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THE STRUCTURAL BASIS FOR INCOME EQUALITY AND ECONOMIC PRODUCTIVITY: A CROSS-NATIONAL PERSPECTIVE

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The Structural Basis for Income Equality

and Economic Productivity:

A Cross-National Perspective

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ABSTRACT

This research is concerned with the way in which the political institutions of highly industrialized capitalist countries influence their economic performance. Economic theory tells us much about resource allocation and income fluctuations in the short and medium term, but it is less informative about long term changes in economic activity. Nor does economic theory tell us very much about the impact of social and political constraints on economic activity. But it is in this area to which this research is addressed. Specifically, the research focuses on the impact that political institutions have on a country's distribution of income and changes in its level of economic productivity. While there is a vast cross-national literature on the variation in income distribution and on economic productivity, this research is not designed to engage in a confrontation with that literature. There are many variables which influence performance in these two outcomes, and even though this study argues that the political institutions of countries influence their distribution of income and changes in economic productivity, the intent is not to put forth a monocausal explanation of these two outcomes. Rather, the purpose of the study is (1) to establish the fact that specific types of political institutions do influence economic performance, and (2) to demonstrate why this type of influence varies across countries.

The Structural Basis for Income Inequality and Economic Productivity: A Cross-National Perspective

This paper is concerned with the way in which the political institutions of highly industrialized capitalist countries influence their economic performance. Specifically, the paper focuses on the impact that political institutions have on a country's distribution of income and changes in its level of economic productivity. While there is a vast cross-national literature on the variation in income distribution and on economic productivity (Christensen, 1978; Stein, 1977; Denison, 1967; Lomax, 1970; Lindert and Williamson, 1976; Williamson, 1974), this paper is not designed to engage in a confrontation with that literature. There are many variables which influence performance in these two outcomes, and even though this study argues that the political institutions of countries influence their distribution of income and changes in economic productivity, the intent is not to put forth a monocausal explanation. Rather, the purpose of the paper is (1) to establish the fact that specific types of political institutions do influence economic performance, and (2) to demonstrate why these particular institutions vary across countries.

Perhaps it is a truism that a country can maximize certain economic performances only by developing coherent policies--that is, policies which are consistent with one another and consistent with the goals which it wishes to maximize. This research poses the question of why some countries have political institutions which promote more coherence in their macro-economic policies than others.

The research focuses on the performance of equality and economic productivity, for these are two goals desired by an increasing share of the citizenry in all advanced industrial capitalist societies (Pye, 1966;

Almond and Powell, 1966; Hollingsworth, 1971). Some social scientists characterize the basic political problem of a capitalist society as one of maintaining the legitimacy of the society's basic institutions by generating greater equality, while simultaneously facilitating the further accumulation of wealth (O'Connor, 1972). In most advanced industrial societies, the response to these problems requires the pursuit of greater equality in the distribution of income and the attainment of higher levels of economic productivity. Obviously, there is an inherent tension between these two goals (Okun, 1975), and there has been substantial variation in the success with which countries have been able to maximize both goals simultaneously. But in all advanced industrial societies, citizens have been placing extraordinary pressures on their governments to achieve these goals (Grew, 1978). Some countries have performed well in achieving both goals, some have performed well in maximizing only one, and some countries have not done well in achieving either.

The increasing role of governmental institutions in the shaping of economic policy is an imperative of the process of high levels of industrialization. And those political systems which have the most capacity to develop coherent economic policies are the ones which are most likely to achieve success in coping with social and economic challenges of the future. But the ability of political institutions to develop coherent policies is not simply due to the fact that they may have leaders who are highly intelligent, very well-educated, and sensitive to their countries' historical trends. Rather, the ability of political institutions to develop coherence in public affairs reflects the basic social and economic structure of that country. When and where policy coherence has resulted, it has occurred when some segment or group in the society has been able to mobilize sufficient power to dominate the policy-making process.

During the twentieth century the working class has grown in power and numerically outnumbers the rest of society. In those societies in which the working class has been able to dominate the policy process, coherence has emerged in regard to both greater equality in the distribution of income and high increases in economic productivity. To assess the adequacy of this line of reasoning in regard to income distribution and economic productivity, the remainder of this paper is an attempt to test the following hypothesis:

> The more successful the working class is in mobilizing political power in highly industrialized societies, the more coherence there is in policies which promote both equality of income distribution and increases in economic productivity.

The argument is not that the relationship between an increase in working class power and an increase in economic productivity is linear, however. Policy coherence is necessary in order to maximize both equality and economic productivity, and only after the working class has mobilized power beyond a certain threshold can it maximize both.

To test the hypothesis, the paper focuses on the social, economic, and political institutions of Britain, France, Sweden, and the United States during the past half century. Figure 1 demonstrates that the four countries fall neatly into four cells along two axes, income equality and economic productivity.

FIGURE 1

Income Equality and Productivity Increases in Four Western Countries

Increases in Economic Productivity		Equality in Income Distribution: Low	Equality in Income Distribution: High
	Low	United States	Great Britain
	High	France	Sweden

There are any number of indicators with which one may measure the power of the working class. One effective measure is the percentage of the labor force which is organized into unions, for organized power is generally more effective in achieving group goals than unorganized power. Table 1, which provides data on the percentage of the labor force which was organized in the four countries between 1940 and 1970, reveals that 75 percent of the Swedish labor force was organized into unions in 1970, 45 percent in Britain, 23 percent in the United States, and 17 percent in France. And between 1945 and 1969, socialist labor parties were in the executive branch of government 100 percent of the time in Sweden, 50 percent in Britain, 25 percent in France, and none in the United States. Clearly, the working class was more successful in mobilizing its power in Sweden and Britain than in France and the United States.

Table 2 ranks the four countries on economic productivity for the years between 1950 and 1975 and data reveal average annual percentage change in productivity. The United States and

Table 1

Percentage of Labor Force Who Were Labor Union Members

Country	Percentage Unionized 1940	1950	1960	1970
Sweden	35	52	61	75
Great Britain	33	44	44	45
United States	13	22	22	23
France	26	22	14	17

Note: The author thanks Robert Hanneman, Wilmot James, and Michael Shalev for assistance in compiling these data.

Great Britain had the lowest rates of change, while France and Sweden substantially outperformed the Anglo-American countries. Sweden's rate of change was higher than the other three countries, more than twice as high as the United States. And the American rate of change lagged substantially behind that of Great Britain. While Great Britain has had one of the most unimpressive rates of economic growth in Western Europe since World War II, it nevertheless had an increase in productivity more than 75 percent higher than the United States during the years between 1967 and 1975.

Sweden is the only one of the four countries which had both high levels in the rate of change in productivity and relatively high equality in the distribution of income. In Tables 3 and 4, whether the data are analyzed with Gini coefficients or an Atkinson index, whether the unit of analysis is for individuals or standardized by households, and whether one analyzes the data on a pre-tax or post-tax basis, Sweden is the country which has the most egalitarian distribution of income. Significantly, Sweden is the country in which the working class has been the most effective in mobilizing its political power and in influencing governmental power. And as the section below reveals, Sweden is the country which has the most coherence in its macroeconomic policies.

The working class in France has been least successful in mobilizing its political power and in influencing governmental macroeconomic policy, and not surprisingly, its distribution of income is quite inegalitarian. Among the four countries, it is the economic elites of France who have most effectively penetrated the political institutions of their country, and they have used their power to generate policy coherence, but policy coherence to promote economic growth and higher levels of productivity at the expense of income equality, not as a complement to a more egalitarian distribution of income as in Sweden.

Table 2

Output Per Employee-Hour in Manufacturing in
Four Western Countries, 1950-1975
(Average Annual Percentage Change)

	Output per Employee Hour		
Country	1950-1975	1950-1967	1967-1975
Sweden	5.2	4.9	5.7
France	4.8	4.9	4.6
Great Britain	3.1	3.0	3.2
United States	2.5	2.7	1.8

Source: United States Department of Labor, Bureau of Labor Statistics, Productivity and the Economy (Washington, D.C.: Government Printing Office, 1977), p. 98.

