

# The Political Economy of Distributive Conflict\*

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## Introduction

Until the mid 1970's, the post-war period in the democratic industrial countries was one of prosperity and affluence. The economy was growing, incomes increased and so did employment. This period was also one of rising public expenditure and of a growing welfare state. In more recent years this situation has changed in most countries: economic crisis, stationary or decreasing real income and rising unemployment are now the realities of the advanced societies' economies. In the government sector we find high public debts, decreasing government income and a drive to reduce public expenditure — the welfare state is in a fiscal crisis. Although there is some prospect for economic growth in the near future, many of the economic problems (high unemployment especially) and the welfare state's fiscal crisis may prevail throughout this decade.

Many of these problems may be associated with temporary or lasting changes in the economic, technological and social conditions of the industrial world. A world-wide recession, imbalances in the monetary system, changing demands for goods and services, problems in the population structure and similar factors may account for a large part of slow growth or stagnation, high unemployment and fiscal stress. Although these factors are of great importance, they do not explain all the current economic and fiscal problems of advanced democratic societies. Rather, these problems are further symptoms of fundamental deficiencies in the political economy of these societies.

The modern capitalist state is not only a welfare state which provides its citizens and groups with a large variety of public goods and services, it is also

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an interventionist state heavily involved in the regulation and direction of a large number of socio-economic structures and processes. The economic activities of the state extend over a wide range of different activities, including the maintenance of stability and employment, the provision of various infrastructures, the education of qualified manpower, the financing of technological innovation, the "insurance" of risk, the securing of the economy's resource and energy base, as well as the protection of the environment and the compensation of various externalities of industrial production. Moreover, government attempts to secure the social peace of the capitalist society by means of distributive policy and social regulation.

The current economic and fiscal crisis, and the failure to cope successfully with it by public policy, reveal that the state's capacity to manage its various economic activities effectively and efficiently is severely limited and often insufficient. While the scope of government in the democratic capitalist states has grown strongly in the post-war period, government's informational, organisational and financial capacities, as well as its power, often did not keep pace with this development. As a result, the growth of government produced considerable government overload and related deficiencies in the effectiveness and efficiency of public policy.

The understanding of the often low effectiveness and efficiency of public policy — especially of economic and social policy — provokes questions concerning the role of the state in capitalist society, the economic and social functions of government and the desirable size of the public sector. Although these questions are of great importance, they will not be discussed here. My concern is a more modest one, namely a contribution to a better understanding of the capacities and limits of public policy *vis-à-vis* the economy. In spite of our considerable knowledge of public policy-making processes, we are still largely unable to explain why and when governments are more or less capable of managing their economic activities effectively and efficiently.

An interesting and stimulating approach to this question is offered by Mancur Olson. In his recent book, *The Rise and Decline of Nations* (1982), he argues that much of the ineffectiveness and inefficiency of government intervention is associated with the pluralist pattern of interest intermediation in the advanced democracies. Contrary to the assumptions of the traditional pluralist theory of democracy, Olson argues that interest intermediation in modern democracies is characterised by high differentiation, unequal organisational capacities and political power of socio-economic interests, as well as by low — if any — competition among interest groups. This results in strong political influence on the part of special interests, while the political representation of general interests is usually rather weak. According to Olson, the dominant influence of special interests leads to protective regulation and intervention inhibiting growth in the private sector. Moreover, it reduces a society's capacity to adopt new technologies and to reallocate resources in response to changing conditions. Consequently, government intervention based

on large-scale influence by special interests reduces the overall efficiency of the economy and the rate of economic growth and is likely to create a condition of stagflation with high unemployment.

Olson's argument is consistent with an increasing number of studies which point to the crucial importance of the structure of interest intermediation for the political and economic development of advanced capitalist societies (e. g. Dean, 1984; Ionescou, 1975; Keman, 1984; Keman and Braun, 1984; Lehmburk, 1984; Lehner and Widmaier, 1983; Offe, 1972; Paloheimo, 1984b, c; Scharpf, 1974, 1983, 1984; Schmitter, 1981; Streissler, 1973). These and other studies show that the pluralist interest structures and a segmentation of public policy-making as well as a lack of encompassing political control are a major source of ineffective and inefficient policy (see also Lehner, 1979).

These arguments point to a major deficiency of public policy-making in the democratic capitalist state; namely, an often low capacity for encompassing interest aggregation and comprehensive decision-making. Both encompassing interest aggregation and comprehensive decision-making are necessary preconditions of effective and efficient policy-making. In a capitalist society, the state's economic functions are of two kinds: first, the state has to secure the economic order which is necessary for the effective working of the market mechanism. It also has to provide those goods and services which are not or cannot efficiently be provided through the market. In other words, the state has to concern itself with those problems of allocation and distribution which are not or cannot be solved efficiently within the scope of spontaneous, decentralised co-ordination and, thus, require centralised co-ordination (cf. Buchanan, 1975; Dahl and Lindblom, 1953; Tullock, 1967). In contradistinction to the spontaneous co-ordination through the market, the authoritative and centralised co-ordination by the state requires a high degree of consensus in order to be effective and efficient. Thus, a shift from market co-ordination to governmental steering involves an increasing need for societal consensus — the more we use political rather than market mechanisms, the more consensus is required for effective and efficient intervention in the economy. (Widmaier, 1978; see also Buchanan, 1975; Scharpf, 1974; Rose, 1979).

This requirement is difficult to meet within the pluralist interest structures of the advanced capitalist societies because these structures have a high potential for distributive conflict concerning government activity, which tends to increase as the scope of government increases. (Lehner, 1979, 1983a; Lehner and Widmaier, 1983). The capacity of government to intervene effectively and efficiently in the economy thus depends upon its capacity to provide for encompassing interest aggregation and comprehensive decision-making in respect of economic policy. Imbalanced and particularistic interest intermediation, segmented and fragmented structures and procedures of policy-making, and a lack of political control of state activity severely limit this capability.

As I have demonstrated elsewhere (Lehner, 1983 c), there are good reasons to assume that governments' capabilities to solve distributive conflict are considerably influenced by the institutional structures within which distributive conflicts are politically intermediated and within which they have to be resolved or accommodated. (See also Lehner and Keman, 1984; Scharpf, 1977). In order to understand better why and when governments are more or less capable of managing their economic activities effectively and efficiently, we have to investigate further the impact of different institutional structures on interest intermediation and policy-making. Much of this article is concerned with this topic. In the following sections, I shall start by offering a theoretical elaboration of the argument presented so far. Then I shall present an empirical account of the relationship between institutional structures and policy-outcomes. Finally, I shall return to a theoretical analysis of the structural determinants of the effectiveness and efficiency of economic policy.

