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Political responses to interdependence: what's "left" for the left?

Geoffrey Garrett and Peter Lange

It has long been assumed in studies of capitalist democracy that "who governs" matters: for economic policies, for economic outcomes, and for the material well-being of all elements of society.[1] Electoral victories by parties or coalitions of the left and the right are expected to have systematic and far-reaching consequences for the economy. Governments dominated by leftist parties are anticipated to increase the level of intervention in the economy, to cushion the effects of business cycles, and to redistribute wealth to the less well off. Conversely, rightist governments are considered to reduce the extent of government intervention, to heighten the disciplining effects of market mechanisms, and to decrease the breadth and depth of the welfare net.

This partisan-ideological thesis has come increasingly under attack. One line of criticism is from scholars of international political economy. Many argue that in an era of great economic interdependence, there is little scope for partisan governments to pursue distinctive and independent economic policies, even if these are desirable from the standpoint of domestic political competition.[2]

We thank John Aldrich, Michael Alvarez, Michael Caldwell, David Cameron, John Ferejohn, John Freeman, Jeffry Frieden, Lloyd Gruber, Peter Hall, and Stephen Krasner for helpful comments on various aspects of this article.

1. For classic statements of this partisan-ideological thesis, see Douglas Hibbs, "Political Parties and Macroeconomic Policies," *American Political Science Review* 71 (December 1977), pp. 1467–87; Etienne Sadi Kirschen, *Economic Policy in Our Time* (Amsterdam: North Holland, 1964); and Seymour Martin Lipset, *Political Man: The Social Bases of Politics* (Garden City, N.Y.: Doubleday, 1963).

2. The domestic incentives to pursue partisan strategies also have been much debated. Arguments that the exigencies of democratic political competition both in plurality two-party systems and in proportional representation systems generate strong pressures for policy convergence, rather than for partisan distinctiveness, follow from the early work of Anthony Downs, *An Economic Theory of Democracy* (New York: Harper & Row, 1957). For more recent studies, see Robert Jackman, "Elections and the Democratic Class Struggle," *World Politics* 39 (October 1986), pp. 123–46; and Richard Rose, *Do Parties Make a Difference?* 2d ed. (London: Chatham House, 1984). Others suggest that the "privileged position of business" militates heavily against partisan separation. See, for example, Fred Block, "The Ruling Class Does Not Rule," *Socialist Revolution* 33 (May–June 1977), pp. 6–28; Fred Block, "Beyond Relative Autonomy: State Managers as

International Organization 45, 4, Autumn 1991

Instead, the trade openness of national economies, the integration of financial markets, the competitiveness of global markets in goods and services, and, more generally, the free flow of economic resources across national frontiers in response to market forces all combine to create powerful constraints against autonomous national strategies. Furthermore, this policy convergence is often seen to center on reducing government intervention in the economy and on liberating market forces, thereby severely circumscribing—if not eliminating—the prospects for distinctive leftist strategies.[3]

Cursory examination of recent trends in economic policies across the advanced industrial democracies seems to support such arguments. The move to more market-oriented strategies has not been confined to powerful conservative governments in Britain and the United States.[4] Leftist regimes in Australia, France, and New Zealand all moved considerably away from their traditional economic strategies during the 1980s and instituted many of the neoliberal reforms pioneered by Reagan and Thatcher (such as deregulation, privatization, and "flat tax" reforms).[5] In addition, previously hegemonic social democratic governments in Scandinavia lost power in the late 1970s and early 1980s in the face of poor economic performance. Where they have subsequently returned to office (in Norway and Sweden), these governments have significantly modified their traditional economic strategies, leading some to speculate about the demise of the "social democratic model."[6] Finally, radical

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Historical Subjects," *Socialist Register,* vol. 17, 1980, pp. 227–42; Stephen Elkin, "Pluralism in Its Place," in Roger Benjamin and Stephen Elkin, eds., *The Democratic State* (Lawrence: University of Kansas Press, 1985), pp. 179–211; Charles Lindblom, *Politics and Markets* (New York: Basic Books, 1977); and Claus Offe, "Theses on the Theory of the State," in Claus Offe, ed., *Contradictions of the Welfare State* (London: Huchinson, 1984), pp. 119–29. There is growing evidence, however, that domestic politics generates incentives for governments to pursue economic strategies that further their partisan interests so long as these are consistent with reelectable levels of macroeconomic performance. See Geoffrey Garrett, "Between Autonomy and Constraint: Government Economic Strategies in the Advanced Industrial Countries," mimeograph, Stanford University, Stanford, Calif., 1990; and Geoffrey Garrett and Peter Lange, "Government Partisanship and Economic Performance: When and How Does 'Who Governs' Matter?" *Journal of Politics* 51 (August 1989), pp. 676–93.

3. The first systematic statement of the interdependence thesis was made by Richard N. Cooper in *The Economics of Interdependence* (New York: McGraw-Hill, 1968). For a recent survey of the literature, see Arthur Stein, "Governments, Economic Interdependence and International Cooperation," mimeograph, University of California, Los Angeles, 1989.

4. See Kenneth Hoover and Raymond Plant, *Conservative Capitalism* (London: Routledge, 1989); and Joel Krieger, *Reagan, Thatcher and the Politics of Decline* (London: Polity Press, 1986).

5. For an analysis of the oceanic cases, see Francis Castles, *Australian Public Policy and Economic Vulnerability: A Comparative and Historical Perspective* (Boston: Allen & Unwin, 1988). For analyses of Mitterrand's France, see Peter Hall, *Governing the Economy* (London: Polity Press, 1986); Howard Machin and Vincent Wright, *Economic Policy and Policy-Making Under the Mitterrand Presidency, 1981–84* (London: Francis Pinter, 1985); and Philip Cerny and Martin Schain, *Socialism, the State and Public Policy in France* (London: Francis Pinter, 1985).

6. See Andrew Martin, "The End of the 'Swedish Model'?" mimeograph, Harvard University Center for European Studies, Cambridge, Mass., 1986; Andrew Martin, "Sweden: Restoring the Social Democratic Distributive Regime," Harvard University Center for European Studies, 1987; Peter Walters, "Distributing Decline: Swedish Social Democracy and the Crisis of the Welfare State," *Government and Opposition* 20 (Summer 1985), pp. 356–69; and Jonas Pontusson,

market reforms have been embraced in Eastern Europe, Latin America, and the Soviet Union, apparent testimony to the pervasive pressures toward convergence in the increasingly interdependent world economy.

This article argues, however, that while the effects of interdependence clearly have been great, they have not eliminated partisan economic separation between the left and the right. Ever-increasing integration of and competition in the world economy have heightened incentives for all governments to attempt to promote the competitiveness of national goods and services in world markets and to increase the speed and efficiency with which national producers adjust to changes in global markets. This, in turn, has altered the policy instruments through which governments can pursue their partisan objectives. It has not, however, rendered these objectives infeasible.

The new international economic environment has undercut the effectiveness of the traditional elements of the partisan strategies of the left and the right based respectively on broadly "Keynesian" and "monetarist" fiscal and monetary policies. Governments not only of the right but also of the left continue, however, to be able to shape supply-side policies affecting industrial innovation, investment, and labor markets in accordance with their partisan preferences. Thus, there remain policy instruments through which governments can further their partisan objectives while simultaneously promoting competitiveness and flexible adjustment.

Not all governments, however, can be expected to encounter success in implementing their partisan-preferred supply-side strategies. The organization of national labor movements has a marked impact on the macroeconomic effectiveness of partisan supply-side policies and, in turn, on the ability of governments to pursue them consistently. Interventionist strategies are more likely where leftist governments are allied with densely and centrally organized ("encompassing"[7]) unions. In contrast, market-oriented supply-side policies are more prevalent where rightist governments encounter much weaker labor movements.

