A changed welfare-state: Sweden through the 1980s

How the organization of labor unions and politics matter for economic performance

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Abstract

This thesis seeks to contribute to the important debate regarding whether who governs matter, and if the relationship between the government and labor unions affect economic performance. The research question is: "Did changes in the organization of labor in the 1980s lead to changes in the partisan influence on economic outcomes in Sweden in the 1990s?" To answer this a case-study of Sweden centered around the 1980s is conducted, a period in which this highly social democratic country underwent several changes to its economic system; a shift away from its corporatist roots.

Corporatism, the cooperation between government and labor unions, is first examined theoretically through identification of partisan strategies for growth and class alignment. These are situated in a European context between 1975 and 1995, and the Swedish welfare-model is discussed. Further, the case-study shows how Sweden developed from a post-war welfare-system to a notably less corporatist system by the end of this period.

Sweden is historically regarded as an example of a markedly corporatist country, and in Europe it is thus an unexpected case of a decline in corporatism. The thesis shows how changes to the organization of labor in the 1980s had consequences for economic performance, and this performance is discussed in the context of Europe, Scandinavia, and Sweden. The economic performance of the 1990s is related to changes in the 1980s, and the development between the periods analysed using a path-dependent methodological perspective. The development illustrates how the decline in Swedish corporatism had implications for subsequent performance.

In the 1980s this is best explained by the dissolvement of centralized bargaining between labor unions and employer organizations. The institutional linkage between the left-party and labor, which remained strong from the 1950s to the start of the 1980s, appears weakened as a result of shifts in government power. With this came new policies, and

the economic system moved towards market liberalism.

Economic turmoil increased in the 1990s, starting with a banking crisis spanning Scandinavia, and the cause of this is traced to policies of the preceding decade. In a country with a long history of stable economic performance through cooperation between a leftist government and an encompassing labor, these changes and shocks were not expected, but they point to a broader decline in corporatism; a result of economic crises and changes to the political control over the economy.

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1 Introduction

The question "Does Who Governs Matter?" have been asked in many forms over the years by students of politics (see Lange and Garrett 1985; Fox 1988; Cameron 1988; Esping-Andersen 1990; Drezner 2001). In this thesis I aim to answer this question by studying the relationship between government and labor. My research question is the following:

> Did changes in the organization of labor in the 1980s lead to changes in the partisan influence on economic outcomes in Sweden in the 1980s and 1990s?

I argue that the relationship between the government and labor in Sweden changed in the 1980s. The central argument of the thesis is that economic outcomes are explained by changes in labor unions, not just partisan policies, and that a change in the mechanisms of this relationship also changed political latitude to shape economic policy. Parties of the left and right necessarily have to maneuver this political space when formulating policy, and changes in these mechanisms explain the political impact on the economy.

I will examine whether developments of the 1980s in the economic system and the organization of labor have changed economic performance in a country typically regarded as corporatist in nature. The thesis relates to present-day debates on the state's role in the economy and how economic policies impact welfare and growth. To identify both the impact and the changes the problem must be contextualized properly: I examine the period prior and subsequent to the 1980s to show the development of corporatism historically. Sweden is selected because of its prominent position as highly corporatist, both in comparison to the other Nordic countries and Europe (Esping-Andersen 1990: 114).

The development between the periods take the form of a historical narrative, where changes are analysed as path-dependent – that is, to some degree inevitable. For clarity I distinguish systemic changes from external shocks to the economy, as Sweden experienced both. Though the approach is mainly qualitative in nature, quantitative data is also employed to illustrate the impact of these changes and shocks. The data ranges from the 1950s to the end of the 1990s – where available – to fully show these impacts in a broad historical context.

This is then a longitudinal case-study of Sweden centered around the 1980s and early 1990s, a period in which structural political and economic changes occurred, as well as economic shocks. Institutional impact is examined and analysed alongside the political and economic, to account for the relationship between the government and labor. The ultimate goal is to show how the Swedish welfare-state developed, and how the changes and shocks of the 1980s and 1990s impacted this.

1.1 Academic relevance

My initial focus when I started working on this thesis was the long-term development of economic inequality and its relation to policy, a broad topic which I approached with a broad mixture of qualitative and quantitative methods, on multiple empirical levels. When it became clear that covering this from the 1980s and into the 2000s could not sufficiently be done in 80-100 pages, I moved towards studying economic policies of the 1980s. After an evaluation of countries which are clearly relevant in this vein – the United States and England – it became necessary to select a case, or limited number of cases, in which this development was less obvious. In terms of policies, historical position, and empirical material, this would be the Nordic countries. As explained in the case-study and the analysis, Sweden was the most prominent case of social democratic corporatism in the examined time period, and accounting for changes within this political system helps to identify structural changes which reveal a potential decline in corporatism.

1.1.1 Corporatism and contribution

Corporatism is often associated with the bureaucratic functions within institutions, and how they relate to the state. I use it as a concept of interaction between labor, capital, and the state, thus explaining the role played by interest-groups and the state in determining economic policy. It is applicable to a broader analysis of the relationship between the political and the economic, and how this relationship can constrain the political latitude for economic policy.

For many the 1980s is a historical period of economic deregulation as a response to the laggard growth of the 1970s. Contextually, the most apparent examples of this was under Ronald Reagan in the United States and Margaret Thatcher in the United Kingdom. My interest in Sweden is motivated by what it appears to have been in this context: A case of a country least likely to follow the policies instituted by the aforementioned countries, and one which for most of the post-war period had sustained an economically viable welfare state. As will be shown, the cooperation between the left side of politics and the labor unions helped sustain both stable growth and low unemployment.

The contribution made to the field of comparative political economy is first of all a retrospective on the development of Sweden as a welfare-state and in terms of economic performance. As it was a country least likely to follow the development of the more economically liberal countries, the changes identified are all the more important. This development was unexpected in a historical perspective, as it is – along with its Nordic neighbours – regarded as an extensive welfare state. On the surface, the economic performance of Sweden throughout the 1970s does not indicate a need for systemic change to its economy.

Further, the relevance for the "real world" (see King et al. 1994: 15) of this thesis is that the empirical and systemic situation of Sweden prior to the 1980s appears as an alternative to the current status quo of limited political influence on the economy. The focus on low unemployment in combination with stable inflation and high growth, as was the model from the 1950s to the late 1970s, should be desirable for many countries, and importantly this performance was sustained for a long period of time.

Finally, I find that Sweden as a case of a decline in corporatism is a perspective on economic inequality. The cooperation between the left and labor for a long time ensured that growth in wages followed increases in costs of living. In the long-term this became unviable, as I discuss throughout the thesis, but the larger question is whether labor unions could again function as a check on wage-differentiation. That is, the development of wages which occurred in Sweden prior to the 1980s may be a desirable way to lower income inequality also in modernity.

1.2 Structure of the thesis

In chapter 2 relevant theoretical perspectives are discussed, and necessary assumptions and conditions for the empirical relevance of an explanatory, general welfare-model specified. These are then related to the research question, and a literature review is conducted.

Chapter 3 outlines how corporatism is studied, what sources of data are used, and the method applied. An analytical framework is specified, and the validity of the chosen method discussed.

The first half of the case-study is in chapter 4, where the relationship between the government and labor is further developed. This includes a historical narrative and a discussion of whether a decline in corporatism can be identified.

The second half of the case-study is in chapter 5. Here Sweden is placed in the context of Europe and of economically advanced democracies, and subsequently Scandinavia, to show how economic performance changed over time. Based on this implications for the analysis are discussed.

In chapter 6 the development is examined in terms of path-dependence and causality. The implications of this, and the consequences for the Swedish case and welfare-model, are discussed and a decline in corporatism considered.

2 Theory

The left-right divide in economic policies is typically identified by diverging strategies for achieving economic growth: The right follows a conservative strategy of tax-cuts, and the left a liberal strategy of increasing the production rate of labor and capital (Boix 1998). A facet of this is the degree to which government can and will intervene in the economy, where the right is expected to pursue a laissez-faire doctrine whilst the left is expected to intervene to ensure more redistribution of wealth and risk (Alvarez et al. 1991: 539). Thus, from the outset partisan policies are assumed.

A trade-off supposedly exists where less intervention yields more efficiency and more intervention yields more security and stability. The implication is that rightist government prefers freer markets whereas leftist governments prefer more social security. Parties preferences for market freedom are constrained by the viability of their political strategies – that is, policies – for achieving growth. That is to say, who governs matter for economic performance mainly where there are differences in economic policy, and these policies are limited by what policy can achieve in a relatively free market.

To identify the development of these constraints over time, I evaluate the role played the government in the economic changes of the 1980s, expressed as a model of political latitude to instigate economic policy. The development of this model is later applied to distinct periods of historical development, where the application of the model relies on a set of assumptions and conditions, as defined below.

This chapter is structured as follows: I begin with an outline of the theoretical scope of the argument, the assumptions it relies on, and how the theoretical perspectives relate to the research question. Further, a literature review is conducted which focuses on two prominent theoretical perspectives, their implications for the argument, and specifically on a debate between Garrett et al and Jackman.

2.1 Theoretical scope and perspectives

Two concepts should be clarified immediately: Corporatism and latitude. The latter is defined as the scope for freedom of action, and in this thesis refers to the possible policy-choices available to politicians at any given time. It is the policy-choices politicians can make which directly affect the economy, essentially the political control over it. Thus it explains the leeway or maneuverability politicians have in relieving economic problems through political means. This concept also includes a negative scope in the form of constraints on political action. Note that a line will not be drawn between latitude and constraints, as the concept does not lend itself to such clarity. Rather, it is an evolving perspective on what can and can not be achieved with economic policy, and thus highlight how and why politics matter for economic performance.

An example of political latitude would be the governments ability to change the inflation-rate by setting an interest-rate for the central bank to use. Policy changing this rate to deal with inflation – or unemployment, as discussed below – are an important tool in controlling the stability of the economy, especially against shocks. Politicians ability to change this rate would be constrained by an independent central bank, as discussed in section 6.3.1. Hence, in this thesis political latitude describes what policy can and can not achieve in regards to controlling the economy.

Corporatism is often associated with political systems or bureaucratic functions, but its use here follows Schmitter (1974) and is the institutional linkage between government and labor. More specifically, this thesis evaluates it as a dimension with *social democratic corporatism* at one end of the spectrum and *market liberalism* at the other. It is the interaction between a government of the left or right with labor, as well as the governments preference for such a linkage, and what policies this entails. As the difference in economic performance is judged empirically, the use of the concept avoids a normative interpretation. Corporatism is then defined as a political system in which interest-groups play a part in policy-making, and through this express the preferences of their members for economic policies.

Further, economic performance is a composite empirical measure consisting of growth, unemployment, and inflation. It will be referred to as a general phenomena at various points throughout the thesis, but it is assumed to always be sensitive to systemic changes and economic shocks, which are specified empirically. The interaction between government and interest-groups, expressed empirically through wage-bargaining with labor unions, defines the characteristic mechanism of social democratic corporatist systems.

The aforementioned model defines the setting in which the central argument applies. First, the setting for the analysis is a political situation with free elections and a relatively free economy – that is, a capitalist democracy (see Schmidt 1982a); Second, parties of the left and right have partisan policies which they will pursue if elected, and as such primarily seek election and secondarily seek to implement these policies if elected; Third, elected governments have the political capital and capability to implement these policies, and can achieve the formulated goals of their policies with some success; Fourth, the political and economic constraints may vary a lot when applied to specific countries, but can be deduced from theoretical perspectives and verified by case-analysis; Fifth, the policy-preferences of the left and right reflect the policy-preferences of voter-groups, and will in highly corporatist systems also be reflected through interest-groups which political parties align with.

In what follows, each of these conditions are developed and their relation to the central argument specified.

2.1.1 Democracy and capitalism

The analysis is limited to democracies of a capitalist nature, and the reason for this is two-fold: Examining differences in partisan policy necessarily requires parties with distinct policies. A prerequisite for distinct policies is first of all a competitive electoral regime, where electoral victory gives control of government. Second, if the policies of the competing parties are similar or near-identical, there is little value in voting for any of them as the outcome would not differ. Hence, the democracy must – in Dahl's terms – allow both public contestation and all citizens to participate in elections and office (1971).

The other facet of this is capitalism, which is presumed to be necessary because its essential function is to facilitate growth (Schumpeter 1942). As the dependent variable is economic performance, of which growth is a part of, variance in this outcome must be present for an analysis to be valuable. This does not, however, exclude countries whose economies do not perfectly resemble the capitalist ideals of the United States. To account for why who governs matters a comparative ideal must be established, and as my focus is on the impact on economic performance, a high degree of democracy and a high degree of capitalism must be assumed.

There is an inherent question of what *high degree* implies here, as neither democracy nor capitalism are necessarily binary concepts (Collier and Levitsky 1997). I will expand upon this point in section 2.2, but for now it should suffice to say that a high degree of both will produce a situation with political competition and relatively variable economic performance, thus excluding political systems of varieties such as one-party systems, authoritative systems, plan-economies, or the like.

2.1.2 Who Governs: The economic impact of political latitude

As specified above, political parties are assumed to have distinct economic policies. This assumption is necessary if there is to be any applicability to the argument, but more importantly if there is to be any value to politics. Even if who governs matters, what explains partisan efficacy in attaining economic performance must be answered. If the economic factors growth, inflation, and unemployment are assumed to vary conjuncturally as a structural aspect of a capitalist economy, what difference the economic policy of the left or the right makes is left unanswered.

First of all, theory dictates that elections are not won just on the basis of policy-ideas (Jackman 1987: 255). This is to say that parties must not only convince voters with their ideas for policies to implement, but likely also make alliances between parties and with voter-groups. An electoral victory does not itself guarantee that policies are implemented, hence government strength must be considered explicitly. Passing any legislation requires a sufficient majority of seats in the legislature, and thus government cohesion – as defined in section 2.2 – explains economic performance by considering the political power necessary to pass legislation.

Furthermore, it may be necessary for parties to cater to voter-groups whose political preferences align with their own. These voters are often represented by, or members of, an interest-group who will lobby or otherwise try to influence the politics of the governing party or align themselves with some other party. Crucially, and as fronted by

Garrett et al (Lange and Garrett 1985), the alliance between the left and encompassing labor explains economic performance aside from economic factors. I return to their analysis in section 2.2.

2.1.3 The virtue of collective bargaining

Interest-groups seek to increase their utility by following one of two strategies, as specified by Olson: "[...] the organization can in principle serve its members either by making the pie the society produces larger, [...] or alternatively by obtaining larger shares or slices of the social pie for its members" (1982: 42). However, note a caveat as far as incentives are concerned: "[...] *the incentive for group action dimishes as group size increases* [...]" (Olson 1982: 31, original emphasis). If we consider how large labor unions can distrupt the economy through wage-militancy, it is easy to see that the self-interest of each organization can affect economic performance negatively. The exception to this, as specified by Olson (1982: 48) and as extended by Lange and Garret (1985: 795), is when labor is encompassing and thus has a bigger impact on the economy, as explained below.

The economic cost of policy for the strategy preferred by either side of politics must be considered, because welfare – measured for example by unemployment and inflation – is a trade-off between social security and economic freedom, and trying to increase either then implies a cost to the other. If parties do not vary in their preference for one over the other, a well-meaning dictator may achieve the same levels of both. This is to say that for politics to matter for economic performance who governs must necessarily matter, and because there are tangible differences in empirical results for both welfare and growth, partisan politics must be counted as an explanatory factor.

The implication of this is two-fold: First, any constraints on policy-making will affect both sides of politics, as they limit what can be achieved in both welfare and market freedom. Second, an analysis of empirical outcomes is contingent upon all of the aforementioned assumptions holding, as well as a comparative focus. How *much* who governs matter is likely to only be clear if governments of the left and right are seen in relation to one another, which necessitates an empirical evaluation.

2.1.4 Achievable economic performance

If low unemployment is seen as a good for welfare and low inflation as conducive to stable economic growth, then a trade-off between the two imply a contestable area for policy. This trade-off is known as the *Phillips Curve* (Phillips 1958), and it has a corollary in politics in the sense that the trade-off is affected by political decisions (Hibbs 1977). Assuming that parties on the left are unemployment-sensitive and parties on the right are inflation-sensitive (Alvarez et al. 1991: 540), the political economic Phillips curve explains the policy-choice where lowering unemployment increases inflation, and vice versa.

In addition to being a constraint on economic policy, this trade-off is a mechanism by which parties can counter economic shocks in the short-term. Note that a common distinction is to say that in the short-term few variables change, whilst in the medium-term several variables can change, and in the long-term everything can change. It is also important to note that in the long-term the viability of this trade-off decreases, as explained below. Central bank influence is not explicitly treated here, but whether government directly controls inflation or cedes the responsibility of this to a central bank does affect this trade-off. Since central bank independence is largely a phenomenon of the 1990s and beyond (Glyn 2006: 32), the occurrence of it in a potential case-study must be considered.

The vertical Phillips-curve

An argument has been made for a viable strategy for full employment (Kalecki 1943; Boddy and Crotty 1975), based on ideal conditions and with a domestic focus. Empirically it is evident that no advanced democracy has thus far produced full employment (International Monetary Fund 2014), in the sense of no unemployment. More importantly, full employment means that everyone who can be employed are. These democracies have had their share of leftist governments, many of which have worked towards reducing unemployment, but none of which have abolished it.

An explanation for this is that Marx' prediction of a *Reserve Army of Labour* still holds. This reserve army is a by-product of capitalism, in that its existence is explained by the willingness of the unemployed to work for less wages than the currently employed, doing the same work (Stilwell 2006: 124). Surplus, or increases in, population thus sustain and renew this reserve army, and as long as the supply of labor exceeds the demand for labor, it is a mechanism that keeps "[...] wages down and profits up" (Stilwell 2006: 124), and it is inherent to capitalism (Marx and McLellan 2008: 352-353).

