

# The Politics of Labour Market Policy

## Structural and Political Determinants of Rates of Unemployment in Industrial Nations

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### 1. Introduction

Governments in Western nations were confronted with an unprecedented challenge in the 1970's and early 1980's. The setback to economic growth, the strong momentum of inflationary expectations, balance of payments difficulties, cost-push factors and deflationary tendencies produced serious problems for the reconciliation of a resilient managed market economy, the maintenance of price stability, employment security and a high level of welfare provision. The pursuit of policy without pain has become a task that is much more difficult to achieve than it was in the 1960's and early 1970's.

A variety of causes have contributed to the accumulation of economic problems in the early seventies (Boltho, 1982). Accelerating rates of inflation were to a considerable extent due to a wage explosion in the major West European countries in the late 1960's. However, they also mirrored the inflationary consequences of the United States' current account deficit, dramatic increases in job and income security in the post-war period and the commitment on the part of the governments of the OECD-countries to provide full employment, or at least, to hold unemployment at a level much lower than would be necessary to break inflationary expectations.

In addition to inflationary pressure, a number of other factors influenced economic policy, in particular the trend towards a decline of profitability in the OECD-nations (partly due to the wage explosion and full employment policy of the 1960's), the increasing internationalisation of the world economy and various exogenous shocks, such as the huge oil price increases, to which the OECD-countries were subject through the 1970's. The dilemma that was thus posed for economic policy could hardly have been more acute. Economic policy was confronted with the coexistence of inflationary momentum, a dramatic increase in production costs, a profit squeeze, rapid increase in labour supply figures and the presence of an oil shock that was at

one and the same time inflationary, deflationary and a drain on the balance of payments (Boltho, 1982).

For reasons that were discussed more thoroughly in recent politico-economic contributions to the study of unemployment (see in particular Scharpf, 1984 a, 1985 b), the existence of demand-pull and cost-push inflation and the emergence of unemployment, that was demand-constrained and capacity-constrained in character, and the persistent growth in labour supply confronted policy makers with a fundamental problem.<sup>1</sup> Fiscal and monetary policy alone were no longer sufficiently powerful instruments to secure full employment and high levels of price stability. In the absence of further policy instruments that could effectively be employed for controlling demand and supply—such as non-inflationary selective labour market policy, the tolerance of prolonged wage-cuts on the part of the trade unions, or control of labour supply—economic policy makers were faced with the difficult choice between inflation and unemployment. Moreover, in the worst case, expansive fiscal policy and expansive monetary policy were also likely to generate a stagflationary situation.

How did the governments of the OECD-nations respond to the new challenge and what impact did the policies that were adopted have on the twin problems of inflation and unemployment? The policy stances that were adopted varied from country to country. In one group of nations, consisting mainly of the larger OECD-economies (with the exception of Japan) and Switzerland, the general tendency of the late 1960's had been for fiscal and monetary policies to be mutually reinforcing. Thereafter, in contrast, and as a reaction to the growing economic problems of the early 1970's, monetary conditions were generally tightened in 1973 and became more restrictive in response to the first oil price shocks (see, for the following paragraphs, Boltho, 1982; Maddison, 1982; Price and Muller, 1984; Llewellyn, 1984; Chouraqui and Price, 1984). Budgetary policy also became more restrictive until 1974 and then more expansionist in 1974/75. In this period, the authorities of all OECD-countries accepted the need to finance the oil-related external demand deficits of the public sector. However, while the OECD-economy

<sup>1</sup> Depending on whether inflationary pressure originates from the demand side or the supply side of the economy, one may distinguish between demand-pull inflation and cost-push inflation. Following macro-economic models of employment in the private sector, it can be argued that involuntary unemployment may occur under two different conditions: "if effective demand falls below the available productive capacity which could be profitably utilized at prevailing costs and prices, as well as below the available supply of labour:  $D < C \geq L$  (demand-constrained or 'Keynesian' unemployment), or . . . if the supply of labour, at prevailing wages, is greater than the available capacity which could be profitably utilized at prevailing costs and prices:  $D \geq C < L$  (capacity-constrained or 'Marxian' or 'classical' unemployment)" (Scharpf, 1984 a: 269).

D refers to the aggregate demand for goods and services, C to the existing capacity for producing goods and services and L to the available supply of labour.

started to recover in 1975, in the majority of the countries the rate of recovery was not sufficient to reduce unemployment significantly. Nor were the OECD-nations successful in dealing with other economic problems: the large current account of the OECD-economy as a whole quickly became more unevenly distributed across the OECD-area, large public sector deficits emerged in many countries and the rate of inflation continued to remain at a high level.

The fiscal-monetary policy mix that was chosen in the major OECD-nations in the period following the first oil price shock resulted in a moderately expansionary monetary policy combined with budgetary restraint, except in 1978, when concerted action by the major seven OECD-nations on fiscal policy issues contributed to a moderately expansionist demand-push. In 1979/80, however, the second oil price shock struck before the national economies of the OECD-area had fully recovered from the first. This new price shock coincided with re-accelerating inflation rates, increasing current account and public sector deficits and a steep rise in the rate of unemployment.

The policy response that was taken to be sufficient to cope with these four major problems was dramatically different from the one in 1973/75:

Rather than seeking to support demand in the short run, the over-riding concern, felt by virtually all OECD governments, was to contain the inflationary impulse and to prevent, through a rapid adjustment of real wages, the price shock becoming built into the domestic wage/price spiral. Part of the concern was over inflation *per se*. But perhaps the more important part of the concern was to prevent wages rising at the expense of profits... There was also considerable concern over budget deficits, partly because of their perceived large and growing structural elements, partly because of a fear that their financing might crowd out productive investment, and partly because the composition of public expenditure, and the growing share of the public sector in general, were all considered to be obstacles to future growth. In the light of these concerns, OECD governments shifted the stance of fiscal policy significantly towards restrictions. Taking the three years to 1982 together, the cumulative swing towards fiscal restriction of the major 7 economies as a whole amounted to about 1 1/2 per cent of their combined GNP... Thus to the deflationary impact of the oil price itself was added extra deflation by the fiscal action of OECD governments. But in addition, and in contrast to the post 1973 period, monetary policy was also to play an important restrictive role (Llewellyn, 1983: 204).

In contrast to the majority of the large OECD-countries and Switzerland, economic policy in another group of countries was premised on a somewhat more expansionist stance in economic policy until the early 1980's. In the early 1980's, growing concern over huge budget deficits, higher interest rates in the United States and declining competitiveness, also contributed to a tightening of economic policy in these countries. Representative countries include Japan, and some smaller nations, in particular countries that have been characterised by a long tradition of a developed welfare state and strong or

moderately strong labour movements (such as Belgium, Denmark, Austria and Sweden).

In overall terms, the performance of economic policy in the OECD-countries, as measured by macro-economic outcomes indicators, was unsatisfactory. In the majority of the OECD-nations, overriding concern was focused on containing inflationary pressure, but it took more than ten years effectively to moderate the pace of price increase. However, the cost that the deceleration in inflation rates involved was high. Partly due to restrictive policy stances, economic growth rates were lower<sup>2</sup>, and this meant rising levels of unemployment, although it needs to be stressed that there is no one-to-one relationship between economic growth and labour market performance.<sup>3</sup> Furthermore, it can be argued that economic policy in the 1970's tended to remain too restrictive and too costly, insofar as it undermined confidence in demand management on the part of private economic agents (Bisham and Boltho, 1982: 318-19; Maddison, 1982, chp. 6). Moreover, low productivity growth and, above all, extremely high levels of unemployment continue to be the major problems in the majority of the OECD-nations (OECD, 1984 b).

Unsatisfactory as overall economic performance has been, and labour market performance in particular, it needs to be stressed that some nations have been more successful than others in weathering the economic crisis. Thus, for example, Japan ranks at the top of standard macro-economic indicators, such as economic growth, productivity increase, export strength and strength of the national currency, followed by Austria, Norway, West Germany, and also—depending on the exact choice of indicators—the United States and Switzerland (Euromoney, 1981; OECD, 1984 c and 1984 d). It should be emphasised that some of the OECD-nations managed to maintain full employment in the 1970's and also, albeit to a lesser extent, in the early 1980's. Thus, the average rates of unemployment between 1974 and 1982 remained low in one group of nations, consisting of Austria, Japan, Norway, Sweden and Switzerland. In contrast to this, all other OECD-countries were plagued by mass unemployment, albeit to a degree which varied from country to country (see Figure 1).

<sup>2</sup> Studies conducted by the OECD have pointed to positive associations between economic growth and growth in real money supply (M2), but there is also evidence in support of the view that greater stability in monetary conditions is associated with better economic performance (see for example Chouraqui and Price, 1983: 14-15).

<sup>3</sup> The exact nature of the association between economic growth and labour market indicators varies widely from country to country, but the general tendency is this: there exists a positive correlation between economic growth and total employment growth ( $r = +.54$  for 18 OECD-countries and 9 years of observation in the period from 1974 to 1982). Thus, it has not universally been the case that labour market performance has been decoupled from economic growth, but it needs to be stressed that other factors, such as labour supply trends, intervene in the complex relationship between economic growth and rates of unemployment.

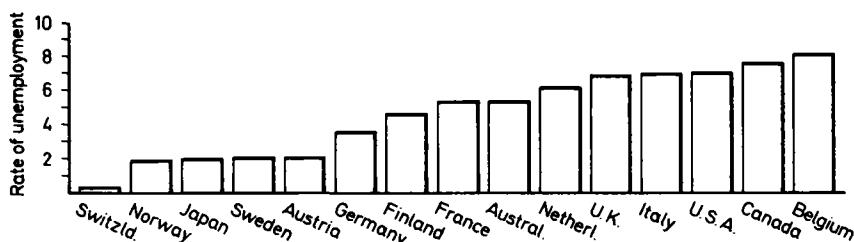


Figure 1. *Rates of Unemployment in OECD-Countries, 1974—1982*

Source: OECD 1984 d; Schmidt 1985

Although inflationary pressure posed difficult problems for economic policy in all OECD-nations, it also should be pointed out that the level of inflation, and the acceleration of inflation rates in the full-employment countries was, on average, *lower* than the level of inflation and the pace of price increase in mass unemployment countries. Thus, it has not universally been the case that full employment was traded-off with particularly high rates of inflation. In reality, the relationship between average rates of unemployment (or changes in unemployment) and average rates of inflation (or changes in the rate of inflation), as reflected by cross-national comparative data, varied from country to country. In overall terms, the data for 1974-82 demonstrate the existence of four different combinations of inflation and unemployment (OECD 1984 d).

One group of nations, comprising Austria, Japan and Switzerland, was characterised by full employment and low inflation rates or, at worst, moderate rates of inflation. In a second and third group of countries, the data demonstrate the existence of a strong trade-off between inflation and unemployment. In West Germany and in the Netherlands relative success in the control of inflationary pressure involved accelerating rates of unemployment. In contrast to this, the Swedish and the Norwegian experience indicates a different outcome. In both countries, the level of and the change in inflation rates were both moderately high, while rates of unemployment remained at a very low level.

Finally, in a fourth group of countries, mass unemployment and moderately strong or strong inflationary pressure tended to create a stagflationary situation. The data provoke a host of questions. How can we account for the wide range of variation in the exact nature of the unemployment-inflation dilemma with which all OECD-nations were confronted? Why is it, in particular, that some countries have managed to maintain full employment or near full employment and low or moderate inflation rates, whereas others were fully caught up in the inflation-unemployment dilemma, or, alternatively, faced with a stagflationary situation?

A complete answer to these questions would be beyond the scope of this chapter. In what follows, the thrust of the investigation will be towards an explanation of cross-national differences in unemployment rates.<sup>4</sup> We will not focus on the links that exist between unemployment and inflation. It needs to be stressed, however, that the analysis presented here must be complemented by a comparative study of inflation rates. Moreover, it should be emphasised that the analysis presented in this chapter focuses on averaged rates of unemployment in the period from 1973 to 1982 in 15 OECD-nations.<sup>5</sup> It follows from this that the analysis presented here does not presume to provide an explanation of why rates of unemployment have varied in individual countries by sub-periods, by regions or by social groups.