The article is divided into five sections. The first develops the argument that the constraining effects of interdependence on the prospects for partisan economic strategies apply primarily to fiscal and monetary policies. The second section delineates the types of supply-side policies that governments of the right and the left can pursue to promote competitiveness and flexible adaptation in global markets and at the same time further their partisan interests. These contentions are examined empirically in subsequent sections, and the central claims of the article are evaluated by way of conclusion.

"Austerity, Government Crisis, and Political Realignment in Sweden, 1989–1990," paper presented at the annual meetings of the American Political Science Association, San Francisco, 1990.

7. See Mancur Olson, *The Rise and Decline of Nations* (New Haven, Conn.: Yale University Press, 1982).

Interdependence and the case against partisan policy separation

There is broad agreement that it was relatively easy for governments to further their partisan objectives in the golden age of economic prosperity and political stability that obtained across the advanced industrial democracies during the 1950s and 1960s. Most significantly in the light of later developments, leftist governments were able to pursue the interventionist policies of the full-employment welfare state—epitomized by countercyclical fiscal and monetary policies—without fear of undermining macroeconomic performance.[8]

There have, however, been numerous important changes in the international political economy in the past two decades. The financial regime created at Bretton Woods broke down in the early 1970s. Many of the remaining controls on international flows of capital subsequently have been removed, and the speed and quantity of international transfers of capital have increased dramatically. Furthermore, trade in goods has mushroomed to the point where exports and imports now constitute over half of the gross national product (GNP) for most nations. International product markets have become increasingly competitive, especially with the rise of Japan and the other East Asian newly industrializing countries. Finally, the energy supply shocks stemming from the 1973 and 1979 actions of the Organization of Petroleum Producing Countries (OPEC) ushered in an era of stagflation—stagnant demand, rising unemployment, and spiraling inflation—that increased still further the strictures on national governments as it became ever more difficult for them to satisfy the economic expectations of voters.

Thus, even if today there still are strong domestic incentives for governments to pursue distinctive partisan strategies (an issue to which we return in the next section), these interdependence arguments suggest that such incentives are now overwhelmed by international constraints. Attempts to "fine-tune" domestic demand in open economies are of limited utility or are even harmful, leading to surges in imports, to balance-of-payments deficits, and to exchange rate pressures. Perhaps more important, the integration of financial systems, the floating of exchange rates, and the removal of controls on capital flows together vitiate the possibilities for autonomous national monetary policies. Under these conditions, international bond and currency markets adjust virtually instantaneously to government attempts to affect domestic economic processes by changing interest rates, money supply growth, credit conditions, and the like.[9]

8. See Andrew Shonfield, *Modern Capitalism* (New York: Oxford University Press, 1965). For a more recent discussion, see Andrea Boltho, ed., *The European Economy: Growth and Crisis* (New York: Oxford University Press, 1982).

9. See Jeffry A. Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45 (Autumn 1991); Peter Katzenstein, *Small States in World Markets* (Ithaca, N.Y.: Cornell University Press, 1985); and Michael C. Webb,

The implications of interdependence for fiscal and monetary policies are clear: governments no longer possess the autonomy to pursue independent macroeconomic strategies effectively, even if they were to seek to do so. In anything but the short run, the fiscal and monetary policies of governments of the left and the right should converge.

It is often assumed, however, that this logic of interdependence applies not only to fiscal and monetary policies but also to the other economic policy instruments available to governments. Low inflation and accommodation to international competition through flexible adjustment have become the pre-eminent economic goals with which governments must concern themselves.[10] High levels of government spending and regulation, extensive taxation, and the wage militancy that is seen to be encouraged by tight labor markets are deemed incompatible with competitiveness under these conditions. The interventionist full-employment welfare state, therefore, is frequently argued to have been a luxury that was possible only in the golden age of capitalist democracy. Competing in today's ever more integrated global markets dictates that all governments embrace the free market creed and neoliberal policies.

The central claim we make here, however, is that this extension of the interdependence thesis from convergence on fiscal and monetary policies to convergence on all facets of government economic strategy is misplaced. Rather, we suggest that while interdependence has forced all governments to give primacy to the promotion of competitiveness and flexible adjustment, there are distinct supply-side paths that allow governments of the left and the right to pursue these ends and simultaneously further their partisan goals.

Domestic politics and the prospects for partisan economic strategies

The arguments presented in the previous section assume, first, that all governments are vitally concerned with the levels of aggregate economic performance over which they preside and, second, that in the contemporary international economy, the range of policy packages consistent with the objective of improving these levels is limited. The first assertion is unproblematic. It is reasonable to assume that while all governments would prefer, ceteris paribus, to pursue their partisan preferences, they will only do so if this does

"International Economic Structures, Government Interests, and International Coordination of Macroeconomic Adjustment Policies," *International Organization* 45 (Summer 1991), pp. 309–42.

10. This was arguably even the case when unemployment rates were higher than 10 percent in many countries in the early 1980s. Whereas the costs of unemployment are narrowly targeted, those of inflation are felt throughout the whole electorate. See Douglas Hibbs, *The American Political Economy* (Cambridge, Mass.: Harvard University Press, 1987). Furthermore, it seems that many in secure employment came to believe that their material prosperity or at least the control of inflation was contingent upon the existence of a relatively large pool of unemployed workers. On this, see Garrett, "Between Autonomy and Constraint."

not prejudice their prospects for reelection. Governments understand that their ability to pursue any substantive policy goals is contingent upon their remaining in office. Hence, they must be prepared, where necessary, to subordinate their partisan objectives to the exigencies of electoral competition.[11] Furthermore, there is strong cross-national evidence which indicates that governments that do not pay great heed to macroeconomic outcomes, such as growth, inflation, and unemployment, do so at their considerable electoral peril.[12] We may therefore conclude that all governments will seek to promote strong aggregate economic performance.

It does not necessarily follow, however, that there is only one policy path to desirable economic performance in the contemporary international economy—the path of liberating market forces—and hence that all governments, including those of the left, will converge around this strategy. There is considerable evidence that economic performance in the past fifteen years has been at least as good in the more "corporatist" political economies (systems in which dominant leftist parties have been allied with encompassing labor unions) as in the "weak labor" political economies (systems in which powerful rightist parties have confronted much weaker labor movements).[13]

A central underlying premise in these studies of economic performance in the advanced industrial democracies is that domestic political economic arrangements significantly affect the efficacy of partisan economic strategies. With respect to the more corporatist systems, it is argued that encompassing labor movements are likely to be quiescent in the expectation that sympathetic leftist governments will pursue economic policies beneficial to them.[14] This in turn allows the governments to pursue policies that not only further the interests of labor but also stimulate growth without creating undue inflationary pressures.[15] On the other hand, rightist governments in weak labor systems may

11. Bruno Frey and Friedrich Schneider, "A Politico-Economic Model of the UK," *Economic Journal* 88 (June 1978), pp. 243–53.

12. The seminal aggregate level studies are C. A. E. Goodhart and R. J. Bhansali's "Political Economy," *Political Studies* 18 (March 1970), pp. 43–106, and Gerald Kramer's "Short-Term Fluctuations in US Voting Behavior, 1896–1964," *American Political Science Review* 71 (March 1971), pp. 131–43. These finding are also supported at the individual level. See Heinz Eulau and Michael Lewis-Beck, eds., *Economic Conditions and Electoral Outcomes* (New York: Agathon Press, 1985); D. Roderick Kiewiet, *Macroeconomics and Micropolitics* (Chicago: University of Chicago Press, 1983); and Michael Lewis-Beck, *Economics and Elections* (Ann Arbor: University of Michigan Press, 1988).

13. See R. Michael Alvarez, Geoffrey Garrett, and Peter Lange, "Government Partisanship, Labor Organization and Macroeconomic Performance, 1967–1984," *American Political Science Review* 85 (June 1991); and Geoffrey Garrett and Peter Lange, "Performance in a Hostile World: Domestic and International Determinants of Economic Growth in the Advanced Capitalist Democracies, 1974–1982," *World Politics* 39 (July 1986), pp. 517–45.