I will not delve into Marx' critique of capitalism, but rather note that this mechanism is of great importance as it highlights a facet of the unemployment-inflation trade-off. If unemployment is considered a disadvantageous situation for those who currently are, but also as a loss in efficiency due to the superfluous labor available, it should clearly be in the interest of either side of politics to keep unemployment low as it is beneficial for the output of the economy. However, because this mechanism is inherent to capitalism it can be considered a *natural* unemployment, that is, structural unemployment.

Long-term unemployment is often explained by a long-term Phillips curve, where efforts to lower unemployment consequently will lead to a state where inflation is increased but unemployment returns to the previous level, thus rendering full employment impossible without spiralling inflation. This, however, is in the indefinite long-term, and reducing unemployment is still a viable policy-choice in the short- to medium-term.

2.1.5 Class and political alignment

Below I discuss the empirical relationship which suggests that centralized, well-organized, and politically strong labor movements in combination with a coherent leftist government will yield better economic performance than if the labor movement was weak. Why this should necessarily be the case is uncertain, as interests-groups are not necessarily in the business of increasing a society's output.

Interests-groups, whether they are small special-interest lobby groups, worker unions, or employer-associations, have one purpose: To protect the interests of their members by ensuring them increased utility relative to the cost of membership. Economically, this is fairly self-explanatory. If the cost of belonging to a union outweighed the benefit, it would be irrational to remain a member. This follows from Olson's strategies for interest-groups.

Further, labor unions are mainly interested in ensuring a *living wage* and increased welfare for their members. Apart from worker rights, which are not covered here, they do this by wage-bargaining with employer-associations, and this affects the economic output of society. Since labor unions are responsible for the most part only to their members, there is no reason for why they should restrain themselves in this wage-bargaining, regardless of potential costs imposed on society.

The implication is the following: If the interest-group manages to redistribute more resources and means to its own members, then it does so at the cost of the rest of society. Consider, for example, a small labor union which through wage-bargaining secures an increase in wages. The cost of the wages paid to the workers which the labor union represents will either be borne by the owner of the business, or passed on to society in the form of an increase in the price of the goods which the business supplies. All things equal, it is assumed that increased wages will yield increased prices, and as such wage-bargaining affects the aggregate price-level in the society.

That is, unless the size of the labor union is encompassing (Olson 1982: 44). Given a sufficient size of the labor union, whether through a large single organization or a coalition of unions, and a rational leadership, the union will also be interested in increasing the productivity of society at large. Given the size, which will vary between societies, the aforementioned cost to society would then be far more likely to also be a cost to its own members – since it encompasses a much larger part of the society (Olson 1982: 48). Hence, to avoid negative consequences for its members, it has an incentive to show restraint in wage-bargaining and rather focus on making the pie society produces larger (Lange and Garrett 1985: 795).

2.2 Literature Review

In what follows I examine how wage-policies, as a mechanism of cooperation between the left and labor, help explain economic performance and then examine how the work of Garrett et al and Jackman aid in explaining partisan differences in this outcome.

2.2.1 Wage-restraint

From the outset there are no obvious reasons for specific outcomes of a wage-bargaining process, as it is highly dependent on the contextual nature of the current wage-level as it relates to overall economic performance. To find an explanation for these outcomes, the cooperation between political parties and interest-groups are often examined in corporatist systems, as this is an area where wage-bargaining yield wage-policies. A methodological issue with such an examination is that wage-negotiation, whether it is between labor and government or labor and employers, is inherently difficult to measure: The outcome may be relatively easy to ascertain, as wages change relative to the price-level, but the process itself cannot be quantified to yield the exact outcome. In an effort to explain what determines wages, be it purely economic factors such as growth, unemployment, or inflation, or whether wage-negotiation and thus politics play a part, Armingeon proposes the following hypothesis:

> [...] *there will be political wage restraint if union bargainers are influenced by the social democratic party and if the rank and file fail to protest against, or even agree with, this policy* (Armingeon 1982: 235).

In this regard wage-bargaining happens through an institutional linkage between the government and labor, where particularly the cooperation between labor and the left manifests. Three major types of this linkage can be identified (Armingeon 1982: 235):

(1) Collective affiliation: Union members automatically become party members.

(2) Ex officio representation: By the virtue of position or status union leadership has a place in the party executive, or vice versa.

(3) Liason committees: Co-ordinated committees involving both the labor union and the party.

Empirically the first clearly has some merit, as it existed in Norway, Sweden, and the United Kingdom, making it an important area for case-analysis, whilst the second and third more resemble channels of information exchange (Armingeon 1982: 235-236). If collective affiliation can be determined to be present as a mechanism or in high levels in the empirical period in question, then any of these countries would be suitable for determining partisan impacts on economic performance. I return to the left-labor linkage and involvement in the wage-setting process in section 6.1.

2.2.2 The Garrett et al and Jackman debate

Between 1985 and 1991, a debate ran between a handful of authors on the efficacy of economic policies in industrial democracies, and how partisanship, government cohesion, and labor unions affected economic performance between 1960 and 1984 (Lange and Garrett 1985; Jackman 1987; Lange and Garrett 1987; Jackman 1989; Garrett and Lange 1989; Alvarez et al. 1991). Garrett et al made the argument that governments of the left and right have distinct economic policies which they want to implement, and whilst the left is more focused on keeping unemployment low, the right is focused on keeping inflation in check. This is consistent with the assumption that either side of politics have different strategies for achieving economic performance.

Their model explains how a political alliance between parties of the left and organized labor can yield economic performance on par with what would be expected from a free market economy. Additionally, they find that the presence or absence of organized labor explains strong and weak growth (Lange and Garrett 1985). My aim in this section is to broadly describe the theoretical and empirical basis of their argument, and based on this develop a comprehension of why these configurations potentially limit political latitude.

Labor as a social mechanism

Following Olson's logic of collective action by interest-groups, the authors focus on the propensity of the labor unions to self-regulate – that is, show wage-restraint. As shown previously, such behavior is rational for large unions given that they are large enough to be encompassing. As Lange and Garrett point out, this crucial size is uncertain because the social- and group-utility of showing such restraint is not determined by the unions themselves, but rather by the owners of the businesses in which the union-members work (Lange and Garrett 1985: 796-797), and it will obviously vary between countries.

In contrast to the laissez-faire approach of the right, the left can positively affect both the wage-negotiation process and the uncertainty of the unions. In this regard who governs clearly matters, as it serves not only as a potential mediator of these negotiations, but also as a distributor of economic growth and thus a guarantor of increased welfare without necessarily increased inequality.

There is a dual contingency to this mechanism: Enhanced economic performance is only likely when strong labor unions support a strong leftist party, and in instances of a weak labor and a strong rightist party. As the welfare-model strongly relies on wage-bargaining taking form between an organized labor union and employers, mediated by government, this precondition for enhanced performance is essential to evaluating the model. Lange and Garrett's summary is reproduced in table 1, where they also outline four related hypotheses – marked A to D. If economic performance is not stronger under scenario A and D than B and C, then the predictive and explanatory power of the model will be low.

Table 1: Political strength of the left, labor unions and economic growth

	Political Strength of the Left	
	Strong	Weak
Encompassing Organization of union movement	(A) +	(B) -
Not encompassing	(C) -	(D) +

+: positive contribution to economic growth

-: negative contribution to economic growth

Source: Lange and Garrett 1985: 799.

The four hypotheses can briefly be explained as the following:

A When the left controls the government, they reduce uncertainty and hence the risk of wage-restraint, to the degree that more distribution occurs as unions focus on making the societal pie larger, rather than obtaining a larger slice of it (Lange and Garrett 1985: 799).

B With the absence of an assuring left party, unions focus more on obtaining a larger slice of the pie for their members. Thus wage-restraint is not a beneficial strategy in the short-term of an election cycle, and there are no gains from hoping that business-owners or a government of the right would distribute economic growth – as they are by definition less likely to do so in comparison to a government of the left (Lange and Garrett 1985: 800).

C In a situation with no large union, or coalition of unions, each of them will have little to gain from pursuing any other strategy than to increase the utility of their members. This is largely because unions bargain with their respective employer, not on behalf of a larger labor market, and thus have a lesser impact on wages in aggregate (Lange and Garrett 1985: 800).

D When a strong right government has no organized or significant opposition from labor unions they can shape the economy closer to the ideal of a free market, thus creating economic performance at the cost of social distribution (Lange and Garrett 1985: 800-801).

These are relevant for the empirical analysis, but it should already be noted that – as Lange and Garrett put it – a linear relationship between economic growth and the presence or absence of labor power should not be expected (1985: 801). This is to say that labor is likely not the only explanatory factor for comparatively high economic performance, and there might be cases where growth is achieved in spite of not having a particularly strong labor movement or strong government.

Performance as the dependent variable

Initially, Garrett et al used economic growth as the only indicator of economic performance (Lange and Garrett 1985: 802), and it is also the dependent variable in their analysis. Later, this performance included "annual rates of gross domestic product growth, change in the annual rate of the consumer price index growth, and change in annual employment levels" (Alvarez et al. 1991: 545).

The period they examined was 1960 to 1980, and changes in performance within this time-frame. Lange and Garrett sought to identify the impact of "[...] labor on political-economic performance outcomes from 1974-1980 [...]" (1985: 802) in light of the growth between 1960 to 1973. There are methodological issues with this, as addressed below, but it should immediately be noted that the oil shock of 1973 highlights a potential confounder to the variable, namely external shocks.

Economic shocks The degree to which a country depends on imported goods and gain much of their wealth from exports determine how they are affected by an economic shock. Garrett et al (1991) account for two varieties of changes in economic realities: Shocks and systematic changes to economic processes, both of which I apply throughout the thesis. The former is named *Vulnerability to International Economic Conditions* and controls for conditions external to the economy, whilst the latter is named *Domestic Economic Processes*, which are changes in economic performance lagged to show changes in the domestic economy.

These variables reveal not only whether economic performance was affected by factors other than the composition of government, but also whether government changed the structure of the economy. And, all else equal, they can verify that even under extraordinary empirical circumstances – such as a shock in oil prices – their argument holds. In the analysis I discuss this as changes and shocks to the economic system.

Government Cohesion In Garrett's words "[...] economic policy should be more consistently partisan and macroeconomic performance should be stronger the more 'coherent' conditions are in the politics and the labor market" (Garrett 1998: 26). This is to say that efficient policies are contingent on strong parties, where this strength is measured by a *Government Partisanship* variable, or how many seats of the parliament cabinet the governing party holds (Alvarez et al. 1991: 545). The more seats held, the more political power the government has, and hence the easier it would be to implement policies.

Encompassing labor Alvarez, Garrett, and Lange use the variable *Labor Organization* which they measure by the density and centralization of union movement (1991: 545). That is, whether the country's labor movement is sufficiently large to impact wage-negotiations, and hence the economy at large. Additionally, it is aware of this impact and will voluntarily restrain itself and prefer long-term wage growth over short-term, as this growth impacts economic stability. This is conducive to policy-makers as militant wage-negotiations could by itself create inflation.

This variable also includes the opposite of an encompassing labor: Weak labor. In this case, labor is "[...] sufficiently weak and decentralized to be rendered unable effectively to retaliate against the imposition of market discipline [...]" (Alvarez et al. 1991: 543). Here, governments of the right will have less resistance when imposing market liberalism. The strength of this relationship between political parties and labor is contingent on the strength of the party itself.

The Jackman critique

The argument forwarded by Lange and Garrett was critiqued by Jackman (1987) for its empirical content and assumptions, as well as for the theoretical linkage between parties and policy. Their model is based on economic growth between 1974 and 1980, but this is calculated based on the relative growth between 1960 and 1973. Though not necessarily an invalid approach, Jackman raises the question of whether the earlier period should be an explanatory factor on line with labor strength and government cohesion.

Whether thirteen years of growth is comparable to six years, or if a weighted average would be a more precise measure than simply average annual growth in each period may be the case (Lange and Garrett 1985: 802). Their sample of countries is also limited as it includes sixteen "advanced industrial democracies" (Lange and Garrett 1985: 794), and a bias is introduced by including the case of Norway.

Finally, the effects of leftist strength is questioned, as their results run contrary to similar empirical analysis. If government cohesion was insignificant, the question of "does who governs matter?" would be reduced to "does labor matter?". However, Jackman does concede their central argument, which is:

> *Through its policy instruments, government can influence both the investment behavior of capital and the distribution of economic growth among social classes* (Lange and Garrett 1985: 797).

As developed in section 3.3.3, my approach applies their argument using an inherently different methodology, wherein these issues of quantitative analysis are resolved. Jackman further draws the link between their argument and Lipset's (1960) view that elections express a class struggle. Whilst his critique of the assumption that the "[...] state is 'directly in the hands' of labor [...]" (Jackman 1987: 254) is justified, a more nuanced explanation is possible: The state is not necessarily in the hands of anyone, but the preference-alignment between the left and labor may still explain a prevalence in policies which are favored by both. The alliance between the left and labor does not imply that either is dominated by the other, but rather a symbiotic relationship in which labor fulfils its responsibilities to its members whilst the left gets elected.

The validity of the assumption that partisan politics will yield distinctive policies are challenged by Downsian policy-convergence, where parties propensity to be primarily office-seeking and secondarily policy-formulating lead to a converge on the preferences of the median voter (Downs 1957). Thus, policies would grow ever closer and less distinctive in order to capture the swing-voters, who reside around the median voter. Without delving into a technical explanation of the median voter theorem, suffice it to say that it is a paradox resolved by the empirical variance in policies and by identical policies disincentivizing voting by leaving no variance in the outcome of an election.

Even if both sides of politics aim for economic growth, the path taken to achieve this can and will vary. Even without any differences in the outcome for growth itself, social factors such as distribution can be different without necessarily impacting growth negatively. Hence policy-convergence of the Downsian sort is unlikely, as both political theory and the model assumes a distinctiveness to policies of the left and right.

Causality, conditionality, and mechanisms In Garrett et al's response (1987) to Jackman three points are worth reiterating and evaluating: An argument of causality, an argument of conditionality, and what either means for the central argument.

Though the combination of a strong left government and a strong labor union leading to economic growth may be a positive causal relationship, it is important to recognize that this hinges on identifiable mechanisms to show this, not on most of the empirical materials either side of this debate presented. As sophisticated as their methodological approach is, it does not lend itself to a causal argument, because their quantitative data does not account for the underlying mechanisms of the issue. The mechanisms of this relationship will be explored further below, along with an evaluation of whether a causal relationship holds.

Their conditionality-argument, however, does seem plausible, and further it also explains the case of Norway not as a deviant case, but as a potentially crucial case (see Gerring 2007). As already explained, it is not simply the co-existence of a strong left government and strong labor, but rather an interaction between them that would lead to relatively strong economic performance. As Garrett et al point out, "Norway's exceptional growth in fact reflects its position as *both* a highly 'corporatist' and oil-rich country" (Lange and Garrett 1987: 260, original emphasis). Hence, Norway exemplifies how the strong ties between the left and labor manifested in strong economic performance, as they became oil-rich through government efforts (Jackman 1987: 245). In a restatement of why who governs matter, Garrett et al suggest the following:

> *The argument is not that political conditions totally determine economic outcomes, but rather a more modest assertion that politics affects economics at the margins, and that these margins are nevertheless very important* (Lange and Garrett 1987: 269).

This emphasizes an important point, namely that whilst who governs matters, it is not the only explanation available. Technological and societal factors, as well as economic shocks, will all impact the economic performance of various countries. The assumptions for the explanatory model implicitly involves some degree of dependency on foreign markets, and this alone will ensure fluctuations in the domestic economy.

Beyond the original argument

After the initial debate, revolving mainly around methodological and empirical issues, Hicks (1988) respecified the model proposed by Lange and Garrett (1985; 1987) and still found that the empirical data supported their argument. In what follows, I will outline this respecification, evaluate its merits, and discuss responses by Jackman (1989) and Garrett et al (1989; 1991) as well as the further implications.

Hicks' contributions First, Hicks expanded the model to include two alternative interpretations: Either labor organization effects are conditional on labor's political strength, or labor's political strength is conditional on union strength. But this does not suggest that either may produce a "*[...] distinct causal process*" (Hicks 1988: 682, original emphasis). However, as I will show in the analysis, they may be causally-linked in that labor strength – politically – is contingent upon the presence of a strong left party. Hence labor organizations are "[...] reinforced by Left party strength [...]" (Hicks 1988: 685).

The argument of conditionality between the strength of labor and the strength of the left implies that – contrary to economic dogma – redistributive policies do not necessarily slow down economic growth (Hicks 1988: 699-700). Notably, "[...] union use of wage restraint is central for growth [...]" (Hicks 1988: 683), and this is an essential mechanism by which the left-labor alliance can be conducive to growth.

Second, Hicks finds that without Norway, there is only limited support for their argument. This brings on an impasse: If, in the case-selection terminology of Gerring (2007: 89-90), Norway is taken to be a crucial positive case, then it is a case of social democratic corporatism where the relationship between labor and the left does produce economic growth.

If, on the other hand, it is taken to be a deviant or extreme case, then it is one of possibly several reasons why the argument fails. Though this does not discount the argument that who governs matters, it does mean that the empirical basis of Garrett et al's and Hicks analysis is lacking. As already specified, my argument is more theoretical and focused on mechanisms, but the Norwegian case – and possibly similar ones like the Swedish – does highlight an avenue for empirical evaluation of the prevalence of these mechanisms, as they are prominent cases of social democratic corporatist systems. This is discussed in chapter 5.

Third, Hicks outline two economic perspectives that seek to explain economic growth: The neoclassical growth theory and the efficient allocation approach. The former is an explanation of how changes in incomes and improvements in productivity predicts growth, whilst the latter explains how rationality and market efficiency is the source of it (Hicks 1988: 690). After testing these controls, as well as several others including dependence on foreign oil, he finds that mainly the market efficiency argument is important. In Hicks words: "[P]rogressive governmental redistribution of income *does* appear to reduce growth" (Hicks 1988: 697, original emphasis), which runs contrary to the findings of Garrett et al.