In the United States and Great Britain neither the working class (as in Sweden) nor the economic elites (as in France) have been able to dominate the political institutions of their countries. As a result, the United States and Great Britain have lacked coherence in their macro-economic policies and have not been able to perform as well as Sweden in maximizing both economic equality and economic productivity. Partly because Britain's working class has been able to mobilize more power through its country's political institutions than the working class of either the United States or France, Britain has achieved greater equality in the distribution of income. In the United States, both the left and the right have been relatively weak, causing a process of centerist politics to be dominant. As a result, there has been in the United States insufficient power on the part of any group to develop coherent policies that would maximize either a more egalitarian distribution of income or higher rates of economic productivity. And with the least coherence in its macro-economic policies, the United States has performed poorly in both policy areas relative to the other countries.

But how much coherence has there been in the macro-economic policies of these four countries during the past half century, and why have some countries been able to achieve greater coherence in their policies than others? The four case studies in the next section are designed to answer these questions.

SWEDEN

Because of its unique success in maximizing both high rates of change in productivity and an egalitarian distribution of income, Sweden is the

Table 3

Measure of Inequality of Pre-Tax Income for Individuals

	Year	Gini	Atkinson e = 0.5
Sweden	1972	.342	.097
United Kingdom	1973	.344	.098
United States	1972	.404	.138
France	1970	.416	.142

Source: Income Distribution in OECD Countries (OECD Occasional Papers, July, 1976).

Table 4

Measures of Inequality of Post-Tax Income for Individuals and Standardized for Household Size

		Individual		Household Size	
	Year	Gini	Atkinson e = 0.5	Gini	Atkinson e = 0.5
Sweden	1972	.302	.077	.271	.063
United Kingdom	1973	.318	.083	.327	.088
United States	1972	.381	.122	.369	.113
France	1970	.414	.141	.417	.143

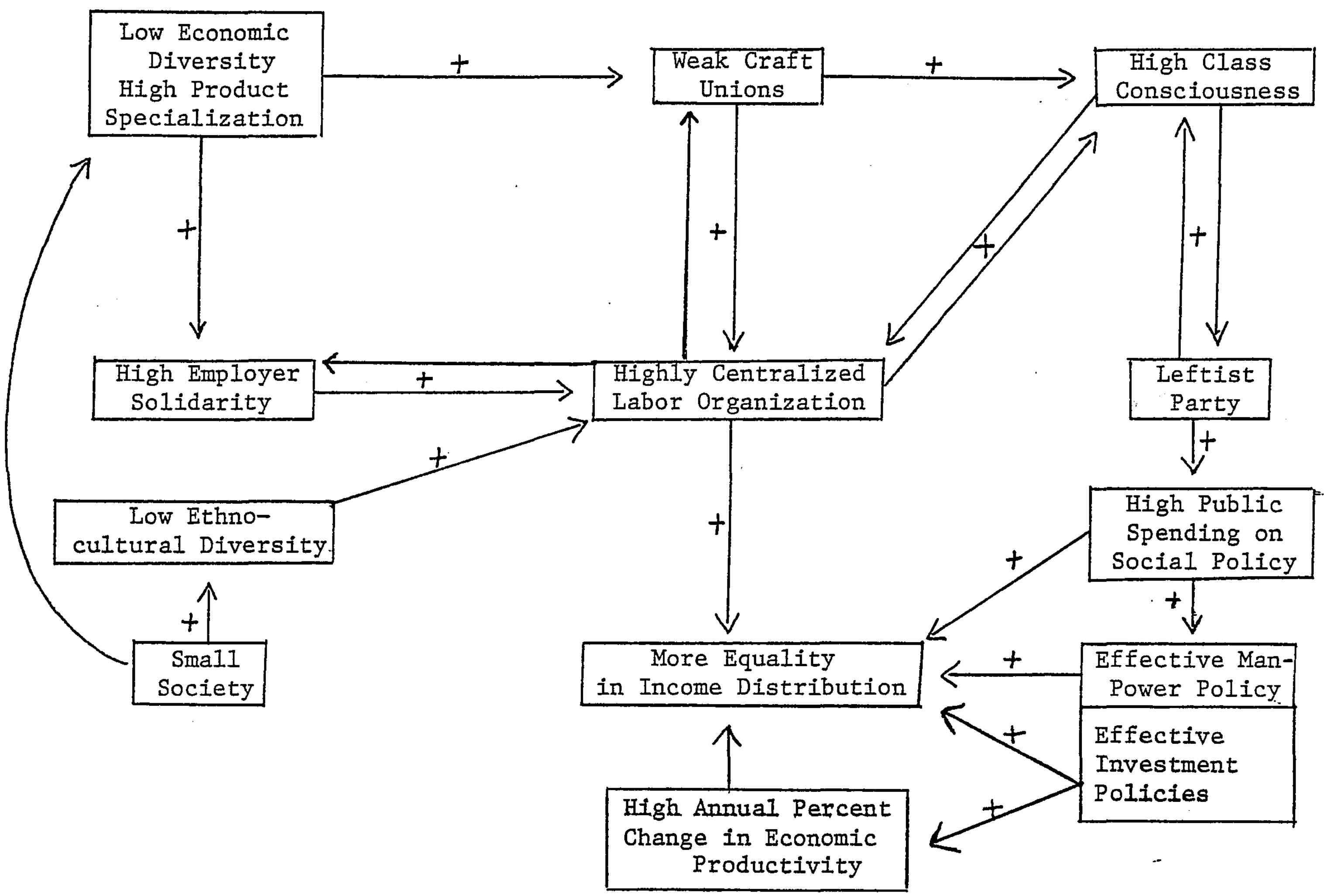
Source: Income Distribution in OECD Countires (OECD Occasional Papers, July, 1976).

archetype to which the other countries will be compared. The explanation for each country's economic performance is an historical-structural one. The argument for understanding the relative performance of these four countries on the two dependent variables is summarized in Figure 2. And while the major hypothesis of this study is that the power of certain groups influences which utilities get maximized, note that the argument summarized in Figure 2 attempts to explain why groups attain the strategic position to dominate the country's political institutions. The critical variables to which one wishes to be sensitized are the timing and the speed with which a country industrialized, its size in population and area, and the extent to which it has had a history of linguistic, religious, and social cleavage.

Note that on each of these characteristics, Sweden is at the opposite end of a continuum from the United States. Not only did Sweden industrialize late, but it is a small, ethnically and linguistically homogeneous Protestant country (Scase, 1976, 1978; Korpi, 1978, 1978b). Sweden's industrialization developed in a non-urban setting, based largely on iron and timber. And, unlike Britain and Germany, Sweden did not have a large landowning class, nor did a sizable artisan class exist in the cities. Sweden's industry developed with a high degree of product specialization and centralization, with an economy dominated by a small number of relatively noncompeting employers. In the context of rapid industrialization with a high degree of capital concentration, a small artisan class, and a small middle class, Sweden's working class tended to organize not into craft unions, which tend to fragment class solidarity and class consciousness, as in the United States, but into industrial unions. The small number of large firms which dominated the Swedish economy facilitated

Figure 2

Variables Influencing Sweden's Income Inequality and High Rates of Change in Economic Productivity



centralized employer's organizations. Similarly, the highly centralized economy encouraged centralized labor organizations (Scase, 1978; Korpi, 1978b). And these two highly centralized systems ultimately made possible economy-wide bargaining with economy-wide constraints. The fact that the working class was given the right to participate in electoral politics only at a very late date made it very politically conscious, somewhat in contrast to the British and American cases where the participation problems were solved at an earlier stage (Thomas, 1978; Hollingsworth, 1978). In short, several points are important: Sweden was a small, ethnically homogeneous country and bacause of its process of industrialization, it developed a high degree of organization and solidarity in its labor union structure, which led to a high level of politicization among the working class.