## 2. Structural and Political-Institutionalist Determinants of Cross-National Rates of Unemployment

In seeking to contribute to an understanding of unemployment we take a lead from recent politico-economic studies of Western nations<sup>6</sup> and premise our argument on a combination of a political-institutionalist view and an approach that focuses attention on structural variables. In the context of a politi-

<sup>4</sup> Rates of unemployment measure levels of open unemployment. Thus they do not fully take account of a number of other important aspects of labour market performance, such as the labour force participation rate, the level and the change in total employment, the proportion of the population of working age, the number of actual hours worked and the extent to which the number of discouraged workers biases unemployment figures. A comprehensive review of the labour market in OECD-nations would have to take these dimensions into account. In that case, it would become apparent that Switzerland would rank lower and some of the Anglo-American democracies, in particular the United States and Canada, would rank higher than is the case if one looks at the level of open unemployment. In the following analysis, we will discuss these cases more fully, but it needs to be stressed that the major emphasis in this study is on rates of unemployment. Unemployment is a salient issue and rates of unemployment rank uppermost of the problems which are of concern to the mass public and politicians. Thus rates of unemployment represent the politically most important aspect of the imbalance between the supply of, and the demand for, labour. This is why it makes sense to study more fully the determinants of rates of unemployment.

<sup>5</sup> In this study the focus will be on 15 OECD-nations for which standardised rates of unemployment are available from OECD-countries and on Switzerland, whose labour market performance has been studied in detail by the author of this chapter. The sample consists of Australia, Austria, Belgium, Canada, Finland, France, Federal Republic of Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom and the U.S.

<sup>6</sup> See, for example, Hibbs, 1977; Andrain, 1980; Lindberg, 1982 a, 1982 b, 1984; Cameron, 1978 and 1984; Schmidt, 1982, 1984 a; Scharpf, 1984 a, 1985; Czada, 1983 and 1984.

tical-institutionalist view of macro-economic outcomes, such as rates of unemployment, we focus on how and to what degree the complex relationships that exist between structural-economic "inputs" and "outcomes" are influenced and intermediated by political structures and choices on the part of collective political actors, such as producer group organisations, political parties, government and the electorate.

Within a political-institutionalist paradigm, the thrust of the investigation also focuses on the policy repertoire which is available to government, the willingness to use public power, the degree to which policies are co-ordinated across policy areas and the effectiveness of policy implementation. A political-institutionalist view proceeds on the assumption that the autonomy of the political system *vis-à-vis* the economy is considerable. This is a reasonable assumption with respect to the study of mixed economies in Western nations in the post World War II period. In a mixed economy, economic behaviour and economic outcomes are shaped by economic cost-benefit-oriented decisions, but they are also to a large extent influenced by political struggles, political ideologies and the course of action adopted by policy makers.

The assumption of a considerable degree of autonomy of the political systems does not preclude the possibility that structural factors influence labour market processes and the nature of political choices. According to a wide variety of studies of labour market developments in OECD-nations, structural factors have been of major importance in amplifying or, conversely, mitigating the imbalance between supply of and demand for labour in the 1970's and early 1980's (see for example Boltho, 1982; Grubb *et al.* 1983; OECD 1984 b; Therborn 1984 b; OECD Secretariat 1985). For example, the following constellation of structural factors poses difficult problems for the maintenance of full employment:

- low growth rates of real GDP, and, in particular, the presence of a GDP-productivity gap;
- heavy external dependence of the national economy, and hence a greater vulnerability to external shocks;
- strong growth rates in labour supply, and hence, other things being equal, a larger imbalance between the supply of and the demand for labour;
- concentration of employment in the industrial sector, and hence a higher vulnerability to cyclical and technological unemployment;
- low levels of wage flexibility and wage differentiation, and hence, a somewhat more muted response of employment to economic growth; and
- the presence of industries with heavy adjustment problems.

While it can be argued that full-employment oriented policy is impeded by structural circumstances, such as weak economic growth and large increases in labour supply, it should be emphasised that structures do not dictate a particular solution. It remains an empirical question whether, and to what extent, structural problems generate mass unemployment. The exact nature of

the relationship between structures and labour market outcomes depends on the presence or absence of intervening political variables. Empirical analysis of the data that was collected for the present paper serves to illustrate this point. One of the most intriguing findings of the data analysis is the weakness of the statistical association between rates of unemployment and a composite measure of structural-economic obstacles to full employment policy (see Table 1 and Figure 2).

Table 1. *Rates of Unemployment and Economic-Structural Obstacles to Full Employment Policy in 15 OECD-Nations*

Country	Index of economic-structural obstacles to full employment <sup>1</sup>	Type of obstacle <sup>2</sup>	Average rate of unemployment 1974—1982		Change in average rate of unemployment <sup>4</sup>	
			Actual value	Residual <sup>3</sup>	Actual value	Residual <sup>5</sup>
Australia	3	LS, W, CI	5.4 %	1.1	3.4	1.3
Austria	4	D, GAP, I, CI	2.1 %	-2.6	0.6	-1.6
Belgium	4	D, GAP, I, CI	8.2 %	3.5	5.7	3.5
Canada	4	D, LS, U, CI	7.7 %	3.0	2.3	0.1
Finland	3	GAP, W, CI	4.7 %	0.3	2.1	0.0
France	4	GAP, W, CI, I	5.4 %	0.7	2.9	0.7
Germany	5	D, G, GAP, I, CI	3.6 %	-1.4	2.6	0.1
Italy	6	D, I, LS, U, W, CI	7.2 %	1.6	1.5	-0.9
Japan	2	I, CI	2.0 %	-1.7	0.8	-1.2
Netherlands	4	D, G, LS, CI	6.2 %	1.5	4.7	2.5
Norway	3	LS, W, CI	2.1 %	-2.2	0.4	-1.6
Sweden	4	D, G, W, CI	2.1 %	-2.6	-0.1	-2.3
Switzerland	6	D, G, GAP, I, W, CI	0.4 %	-5.0	0.3	-2.1
Un. Kingdom	7	D, G, GAP, I, U, W, CI	6.9 %	1.1	3.4	0.9
USA	4	G, LS, U, CI	7.1 %	2.4	2.5	0.3

Sources: OECD, *OECD Economic Outlook-Historical Statistics, 1960—1982* (Paris: OECD, 1984)  
 OECD, *OECD Economic Outlook* (Paris: OECD, bi-annually, various issues)  
 OECD, *Labour Force Statistics 1962—1982* (Paris: OECD, 1984)

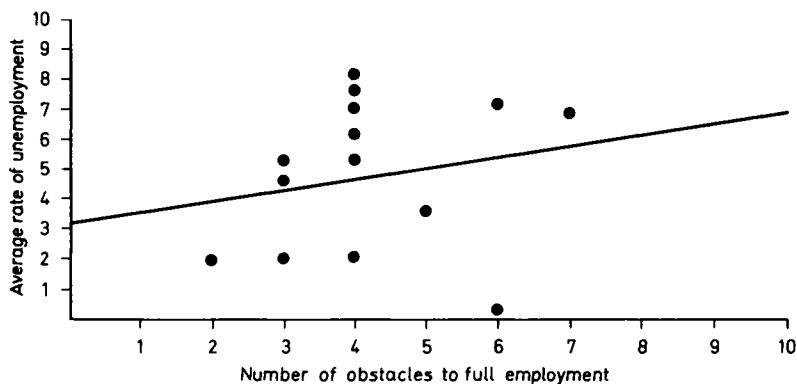
<sup>1</sup> Additive index of the total number of economic-structural obstacles to full employment (see, for details, the list of indicators in footnote 2 to table 1). The borderline between cases that were classified as "obstacles" or "else" was empirically defined via the arithmetic mean of the 15 OECD nations for which comparable labour market indicators were available. Thus, for example, GDP growth rates below the average growth rate (2.1 %) were counted as an obstacle to full employment. The critical thresholds of the other indicators are as follows: export dependence > 20

(to be continued next page)

per cent; GDP-productivity-gap  $\leq 0.6$ ; employment share of industrial sector  $\geq 38$  per cent; growth of labour supply  $> 1.1$ ; unemployment 1968—73  $> 2.6$  per cent; wage differentiation  $< 1.7$ . Moreover, the existence of crisis industries was regarded as an "obstacle" to full employment.

- 2 CI = existence of crisis industries; D = export dependence (exports as a percentage of GDP in 1977); G = average annual growth rates of real GDP, 1974—82; GAP = GDP-productivity-gap (average annual growth rates in real GDP, 1974—82, minus average annual growth rates in GDP per persons employed, 1974—82); I = employment in industrial sector as a percentage of total employment, 1973; LS = labour supply (average annual growth rates on total labour force, 1974—82); U = average rate of unemployment, 1968—73; W = wage differentiation in manufacturing sector (ratio of wages paid in highest wage and lowest wage-branches in manufacturing industries, 1978 (ISIC Major Division 3, at 3-digit-level) (data was taken from ILO).
- 3 Computed from the regression equation  $Y = 3.18 + .372 (X)$ ,  $R^2 = .038$ . Y = Average rate of unemployment, 1974—82; X = number of obstacles to full employment. Negative signs indicate levels of unemployment which are "too low" relative to the number of obstacles to full employment.
- 4 Average rate of unemployment, 1974—82 minus average rate of unemployment, 1968—73.
- 5 Computed from the regression equation  $y = 1.81 + .093 (X)$ ,  $R^2 = .005$ . Y = Average rate of unemployment, 1974—82 minus average rate of unemployment, 1968—73; X = number of obstacles to full employment. Negative signs indicate that changes in the rate of unemployment are "too low" relative to the number of obstacles to full employment.

Figure 2. *Rates of Unemployment and Economic-Structural Obstacles to Full Employment Policy*



$$Y = 3.18 + 0.372 (X)$$

$$R^2 = 0.038$$

### 2.1. Average rates of unemployment, 1974—1982



$$Y = 1.81 + 0.093 (X)$$

$$R^2 = 0.005$$

## 2.2. Change in average rates of unemployment, 1974—82 to 1968—73

Source: Table 1.

Our index of structural obstacles to full employment policy accounts for only 7 per cent of the total variation in average levels of unemployment and 5 per cent of the variation in the changes in the rates of unemployment. Moreover, the residuals that are to be derived from the linear regression equation point to the existence of a fairly consistent borderline between mass unemployment countries and full employment countries. In contrast to the majority of the OECD-nations, Austria, Norway, Sweden, Switzerland and Japan managed to maintain low levels of open unemployment, despite the existence of a wide variety of structural obstacles to full employment. In other words: Austria, Norway, Sweden, Switzerland and, albeit to a lesser extent, Japan successfully managed to maintain "too low levels of unemployment" relative to the pressure on the labour market that was generated by structural-economic circumstances. Conversely, the rates of unemployment in the majority of mass unemployment countries were higher than one would expect on the basis of the economic-structural problems that characterised these nations (see Table 1). It is this differential responsiveness of rates of unemployment to structural-economic problems which requires explanation. Our contention will be that the residual variation in rates of unemployment, allowing for economic-structural circumstances, can, to a fairly large extent, be explained by reference to the political determinants of labour markets. It is to the impact of politics and policy on unemployment that we now turn. In particular, we will focus on more detailed studies of the full employment nations and also on the United States and West Germany.

