amongst developed countries since the golden age.
Table 13: Profit Shares, 1961-2003 (Percentages)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>28.2</td>
<td>26.2</td>
<td>27.5</td>
<td>31.8</td>
<td>32.5</td>
<td>31.9</td>
</tr>
<tr>
<td>Finland</td>
<td>24.4</td>
<td>26.8</td>
<td>27.0</td>
<td>29.6</td>
<td>36.3</td>
<td>36.5</td>
</tr>
<tr>
<td>Norway</td>
<td>33.4</td>
<td>35.2</td>
<td>34.5</td>
<td>39.4</td>
<td>41.0</td>
<td>43.6</td>
</tr>
<tr>
<td>Portugal</td>
<td>35.3</td>
<td>23.2</td>
<td>33.6</td>
<td>28.7</td>
<td>25.6</td>
<td>22.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>29.2</td>
<td>28.4</td>
<td>31.4</td>
<td>32.8</td>
<td>32.2</td>
<td>28.9</td>
</tr>
</tbody>
</table>

Definition: Gross operating surplus after adjustment for compensation of self-employed as percentage of current GDP at factor cost.
Source: Calculated from European Economy, 2004, No. 6 and EU macroeconomics database.

The trends here vary, largely between those countries that have seen fluctuations of varying amplitude and those that show a trend towards a rising profits share. If there was any secular trend before the 1980s it was to a rising wage share; as the figures for wage shares in the next table also indicate any such secular trend appears to have ended. The corporatist economies all tend to show rising profit shares since the mid-1980s, so that by the 1990s the shares exceeded the average for the golden age period. Sweden’s figures show insufficient variation to be counted as trend, but the other corporatist countries more clearly display evidence of rising profit shares.

Overall the evidence is consistent with wage restraint leading to recovery of profit rates and shares to levels comparable with or greater than those that held during the post-war golden age. Whether the corporatist economies retained any special advantage in ensuring orderly adjustment, particularly during the early 1990s slowdown, is less clear. Turning now to the response of capital in terms of trends in capital accumulation, table 14 shows figures for the growth rates of the capital stock relative to rates achieved during the golden age.

Table 14: Annual Growth Rate of Real Capital Stock, 1961-2003

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>4.3</td>
<td>1.9</td>
<td>1.9</td>
<td>0.7</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Finland</td>
<td>5.3</td>
<td>3.4</td>
<td>3.1</td>
<td>-0.2</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Norway</td>
<td>4.9</td>
<td>4.6</td>
<td>2.4</td>
<td>1.0</td>
<td>2.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.7</td>
<td>4.7</td>
<td>3.7</td>
<td>3.4</td>
<td>4.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.2</td>
<td>2.6</td>
<td>2.7</td>
<td>1.4</td>
<td>1.5</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Calculated from European Economy, 2004, No. 6 and EU macroeconomics database.

Finnish and Swedish rates of accumulation are clearly lower and reflect the effects of the major early 1990s downturns. Danish and Norwegian accumulation rates, though, also remain
relatively low – both in comparison with their golden age rates and with other OECD countries in the 1990s – event though they experienced less severe recessions in the early 1990s. The Irish case has already been noted, but it is perhaps not surprising that there has been no sustained recovery in Dutch accumulation on these figures in view of the limited recovery in profit rates and shares.

As before, these figures are subject to margins of error. Although rates of accumulation of public capital have typically stabilised or fell over the past twenty years, their inclusion could conceivably distort results here. Table 15 reports rates of growth of the capital stock in the business sector.

Table 15: Annual Real Growth Rate of Business Sector Capital Stock, 1961-2003

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>-</td>
<td>3.1</td>
<td>3.5</td>
<td>2.6</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Finland</td>
<td>-</td>
<td>3.1</td>
<td>3.2</td>
<td>0.3</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>3.3</td>
<td>1.4</td>
<td>-0.5</td>
<td>2.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.8</td>
<td>2.8</td>
<td>3.3</td>
<td>1.7</td>
<td>2.8</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Calculated from OECD, Economic Outlook, CD-ROM databases.

If anything overall these figures tend to reduce the difference between golden age accumulation rates and those achieved subsequently. The figures here don’t allow direct comparison of Danish accumulation rates with the golden age, but they do show evidence of sustained recovery since the mid-1990s. Finnish figures appear to remain affected by the prolonged early 1990s downturn, but Swedish figures point to some recent recovery although still below golden age rates. Norwegian rates show considerable fluctuations but no evidence of trend improvement. Again, Irish rates show an exceptional performance in the 1990s.