When a Social Democratic Party emerged in Sweden--unlike most European countries with Social Democratic parties--the working class labor unions and the Social Democratic Party were highly integrated. Secure with a large working class base--and this is critical--the Swedish Social Democratic Party did not have to make serious compromises with center parties in order to gain power. True, the Social Democrats were, for a number of years, unable to come to power and remain there without the cooperation of centerist parties. But the important thing to note is that the Social Democrats had considerable solidarity in their working-class support and did not have to make the type of critical compromises with the center parties that would undermine its legitimacy with its basic constituency, a process that did occur in the histories of the Social Democratic parties of Germany and of Britain and which weakened the power of the left in those two countries. With its cohesive power, Sweden's Social Democratic party was able to demand and get from the state extensive welfare services which included pensions, unemployment insurance, national health care, housing and family subsidies. This has permitted Sweden to have one of the best developed and most progressively financed welfare states in the world (Martin, 1976, 1977, 1978; Scase, 1976, 1978; Stephens, 1976, 1979; Korpi, 1978b).

But contrary to popular assumptions about Sweden, the most significant thing about its welfare state is not its consumption and governmental transfer policies. The most interesting thing about Sweden's welfare state apparatus has been the development of a comprehensive and very coherent labor market and wage policy aimed at reducing the inflation-unemployment tradeoff, while simultaneously equalizing income distribution and generating high rates of change in economic productivity. The complicated policies are briefly described below, but, in passing, a brief comparison with other countries is in order.

The leaders of the LO (the Confederation of Trade Unions or Landsorganization) and the Swedish Social Democratic Party recognized around 1950--much earlier than in other western democracies--that fiscal and monetary tools were not adequate to maintain economic expansion and high unemployment without inflation (Meidner and Anderson, 1971; Rehn, 1957; Martin, 1978; Lindbeck, 1973; Korpi, 1978b). Sweden in the early 1930s under Social Democratic leadership had been the first country to implement a Keynesian-type policy for generating aggregate demand. By the early 1960s, however, when there was finally emerging a political consensus in the United States to the effect that monetary and fiscal policies were "necessary tools" for the conduct of macro-economic policy, the Swedish Social Democratic Party was demonstrating once again its innovative posture in macro-economic policy by recognizing what even Keynes had recognized: that the management of aggregate demand by fiscal and monetary policy was not an adequate tool for coping with the problems of a capitalist economy over the long run. In other words, when President Kennedy and his admirers were congratulating themselves following a Yale University commencement address for adopting the tools for "fine-tuning" the economy, the Swedes had already recognized for more than a decade that the same tools were obsolescent for "fine-tuning." And in the early 1970s, when the United States and several other Western democracies were resorting to incomes policies in order to manage the economy, the Swedes had already discovered as early as the 1940s and the early 1950s that wage freezes and wage controls were artificial and unworkable ways of repressing inflationary pressures (Rehn, 1957; Lindbeck, 1973; Martin, 1978).

Significantly, the Swedes understood the implications of Keynes even better than most western economists who labeled themselves as Keynesians. Keynes in the last part of The General Theory of Employment, Interest, and Money had recognized that in the long run "a comprehensive socialization of investment will prove the only means of securing an approximation of full employment (Keynes, 1935, p. 378)." Certainly, Keynes was not a socialist, but he did recognize what the Swedish Social Democrats realized in the early 1950s: that some significant institutional change would ultimately be necessary in order to maintain full employment (Minsky, 1975; Martin, 1978; Chase, 1975). The intellectual elite of the Swedish Social Democratic Party, of course, were familiar with the writings of Michal Kalecki, who had already worked out the intellectual implications of Keynes' theory (Feiwel, 1975; Kalecki, 1943), indicating that a new stage of capitalism would by necessity eventually emerge, whereby there must be a socialization of investment capital.

> Full employment capitalism will have, of course, to develop new social and political institutions which will reflect the increased power of the working class.. If capitalism can adjust itself to full employment, a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system. (Kalecki, p. 331, 1943).

The Swedes have been able to recognize the inadequacies of certain macro-economic policies, and to develop new institutional mechanisms for managing an economy earlier than their counterparts in other advanced industrial capitalist societies (for Sweden has a less complex economy, it is a smaller country, and its leaders have had sufficient power to generate innovative policies which have considerable coherence to them.) On the other hand, larger countries with more complex economies and more fragmented political structures have not had the ability to generate, implement, and evaluate complicated and coherent macro-economic policies (Hollingsworth, et al., 1978).

Although the Social Democratic Party was committed to fundamental structural change in order to attain low unemployment without run-away inflation, it, like other European parties which had emerged from the European socialist tradition of the nineteenth century, underwent an accomodation with the capitalist system. And contrary to the misguided idea that Sweden has had a socialist economy, it is very much a capitalist society, and has an economy which might appropriately be called full employment capitalism (Israel, 1978; Martin, 1978). But only a political system dominated by labor movement political parties (as is the case in Sweden) is likely to carry out policies in which full employment, a high level of income distribution, and a highly efficient economy are given equal priority. Societies dominated by centerist parties may wish to achieve these goals but the existing configuration of power in such societies tends to place severe constraints on the exercise of power, which makes achievenment of all three goals impossible.

But how has Sweden been able to maximize all three goals? Sweden's Social Democratic leadership decided in the early 1950s that the task of maintaining economic expansion, low unemployment, and income equality without stimulating inflation required economic structural change. With fiscal policy and trade union wage pressure, they would squeeze the profits of weak and inefficient firms. In their bargaining, the LO would demand equal pay for equal work across the economy, regardless of the ability of a company to pay. This policy, known as the wage policy of solidarity, would obviously drive down the profits of weak and inefficient firms and force them out of business. The workers released from employment by these companies were provided alternative jobs through an active labor market policy consisting of job retraining, unemployment moving costs, and extensive information on employment possibilities and public work jobs. The strategy was to reduce structural employment and to shift workers to high productivity and high wage sectors--a strategy designed to upgrade average wages and the overall productivity of the Swedish economy while reducing the inflationary impact of high employment. For this analysis, it is important to note that manpower policy rather than wage restraint became the basic means of dealing with the unemployment-inflation problem. As high levels of employment would increase wages and possibly stimulate inflation, the government attempted to curb prices with indirect taxation. Because the LO controlled such a large proportion of the labor force, it was able to coordinate rather successfully wage claims in order to prevent interunion wage rivalry, a phenomenon which has often been a serious problem in the United States and Great Britain where there has been much "wage-wage spiral," as a result of the inability of unions to coordinate the wage demands of union members (Piore, 1978). With its high level of centralization, the LO has negotiated wage agreements with the even more highly centralized employers' federation, the SAF. But, without the high level of centralization on the part of <u>both</u> negotiating parties, this type of process would have performed very poorly.

Both before and after World War II, the Swedish Social Democrats adopted the view that state planning and cooperation with the business community were necessary in order to bring about the necessary structural changes to achieve the "maturation of capitalism." However, the Social Democrats did not believe that the wage policy of solidarity combined with monetary and fiscal policy were sufficient to achieve their goal of an efficient economy. To achieve this goal, they believed that not all investment decisions should remain in the private sector. To promote some socialization of investment, they resorted to a vast pension program under quasi-public control, the funds of which could be used to channel investment to selected target areas (Martin, 1976, 1977, 1978; Korpi, 1978b).

The attempts of the state to maximize investments which steer capital investment away from stagnant sectors in order to stimulate economic expansion, high employment, and income equality, have made Sweden's economic performance impressive. In certain respects, the state's manpower policy and managed pension fund are the crux of Sweden's welfare policy. Control over vast investment resources has allowed the state to engage in selective investment designed to enhance continued economic growth. Because the pension program is designed to guarantee pensions at two-thirds of the salary level of workers during the best fifteen years of their earnings, the program has been sympathetically received by Sweden's middle class, and has helped to establish Social Democratic hegemony over the white collar workers who previously identified with parties to the right (Swickard, 1976; Stephens, 1976, 1979).