## 1. Distributive Conflict: The Economic Foundations of the Welfare State

Modern capitalist societies are characterised by a strong interlocking of politics and the economy. Government has grown big in these societies: "Government is big in itself, big in its claims upon society's resources and big in its impact upon society" (Rose, 1984:1). Most of this growth is a development of the last three or four decades. Before 1900, public spending in the democratic capitalist societies amounted to some ten per cent of GNP. By 1950 public spending reached values between twenty and thirty per cent of GNP. In the 1970's and 1980's most of the OECD countries spent between forty and fifty per cent of their GNP in the public sector; some countries (e. g. Denmark, the Netherlands and Sweden) even reach levels in excess of fifty per cent, and only Switzerland and the United States spend less than third of their GNP in the public sector. (Kohl, 1984).

The overall outcome of this rapid growth of government over recent decades is usually called the welfare state. This notion refers to the assumed social policy function of the advanced capitalist state, that is to secure the stability of capitalist society by means of distributive policies. It also refers to economic activities aiming at the promotion of economic growth and widely dispersed wealth. The term welfare state is also understood as a concept making an important change in the functional development of the state's activities — an expansion of the scope of government far beyond ordering activities and the production of infrastructures (cf. Rose, 1976).<sup>1</sup>

<sup>1</sup> Originally the concept of the welfare state was more narrowly defined and referred to social policy only. Since social policy and economic policy are often linked together and can often not be clearly separated, a broader definition of the concept, which includes the active economic role of the state, is appropriate. In this article I, therefore, use the term welfare state to describe a socially and economically active capitalist state.

The establishment of the welfare state has gradually but fundamentally changed the operation of both market and government. It has created a condition of strong political-economic interdependence within which the production and distribution of goods and services is largely determined by an interplay of government and the market (cf. Lehner and Keman, 1984; see also Buchanan, Tollison and Tullock, 1980; Dahl and Lindblom, 1953; Frey, 1978; Galbraith, 1973; Hibbs and Fassbender, 1981; Lehner, 1979; Shonfield, 1965).

In view of this situation, the study of governments' capacities to cope adequately with their economic activities has to take into account the structure of political-economic interdependence and its impact on social and economic policy-making. As Keman and Lehner (1984) show, political-economic interdependence can be analysed on three different levels of interaction. First of all there is the functional interaction between the (private) market economy and the (public) authority of the state. This includes the state's function in respect to securing the basis of the economic order and also state interventions functionally determined by the structure of the economy. Then there are the interactions between interest groups, parties and governments, the political link between the private and the public sector. Lastly we have the interaction between policy-making, policy outputs and policy outcomes, the real impact of public policy on the economy. In this section I discuss political-economic interdependence on the first level of analysis and examine the economic foundations of the welfare state.

The effective functioning of a market economy is dependent on certain social conditions. More specifically it depends — as Adam Smith demonstrated some two hundred years ago — on socially accepted and collectively guaranteed property rights (cf. Buchanan, 1975). Accepted and guaranteed property rights in turn secure the acceptance of the distribution of income and wealth in a society resulting from the spontaneously co-ordinated economy. In other words, effective market allocation requires a legitimate social order securing the acceptance of the distribution of property and income within which economic exchange takes place.

Neo-classical theory takes this condition for granted and assumes that individuals accept a given distribution of property and income as a restriction of their economic opportunities. It is certainly the case that the distribution of property and income is based on some legally guaranteed property rights, and to that extent constitutes a restriction of individuals' economic behaviour. However, legally guaranteed property rights are subject to political decisions and are thus in principle subject to change. A legally protected distribution of property and income is, therefore, not necessarily stable and need not necessarily constitute a restriction of individual economic opportunities. On the contrary, the history of capitalism shows us that the assumption of fixed property rights and income distribution is unrealistic or even false. The development of capitalism throughout the last hundred years has been shaped by so-

cial and political conflicts concerning the distribution of property and income. It was the existence of such conflicts that motivated Bismarck to engage in social policy and thereby to initiate a development which finally resulted in the modern welfare state.

It is an established fact that in market economies production and distribution is co-ordinated by the price mechanism. This mechanism relates production and distribution to individual preferences or desires — and to property and income. Demand for goods and services depends upon individual preferences and consumption power. The latter depends on property and income.

This simple and undisputed fact implies that in a market economy production and distribution only matches individual desires if the distribution of property and income in a society matches the distribution of individual preferences in this society. The necessary adjustment of income and property on the one hand and of desires on the other cannot be secured by the market mechanism, but has to be provided exogenously (cf. Lehner, 1983b; Lehner and Widmaier, 1983).

In traditional societies, value systems which legitimated the existing distribution of property and income were sufficient to secure this adjustment. They forced individuals to adjust desires to the existing structure of economic opportunities. In modern democratic industrial societies, however, such a legitimisation of property and income is hardly possible, for liberal values emphasise individualism rather than collective integration, economic rationality rather than tradition, and equality rather than inequality. As a result the legitimacy of the existing distribution of property and income is weak. It is not based on values generated by social tradition and, therefore, generally accepted, but has to be provided by constitutional and other types of law. In other words, while in traditional societies the legitimacy of property rights is rooted in values intrinsic to the society, in modern societies law provides a formal legitimacy only. Moreover, in capitalist societies with a rationalistic ideology, satisfaction of desires is a central criterion for the evaluation of economic conditions and social institutions (such as the market). This means that the formal legitimacy of property rights only translates into an intrinsic acceptance of the distribution of property and income to the extent that the resulting economic opportunities allow needs to be satisfied (cf. Lehner, 1983 b).