### 3. Two Roads to Full Employment and Two Roads to Mass Unemployment

In an excellent international overview of the development of labour market policy since the world economic crisis of 1974–75, Bernard Casey and Gert Bruche (1985) have distinguished certain broad trends of labour market policy over the past decade:

Anticipating that the recession induced by the first oil crisis would be of only short duration, the first reaction of many European governments (if not that of the U.S.) was to encourage the maintenance of existing jobs, often via short-time work, in some cases even via the subsidy of production itself. Alongside traditional short-time working programs were schemes promoting a more productive use of idle time by subsidizing in-plant training and provisions for temporary support of production itself. At the same time, governments used job creation and labor market training programs to provide "temporary parking places" for those finding themselves without work. A subsequent recognition that the oil crisis marked a fundamental break with the past that required restructuring of production meant that the appropriateness of job retention strategies increasingly came into question. In addition, as the economic situation stabilized or improved, the construction of many programs meant that the level of their utilization in any case declined. A gradual reorientation of labor market policy then ensued; concern was increasingly directed to those out of work rather than those threatened by unemployment and to improving the position of certain problem groups in the labor market—women and especially young persons. . . . Alongside the increasing efforts to mitigate youth unemployment was the emergence and development of measures to encourage the exclusion of older workers from the labor market. . . . Furthermore, particularly the German-speaking countries made use of the opportunity to reduce the size of their substantial foreign labor forces to limit the burden of unemployment facing their own citizens. More recently in Europe, a new component of supply-reducing policy has come to the fore, that of cutting weekly working time (1985: 54–55).

The authors go on to argue that changes in the emphasis within labour market policy over time have been matched by changes in the intensity with which it has been pursued:

In the first years after the recession, active labour market policy was seen by some as providing a "third way" (between fiscal and monetary policy) or non-inflationary means of restoring full employment. . . . Subsequently, its limitations, too, were realized and its potential was viewed more cautiously, if also more realistically (1985: 55).

However, it should be emphasised that the broad trends in labour market policy over the past decade went hand in hand with considerable cross-national differences in respect of context, orientation and intensity. There is a wide range of variation in the relative importance that was accorded to the active labour market. Similarly, the overall economic policy context in which labour market policy was pursued varied greatly from country to country (Bruche and Casey, 1982; Schmid, 1982; Richardson and Henning, 1984; Casey and Bruche, 1985). It is to these cross-national differences and to the

structural and political determinants of rates of unemployment that we now turn our attention.

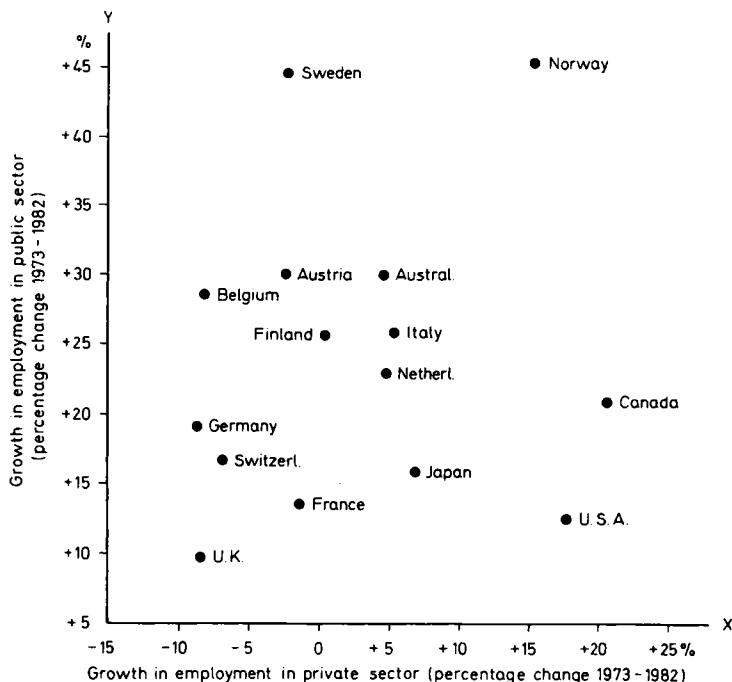
We will argue that there have been two roads to full employment and two roads to mass unemployment in the 1970's.<sup>7</sup> In political terms, full employment is first and foremost the outcome of a "labour dominated" policy process of the kind found in Austria, Norway and Sweden, but it can also result from a policy process which is dominated by conservative-reformist tendencies, such as in Japan and Switzerland. As far as the division of labour between the public sector and the private sector with respect to full employment is concerned, the labour dominated road to full employment rests on a rapid expansion in the number of jobs offered in the public sector, whereas the conservative-reformist road to full employment rests on total employment growth in the market sector or the rapid adjustment of labour supply to the demand for labour (see Figure 3).

We will distinguish between two roads to mass unemployment in countries that are plagued by high levels of unemployment. In overall terms, it can be argued that mass unemployment has been the product of two very different processes of policy formation: a pluralist-sectoralist mode of policy coordination across policy areas which is softened by extensive welfare state provision on the one hand, and a purely pluralist mode of policy coordination coexist-

<sup>7</sup> For excellent reviews of selective labour market policy measures in OECD-nations see for example Bruche and Casey, 1982; Casey and Bruche, 1985; Günther Schmid's contributions to the study of labour markets (Schmid, 1982, 1985); Gerlach *et al.* (1984) and Richardson and Henning (1984).

It should be stressed that the approach that is adopted in our study differs to a considerable extent from the political explanations of cross-national unemployment rates that have been published so far. In contrast to Casey and Bruche (1985), we will focus attention on structural and political determinants of the policy stances that were adopted. In contrast to the majority of comparative studies on labour market policy or manpower policy, and also in contrast to my earlier work in this field, the focus in this study is on the impact that political factors in conjunction with structural factors have on the labour market performance of the OECD-nations. Moreover, and in contrast to the seminal studies which Fritz Scharpf (1984 a; 1984 c) has contributed to the analysis of full employment and mass unemployment, I will argue that the cross-national rates of unemployment are amenable to a quasi-universalistic cross-national view. However, it needs to be stressed that the explanation offered here is presumed to be a model which is only valid for the universe of democratic OECD-nations. Furthermore, and in contrast to the cross-national studies of the political economy of developed Western nations, I will argue that there have been two different "logics" of full employment policy and two "logics" of mass unemployment (while the majority of the studies in this field implicitly argue that there is one single "logic" of full employment or, conversely, one single "logic" of mass unemployment).

Figure 3. Employment in the Private and in the Public Sector



Country	Change in employment (percentage change 1973-1982)	
	Private sector	Public sector
Australia	+ 5 %	+ 31 %
Austria	- 3 %	+ 30 %
Belgium	- 9 %	+ 29 %
Canada	+ 21 %	+ 22 %
Finland	+ 1 %	+ 25 %
France	- 1 %	+ 13 %
Fed. Republic of Germany	- 8 %	+ 19 %
Italy	+ 5 %	+ 23 %
Japan	+ 7 %	+ 16 %
Netherlands	+ 4 %	+ 22 %
Norway	+ 15 %	+ 46 %
Sweden	- 3 %	+ 45 %
Switzerland	- 7 %	+ 16 %
United Kingdom	- 8 %	+ 9 %
USA	+ 17 %	+ 13 %

Sources: Data was calculated from OECD 1984d and 1984g.

ing with a more limited degree of welfare statism on the other.<sup>8</sup> Whereas the latter road to mass unemployment rests upon a political structure which is dominated by non-socialist tendencies (such as in the United States), the pluralist-sectoralist road to mass unemployment is associated with a wider range of variation in the distribution of power between labour and capital and between Conservative, Christian Democratic and Social Democratic parties, ranging from countries that are governed by centre-left coalitions to nations governed by centre-right coalitions. It should be added that a wide variety of structural-economic factors have impeded or facilitated full employment-oriented policy in the OECD-nations, but the bulk of the cross-national differences in rates of unemployment can be explained by the nature of political structures, political choices and policy (see Table 2). It is to a more detailed study of countries that may be regarded as being representative examples of the diverse roads to full employment and mass unemployment that we now turn our attention.

#### 4. "Labour Dominated" Roads to Full Employment: Austria, Norway and Sweden

According to a widely shared view, unemployment is caused by institutional rigidities, such as trade unions, wage policy, minimum wage legislation and legal protection of job security, which prevent the labour market from clearing. The weakness or absence of institutional rigidities is considered conducive to high employment growth and ultimately to full employment of all economic resources.

<sup>8</sup> Following recent studies by Czada (1983 and 1984), we isolate three types of policy co-ordination: a corporatist mode of policy co-ordination characterises nations, in which trade unions, employers' associations and the state are committed to a social partnership ideology, and collaborate in a tri-partite network of policy formation in single policy areas and across policy areas (for example, by means of co-ordinating labour market policy, incomes policy and industrial policy).

Secondly, there is a pluralist-sectoralist mode of policy co-ordination which involves a low degree of policy co-ordination across policy areas, but does not preclude tri-partite networks within certain policy areas. Finally, pluralist modes of policy co-ordination are characteristic of countries in which integrated policy networks and an underlying consensus between labour, employers and the state are largely absent. Empirically, modes of policy co-ordination vary with the structure of long-term power distributions between labour and capital and between political tendencies. Thus, for example, a corporatist type of policy co-ordination tends to rest on a "balance of class forces" between labour, capital and the state, while the purely pluralist type of policy co-ordination rests upon a politico-economic fabric of society in which the non-socialist tendency commands a dominant position in the economy and in political affairs. The classification of the countries into the categories above is mainly based on Schmidt, 1982 a; Czada, 1983 and 1984 and Lehmburck's contribution (1977, 1983, 1984 a, 1984 b) to the debate on corporatism.

However, neither argument stands up to empirical examination. While the institutional rigidity hypothesis explains the considerable growth in total employment in the United States in the 1970's and 1980's, there is nothing in this hypothesis which could explain why full employment or near full employment has prevailed in countries which are characterised by a wide variety of powerful institutional rigidities, such as Austria, Norway and Sweden, whereas other countries, in which institutional rigidities carried less weight, were plagued by mass unemployment.

In yet another respect, the full employment or near full employment record in Austria, Norway and Sweden is at variance with the predictions to be derived from conventional wisdom. Thus, for example, even when we take into account the problems brought about by structural-economic circumstances, such as heavy external dependence, presence of crisis industries and other factors, these three countries were not dramatically better off than the countries in which unemployment levels dramatically increased (see Table 1 and Table 2). However, the Austrian, Norwegian and Swedish rates of unemployment remained at a low level. Why? The full employment experience of these countries may partly be attributable to higher output growth, (in particular in Norway where income from North-Sea oil further improved economic conditions, and in Austria) and the absence of a GDP-productivity-gap.

However, these factors mirror to a large extent the economic impact of public policies that were consciously designed to improve economic conditions. An understanding of full employment in Austria, Norway and Sweden must, therefore, be largely premised on a political explanation. Austria, Norway and Sweden may be regarded as representing the major examples of a "labour dominated" full employment policy process.

In these nations trade unions are highly organised, politically united and ideologically moderate. Moreover, they have participated in tripartite corporatist arrangements over a long period and have consequently been successful in institutionalising their power. Measured by indicators of working class mobilisation and political control of government, the Austrian, Norwegian and Swedish labour movements are exceptionally strong (Korpi and Shalev, 1980; Cameron 1984). In these countries, a "balance of class forces" has been characteristic of the structure of industrial relations, power relationships in parliament and the prevailing ideological hegemony.<sup>9</sup> Ideologically, "solidaristic" values are strongly emphasised by both the electorate and the majority of political elites (see, for example, Lafferty and Knutsen, 1984). Relationships between trade unions, employers and the state tend to be based on the principles of compromise and equal exchange (or at least on an institutionalised stalemate between collective bargaining organisations too powerful to be coerced into acquiescence). These principles also influence the timing and

<sup>9</sup> Of course, this does not preclude the possibility of open industrial conflicts, as the Swedish case in the 1980's demonstrates.