The convergence of interests mutually acceptable to trade unions, the Social Democratic Party, and big business had led to programs which have satisfied the short-term interest of the trade unions and the short- and longer-term interests of Sweden's largest industrial corporations (Israel, 1978). As smaller and less productive firms have been forced out of business, the concentration of private economic power has increased. Indeed, twenty firms dominate the economic life of Sweden (Lindstrom and Nordin, 1977, Israel, 1978; Ahrne, et al., 1978), making Sweden the country with the most concentrated capital among the world's highly industrialized societies (Ahrne, 1978). At the same time, most of the government's various investment funds have tended to flow to the largest firms in Sweden. These policies have been relatively successful in counteracting recessions in business cycles and in making Swedish industry more competitive in the world market place. The consequence has been substantial economic growth, low unemployment, and low income inequality, resulting in one of the highest, if not the highest standard of living in the world.

Sweden is a rather unique case, however, in being able to reduce the tensions between the effort of the state to carry out social consumption and redistributive policies on the one hand, and to carry out its function of expanding capital on the other. It is questionable whether these policies could have been carried out in a society very different from Sweden. The small size of the economy is an important variable contributing to the success of the manpower and investment policies. Swedish policy makers have not only been innovative with policy proposals but they have been fortunate in having the political power to develop and implement coherent macro-economic policies.

FRANCE

In the distribution of income, France ranks at the opposite extreme from Sweden. In almost all studies of income distribution among the world's most highly industrialized countries, Sweden generally has the most equitable distribution and France the most inequitable. Table 5 provides an interesting insight into one reason for the difference in income distribution among the four countries: In both France and the United States the highest income group receives a larger share of governmental transfers than any other income group, while in Sweden the highest income receives the smallest share of governmental transfers. In France, the highest income group receives almost twice the share of governmental transfers as the bottom decile, while in Sweden the bottom decile receives a governmental share more than three times that received by the top decile.

But why are these particular governmental outcomes so different in France from Sweden? Primarily because the social and economic institutions of France have placed limits on the mobilization of working class power, which in turn has set real constraints on the structure of the state and its policies. Unlike Sweden which industrialized very rapidly, France's process of industrialization has been a very long one. By the end of

Table 5

Share of Governmental Transfers
Received by Each Income Group

	Share of Each Decile									
	Highest Income Groups ←-----						Lowest Income Groups -----→			
	1	2	3	4	5	6	7	8	9	10
Sweden[a]	5.2	5.5	5.7	6.5	6.7	7.1	9.8	16.3	20.3	17.0
United Kingdom[b]	4.7	4.6	5.8	5.1	6.4	6.2	8.0	16.9	23.4	19.0
United States[c]	14.5	9.3	8.8	7.1	7.2	8.3	9.7	11.9	13.7	9.6
France[d]	14.3	10.0	9.4	8.3	9.5	10.0	10.3	10.6	10.0	7.8

Source: Data are from Income Distribution in OECD Countries (OECD Occasional Papers, July, 1976).

[a] 1972 data

[b] 1973 data

[c] 1970 data

[d] 1964 data

World War II, at least one-third of the French population depended on the land for their existence (Kindleberger, 1964; O'Brien and Keyder, 1978). But France's agricultural population was not a landless, proletarian one; it was a property owning peasantry with distinct conservative values. And the rural character of the population did much to preserve cultural and lingusitic diversity in the country. Indeed, traditional dialects and/or separate languages survive to the present day in Brittany, Alsace, and the southern half of the country (the area of the langue d'oc) (Ehrmann, 1968; Blondel, 1972; Hoffman, et al., 1963; Brogan, 1940). And this cultural diversity has worked to retard the mobilization of working class power.

The cultural diversity and the slow industrialization process of France are reflected in economic structures very different from the highly centralized and less complex economy of Sweden. While France has historically had a few large, dynamic business enterprises, the economy until World War II was dominated by small businesses, especially family-operated ones, with archaic and paternalistic labor relations (Ehrmann, 1968). Until recent years, the overwhelming majority of French employers refused to recognize unions or to enter into negotiations with employees (Barbash, 1970). And it is this exclusion of employees that has led to a great deal of radicalism among French employees, though not all organized French workers are members of radical unions (Lorwin, 1968; Ridley, 1970).

It is here that the Church comes into play. As many studies have demonstrated, the outcome of the Protestant Reformation left a permanent stamp on the political life of Europe (Rokkan, 1970). In countries where Catholics remained either a majority or a large minority, religious issues have been reflected in working class politics. Socialist or leftist parties and labor unions have had to compete with the Catholic dominated parties and unions, thus creating a fragmented working class. Many workers from very religious backgrounds have accepted Catholic unions and have tolerated a great deal of paternalism in labor management relations. Thus, the French working class has long been divided between the Communist and Socialist left and a smaller segment of the Catholic moderates (Lorwin, 1968; Michelot and Simon, 1977). Among the more industrialized countries of the West, France has one of the smallest percentages of its labor force as union members--approximately 20 percent in 1970. Whereas the Swedish labor unions conduct sophisticated research on economic policy, the French unions engage in very little research in the basic issues affecting either workers or society (Barbash, 1970).

Unlike Swedish labor, French labor is made up of weak confederations which are also divided by region and industries. The French unions have few strike funds because dues are very low. Indeed, the way the French use the strike is a sign of weakness rather than strength. Without a strike fund, they resort to one day or one hour strikes during which they show symbolically a great deal of sentiment for a moment, but the strength is only transitory. As Jack Barbash reminds us, "Collective bargaining is relatively new in France, having been legalized in 1919, experimented with in some degree in 1936, but not accepted as a common practice until the 1950s (Barbash, 1970, p. 208)." Most French people, as part of their peasant and family-dominated recent past, have remained deeply suspicious not only of the state and the government, but also of labor union leaders. Even the French working class deeply distrust the leaders of their unions, which also helps to account for some of their weakness (Blondel, 1972).

It is the fragmentation and weak mobilization of working-class power that is an important factor in differentiating French social and economic policies from those in Sweden or even Britain. During most of the Third and Fourth Republics, the political life of France was dominated by the petty bourgeoisie, small businessmen, and farmers who detested the Left, opposed progressive taxation measures, and either tolerated or supported a rather regressive tax system. However, at crisis points, the French Left has taken power and has instituted welfare statist reforms (Stephens, 1976). For example, the short-lived Popular Front period during the 1930s and the period immediately following World War II accounted for most innovations in French social legislation. Both periods were characterized by socialist-communist cooperation in the government along with temporary increases in the level of trade union membership. In both cases, the balance of politcal power tipped in the direction of the organized working class, giving leftist governments substantial social support. However, the lack of a strong long-term institutional commitment, such as regular dues paying members of unions and high labor union participation, made jumps in union membership short-lived bursts of enthusiasm rather than permanent gains for the labor movement (Barbash, 1970).

Moreover, France has long had a communication gap between its partisan political elite and the state bureaucratic apparatus, so that when the Left has been able to mobilize political power, it has had great difficulty in implementing its policies. The French governmental bureaucracy has long had close established contacts with the elites in large business establishments, who shared similar backgrounds, especially in education. Organized labor, small businessmen, party leaders, and even cabinet ministers more often than not have failed to be effective forces in shaping social policy in the face of a highly institutionalized, independent, and often inflexible power structure consisting of top level bureaucrats and economic elites (Ridley and Blondel, 1969; Gregoire, 1964; Leites, 1959). In sum, the situation in France is a good example of what happens when social policies are created by socialists in coalition with other parties but are administered by conservative forces for long periods of time. An important consequence of this type of structure has been a very regressive tax system and widespread tax evasion. As Table 5 and several studies indicate (Hanneman, 1979; Stephens, 1976; Shonfield, 1965; Wohl, 1966), the French state is so regressively financed that its social policies have redistributive biases toward upper income groups. In sum, the basic social and institutional structures of French society have been responsible for its high degree of inequality.