Given the importance of property rights and their weak legitimacy, we may reasonably assume that rational individuals are often more likely to engage in conflicts over property rights rather than accept an unfavourable distribution of property and income. Economic theory cannot provide a systematic argument to explain why rational economic man should not consider the distribution of property rights and related income as a part of his potential choice. On the contrary, if we assume that individuals behave perfectly rationally in the sense implied by economic theory, we cannot assume that they take property rights and income distribution for granted. Rather, we

have to assume that they evaluate social conditions affecting economic transactions in terms of expected utility, and that they act rationally on these expectations. Among other things, this implies that economically rational individuals will engage in activities to change the distribution of property rights and income as long as the costs of such activities are lower than the expected utility of the intended changes. The expected utility of change, in turn, is determined by the extent of the disparity between needs and income. The disparity between needs and income, in turn, is strongly influenced by social structure and the resulting social control of individual behaviour.

In a society with rigid and relatively undifferentiated social structures, each individual belongs to a clearly defined and demarcated societal stratum or even class. The single classes or strata are fairly homogeneous with respect to the social characteristics (including needs and income) of their membership. Social comparison processes continually reinforce this homogeneity. Consequently, the frequency of contact with superior goods and higher income is low, and so is the drive to increase consumption. There is, in other words, no "demonstration effect" (Duesenberry, 1967) which drives towards higher consumption and expectations of higher income. Such a situation is fairly stable so far as the distribution of property rights and related income and the social acceptance of the social conditions of market allocation are concerned, at least if subsistence is secure and there is no marked tendency to increasing poverty.

Typical examples of such a situation were the early capitalist societies, the social structures of which were a heritage of the pre-capitalist feudal society. This society, as well as the early capitalist one, was characterised by simple class structures with little mobility and strong boundaries between the classes. These structures protected the distribution of property rights and, hence, the legitimacy of market allocation. Contrary to the predictions of Marx, class struggle did not increase sharply and distributional conflicts were confined to problems of subsistence and impoverishment. A reasonable degree of economic growth on the basis of increasing mass consumption and increasing economies of scale plus some social policy could accommodate these conflicts fairly well.

Modern capitalism differs fundamentally from early capitalism, as far as social structures are concerned. As the division of labour is now more complex, social structures are highly differentiated. There no longer exist clearly defined and demarcated social classes which are homogenous with respect to the social characteristics of their membership. Rather, modern society is characterised by overlapping strata and considerable social mobility. The integration of individuals into the social structure is weak and is subject to various cross-pressures. Moreover, the social interactions of most individuals are likely to spread over different strata. Accordingly, the scope of social comparison of most individuals is broad, and the frequency and intensity of contact with superior goods and higher income is high. As a result, there is in

modern societies a strong "demonstration effect" which drives them towards higher consumption and income (cf. Lehner, 1983 b; see also Duesenberry, 1967, Friedman, 1957; Giddens, 1975; Janowitz, 1976).

This situation creates problematical conditions for the legitimacy and stability of market allocation. Driven by wide social comparison processes, individuals' needs always tend to exceed income and other economic opportunities. Furthermore, social comparisons impose, for most individuals, few psychological constraints on aspirations for higher income. Economic growth and related increase in absolute income brings little relief from that problem, since social comparison is primarily concerned with relative rather than absolute income. Even an increase of relative income of people in the lower social strata is unlikely to bring about an increase of stability in the social conditions of market allocation. Such an increase in the relative income of lower social strata would result in related disturbances of the middle and upper strata's social comparisons. Their assertion of their own income position by means of social comparison would decline relatively. This obviously implies a high potential for distributive conflict.

Summarising the argument presented in this section so far, we may conclude that distributional conflicts increase in intensity as social structure becomes more differentiated and less rigid. This conclusion is supported if we consider the structure and content of societal values.

In social terms, early capitalism was based on a structural heritage from pre-capitalist, feudal society. The societal values on which it was based also derive from feudal society. Feudal values stress the importance of social order and the subordination of individuals — at least of the broad mass of society. These values also protected property rights and legitimized inequality as an integral part of social order. In addition to that, the simplicity and rigidity of the social structure and the social comparison processes continually reinforced the value system. Profiting from this heritage, early capitalism was hedged around by non-economic values.

Modern capitalism lacks much of this traditional legitimization. Strongly influenced by British liberalism, its value system stresses individualism rather than collectivism, achievement rather than tradition, and political equality rather than inequality. Such a value system obviously lends little non-economic legitimacy to the social terms and conditions of market allocation. On the contrary, it is likely to impose the measuring rod of economic efficiency as the basis for the evaluation of economic institutions. This lack of social guidance and control of economic behaviour by non-economic values adds to the structural weakness of social control in modern capitalism and the related instability of property rights.

The argument presented in this section has one quite obvious implication; namely, that the functional relationship between the market and the state, which is expressed in terms of the maintainance of economic order, cannot be clearly defined. Since there are no clear, accepted and stable property rights,

the state's economic function cannot be defined as an enforcing agent of a legally defined economic order. On the contrary, since legal protection only provides formal and weak legitimacy for the economic order, while an intrinsic acceptance requires an adjustment of income and desires, the state has to engage actively in distributive policy in order to secure economic order. Putting it more strongly, this means that even a minimally defined state, namely a state whose only economic function is that of acting to protect the existing economic order, (cf. Buchanan, 1975; Hayek, 1973; Nozick, 1974), ends up as an active state. However, the activities of such a state are not clearly defined in functional terms and, therefore, are open to political interpretation. Consequently, the state's economic functions are, for the most part, not defined at the level of the functional interactions between the (private) market economy and the (public) authority of the state, but rather at the level of the interactions between interest groups, parties and governments which build the political link between the private and the public sector.

## 2. The Political Logic of the Welfare State

In the previous section, I have argued that the socio-economic conditions of the advanced capitalist societies contain a high potential for distributive conflict and that the accommodation of this conflict requires state interventions which aim at some adjustment of the distribution of property and income to the distribution of individual preferences. Such an adjustment is necessary in order to secure the legitimacy of the capitalist society in spite of the distributive problems inherent to its allocation system. From this perspective, the welfare state appears to be economically functional and justified. This, however, is only true to the degree that the welfare state is capable of achieving an effective adjustment of income and property on one side and desires on the other. Given the political logic of the welfare state, this cannot be taken for granted.

In democracies (and to lesser degree in other systems as well), the authoritative allocation and distribution of goods and services by government requires a high consensus among relevant individuals, groups and organisations. This is not only a normative postulate, but an empirical one as well. A lack of consensus reduces the legitimacy of political decisions and leads to various attempts to evade or undermine them. Furthermore, non-consensual political decisions involve externalities for a number of individuals and collectivities and motivate pressure for compensatory benefits. Finally, decisions without consensus always involve ongoing or even increasing societal conflicts and produce a potential destabilisation in the political system. (Buchanan, 1975; Lehner, 1983 a; Offe, 1972; Widmaier, 1978; Wildenmann, 1967).