Table 2. *Economic Structures, Politics, Policy and Rates of Unemployment (1974-1982)*

(to be continued next page)

Country	Austria	Norway	Sweden	Japan	Switzerland	Type 1 Germany	Type 2 U.S.
Dominant political complexion of government <sup>8</sup>	Left	Left-centre	Left-centre	Right	Centre-right	Centre-right	Right
Dominant mode of class conflict regulation <sup>9</sup>	Corporatist	Corporatist	Corporatist	Capital-dominated social partnership	National social partnership	Bilateral social partnership	Unstructured confrontation
Political reactions to mass unemployment <sup>10</sup>	Strong	Strong	Strong	Strong	Strong	Weak	Moderately strong
Average rate of economic growth <sup>11</sup>	2.4 %	3.7 %	1.4 %	3.8 %	0.3 %	1.7 %	1.8 %
Productivity growth <sup>12</sup>	2.2 %	1.8 %	0.4 %	3.0 %	0.8 %	2.2 %	0.1 %
Productivity-GDP-gap <sup>13</sup>	+0.2	+1.9	+1.0	+0.8	-0.5	-0.5	+1.7
Existence of industrial reserve army prior to 1973 <sup>14</sup>	1.5 %	1.7 %	2.2 %	1.2 %	0.1 %	1.0 %	4.6 %
External dependence of national economy <sup>15</sup>	High (21 %)	High (25 %)	High (24 %)	Low (12 %)	High (29 %)	High (23 %)	Low (6 %)
Presence of major industries with adjustment problems <sup>16</sup>	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Size of labour-intensive sectors								
a) primary sector	12 %	11 %	7 %	13 %	8 %	8 %	4 %	
b) tertiary sector	45 %	55 %	56 %	47 %	48 %	45 %	63 %	
Change in labour supply <sup>18</sup>	Low growth	Moderately high growth	Moderately low growth	Moderately high growth	Decrease	Moderately low growth	High growth	
Wage differentiation <sup>19</sup>	Medium	Low	High	Low		Medium	High	
Wage flexibility <sup>20</sup>	Moderately high	Moderately low	Moderately low	High	Moderately low	Moderately low	High	

<sup>1</sup> Major source: *OECD Economic Surveys*; Bruche and Casey, 1982; Casey and Bruche, 1983; Richardson and Henning, 1984; Schmidt, 1985; Casey and Bruche, 1985.

<sup>2</sup> Major source: *OECD*, 1984 d and 1984 g, see also Figure 3.

<sup>3</sup> Based on Scharpf, 1984 a and *OECD Economic Surveys*.

<sup>4</sup> Major source: Price and Muller, 1984; Price and Chouraqui, 1984.

<sup>5</sup> Estimated by average historical inflation rates in the period between 1967—1973.

<sup>6</sup> Major source: Uusitalo, 1984 and *OECD Economic Surveys*.

<sup>7</sup> Measured by organisational density of trade unions and by related measures of trade unions strength (Cameron, 1984; 165—67).

<sup>8</sup> Measured by proportion of cabinet seats and years in office on the part of Social Democratic parties and non-socialist centre or right-wing parties. Data was taken from Schmidt, 1982 and 1983 a.

<sup>9</sup> Measured by corporatism indicators (Schmidt, 1982; Lehmbrech, 1983 and 1984; Czada, 1983 and 1984).

<sup>10</sup> Measured by presence or absence of politico-economic cycles around the unemployment issue or, alternatively, the presence or absence of widely shared full employment expectations ("full employment as part of the political orthodoxy").

<sup>11</sup> *OECD* (1984) *National Accounts*, 1953—1982, Vol. 2, Paris: *OECD*. Real GDP growth.

<sup>12</sup> Real GDP per person employed, average annual percentage changes 1974—1982 (*OECD* 1984 d: 27).

<sup>13</sup> (Average rate of economic growth) minus (Productivity growth), see rows 11 and 12.

<sup>14</sup> Measured by average rates of unemployment in period between 1968 to 1973. Source: *OECD* 1984 g.

<sup>15</sup> Export volume as a percentage of GDP 1977. Data was taken from *OECD* (1979) *Economic Survey: Germany* 1979, Paris: *OECD* appendix: International Comparison.

<sup>16</sup> Major source: *OECD Economic Surveys*. For details see text.

<sup>17</sup> As a percentage of total civilian employment 1973 (*OECD* 1984 g).

<sup>18</sup> Average annual growth rate in total labour force. Source: *OECD* 1984 d.

<sup>19</sup> Ratio of wages paid in highest wage and lowest wage-branches in manufacturing industries 1978 (ISIC Major Division 3, at 3-digit level). Data was taken from Scharpf 1984 b (Major source: ILO).

<sup>20</sup> Preliminary estimates on the basis of *OECD* (1984) *Economic Outlooks* and Grubbe *et al.*, 1983.

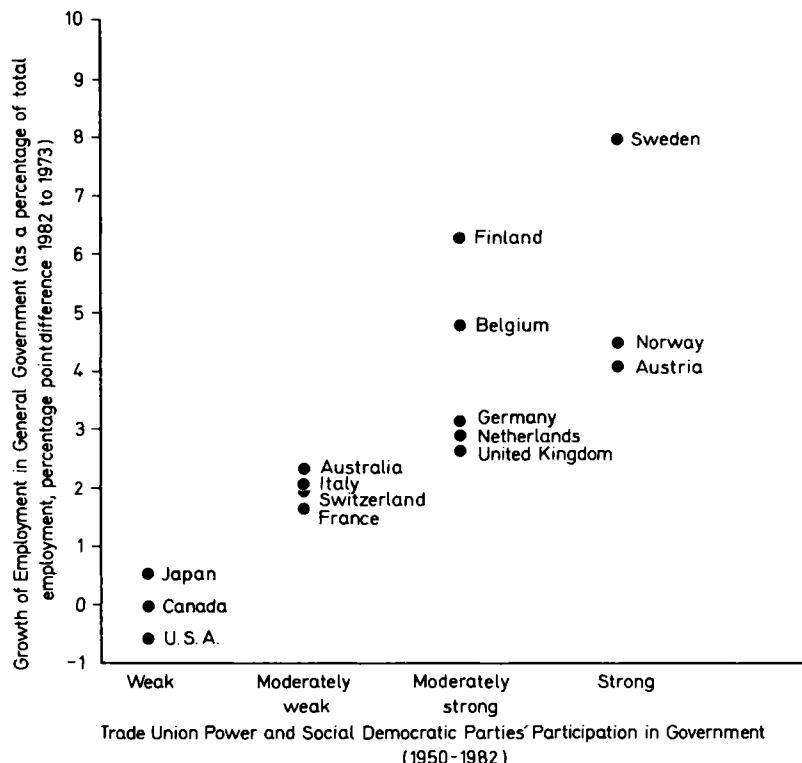
content of economic and labour market policy. To a large extent, full employment in these countries is an aspect of the prevailing political orthodoxy. Thus, the political strategy of whatever party is in office aims at maintaining high levels of employment.

Institutional conditions, such as a low degree of autonomy on the part of the central bank, have facilitated the implementation of employment-oriented and expansionary fiscal monetary policy-mixes. Moreover, mechanisms which have been responsible for the emergence of a full employment orthodoxy—a balance of class forces which is institutionalised in corporatist arrangements—have ensured the government's willingness to adopt and its capability to implement full employment policy. A variety of instruments and channels have been used in each of the full employment countries, such as demand management (in particular in Norway and Austria), direct or indirect concertation between fiscal, monetary and incomes policy (particularly in Austria), selective labour market policy measures in the private sector, re-training programmes, early retirement schemes, working-time reduction and a strong expansion in the number of part-time jobs (especially in Sweden).

As far as the division of responsibility for the maintenance of full employment was concerned, the public sector carried a major part of the burden that the economic problems of the 1970's generated. Compared to other countries, the growth of employment in the public sector in Austria, Norway and Sweden has been very strong and it has more than offset the employment losses in the private sector. In contrast to Austria and Sweden, Norway experienced a strong growth in total employment in the public sector and in the market economy, largely due to employment growth in the service sector and in the sheltered sectors of the economy (see Figure 4).

The instruments that were adopted for the purpose of maintaining high levels of employment varied from country to country. In Sweden, a wide range of selective or active labour policy measures were used to combat unemployment, while concertation between fiscal, monetary and wage policy was relatively weak. Labour market policy measures were estimated to have reduced the potential rate of unemployment by some 4 percentage points (Schmid, 1982). It should be noted that the non-socialist coalitions which were in power from 1976 to 1982 attached as high a priority to the continuity of labour market and full employment policy as did earlier Social-Democratic governments (Henning, 1984). Indeed, the non-socialist coalition partners went even further than their Social Democratic predecessors; expenditure on labour market measures after 1976 increased more rapidly than before. In addition, the new government also changed the style and quality of intervention by focusing more determinedly on safeguarding both security of employment and location of employment for the labour force (Henning, 1984). Among the real full employment countries, Sweden is also unique insofar as the extraordinarily large increase in employment in the public sector more than offset the employment losses in the private sector, whereas the

Figure 4. *Growth of Employment in General Government, Trade Union Power, and Political Complexion of National Governments*



Source: Employment data was taken from OECD (1984 f) *Economic Outlook. Historical Statistics*, 1960-1982. OECD: Paris, p. 38. Political data are based on union density figures and the duration and strength of the Social Democratic party's (and left-wing allies) participation in government in the post World War II period (see Korpi and Shalev, 1980; Schmidt, 1982 b). "Weak" means low union density and exclusion of Social Democratic parties from government. "Moderately weak" means weak or moderately strong trade unions and a lower degree of participation in government on the part of Social Democratic parties. "Moderately strong" means moderately strong trade unions and more frequent participation in government on the part of Social Democratic parties. "Strong" refers to strong trade unions and governments which have been dominated over a longer period by Social Democratic parties.

growth of public sector employment in Norway and Austria was somewhat more muted (see Figure 3).

In contrast to Sweden, the employment policy approach that the Austrian authorities, supported by the trade unions, chose emphasised the importance of a capitalist growth policy based on a highly developed concertation of expansionary fiscal policy, moderately expansionary monetary policy, incomes policy and wage restraint, complemented by short-time work measures, bans on overtime work and labour hoarding practices in the private sector and, in particular, the nationalised industries (Scharpf, 1984 a; Christl and Potmesil, 1984). In Austria, selective labour market policy was much less important than it was in Sweden, whereas economic policy as a whole was of major importance in the effort to maintain low levels of unemployment (Schmid, 1982; Butschek, 1982). In yet another respect Austria is unique among these countries, insofar as its restrictive foreign labour policy carried a larger part of the burden involved in the management of the economic crisis. In the late 1970's the control of foreign labour supply reduced the potential rate of unemployment by some 2 percentage points (Butschek, 1982; Mißlbeck, 1983), and the data on the early 1980's support the view that the impact of Austrian foreign labour policy was even larger. With full support from the Austrian unions, the foreign labour force was reduced from 8.7 per cent to 5.3 per cent (measured as a percentage of total employment) (Christl and Potmesil, 1984; Bauböck and Wimmer, 1984; Frey, 1984).

Two characteristics of the Norwegian full employment policy deserve to be mentioned separately. One of them concerns the long tradition of, and the expertise in, global demand management and fine-tuning the economy. The Norwegian authorities have continued to attach the highest priority to the maintenance of full employment and have been more or less successful in offsetting recessionary tendencies emanating from abroad by sharply raising levels of domestic demand, expanding employment opportunities in the public sector and introducing or extending flexible industrial policy measures. Furthermore, high priority was also attached to regional policy in general and, in particular, to the maintenance of a protectionist shelter for rural areas and regions with a stronger primary sector. Norwegian regional policy and the subsidies that were given to the primary sector have contributed to the maintenance of high levels of employment in this sector, relative to the very high level of wealth of the Norwegian economy as a whole. Agriculture absorbs more than 8 per cent of the civilian labour force. The relatively high proportion of workers in agriculture means that a large segment of the labour force is practically immune to unemployment. In this respect, Norway resembles Switzerland. Both countries thus dispose of a safety-valve in periods of economic recession. This safety-valve is largely absent in many other OECD-nations, such as West Germany, the Benelux states, and the US, where employment in agriculture has dramatically declined during the post World War II period.