14. David Cameron, "Social Democracy, Corporatism, Labor Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society," in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (New York: Oxford University Press, 1984), pp. 143–78.

15. See Kerry Schott, *Policy, Power and Order: The Persistence of Economic Problems in Capitalist States* (New Haven, Conn.: Yale University Press, 1984); and Fritz Scharpf, "Economic and Institutional Constraints of Full-Employment Strategies: Sweden, Austria and West Germany, 1973–1982," in Goldthorpe, *Order and Conflict in Contemporary Capitalism,* pp. 257–90.

pursue policies that simultaneously further their partisan interests and generate similarly desirable economic outcomes where unions are not sufficiently well organized to retaliate against such policies with wage and strike militancy and with political pressures.[16] Finally, it is assumed that governments in less coherent political economies are unlikely to be able to pursue partisan strategies in a consistent manner as they strive to find policies that "fit" the conditions they encounter.[17]

But what specific types of policies can governments be expected to pursue in these different types of systems? And on which policy instruments should we expect the more corporatist and weak labor systems to differ significantly?

We do not wish to take issue with the assertion that economic interdependence has had profound consequences for the viability of different economic strategies. Rather, we suggest that there are distinctive supply-side strategies of the left and the right that may be consistent both with the stimulation of competitiveness and flexible adaptation in the integrated world economy and with the governments' partisan preferences.

Corporatist political economies

The analysis of the basic dynamics of corporatist systems outlined above implies that governments in such systems may be able to intervene in capital-labor interactions so as to transform what might otherwise be conflictual zero-sum or even negative-sum games into situations from which all societal actors may benefit. Organized labor is considered likely to regulate its behavior, to eschew militant strategies, and to promote labor market efficiencies in the expectation that businesses will invest productively in the national economy. In turn, businesses can be anticipated to do so because of the desirable and stable economic climate fostered by labor's stance.

For this "virtuous circle" to be sustained in the interdependent international economy, however, governments dominated by leftist parties must exercise a mediating role which can be expected to include interventionist policies that stimulate competitiveness and flexible adjustment with respect both to labor and to capital. Thus, in addition to the welfarist and full-employment measures usually associated with leftist governments in corporatist systems, we would

16. Olson, *The Rise and Decline of Nations.*

17. It is important to note that these political-institutional arrangements are often hypothesized to affect the behavior of capital as well as that of labor. Coherent systems are argued to be more likely to foster relatively stable environments in which entrepreneurs can pursue long-term strategies based on confident expectations about future rates of return. The "fit" between the partisan preferences of dominant parties and union organization can be expected not only to generate consistencies in economic policies within individual governments but also to promote continuities between governments. In this climate, the expected return from domestic investments is likely to increase relative to other uses of capital, with salutary consequences for society over the medium term. See Geoffrey Garrett and Lloyd Gruber, "The Political Economy of Investment," paper presented at the annual meetings of the Midwestern Political Science Association, Chicago, 1990.

anticipate that at least two other types of economic policies would also be relied upon extensively in these political economies.

First, governments can be expected to pursue active labor market policies that facilitate rapid and positive adjustment to changes in international market conditions by the work force. High levels of public employment and extensive retraining and relocation programs create conditions in which workers can and will move more efficiently between jobs.[18] Furthermore, education and training programs may generate a "high skills equilibrium" that increases competitiveness in world markets which respond at the margins as much to quality as to prices.[19]

Second, governments can be expected to intervene actively in the process of capital accumulation so as to promote productive investment in the national economy relative to other uses of capital, such as consumption or foreign investment.[20] On the one hand, extensive government subsidies and public investment may be utilized not to thwart market shifts but, rather, to facilitate adjustment by businesses to changing conditions (especially where physical plant can be adapted to take advantage of existing infrastructures).[21] On the other hand, governments in corporatist political economies may attempt to induce businesses to invest productively in the national economy by manipulating corporate taxation structures.[22] They can, for instance, create powerful investment incentives by imposing high rates of taxation on the consumption or exportation of corporate profits while simultaneously offering large tax breaks (through depreciation allowances, investment tax credits, and the like) to firms that choose to reinvest profits in the national economy.[23]

In sum, corporatist political economies can be expected to generate highly interventionist supply-side policies that combine the redistribution of wealth,

18. See Robert Flanagan, David Soskice, and Lloyd Ulman, *Unionism, Economic Stabilization, and Income Policies* (Washington, D.C.: Brookings Institution, 1983); Hugh Heclo and Henrik Madsen, *Politics and Policy in Sweden* (Philadelphia: Temple University Press, 1987); Andrew Martin, "Trade Unions in Sweden: Strategic Responses to Change and Crisis," in Peter Gourevitch et al., eds., *Unions and Economic Crisis: Britain, West Germany and Sweden* (Boston: Allen & Unwin, 1984), pp. 190–359.

19. See David Finegold and David Soskice, "The Failure of Training in Britain: Analysis and Prescription," *Oxford Review of Economic Policy* 4 (Autumn 1988), pp. 21–43; Michael Piore and Charles Sabel, *The Second Industrial Divide* (New York: Basic Books, 1984); David Soskice, "The Institutional Infrastructure for International Competitiveness: A Comparative Analysis of the U.K. and Germany," in Anthony Barnes Atkinson and Renato Brunetta, eds., *The Economics of the New Europe* (London: Macmillan, forthcoming); and Wolfgang Streeck, "Industrial Relations and Industrial Change in the Motor Industry," mimeograph, Wissenschaftszentrum Berlin, 1985.

20. See the following works of Adam Przeworski and Michael Wallerstein: "The Structure of Class Conflict in Democratic Capitalist Societies," *American Political Science Review* 76 (June 1982), pp. 215–38; and "Structural Dependence of the State on Capitalism," *American Political Science Review* 82 (March 1988), pp. 11–29.

21. Shonfield, *Modern Capitalism.*

22. Adam Przeworski and Michael Wallerstein, "Democratic Capitalism at the Crossroads," *Democracy* 2 (July 1982), pp. 52–68.

23. Mervyn King and Don Fullerton, *The Taxation of Income from Capital: A Comparative Study of the US, UK, Sweden and West Germany* (Chicago: University of Chicago Press, 1984).

reductions in market-generated uncertainty in labor markets, and extensive education and training systems with investment and industrial policies that promote the efficient allocation of capital.[24]

Weak labor political economies

The hypothetical operation of weak labor systems contrasts sharply with that of corporatist systems. So long as unions are not sufficiently powerful to undermine the efficient operation of market forces, many of the policy prescriptions made by neoclassical economic theorists are likely to be quite effective.

The central tenet of these approaches is that government intervention is counterproductive in all facets of economic activity, with the exception of intervention to enforce property rights and contracts and to redress potential market failures.[25] It is argued that welfare and other social services reduce the efficiency of labor markets and that active labor market and industrial policies are less effective than pure market responses to changing international conditions. In addition, the public economy is seen to "crowd out" private investment. Progressive and high rates of income taxation are deemed disincentives for saving and investment. High corporate taxes—even those with investment tax breaks—are argued to impede entrepreneurial initiative. Government investment is seen as unlikely to be as productive as private decisions about capital formation. In short, the most appropriate economic policies for governments in weak labor systems are those which minimize interventions in the dynamic operation of market processes.