This means that an effective and efficient redistribution by means of state intervention requires a stable and accepted collective decision as to the distribution of property and income. As Arrow (1963) demonstrates, this is virtually impossible to achieve. In differentiated societies, preferences and interests cannot be aggregated into a collective decision without either creating substantial inconsistencies or political conflicts (or often both at the same time).

Modern capitalist societies are characterised by a high degree of social differentiation. A high and even increasing division of labour divides these societies into a variety of different interest layers. Since these interests are rather small and homogeneous, they can be organised relatively easy. Consequently the traditional class structure and stratification of the capitalist societies is replaced by a much more differentiated interest structure and societal organisation. Instead of a few, but strong, cleavages, there exists a complex and variable pattern of social conflicts and consensus (cf. Dahrendorf, 1967; Giddens, 1975; Janowitz, 1976).

This pattern of social conflicts makes party competition difficult. In systems with few parties, individual parties are forced to aggregate a large number of different and often diverging interests in order to acquire a majority of votes. Usually this is at best possible in terms of a rather fragile compromise. This compromise has to be based on the reduction of manifold distinct and, in detail, often divergent, interests to a few broadly defined issues. Inevitably, this reduction is rather selective because it has to concentrate on those issues and interests which offer the best chance of maximising votes. The need to reduce large numbers of distinct interests to a few political issues often forces parties to compete homogeneously. Rather than representing different interests and, therefore, competing for different voters with a few overlaps, they represent an almost identical set of interests, solicit the same voters and compete in terms of personal and substantial competence. Differences in interest aggregation occur at the margins only (cf. Lehner, 1979).

This is not the case in multi-party systems, but the ultimate outcome is almost the same. Parties may represent different interests and provide for alternative interest aggregations. Since in such systems governments, as a rule, are coalitions, a reduction of manifold interests to a common denominator has to take place in the process of coalition formation. Although coalition formation may include quite a number of different interests, there is still a considerable need for reduction. Given the high differentiation in society, any political interest aggregation containing a strong element of reduction must create a considerable potential for political conflict which challenges political majorities and results in a process of unstable and changing majorities (cf. Lehner, 1978).

Similar but even stronger tendencies are found when we consider organised interest intermediation. Due to the high level of social differentiation and the related decomposition of society, there exist a large number of organised

interests. When it comes to numbers of distinct interests, the advanced capitalist societies are certainly pluralist in character. However, contrary to the assumptions of pluralist theory, pluralist interest intermediation is neither controlled by competition nor balanced in terms of power. Apart from an unequal organisational capacity of interests (Olson, 1965), the reason for this is that much of organised interest intermediation takes place through segmented interactions with the political-administrative system. Through these interactions particular interests often influence policy-making without being challenged by other interests. The result of this situation, where competition among organised interests is the exception rather than the rule, is that organised special interests have a great capacity to put their demands into effect, while more general but weaker interests receive much less consideration. The consequences of this are again strong pressure for public growth and an inefficient allocation of public resources (cf. Olson, 1982; see also Buchanan, 1975; Lehner and Widmaier, 1984).

Considering both party competition and organised interest intermediation (not to speak of bureaucratic behaviour), we may conclude that in the advanced capitalist societies there is a strong tendency to accommodate conflicts of interests and the distributive problem at the expense of increased public spending. Politics in the advanced capitalist societies is thus likely to generate a high and increasing demand for public goods and services. For reasons of decision costs, decisions on the supply of public goods and services have to be based on non-unanimity and forced compliance. This allows for an externalisation of costs. Any sufficiently powerful group may gain concentrated benefits from governmental activities, the costs of which are externalised either in terms of an imposition on a political minority or of a dispersion to the tax-payer at large. Government is thus under permanent pressure to provide "rents" for various groups in society in order to accommodate distributive conflicts which cannot be finally resolved (cf. Lehner and Widmaier, 1983; see also Bacon and Eltis, 1976; Buchanan, 1975; Buchanan, Tollison and Tullock, 1980; Krueger, 1974; Lehner, 1979, 1983 b; Olson, 1982; Tullock, 1967; Widmaier, 1978).

In times of prosperity and economic growth such a situation is manageable because government can satisfy increasing demand for public goods and services by distributing incremental growth. This allows for a distributive policy which provides certain groups and interests with additional public goods without reducing the provision for other groups and interests. This amounts to a distributive policy without any net redistribution. This does not solve the principal distributive problem of advanced capitalist societies, but is still capable of accommodating much of the related conflict. The price for this accommodation is an increasing production of public goods and services, and a related growth of the public sector (cf. Lehner and Widmaier, 1983).

This describes the general tendency of the development of the welfare state throughout most of the post-war period. In most of the western democ-

racies, government became heavily involved in providing transfers and subventions to a large and increasing number of individuals, groups and firms. While social policies and income policies provided benefits for lower and middle income groups, other policies — the provision of tax abatements and subsidies for various purposes, for example — provided at least equal benefits to those from more affluent social strata. As a result, the state provided one kind of "rents" or another on a large scale, but was scarcely capable of achieving any real redistributive impact in the process.

This developmental pattern, which varies considerably across countries (cf. Flora and Heidenheimer, 1981), is the expression of the specific pattern of conflict resolution in the advanced democracies. The pattern is one of accommodation rather than of competitive conflict resolution. Its basis is the high degree of social differentiation and the decomposition of society and its class structure into a large number of different interest layers and social groups with particular value structures. As we have seen in the previous section, this structural condition and the related patterns of conflict create considerable difficulties for market allocation. It creates, however, no lesser difficulties for the allocation of goods and services by the state; that is, by means of public policy.

The state is often defined as a mechanism of *authoritative* allocation. This is certainly true with respect to the formal properties of state, namely its power to enforce compliance. However, if we consider the state's effective capacity, we usually cannot speak of authoritative allocation. Factually, not normatively, an authoritative allocation by the state requires clear and broadly accepted policy goals. Otherwise policies face opposition in various forms and provoke attempts to evade or undermine them. Moreover, sufficient knowledge concerning the causal relationship between policy measures and policy outcomes is necessary, because otherwise policies do not allow for purposive control of the relevant actors and conditions (cf. Freddi, 1983; Simon, 1947, 1960; see also Lehner, Schubert and Geile, 1983).