In response to Hicks

Jackman (1989) highlights some weak points in Hicks and Garrett et al's analysis: The sample of democratic countries could have been expanded to include at least twenty-one countries which fit into the category of advanced democracies. Though Hicks controls for the impact of Norway, Austria now becomes an influential case in his expanded model. However, as I shall demonstrate in the method-chapter, adding cases or expanding the sample to its utmost extent will not sufficiently explain the mechanism Garrett et al proposes, nor would it disprove the existence of it.

Jackman points to policy-convergence as a hindrance for distinctive partisan policies and that the assumption of only two strategies for growth being an infeasible assumption (Jackman 1989: 652, 654, 658-659). As I have previously stated, policy-convergence to the extent described by Jackman is unlikely, and the absence of other strategies can be explained by the simplification of politics into a left and right side of the political spectrum, rather than a variety of party-types.

This point is stressed by Garrett et al (1989) in their response to Jackman, in that policy-convergence in itself would in turn make parties formulate distinctive policies. This is related to whether elections are held on specific issues, or whether policy-formulation matters. If parties have similar, near-identical policies then issues could be what determines elections. If they, on the other hand, have different strategies by which they propose to achieve sustained economic growth, then policy-convergence is unlikely. This presupposes parties to have different ideological views which shine through both in elections and in policy (Garrett and Lange 1989: 682).

When does politics matter?

Alvarez, Garrett, and Lange point out two lines of argument for when who governs matter:

> First, *[...] governments can be expected to pursue partisan economic strategies consistently, because these further the interests of the governments' core political constituencies [...]*, and second, there are *political constraints on the ability of governments to act on their partisan preferences* (Alvarez

et al. 1991: 539).

These are consistent with my approach to the matter at hand, in that distinctive policy-means, if not policy-goals, are prerequisites to the explanatory model, and the constraints upon either are as well. The authors also draw a distinction in policy-convergence between two-party and multi-party systems, where it can be argued that even in the former policy-convergence is not guaranteed.

Importantly, government strength and ability to pursue economic policy strategies will potentially have a beneficial effect with either the left or the right in power (Alvarez et al. 1991: 540). Further, they outline two hypotheses – essentially the same as the argument of conditionality – and their variables. As these variables are continuations of their previous work, no further commentary is given here.

The results are of more interest, and they reaffirm the conditionality-argument, as well as suggest that economic performance is "considerably better under more 'coherent' configurations" (Alvarez et al. 1991: 551). Both of these results are as expected, but a third one, that unemployment results are consistent with structural hysteresis, is more surprising. The implication is the following: "Shocks raising unemployment are likely to dissipate more rapidly in countries with more encompassing labor organizations, irrespective of who governs" (Alvarez et al. 1991: 552).

This has consequences for the political constraints on reducing unemployment, and suggest another path in addition to simply controlling inflation. In closing, the authors suggest that further work should more carefully explore the mechanisms "linking partisanship to performance" (Alvarez et al. 1991: 552), which is what I aim to do within the context of political latitude and economic constraints.

A retrospective In the aftermath of the papers by Garrett et al (1985; 1987; 1989; 1991) and Jackman (1987; 1989), Garrett (1998) emphasized that the distinction between social democratic corporatism and market liberalism is not just of strategies for growth, but also that the less cohesive governments are, poorer macroeconomic outcomes should be expected. This underlines the argument for evaluating empirical cases of political parties as extreme points on a continuum between social democratic corporatism and market liberalism.

3 Method

In this chapter I briefly outline how corporatism has been studied previously, and how I continue this work. I then account for the main sources of data used throughout the thesis, and the virtue of triangulation. Further, I lay out an analytical framework for how the development and impact of corporatism in Sweden will be evaluated. I end with a discussion of the validity of the chosen methods, possible alternatives, and whether the Swedish case shows a change in corporatism beyond the domestic.

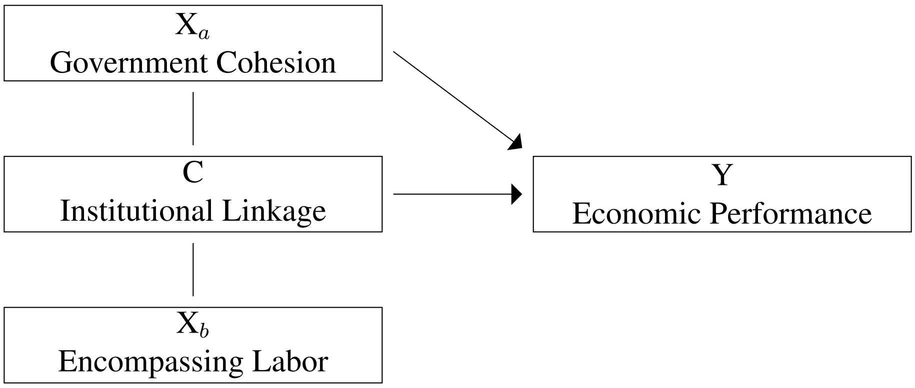
3.1 Studying corporatism

The approach by Garrett et al (1985; 1987; 1989; 1991), as followed by Hicks (1988), is a seemingly typical way of examining corporatism. It establishes and verifies differences between countries, as well as changes over time, and is by and large a quantitative method. They use a multivariate model with multiplicative interaction terms, meaning that they consider several variables (X) to affect economic performance (Y), and that it may be the relative presence or absence of a confounding variable (C) that explains this effect. This relationship is illustrated in figure 1.

As their area of focus is the relative differences in outcome between governments of the left and right, they analyse relative differences in performance between them. This means that economic performance after 1973, in their study (1985: 802), is seen in light of the growth between 1960 and 1973 rather than in isolation. As discussed in section 3.3, I evaluate this relationship qualitatively and further develop the implications of it longitudinally. In terms of variables and relationships it appears unchanged, but my interpretation is more focused on a causal narrative from the 1980s onwards.

My approach is a diachronic single-case study wherein the development of the relation-

Figure 1: The relationship between government cohesion, encompassing labor, and economic performance.



Lines indicate relationships and arrows causal-links and their direction. Explanatory variables are noted as X, confounders as C, and outcomes as Y.

ship between government and labor is examined, and the impact this has on performance evaluated. A single-case research design is optimal for establishing causal mechanisms (Gerring 2007: 38) and testing the internal validity of these mechanisms. That is to say, it is a test of whether the relationships proposed in figure 1 hold over time. Note that the placement of Sweden in the European and Scandinavian context does not imply an external validity – a broader representativeness of the case – but rather it is necessary for understanding what Sweden is a case of. I elaborate on this below.

3.2 Sources of data

I utilize various databases that hold generalized accounts of relevant variables, including data from the World Bank on inflation and unemployment (2014); the Organisation for Economic Co-operation and Development (hereafter referred to as the OECD) on union density, coverage, and membership (2014); Golden and Wallerstein on union centralization (2009); Swank on government cohesion (2013); Statistics Sweden on wages and inflation (2015); and the European Commissions AMECO database on unemployment (2014). Several of these use the same sources of data, and thus aid in ensuring consistency between the data. The data is mainly used descriptively, to illustrate the situation of Sweden in the examined period and to verify empirical impacts.

The qualitative data used are Pontusson (1992), as well as Hibbs and Locking (1996), on types of labor movement; Swenson (1992) and Pontusson (2000) on wage-drift; Golden, Lange, and Wallerstein (2009), as well as Kitschelt (1999), on union density rates, union composition, and institutional organization; Golden, Wallerstein, and Lange (1999), as well as Edin and Topel (1997), on centralized bargaining; Wallerstein and Golden on institutional changes through the 1980s (2000); and Erixon on the Rehn-Meidner model (2008). Key insights about the 1990s crisis are derived from The Economics Commission (Ekonomikommissionen 1994, hereafter referred to as the commission).

Both quantitative and qualitative data are needed for an adequate examination of the Swedish case. If only within-case data was used, the broader context of corporatism would be lost, and the analysis would yield few implications apart from for Sweden in the 2000s. The application of the European and Scandinavian contexts aid in mitigating the problem of sample bias (Gerring 2007: 147) by viewing Sweden in relation to other countries. This triangulation is also necessary to understand what makes Sweden an archetype of a corporatist system as changes in government, labor, and economic performance would not be as apparent through viewing it in isolation.

The choice of period is based on the empirical content of the case, as the formation of the Swedish welfare-model occurred in the first decade after the second World War, and remained stable up to the second half of the 1970s. Though the main focus lies on the changes in the 1980s and the consequences for the 1990s, parts of the later 1970s are included to better contextualize these changes historically.

3.3 Analytical framework

From the literature review it is clear that the theoretical argument relies on an empirical basis, and it would be disadvantageous to try to separate them. The quantitative data aids in illustrating the empirical effects of the changes to the left-labor linkage, and the qualitative data explains what these changes entailed. Further, a path-dependent perspective is used to explain the causal relation between these, and also develop an explanation of how the institutional changes shaped economic outcomes.

Case selection and empirical approach

As established in section 3.1, it is the internal validity of Sweden as a case of a corporatist system that is of interest. For the analysis to hold value it is necessary that this validity be evaluated sequentially, as the suggested impact of the institutional linkage may not be present past the 1970s.

Bleaney (1996) highlights that both corporatism and centralization are concepts which cannot easily be quantified between countries. Because of this, adding cases to expand the sample to a multicase analysis would not increase the analytical outcome; placing Sweden in a larger context will sufficiently answer the research question. Yet, whilst the selection of the Swedish case is seemingly the theoretically and empirically correct choice, a broader and more generalizing study might find a more apt case of corporatism or its decline. However, in this time period no other capitalist democracy is more of a case of social democratic corporatism than Sweden, nor do comparable countries outperform it on the explanatory variables. I discuss this further in the two following chapters, and return to the question of validity in section 3.4.

3.3.1 Economic performance

As have already been established, economic performance is expected to vary only marginally between social democratic corporatist and market liberalist countries. In this sense there are no significant levels or clear cut-off points where one is better than the other, especially because the relationship may be a probabilistic one. It becomes a causal relationship only if the left-labor linkage can be established as a mechanism that affects performance.

It is important that this mechanism is at least shared between two points of analysis for internal validity to hold. Because of this it is necessary to choose a case in which a single country experienced a shift from a leftist government to a rightist one, or vice versa. Between the 1970s and 1990s several such cases exist, but as noted Sweden is an exemplary case of corporatism, and experienced changes to government cohesion, labor centralization, and performance.

The nature of corporatism is that it is advantageous for the actors involved, thus the expected enhanced performance must necessarily be visible for the theoretical assumptions to hold. To show this performance is examined through several variables, as discussed in section 2.2.2, and it illustrates the effects of changes to government and labor, as well as to the policy-strategies of either side of politics. I return to these empirical results in chapter 5.

3.3.2 Left-labor linkage

The close ties between the left and labor is an important explanatory factor, and from the literature review it seems both likely and plausible that the strength of this linkage allows the left to successfully grow the economy and maintain high employment without negatively affecting inflation. An identification and explanation of this mechanism must start with an examination of the welfare-model prior to its period of change.

One way to examine the empirical impact of this linkage is through wages, which are expected to follow prices. To the extent that assumptions about political influence over wage-setting hold, wage-policy is seemingly the area where the agreement between the left and labor occurs. This appears to be a result of the linkage, and a potential overlap between membership in a labor union and the left-wing party could be a prominent explanation of this. With close ties between them it would not be surprising that wage-policies can be agreed upon, and that wage-negotiations are easier for the left with an encompassing labor.

If the left manages to impose a moderate wage-policy which gains them the support of labor, they will have the political support needed to implement their preferred economic policies. This is, of course, with the proviso that this support is sufficiently large to win the election. Hence, a coherent left can create growth whilst controlling unemployment if their alliance with labor ensures stable conditions for the members of the labor unions. This is further discussed in the next chapter.

Constraints on policy-formation

As should be clear from the discussion and assessment in the theory-chapter, the margins which constrain policies are both subject to variations between countries and idiosyncrasies within countries. From the review of theoretical perspectives and literature there is an indication that the assumption of distinctive policies is at least partially verified (Garrett 1998: 121-124). Schmidt finds support for the plausibility of this argument and further suggests that the inability of capitalist democracies[1] to control both inflation and unemployment whilst growing the economy "[...] indicate the limits of corporatist political control of a capitalist economy" (1982b: 255-256).

This shows an empirical constraint where parties are limited in what can be achieved by economic policies, as keeping a stable labor force whilst growing the economy and trying to balance unemployment against inflation implies careful use of economic policies. This reiterates the argument that political impact on performance may well be marginal, and potentially unnoticeable during economic crises. Furthermore, the effect of political influence may not be clear in the short-term.

3.3.3 Methodological Approach

To analyse the implications of the changes to Sweden, I place it in a nested analysis, described by Lieberman as the following: "It combines the statistical analysis of a large sample of cases with the in-depth investigation of one or more of the cases contained within the large sample" (2005: 435-436). The application will become apparent in the following chapters, as I move from Sweden as a prominent case of corporatism in a European context to placing it in the smaller sample of comparable cases in Scandinavia. Whether the Scandinavian countries are comparable is discussed in section 6.3.2.

The aim is, following Lieberman's terminology, to build a model of corporatism in Sweden and analyse its development between three distinct periods: The 1980s and the decades prior and subsequent to it. Note that this is an analysis of causally-linked factors which are assumed to be important for the outcome. The analytical focus lies on changes in the explanatory variables and their relation, not on numerical variance in the outcome. Following Ragin's (2004: 126) approach for case-oriented research, I have clarified conceptual and empirical scope, identified causal conditions of a positive case, and placed it in a theoretical perspective. From this it is clear that causal-links, and the convergence or divergence between them, must be identified and examined in order for

[1] Using 21 cases between 1974-1978 (Schmidt 1982b: 242).

Sweden to be placed in a meaningful theoretical and empirically broader context.

Establishing significance qualitatively As will be examined in the analysis, the relative significance of the effect changes and shocks have on the Swedish system cannot be established conclusively. This is inherent to qualitative methods, as there is no definitive way of determining whether the analysis is robust because other paths or mechanisms leading to the outcome may be revealed through later analysis or by alternative methods (Lieberman 2005: 436, 438 fn. 6).

Because of this, the impact of these changes and shocks should rather be evaluated in terms of robustness of findings and whether the explanation is plausible in light of previous research. The analysis assesses the proposed effects derived from theoretical expectations, empirically and methodologically, and the implications are evaluated in light of the literature reviewed in the theory-chapter.

Path-dependence and institutional change

The examination of the development of the linkage and the variables over time requires consideration of a causal connection between them. That is to say, the analytical framework for exploring institutional change over this period of time depends upon strict causal-links between changes and outcomes. I have hinted that movement towards market liberalism, whilst not inevitable, is hard to oppose given an increasing degree of economic integration in the world. A by-product of globalization, it implies a type of convergence towards common policy-goals and policy-solutions to economic and financial issues. That is, convergence between countries, not necessarily between political parties.

I take the view that this development can be evaluated as path-dependent, a process which is self-reinforcing. Path-dependence is defined as the following: A "dynamic process involving positive feedback, which generate multiple possible outcomes depending on the particular sequence in which events unfold" (Arthur 1994; David 2001, as referenced in Pierson 2004: 20-21). In Arthur's terms this means that the ultimate consequences of a change are not foreseeable, the change would be hard to reverse, it could lead to larger consequences, and finally that the end outcome would not necessarily be intentional or optimal (Pierson 2004: 18).

The value of this approach is that it allows for analysis of causal relationships. The effects of the changes in the 1980s are, as discussed in further chapters, not necessarily connected, and an analytic perspective on the developments is a better answer to the research question than a descriptive one.

Determinism Systemic changes can be viewed as critical junctures, from which there are limited paths forwards. This makes certain outcomes inevitable, in the sense that divergence from the path created by these critical junctures is unlikely. In the long-term, developments along one path will preclude movement towards alternative paths. Hence there is a potential deterministic character to the historical development of Sweden. Ascertaining whether the junctures are causally linked or arbitrarily concurrent is then important, as the theory does not predicate a certain sequence of events. Further discussion focuses on the shifting nature of economic development, and junctures are subsumed into the terminology of systemic changes.

The analysis will treat economic shocks explicitly to identify and establish these links as separate from systemic changes, which entails placing changing political choices and constraints in sequence, where static mechanisms can be differentiated from self-reinforcing ones. The difference between the two are the following: A static mechanism can be generalized to any model, as it is the unchanged path through which an outcome occurs. A self-reinforcing mechanism, however, is inherently dynamic and changing, and specifically it is a path which over time makes the shift towards other paths more difficult. Thus the sequence of events from changes in the 1980s to the consequences for the 1990s may by its very nature be deterministic and path-dependent, because it reinforced this path whilst eliminating divergence from it in the short- to medium-term. This is developed further in the analysis.

3.4 Validity

It should be stated that the chosen method is not the only way of conducting a study of corporatism. In addition to the approach by Garrett et al, discussed in section 2.2, it would also be conceivable to study several cases to establish whether these mechanisms hold for a larger group of countries. Using two similar cases with variance in the outcome would establish the external validity of the proposed relationship, and using two different cases could potentially disconfirm or highlight domain restrictions for the internal validity.

Two similar cases would imply an analysis of mainly social democratic corporatist regimes, as was the focal point of Garrett et al, whilst using two dissimilar cases would extend the argument to expose what mechanisms yield a similar outcome in market liberalist regimes. However, analysing a single case at distinct or at disjunct periods allows focus on variation in the independent variables rather than in the dependent, illustrated by changes in the outcome. As my focus is explicitly on the interplay between the left and labor – and the historical development of this – the study of a single, prominent case of a corporatist regime over time is more apt.

Further, previous research has already established that partisan differences can yield marginally different economic outcomes, and explaining the mechanisms of this is a more worthwhile exercise for contributing to the academic debate than reiterating this result.