It is important to note, however, that the above analysis is built on the assumption that weak labor political economies replicate the archetypal neoclassical political economy in which markets operate free of governmental or union interference. There are good reasons, however, to be skeptical about this presumption. During the stagflationary era, businesses demanded protection even from rightist governments. Ailing corporations solicited bailouts, subsidies, and other state interventions in the economy. They did not acquiesce in bankruptcy. And it is clear that rightist governments often responded favorably to their demands.[26] Furthermore, even the weakest union movements periodically have been able to subvert attempts to undermine their market

24. While this strategy may not be "ideal" from the standpoint of capital, the stable economic environment it engenders may nonetheless be preferred by business to a climate in which expectations about the behavior of government and labor are less certain. Thus, entrepreneurs can be expected to invest in the national economy, where long-term rates of return are relatively certain, rather than to export capital for more risky foreign ventures.

25. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

26. This is well illustrated by the Thatcher government's extensive bailouts during the 1980–82 recession. See William Keegan, *Mrs. Thatcher's Economic Experiment* (London: Allen Lane, 1984); and Peter Riddell, *The Thatcher Government* (Oxford: Basil Blackwell, 1985).

power.[27] Finally, the survey literature also shows that the "backlash" against the public economy since the mid-1970s has not been nearly so pervasive as is often presumed and has not significantly eroded the widespread support for the fundamental tenets of the welfare state, even in countries dominated by conservative parties.[28]

Thus, while it is still reasonable to assume that there will be considerable policy separation between the corporatist and weak labor systems over a range of policy indicators of government intervention in the supply side of the economy, the policy profiles in the countries with even the most dominant rightist parties and weakest labor movements should not be expected to conform closely with those envisaged in neoclassical economic theories.

Macroeconomic policy convergence

As a first step in the empirical examination of the arguments made in the previous section, we gathered data regarding the density and centralization of labor movements and the percentage of cabinet portfolios held by the major parties of the left during the 1960–87 period for a sample of fifteen advanced industrial democracies. On the basis of this labor organization and political data, the political economies of Austria, Norway, and Sweden were categorized as "corporatist"; those of Canada, France, Japan, and the United States were categorized as "weak labor"; and those of the remaining eight countries were deemed "incoherent" (see Table 1).[29]

To test whether the corporatist and weak labor systems followed partisan economic strategies, we then gathered data regarding the fiscal and monetary

27. Schott, *Policy, Power and Order.*

28. See Russell Dalton, Scott Flanagan, and Paul Allen Beck, *Electoral Change in Advanced Industrial Democracies: Realignment or Dealignment?* (Princeton, N.J.: Princeton University Press, 1984); and Ivor Crewe and David Denver, eds., *Electoral Change in Western Democracies: Patterns and Sources of Electoral Volatility* (New York: St. Martin's Press, 1985).

29. Our typology is similar to that found in other more qualitative evaluations of political economic regimes. See Gerhard Lehmbruch, "Liberal Corporatism and Party Government," in Philippe Schmitter and Gerhard Lehmbruch, eds., *Trends Toward Corporatist Intermediation* (Beverly Hills, Calif.: Sage, 1979), pp. 147–83; Gerhard Lehmbruch, "Introduction: New Corporatism in Comparative Perspective," in Gerhard Lehmbruch and Philippe Schmitter, eds., *Patterns of Corporatist Policy-Making* (Beverly Hills, Calif.: Sage, 1982), pp. 1–28; and Philippe Schmitter, "Interest Intermediation and Regime Governability in Contemporary Western Europe and North America," in Suzanne Berger, ed., *Organizing Interests in Western Europe* (New York: Cambridge University Press, 1981), pp. 285–327. Our typology differs in some respects, however, from that found in studies focusing on the processes of government or firm decision making, rather than on the constellation of political power and organizational conditions. According to these studies, France and Japan are examples of "corporatism without labor" or can be considered "coordinated market economies." See T. J. Pempel and Keiichi Tsunekawa, "Corporatism Without Labor? The Japanese Anomaly," in Schmitter and Lehmbruch, *Trends Toward Corporatist Intermediation,* pp. 231–70; and David Soskice, "Providing the Infrastructure for International Competitiveness: A Comparative Institutional Perspective," mimeograph, Wissenschaftszentrum für Sozialforschung, Berlin, October 1990.

policies of the countries in these two groups. Annual averages for their macroeconomic policies during the entire 1974–87 period as well as the changes in the averages between 1968–73 and 1982–87 are outlined in Table 2. The first measure indicates the types of policy strategies that have historically evolved in the different types of political economies, while the second isolates changes in the strategies from the end of the golden age, during the era of heightened interdependence.

In general, there were few systematic differences in the macroeconomic policy profiles of the corporatist and weak labor political economies, both over the whole period and with respect to changes between the early 1970s and the mid-1980s. The responses of all systems to the era of heightened interdependence and stagflation were clear-cut: budget deficits ballooned as demands for government spending grew and as tax bases contracted; interest rates were markedly increased in attempts to control inflation.

With respect to the whole period, 1974–87, there were two significant instances of partisan separation, but these ran in contradictory directions.[30] Consistent with our theoretical arguments, budgetary stances were tighter in the corporatist systems. Even excluding Norway—which was able to run large budget surpluses in virtue of the enormous revenues generated by the public oil company, Staatoil[31]—fiscal policy was looser in the weak labor systems (with the exception of Japan). Real interest rates, however, were lower in Norway and Sweden than in any of the weak labor countries. Taken together, these two findings cannot sustain assertions of consistent partisan separation between the left and the right, irrespective of the hypothesized direction of such separation. Similarly, there is virtually no evidence of partisan differences with respect to changes in fiscal and monetary policies from the end of the golden age to the mid-1980s.[32]

In order to delineate more accurately the effects of political economic conditions on macroeconomic strategies, we augmented these comparisons of means between corporatist and weak labor categories with a battery of regression equations. These regress the fiscal and monetary policy indicators on an index of political economic structures (PE, see Table 1),[33] controlling for

30. The significance tests reported here are derived from one-way analyses of variance, comparing the differences in the means between the two types of political economy with dispersion within them.

31. For detailed discussions of the economic effects of oil wealth, see Garrett and Lange, "Performance in a Hostile World"; and James Alt, "Crude Politics: Oil and the Political Economy of Unemployment in Britain and Norway, 1970–1985," *British Journal of Political Science* 17 (April 1987), pp. 149–99.

32. Here again, the impact of North Sea oil wealth on Norwegian policies should be noted. The budget deficit of Norway, in contrast with that of the other countries, did not substantially increase over the period, while the real money supply in Norway grew considerably (even though the government greatly increased real interest rates to stem this expansion).

33. PE is a multiplicative index of standardized scores for labor movement encompassment and the participation of leftist parties in cabinet government. Thus, higher scores on the index are indicative of more corporatist systems, while lower scores reflect weak labor systems.

TABLE 1. *Political economic structures in the advanced industrial democracies, 1960–87*

Category and country[a]	*Labor organization index*[b]	*Left political power index*[c]	*Political economic structures index*[d]
Corporatist			
Austria	3.06	72.9	10.97
Norway	3.32	56.3	9.75
Sweden	3.52	78.9	13.45
Incoherent			
Australia	1.87	27.7	3.37
Belgium	2.80	29.5	5.24
Denmark	2.77	56.9	8.18
Finland	2.76	39.1	6.21
Italy	1.47	18.9	2.13
Netherlands	1.90	14.4	2.43
United Kingdom	1.81	38.4	4.03
West Germany	1.80	39.7	4.10
Weak labor			
Canada	0.98	0.0	0.70
France	0.68	18.1	0.97
Japan	0.43	0.0	0.31
United States	0.82	0.0	0.58

[a]Countries that ranked in the top three with regard to the political economic structures index were labeled "corporatist" political economies; countries that ranked in the bottom four on the index were labeled "weak labor" political economies; and the remaining countries were deemed "incoherent."

[b]An additive index of standardized scores for the density and centralization of labor movements.

[c]Percentage of cabinet portfolios held by the major parties of the left during the 1960–87 period.

[d]A multiplicative index of standardized scores (mean = 2) for labor organization and left political power.