## 5. The “Conservative-Reformist” Road to Full Employment

### 5.1. The Japanese Case

When the Japanese economy entered the recessions of the 1970's, the effort to maintain high levels of employment were facilitated by a number of structural characteristics of the economy, such as less heavy external dependence and high levels of wage differentiation and wage flexibility. In addition, the distribution of the labour force by sectors proved conducive to the maintenance of high employment levels, insofar as a relatively large proportion of the labour force was employed in the primary sector<sup>10</sup> and in the service sector, while the proportion of employment in industrial sectors was at about the average level of OECD economies. However, three other factors clearly impeded the effort to control unemployment: the existence of crisis industries (such as shipbuilding), heavy dependence on oil-imports and relatively high rates of growth in labour supply throughout the 1970's and early 1980's. However, the essential point is that relative to other full employment countries, the structural characteristics of the Japanese economy have been somewhat more conducive to the control of unemployment (see Table 1).

An explanation in terms of economic growth rates contributes to an understanding of low unemployment rates in Japan. Growth in real GDP continued to be higher in Japan than elsewhere in the OECD area, and this facilitated growth in total employment. However, higher rates of economic growth do not fully account for high employment levels in Japan. Relative to the extraordinarily high levels of growth in the 1950's and 1960's, “a striking feature of Japanese labour market performance in the last ten years has been its apparent relative immunity to weaker growth of the economy” (OECD [1983] *Economic Survey: Japan*: 36).

It is my contention that an explanation of the relative immunity of the labour market to weaker growth must largely be premised on a hypothesis which focuses attention on the political process in Japan. While full employment in Austria, Norway and Sweden is based on the ideological and political power of the labour movement and its corporatist and state interventionist correlates, full employment in Japan rests on a different configuration of political forces. In contrast to the “liberal corporatism” (Lehmbruch, 1977) of Austrian and Swedish origin, Japan's capitalism involves a weak, and strongly decentralised trade union movement and a strong bilateral relationship between the state bureaucracy and the business community (Pempel, 1982; Bergmann, 1983). As far as employment is concerned, we are confronted with a dual economy and, in the modern sector of the economy, with the impact of semi- and pre-capitalist rules of conduct for political and economic

<sup>10</sup> Although it needs to be added that the total employment in the Japanese primary sector has decreased during the last decade. Nevertheless, the degree of employment in this sector remains quite considerable.

leadership, which have been transmitted from the past and have been successfully amalgamated with a "creative conservatism" (Pempel, 1982) in policy-making. Determined efforts to promote economic growth at all costs, including the devaluation of the Yen in the mid-1970's, and incentives given to reconversion of structurally depressed industries coincide with the commitment to maintain high levels of employment on the part of government and business community. In the 1970's, Japanese authorities were willing to go along with the most advanced European practice in maintaining high levels of employment by means of expansionary fiscal policy, increases in public indebtedness, selective aid to industry and individual firms and selective labour market policy, but drew the line at expanding public sector employment and assistance to depressed areas and industries.

High levels of employment in Japan have also been due to a variety of other factors (see the *OECD Economic Surveys* on Japan from 1979 to 1983 and *OECD, 1984 c*). First, the buoyant recruitment in the private service sector contributed to the increase in total employment. Second, labour hoarding practices, lifetime employment systems, cuts in overtime work and extensive reallocation of workers within broad internal labour markets of larger companies, tended to stabilise employment, at least in the short-run. Thus, for example, the Japanese economy was estimated to retain a surprising amount of excess labour (some 6 per cent of the total labour force) at the expense of productivity (Taira, 1983). Third, flexible adjustments of income to productivity levels, the acceptance of mobility requirements and the willingness of wage earners to forego wage increases or even take wage cuts have greatly facilitated the rapid adjustment of the Japanese economy. So too has the existence of a substantial sector of non-regular workers (part-time, temporary and seasonal workers—mostly women and retired older workers) who tend not to be considered as unemployed (Taira, 1983). It is here that we are confronted with a fourth cluster of factors which has contributed to the relatively good labour market performance of the Japanese economy. The positive adjustment of the economy (*OECD, 1984 c*), itself largely due to the combination of active demand management and supply-oriented policies on the part of the government and also to dynamic market forces, took place through five main channels: excess capacity in structurally depressed industries was eliminated, whereas support was given to energy-efficient industries with advanced technological equipment and to small and medium-sized firms which were prepared for, and capable of, modernisation and rationalisation; production costs were reduced and efforts to develop alternative energy sources were strongly and successfully encouraged in order to reduce oil vulnerability under which the Japanese economy had suffered badly during the first oil price shock (*OECD (1981) Economic Survey: Japan: 44—53; OECD, 1984 c*).

Last, but not least, it should be emphasised that the Japanese unemployment statistics tend to underestimate the underlying weakness in the Japanese

labour market. Thus, for example, unemployment statistics do not fully indicate the existence of a large army of discouraged workers. Moreover, they also do not sufficiently mirror the high cyclical sensitivity of labour supply (OECD (1953) *Economic Survey: Japan*: 37; Taira, 1983; Sorrentino, 1984). According to estimates, the rates of unemployment among female workers are not at some 2 per cent as officially stated, but really almost twice as high (Taira, 1983; Sorrentino, 1984).

The Japanese policy of full employment (or near full employment) differs from the "labour-dominated" road to full employment of Scandinavian or Austrian origins in three respects. First, there is a wide range of difference in the underlying political substructure of full employment policy. Second, in contrast to the "labour dominated" road to full employment, which rests largely on a rapid expansion of employment in the public sector, the Japanese full employment miracle is based almost exclusively on the rapid expansion of employment in the market sector. Buoyant recruitment of labour in the market sector is partly attributable to "private labour market policy" on the part of large firms, but it mainly reflects the considerable support which the market economy received from public policy. Third, the low open unemployment figures tend to hide the underlying relative weakness of the Japanese labour market. The Japanese labour market performance, defined in terms of conventional labour market indicators, is somewhat weaker than the performance of the Austrian, Norwegian and Swedish labour markets. Thus, for example, the growth in total employment and the growth in labour force participation ratios in Japan were less strong than in Sweden and Norway. In overall terms, the Japanese case of full employment, or low open unemployment, would thus seem to be characterised by features which partly resemble the "Swiss Road to Full Employment" (Schmidt, 1985).

### 5.2. The Swiss Road to Full Employment<sup>11</sup>

Measured by levels of open unemployment, the Swiss labour market record is exceptionally good. There is no other country in the Western world where the rate of unemployment is as low as in Switzerland. Since the end of the 1930's, rates of unemployment have been virtually close to zero (BIGA 1972). It was not until 1984 that the rate of unemployment reached an all-time high of 1.0 per cent. The Swiss full employment record does not readily lend itself to the explanations and generalisations that have been prevalent in the literature on political and economic determinants of unemployment or full employment to date. The trade unions and the Social Democratic Party are weak, but wages are high. Although wages are high, the rate of inflation is low. Although price increases are exceptionally moderate, and monetary policy is restrictive (Jaeger, 1983), and despite the absence of fully developed de-

<sup>11</sup> The following section rests upon a full-length study by the author (Schmidt, 1985).

mand management, full employment is among the most conspicuous characteristics of the Swiss labour market. Moreover, full employment in Switzerland is not amenable to a structural explanation. Although a number of factors, such as the absence of large-scale basic industries with heavy adjustment problems, proved themselves to be a major asset in Swiss economic policy, efforts to maintain full employment were confronted with major structural problems, such as the heavy external dependence of the Swiss economy, concentration of employment in the industrial sector, high wage levels and major adjustment problems for the clock and jewellery industry and the construction and building industries. All these factors exerted considerable pressure on the labour market. In addition, the dramatic decrease in GDP volume in the mid-1970's, which was largely due to an extremely tough stabilisation policy (Prader, 1981), contributed to the economic *malaise*. However, the rate of unemployment remained at an exceptionally low level.

Why is there full employment in Switzerland? According to a widely shared view, the major reason for the Swiss full employment miracle is that there is a strong, viable and vigorous market economy and a low degree of state intervention, insofar as the Keynesian and welfare functions of the state are more muted than in many other developed nations. According to another view, there is full employment in Switzerland because the foreign labour force acts as a reserve army of the labour market. Neither view is incompatible with the facts. However, the explanations they seek to offer are not sufficient to account for the "Swiss Road to Full Employment" (Schmidt, 1985).

In Switzerland the meaning of full employment varies according to the economic climate. In periods of economic recession, full employment depends on a fine balance between the rapid decline in the demand for labour and a rapid downward adjustment in the supply of labour. This contrasts sharply with the labour market experience of other full employment countries. For example, in Sweden, Norway and Austria low rates of unemployment have coexisted with an increase in the total number of jobs. In periods of economic recession, the Swiss full employment policy explicitly focuses on the maintenance of job security for nationals. The *prioritaire Schutz für einheimische Arbeitskräfte* is the major guideline for policy makers (BIGA, 1980). *Einheimische Arbeitskräfte* (nationals) consist of the Swiss male labour force and, albeit to a somewhat lesser extent, female employees of Swiss nationality. The concept of nationals also includes foreign workers with a permanent residence permit (*Niedergelassene*) and it must be emphasised that the total number of foreign workers with a permanent residence permit has greatly increased during the recession of the 1970's. The strategy of giving priority to the job security of nationals is thus conducted mainly at the expense of jobs that are held by foreign workers without a permanent residence permit. It is to the jobs that are held by workers with a limited residence and work permit (*Jahresaufenthalter*), frontier crossers (*Grenzgänger*) and seasonal workers (*Saisonnières*) that the major burdens of economic recession are shifted,

mainly via the control of immigration (Tuchtfeldt, 1978; BIGA, 1982; Lewin, 1983).

The Swiss authorities and Swiss entrepreneurs have made full use of their discretionary power in foreign labour policy. In the economic recession from 1974 to 1976, some two thirds of the total number of jobs that were lost had been held by foreign workers. The distribution of the costs that were involved in the recession of the early 1980's was somewhat different. It continued to place the foreign labour force at a disadvantage, but the distribution of the costs involved was less unequal. In the recession of the early 1980's, some 40 per cent of the jobs lost were held by foreign workers, whereas some 60 per cent were held by Swiss workers (although the recession of the early 1980's was much less severe than the crisis of the mid-1970's). This partly reflects more limited room for manoeuvre in respect of foreign labour policy, which was in turn mainly due to unintended side-effects of the compulsory unemployment insurance scheme which was introduced in 1977. Among the unintended effects of the latter reform project, the most important was the protection given to unemployed foreign workers and the possibility for firms to shed Swiss labour more easily than previously (when unemployment insurance was largely absent). Nevertheless, it is fair to conclude that the control of foreign labour supply is among the most important instruments of a full employment policy for nationals. For example, according to conservative estimates, foreign labour policy reduced the potential rate of unemployment by at least 4.2 percentage points.

Another factor that is significant for the rapid downward adjustment of labour supply is the behaviour of politically and economically weak labour market groups of Swiss nationality. Some thirty five per cent of the jobs that were lost in the mid-1970's had been held by Swiss female workers and older workers. Both groups were among the first to be either dismissed or, alternatively, given early retirement. As far as the dismissal of workers is concerned, Swiss entrepreneurs have considerable room for manoeuvre. This is basically due to the weak legal protection of job security, and it also mirrors the fact that the retreat of female workers to the hidden reserve army of the labour market is regarded as politically, socially and culturally acceptable.