If one of these conditions is not met, government has to engage in bargaining with the relevant socio-economic agents in order to secure the effectiveness of its policy:

- if goals are unclear and insufficiently accepted, government has to bargain on acceptable goals;
- if causal relationships are uncertain, government needs to reach a conventionally accepted definition of the relevant empirical situation and, therefore, depends upon the co-operation of the actors concerned (cf. Lehner, Schubert and Geile, 1983).

In the advanced capitalist societies these two conditions are difficult to meet. The great scope and complexity of state activities involves considerable uncertainty concerning causal relationships, and the pluralist structure of society produces an even greater uncertainty concerning political goals. Purpo-

sive steering of policy-making and an authoritative allocation of goods and services by means of public policy, thus, is rarely attainable. Rather, public policy usually has to be formulated under circumstances of weak political authority, which forces government to engage in bargaining and collusion in order to accommodate distributive conflicts.

The argument presented in this section so far implies two simple conclusions: first, state intervention is often incapable of resolving distributive conflict in terms of stable and widely accepted property rights because the state's allocative authority is too weak. Second, due to the weak authority of the state, government usually has to engage in bargaining and collusion with a large number of actors in order to be capable of formulating and carrying out policy. I will not elaborate further on the first conclusion here, although its implications for the relationship between the market and the state would deserve further discussion. In the remainder of this article I will be concerned with the second conclusion and its implications for public policy-making.

The problems of governmental authority and the resulting pressure to engage in bargaining implies that government is interlocked in highly differentiated socio-economic structures with a multiplicity of more or less strong "power centres". Although very important, government is but one of these centres and has to share policy power with various other organisations. The same holds true for any other "power centre", for example unions or big business. In other words, government is enmeshed in a political-economic network within a relatively pluralist and dispersed power structure. Within that network, socio-economic conflicts concerning the distribution of property and income and political conflict concerning the provision of public goods and services have to be accommodated by means of bargaining. The outcome of this bargaining in terms of policy choices and policy strategies is strongly influenced by the structure of interactions among the relevant actors and the institutional setting within which these interactions take place, because different structural arrangements imply different conditions for the bargaining of government and other relevant actors (cf. Lehner and Keman, 1984; Schmidt, in this volume).

For a better understanding of public policy it is, therefore, necessary to investigate the impact of different structural arrangements on economic policy and on the development of governmental activity. This is even more necessary since the argument presented in this section only describes an abstract and general political logic of the welfare state and neglects the diversity of development in different countries.

### 3. The Institutionalisation of Conflict: Structural Determinants

The abstract logic of the welfare state described in the previous section has taken into account some general features of distributive conflict in modern democratic capitalist societies, but has neglected the political institutionalisation of this conflict. Modern democracies, however, are characterised by a high degree of organisation of politics and government. The representation and accommodation of distributive conflict is thus shaped and channelled by institutional structures.

These structures not only vary considerably across countries, but also within countries across policy areas. In some policy areas we find weak structures and rather dispersed interactions of a large number of interest groups, parties and governmental agencies. Other policy areas may be characterised by strongly integrated structures and monopolistic interactions of a few vested interest groups and a central governmental agency. In some areas the accommodation of conflict takes place within highly formalised or even bureaucratic structures, in others rather informal bargaining may exist. In some countries, one type or another may be dominant, in others there may be considerable variation across policy areas.

The different types of policy networks within and across countries shape the bargaining of government and other relevant actors in different ways, restricting or enhancing the power of private interests to varying degrees, and allowing for more or less particularism or comprehensiveness of interest intermediation and aggregation. More generally speaking, different policy networks shape the structure of interest intermediation as well as the ways in which interest groups interact among themselves and with the political-administrative system (cf. Lehmbruch, 1983; Lehner and Keman, 1984; Scharpf, 1977, 1981).

The available theoretical understanding and empirical knowledge concerning the relationship between institutional structures and public policy is still fairly limited. Most of the studies of the impact of interest intermediation on economic policy and economic performance have elaborated on the structure of interest organisations, but neglect the political institutionalisation of interest intermediation. This is, for example, true of Olson's otherwise very interesting and stimulating theory which I have briefly summarised in the introduction to this article (Olson, 1982).

Olson's basic argument, namely that political economies characterised by particularistic interest intermediation and inefficient interest aggregation tend to be low in economic performance, is theoretically well founded and appears not implausible at an empirical level. However, in reality, societies with a pluralist interest structure do not necessarily perform less well in the economic sphere, since there may be structural arrangements which provide for a comprehensive interest intermediation in spite of the existence of highly pluralist structures.

A typical example of this situation is Switzerland which has a strongly differentiated and pluralist interest structure, but where consociational decision-making provides for encompassing interest intermediation. Switzerland thus constitutes a deviant case with respect to Olson's theory, since it combines a considerable growth rate with a highly pluralist interest structure. It is also an exceptional case among the democratic capitalist states with respect to government growth. (Lehner, 1983 c; Rey, 1983). Similarly, French *étatism* and an often collusive strategy of the bureaucracy towards interest groups provides for a considerable integration of interest intermediation. This may explain why France has a much higher growth rate than we might expect on the basis of Olson's theory. (Asselain and Morrison, 1983; Hayward, 1976, 1982; Hennart, 1983). On the other hand, the Federal Republic of Germany always had and still has a relatively centralised and integrated interest structure. In recent years, growth rates have declined considerably, although they were comparatively high until the early 1970's. Much of this may be understood as the consequence of fragmented policy-making rooted in institutional structures (Mayntz and Scharpf, 1975; Scharpf, 1974, 1981).

These examples point to the importance of institutional arrangements and demonstrate that integrative institutions may compensate for the deficiencies of pluralist interest structures, while the potential advantages of more centralised and integrated interest structures may not come into effect within fragmented governmental structures. This does not, of course, imply that Olson's theoretical argument is false. On the contrary, applying the basic logic of this theory to the effects of different institutional arrangements helps to explain cases which otherwise have to be considered as deviant cases.

Olson's theory also opens up an interesting avenue to the explanation of the structural determinants of public policy — an avenue which is also made accessible by recent developments in the theory of liberal corporatism.