The causal perspective

It should also be noted that the path-dependent perspective is inherently idiosyncratic: A similar or comparable development of a corporatist system may not have occurred, and especially the causal-relation of changes to outcomes may be unique to Sweden in this time period. The proposed answer to the question which this thesis asks may then not hold relevance for other cases. However, several of the highlighted developments were not unique to Sweden, and point to the need for a re-examination of corporatism more broadly. This might aid in disconfirming whether these changes are indeed particular to Sweden, or if a broader decline in corporatism on the same basis can be observed. This thesis is, however, mainly concerned with the case of Sweden.

The linkage and its impact on performance can also be confounded by technological change, societal idiosyncrasies, ideological impacts, or other factors which affect government cohesion or labor strength. However, following the research design developed by Garrett et al over the years (1985; 1987; 1989; 1991; 1998) it should be possible to control for these confounders sufficiently enough to evaluate mainly the mechanisms, using empirical data to test their effects.

Evaluating the welfare-model In the next chapter I perform a descriptive case-study of Sweden in the 1980s, with a focus on how the system of centralized bargaining changed. This empirical examination will identify the relationship between the left and labor more clearly, as well as establish why Sweden is an archetype of a corporatist system.

As the institutional linkage between the left and labor may only be revealed empirically it must be established before the impact on performance is examined. A qualitative evaluation of Sweden as a case of corporatism is thus necessary, and I follow this with an identification of whether the institutional linkage is mechanistically related to enhanced economic performance. The purpose is ultimately to explain the Swedish system, and to develop this narrative beyond the 1980s.

4 Changes in labor

In this chapter I examine what changed in regards to the encompassing labor variable, and discuss the development of the centralized bargaining mechanism. Though the analysis is limited to the 1980s and the early 1990s it depends on a contextual understanding of the development of social democratic corporatism (SDC) over a longer period of time. For this reason I reference earlier developments and include data that cover the period prior and subsequent to the 1980s to more clearly illustrate changes that occurred within this decade, and to contextualize the empirical material.

I begin with a brief examination of the empirical basis of the encompassing labor variable. This is followed by an account of how wage-bargaining is organized, and how this changed in the 1980s. I end by considering corporatism, outlining the importance of government cohesion for centralized bargaining, and illustrating the updated view of the explanatory model.

Unions and institutions Throughout this chapter I refer to the various unions and institutions by the acronym or shorthand for their original name. For the sake of clarity the following list summarises the aforementioned and gives a short description of their classification. See section 4.2 for an explanation of the different types of unions.

Glossary

LO Landsorganisasjonen: Unitary, peak-level blue-collar union.

Metall Svenska Metallindustriarbetarförbundet: Craft-fragmented, regional industry-worker union.

SACO Sveriges Akademikers Centralorganisation: Unitary, peak-level academics union.

SAF Svenska Arbetsgivareföreningen: Peak-level employers-union.

TCO Tjänstemännens Centralorganisation: Unitary, peak-level white-collar union.

VF Verkstadsförening: Craft-fragmented, regional industry-employer union.

4.1 Encompassing labor

Sweden has one of the highest union density and coverage rates in the OECD. Density is defined as the "ratio between actual membership and potential union membership" (D'Agostino 1992: 17), and in Sweden it ranged from 66 to 84 percent in the examined period, compared to 32 to 49 percent in the OECD[1]. Coverage is defined as "the proportion of employees who are covered by collectively bargained contracts" (Golden et al. 1999: 202) and here expressed as the amount of union members. In Sweden it ranged from 1.9 million to 3.3 million compared to an average of 2.1 million to 3.6 million in the OECD[2], also during this period. This is illustrated in figure 2.

An explanation of this level of density and coverage begins with the voters captured by the left. Kitschelt highlight three dilemmas of explaining political parties choice, limitations, and programmatic variance, of which his organizational dilemma is:

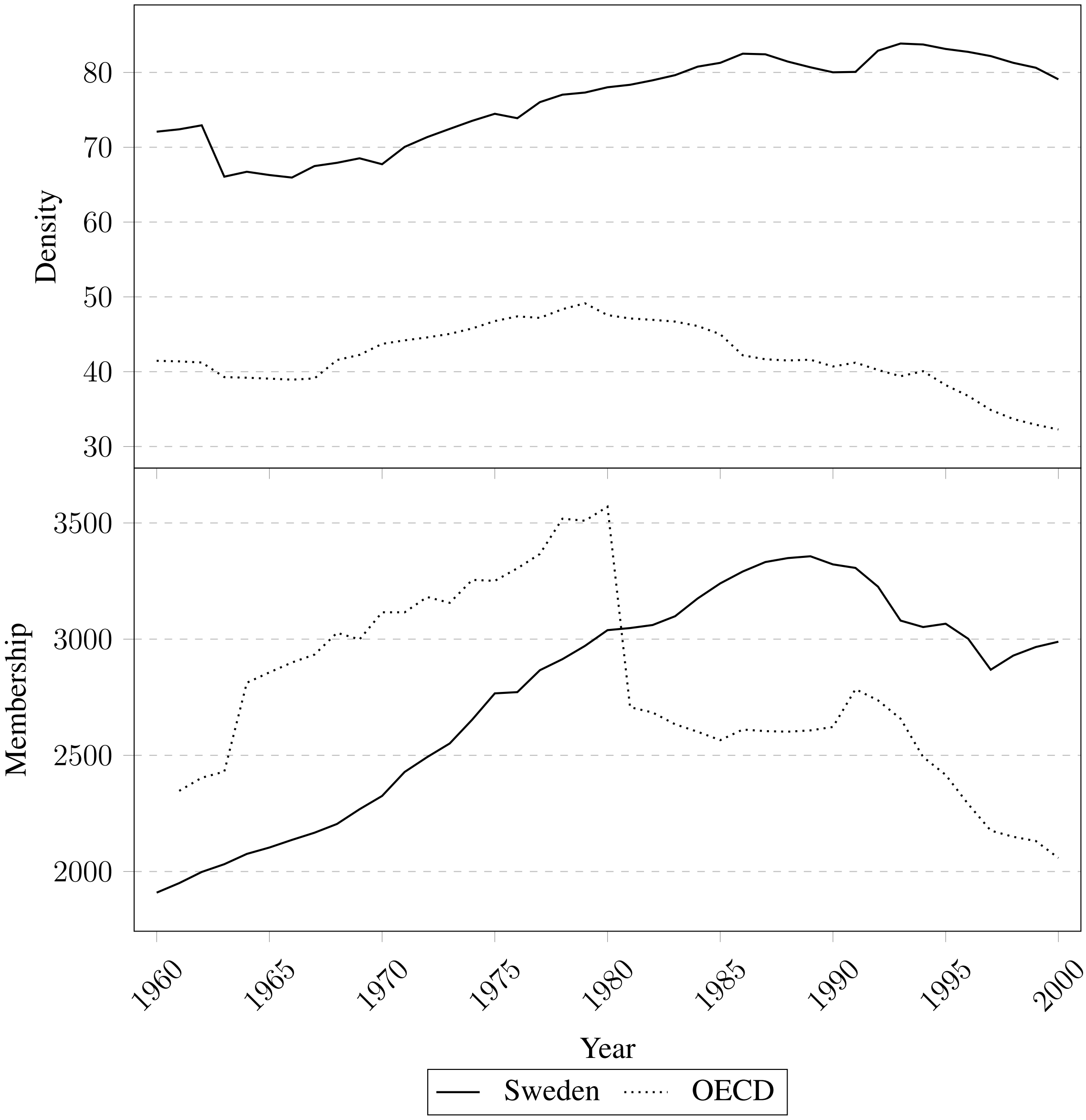
> *[B]etween a party's commitment to an internal organization that facilitates strategic flexibility and responsiveness to changing "tastes" in the electorate and an organization that captures a loyal "core electorate"* (1999: 321).

This "core electorate" is the working class in Sweden, whose "tastes" are represented by the various unions. As discussed in the theory-chapter, the size of these unions must in aggregate be sufficient to cover a majority of the voters for them to show wage-restraint. As shown in the top plot of figure 2 it was clearly the case that the unions covered a large part of the labor force, also in comparison to the OECD. Whilst the membership rate of the OECD was higher but declining at the start of the 1980s, the growth since the

[1] The lowest average density for a country within the OECD was Korea with 14 percent, and the highest Iceland with 83 percent on average.

[2] The lowest average coverage for a country within the OECD was Luxembourg with 74 thousand members, and the highest the United States with 19 million members on average.

Figure 2: Union Density and Coverage



Density is measured in percentage, members in thousands. Data source: Organisation of Economic Co-operation and Development 2014.

1960s was sustained in Sweden – as seen in the bottom plot of figure 2. This indicates that coverage, rather than membership, may be a better explanation of the effect of large unions. This and the assumption of a tight-knit and overlapping relationship between a large union and a leftist government must be examined empirically, and I do so in section 6.1 of the analysis.

4.2 Centralized bargaining

Golden and Pontusson (1992: 14) highlight three types of labor movements: Craft-fragmented, politically-fragmented, and unitary. The first is organized on the basis of the profession, rather than the employer. The second on the basis of ideological appeal and political affiliation. The third cuts across craft and political divisions, thus encompassing them both. This typology is tied in with the organization of wage bargaining, which can be located at three distinct levels: Plant, industry, and peak. This hierarchy of wage formation is described by Hibbs and Locking as such:

> *[A] central framework agreement negotiated by the peak union and employer associations (LO and SAF), followed by industry bargaining, and then plant level negotiations to implement arrangements contracted above* (1996: 112).

Thus, LO is a unitary, peak-level organization, whose size and level of bargaining makes it necessary to cooperate with the government on wage-policies. Note that this top-down system of bargaining is exactly what is meant by a centralized system: The benefits negotiated by the peak-level union are shared with unions on the lower level, and their organizational structure will, given an adequate size, be beneficial rather than detrimental to changes in wages. As explained in section 2.1.3, large union membership coupled together with a high degree of union density implies wage-restraint by the unions.

4.2.1 Rehn-Meidner model of wage-bargaining

To explain the basis of centralized bargaining in Sweden, the work of two trade-union economists at LO should be pointed out: Rudolf Meidner and Gösta Rehn, whom the

Rehn-Meidner model is named after. The model aims at "combining full employment and fair wages with low inflation and high economic growth" (Erixon 2008: 367). These goals clearly are desirable, but it is the models focus on wage-policy solidarity and the implications of this that is of greater interest.

Erixon suggest that labor market policies emphasized mobility rather than job-creation, thus fostering employment through a renewal of the workforce (2008: 369) rather than the Schumpeterian creative destruction of business (see Cox and Alm 2008). This runs contrary to the vertical Phillips curve and its natural rate of unemployment, in that reducing unemployment beyond this level implies a rise in inflation. The Phillips-curve must be located historically for its impact to be understood: Whilst this trade-off was well understood even before the 1980s, academic dissent on the policy-implications of it arose during the 1980s (Gordon 2009). Regardless, the trade-off is an important component of the Swedish case in the context of the 1980s and the decade prior and subsequent to it, as it gives an indication to what explains the low unemployment.

Furthermore, and as previously discussed, the centralized bargaining between large unions will ensure wage-restraint that contains inflation through wage solidarity. In essence, it advocates that wage-compression – raising the floor and lowering the roof of wages, thus reducing the distance between top- and bottom-earners – will be as conducive to growth as a free market model (Erixon 2008: 369-370). The Rehn-Meidner model can be summarized as the following: Its strategy "imposes lower costs in terms of inequality and inflation in comparison with a 'free' market strategy", and it is unique in its combination of "full employment and equity with price stability and economic growth" (Erixon 2008: 379, 385).

4.2.2 Effects of centralized bargaining

The occurrence of central bargaining is in large part because of union membership and composition (Edin and Topel 1997: 158), and as already specified, in Sweden the union density rate was high during the 1980s (Golden and Wallerstein 2009). With this coverage, and a limited number of coordinated unions – LO, TCO, and SACO (Wallerstein and Golden 2000, Golden and Wallerstein 2009) – Sweden certainly was an instance of a country with an encompassing labor movement.

The peak-level coordination followed from LO's pivot towards more wage-policy solidarity, with the intention of reducing differences in wages between union members (Edin and Topel 1997: 158). Thus, in addition to being a stabilizer of wages through wage-restraint, unions can also lead to wage-compression between industries – as was the case in Sweden (Edin and Topel 1997: 160). This wage-compression ensured that union members wages followed a similar trajectory relative to changes in the cost of living. The trajectory held from the early 1960s up until the mid 1970s, at which point a divergence between real wages and real wage cost occurred. This divergence widened significantly at the beginning of and was sustained throughout the 1980s (Edin and Topel 1997: 163).

Wage-drift Another facet of this wage-compression is wage-drift, that is, plant-level agreements on wages "usually exceeded contractual provisions" (Swenson and Pontusson 2000: 81). A development of the model in the 1960s was that peak-level agreements would include the expected cost of wage-drift up until the next agreement, and this led to further wage-increases as lower level unions expected to be able to regionally and locally negotiate margins on top of the central agreement (Swenson and Pontusson 2000: 86). These margins was a cause of inflation, a point which is further discussed in section 6.3.1 of the analysis.

4.2.3 Towards decentralization

The implication is that the Swedish model of centralized bargaining for a long time ensured both stability in wage-setting and that wages tracked economic growth relatively closely, essentially rendering it a success up until the 1980s (Pontusson and Swenson 1996: 226-227). In the 1980s, however, the picture is more complex, and I will discuss a handful of notable institutional changes that occurred.

1983: Initial break

In 1983, as a response to SAF being unwilling to cooperate on the peak-level with LO (Wallerstein and Golden 2000: 117), VF, the employer association for engineers, enticed their industry-union, Metall, away from peak-level bargaining with the offer of higher wages (Swenson 1992: 52; Pontusson and Swenson 1996: 228). This was the first major break in centralized bargaining, and VF had argued that peak-level "agreements hindered recruiting by underpaying skilled workers" (Edin and Topel 1997: 160). The argument was essentially that peak-level agreements were not as effective in delivering wage-outcomes as earlier, demonstrated by VF offering higher wages than LO did.

Hibbs and Locking identify several prominent effects of this breakdown: Wage-compression disappeared, the unemployment rate started increasing, and expansionary policy took place in the form of currency devaluation (1996: 133-137). Though closely related to inflation, currency devaluation is not covered here[3]. Without centralized bargaining, wage-compression is inherently improbable, as every union thus reverts to the logic of not being adequately large to have an incentive to show wage-restraint. It then follows that the system itself moves further away from the ideal of SDC, because unions operate in what more closely resembles a market-system.

Empirically it is clear that centralized bargaining had brought forth a great wage-compression between 1965 and 1983, but after decentralization had taken root by the mid 1980s this was moving towards a reversal, though the wage-differentiation after 1983 was not as prominent as the compression that had taken place before this (Edin and Topel 1997: 159-160; Hibbs and Locking 1996: 111-112).

1985-1986: Migration from the model

Peak-level agreements had not altogether stopped after 1983, and in further wage-negotiations between LO and SAF in 1985-1986 they occurred again (Wallerstein and Golden 2000: 117). This time the negotiations focused much more on increases in, rather than the distribution of, wages (Pontusson and Swenson 1996: 230). When unions no longer gain expected outcomes from being part of a larger coalition of unions, then the rationality of large unions quickly breaks down. It is expected behavior by smaller unions competing for utility-gains for their own members to then leave the coalition. However, union size – both in absolute and relative numbers – continued to increase throughout the 1980s. Hence there is an indication that it is not the size, but composition and focus, of unions

[3]The analysis discusses these devaluations in detail.

that matter for explaining the efficacy of corporatism.

This has implications for further analysis. First, a change in this mechanism can occur without a devolution of the unions. Relative to the OECD, Sweden maintained most of its union density and coverage to the end of the 1990s. If, however, the composition – that is, the operational capacity – of unions matter more for the sustenance of SDC, Sweden is an example of how large unions can contain wage-differentiation despite loosing bargaining power. There is then an indication that, despite a breakdown in centralized bargaining, Sweden was able to maintain a high level of union power, but converged towards the economic performance of Europe and the OECD[4].

Second, the focus of the unions is clearly an explanation of this. The alliance between VF and Metall made the position LO had previously held unsustainable, because it relied on the support of other unions to maintain centralized bargaining. What this implies for Sweden as a case of a SDC is expanded upon in section 4.3 below.

Past 1986

In an effort to contain inflation and wage-militancy, Finance Minister Feldt of the Palme Cabinet worked towards increased wage-differentiation between the public and private sector, and after 1987 the automatic wage-drift had ended (Swenson 1992: 58) and did not occur in the 1988 bargaining round (Wallerstein and Golden 2000: 117). This was an important change because it moved Sweden further towards market liberalism (ML), where wages in the public sector are not expected to keep up with wages in the private sector. This change can be illustrated by Feldt's comments on the OECD:

> *The conditions of the OECD changes [...] The economic policies shatter. [...] The old models no longer work and the international cooperation will in the 1990s be of more importance than in the past* (quoted in Ståhlberg 1986, my translation).

A common line of thought among scholars have been that centralized bargaining "has become less efficient or less feasible over time" (Wallerstein and Golden 2000: 108). I would argue that in the case of Sweden it has become less feasible, and though previously

[4]See chapter 5 for results and trends in economic performance.

highly centralized it has become *more* economically efficient in a classical economic sense, but centralized bargaining less so because of this. In 1990 SAF decommissioned their bargaining department, and after the resignation of the Social Democratic government in 1992 over failed measures to contain union militancy, their successors were not interested in maintaining the system of centralized bargaining (Wallerstein and Golden 2000: 118). Thus, by the early 1990s the centralization of wage-bargaining had ended, and unlike other Nordic countries it did not resurface in the examined period (Wallerstein and Golden 2000: 132).

4.2.4 The effect of a decline in corporatism

Though the development of the Swedish case is not indicative of an international development, it exemplifies what a decline in corporatism entails. The breakdown in centralized bargaining had the effect of marginally limiting the political capacity available for securing high employment and containing inflation. The operative word in the previous sentence is *marginally*, as this effect should not be overstated. The welfare state and relation between unions and the government in Sweden did not completely dissolve, and it remains one of the clearest examples of SDC.