The key to an understanding of Swiss full employment policy thus rests on the rapid downward adjustment of labour supply (Lewin, 1983). The control of foreign labour supply, the high cyclical sensitivity of female employment and the dismissal of older workers account for some two thirds of the full employment record in the recession of the mid-1970's and it helps to explain some 50 per cent of the maintenance of full employment in the recession of the early 1980's. In the 1970's unemployment statistics did not mirror the rapid and major decrease in total employment. This was mainly due to the absence of a compulsory unemployment insurance fund. Thus, for example, when the Swiss economy was struck by the recession of the mid-1970's, no more than 22 per cent of the labour force were members of voluntary unem-

ployment insurance schemes. In this respect, the introduction of a compulsory unemployment insurance scheme in 1977 resulted in a dramatic change in the position of wage-earners in Switzerland.

As far as the variation which is not explained by the rapid adjustment of labour supply is concerned, it is necessary to explore the impact of labour market and employment policy. In contrast to conventional wisdom, according to which the Swiss policy process responds rather slowly to new demands and threats that are posed by changes in the economy and in the society as a whole, Swiss politicians were quick and innovative in their response to the economic *malaïse* of the 1970's. One of the major instruments that was utilised to combat unemployment was short-time work allowances. For example, in 1975 short-time work reduced the potential rate of unemployment by some 0.5 to 0.7 percentage points. The Swiss labour market politicians also attempted to expand further education. Support was also given to measures that were meant to facilitate geographical mobility and, above all, occupational mobility. However, the data that are available would seem to indicate that this area of labour market policy has not been fully utilised. Its impact on the reduction of the potential rate of unemployment seems to have been small, with the exception of measures that were to assist young workers. Young workers are among the major target groups of labour market policy measures by both government and employers. A wider range of measures that were taken by private and public actors, such as reforms of the apprenticeship systems, the application of temporary settling-in allowances and the establishment of training or retraining courses for various groups of apprentices were extensively used. These factors, and also the responsibility that Swiss entrepreneurs feel *vis-à-vis* the issue of youth employment, are among the major reasons for the exceptionally low level of youth unemployment in Switzerland. A third class of labour market policy measures was targeted to economically weak regions, such as the mountain areas and economically mono-structural regions, in particular regions with clock and jewellery industries. According to recent evaluations of regional policy measures (see for example *Bundesrat*, 1983 and Burkhalter, 1984), the various programmes had significant effects on employment. Moreover, the protectionist umbrella that is placed over the agricultural sector and the impact on employment of traditional regional policies, which are geared to shelter the rural areas, proved themselves to be of importance in the effort to maintain job security for nationals.

In contrast to the emphasis that is placed on labour supply oriented labour market policy, the role of demand-oriented measures is relatively weak. This is due to a variety of economic and political factors. Firstly, Swiss economic policy makers are committed to a pro-market ideology. Keynesian demand management is not at all to their liking. This policy stance is broadly in accordance with the distribution of power in Switzerland, where the non-socialist, liberal bourgeois tendency is dominant (Katzenstein, 1980; Kriesi,

1980). Secondly, the high degree of openness that characterises the Swiss economy, and the important role that the Swiss banks and the Swiss currency play on the world market, require a policy that attaches the highest priority to control of inflationary pressure. Consequently, monetary policy is, in general, very restrictive in character (Jaeger, 1983). Priority is given to maintaining a high level of relative price stability. Under these circumstances, and in conjunction with the predominance of a liberal and market-oriented economic philosophy, the room for manoeuvre in respect of fiscal policy is extremely confined. Fiscal policy thus tends to adopt a stance that is either neutral or moderately restrictive. A third characteristic deserves to be mentioned in this context. The Swiss public frequently votes against fiscal policy proposals which the Federal Council puts on the political agenda by means of referenda designed to widen its freedom of manoeuvre in economic policy making. Under these circumstances, the role that is given to fiscal policy is that of a "parsimonious housekeeper" (Wittmann, 1979).

In an emergency, the role of the parsimonious housekeeper does not preclude the adoption of cautious demand management measures. Demand management programmes were delivered in 1975/76 and in the early 1980's. Evaluations of the 1975/76 programmes found that they had significant effects on employment. Thus, the economic advisory group has argued that demand management reduced the potential rate of unemployment by about 2 percentage points. Moreover, muted as the expansion of the public sector was, the slow growth in public sector employment contributed to the reduction of potential unemployment levels by one percentage point. Ironically, Swiss economic policy makers also unintentionally introduced what amounted to a fully-fledged Keynesian demand management policy in the late 1970's and early 1980's. What happened was as follows. Collective bargaining in Switzerland in the 1970's and 1980's was in general geared towards maintaining the level of real wages. Its major guideline consisted of the consumer price index which is computed by the Federal Ministry of Industry, Trade and Labour. A mistake in the method of computation resulted in a biased estimate of the rate of inflation. In the early 1980's the true rate of inflation was 2 percentage points lower than the inflation rate as estimated by the official figures. Consequently, wages that were paid in the period between 1978 and 1981 were too high, relative to the true change in price levels. The result was that of an extra payment of some 5 to 10 billion Swiss Franks. This is equal to some 1 to 2 per cent of the wage bill. This extra payment effected a demand push which was stronger than the one that had been associated with the official demand management programmes. The irony of this story is that, although unintentionally delivered, the demand push came at the right time and at about the right place.

As far as the international comparative study of unemployment is concerned, the Swiss case does not readily lend itself to the generalisations that have governed the literature so far. It clearly contradicts the view that full

employment is first and foremost an outcome of a Social Democratic government. Furthermore, it is also at variance with a power resource model according to which full employment depends upon the presence of strong trade unions, corporatist arrangements and weak and divided bourgeois political tendencies. Moreover, the Swiss case cannot be explained by the structure of decision-making processes, as *Fritz Scharpf* has claimed (1984 a and 1984 c). According to this view, full employment is more likely to be achieved in nations in which the decision-making structure is integrated and in which moderate incomes policy, expansive fiscal policy and monetary policy are strongly co-ordinated.

As far as the politics of full employment is concerned, Switzerland is a deviant case. In a sense, the Swiss case of full employment resembles the full employment strategy chosen by the Japanese authorities. Furthermore, the priority which the Swiss authorities attach to the job security of nationals finds its historical parallel in the strategy of "protecting national labour" (*Schutz der nationalen Arbeit*) which was adopted in the German Empire.

Despite the existence of parallels with other countries, the Swiss road to full employment is unique. It is a way of achieving employment which is based on a national liberal policy and a quasi-corporatist, conservative-reformist pattern of social partnership. Its base consists of five different pillars. The first pillar, but not necessarily the most important one, is a strong market economy and a limited role of the state, insofar as welfare state and the Keynesian demand management functions of the state are more muted than elsewhere. The second pillar consists of an active, *dirigiste* and interventionist role of the state in sectors that are of strategic importance in the effort to maintain job security for nationals. Foreign labour policy and the protectionist umbrella sheltering rural areas are among the major examples of this. The third pillar of Swiss full employment is the rapid retreat of female Swiss workers from the labour market in periods of recession. The fourth pillar is constituted by the pattern of social partnership that characterises the relationship between Swiss labour and capital. Finally, the fifth pillar consists of the norms and the style of conflict resolution that guide the decision-making process. The elites attempt to maintain the high level of consensus that has emerged in Switzerland (Deutsch, 1976); they make considerable efforts to integrate a labour movement which is politically rather weak; they employ consociational techniques of compromise building and as soon as a consensus on pending problems and issues has emerged they respond relatively quickly, efficiently and effectively, given the constraints that the institutional characteristics of the Swiss political systems impose on policy-making (Kriesi, 1980; Lehner, 1984).

Although the Swiss public authorities have restricted full employment in periods of economic recession to nationals, the policy stance that was adopted in Switzerland differs from the course of action that was chosen in many other OECD-countries. The conscious effort to maintain full employ-

ment (or near full employment) on the national labour market sharply separates Switzerland from a large number of other OECD-countries where the economic crisis of the 1970's and 1980's had a fairly direct and strong impact on the rate of unemployment.

## 6. Two Roads to Mass Unemployment

A wide variety of structural-economic, social and political factors have been conducive to the emergence of the mass unemployment which characterises, albeit in different degrees, the majority of OECD-nations in the 1970's and early 1980's. In general it can be argued that mass unemployment has depended upon two very different processes of policy formation: on the one hand, a pluralist-sectoralist mode of regulating the economy softened by extensive welfare state provision, and on the other, a pluralist mode of regulation coexisting with a more limited degree of welfare statism. Whereas the latter road to mass unemployment rests upon a politico-economic fabric of society which is dominated by bourgeois tendencies, the pluralist-sectoralist road to mass unemployment is associated with a wider range of variation in power distribution between capital and labour and between political parties, ranging from countries which are governed by centre-left coalitions to countries in which centre-right coalitions are in power. Although mass unemployment has prevailed in both groups of nations, the job creating capacities of the public sector and the private market economy have differed to a considerable extent. In the first group of nations, characterised by centre, centre-right or centre-left coalition governments, the public sector tends to be the major job creator, while employment growth in the market sector tends to be weak.<sup>12</sup> However, in these nations the expansion of employment in the public sector remains moderate, mainly due to effective political opposition to a more active role of the state, and is not sufficiently strong to absorb excess labour.

In contrast to this, the private market economy is the major job creator in the pluralist countries, while the growth in public sector employment in these countries remains very weak. On balance, within this latter group of countries, buoyant recruitment of labour occurs in the private sector, and in particular in the private service sector, but growth in total employment is not sufficiently strong to absorb total labour supply. In both groups of nations, the overall outcome, as reflected by rates of unemployment, is similar: the level of unemployment is high.

A focus on the Federal Republic of Germany and the United States of America offers the opportunity to discuss each of the roads to mass unemployment in greater detail.

<sup>12</sup> With the exception of Italy, see Figure 3.

### 6.1. Mass Unemployment in West Germany

When the German economy entered the period of economic crisis in the 1970's, a variety of structural factors amplified the recession-related pressures on the labour market. These factors include the heavy external dependence of the German economy; the presence of major industries with heavy adjustment problems (in particular in the steel and coal industries and in the shipyards); a relatively high proportion of employment in the industrial sector and, conversely, a smaller primary sector and a smaller service sector, and last, but not least, relatively low levels of wage differentiation and wage flexibility.

These factors contributed to the emergence of what must be regarded as representing one of the most unsatisfactory labour market performances in the OECD area: rates of unemployment increased up to a level of some 4 to 5 per cent in the 1970's and to 9 to 10 per cent in the early 1980's, and total employment decreased between 1973/74 and 1982 by 4 per cent (whereas total employment figures have in fact increased in the majority of the OECD-countries).

To some extent, this unsatisfactory labour market performance can be explained in economic-structural terms. However, a few caveats need to be added. First, labour supply has grown less rapidly in Germany than in many other nations, mainly due to a wide variety of measures that were effectively employed to control labour supply. Second, structures present a problem to the labour market, but they do not determine a particular solution. Thus, for example, a comparison between Germany and the full employment nations, such as Sweden, Norway and Austria, reveals that policy responses to similar structural problems, such as external dependency and crisis-industries, have varied considerably and so have the labour market outcomes that were adopted. Third, it needs to be emphasised that high levels of unemployment in Germany are at least partly attributable to the restrictive stance adopted in respect of monetary policy. Economic policy in Germany continued to attach the highest priority to the control of inflationary pressure. Assuming that the trade unions' wage policy would get out of hand under conditions of full employment and higher growth in money supply, and premising its activity on a monetarist philosophy, the German *Bundesbank* adopted a restrictive monetary policy stance (Scharpf, 1984 a and 1984 c). While monetary policy proved successful in maintaining low levels of inflation, it had adverse effects on the demand for labour.