But these and other French institutional arrangements are responsible for the high rates of change in industrial productivity which France has attained in the postwar period. Throughout the Fourth and Fifth Republics, the elite within the French bureaucracy has been the key factor in shaping the policies which have resulted in high rates of economic growth and productivity. Unlike the bureaucracy in other West European countries, the centralized French bureaucracy reaches into the most remote corners of French society. Relatively insulated from pressure groups and Parliament, the French bureaucracy has had the power to develop unified and coherent policies for shaping growth in the French economy. Among West European societies, France is unique in the autonomy and power which the state bureaucracy possesses. Obviously, the French state is not omnipotent in the economy, but through the nationalized banks, the Banque de France, and such state institutions as Crédit National, the state has been able to play an extremely important role in shaping coherent investment decisions. Some sources have suggested that in recent years, at least one-half of private investment is made as a result of government subsidy or loan (Vernon, 1974; Hayward and Watson, 1974).

Centralized state planning has acquired a relatively high level of legitimacy and has been able to guide high productivity for several reasons. First, an antimarket tradition is deeply ingrained in French history. A French tradition, running from Colbert through the Saint-Simonians, has feared the "waste of competition," and has preferred to moblilize and allocate economic resources through close cooperation between public and private sectors at a centralized level (Armstrong, 1973). Second, the elite structure of the state bureaucracy and the largest business firms are not highly differentiated, and this is an important key for understanding France's impressive economic performance, though an explanation of why the state and economic elites have such undifferentiated characteristics requires some digression. Not only have most of the top elites in the state bureaucracy and the largest business establishments attended the same Grandes Écoles, but the very top of the graduating classes of certain Grandes Écoles are recruited into a very elite institution known as the Grands Corps. A unique institution, the Grands Crops has promoted close cohesion of French elites in all sectors of the society. It has led to a small elite structure which is highly centralized, closed, cohesive, and fundamentally conservative.

It is customary to speak of five Grands Corps which are organized like an elite profession. The corps as an institution advance the careers of their members who in turn attempt to reflect credit on the corps. Because of the small number of corps and their tight cohesion, the corps have helped to resist and to contain the fragmentation in government departments and agencies which one finds in the governments of most advanced industrialized societies--espeically in Britain and the United States.

Most young people who are recruited into the Grands Corps first pursue a career in state administration, but over time, an increasing number eventually move into high positions in the nation's largest business firms. The key to understanding the success of French economic planning is the symbiotic relationship between the elites in the state adminstrative machinery and the large firms: The same type of person manages both. They are graduates of the relatively small and prestigious Grandes Écoles, most are members of the Grands Corps, and most have had a career as civil servants. Significantly, a high proportion of the highest administrative and managerial elite have been graduates of the École Nationale d'Administration, and in much of the period since 1945, the core of E.N.A. instruction has been a distinctly French brand of economics. Moreover, much of the instruction of E.N.A. has been by successful managerial elites from the public and private sectors rather than by a full time academic staff. By severely limiting the contact of students with a professional academic elite with their own particular educational ideologies, the E.N.A. graduates are socialized into a slightly right of center set of political views which facilitates a close rapprochement with private sector managerial elites (Armstrong, 1973, 1977; Suleiman, 1978; Granick, 1972). In short, there is a homogeneity in the educational and professional backgrounds of the French elite. As a result, the type of hostility between the public and private sectors which is still strong in Britain and the United States is a thing of the past in France.

Perhaps it is significant that Japan--another highly industrialized society which also has high inequality in the distribution of income but high increases in productivity---has a social and political elite structure analogous to that in France. In Japan also, there is considerable cohesion between the public and the private sectors. Moreover, the top graduates in Japanese universities also take up a public career as a route to an elite position in a business form: "With the rapid growth and bureaucratization of corporations, private industry [in Japan] looks more and more to the civil service to meet the increasing demand for executives at the higher levels" (Yanga, 1968, 107-119).

Just as the French administrative elite have attempted to concentrate political and administrative power, they have, in the post-war period, also promoted the concentration of capital in the private sector through mergers. Indeed, France, largely due to government prompting, has had the highest rate of mergers and has developed one of the most centralized economies in Western Europe (Venturini, 1971). And the more mergers that have occurred, the closer the ties between big business and the state, and the weaker the relationship between small business and the state. Whereas the Anglo-American societies have tended to frown on industrial concentration on the grounds that it reduces competition, retards innovativeness, and lowers productivity, the French have openly supported concentration as a means of promoting efficiency and higher productivity (Cohen, 1969; Hayward and Watson, 1975; Zysman, 1977, 1978).

It is the concentration of both economic and political power that has permitted the French to engage in systematic and efficient planning. As a result of the increasing concentration of power in the public and private sectors, the French elite have been able to dominate the core of the French economy (Cohen, 1969).

France resembles Sweden in that both countries have carried out extensive planning in developing and implementing social and economic policies. But unlike the Swedes, the French have not had a planning process that is very democratic. Because the French bureaucracy enjoys considerable independence and autonomy from political parties, the French planning process often resembles an elitist conspiracy carried out in the public interest. But it is this undemocratic and conspiratorial quality of French planning that has permitted policy coherence to function in the French system. As Andrew Shonfield has remarked, the French have had a set of pre-capitalist institutions which have functioned moderately well in producing policy coherence (Shonfield, 1965). But unlike the situation in Sweden, the French have not achieved equality and high levels of economic productivity simultaneously. The French bureaucrats have opted for sustained economic growth and have been extraordinarily successful in achieving it. Because the French policy process has not been very susceptible to democratic pressures, however, the French have had a rather poor performance in achieving a more equitable distribution of income. Meantime, popular forces are being mobilized in France, demanding more participation and equality, suggesting that the system which has produced coherence and impressive rates of change in economic productivity may have to increase its level of participation and egalitarianism (Shonfield, 1965; 1976).

It is doubtful, however, that the French can maximize simultaneously policy coherence, income equality, and economic productivity without adopting some of the political structures and political processes similar to those which the Swedes enjoy. Because the historical processes of capitalist development in France are fundamentally different from those in Sweden, however, the French are not likely in the future to duplicate a set of political institutions, processes, and outcomes similar to those in Sweden.

GREAT BRITAIN

Great Britain, of course, falls between the cases of Sweden and France in terms of the mobilization of working class power. It is partly for that reason that social and economic policies are less coherent in Britain than in Sweden. It is also for that reason that Britain has achieved less income equality (Nicholson, 1974) than Sweden, but has achieved greater income equality than France or the United States.

In Britain with a highly participatory society, neither the Left nor the Right have the capability to dominate British politics, contributing to a lack of policy coherence. The explanation is again a complicated, historical one. First, in contrast to Sweden, Britain is a larger country, the concentration of capital has been lower, the structure of the economy has been more diversified, and industrial production has been less specialized.

Second, Britain industrialized before any other nation and developed at a moderate pace. With these considerations in mind, structural conditions which have placed constraints on policy coherence may be explained with a brief historical sketch.

The pattern of industrialization in Britain led to the initial development of strong craft unions. The lag between the development of union organizing and the final development of a leftist party (the Labor Party) was very long--unlike the situation in Sweden. The relative openness of the British political system may have been the reason. As a result of suffrage extensions in 1867 and 1883, there was political competition between landed and urban elites in the late nineteenth century. This, combined with the strength of craft unions, meant that working class participation was more liberal than socialist oriented. And it was not until 1918 that the Labor Party adopted a very moderate socialist stance, though many historians argue that the British Labor Party never adopted a socialist stance at all.