However, the changes of the 1980s and early 1990s do show that Sweden was not actually as much of an outlier or exemplary case as first assumed. The breakdown of centralized bargaining brought it closer to the European and OECD average in terms of economic performance, as seen in the next chapter, but it still maintained an encompassing labor. Hence, Sweden remains a case of one of the most corporatist countries in Europe and the OECD, but the developments of the 1980s brought it closer to a ML system, and the implications of this are discussed in the analysis.

4.3 Viability of the argument

The case-study shows how the breakdown of centralized bargaining took place, and it is more broadly an indication of a decline in corporatism. This can be summarized as the following: The dissolvement of centralized bargaining has diminished wage-restraint, and thus weakened union power in the labor market. This was a structural change indicating movement towards market liberalism, and a decline in corporatism.

Confirming or disconfirming this will answer whether changes in the organization of labor did in fact affect economic performance, and it will also have implications for whether Sweden at the end of the 1990s should still be regarded as the clearest example of SDC in Europe or if it then had moved closer to ML.

Government Cohesion

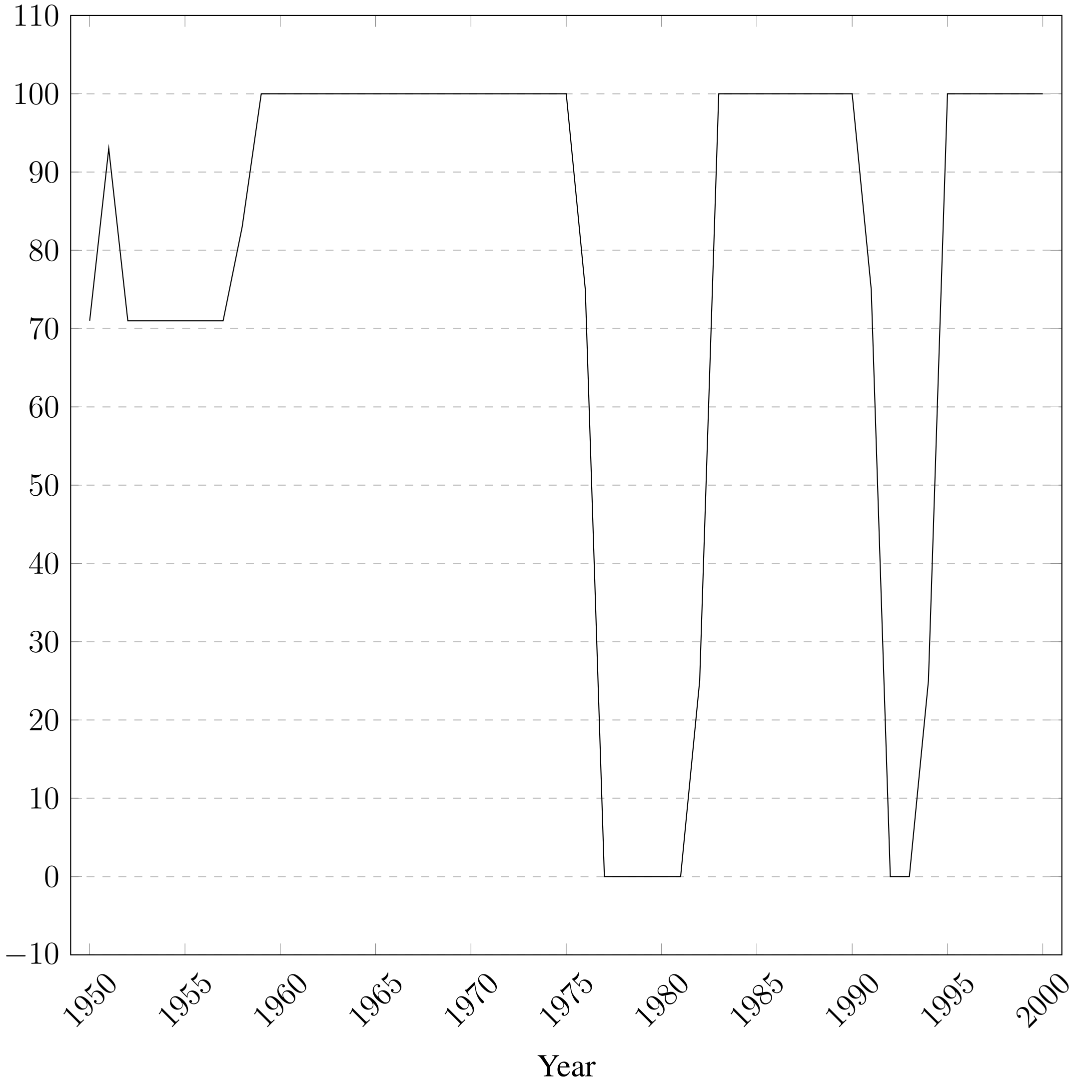
Though not explicitly a part of the centralized bargaining mechanism, government cohesion should be addressed as it is an operational part of the explanatory model. As will be made clear below, the institutional overlap between the government and the largest labor union in Sweden ensured that the governments of the examined period were cohesive. As previously discussed and as specified by Garrett et al (1991) this conditional impact of a leftist government paired with an encompassing labor is present in Sweden for most of its post-war history. There were, however, some exceptions to this. Between 1976 and 1982, and again between 1991 and 1994, Sweden was governed by parties of the right. In the former period this was the cabinet of Thorbjörn Fälldin, then Ola Ullsten, followed by Fälldin again. In the latter it was the cabinet of Carl Bildt (Swedish Government Offices 2015). This development is illustrated in figure 3.

Importantly, the shifts in government power explains some of the changes in centralized bargaining. This mechanism relied on cooperation between the government and labor, but the right had less of an interest in maintaining it. Of course, the system itself was a cause of inflation – a point I return to in the analysis – but without the continued regime of the left it was much harder for labor to remain encompassing and for wage-restraint to continue.

4.3.1 An updated view of the explanatory model

Figure 4 illustrates the causal mechanism – centralized bargaining (M) – between the institutional linkage (C) and economic performance (Y). The dissolvement of the strength of this mechanism is centered around 1985-1986, but stretches from 1982 into the early

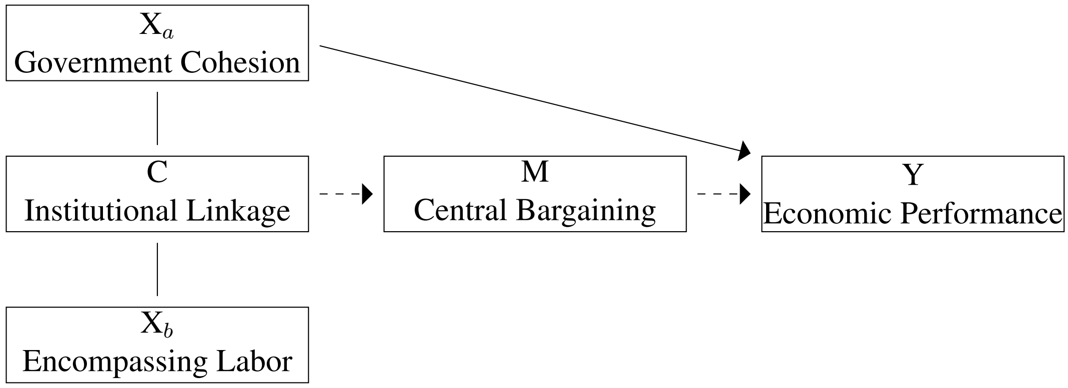
Figure 3: Government Cohesion in Sweden



Cohesion measured by "Left party cabinet portfolios as a percent of all cabinet portfolios" (Swank 2014: 2). Data source: Swank 2013.

1990s. Hence, the mechanism that historically has ensured stable growth along with low unemployment in Sweden broke down.

Figure 4: An updated relationship between government cohesion, encompassing labor, and economic performance.



Lines indicate relationships, dashed lines weakened relationships, and arrows causal-links and their direction. Explanatory variables are noted as X, mechanisms as M, confounders as C, and outcomes as Y.

As highlighted in section 2.2.2, corporatism – in the case of Sweden and more generally – should be viewed as a dimension with SDC and ML on either end of a continuum. This is because the former is implicitly a system where corporatism plays a larger part in the organization of society, whilst in the latter it does not. The empirical implications of this are examined in the next chapter.

5 Economic performance

Whether corporatism declined must be examined further, as it is a necessary component of the answer to the research question. To do this I examine the development of performance, and particularly its changes towards and into the 1990s. This chapter presents empirical data and analysis of this, with the purpose of more clearly evaluating Sweden as a corporatist system and to ascertain how corporatism affected performance in empirical terms.

I begin with a discussion on theoretical expectations, and their relevance for the potential decline in corporatism. This is followed by the presentation of empirical results relevant to the explanatory model, especially in regards to performance. I end with a summary and the implications these results have for the analysis.

5.1 Expectations

The outlined theoretical expectations below are a continuation of the previous narrative of the 1980s, and describe how the examination of performance will be conducted. It includes four empirical levels: The European Union (EU), the OECD, Scandinavia, and Sweden. The broader contexts, Sweden in the EU and as a part of the OECD, illustrate why Sweden is a prominent case of corporatism, and how its performance compares to a much larger sample of countries. The Scandinavian context is employed to show how performance compares between similar countries, and how it is impacted by changes and economic shocks. Scandinavia normally comprises Norway, Sweden, and Denmark, but for a more comprehensive comparison I follow Jonung's (2008) use of the term which includes Finland, because it also experienced several of the changes and shocks along with its neighbouring countries[1] (Glyn 2006: 69). See section 6.3.2 for a discussion on the comparability of these countries.

5.1.1 Decline in corporatism

One expectation is that the breakdown in labor unity should yield relatively poorer performance in the medium- to long-term. It should be clear from the case-study that the relative dissolvement of centralized bargaining is an indication of a decline in corporatism, but this must be substantiated empirically. Note that any impact on performance must be weighed against the shocks that occurred, which I do in the analysis.

The conditionality-argument

I have already clarified why economic performance will not necessarily depend upon the presence of an encompassing labor whilst the left is in power, nor the absence of it whilst the right is. However, it remains the case that an alliance of the former or the occurrence of the latter should yield higher and more stable performance over time.

This is certainly shown in the Swedish case, where both stable growth and a continued regime of leftist governments are explained by the sustained labor-left alliance between 1950 and 1975. As previously noted, Lange and Garrett suggest that a linear relationship between growth and labor should not be expected (1985: 801), and correlating growth with labor would not adequately account for exogenous factors such as the early 1990s crisis nor control for statistical confounders such as union size without union centralization. Further, such a correlate would not establish this linkage in the period prior to the 1980s, as it lacks instances of rightist control of government or weak labor power. Nor would it in the 1980s, because of the previously specified breakdown in left power and labor organization.

Clearly, the 1980s is distinct from the prior and subsequent period. Hence, a continued relevance of the left and labor as explanatory factors needs to be established beyond their relation prior to the 1980s. How this is done is considered in section 6.1. For now,

[1] The term "Nordic countries" is often applied to this group, but also includes Iceland. "Scandinavia" is preferred because of the inclusion of a relevant case, rather than the exclusion of an irrelevant one.

it should be noted that the continued performance of Sweden up to the early 1980s is explained by a stable left-labor alliance, and that this picture changes from the mid 1980s to the mid 1990s. I continue with a revisit of Garrett's analysis of counterfactuals.

Predictions and results of counterfactual analysis

Garrett's (1998) analysis of partisan differences in economic performance is much in keeping with previously specified political goals and constraints, namely: Parties must necessarily win elections to implement policies, there is a trade-off between inflation and unemployment, and there are partisan differences in preferences for this trade-off (Garrett 1998: 29). This trade-off, and the preference of parties for relieving either inflation or unemployment, is still important. It explains, first of all, the move towards deregulation and price-stability by the governments of the right. More importantly, and as highlighted in section 6.3.2, unemployment became a bigger problem than inflation in the late 1980s and during the 1990s crisis. The direction of influence between Swedens political parties and the world market on inflation is uncertain, as deregulation in itself created a less restricted market, but it can be assumed that the lack of solutions to the rising unemployment problem was something that should have been prioritized – which the left is more prone to do.

In the case of Sweden, whose government was controlled by parties of the right in the first half of the 1980s and the early 1990s[2], it would be expected that combined with a strong – if less centralized – labor this would yield more market-oriented economic policies, and poorer macroeconomic performance relative to a more cohesive regime (Garrett 1998: 47-49). Garrett finds that "Left power was associated with stronger economic growth. Inflation was higher where labor market institutions were more encompassing" (1998: 122)[3], and both the effect of the left and the right in government will be shown by the results below and further discussed in the analysis. I now turn to examining these findings using empirical data from the 1960s onwards.

[2]See figure 3 on page 44.

[3]Based on Garrett's determinants of growth, unemployment, and inflation – tables 5.2-5.4 (1998: 115-119).

5.2 Results

In what follows I examine how performance developed, by evaluating growth, unemployment, and inflation. Note that the consequences of these results are mainly discussed in the next chapter, whereas this presents them along with implications for the upcoming analysis.

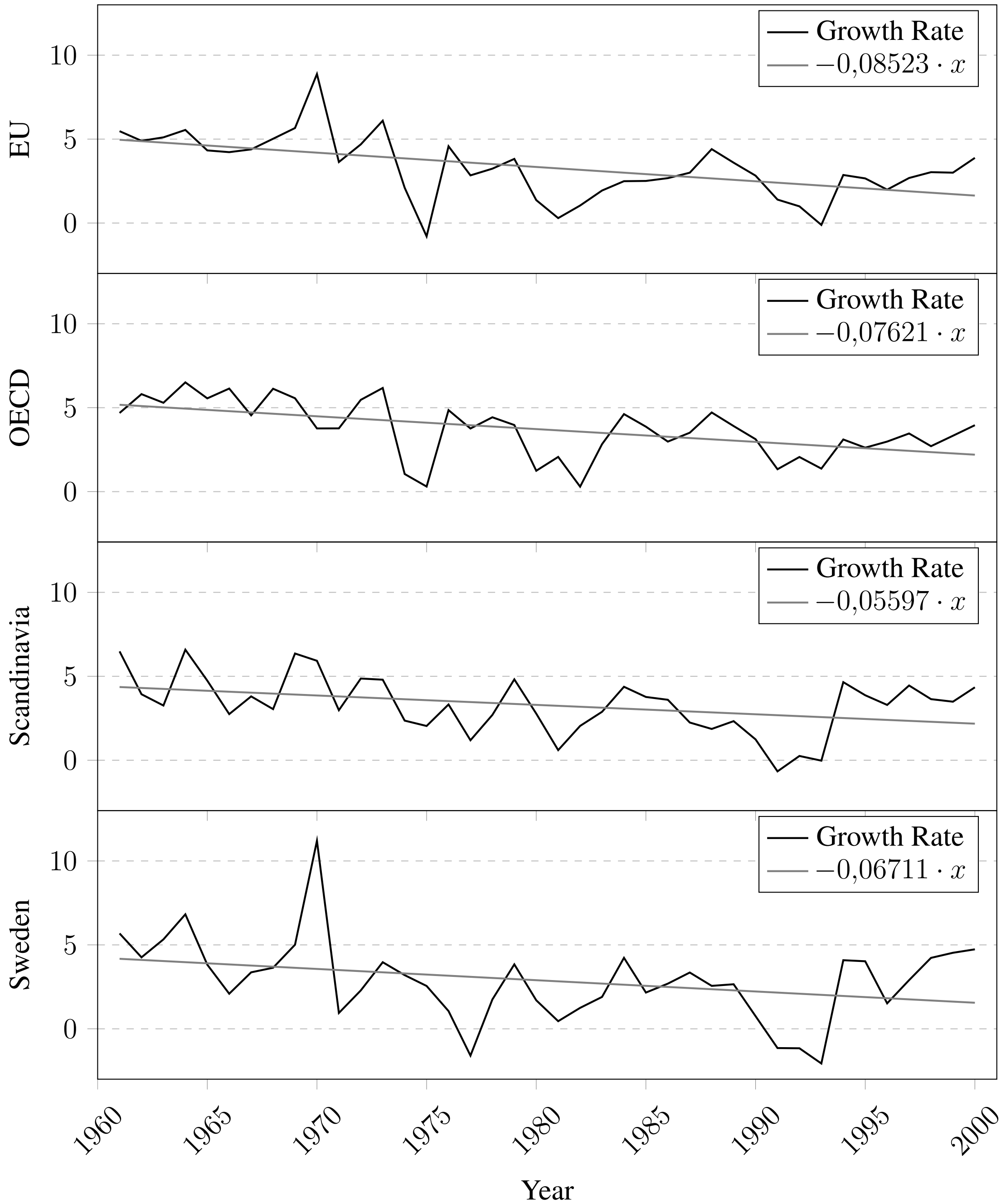
5.2.1 Growth

Prima facie, Garrett's finding appears to be correct: The trend line for Sweden, in the bottom plot of figure 5 indicate that growth was higher in the 1960s and declining towards the 1990s. The picture is more nuanced than this and probably significantly affected by economic shocks of the latter half of the period, but growth in Sweden remained above two percent until the early 1970s, and dropped into the negative in the early 1990s.

This illustrates that the expected outcome is confirmed for the earlier period, but not from the 1980s and onwards as neither left power nor encompassing labor are expected to hold. However, as shown in the three upper plots of figure 5, the trend in growth is not unique to Sweden. The EU, the OECD, and Scandinavia all experienced a decline in growth, as shown by the slopes in the legend of figure 5. Though the shift for the left and labor appears to have affected performance, the effect may be too marginal to measure. In the analysis this development is discussed in light of the crisis of the early 1990s.