Thus, in addition to structural factors, an understanding of unemployment in Germany requires an explanation in terms of policy and politics. The high priority that was accorded to the maintenance of price stability mirrors concerns about distributive struggles, competitiveness and profitability, but it is also attributable to the general public's aversion to inflation, which is largely due to the traumatic experience of hyperinflation in the 1920's and in

the 1940's. Thus, the maintenance of high levels of price stability proved itself to be a politico-economic constant which circumscribed the room for manœuvre available to whatever government has been in office.

In addition, further institutional characteristics of the policy process played a major role. The costs and benefits of mass unemployment or, alternatively, full employment-oriented policies, are unequally distributed among the three tiers of government, the Federal Employment Institute and the Social Security Funds. In consequence, policy-makers tended to pursue "egoistic" decisions, resulting in a half-hearted policy response to the labour market crisis. Furthermore, and unlike Austria, to take just one example, the degree of concertation between fiscal, monetary and incomes policy was low, while monetary policy shifted the responsibility for maintaining employment and regaining full employment almost entirely to the trade unions' wage policy. Finally, a potential move towards a full employment-oriented policy was a matter of controversial debate in the Social Democratic-Liberal coalition in power until 1982, and was ultimately blocked by it. This reflected deep-seated conflicts of basic economic philosophy between the coalition partners. The FDP had always regarded itself as the guarantor of the social market economy and was thus strongly opposed to any plan which involved an increase in the level of state intervention. The new coalition government, composed of the Christian Democrats and the Liberals, which came into power in 1982, attached even higher priority to the consolidation of public finances and, in consequence, pursued a restrictive fiscal policy, with adverse effects on unemployment.

Furthermore, two other potential avenues for enhancing employment tended to be blocked, largely on political grounds. Thus the growth in employment in the public sector tended to be low compared to other nations that were governed by centre-left or left governments, partly due to the confining restrictions that were imposed by economic policy, but also due to the political parties' aversion to a more active role of the state in employment policy.

Moreover, measures to reduce and redistribute working time were met by strong opposition mainly from employers, but also from the trade unions, at least insofar as job-sharing models and a greater flexibility in working time arrangements were concerned.

Thus the freedom of action to pursue a full employment oriented policy was severely restricted. Consequently, the major impact that selective labour market policy measures and efforts to control labour supply had on the labour market was the reduction of the potential rate of unemployment, while the maintenance of full employment was clearly beyond the capacity of labour market policy. With respect to reduction of the potential rate of unemployment, labour market policy was not unsuccessful. Thus, for example, a wide variety of active labour market policy measures partly compensated for the increase in unemployment figures. Short-time work arrangements, re-

training programmes and special measures in favour of hard-to-place job seekers and economically weak regions are estimated to have reduced the level of potential unemployment by some 1 to 1.5 percentage points (Schmid, 1982; Schmid, 1985; Webber and Nass, 1984). In addition, the reduction in total employment of foreign workers from 2.6 million in 1973 to 1.68 million in 1983 has substantially improved the statistics of open unemployment (*Die Zeit*, January 13th, 1984, p. 8; Frey, 1984). Early retirement schemes, which were introduced on social policy grounds under the first SPD/FDP government in 1972, also proved themselves to be one of the major, and highly welcome, instruments for combatting unemployment (Casey and Bruche, 1983). Finally, the expansion of the educational sector and, in particular, the increase in the total number of university students, tended to protect a larger proportion of younger people from unemployment.

West German economic policy succeeded in maintaining a relatively high level of price stability, and was not unsuccessful in the promotion of sound economic development. However, the labour market and employment policy record has remained unsatisfactory. To a large extent, the costs that were associated with employment losses and increasing levels of open and hidden unemployment were softened by means of welfare state provision, such as unemployment insurance benefits and welfare assistance programmes. It must, however, be emphasised that broad cuts in the social wage—a policy which was introduced by the SPD/FDP government and was carried further by the CDU/CSU/FDP coalition—lowered the level of protection that was given to economically and socially weak groups in general, and to the unemployed and welfare recipients (*Sozialhilfeempfänger*) in particular (Zacher, 1984; Hickel, 1984; Michalsky, 1985). By international and historical comparison, it is nevertheless fair to conclude that the West German case of mass unemployment (like the Dutch one) is indicative of a policy of mass unemployment which is softened by welfare state provision. One might thus argue that, in countries of this kind, the moderate strength of organised labour and social Democratic parties, and their opposition to mass unemployment, was partly bought-off by public income maintenance expenditures (see, for example Czada, 1983, and the case studies in Esser, 1982, and Esser *et al.*, 1983).

In political terms, the West German road to mass unemployment may thus be regarded as representing a peculiar distribution of power between the major political tendencies. In overall terms, the distribution of power is somewhat biased against labour and the Social Democratic party. However, trade unions and Social Democracy have been strong enough successfully to demand a higher social wage, and it should be added that Christian Democratic governments have been willing to go along with advanced welfare state efforts, so long as the whole economy was in equilibrium. However, on political grounds, the line was drawn at a rapid expansion of public sector employment along Swedish lines and also at the effort radically to reduce and redistribute working time. Trade unions and the Social Democratic party are too

strong to allow employment practices along Japanese and North American lines, which would entail a far higher level of wage flexibility and mobility than is politically and culturally acceptable in Germany. However, trade unions and the Social Democratic party have not been strong enough to establish a real "balance of class forces" in the economy and in the policy process. Thus there was a lack of policy networks capable of absorbing the employment losses that were generated in the private sector. In political terms, mass unemployment in Germany is thus largely accounted for by a balance of political power which comprises both the achievements and the relative weakness of the labour movement.

## 6.2. The United States

Whereas high levels of open unemployment and high welfare spending characterised one group of mass unemployment countries, a deep labour market crisis, significantly lower levels of welfare statism, and a policy process dominated by non-socialist tendencies have been characteristic of another group, with the United States and Canada to be counted among the major examples. In these countries, rates of unemployment were high and the level of welfare state provision moderate or low in comparative terms.

Why there has been more unemployment in the United States than in most West European countries has long been debated (Myers and Chandler, 1962; U. S. Department of Labor, 1978; Kaufmann, 1978; Norwood, 1983). Many of the explanations offered have pointed to a variety of factors, such as the rapid increase in the labour force, the absence of significant cyclical movements in foreign labour supply, a higher degree of mobility and fragility of job attachment and, consequently, a higher degree of search unemployment, and "a tolerance of unemployment that verges on the morbid" (Myers, 1975, 1251). There are major differences between the labour market in the United States and in Western Europe and Japan concerning job security and job continuity. The threat of lay offs in Europe and Japan is considerably diminished by powerful legal and social deterrents. In contrast to this, the relative absence of job security and job continuity arrangements in the United States may raise the unemployment rate (Kaufmann, 1978).

This, to a large extent, reflects different cultural patterns and different political-institutional structures. The labour movements of the United States and Canada are relatively weak, while the non-socialist tendency virtually occupies an economically and politically hegemonic position. A highly fragmented and decentralised political process, the lack of nationwide co-operative relationships between employers, trade unions and the state, and the dominance of the market-oriented ideology are factors that are conducive to the preponderance of a mode of regulating the economy that is weakly co-ordinated and pluralist in character (Lindberg, 1982 a, 1984; Forster, 1985). Thus the combination of weak conflict-resolution mechanisms, a low degree

of welfare statism, a lack of policy co-ordination across policy areas, and the dominance of a non-solidaristic ideology creates a situation in which there is considerable room to shift the burden of the economic process over to labour. Under these circumstances, rates of unemployment tend to be high, even if economic growth is satisfactory. In periods of economic crisis the rate of unemployment tends to respond quickly and strongly to reduced growth rates and, other things being equal, will be pushed upwards. In the post-1973 period there were further factors which encouraged the upward trend in levels of unemployment. Among these factors, the strong increase in labour supply deserves first mention, but weaknesses in economic structure, such as the presence of industries with heavy adjustment problems (such as the steel and automobile industries), have also played a major role.

However, it should be stressed that structural factors alone do not explain rates of unemployment. With the exception of high growth rates in labour supply and economic decline in some of the industrial sectors, the United States' economy entered the recessions of the 1970's and 1980's with structural characteristics which made it to a certain extent less vulnerable to employment losses than some West European full employment countries.

By any standards, the US economy is less dependent on external factors than any other OECD-nation, and is less vulnerable to shocks than nations in which export-dependency as a percentage of GDP is at a level of 25 to 30 per cent. Second, total employment in the U. S. has been concentrated in the service sector, while the "employment content" of the industrial sector has been relatively small. Consequently, the distribution of employment by sector was less vulnerable to employment losses that were generated by labour-substituting capital investment. Third, the weakness of the labour movement and the relative absence of job security and job attachment have coexisted with high levels of wage differentiation and high levels of wage flexibility. The latter factors, in combination with low productivity growth, were to play a major role in what is now commonly regarded as the "employment miracle" of the United States.

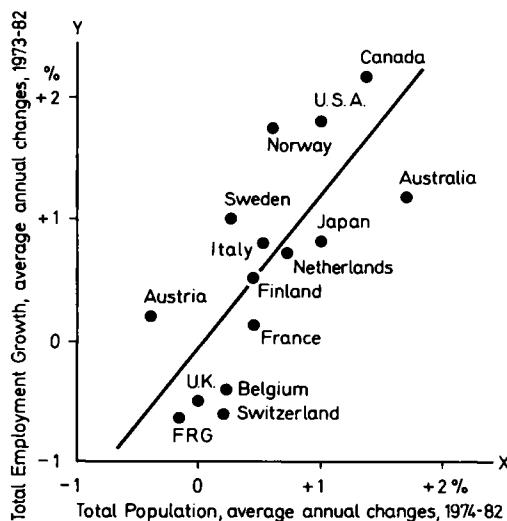
The U. S. (and also Australia, Canada and Italy) have been among the OECD-countries in which an increase in open unemployment ran parallel to a vigorous growth of total employment. Whereas total employment growth in the full employment countries is basically accounted for by active labour market policy and full employment policies on the part of the government, the strong increase in total employment in the United States merits a different explanation, albeit not incompatible with the political hypothesis advanced above.

Total employment growth in the United States has largely been concentrated in the service sector, in particular in services to producers, certain welfare services such as health, some distribution services (hotels and catering) and in retail trading. Part of the explanation of high total employment growth is to be found in differences in population growth. Statistically, the

most important single explanatory variable of cross-national differences in employment growth consists of demographic change. The change in total population co-varies strongly with the change in total employment in the OECD countries between 1973 and 1982. Total employment growth was stronger (weaker) the higher (lower) was the growth rate of the total population. There is a strong correlation between the two indicators, ( $r = 0.69$  for the period between 1973 and 1979, and  $r = 0.55$  for 1979—1982). There are substantive arguments to explain this close statistical relationship. Within the universe of the rich capitalist nations a higher growth in the total population in general tends to generate additional demand for goods and services (and employment in the process of producing these goods and services) and, at least as far as the service sector is concerned, it contributes to the emergence of a virtuous circle of demand, growth and employment. This is one of the reasons why the United States (and also Canada) rightly pride themselves on having higher rates of growth in total employment (see Figure 5).

Changes in total population of course do not fully account for differential rates of growth in employment. The case of the United States can be taken as

Figure 5. *Changes in Total Employment and in Total Population, 1974—1982*



$$r = .75$$

$$Y' = -.1 + 1.316 (X)$$

Source: Data was calculated from OECD 1984 d

an example. Throughout the whole period under investigation changes in total population were high. Total employment figures were strongly on the increase between 1976 and 1979, and it is probably more than mere coincidence that fiscal policy was expansionary in this period. In contrast to this, and despite continuous population growth, the percentage changes in total employment in 1980 and 1981 were relatively low. Moreover, in 1982 total employment declined by 0.8 per cent. This is indicative of the extent to which a purely demographic explanation of employment changes fails to specify the exact nature of the links between demographic changes, economic behaviour, policy and growth rates in total employment. A more fully developed explanation would require the construction of an integrated model, comprising demographic, economic and political factors, the presentation of which is beyond the scope of this paper. However, a few preliminary hypotheses on the U. S. case would seem to be in order (see Norwood, 1983; OECD, 1984 b; DIW, 1984 b and 1984 c; Sengenberger, 1984; Winkler-Büttner, 1984).