Repeating a theme emphasized in regard to Sweden, centralized trade union movements are more likely to take a leftist, class-wide perspective than a narrow group-interest view and to facilitate a political process with policy coherence. Because Britain is larger and has a longer tradition of craft unions than Sweden, Britain has had a less centralized trade union movement and a more fragmented working class than Sweden (Scase, 1976). At the beginning of the 1970s, there were over 500 different labor unions in Britain. And the difference in the characteristics of the trade union movements is the single most important factor accounting for the differences in the success of social democratic programs in the two countries. In Sweden, the Social Democratic

Party has for several decades faced a fragmented political opposition, which worked to its advantage, while Britain's Labor Party has faced the best organized conservative party in any capitalist democracy. Moreover, survey research data over many years demonstrate that the working classes in Sweden are much more solidly identified with the Social Democratic Party than are working class people with the Labor Party in Britain, and that the Swedish working class are more leftist in their voting behavior than are matched samples of British workers (Scase, 1976, 1978; Stephens, 1976, 1979). These differences manifest themselves in the voting behavior in the two countries. If the British Labor Party had the same level of support among skilled, semiskilled and unskilled workers as the Swedish Social Democratic Party has had since the mid 1920s, Labor would have won every election since the twenties (Scase, 1976). With these considerations in mind, perhaps we can understand why the Labor Party has had much less coherence in its policies and has behaved differently from Sweden's Social Democratic Party (Martin, 1973; 1975; 1976; 1978).

When the Labor Party came to power in 1929, it, unlike the Social Democrats in Sweden when they first had the opportunity, flirted with, but basically rejected Keynesian economics. Indeed, a section of the Labor party's leadership deserted the party and joined with the Conservatives to carry out an austerity policy, a policy of reducing government expenditure, balancing the budget, and maintaining the value of the pound (Kavanagh, 1973). Time after time, the Labor Party in Britain has generated rhetoric acceptable to its followers but has attempted to carry out programs demanded by their opponents. In 1946, the program which Labor carried out was to a very large extent the same program that their Conservative opponents were prepared to implement. This does not mean that there have been no differences between the two parties. There is considerable evidence that when the Conservatives have been in power, sizeable elements within the party have been prepared to slow down the expansion of welfare services, to make the tax system less progressive, to introduce user fees if public services were free, and to introduce a means test for a number of unrestricted services. These, of course, are not differences to be dismissed out of hand. But a more interesting question is how different are the Labor Party's programs in substance and in coherence from those of Sweden's Social Democratic Party, and why?

One finds some insight into this problem by observing the Laborites' return to office in 1964. Their economic policy was essentially that of the Conservative Party: wage restraint and deflation (Keehn, 1978). Faced with a similar set of economic problems in the late 1950s and early 1960s, the Swedish Social Democratic Party responded with sophisticated, innovative, and coherent manpower policy and capital investment programs. But it was the different set of structural constraints operating in Britain that has imposed serious limitations on the ability of the Labor Party to deviate markedly from programs endorsed by the Conservative Party. In Britain, as in America, the tendency of the two major parties to converge toward the center has severely restricted the element of political choice (Martin, 1973, 1977). Party competition in Britain has resembled "duopolistic competition without product differentiation" (Kavanagh, 1973). As a result, the case for innovative and coherent policymaking in Britain goes begging (Keehn, 1978; Britain, 1975).

Britain in the 1960s and the 1970s, like her party leaders during the depression, have been unable to deal with the same basic crisis: the problem of modernizing the economy, renewing the industrial infrastructure in depressed regions, providing a more dynamic economic leadership, and increasing rates of productivity.

Another reason why the British have had difficulty in developing and implementing coherence in macro-economic policy is that the business community has long been very fragmented and decentralized. The potential for effective economic planning is greatly enhanced when a centralized governmental sector can work with a highly centralized business sector. But in contrast to the highly centralized business community of Sweden, the British business community has been much more diversified and decentralized. And in contrast to France, there is poor cohesion between the administrative and business elites -- meaning that the two British sectors are quite differentiated and that there is poor communication between the two sectors. The top administrative elite in Britain have tended to be products of elitist secondary schools, to have received first degrees from Oxford or Cambridge in humanistic studies, to have been socialized to be "all rounders" -- (i.e., persons with no specialized training). In contrast, the top managerial elite in Britain have had a somewhat more ordinary type education. In one study, only 38 percent of the top level managers of British firms were university graduates or the alumni of the prestigious public schools. And the average age at which the managers left school to begin work was eighteen. In contrast, 42 percent of the top executives of the most prestigious French firms were graduates of a single grande école (Polytechnique), while most other top executives had graduated from one of six other grandes écoles.

This contrast with France is not an indicator of the openness of British society, however. With the exception of the banking industry, it has been a reflection of the general low status of managerial careers in British society. Clearly, British business has not attracted the high quality of talent that the British civil service has (Granick, 1972).

Again, in contrast to the French and Swedish cases, the British system tends to resemble those parliamentary democracies which industrialized over long periods of time and which demonstrated a policy preference for low industrial concentration, few restrictions on economic competition, and strategies for noninterference and *laissez-faire* in the economy. Whereas the French administrative and business elite have emerged from a strong antimarket tradition, the British elite are products of a system that has long had a tendency to assume that market economics contains all the theoretical principles which one needs. The British administrative elite are products of a humanistic educational system which has given them a predilection not to be activists in economic matters, whereas the French elite have been well schooled in engineering and interventionist economics, encouraging them to believe that it is their mission to build and to change society (Armstrong, 1973).

With highly monopolistic and highly concentrated sectors less prominent in the economy of Britain than in that of Sweden or France, the British have found it much more difficult to develop and implement plans for modernizing the economy. With their more centralized society, the French and the Swedes have been able to pioneer in managing the supply side of the economy, while the British, with their more fragmented and decentralized economy, have tended to rely on the more traditional tools of managing aggregate demand.

Significantly, the banking community in Britain has been more centralized and powerful than most sectors of the British economy, and not surprisingly, one does observe a close, symbiotic relationship having developed over time between the Treasury and the banking industry. But the relationship has had a rather ruinous consequence for British productivity levels--for reasons that are somewhat complex.

First, the administrative elite in the British Treasury have taken a somewhat ambivalent view on investment matters. They have tended to adopt more of a banker's view of the world, rather than a businessman's (Katzenstein, 1978). At the same time, the emphasis within the Treasury has been on regulation, not on investment, not in reshaping the society. Second, the British banking community, following World War II, was more interested in defending sterling in the world economy than in restructuring the British economy. Whereas the political and economic elites of Sweden and France focused their attention on domestic matters following the War, the British Treasury and the banking community had as their first priority the building of a liberal international community with sterling at its center. Both Whitehall and the banking community became somewhat obsessed with maintaining international confidence in the pound. As a result, the government permitted the banking community to engage in large capital outflows--to invest and to lend vast sums of money overseas, to the neglect of investment and modernization at home. This ultimately forced the British government to pursue deflationary policies of officially raising interest rates, instituting credit restrictions, and maintaining low investment at home (Blank, 1978). Eventually, Britain realized that its major priority should not be that of maintaining sterling at stage center but of providing more investment and increasing productivity at home. By the time the British understood the implications of their international financial game, however, capital for domestic investment was in short supply. Even had Britain not had the massive outflow of capital in the 1950s and 1960s, however, it is questionable that the cultural and structural conditions existed that would have permitted the British to match the effectiveness of the French and the Swedes in increasing productivity by managing the supply side of the economy.

THE UNITED STATES

Also in contrast to Sweden, American society has a low level of labor organization, an extremely large and complicated economy, and low coherence in its social and economic policies. More important for understanding the different roles of government in influencing economic performance, the American political system is very large, fragmented, and decentralized. On almost every variable in Figure 1, the United States is at the opposite end of the continuum from Sweden. The result has become an American economy with high levels of unemployment, sagging levels of productivity, high levels of inequality, and low rates of economic growth.