Cohesion and temporality As suggested by Garrett et al, economic performance should be better in countries with more cohesive regimes (1991: 551). Implicitly this means that such comparative performance occurs between-country, but there is an underlying question to whether this also applies within-country in distinct periods. Performance in Sweden prior to 1975 should be better than between 1975 and 1995 – the latter period being one in which the government changed control several times. As discussed throughout this chapter, there are economic shocks which could distort this picture, but the assumption may still hold. The picture of the development of performance is highly sensitive to the timing of the impact of the aforementioned shocks, and because of this the empirical data should be viewed as indicators of an impact of the changes and results

Figure 5: Growth rate in the EU, the OECD, Scandinavia, and Sweden



Measured in percentages, yearly intervals. Trend lines are linear regressions. Data sources: AMECO 2014, The World Bank 2014.

of the shocks. This distinction is important, as changes in the government cohesion and encompassing labor variables do not necessarily predict changes in performance that can be measured in isolation from the impact of confounding variables, such as an economic crisis.

5.2.2 Unemployment

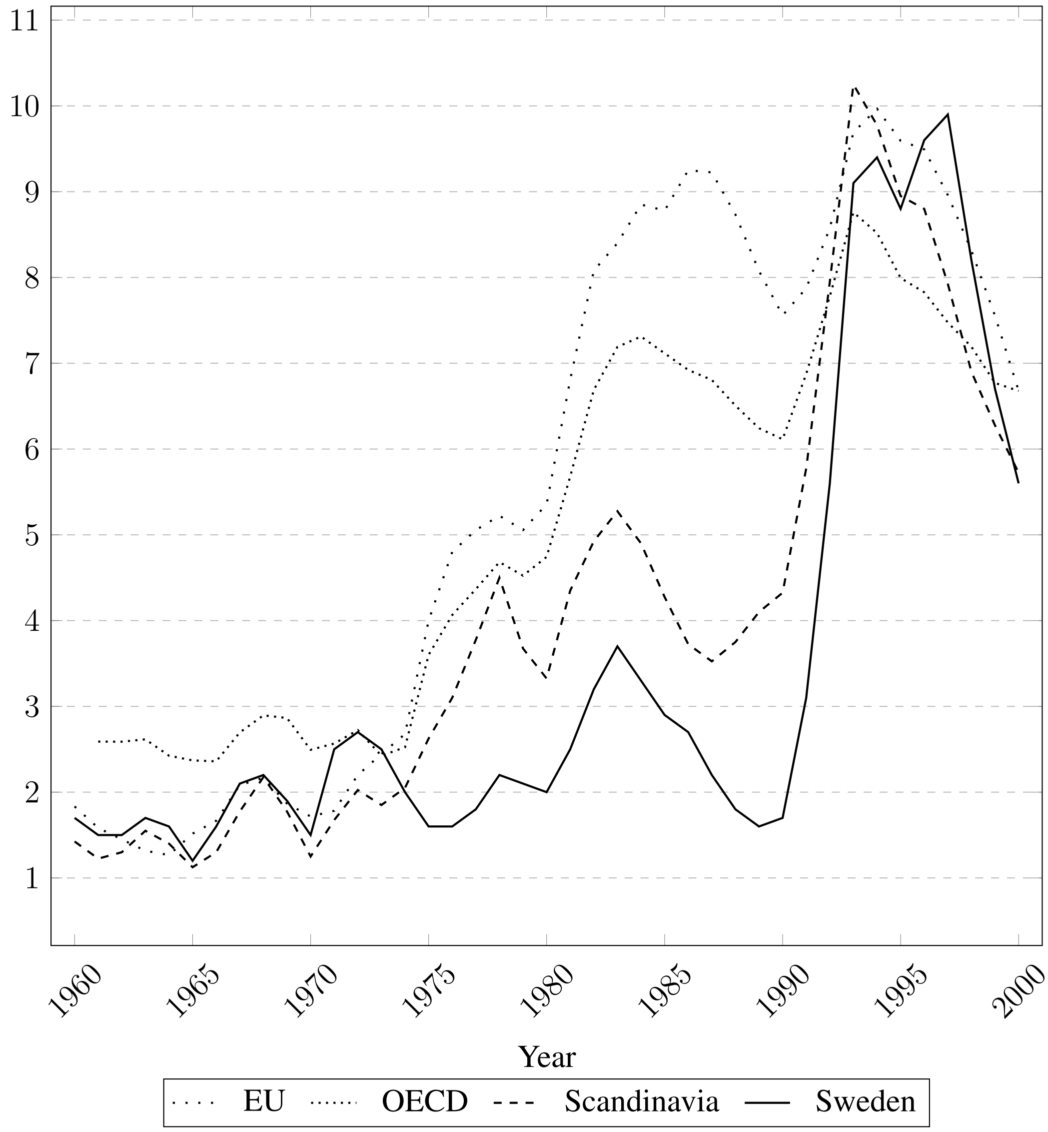
It is clear that unemployment was significantly lower in Sweden than in the EU and the OECD, and only at the shift between the 1980s and the 1990s did it converge towards their rates. It is also apparent that whilst the rate was generally lower at several points in time it spiked along with spikes in unemployment in the EU, the OECD, and Scandinavia. This is shown in figure 6.

The expectation that shocks to unemployment should dissipate faster "[...] in countries with more encompassing labor organizations, irrespective of who governs" (Alvarez et al. 1991: 552) is tested by comparing the rate of change in the Scandinavian countries. As noted, these countries experienced the crisis of the early 1990s on similar terms, but the unemployment rate or the rate of change did not perform markedly better in Sweden. As shown in the top plot of figure 7, Sweden deviates from both the Scandinavian norm and its Scandinavian neighbours seen together when considering unemployment. This might indicate that the remainder of Scandinavia is less comparable than assumed, that the shocks had different impacts on these countries, or that Sweden is an outlier in terms of this impact.

From the mid to the end of the 1990s Sweden had both a higher rate of unemployment than its neighbours, and a slower dissipation of this rate than the Scandinavian average and the Norway, Finland, and Denmark average, shown in the bottom plot of figure 7. The rate of change in unemployment is more volatile in Sweden at the time of the OPEC-crisis and the early 1990s crisis. Though such spikes are expected, the theoretical expectation that these shocks should dissipate faster does not appear to hold. After the first spike the rate does show less volatility than the Scandinavian countries as a whole, or Norway, Finland, and Denmark in isolation. After the second spike, however, Swedens unemployment appears more volatile than the other Scandinavian countries.

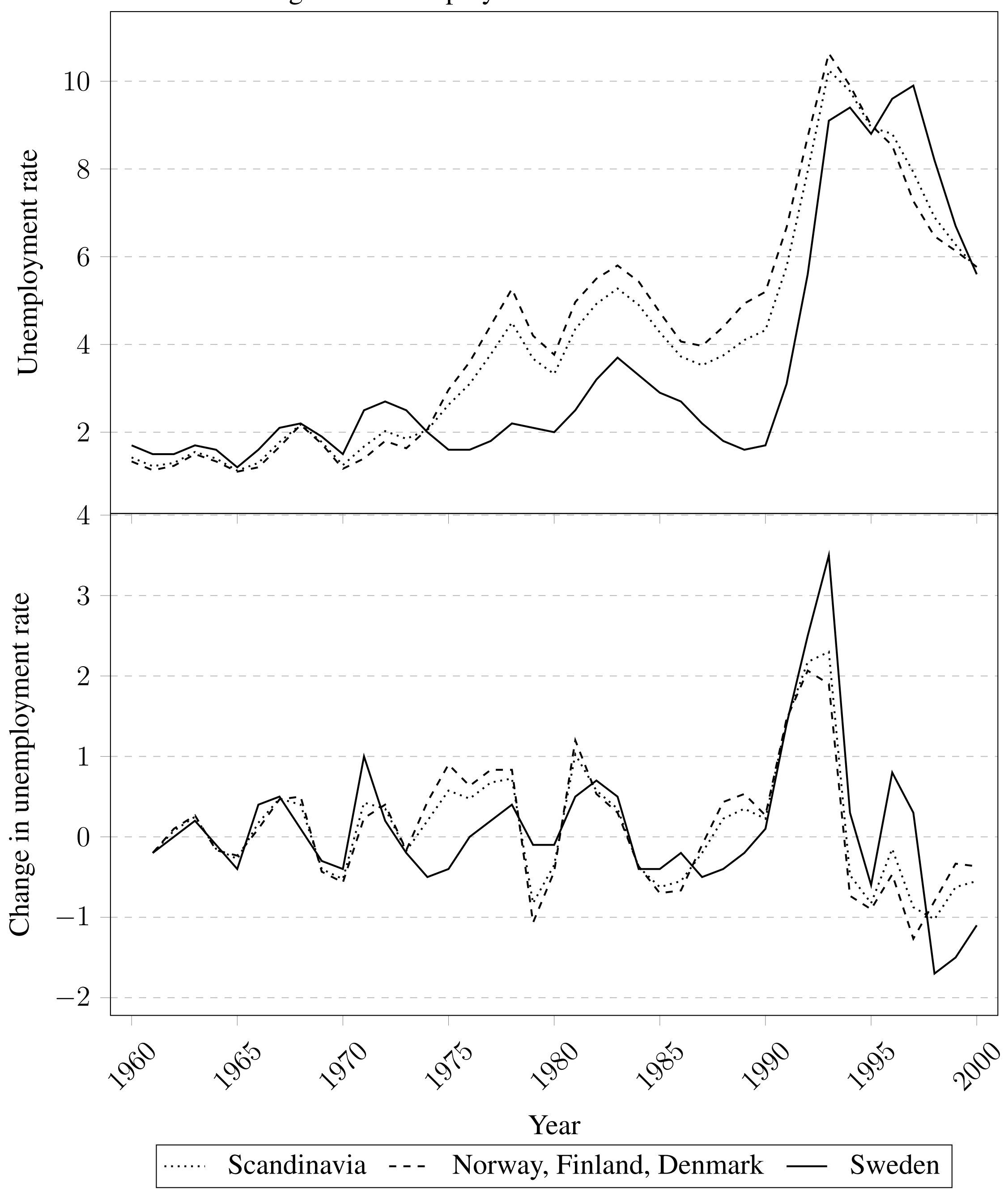
There are of course national differences in the impact of the crisis, but the indication is

Figure 6: Unemployment in the EU, the OECD, Scandinavia, and Sweden



Measured in percentages. Data is restricted to chronological development: Each data point per year is only included if the specific country belongs to the category in that year. Data sources: AMECO 2014, The World Bank 2014.

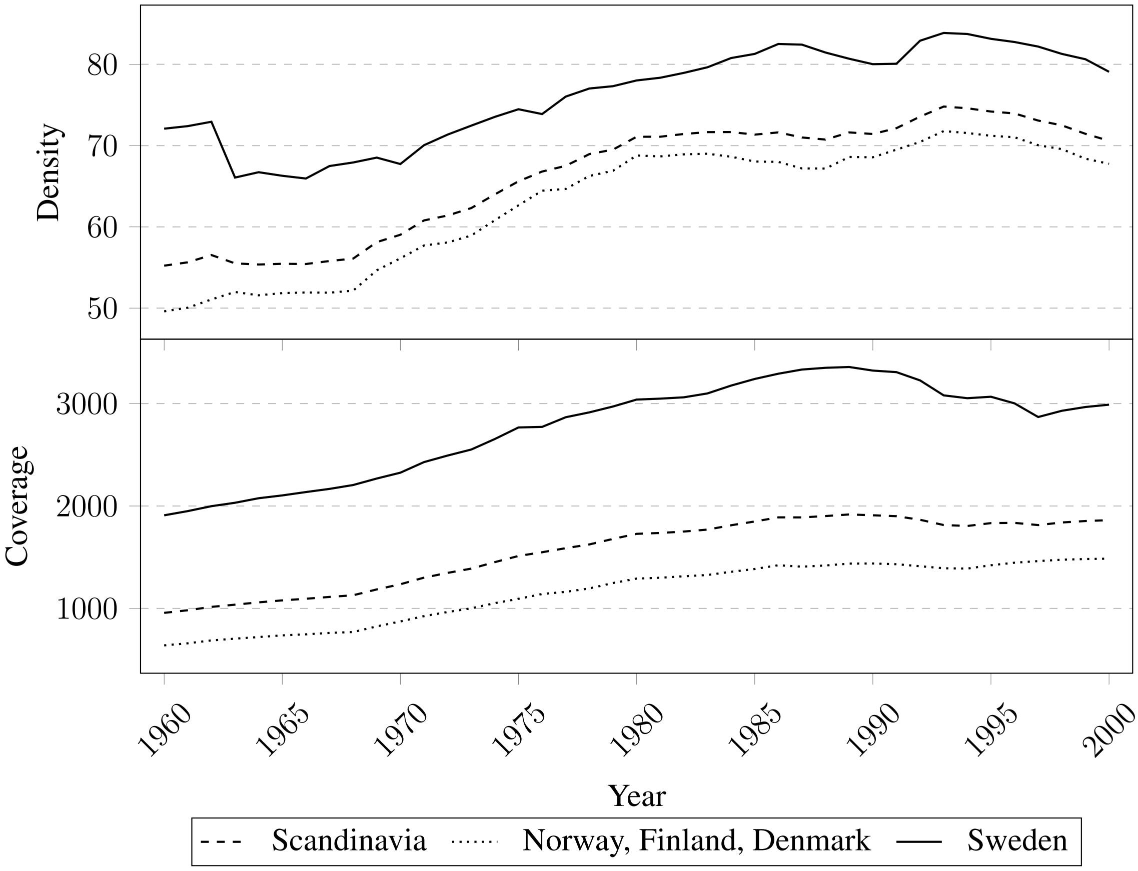
Figure 7: Unemployment in Scandinavia



Measured in percentages, yearly intervals. Data sources: AMECO 2014, The World Bank 2014.

that the shock did not dissipate faster in Sweden despite its higher levels of union density and coverage. A comparison of these levels are shown in figure 8. This disconfirms the expectation of faster dissipation, with the proviso of potential idiosyncrasies between the Scandinavian countries.

Figure 8: Union Density and Coverage in Scandinavia



Density measured in percentages, coverage in thousands. Data source: Organisation of Economic Co-operation and Development 2014.

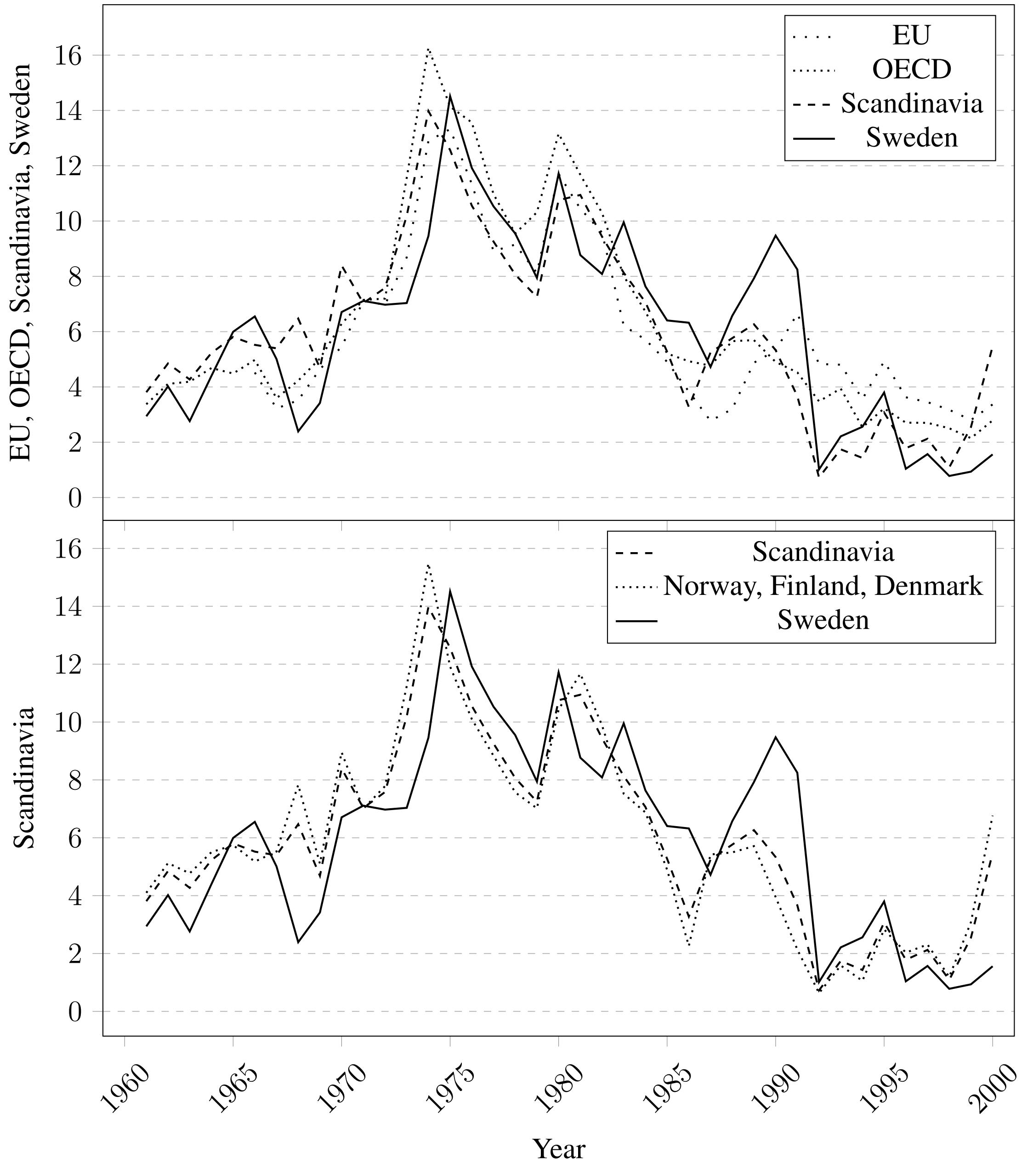
Female participation in the workforce Nuance needs to be added in regards to unemployment and participation in the labor-force, as the view I have presented thus far have focused on total unemployment and an unchanged participation rate. Österholm (2009) shows that whilst the unemployment-rate did spike in the early 1990s, there is a discrepancy between this rate for males and females, as well as between their participation rates. Unemployment did not increase as much for women, and the participation rate for males decreased slightly. Notably, the participation rate for women increased substantially between 1970 and the early 1990s, and it would appear that this to some degree dampened the effect of the crisis on unemployment, even if marginally.