Again such figures are subject to margins of error, requiring key assumptions about rates of depreciation. Table 16 reports the proportion of GDP allocated by the private business sector for fixed capital accumulation over the past 20 years. Unfortunately readily available data do not allow comparisons further back.
Table 16: Business Sector Gross Fixed Capital Formation, 1980-99

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>13.4</td>
<td>13.3</td>
<td>13.0</td>
<td>13.6</td>
</tr>
<tr>
<td>Finland</td>
<td>16.3</td>
<td>11.8</td>
<td>12.5</td>
<td>11.0</td>
</tr>
<tr>
<td>Norway</td>
<td>18.1</td>
<td>15.4</td>
<td>14.5</td>
<td>16.3</td>
</tr>
<tr>
<td>Sweden</td>
<td>13.2</td>
<td>11.3</td>
<td>11.0</td>
<td>11.6</td>
</tr>
</tbody>
</table>


Although lower capital goods prices and, to some extent, lower interest rates were experienced elsewhere there is less evidence of an investment boom. Danish investment rates were steady and Norwegian rates showed some signs of recovery in the latter part of the 1990s. Not surprisingly, Finnish and Swedish investment rates were lower in the 1990s than the 1980s. Despite generally higher profits and lower costs of capital investment rates didn’t rise in most OECD countries over the 1990s including in the ones under consideration.

5. Conclusions and Future Research

Inevitably a paper of this sort raises more questions than it answers and conclusions at this stage are necessarily preliminary. The paper picked up from Varghese (2001) pointing out that the capital side of the social democratic bargain has been neglected in recent critical accounts. It showed that despite recovery of profit rates and shares in these economies (and most OECD countries), there has not been a return to the rates of capital accumulation seen during the golden age. The recovery of profit rates in most developed countries during the 1980s might have been expected to raise investment rates. However, there is no systematic correlation across countries between recovery in profit rates and increases in investment levels. It is not clear that strongly corporatist economies had any particular advantage during the 1990s at ensuring orderly adjustment and maintaining investment and growth over the medium term.

The neglect of the capital side in their accounts was shown to rest on questionable theoretical and empirical bases. The shine has come off the performance of the Scandinavian economies, but it is far from clear that this is due to longer term structural factors. Recent estimates indicate that underlying unemployment rates haven’t risen in these economies, with the rises in the 1990s reflecting the effects of sharp downturns. Similarly recent estimates indicate that Sweden’s growth performance reflects the effects of the downturn in the early 1990s following the collapse of the speculative bubble rather than long term negative trends; the same is likely to hold for Finland. The financial liberalisation boom and bust in the later 1980s-early 1990s itself disrupted corporatist relations in these countries.

This paper represents a preliminary investigation of the capital side of contemporary social democracy. There is some evidence here to indicate that the responsiveness of investment to profits may have fallen in some countries. This suggests that a fall in the responsiveness of investment to profits may have played a role in these economies’ worsening performance in
the 1990s. A possible cause of declining responsiveness of investment to profits is financial liberalisation. In a positive sense, financial liberalisation may provide greater opportunities for firms to raise investment funds so that liquidity constraints become less binding. In a negative sense, financial liberalisation may increase the opportunities for firms to use retained profits to acquire financial assets rather than new investment. If firms have unlimited liquidity then increased opportunities to acquire financial assets should not have any impact on the level of new investment; however, if firms do face liquidity constraints then financial liberalisation could act to reduce levels of new investment. Further, ‘Anglo-Saxon’ financial systems are often claimed – albeit with disputed evidence – to demand higher rates of return and shorter pay-back periods than ‘patient’ finance in bank-based systems. If this does hold true a shift to a more deregulated financial system could have an adverse impact on investment levels. Stockhammer (2004) shows the negative impact of ‘financialisation’ on investment and thence on employment creation. Availability of consistent data limits analysis here, but figures for the rentier share of national income in these countries – and the changes in their financial systems following 1980s liberalisation – are consistent with these trends.

Table 16: Rentier Shares in National Income

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>-</td>
<td>4.94</td>
<td>11.62</td>
<td>11.75</td>
</tr>
<tr>
<td>Finland</td>
<td>5.61</td>
<td>6.04</td>
<td>6.58</td>
<td>8.75</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>6.03</td>
<td>10.45</td>
<td>9.56</td>
</tr>
<tr>
<td>Sweden</td>
<td>-</td>
<td>13.61</td>
<td>12.34</td>
<td>12.30</td>
</tr>
</tbody>
</table>

Source: Epstein (2005)

References


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Marianna Belloc

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Mulder, C. B; van der Ploeg, F