Sources. For the labor organization index, Peter Lange and Geoffrey Garrett, "The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974–1980," *Journal of Politics* 47 (August 1985), pp. 792–827. For the left political power index, *Keesings Contemporary Archives,* various years.

TABLE 2. *Fiscal and monetary policies in corporatist and weak labor political economies: annual averages 1974–87 and changes in annual averages between 1968–73 and 1982–87*[a]

	Budget balance[b]		*Nominal interest rates*[c]		*Real interest rates*[d]		*Real money supply growth*[e]	
Category and country	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*Change*
Corporatist								
Austria	2.8	−5.4	—	—	—	—	6.5	−4.5
Norway	7.3	−0.1	10.4	7.1	2.5	8.1	4.8	2.3
Sweden	2.0	−9.4	11.0	4.9	1.6	2.5	0.0	−4.2
Average	4.0	−5.0	10.7	6.0	2.1	5.3	3.8	−2.1
Weak labor								
Canada	−1.8	−7.2	10.9	4.2	3.3	4.7	3.8	−7.1
France	0.3	−4.8	12.1	4.1	2.6	2.9	1.7	−6.2
Japan	3.3	−2.5	7.4	−0.8	2.9	5.0	5.6	−4.5
United States	−2.5	−4.1	10.8	4.5	3.1	5.9	3.4	0.7
Average	−0.2	−4.7	10.3	3.0	3.0	4.6	3.6	−4.3
F-ratio	4.14	0.02	0.07	2.21	6.79	0.12	0.01	0.60
Significance	.10	.91	.81	.21	.06	.75	.94	.48

[a]Change calculated as 1982–87 annual averages minus 1968–73 annual averages.
[b]The government's average annual current receipts minus its total expenses, expressed as a ratio of gross domestic product.
[c]Average annual yield on five-year or longer-term government bonds.
[d]Government bond yield adjusted for inflation.
[e]Average annual growth in M1 plus quasi money supply adjusted for inflation.
Source. Organization for Economic Cooperation and Development (OECD), *Economic Outlook: Historical Statistics* (Paris: OECD, various years).

TABLE 3. *The determinants of fiscal and monetary policies: annual averages 1974–87 and changes in annual averages between 1968–73 and 1982–87,*[a] *with t-ratios shown in parentheses*

	Budget balance[c]		*Nominal interest rates*[d]		*Real interest rates*[e]		*Real money supply growth*[f]	
Determinants[b]	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*Change*
PE	0.48 (2.7)	−0.03 (0.1)	0.05 (0.4)	0.10 (0.5)	0.02 (0.2)	0.04 (1.3)	0.03 (0.3)	0.23 (0.8)
OPEN	0.007 (0.3)	−0.020 (0.7)	0.002 (0.1)	0.002 (0.1)	0.006 (0.4)	0.017 (0.6)	0.012 (0.7)	−0.006 (0.1)
GDP	2.88 (2.7)	—	—	—	—	—	1.43 (2.3)	1.93 (1.7)
INFL	—	—	0.63 (3.6)	0.69 (2.5)	−0.42 (2.5)	—	−0.29 (1.9)	—
Adjusted R^2	.574	—	.467	.253	.261	.469	.332	—
F-ratio	4.94	0.41	4.77	2.47	2.53	4.52	2.74	0.04

[a]Change calculated as 1982–87 annual averages minus 1968–73 annual averages.

[b]PE = political economic structures index (index of standardized scores for left political power and labor organization); OPEN = ratio of exports plus imports to gross domestic product; GDP = average annual growth in gross domestic product; and INFL = average annual inflation rate.

[c]The government's average annual current receipts minus its total expenses, expressed as a ratio of gross domestic product.

[d]Average annual yield on five-year or longer-term government bonds.

[e]Government bond yields adjusted for inflation.

[f]Average annual growth in M1 plus quasi money supply adjusted for inflation.

Sources. For the labor organization index, Peter Lange and Geoffrey Garrett, "The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974–1980," *Journal of Politics* 47 (August 1985), pp. 792–827. For the left political power index, *Keesings Contemporary Archives,* various years. For all other data, OECD, *Economic Outlook: Historical Statistics* (Paris: OECD, various years).

the vulnerability of national economies to changing international conditions and for domestic economic conditions. The following is the general form of the models:

$$\text{POL} = a + b\text{PE} + c\text{OPEN} + d\text{EC} + e$$

where POL represents the economic policy instrument; PE is the political economic structures index; OPEN is the openness of national economies; EC is a vector of macroeconomic outcomes;[34] a is the intercept; b, c, and d are estimated parameters; and e is a disturbance term.

Two points should be noted about these models. First, we deployed simple "reaction function" specifications to control for automatic and discretionary responses by governments to different underlying economic conditions.[35] Proponents of the convergence thesis could argue, for instance, that more expansionary macroeconomic policies (or higher levels of intervention on the supply side) in the more corporatist political economies might be an artifact of poorer economic outcomes (relative to those in other systems) rather than the product of political design.[36]

Second, we used the trade openness of national political economies as a measure of the degree of their vulnerability to changes in the global economy. Indicators of financial integration ideally should be used to supplement this variable, but it is difficult to generate meaningful and comparable cross-national data on international capital flows. With respect to trade openness, two arguments can be made regarding its effects on supply-side policies. On the one hand, a functional economistic account might suggest that more open economies should be associated with less interventionist policies because greater vulnerability to changing international conditions reduces the policy space available to governments for domestic economic manipulation. On the other hand, it has been argued from a more historical perspective that economic openness leads over time to more corporatist arrangements and, in turn, to economic strategies of flexible adjustment combined with domestic compensation.[37] It is not our intention here to arbitrate this debate. Rather, we wish merely to control for the effects of openness to isolate the independent effects of political economic conditions.[38]

34. Only those economic variables which had statistically significant associations with the various economic policy indicators or which improved the specification of the models are reported.

35. This type of model is most appropriate for the analysis of time series data. Nonetheless, controls for the effects of aggregate economic conditions are still significant in the context of the aggregated time periods used in this article. For a detailed discussion of political economic reaction models, see James Alt and K. Alec Chrystal, *Political Economics* (Berkeley: University of California Press, 1983), chap. 6.

36. When macroeconomic outcomes were controlled, the impact of oil dependence or wealth on fiscal and monetary policies was not significant. With respect to Norway, this does not mean that the country's oil bounty had little effect on macroeconomic policy but, rather, that its growth and inflation performance were more proximate determinants of economic policy.

37. See David Cameron, "The Expansion of the Political Economy," *American Political Science Review* 72 (December 1978), pp. 1243–61; and Katzenstein, *Small States in World Markets*.

38. The correlation between the PE index and openness is only .43. Thus, the estimates and standard errors generated by the regression models are unlikely to be perturbed by the effects of multicollinearity.

Having controlled for the effects of these domestic and international economic factors, we would expect the PE index to be insignificant in explaining cross-national variations in demand management strategies. The results of these regressions accord closely with our theoretical expectations. As shown in Table 3, political economic conditions generally had little impact on fiscal and monetary policies during the 1974–87 period or on changes in them over the course of the recession. Once the impact of inflation across the fifteen countries in the sample was controlled, the finding of lower real interest rates in the more corporatist cases (from the comparison of means) was no longer sustained. Consistent with Table 2, however, the PE index had a significant positive impact on overall budgetary stances for 1974–87. Thus, the more "corporatist" the country, the smaller was its budget deficit.[39]

The impact of trade openness on macroeconomic strategies was limited. Our central theoretical argument with respect to fiscal and monetary policies was that economic interdependence undermined the feasibility of autonomous strategies for domestic demand management. It might thus be expected that the countries more vulnerable to changing international conditions would have pursued less expansive macroeconomic policies. However, while openness was associated with more contractionary policies on some indicators (higher interest rates, higher changes in interests rates, and slower money supply growth), these effects were small.[40]

The results suggest that while economic interdependence had a marked impact on the macroeconomic strategies in all of the advanced industrial democracies, the effects of differences in the degree of openness between individual countries have been much smaller.[41] This is consistent with more qualitative work—particularly on the United States—which shows that even the largest and least open contemporary political economies are nonetheless sufficiently integrated into the world economy to militate against reliance on domestic demand management strategies.[42] It could also be argued, however, that the effects of trade openness are mediated by the portion of competitive and sheltered sectors in the national economy.[43] Finally, it should be remem-

39. The exclusion of Norway from the regression analysis did not alter this finding. There was still a statistically significant positive association between the political and organizational power of labor and national budget balances.