5.2.3 Inflation

In contrast to growth and unemployment, where Sweden clearly performed differently, inflation moved more or less together with the inflation in the EU and the OECD (Erixon 2008: 375). From 1975 to 2000 it decreased substantially for all three areas, which may be related to the increased focus on price-stability and central bank independence, discussed in section 6.3.1. As shown in the top plot of figure 9, Swedens inflation spikes at the time of the OPEC-crisis and again in the turnover from the 1980s to the 1990s. The same happened to unemployment, and it shows that Swedens performance – regardless of domestic organization of labor or government – follows similar patterns to the EU, the OECD, and Scandinavia. The bottom plot of figure 9 reiterates that, apart from a spike towards the 1990s, Sweden for the most part performed on par with its corporatist Scandinavian neighbours.

Importantly, and as discussed in section 6.3.1 and 6.3.2 of the analysis, inflation is expected to be more volatile than growth or unemployment, and also sensitive to both domestic policy and changes abroad. The analysis also discusses the implications this has for the trade-off between inflation and unemployment.

Figure 9: Inflation in the EU, the OECD, Scandinavia, and Sweden



Measured in percentages, yearly intervals. Data source: The World Bank 2014.

5.3 Implications for analysis

Whilst it may be correct that the combination of a leftist government and a strong labor may yield better economic performance, this appears only marginally verified for Sweden. Growth was higher prior to the 1980s, but only slightly more than in the EU, the OECD, or Scandinavia, and further it was more volatile than any of these aggregate areas. Note, however, that growth is not inherently comparable between Sweden and the larger areas as they have the benefit of trade-balances not affecting the data as much. The rate of change is therefore exaggerated for Sweden, and the trend line a better measurement.

Unemployment, on the other hand, is notable in the Swedish case. Until the 1990s it outperformed both the EU, the OECD, and Scandinavia. The expectation of a faster dissipation, however, was disconfirmed. As noted above, inflation appears the anomaly here, as it for Sweden appears to have been no better or worse than the EU, the OECD, or Scandinavia. Even compared to Scandinavia, or its Scandinavian neighbours, Swedens inflation does not stand out. The reasons for this are further discussed in the analysis.

The analysis must take into account that there is no uniform or theoretically set amount of lag in which the effects of shocks and changes occur, so care must be taken when weighing the various effects against one another. It is clear that several areas should be explored in the analysis:

- Institutional overlap between the left and labor, which was assumed in the earlier period, should be evaluated in the 1980s and 1990s. A decline in this overlap would show that not only centralized bargaining, but also union influence over and direct participation with the government, declined; as expected when government power changes hands.
- Inflation, both in terms of levels and development, needs to be revisited methodologically and in light of theoretical perspectives.
- The highlighted changes in centralized bargaining, government cohesion, and the left-labor linkage, as well as the shock of the economic crisis, must be accounted for to determine which developments were of most importance to corporatism.
- Whether or not the changes of the 1980s impacted political latitude in dealing with the crisis of the 1990s must be considered.

- To what degree performance is explained by partisan differences in economic policy, and if this truly relies on cooperation with labor. If not, enhanced performance may be better explained by differences in policy, or other factors.

As will be evaluated in the analysis, a variety of economic decisions made by politicians led to the crisis in the 1990s. That is not to say that it was intentional, or that they did not foresee the consequences, but rather that Sweden would appear to have followed suit with financial deregulation along with many other European countries at a time when several structural problems of the Swedish economy were surfacing. While it is not surprising that governments of the right moved the country towards market liberalism, it is important to note that this use of political latitude had major consequences for the country.

6 Analysis

In this chapter I examine how the changes and empirical effects of the 1980s had consequences for the 1990s. This is followed by a discussion of the inevitability of this development, and how this led to the economic crisis of the 1990s. Finally, I consider the implications of this perspective, and the consequences the changes of the 1980s and 1990s have had for Sweden as a case of corporatism.

6.1 Left-labor linkage and overlap

In order to establish and analyse a continued linkage between the left and labor I briefly examine the institutional overlap empirically in this period, and delimit the impact this has had by discussing it in a temporal perspective. Note that this is done fully within the context of Sweden, and the results are not put into a larger context. The purpose of this is to identify any definitive changes in how the institutions relate to one another and wage-setting after the break in the mid 1980s.

The decline and subsequent break in centralized bargaining in the early to mid 1980s indicate a decline in corporatism, and this break removed unions incentives for wage-restraint, as they then fought over benefits for their own members rather than for labor as a whole. The inevitability of this chain of events is discussed in section 6.3, but I first consider involvement in the wage-bargaining process.

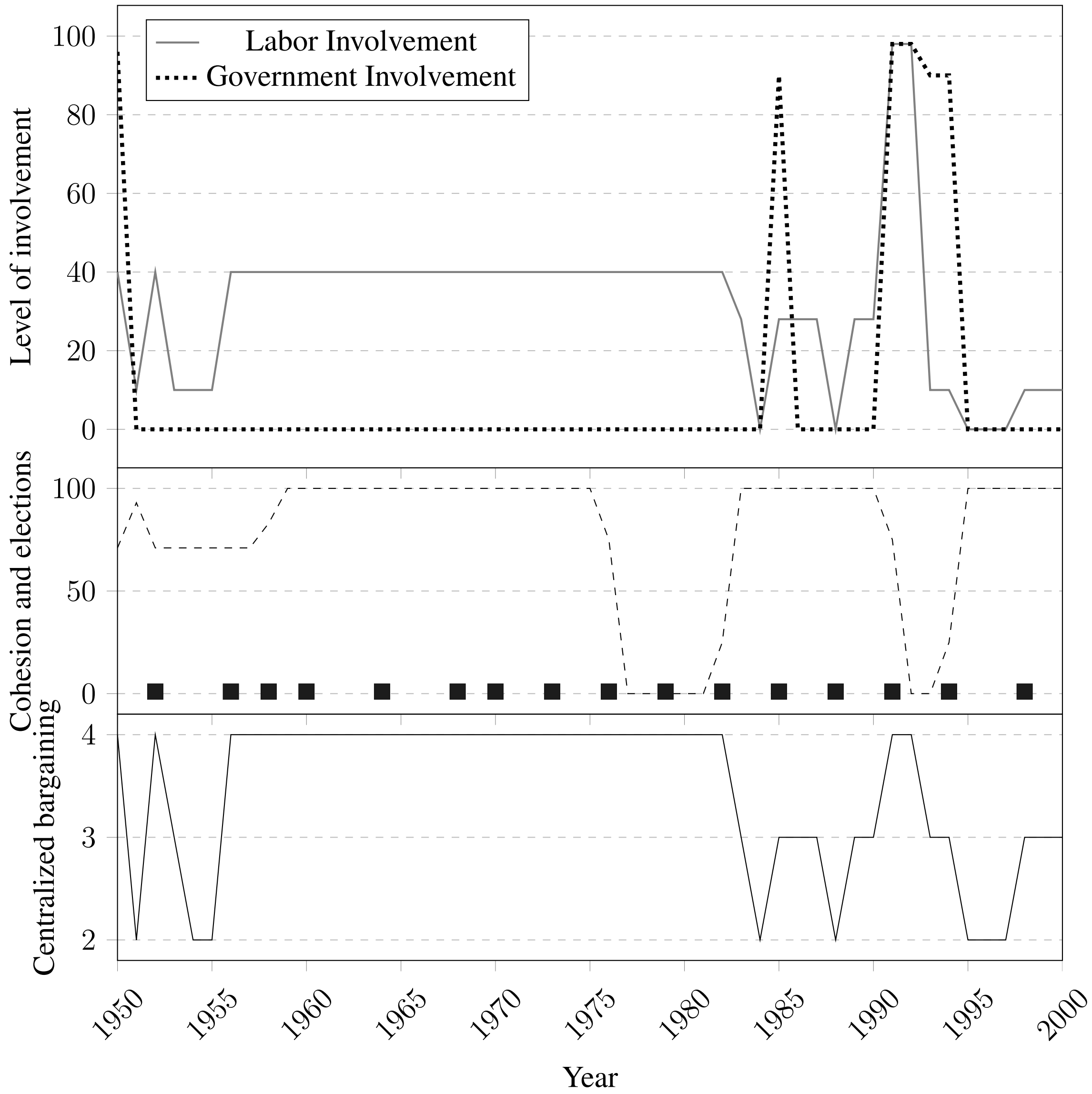
As seen in the top plot of figure 10, both the involvement of labor unions and the government in the wage-setting process remained stable until the early 1980s, at which point labor got markedly less involved and the government stepped in. This is as described in section 4.2.3, and it can be clearly seen that the subsequent involvement spiked for both labor and the government during the crisis. In the bottom plot the degree of centralized bargaining is shown, and as expected there is a correlation between it and involvement.

The middle plot reiterates cohesion along with elections, and when seen in relation to involvement in the top plot, two things are clear: There are no obvious temporal links between the level of government involvement in the bargaining process and economic performance[1], nor between the highlighted shocks and shifts in government. The expectation of a partisan effect on performance is seemingly disconfirmed, as it cannot be ascertained between 1975 and 1995. This is because changes in economic policies are time-sensitive and slow to take effect, and marginal impacts are obscured. This does not mean that there are no political impacts on performance, but rather that the movement towards market liberalism is unlikely to have apparent effects this time period. The impact of cohesion, however, may still be visible and is discussed in section 6.3.1.

It also shows that centralized bargaining did not break down completely, and in the second half of the 1990s it returned in a moderate form. The implications are not straightforward, but worth noting: Changes in the 1980s, whether they were short-term political or economic ones, or structural problems surfacing, explain the occurrence of the 1990s crisis, but there are no clear causal paths between them. Hence, the left-labor linkage might have dissolved, but the unions still had to work with the government – regardless of whether the left or the right was in power. In regards to the relative difference in performance between the two sides of politics, the degree to which labor aligns with either remains important. Though not as powerful a mechanism as previously, their potential wage-militancy could further increase inflation. However, since the this wage-drift ended before the crisis it should not have had this effect in the late 1980s and the 1990s.

[1] See figure 12 for changes in wages relative to inflation and figure 11 for a summary of the historical performance of Sweden.

Figure 10: Left-labor Linkage



Involvement and cohesion measured in percentages. Involvement is involvement in wage setting (see Golden 2009: 31-32). Cohesion measures level of left control of cabinet portfolios. Centralized bargaining is an ordinal measure ranging from 0 to 4, wherein 0 is the lowest level. Squares mark elections. Data source: Golden and Wallerstein 2009.

6.2 Performance

Examining the overall performance of Sweden in this period, it is clear that growth declined whilst both unemployment and inflation increased. This is shown in the trend lines of figure 11. At the end of the period the changes in all three indicators of performance appear to be subsiding. The main conclusion from this is that the highlighted shocks were temporally limited in scope. But, importantly, the changes were structural: The left-labor linkage, heavy regulation, government cohesion through many years of left rule, and centralized bargaining had all dissolved. A re-institution of any of these, or a return to the economic performance they produced, is unattainable in the short-term, untenable in the medium-term, and improbable in the long-term. This follows from the path-dependent argument: The crisis, an event typically regarded as limited in time, could not be solved in the immediate short-term as performance was too unstable. The government could, and did, make an effort to contain it, but the problem was nevertheless not solvable whilst the crisis was ongoing. In the medium-term policy was needed to bring unemployment down, keep inflation in check, and bring growth back to stable levels. Given the structural problems of inflationary wage-setting and high unemployment, inflation eventually became a more pressing issue than unemployment, and stabilising it took time.

Particularly deregulation is a self-enforcing process, and with time it is expected to yield better economic performance due to the nature of the market, and reinstating an earlier regulatory regime can take years. The structural characteristics of the Swedish welfare-state were built and reinforced over many years, it took many changes and economic shocks to reverse them, and by this logic a return to the situation prior to the 1980s would also require years of development. Hence these structural changes illuminate the historical development of the economic system and economic performance of Sweden in this period, and have important implications for political latitude, discussed in section 6.4.

Figure 11: Performance in Sweden

All measures in percentages, trend lines are linear regressions. Growth and Growth Trend from 1961 onwards. Data sources: The World Bank 2014, Statistics Sweden 2015, AMECO 2014.

6.3 Path-dependent changes

I have described the chain of events that constitute this development as inevitable, but the changes are rather one of several possible outcomes. This discrepancy stem from the difference between probable outcomes and self-reinforcing processes, as examined in section 3.3.3. The path from a breakdown of centralized bargaining to the crisis is one in which the events are causally-linked, and thus they are not arbitrary changes that occurred alongside shifts in government power and a changing economic system, but rather a sequence of events that led Sweden towards market liberalism.

Related to the central argument then is the plausibility of such a sequence, and the implications this has. It is a theoretical expectation that without the left-labor overlap the linkage would dissipate too, but this is disconfirmed empirically. Labor must necessarily cooperate with the government or employer-unions on some level to achieve increases in wages, regardless of what level of centralization is involved in this process. Thus, whilst there are significant changes which constitute the development from Sweden prior to the 1980s to the end of the 1990s, none of the identified changes indicate a complete dissolvement of the relationship between government and labor. The implication is that whilst the left may be more prone to cooperation with labor, and possibly have a larger overlap of preferences for policies, the expected drop in performance from the right coupled with a relatively encompassing labor is not visible. That is, the drop in performance is better explained by shocks such as the crisis, whilst the circumstances that allowed for the severity of the crisis are best explained by the systemic changes.

6.3.1 Policies leading to the crisis

In 1992 the commission, mentioned in section 3.2, was tasked to analyse the crisis and suggest solutions to it, and it was their view that high unemployment was "the most serious consequence of the present economic crisis" (Lindbeck and Ekonomikommissionen 1994: 6). Two factors are particularly important pertaining to the trade-off between unemployment and inflation: That unemployment was identified as the most serious consequence of the crisis, and inflation as necessarily volatile and high due to the devaluation of the Swedish krona. Implicitly, controlling unemployment is made more difficult by inflation being out of control. The cause of this situation in the 1980s, and the implications it had for the 1990s, warrants further discussion.

Control over inflation and unemployment

Central bank independence may be relatively unnoticeable in a crisis, as many other factors would obscure the effect of politicians controlling it, but in the medium- to long-term there is a theoretical expectation that this independence leads to greater stability, as discussed in section 2.1.4. For the Swedish central bank, Riksbanken, this did not come until 1999 (Daunfeldt and de Luna 2003: 19), but as early as 1990 it had started focusing more on inflation than unemployment (Englund 1999: 89). This shift in institutional focus can be explained by the natural rate of employment, which is a part of a shift in economic theory in the 1980s: From a previously Keynesian perspective, monetarism took over as as the new paradigm, and inherent to it is the natural rate of unemployment (Grauwe 2007), as also discussed in section 2.1.4. From this perspective unemployment cannot be altered by government policies in the long-term, and thus there is little reason to do so in the short- or medium-term other than to temporarily lower it at the cost of inflation.

With inflation already soaring as a result of devaluations and integration with international markets, lowering unemployment would imply an even higher inflation. If we accept the plausibility of a natural rate of unemployment, which the economic literature has, it would be futile for governments of the left or the right to take control of unemployment during the 1980s or early 1990s. The reason is not explicitly favoring monetarism over Keynesianism, but rather that the short-term benefits of lowering unemployment would not outweigh the adverse effects this would have on inflation.

This constrained political solutions to unemployment. Policies could be implemented to avoid a long-term structural problem, but the large increase at the start of the 1990s – shown in figure 11 – could not be countered. This is another instance of a path-dependent process, where previous political choices exclude the viability of potentially desirable subsequent ones. Even if unemployment was recognized as being as much of a problem as it was later regarded, lowering it was made difficult by the path set by devaluations and deregulation.

The impact on growth

In section 2.2.2 I discussed how cohesive governments should be more optimal for stable growth compared to less cohesive ones. This perspective, and the expectation that deregulation leads to a more efficient market and thus increased growth, needs further evaluation. As shown in figure 11, growth declined whilst unemployment and inflation rose. Hence, a decline in performance was visible through the 1980s and it bottomed out in the 1990s.

As government power changed hands several times between the late 1970s and mid 1990s, the impact of cohesion is as expected. However, the decline in growth presents a confounder: The economic changes that Sweden went through – though volatile – should have created growth in the long-term, but the fall in government cohesion should lead to less growth. Weighing cohesion against economic change is not a straightforward procedure, especially in this limited time period, and thus no clear answer to the impact on growth is available by the methodological approach used.

A potential explanation of this confounder is that growth – and unemployment – is a sticky measure, as its performance one year is significantly affected by its performance the previous year. Growth may even be stickier than unemployment, in that manipulating the output of a country is more difficult than manipulating inflation or unemployment. This stems from the temporal limitations of latitude, where inflation – and to some degree unemployment – can be adjusted to alleviate conjunctural issues in the short-term, whereas facilitating growth requires investment in the medium- to long-term. Deregulation should then, along with other economic and political changes of the 1980s, create higher growth. But the effects of this would perhaps not be seen for several years or a decade or more after the end of the crisis. Any policy aimed at increasing growth in the examined period would be subject to two notable constraints: The implementation of policies takes time, potentially several years, and the desired effect of the policy may not be attainable given the economic and political environment. The first constraint relates to the time-lag involved in policy-making, and the second to how the shifts in government makes such long-term policies inherently difficult to maintain across shifts in power.

In a related perspective, the breakdown of centralized bargaining was then a necessary precursor for deregulation and the subsequent crisis to take place. The commission notes it as the following: "For Swedish industry to preserve its international competitiveness and its market shares, it has been necessary for its relative unit labor cost to fall" (Lindbeck and Ekonomikommissionen 1994: 138). That is, as wages fell relative to prices[2] and the economy was opened up to the international market through deregulation, the cost of labor[3] fell with the breakdown in centralized bargaining. So the change from the period prior to the 1980s was a necessary change for the changes from the 1980s to the 1990s to occur. I develop this causal-path further in section 6.4.1 below.