The United States is a large, ethnically diverse country which historically industrialized at a pace greater than Britain but less than Sweden. Because the political system at the time of industrialization was more open than in Britain or Sweden, one would not expect a unified, leftist labor party to have developed in America. Instead of creating its own party, the American labor movement has historically tried to influence and mobilize support for the more leftist of the two major parties. Early craft unions tended to be liberal, not only in the sense that they were not socialist but also in the sense that they wished to avoid political action as a method of furthering the interests of their members. The ethnic diversity of America fragmented and divided the labor movement, reduced the power of labor, but ultimately facilitated the liberalism and the narrow based interests of the American Federation of Labor (A F of L).

Of course, the Democratic Party during and after the 1930s became somewhat more identified with the interests of organized labor. And there are several studies which demonstrate that the strength of the Democratic Party at the state level has had some positive effect on state redistribution to the poor (Friedland, 1977). But in general, American political parties, especially at the national level, have not had the discipline and the organization to provide them with the capability to formulate a social program in the interests of any major group, primarily because the party structure has been a coalition of local groups with a social basis varying from constituency to constituency. Neither party at the national level has ever been able to develop and implement coherent economic policies in the sense that the Swedish Social Democrats have.

Unlike the Swedish party system, American political parties have tended to mirror all of the contradictory forces in American society, causing party elites to engage in constant compromises in an effort to hold the parties together. As a result, neither of the two major parties has been very successful in developing coherent policies for solving the nation's problems. Because the United States has a two-party system, with winner take all elections, single member districts, and a separate election system for Congress and the Executive, third parties which tend to be programmatic with coherent policies have been dismal failures in American history. As no single segment or group in American society has completely dominated either of the two major political parties, critical choices about American society have been made outside the party structure. For this reason, powerfully organized economic interests have been able to play a major role in shaping economic and social policies in the United States (Lowi, 1969), for they have tended to exert power through their economic domination in the market rather than through political domination of the party system.

Against this background, it is hardly surprising that some of the most important economic policy proposals of organized labor have met with little success. Organized labor, which has been weakly organized by Scandinavian standards, has not been able to get a comprehensive pension plan or a national health insurance program, even with Democratic adminstrations. Instead, they have had to resort to the private sector to develop extensive pension and health insurance, leaving substantial sectors of the working class with inadequate coverage. Significantly, a much larger proportion of governmental transfers go to the top 20 percent of income receivers in the United States than to the bottom fifth. (See Table 5).

It is true that the working class has been attracted more to the Democratic Party than to the Republican Party for almost half a century (Burnham, 1970). But the Democratic Party is not a working class party in the sense that the Swedish Social Democratic Party is or even the British Labor Party. The Democratic Party has transformed politically autonomous working class power into a subordinated interest group. While the results have expressed working class interests, they have not been dominant. In this sense, the Democratic Party has been a fragmented, loose coalition for arranging compromises among the different interests making it up. And this is the key for understanding why there has been so little coherence to the formation of public policy by American political parties (Martin, 1973). Of course, the sheer size of the country and its decentralized federal system have also contributed to the lack of consistency and coherence in party policies. And it has been the failure of the Right or the Left to dominate social and economic policy that explains the constant contradictions, and the inconsistencies in American economic policies.

The size, the diversity, and the complexity of American society are all important reasons why political decisions represent momentary compromises, or appear to be chaotic and contradictory, whereas the Swedes, with their homogeneity and much smaller scale can afford to be more consistent, more global, and much more macro-economic in their policy concerns.

One might observe the meaning of these contrasts by reflecting on how these two countries have responded differently to manpower policy. We have already observed that when Sweden was concerned about the trade-off between high unemployment and inflation in the 1950s, the LO and the Social Democratic Party enacted a set of policies which were designed to bring about long-term, fundamental structural changes in the economy, changes which are ultimately leading to a socialization of investment. And the Swedish strategy of coordinating investment and manpower policy has been relatively successful in keeping levels of unemployment relatively low. (See Table 6).

In America, however, labor unions have viewed themselves as being outside of government, and have felt obligated to concentrate their energies on collective bargaining and other short-term issues. American trade unions

Table 6

United States and Swedish Labor Force Unemployment Rate
Adjusted to U.S. Concepts

Year	U.S.	Sweden	Swedish Unemployment Adjusted to U.S. Concepts Plus Those in Labor Training Programs
1961	6.7	1.4	1.9
1965	4.5	1.2	2.1
1967	3.8	2.1	3.4
1970	4.9	1.5	3.3
1972	5.6	2.7	5.3
1974	5.6	2.0	4.5
1975	8.5	1.6	3.9
1976	7.7	1.6	4.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, _International Comparisons of Unemployment: Bulletin 1979_ (Washington: U.S. Government Printing Office, 1978), pp. 19, 33.

have devoted much less concern to long-term structural problems than their Swedish counterparts. For example, research on the part of American trade unions has been very limited. The AFL-CIO with an affiliated membership of almost 16 million members has a smaller research staff than Sweden's LO with only one-tenth the membership (Barbash, 1970). Most economic research and policy proposals in America, both in and out of government, instead of addressing issues which lead to fundamental structural changes, have tended to be supportive of existing institutional arrangements (Korpi, 1978). One administration after another flirts with some variant of an incomes policy in order to do something about inflation--but with little success. When fiscal and monetary policies have not been able to solve the unemployment-inflation dilemma, and when there is not political potential for restructuring American economic activity ala Sweden's style, it should not be surprising that many policy makers and researchers in America have begun to adopt a position which is distinctly micro-economic, a message which increasingly becomes more vocal and which stresses imbalances between demand and supply in the labor market. Many Americans have tended to deal with many manpower policy issues by emphasizing the mismatch between different qualities and skills of labor and the willingness of people to supply labor effort in complementary proportions. Increasingly, Americans and British are told that unemployment is voluntary, whether it be of the frictional or the search variety. Unemployment is attributed to the desires and motivations of the individuals clashing with available work opportunities. If there is a desire to lower unemployment, Americans and British are increasingly told that there must be some dismantlement of the welfare state apparatus. The public is informed that minimum wage laws, unemployment insurance programs, and income maintenance programs create and support an artificially high wage structure which over the long run compresses the share of profits, reduces investment and lowers productivity, and cuts down the potential for jobs. (Feldstein, 1973; 1974; 1975; Esposito, 1978; Lesnoy, 1978). Given the way that the structure of the political systems of Britain and America places contraints on their policy options, one should expect that the logic underlying this type of micro-economic thinking would become more attractive to many groups in these two countries in the short run and that there would be increasing efforts to shape welfare legislation consistent with this type of micro-economic thinking. The present Conservative Government in Britain is an example of this type of approach.

In Sweden, a critical concern of social and economic policies has increasingly been with who makes investment decisions, where the investments are to be (both inter-regionally and internationally), and in what sectors investments are to be made. In the British and American area, however, these have not been appropriate decisions for political discussion. In both countries, there is widespread belief that one reason why there are low increases in productivity is because of the shortage of investment capital. And the record is quite clear that among all highly industrial societies, the United States has for many years had the smallest percentage of its GNP in capital investment. (See Table 7). Whereas the French and the Swedes have placed severe restrictions on the ability of investors to export investment capital from their respective countries and have involved their respective governments in making investment decisions, investment issues have been largely handled in the private sector in Britain and the

Table 7

Capital Investment as a Percentage of Gross National Product
Nine Highly Industrialized Countries, 1960-1973

Country	Capital Investment in the Total Economy, Excluding Residential Dwellings
United States	14.8
Great Britain	16.7
France	19.7
Sweden	19.1
Belgium	17.8
Canada	19.7
Germany	22.2
Italy	16.3
Netherlands	21.9

Source: U.S. Department of Labor, Bureau of Labor Statistics, Productivity and the Economy. (Washington, D.C.: G.P.O., 1977), p. 102.