In an increasing number of political science publications it is argued that these deficiencies of pluralist interest intermediation can be overcome by the establishment of highly centralised and monopolistic bargaining of government and vested interest groups. Often it is even suggested that such bargaining fundamentally changes interest intermediation — "liberal corporatism" is said to replace pluralism. It has further been conjectured that such a change is associated with an increase in policy performance, namely in higher political stability and economic efficiency (cf. Lehmbruch, 1977; Panitch, 1977; Schmitter, 1977, 1981; Wilensky, 1976; see also Czada, 1983; Keman and Braun, 1984; Lehmbruch and Schmitter, 1982; Schmitter and Lehmbruch, 1981).

The theoretical argument underlying the theory of liberal corporatism, although more implicitly than explicitly, is similar to Olson's argument. It is assumed that interest aggregation is more efficient the more comprehensive is interest intermediation. Moreover, it is assumed that the efficiency of interest aggregation relates positively to fiscal and economic efficiency as well as pol-

itical legitimacy and stability (cf. Schmitter, 1981). Unlike Olson, the theory of liberal corporatism takes account of the variety of different structural arrangements, that may serve to mediate interests. This is especially true of recent attempts to develop a cumulative scale of corporatism on which we will subsequently draw (cf. Czada, 1983; Lehmbruch, 1984).

The theory of liberal corporatism remains a set of often vague hypotheses rather than a systematically developed theory. Nevertheless, it opens interesting research perspectives concerning the relationship between structural arrangements and public policy, social and economic policy in particular. These have been taken up in a number of recent policy studies investigating the structural determinants of public policy and economic performance (e. g. Keman, 1984; Paloheimo, 1984 a, 1984 b, 1984 c; Scharpf, 1981; Schmidt, 1982 a, 1984; see also OECD, 1982). These studies have added a new dimension to the knowledge provided by earlier policy studies concerned with the impact of politics on economic policy and on political-economic interdependence (e. g. Cameron, 1978; Castles, 1982; Castles and McKinlay, 1979; Frey, 1978; Frey and Schneider, 1978; Hewitt, 1977; Hibbs, 1977; Hibbs and Fassbender, 1981; Keman and Braun, 1984; Schmidt, 1982, 1983).

Studies emerging from the theory of liberal corporatism open an interesting avenue for a deeper investigation of the relationship between organisational interest intermediation, the efficacy of pressure politics and the efficiency of public policy, because they consider the impact of different structural arrangements or modes of organised interest intermediation on the efficacy of particular interests and the balance of interest aggregation. They suggest a hypothesis which is simple in its content, but rich in its potential consequences. The hypothesis is that democratic capitalist societies tend to a more efficient interest aggregation, a better management of distributive conflict and superior performance, the more their institutional structures constrain the disproportional efficacy of special interests and the more they enhance comprehensive interest aggregation in public policy performance.

In this perspective, an efficient interest aggregation in modern pluralist democracies requires some institutionally provided checks and balances imposed on interest intermediation, because such checks and balances are not spontaneously secured by competition among interest groups. According to the theory of liberal corporatism, an increasingly applied and adequate strategy of providing institutionalised checks and balances is through the integration of organised interest intermediation through collective bargaining of government and major interest groups. This strategy attempts to establish a consensual determination of public policy. To the extent that these attempts are successful, a superior level of policy efficiency may be reached.

Following this line of argument, we may attempt to make the relationship between institutional structures, interest aggregation and public policy more precise. We may distinguish different modes of interest intermediation according to the extent to which they integrate interest intermediation through

collective bargaining of government and interest groups. If the theoretical argument which we have just discussed is true, we may expect that countries with a more integrative mode of interest intermediation would perform better with respect to the management of distributive conflict and the efficiency of public policy than those with a less integrative mode.

In order to investigate this case empirically, we need a typology which allows for an ordinal scaling of different modes of interest intermediation. Such a typology has recently been developed by Lehmbruch (1984) on the basis of Czada (1983). It includes the following modes of interest intermediation:

*1. Pluralism*

Characteristics: fragmented, segmented and competing interest intermediation; low degree of effective participation of labour unions in national policy-making.  
Relevant countries<sup>2</sup>: United States, Canada, Australia, New Zealand

*2. Weak Corporatism*

Characteristics: institutionalised participation of labour unions restricted to certain areas or stages of policy-making; narrow scope of collective bargaining; little or no encompassing co-ordination of income policies.  
Relevant countries: United Kingdom, Italy

*3. Medium Corporatism*

Characteristics: sectoral participation of labour unions; broad scope of collective bargaining; temporarily successful encompassing co-ordination of income policies.  
Relevant countries: Ireland, Belgium, West Germany, Denmark, Finland and, as a borderline case, Switzerland

*4. Strong Corporatism*

Characteristics: comprehensive participation of labour unions and organised business in policy formation; comprehensive and durable co-ordination of income policies.  
Relevant countries: Austria, Sweden, Norway and, with some limitations, the Netherlands.

These four modes of interest intermediation form a cumulative scale of corporatism. Not included in this scale is another mode:

<sup>2</sup> Reasonably enough, Lehmbruch (1984) only considers OECD-countries.

### 5. Concertation without Labour

Characteristics: strong co-operation of government and big business in policy-making; little or no participation of labour unions.

Relevant countries: France, Japan.

Lehmbruch's cumulative scale of corporatism is certainly an interesting instrument for an empirical investigation of the relationship between structural arrangements, interest aggregation and public policy. The exclusion of the "concertation without labour" category, however, reduces its usefulness because it excludes two major OECD-countries from the analysis. Since these countries are somewhat unusual in respect of their socio-economic development, they should be included.

In the case of France, this is not much of a problem for it is simply misplaced in the "concertation without labour" category. In an earlier publication, Lehmbruch (1982) put France in the "weak corporatism" category, because of the structural weakness of French interest organisations. Even this is an unrealistic placement. France may be characterised by a fragmented and segmented interest intermediation with little effective participation of labour unions in national policy-making, and little comprehensive bargaining between government and organised interests. It is true to say that there is considerable collaboration between government and big business in industrial policy. Similar interactions may also be observed in pluralist countries, like the United States (e. g. the military-industrial-complex or the protection of the steel industry). France, thus, may be placed in the "pluralism" category. As far as interest intermediation is concerned, in France there is little or no concertation and conflict regulation by means of collective bargaining between government and interest groups. Rather, there is strong *étatism* and considerable government intervention in the economy by means of planification, regulation, nationalisation and financial incentive programmes. The overall picture is not one of co-operative policy-making, but rather of the imposition of authoritatively decided policies on the private sector by the carrot and the stick (cf. Bonnaud, 1975; Hayward, 1976, 1982; Hennard, 1983).