40. Openness may not be a very precise indicator of integration into the international economy. Measures of international economic interactions other than trade—such as capital and investment flows—may provide more detailed information on the vulnerability of national political economies to international change. Nonetheless, we consider openness to be a representative indicator, and we expect that the pattern of results reported here would not be unduly affected by better specification of the extent of national vulnerability.

41. Furthermore, the results may also reflect the historical relationships between open political economies and the power of labor in both politics and the markets. See Cameron, "The Expansion of the Political Economy."

42. See Robert Reich, *The Next American Frontier* (New York: Times Books, 1983); and John Zysman and Laura Tyson, *American Industry in International Competition* (Ithaca, N.Y.: Cornell University Press, 1983).

43. Helen Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton, N.J.: Princeton University Press, 1988).

bered that the effects of interdependence may be more a function of financial integration than trade openness, but it is extremely difficult to test this proposition empirically.

In sum, however, the results reported in Tables 2 and 3 yield one central conclusion: there was no strong or systematic partisan separation with respect to fiscal and monetary policies during the period from the onset of economic decline to the late 1980s.

Supply-side policy separation

In marked contrast with macroeconomic policies, there is considerable evidence of partisan separation with respect to numerous facets of government spending and taxation that affect the supply side of national political economies. Three basic points should be highlighted.

First, all of the advanced industrial democracies—including those dominated by rightist parties and having weak labor movements—have had truly "mixed" economies in which government intervention has been both extensive within specific policies and pervasive across issue-areas (see Tables 4 and 5). The extent of government involvement in the corporatist countries has been well documented. Suffice it to say, these data suggest the size the public economy can reach in capitalist systems. In the 1974–87 period, government expenditures and taxation revenues across the corporatist cases constituted around one-half of aggregate gross domestic product (GDP) for the corporatist category, and public employment comprised around one-fifth of total employment.

The extent of government intervention in the weak labor category is perhaps of more interest. The lack of fit between the idealized role of governments in "free markets" and the actual spending and taxation policies in the countries with the strongest rightist parties and weakest labor movements is apparent. Even in the least interventionist political economy, Japan, government spending constituted nearly one-third of GDP and taxation revenues one-fourth of GDP in the 1974–87 period; consumption expenditures and social wage payments were around one-tenth of GDP.[44] Furthermore, on some indicators—especially the social wage—policy outcomes in France resembled those in corporatist countries.[45]

44. It is also important to note that while Japan was the least interventionist case on most supply-side indicators, investment by government was greater in Japan than in any other country. For discussions of the role of government planning in the Japanese economy, see Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford, Calif.: Stanford University Press, 1982); and Daniel Okimoto, *Between MITI and the Market* (Stanford, Calif.: Stanford University Press, 1989).

45. This is consistent with the work of others on the effects of the strength of christian democratic parties on welfare provisions. See Alexander Hicks and Duane Swank, "On the Political Economy of Welfare Expansion," *Comparative Political Studies* 17 (April 1984), pp. 81–118; and Harold Wilensky, "Leftism, Catholicism and Democratic Corporatism: The Role of Political Parties in Recent Welfare State Development," in Peter Flora and Arnold Heidenheimer, eds., *The Development of Welfare States in Europe and America* (New Brunswick, N.J.: Transaction Books, 1981), pp. 345–82.

TABLE 4. *Government expenditures in corporatist and weak labor political economies: annual averages 1974–87 and changes in annual averages from 1968–73 to 1982–87*[a]

	Total[b]		*Consumption*[c]		*Social wage*[d]		*Public employment*[e]		*Investment*[f]		*Subsidies*[g]	
Category and country	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*Change*
Corporatist												
Austria	48.3	9.8	17.0	4.0	18.9	4.6	18.4	6.4	16.6	−1.0	3.9	0.9
Norway	49.0	8.3	15.8	2.5	14.6	2.8	21.7	7.0	13.8	−4.6	7.6	1.0
Sweden	59.4	21.1	24.2	7.3	17.2	6.7	29.9	11.6	16.6	−9.1	6.9	3.8
Average	52.3	13.1	19.0	4.6	16.9	4.7	23.3	8.3	15.7	−4.9	6.1	1.9
Weak labor												
Canada	41.8	14.4	—	—	10.9	3.7	19.7	0.5	12.6	−2.1	4.3	3.0
France	46.7	12.9	11.4	2.7	21.1	4.5	16.7	6.0	11.9	−0.2	4.7	−2.7
Japan	30.9	13.5	9.0	2.1	9.8	6.4	6.5	0.6	18.0	5.3	5.3	−0.5
United States	34.8	5.4	12.1	−0.1	11.0	3.5	16.6	−1.8	9.3	−4.5	2.8	−0.9
Average	38.6	11.6	10.8	1.6	13.2	4.5	14.9	1.3	13.0	−0.4	4.3	−0.3
F-ratio	7.07	0.13	8.59	3.36	1.26	0.02	3.61	8.59	1.74	2.06	2.66	1.80
Significance	.05	.73	.04	.14	.31	.89	.11	.03	.24	.21	.16	.24

[a]Change calculated as 1982–87 annual averages minus 1968–73 annual averages.
[b]Total government outlays as a ratio of gross domestic product.
[c]Final government consumption expenditure (excluding defense) as a ratio of gross domestic product.
[d]Social security plus social assistance plus transfers to nonprofit institutions serving households plus unfunded employee welfare, with the total expressed as a ratio of gross domestic product.
[e]Government employment as a ratio of total employment.
[f]Government gross fixed capital formation as a ratio of total gross fixed capital formation.
[g]Government subsidies to industry as a ratio of total trade.
Sources. OECD, *Economic Outlook: Historical Statistics* (Paris: OECD, various years); and OECD, *National Accounts* (Paris: OECD, various years).

TABLE 5. *Government revenues in corporatist and weak labor political economies: annual averages 1974–87 and changes in annual averages from 1968–73 to 1982–87*[a]

	Total[b]		*Personal income*[c]		*Progressivity*[d]	*Corporate income*[e]	
Category and country	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*1974–87*	*Change*
Corporatist							
Austria	40.9	5.9	9.4	1.9	1.07	1.4	0.1
Norway	46.9	6.2	12.9	−0.2	1.26	4.8	5.4
Sweden	49.5	10.5	20.5	2.2	1.36	1.7	0.2
Average	45.8	7.5	14.3	1.3	1.23	2.6	1.9
Weak Labor							
Canada	33.0	2.1	11.4	1.8	1.12	3.3	−1.2
France	41.5	9.3	5.5	2.6	1.08	2.2	0.1
Japan	25.0	8.4	6.2	2.4	1.08	5.5	2.2
United States	29.6	0.0	10.6	1.1	1.08	2.7	−1.4
Average	32.3	5.0	8.4	2.0	1.09	3.4	−0.1
F-ratio	8.45	0.75	3.20	0.82	3.77	0.39	1.26
Significance	.03	.43	.13	.41	.11	.56	.31

[a]Change calculated as 1982–87 annual averages minus 1968–73 annual averages.
[b]Total tax revenues as a ratio of gross domestic product.
[c]Revenues from the taxation of personal income as a ratio of gross domestic product.
[d]Average disposable income as a percentage of the total gross earnings of the average production worker, expressed as a ratio of that of a worker earning twice the wages of the average production worker.
[e]Revenues from the taxation of corporate income as a ratio of gross domestic product.