Inflationary system of wage formation

Though the breakdown of centralized bargaining is identified as defining for the change in corporatism, it should also be identified as a cause of the change in wages in the mid 1980s. The previously discussed wage-drift, which was inherent to the system of centralized bargaining, kept wages relatively stable in relation to inflation. The effects of the wage-drift were presumed to ensure that wage-growth followed price-growth, but this would appear to have ended even before centralized breakdown did. As shown in figure 12, inflation and the change in wages diverge around 1975 and at the start of the 1990s-crisis, but converge again in 1985 and to some degree after the crisis.

No definitive conclusion can be drawn from this. Despite performance as a whole not being substantially affected by the 1973 OPEC-shock, it appears that inflation was. But there are no clear indications of a manifestation of the effects of the breakdown of centralized bargaining on the relationship between wage-rate and inflation-rate, and certainly not that centralized bargaining necessarily and solely caused this divergence. This has been identified as a collision between the fixed exchange-rate and the inflationary system of wage formation in the 1970s and 1980s (Lindbeck and Ekonomikommissionen 1994: 2-3), which the data shows, but because this does not present as a change or shock in the mid to late 1980s it cannot be subsumed into the causal narrative. Rather, inflation appears to be driven more by external factors than by wage-drift after 1973. This is then one of the structural economic factors which created the preconditions for the crisis, but it does not emanate from the explanatory model, and is therefore excluded as a causal link.

[2] Shown in figure 12. Note that prices are especially sensitive to inflation.
[3] The cost of labor is costs in wages and capital, thereby affected by changes in wage-rates.

Figure 12: Wages and inflation in Sweden

Measured in percentages. Wage growth is change in nominal wages, adjusted for price changes. Data source: Statistics Sweden 2015.

However, it is expected that the breakdown would cause not only short-term, but also medium-term divergence between wages and inflation. This is an instance of where this temporal scope cannot be clearly defined, as for example the 1980-1995 period can be evaluated as both short-term and medium-term in regards to what changed. The divergence of wages from inflation, lasting from approximately 1973 to 1992, should be evaluated as the medium-term because this period includes most of the identified changes, shocks, and effects. Further, even though the breakdown is placed in the mid 1980s the breaks between unions occurred prior to this, and so the confluence of effects between the breakdown and Swedens currency devaluations could explain the long period in which wage-growth no longer trailed inflation-growth (Jonung 2008: 568).

Financial deregulation

Jonung identifies Swedens financial deregulation as the source of a period of "[...] over-full employment, rising consumption and falling savings ratios" whilst monetary policy was focused on maintaining the fixed exchange-rate (2008: 569-570). Note that the fixed exchange-rate to some degree binds the country to the inflation-rate of the country to which the exchange-rate is fixed, and the Swedish krona was not changed to a floating rate until late 1992. Before that point in time it would be regarded as an overvalued currency (Lindbeck and Ekonomikommissionen 1994: 24, 32), which explains the multiple attempts to devalue it. More important is the impact on inflation, which in any crisis would preferably be under domestic control. In the context of this crisis it undoubtedly had a significant impact on Swedens inflation-rate.

The difficulty of accounting for causes and effects within the deregulation process should be noted, as the impact from the integration of international financial systems on performance may be significant. In Englund's words, this integration "[...] has undoubtedly increased Swedish dependence on international interest rates" (1990: 290). This relates to the fixed exchange-rate, and more broadly to the change in the inflation-rate in the 1980s. Inflation is a contentious point of analysis in this time period, because the inherent volatility of it will have to some degree been impacted by the OPEC shocks of the 1970s, the deregulation in the 1980s, and the 1990s crisis. Because of this, changes in inflation should be viewed as a confounder to performance. That is, it is not part of a path-dependent process, but it is contextually relevant as a part of the narrative. Growth and unemployment are, as noted, both sticky measures. Inflation, on the other hand, can be presumed to be a volatile measure in a stable economy, as it responds to conjunctural shocks, and much more so in periods of larger shocks or crises.

As shown in figure 9 on page 56, inflation in Sweden did not vary significantly from inflation in the EU or the OECD, despite the shocks that occurred in Sweden. However, as I previously indicated, it is the relation of wages to inflation that are important, rather than inflation itself. I previously described this as wage-compression being inherent to the welfare-model. The telling part of figure 12 is then that wages and inflation did move towards compression by the end of the crisis and the end of the 1990s. Hence, though wage-compression may seemingly have stopped with the breakdown of centralized bargaining, this is not necessarily a permanent or certain outcome.

Whilst deregulation is easily assumed as a cause of the crisis, a more nuanced picture is available: Deregulation is more aptly considered in the context of the economic boom in the late 1980s, where the efficacy of monetary policy was constrained by a fixed exchange-rate, and the outcome compounded by an expansive fiscal policy. Pre-existing and increasing inflation, necessary to sustain the currency devaluations, was then a more severe problem than deregulation. Further, this created a situation where inflation was high and the real appreciation of prices continued, which "[...] made Sweden a natural target for international speculation [...]" (Englund 1999: 96). This speculation created a currency crisis, which fiscal policy was unable to contain by devaluations alone. Finally, the banking sector was unprepared for the rapid deregulations, and the rate of expansion for the financial part of the economy was high enough that an environment of increased risk-taking took hold, and as such the banking sector to some degree sustained the crisis.

6.3.2 The 1990-1993 crisis

The economic crisis of the early 1990s can be termed a banking crisis, as its starting point can be identified as the financial breakdown of three large banks which occurred shortly after a real estate bubble burst at the end of 1989, which created a "[...] severe real estate and financial crisis [...]" (Lindbeck and Ekonomikommissionen 1994: 4; Englund 1999). Many political and economic factors leading to it can be identified, and importantly it explains much of the economic performance in Sweden in this decade. By examining crises and their roots and consequences, Englund finds that the Swedish crisis was not unique in origin or development (1999: 80-81, see Demirgüç-Kunt and Detragiache 1998). Furthermore, the volatility in the Swedish currency was at least part of the problem, as it created an ongoing real appreciation of the exchange-rate from six devaluations between 1973 and 1982 (Englund 1999: 81).

These devaluations were necessary, in part, to sustain the rapidly developing financial markets: A stable currency towards the international markets were desirable, and deregulation was a part of this integration. This deregulation, as previously discussed, was not unexpected but it was not followed by substantial changes in monetary or fiscal policy, both of which were necessary to dampen its effects (Englund 1999: 83-84). It is telling that the finance minister resigned in February of 1990 over the lack of support for restrictive fiscal policy, as it in hindsight is clear that this was necessary to ensure a stable growth of the financial market in this period. However, as Englund suggests, using "[...] deregulation as the key explanation for the crisis [...] may be too simplistic"(1999: 95-96), as it was more a cause of the depth of the crisis.

The aforementioned collision between the fixed exchange-rate and strongly inflationary system of wage formation in the 1970s and 1980s was precursory to the crisis, but the commission also identifies that the policies prior to these decades achieved close to full employment through high public sector employment and wages following inflation of prices. Devaluing the currency and maintaining a high inflation is implausible in the long-term, but it sustained the welfare-state. The sustenance of the Swedish welfare-model is then constrained by economic factors which make both full unemployment difficult and a continuation of the status quo of the economic system untenable. In the commissions view Sweden reached a critical point of steep inflation, laggard growth, unsustainable public expenditures after a decade of financial deregulation, poorly timed tax reform, insufficient fiscal policy, and misplaced public sector cuts (Lindbeck and Ekonomikommissionen 1994: 207-209).

Differential impacts in Scandinavia In the context of Scandinavia, Sweden does not stand out as clearly as in the European context. It remains the most relevant case of social democratic corporatism because of the initial design of the welfare-model, and the breakdown of centralized bargaining is the most striking feature of the Scandinavian countries in the 1980s (Iversen 1996: 402). It is important to recognize that even though these countries typically are regarded as prime examples of corporatist systems, there are differences in their development through the 1970s, 1980s, and 1990s: The outcome was different for Denmark (Jonung 2008), and the process of breakdown in centralized bargaining was most prominent in Denmark and Sweden (Iversen 1996: 402). They remain, however, inherently comparable by the timing of deregulation and the subsequent crisis.

6.4 Implications and consequences

From the analysis it can be seen that the various changes and shocks shaped both the outcome and the development of the Swedish case. The implications of this begin with a continuation of the development of causality as inherent to the path-dependent process, followed by a discussion of corporatism within this process. The observed outcome from the shocks were not guaranteed by the observed changes, but taken together they indicate definitive movement towards market liberalism. For politicians, or economists for that matter, there was little at the start of the 1980s that would indicate an economic meltdown a decade later, but it can be deduced from the theoretical expectations that the movement towards market liberalism – as expected of a rightist government – implies somewhat of a shock to the economy.

This perspective has important implications for whether a decline in corporatism is apparent in Sweden, or whether the changes and shocks did not have a lasting effect.

6.4.1 Causality

The path to the outcome in the 1990s is, as mentioned, not determined or explained by probabilities in outcomes, but rather from a narrative of causally-linked factors. It is from the theoretical expectations and careful study of the case-material that this development is specified. The purpose and result of the analysis is identifying which changes were significant[4] and how they shaped the empirical outcomes. These changes were:

- Government cohesion was weakened by the turnover in government power from the left to the right, thus ending the regime of the left.
- Labor was weakened by the breakdown of centralized bargaining, and this also weakened the linkage between the left and labor.
- Markets were deregulated, and especially the financial and banking sectors were

[4]See section 3.3.3 for a specification of significance in this context.

affected, and thus political solutions to the crisis were limited.

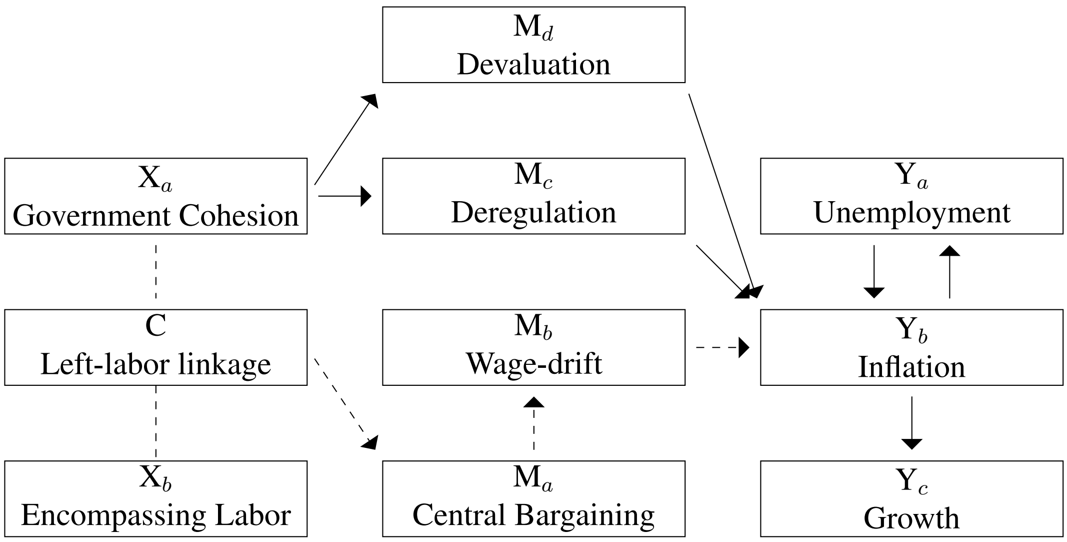
- Wage-drift, inherent to the system of centralized bargaining, ended.

And the outcomes were:

- Growth declined and the volatility of the economy led to a crisis.
- The currency was devalued, which increased inflation and kept it high.
- Unemployment increased, and the level of inflation made lowering it untenable.

Deregulation integrated the domestic economy more with the international financial market, and devaluation kept the currency somewhat stable, but together they created optimal conditions for the crisis. Below I graph the causal-relationships (see Gerring 2011: 228-230) identified as a revised view of the Swedish welfare-model from section 3.1, expressed in figure 13. It illustrates an empirical context where economic and financial turmoil had occurred, and the central bank was still under political control.

Figure 13: A revised relationship between government cohesion, encompassing labor, and economic performance.



Lines indicate relationships, dashed lines weakened relationships, and arrows causal-links and their direction. Explanatory variables are noted as X, mechanisms as M, confounders as C, and outcomes as Y.

The period of time between 1982 and 1995 is where the effects of all these changes are most clearly seen. The breakdown of centralized bargaining ended the inflationary wage-drift, but currency devaluations kept inflation high regardless. This clearly impacted performance, and as discussed several of these effects are causally-linked to performance during and after the crisis. As figure 13 shows, the impact of inflationary wage policies (M_b) have ended by this time, but deregulation (M_c) and devaluation (M_d) still affect inflation (Y_b). Though noted as government cohesion (X_a) here, this also encapsulates government itself and its policies, hence the causal paths from X_a to M_c and M_d. These two mechanisms, both instigated by government intervention in the economy, along with the weakening of the left-labor linkage constitute the main movement of Sweden towards market liberalism.

6.4.2 Corporatism

This revised view have important implications aside from impacts on economic performance. As discussed in section 5.1.1, corporatism is expected to have declined in the examined period. In chapter 4 and 5 it became clear that Sweden was not only an exemplary case of social democratic corporatism, but more so than its Scandinavian neighbours. As have been demonstrated in the analysis, corporatism declined in Sweden, which indicates that at the end of the 1990s it was located closer to market liberalism than previously. Whether or not this remained the case into the 2000s and beyond is left unanswered, but it is clear that several of the changes in the 1980s are structural – that is, hard to reverse. The economic shock of the crisis, inflation caused by currency devaluation and financial integration are mainly problematic in the short-term and not expected to remain beyond the 1990s. There is also an empirical indication of this visible in figure 11, where performance appears to move towards a less volatile level.

The mechanisms of deregulation and devaluation are then illustrative in how much impact government has on the economy. The former is also associated with the economic policies of the right, and an expected precursor to financial integration with international markets. The movement towards market liberalism, though apparent, is only indicative of the Swedish case at large: It is the shift from the cooperative regime of the left and labor that instigated most of the significant changes, and it is antecedent to them. It may be explained by shifting preferences in the voters for policy – economic or otherwise – or by the accumulating inflation from the sustained focus of the government on full employment. However, the aim here has not been to explain the shift itself nor causes of it, but rather how the shift lead to subsequent changes and shocks to the economic system. Whilst it may be true that corporatism, inherent to the left-labor alliance, maintained stable performance for a long period of time, its decline was inevitable. Hence, the Swedish case conforms to theoretical expectations from the Garrett et al debate and a decline in corporatism is confirmed.

7 Conclusion

This thesis has addressed the question of "Does Who Governs Matter?" by evaluating the relationship between government and labor. The answer to the research question is that the organization of labor did change in the 1980s, and this demonstrably led to changes in partisan influence on economic outcomes. The findings and implications were produced using a qualitative approach, where the issue is typically regarded in a quantitative manner. The applied method limits the generalizing power of the thesis, but allowed for more thorough analysis of the Swedish case and the underlying mechanisms of corporatism.

A decline in corporatism was expected from the changes in the 1980s, and further that these changes should lead to poorer economic performance in the 1980s and 1990s. The development of the Swedish case in these two decades show that though corporatism declined, partisan influence on performance – which at the outset is assumed to be marginal – could not adequately be weighed against the impact of economic shocks and the crisis of the early 1990s. The empirical material employed covers the organization of labor, the cohesion of government, and performance from the 1950s to the end of the 1990s – where data was available. Europe, the OECD, and Scandinavia where used for comparison, but the results are inherently idiosyncratic because of the institutional configuration and development of Sweden.

The most notable change of the 1980s in the organization of labor was a breakdown of centralized bargaining, which was inherent to the Swedish corporatist system. This process had ensured workers that their wages trailed prices closely, and maintained support for the left party. A shift in government power also occurred, as the left lost their control over parliament after a continuous reign of more than 20 years. This shift indicated the end of centralized bargaining, but more importantly a decline in the previously close cooperation between the left and labor.

Prior to the 1980s the corporatist system ensured low unemployment and high growth – though with relatively high inflation – for most of the period that the left held power. This is in the literature explained as a cohesive government yielding enhanced economic performance, as the the left maintained the support of labor. Though centralized bargaining ended and the left lost power, labor maintained a high level of union density and coverage, and as such a situation of an incohesive government arose when the right gained power. That is, cooperation between parties of the right with the labor unions was more difficult than for the left, and economic performance suffered as a result, though marginally.

The unclear partisan influence on economic performance in the 1980s and 1990s did not stem from an incohesive government, but rather from the economic shocks of the 1970s, the systemic changes of the 1980s, and the economic crisis in the early 1990s. Whilst Sweden conformed to theoretical expectations about a decline in economic performance, this decline is better explained by other factors. The thesis makes the case that the changes of the 1980s are causally connected to the performance of the 1990s, in that currency-devaluation and deregulation allowed the subsequent crisis to occur. Further, many of the systemic changes of the 1980s stemmed from the shifts in government power and decline in labor unity.

However, whilst the economic turmoil – which started subsiding after 1993 – was a result of temporary shocks and a crisis, the systemic changes remained and indicate that Sweden in this time period experienced a decline in corporatism. From a previously high level of collaboration between the left and labor – characteristic of social democratic corporatist system – the country moved towards market liberalism. Whilst Sweden remains an exemplary case of labor power with strong corporatist roots, the decline in corporatism is evident.

As the changes Sweden went through were not unique, the implication of this decline is that a broader decline in corporatism may be discovered through studying other cases. Further research should explicitly evaluate labor power and unity in a cross-case study, within the same empirical scope, and potentially whether the wage-compression that resulted from centralized bargaining may serve as a check on income inequality.

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