Japan constitutes a more difficult case which needs more consideration. We will return to this case after a brief discussion of two other misplaced countries. These are Australia and Switzerland. Australia is placed in the "pluralism" category. However, this does not describe Australia's position adequately. There is some co-ordination of income policies by the Conciliation and Arbitration Commission, which has considerable powers. Moreover, there is some regular tri-partite consultation of government, the Australian Council of Trade Unions and the Council of Australian Industry. These are elements of corporatism, which are quite significant for the economic development of Australia (cf. OECD, 1983). According to the criteria of Lehm-

bruch's (1984) criteria, Australia should be placed in the "medium corporatism" category rather than in the "pluralism" category.<sup>3</sup>

As far as Switzerland is concerned, we should acknowledge that it does not, as Kriesi (1982) points out, fit with any established definition of corporatism. Switzerland has a rather pluralist interest structure, which is, however, strongly integrated by an encompassing consultation of interest and elite accommodation of conflict. This is usually called consociational decision making. Consociational decision making differs significantly from corporatism: first, it is not a tri-partite bargaining, but rather includes all major interest groups and parties as well as subnational governments; second, it does not concentrate solely on economic and social policy, but includes any important national policy decision; third, it does not operate through formalised bargaining institutions, but rather through extensive pre-parliamentary consultations of interest groups, parties and subnational government by the federal government and through informal interactions among the elites; and fourth, it does not aim at concerted income policies, but rather attempts to minimise opposition to federal policy (cf. Kriesi, 1982; Lehner, 1983 c, 1984; Rey, 1983; Schmidt, 1985; Steiner, 1974; see also Katzenstein, 1984; Lijphart, 1975; Obler, Steiner and Diericks, 1977; Steiner and Dorff, 1980).

Considering all this, Switzerland can hardly be placed in any of the corporatism categories in Lehmbruch's scale. This is especially the case since in Switzerland, in contrast to the corporatist countries, bargaining and concertation has no focus on the distributive struggle of labour and capital and on income policies. Rather, major attempts are made to avoid labour disputes and distributive struggle by means of legally guaranteed contracts of labour and capital including wage fixing and a renunciation of strike action (cf. Schmidt, 1985). Thus Switzerland needs to be in category by itself — a category which should be set above "strong corporatism", because consociational decision making aims at a comprehensive integration of interest intermediation beyond business and labour. It is thus more comprehensive than tri-partism.

The last case which has now to be discussed is Japan. As is the case with Switzerland, Japan does not fit established concepts of corporatism. There is a well established concertation of government and the private sector which, however, excludes organised labour. Wilensky (1976, 1981) calls this "corporatism without labour". But the exclusion of labour from the interactions of government and the private sector is not the only difference between Japan and the corporatist countries. As in the Swiss case, concertation in Japan is not focused on the distributive struggle of labour and capital. Rather, this struggle is neutralised by means of paternalistic and privatised labour and income policies of big business. In Japan concertation thus lacks the specific

<sup>3</sup> I wish to acknowledge that Francis G. Castles informed me of the misplacement of Australia on Lehmbruch's scale.

distributive focus of corporatism and is more generally orientated to the management of technical-economic change and the promotion of economic expansion (cf. Dohse, Jürgens and Malsch, 1984; Lehmbruch, 1982; Pempel and Tsunekawa, 1979; Tokunaga, 1983). Altogether, Japan is again a case of broad concertation which cannot readily be subsumed under the concept of corporatism.

The Japanese mode of concertation differs considerably from consociational decision making in Switzerland. It is purposively orientated to the management of the economy and its expansion, while consociational decision making is a more general or less focused pattern of conflict resolution. Moreover, consociational decision making is more encompassing, for it includes organised labour. Apart from that, there are strong similarities between interest intermediation and policy-making in the two countries. In Japan, as well as in Switzerland, major efforts are made to harmonise interest intermediation and policy-making, and to promote concordant behaviour of the major actors in the private and the public sector. Moreover, concertation in both countries is, unlike corporatism, not focused on distributive struggle and income policy. Rather, in both countries attempts are made to neutralise or avoid distributive struggle. Finally, in both countries, concertation expands over a wide range of different policies. Given these similarities, it is reasonable enough to integrate the Japanese and the Swiss mode of interest intermediation in a common category which we may call "concordance". This term describes the essence of interest intermediation in both countries, namely a harmonisation of the interactions of the private and the public sector for the sake of the economy at large.

This category may be integrated into Lehmbruch's scale. "Concordance" is set above "strong corporatism" because it aims at a broader, less focused concertation covering a wide range of policies. The resulting scale which also considers the other modifications discussed here is shown in Figure 1.

In the following section I will use this scale for an empirical investigation of the relationship between structural arrangements, interest aggregation and policy performance.

#### 4. The Institutional Control of Pressure Politics: Some Empirical Evidence

In terms of the argument presented in this paper, the major problem of the efficiency or inefficiency of social and economic policies in the advanced democratic capitalist societies is the enhancement of disproportionate power for special interest groups and a disproportionately high efficacy of the related demand for particularistic public policies by the highly differentiated and pluralist interest structures of these societies. Theoretically at least, a potentially effective solution to this problem is an institutional integration of or-

Figure 1. *A Scale of Interactions of Private and Public Sector*

1. Pluralism	fragmented and segmented interest intermediation	U.S.A. Canada France
2. Weak Corporatism	institutionalised participation of organised labour in certain areas; narrow scope of collective bargaining	U.K. Italy
3. Medium Corporatism	sectoral participation; but broad scope of collective bargaining	Ireland Belgium Germany Denmark Finland Australia
4. Strong Corporatism	tri-partite concertation with broad scope; comprehensive co-ordination of income policies	Austria Sweden Norway Netherlands
5. Concordance	comprehensive co-ordination of the interactions of the private and the public sector	Japan Switzerland

Source: Czada (1983); Lehmbruch (1984), with some modification and extension.

ganised interest intermediation. This has been argued in the previous section of this paper. In this part, we will investigate this case empirically.