Sources. OECD, *Revenue Statistics* (Paris: OECD, various years); and OECD, *The Selected Tax/Benefit Position of Selected Income Groups in OECD Member Countries, 1974–1978* (Paris: OECD, 1979).

Second, contrary to the hypothesis of many analysts, the level of government intervention in all systems did not markedly or consistently decline between the end of the golden age (1968–73) and the mid-1980s (1982–87). Rather, government interventions invariably increased to ameliorate increased economic hardships. Total expenditures increased greatly from 1968–73 to 1982–87 and at a far greater rate than did revenues. The only instance of movement toward "neoliberalism" across the advanced industrial countries was declining government investment. It is interesting to note, however, that this policy area is outside the broad bounds of the "welfare state," which has been highly resilient to political dismantling. Instead, governments responded to economic decline and international competition—and to the increased demands on the state they generated—by expanding rather than contracting the public economy.[46]

Third, there was considerable separation between policy profiles in the corporatist and weak labor systems with respect both to aggregate policy profiles for the 1974–87 period and to changes in them during the period. On all dimensions of expenditure and taxation policy during 1974–87, outcomes accorded with our theoretical expectations of greater intervention in the corporatist systems. The gaps between the two types of political economy were statistically significant in three instances (total spending, consumption spending, and total taxation), and the disparities almost attained traditional levels of significance in several other cases (public employment, subsidies, personal income tax, and the progressivity of taxation). The only seeming exception to this pattern was corporate income taxation, the average revenues from which were lower in the corporatist category. It should be recalled, however, that we anticipated that governments in these systems would use corporate tax breaks as a means for stimulating investment, and lower revenues are therefore consistent with these expectations.[47]

The cross-category differences in changes in government intervention between 1968–73 and 1982–87 were smaller and less consistent. While on some dimensions (most notably public employment and, to a lesser extent, consumption expenditure) interventions increased far more rapidly in the corporatist category, on others the differences between policy responses in the two types of system were minimal. In fact, public investment declined far more slowly and personal income taxation increased more quickly in the weak labor category than in the corporatist category. Clearly, these data do not support the common assertion that growing interdependence and stagflation led to pervasive and

46. It could be argued, however, that this trend set the stage for a backlash against the welfare state at the end of the 1980s. There is some suggestive evidence in support of this proposition, especially with respect to Sweden, the country in which government intervention grew most rapidly between the early 1970s and the mid-1980s (public spending increased by fully 20 percentage points).

47. Norway's large corporate taxation score and, more particularly, the growth in Norwegian corporate taxation during the period were largely the product of the country's oil wealth.

substantial erosion of the historical distinctiveness of corporatist policy profiles.

In order to analyze this final assertion more closely, we supplemented the comparison of category means with a series of regression equations that isolate the impact of political economic conditions on spending and taxing policies. The models used were of the same form as those used for the fiscal and monetary policy models analyzed in the previous section.

The regression models in this case were strongly supportive of the earlier evidence. There were strong positive associations between the PE index and the extent of government intervention on the supply side of the economy with respect to almost all policy indicators in the 1974–87 period. Furthermore, there was little evidence that these historical patterns of policy separation eroded between the early 1970s and the mid-1980s. In fact, on many indicators, PE was quite powerfully associated with increasing, rather than decreasing, levels of government intervention.[48]

Annual averages in the 1974–84 period

The results reported in Tables 6 and 7 with respect to policies associated with the "full-employment welfare state" generally accord closely with previous research.[49] The PE index was positively and significantly associated with the most general indicators of government intervention: the size of the public economy and total tax revenues. Similarly, powerful relationships were apparent with respect to more targeted redistributive measures such as government consumption expenditures (excluding defense), revenues from personal income taxation, and the progressivity of personal income tax schedules. Finally, the PE index had a large and highly significant impact on levels of public employment across the advanced industrial democracies.

The single exception to this pattern for welfarist policies was the social wage, with which PE was negatively (but weakly) associated. As others have argued, this suggests that the political constituencies for extensive government transfers extend beyond the left and the organized working class to centrist and christian democratic parties.[50] This is consistent with the significant positive coefficient for the openness term in this equation, given that christian

48. The evidence is much more mixed with respect to the effects of integration into the international economy. On some policy indicators, openness was negatively associated with the extent of government intervention. But on many others, the relationships were positive. These data do not allow for definitive conclusions with respect to the historical and functional effects of economic integration on domestic strategies. For a theoretical analysis of these relationships, see Frieden, "Invested Interests."

49. See Cameron, "The Expansion of the Political Economy"; Walter Korpi and Gøsta Esping-Andersen, "Social Policy as Class Politics in Post-War Capitalism: Scandinavia, Austria, and Germany," in Goldthorpe, *Order and Conflict in Contemporary Capitalism,* pp. 179–208.

50. See Hicks and Swank, "On the Political Economy of Welfare Expansion"; and Wilensky, "Leftism, Catholicism and Democratic Corporatism."

TABLE 6. *The determinants of government expenditures: annual averages 1974–87 and changes in annual averages between 1968–73 and 1982–87,[a] with t-ratios shown in parentheses*

	Total[c]		Consumption[d]		Social wage[e]		Public employment[f]		Investment[g]		Subsidies[h]	
Determinants[b]	1974–87	Change	1974–87	Change	1974–87	Change	1974–87	Change	1974–87	Change	1974–87	Change
PE	0.73	0.09	0.90	0.37	−0.12	−0.09	1.94	0.90	0.51	0.32	0.28	0.20
	(2.2)	(0.2)	(6.2)	(3.5)	(0.4)	(0.8)	(5.9)	(3.6)	(2.5)	(1.9)	(4.2)	(1.7)
OPEN	0.091	0.063	−0.048	−0.027	0.122	0.40	−0.118	−0.001	−0.019	−0.056	−0.019	−0.009
	(1.7)	(1.2)	(2.2)	(1.7)	(3.2)	(2.4)	(3.0)	(0.0)	(0.7)	(2.5)	(1.7)	(0.5)
GDP	−5.83	—	2.58	−0.83	—	—	—	—	—	—	1.17	—
	(2.9)		(3.1)	(1.4)							(2.8)	
UNEMPLOYMENT	—	—	—	—	—	—	1.89	0.37	—	—	—	—
							(4.0)	(1.1)				
PROFITS	—	—	—	—	—	—	—	—	0.50	1.56	—	—
									(2.0)	(7.4)		
INFLATION	—	—	—	—	—	—	—	—	—	—	0.22	—
											(2.2)	
Adjusted R^2	.690	.019	.778	.452	.392	.208	.699	.608	.249	.823	.691	.071
F-ratio	11.37	1.13	16.21	4.58	5.52	2.84	11.83	8.23	2.44	21.20	8.86	1.53

[a]Change calculated as 1982–87 annual averages minus 1968–73 annual averages.

[b]PE = political economic structures index; OPEN = ratio of exports plus imports to gross domestic product; GDP = annual average growth in gross domestic product; UNEMPLOYMENT = percentage of total labor force unemployed; PROFITS = ratio of gross operating surplus to gross domestic product; and INFLATION = average annual inflation rate.

[c]Total government outlays as a ratio of gross domestic product.

[d]Final government consumption expenditure (excluding defense) as a ratio of gross domestic product.

[e]Social security plus social assistance plus transfers to nonprofit institutions serving households plus unfunded employee welfare, with the total expressed as a ratio of gross domestic product.

[f]Government employment as a ratio of total employment.

[g]Government gross fixed capital formation as a ratio of total gross fixed capital formation.

[h]Government subsidies to industry as a ratio of total trade.