As far as the importance of political background factors is concerned, it needs to be stressed that a number of features of the political configuration in the U. S. are conducive to higher rates of growth in total employment. Among the political background factors the political and economic hegemony of the non-socialist tendency, the lack of a powerful and centralised socialist party and trade union movement, and the absence of a fully developed welfare state are the most important. Under these conditions the level of employment is more likely to increase rapidly. This is basically due to the effects that weak welfare state institutions and weak and decentralised unions have on wages. Thus, for example, non-wage-labour costs in the U. S. are significantly lower than in most European countries and real wage flexibility and the degree of wage differentiation are, in general, higher. At the same time, the absence of job security and job continuity, plus the willingness on the part of the labour force in general and on the part of the illegal immigrants in particular to accept mobility requirements are among the factors that favour the rapid absorption of low-skilled and/or low paid labour, the supply of which has been rising faster than in Europe. Furthermore, the very consequences that the labour movement's weakness and the relative absence of a developed welfare state have had on wages also tend to slow down the process of substitution of capital for labour and to promote employment growth in labour intensive sectors, such as the service sector.

The U. S. "employment miracle" is also influenced by the stronger support that subsidies and depreciation allowances have given to investment in general and to the establishment of a larger number of new firms in particular. Moreover, it was pointed out above that the sheer momentum of the rapid increase in total population has strengthened the demand for services and thus contributed to the establishment of a virtuous circle of growth and employment, at least as far as the service sector is concerned. Finally, it should be emphasised that fiscal policy has frequently strengthened the volume of de-

mand, although the restrictive stance of monetary policy since the late 1970's undoubtedly tended to counteract the expansionary tendencies that were manifested in fiscal policy. Fiscal policy in the U. S. had created a strong demand and employment push in the period between 1975 and 1979, albeit at the expense of higher rates of inflation. In addition, the huge deficits that were associated with massive tax cuts, the strong armaments drive under the Reagan administration and the tax cuts in themselves had a major impact both on economic growth and employment growth (DIW, 1984 b and 1984 c).

Rapid employment growth in the U. S. can thus largely be accounted for by an explanation which rests on the interaction of a variety of demographic, politico-economic and, most importantly, genuinely political factors. Thus, for example, it was not the strong growth in total population *per se* which accounted for the rapid growth of employment in the U. S. The impact of total population growth was so strong because the political characteristics of the American labour market, such as weak working class organisation, strong non-socialist tendencies, and the overall stance of the economic policy allowed it to be so. It is in this interaction between non-political variables and factors that are genuinely political in character that an explanation must be sought of why total employment growth rates differed as much as they did.

However it needs to be emphasised that the rapid increase in the number of jobs in the United States (and also in Canada and Italy) has not been sufficiently large to absorb the increase in the total number of job seekers. Thus rates of unemployment continue to be high, and are, in fact, significantly higher than they were in the period before the world wide economic recession of the 1970's and 1980's began. At least as far as the North American countries are concerned, it would seem plausible to argue that the dominant position that has been held by the non-socialist tendency in both the economy and in the political system is responsible for the existence of an upper ceiling in employment. Full employment would not be at all to the liking of the dominant ideological coalition. Therefore economic policy is geared towards the achievement of different goals to those in most other OECD-countries. High priority is attached to the maintenance or generation of higher growth in output and employment (and a level of relative price stability) and high priority is also given to maintenance of a sufficiently high rate of unemployment.

## **7. Policy-Making in Periods of Economic Crisis: The Recessions of the 1970's and 1980's in Comparative Perspective**

Unsatisfactory as has been economic performance in general and labour market performance in particular over the last decade, it should be emphasised that the economic policy stance that was adopted in the OECD-countries in the 1970's and 1980's differed considerably from the course of action that

governments had followed in the depression of the 1930's. When the worldwide depression of the 1930's first became apparent, the economic policy makers in diverse national economies responded with the same economic policy, namely, orthodox deflationary measures. Defence of the currency, spending cuts and attempts to cut back wages were among the major policies that were applied in the United Kingdom and Sweden until 1931, in Germany until 1933 and in France until 1937. After a few years of failure, the majority of the governments in the Western world broke with orthodoxy and adopted a neo-orthodox policy approach. Devaluation, use of tariffs and support given to official or private cartels were among the major characteristics of this policy implementation in the United Kingdom post-1931, Sweden from 1931 to 1932, the United States from 1933 to 1935/37 and in post-1937 France. In these countries, the policy of cheap money and favourable changes in the terms of trade proved themselves to be major determinants of the economic recovery. However, the economic recovery was not sufficiently strong to absorb the large number of unemployed job seekers (Gourevitch, 1984).

Some countries broke more drastically and more rapidly with economic orthodoxy. The first nations to use fully-fledged demand and investment stimuli for the purpose of economic recovery and full employment were the new military regimes in Japan (1931) and Nazi Germany (1933) (Hentschel, 1984; Overy, 1982). In the liberal constitutionalist regimes in Western Europe and North America this course of action was adopted later on. Demand and investment stimuli, based on deficit spending, the establishment and extension of transfer payments and counter-cyclical demand management practices were implemented in Sweden, France and the U.S. only in the mid-to-late thirties. In the latter group of countries, the break with economic orthodoxy of the early thirties was cautious and moderate in character (Gourevitch, 1984).

In contrast to this, the economic policy responses of the new authoritarian regimes in Japan and Germany were more successful, although it should be added that the social and political costs involved were extremely high. The Japanese military regime succeeded in promoting rapid economic recovery, mainly, though by no means exclusively, via a Keynesian policy (Kindleberger, 1973: 14). Of the major instruments that were used in Japan in the early 1930's, the consistency with which an active and steady policy of deficit-spending was practised is the most significant. In addition, the authorities resorted to a major devaluation of the Yen by some 40 per cent, a measure which had an enormous impact on export growth in the subsequent period. Furthermore, and like Switzerland in the 1930's (Rutz, 1970), the Japanese case is also indicative of the extent to which the combined effects of devaluation and a policy of cheap money proved to be of crucial importance in the promotion of economic recovery. In addition, investment was strongly supported by the impact of the extensive rearmament policy. And last, but not least, real wages were not raised and, in fact, were frequently on the decline,

while profits and above all investment were strongly supported (Hentschel, 1984).

In the Nazi economic recovery (Overy, 1982), the dramatic growth in total employment was mainly due to a virtually revolutionary break with orthodox economic policy doctrines. The extraordinarily strong expansion of the public sector, demand management, a variety of industrial policy measures (in particular in favour of the construction industry, with the construction of the *Autobahn* among the most famous examples) and strict control of foreign trade, money, prices and wages were among the major instruments. Up until 1936, the main emphasis was on the promotion of civilian industries and civilian employment, whereas rearmament and war preparation became the overriding concerns of policy in the following years. Needless to add, both the Japanese and the Nazi economy rested on the prior establishment of an authoritarian or totalitarian regime. Thus economic recovery and full employment were purchased at a price which was intolerably high in political terms.

Overall, the difference in policy response to the economic crisis of the 1970's and 1980's and that of the 1930's is striking. In the 1970's and 1980's none of the governments of the developed industrial democracies responded with a really deflationary or wholly orthodox policy. Although the control of inflationary pressure gained importance as one of the major goals of economic policy, a wider range of measures that were meant to strengthen demand, investment, employment and industrial restructuring were applied. Furthermore, even the most conservative governments made efforts to expand labour market policy and employment policy, at least in favour of particular target groups, such as unemployed youth in France under the Barre government, in the United Kingdom under the rule of the Thatcher governments, and in West Germany under the rule of the CDU/CSU/FDP-coalition. Moreover, restrictive as the stance in social policy tended to be, there was no country in which the government actually divested the welfare state of its core functions (Therborn, 1984; OECD, 1985 a).

In the 1970's and 1980's, the policy response to the recession was superimposed on a large public sector, the size of which had grown considerably during the entire post-World War II period. In contrast to this, the economic policies that were chosen in the 1930's rested on a relatively small public sector, in which automatic built-in-stabilisers were largely absent. Although particular features of the public sector may prove themselves to be a burden on investment and growth, the public sector and the policy instruments that were accumulated since the 1930's have been of major help in preventing the recession from generating a vicious circle. Thus in the 1970's and 1980's, the OECD economies have benefited from one of the most important silent revolutions that took place during the post-World War II period: the growth of government.

However, the extent to which the authorities were willing and able fully to explore and to make full use of the room for manoeuvre that was available to

them varied considerably. With respect to the unemployment-inflation dilemma to which all OECD-nations have been exposed, the most conspicuous success of economic policy consisted of the maintenance of full employment or near full employment and low or moderately high rates of inflation in some of the OECD-countries. In contrast to the 1930's, when authoritarian regimes were the major examples of full employment policy (Pollock, 1941), the experience of the 1970's and 1980's suggests that full employment or near-full employment can be maintained within the context of a capitalist order and a democratic political system, even under economically adverse circumstances. As our analysis has shown, the ability and the willingness to adopt policies to control unemployment is partly due to the nature of structural problems with which the policy makers were faced, but it mainly mirrors differences in the politics of economic and labour market policy.

In yet another respect, the 1970's and early 1980's dramatically differed from the 1930's. In the 1970's and 1980's there was no country in the West in which the economic *malaise* contributed to fundamental regime changes such as in Japan in 1931 and in Germany in 1933. Furthermore, in the 1970's the electorate's reactions to the economic crisis were less strong and less disruptive than they were in the 1930's. The rise of the German National Socialist Party in the 1930's and the muted reactions to unemployment in the 1970's and 1980's are the most extreme examples of this.

Undoubtedly, the muted reactions to rising unemployment are partly due to higher levels of income protection, which largely reflect the high levels of welfare state provision that were generated in the post-World War 2 period. Muted reactions to mass unemployment may also mirror the fact that many of the unemployed find a new job after a shorter period of unemployment, whereas long-term unemployment is affecting weak and unorganised groups in the labour market to a larger extent (OECD, 1983 e). It may also be the case that, to some extent, attitudes toward work, leisure and employment are changing so that less employment security in the formal economy is accepted in return for greater leisure, or alternatively, in return for work in the informal sector, which seems to have grown rapidly in recent years (Weck, 1982; Frey and Weck, 1983; Tanzi, 1982).

Thus, a variety of political factors and social trends have contributed to mitigating the political reactions to unemployment. It is here that we find a further answer to the question of why the OECD nations have varied so much in their economic and labour market performance. The governments in countries such as Austria, Norway and Sweden were forced, on political grounds, to pursue a policy of full employment. In terms of power distributions, the Japanese authorities had a larger margin of choice as far as the unemployment issue was concerned. However, due to the rules of conduct of political and economic leadership, they decided to adopt a policy stance that was geared to maintain higher levels of job security.

In contrast to the full employment countries, the governments in some of

the mass unemployment countries were confronted with a political constellation of a different character. They made major efforts to maintain or regain successful economic performance. Some of them succeeded, while others were much less successful. However, on political grounds, in particular due to the distribution of power that has prevailed in these countries and also due to the absence of sharp political reactions to unemployment, they were under weaker pressure to pursue a policy of full employment. Thus, for example, many governing parties in Western Europe in the 1970's and early 1980's managed political survival in national elections and remained in office more or less regardless of whether they had solved the unemployment problem or not (see, for example, Schmidt, 1983 b, 1984 a). Thus, the key to an understanding of why levels of unemployment have varied as much as they have is to be sought only partly in the structural factors that have been conducive to low rates of unemployment or high rates of unemployment. The bulk of the difference can be explained by policy differences, the distribution of power between organised political groups and in reactions to unemployment on the part of the electorate.

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