United States, with the result that billions of dollars flow out of both countries to be invested in other parts of the world. In short, it is not clear that the low increases in productivity levels in Britain and the United States have resulted from a fundamental shortage of capital in these countries. The problem has had more to do with who makes the decisions about where investments are to be made. Because of the large scale of the British and American economies, however, the governments in these two countries probably lack the capacity to influence investment decisions with the same degree of efficiency as governments in countries with less complex economies.

Because of the large, diverse, fragmented, and decentralized structure of the American political system, the state has not been able to engage in the same type of formalized economic planning activity which has been possible in some of the more centralized capitalist societies since 1945. Whereas the British and American governments still attempt to conduct macro-economic policy by engaging in the short-term incremental management of demand (i.e., altering the relationship between large aggregates such as the control of credit, levels of government spending and taxation, etc.), the more centralized governments of France and Sweden have been able to mobilize sufficient power to shape supply-type decisions. While a decentralized state has the potential power to shape policies designed to influence the short-term incremental management of demand, only a highly centralized and well coordinated political system can effectively manage supply-type decisions. And the decentralized, fragmented and poorly coordinated American political system does not have the power to rely on indicative planning or other types of state planning in order to overcome the deficiencies of strict Keynesian short-term demand-type management to cope with the serious problems of high unemployment, prolonged low productivity increases, and high inflation.

The American effort to engage in the short-term incremental management of demand, however, has not been one with much coherence to it. Much of the macro-economic policy shaped by Washington has resulted in a political business cycle, with economic policies being made by presidential administrations eager to receive favorable responses at the ballot box (Nordhaus, 1975; Tufte, 1978).

Herbert Stein, in a detailed study of fiscal policy in twentieth century America, argues that one of the major explanatory variables to account for public decisions in American macro-economic policies has been whether the choice was made in an election year or not (Stein, 1969). For example, every administration between 1945 and 1976 attempted to manipulate the short-term course of the economy in order to improve its political party's standing in the next election (Nordhaus, 1975; Tufte, 1978).

During the adminstration of every president between 1945 and 1976, excepting Eisenhower's, the short-term growth in real disposable income per capita increased in election years and dropped during odd numbered years. Real disposable income--which is directly and immediately affected by taxes and transfer payments--has increased an average of 3.4 percent in years when an incumbent president has sought re-election, but only 1.4 percent in odd numbered years. Moreover, unemployment levels have bottomed out every fourth November at election time. Again, with the exception of the Eisenhower years, the unemployment rate on election day has averaged one percentage point below the rate approximately a year before the election and nearly two points below the unemployment level twelve to eighteen months after a presidential election (Tufte, 1978). As part of the political business cycle, most presidents have undertaken as one of their first priorities in their new adminstrations the creation of deflationary policies, which, of course, are then reversed as the next election approaches.

While a major assumption of modern economic stabilization theory is that macro-economic fluctuations are the result of economic market behaviors, the historical evidence demonstrates that much of the fluctuation in American real disposable income and unemployment levels has been the result of a systematic rhythm in American political life.

Of course, presidents have been constrained in their management of macro-economic policy by legislators, various interest groups, central bankers, and unforeseen events--both domestically and internationally. But the historical record demonstrates that there has been a systematic relationship between macro-economic policy and American electoral politics since World War II. The result has been in contrast with some of the more centralized states of Europe: macro-economic policies lacking in coherence, policies which over the long term are inflationary and which have been poorly designed to improve levels of productivity and to develop a more efficient use of the nation's labor resources.

CONCLUDING OBSERVATIONS

Each of these four countries has a distinctly different style in its approach to economic policies. By undertaking a comparative and historical analysis, however, it has been possbile to discern configurations and patterns of behavior which an analysis of only one country would not have permitted. The advantage of comparative analysis is that it permits one to identify systematic patterns of behavior among structural variables. As a result of the analysis, it is now possible to develop for highly industrialized societies four propositions about the relationships among working-class power, centralization of the state and the economy, and the economic performance variables of income distribution and change in the levels of productivity. They are as follows:

1) If there is high working-class power in a society with a centralized state and with a centralized economy, there is likely to be low inequality in the distribution of income and high increases in productivity.

   Cases which support this proposition are Sweden and Norway.

2) If there is weak working-class power in a society with a centralized state and with a centralized economy, there is likely to be high inequality in the distribution of income and high increases in productivity.

   Cases which support this proposition are France and Japan.

3) If there is high working-class power in a society with a centralized state and with a decentralized economy, there is likely to be low inequality in the distribution of income and low increases in productivity.

   A case which supports this proposition is Great Britain.

4) If there is a weak working-class power in a society with a decentralized state and with a decentralized economy, there is likely to be high inequality in the distribution of income and low increases in productivity.

Cases which support this proposition are the United States and Canada.

The reader should understand that these propositions are intended to apply only to advanced industrial capitalist societies. At the present time, the author is not prepared to offer conclusions about the relationships among these variables in noncapitalist societies or in capitalist societies at somewhat lower levels of industrialization.

Thus far, the emphasis has been on variations across the four countries. However, one should not lose sight of their similarities. While there are still vast differences in Europe and North America in political, social, and economic structures, as well as differences on all types of indicators concerning the quality of life, the variation has narrowed during the twentieth century. Political, social, and economic structures have become more similar, as have many policy outcomes. Another way of making the same point is to observe that these societies are facing more similar problems. Increasingly, nation states converge in the types of services which they provide, and citizens across societies increasingly have similar expectations, which in all nations have been rapidly escalating. Partly as a result, each state is now confronted with serious social, economic, and fiscal problems. For more than 25 years, each state of Western Europe and North America has had public expenditures rising far more rapidly than its gross national product. Populations have been demanding more and more, while governments have attempted to respond with services which will pacify all groups in the society (Rose and Peters, 1978).

There is increasing evidence that the electorate on both sides of the Atlantic are becoming disenchanted with the performance of political elites. Under these circumstances, there has been pressure for governments to emphasize short-term considerations instead of the medium or long-term interests of their economies. But even if the problems which these countries are facing are quite similar, one should expect variation in the ability of governments to cope with the problems inherent in western capitalism. Those societies, such as Sweden and France, which did not industrialize under the dictates of nineteenth century liberalism have strong centralized states which are likely to have the capacity to mobilize the power necessary to develop and implement the policies necessary to deal with the present crisis. On the other hand, those societies whose political institutions are primarily products of modern liberalism—the United States and Great Britain—are likely to adjust less well to their present economic difficulties. In these liberal states, there is an absence of powerful public authority sufficient to contain the escalating entitlement claims. Unlike the Swedes and the French, the British and American states must operate within the constraints inherent in individualistic and market-oriented philosophies (Lowi, 1969). To manage the capitalist economies in these states, political decisionmakers rely heavily on the use of disincentives (taxes) and incentives (subsidies, tax allowance, etc.). No doubt, market type decisions will continue to operate. The critical question is which groups will be able to mobilize sufficient power to shape the incentive and disincentive systems. If the past is a guide to the future, no group in Britain or in the United States is likely to dominate the incentive and disincentive system during the next quarter of a century, with resulting policy incoherence. In short, these two systems are not well-equipped to deal with the impending problems facing western capitalism.

At the very time that western societies are losing confidence in the ability of governments to manage short-term events, the necessity increases for government to become even more involved in the affairs of society and to engage in long-term management of the economy. In some respects, governments have less room and less time for maneuver in dealing with economic affairs than did their predecessors, due in part to the tight interrelationships among the community of nations, to the fact that national boundaries are more permeable to international shocks, and to the loss of economic autonomy of nation states. More than ever before, a high degree of responsiveness, skill, and policy coherence are needed to coordinate the complexities confronting the world system of states and those states that are lacking in the capability of responding with coherence in their approach to the future are not likely to perform well in dealing with their economic and social problems (Shonfield, 1976).

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