Sources. OECD, *Economic Outlook: Historical Statistics* (Paris: OECD, various years); OECD, *Revenue Statistics* (Paris: OECD, various years); and OECD, *The Selected Tax/Benefit Position of Selected Income Groups in OECD Member Countries, 1974–1978* (Paris: OECD, 1979).

TABLE 7. *The determinants of government revenues: annual averages 1974–87 and changes in annual averages between 1968–73 and 1982–87,*[a] *with t-ratios shown in parentheses*

	Total[c]		*Personal income*[d]		*Progressivity*[e]	*Corporate income*[f]	
Determinants[b]	*1974–87*	*Change*	*1974–87*	*Change*	*1974–87*	*1974–87*	*Change*
PE	0.89 (3.3)	−0.10 (0.4)	1.36 (4.7)	0.00 (0.0)	0.017 (3.5)	−0.14 (1.9)	0.08 (0.7)
OPEN	0.134 (3.5)	0.044 (1.4)	−0.048 (1.1)	−0.006 (0.2)	−0.004 (0.6)	0.015 (1.3)	0.11 (0.6)
UNEMPLOYMENT	—	—	1.21 (2.3)	—	—	—	—
GDP	—	—	—	—	—	1.06 (2.4)	—
Adjusted R^2	.718	.067	.498	—	.433	.312	—
F-ratio	18.83	1.50	9.07	0.03	6.35	3.12	0.75

[a]Change calculated as 1982–87 annual averages minus 1968–73 annual averages.

[b]PE = political economic structures index; OPEN = ratio of exports plus imports to gross domestic product; UNEMPLOYMENT = percentage of total labor force unemployed; and GDP = annual average growth in gross domestic product.

[c]Total tax revenues as a ratio of gross domestic product.

[d]Revenues from the taxation of personal income as a ratio of gross domestic product.

[e]Average disposable income as a percentage of the total gross earnings of the average production worker, expressed as a ratio of that of a worker earning twice the wages of the average production worker.

[f]Revenues from the taxation of corporate income as a ratio of gross domestic product.

Sources. OECD, *Economic Outlook: Historical Statistics* (Paris: OECD, various years); OECD, *Revenue Statistics* (Paris: OECD, various years); and OECD, *The Selected Tax/Benefit Position of Selected Income Groups in OECD Member Countries, 1974–1978* (Paris: OECD, 1979).

democratic parties tend to be powerful in highly open economies that are not by our definition highly corporatist (such as Belgium and the Netherlands).

The data on investment and industrial policies also accord closely with our theoretical expectations.[51] The PE index was significantly associated with greater public investment and government subsidies to industry. The models also lend support to Adam Przeworski and Michael Wallerstein's assertion that governments in the more corporatist systems should be expected to construct corporate tax structures that stimulate the productive reinvestment of profits in the national economy.[52] In contrast with a simple distributional understanding of partisan politics and corporate taxation—which would suggest that the leftist governments in corporatist systems should tax businesses heavily across the board—the data reveal that the PE index had a significant negative impact on corporate tax revenues.

In sum, these results conform well with the hypothesized partisan separation over government supply-side strategies for enhancing competitiveness and flexible adjustment in world markets. The stronger the combined political and organizational power of labor, the more extensive were government interventions with respect not only to directly redistributive measures and labor market policies but also to industrial and investment strategies.

Changes in annual averages between 1968–73 and 1982– 87

There is little support for the popular notion that the exigencies of international competition during the global recession significantly reduced partisan separation with respect to government intervention in the economy. Rather, historical patterns of partisan policy separation tended somewhat to increase between 1968–73 and 1982–87 (although the effects of the PE index were generally less strong with respect to changes in policies than with respect to the 1974–87 aggregates). There were strong positive relationships between political economic conditions and growth in consumption expenditures and in public employment. Furthermore, the parameter estimates for public investment and government subsidies to industry were also marginally significant. In neither instance where the PE coefficient suggested some convergence between political economies—the social wage and total taxation—did this trend even approach statistical significance.

51. It is difficult to derive accurate cross-national quantitative measures for these policies, since figures delineating final policy outcomes (in terms of monies spent or received) may conceal important details about the structure of policy instruments. With respect to investment policy, for instance, the structure of corporate taxation (the relationships between nominal rates, depreciation allowances, investment tax credits, and the like) may not necessarily be well reflected in the final tax revenue figures. Nonetheless, the policy indicators discussed here provide useful, albeit imperfect, comparative information on government strategies.

52. See Przeworski and Wallerstein, "Structural Dependence of the State on Capitalism" and "Democratic Capitalism at the Crossroads."

Conclusion

The concatenation of heightened economic interdependence, increased competition in world markets, and economic decline since the early 1970s has had a marked impact on economic strategies pursued by governments in the advanced industrial democracies. But contrary to common wisdom, this combination of factors has not resulted in a pervasive trend toward convergence around neoliberalism. It is true that macroeconomic policies in countries dominated by leftist parties allied with powerful labor movements have not been significantly more expansionary than those in countries with strong parties of the right and weak trade unions. But given the openness of the more corporatist political economies, it is unlikely that governments in these systems would have wished to pursue traditional Keynesian policies.

In the contemporary international economy, all governments interested in stimulating macroeconomic performance must be vitally concerned not only with increasing the competitiveness of national goods and services in world markets but also with adjusting quickly and efficiently to changes in market conditions. Nonetheless, there have been two distinctive paths to these objectives. Governments in weak labor systems have sought to minimize interventions in all facets of the economy and to heighten the disciplining effects of market forces, although it is clear that these attempts have fallen far short of the pure "free market." In marked contrast, economic strategies in corporatist political economies have combined traditional welfarist concerns with interventionist government industrial, investment, and labor market policies designed to promote competitiveness and flexible adjustment.

Furthermore, this partisan separation did not erode from the early 1970s to the mid-1980s. While all governments responded to economic decline by increasing government supply-side interventions, if anything, the rates of growth in these measures tended to be faster in the more corporatist systems.

Some limitations of this article should be acknowledged before closing. The article focuses on the impact that broad patterns of political economic arrangements over a relatively long period of time have had on economic policies. This orientation allows us to outline policy profiles generated in systems dominated over time either by powerful leftist parties allied with encompassing labor organizations or by hegemonic rightist parties confronting weak unions. It does not, however, shed light on the effects that changes in government within individual countries over much shorter periods of time have had on economic strategies. Why do some governments, such as the 1974–79 Labor government in Britain and Mitterrand's administration in France, initially pursue partisan policies but subsequently turn dramatically away from them? Why do others, such as the 1976–82 "bourgeois coalition" in Sweden, have no marked impact on economic policies? Different methodologies, such as pooling time series data across countries and compiling detailed case studies of individual governments, are required to address these questions.

Furthermore, data limitations have not allowed us to extend the analysis up to the present. It could be argued, for instance, that while the "leftist alternative" outlined in this article endured the economic crises of the late 1970s and early 1980s, even governments in corporatist political economies have been impelled in the past couple of years to make significant modifications in their economic strategies, if not to abandon their historical commitments. The political economic problems encountered by the Swedish Social Democratic government since the middle of 1989 seem most apposite here. It has been claimed that the Social Democrats ultimately have been forced—by public opinion, by the pressures of centrist political parties, and by economic realities—to embrace a policy orientation that is not much different from that of most other Western governments.[53]

Although we cannot directly counter the claim that "there is no leftist alternative left," the data presented in this article suggest that caution should be exercised with respect to this proclamation. It is undoubtedly true that the economic changes of the past twenty years have had enormous ramifications for leftist parties and their preferred policies. But what seems most evident from the analysis presented here is the degree to which governments of the left—in alliance with powerful labor movements—have been able to maintain their traditional goals of redistribution, welfarism, and full employment while simultaneously adjusting to the new exigencies of international economic competition.

53. Pontusson, "Austerity, Government Crisis, and Political Realignment in Sweden, 1989–1990."