Basically, our concern here is with the previously elaborated hypothesis that

the more organised interest intermediation is institutionally integrated, the more constrained is the power of special interest groups, the more balanced is interest aggregation and the higher is the efficiency of public policy.

This hypothesis is, however, not directly testable, since we lack comparative data on the power of special interests, the balance of interest aggregation and the efficiency of social and economic policy. These are also theoretical concepts rather than operationally defined terms. We may, however, test the hypothesis indirectly by using available data on the distributive, economic and fiscal performance of the OECD-countries included in our scale. This requires that some testable hypotheses on the relationship between modes of interest intermediation and distributive, economic and fiscal performance are derived from our basic hypothesis. The argument presented in the previous sections of this paper suggests a number of such hypotheses.

In the first section, it was argued that government intervention based on the disproportionate power and efficacy of special interests inhibits a stable

accommodation of distributive conflict. From this perspective, the following hypothesis may be suggested:

Hypothesis 1:

The higher the institutional integration of interest intermediation in modern democratic capitalist societies, the higher is their capacity to accommodate distributive conflict, and the lower the amount of distributive struggle in these societies.

A useful indicator for the amount of distributive struggle in democratic capitalist societies is strike activity (cf. Paloheimo, 1984 a, 1984 b). The relevant data are shown in Table 1.

The data in Table 1 lend some support to Hypothesis 1. In general, those countries with a more integrative mode of interest intermediation tend to

Table 1. *Institutional Structure and Strike Activity in OECD-Countries, 1960-1979*

(Average number of days lost per year in labour disputes per 1.000 workers)

	1960-69	1970-79	rank 1960-69	rank 1970-79	rank combined (Median)
<i>Pluralism</i>					
U.S.A.	382	457	13	11	12
Canada	422	802	15	16	15.5
France	886	171	17	8	12.5
<i>Weak Corporatism</i>					
U.K.	143	526	11	13	12
Italy	728	1049	16	17	16.5
<i>Medium Corporatism</i>					
Ireland	398	544	14	15	14.5
Belgium	75	222	8	10	9
Germany	12	46	2	6	4
Denmark	135	212	10	9	9.5
Finland	119	499	9	12	10.5
Australia	186	541	12	14	13
<i>Strong Corporatism</i>					
Austria	36	7	5	2	3.5
Sweden	15	41	3	5	4
Norway	56	38	6	4	5
Netherlands	17	36	4	3	3.5
<i>Concordance</i>					
Japan	84	85	7	7	7
Switzerland	3	2	1	1	1

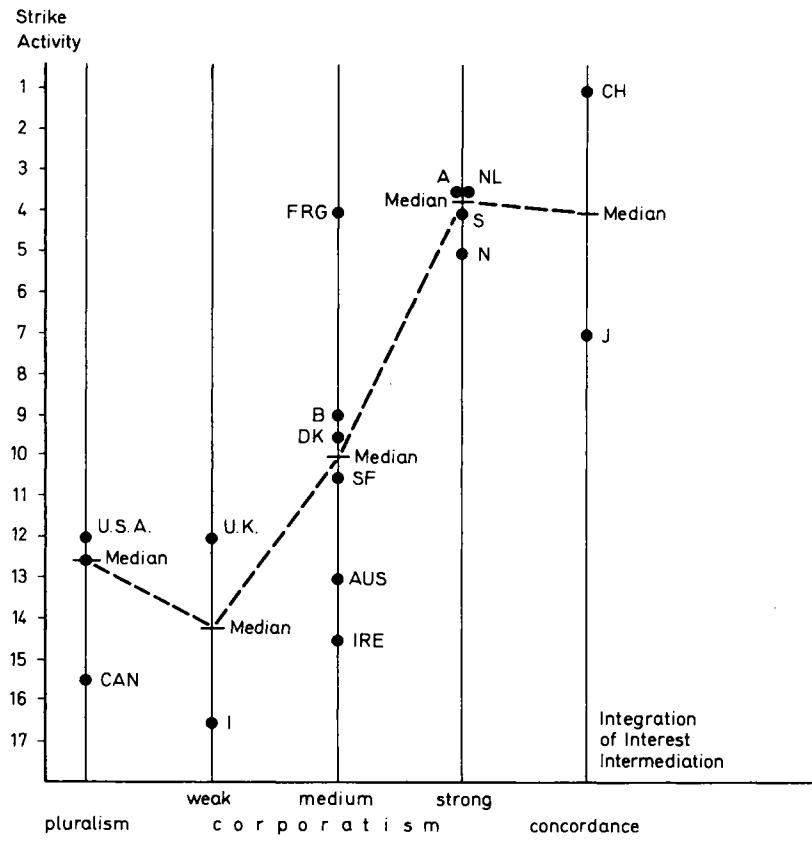
Source: Data presented in Paloheimo (1984 a, b) on the basis of OECD-statistics.

$$R = -0.43$$

excluding pluralism  $R = -0.54$

have less strike activity than those with weak integration. The relationship is, however, not very strong. If we calculate the rank correlation between the mode of interest intermediation and the combined rank for strike activity, we obtain a value of  $R = -0.43$ . The sign is in the expected direction, but the value of the coefficient is rather low. One reason for this is that the "pluralism" countries perform considerably better and the "concordance" countries somewhat worse than theoretically expected. This is clearly shown in Figure 2. This figure suggests that the relationship is not as linear as described in Hypothesis 1.

Figure 2. *Strike Activity and Integration of Interest Intermediation in OECD-Countries, 1960—1979*



(rank ordering positions from table 1; strike activity: combined rank)

In the first part of this paper I argued that the major source of distributive conflict in the advanced capitalist societies is the disparity of income and needs. As I have theoretically demonstrated elsewhere (Lehner, 1983 b), the social structures of the advanced capitalist societies enhance a drive toward higher consumption and an upward adjustment of needs to social comparisons. We may, therefore, assume that needs or desires across income groups are tending to become increasingly similar. This implies that the potential for distributive conflict increases as income inequality increases. Income inequality is, therefore, an interesting indicator for the potential of distributive conflict in advanced capitalist societies. It is, however, an indicator which needs cautious interpretation because low inequality does not necessarily imply a low potential for distributive conflict. The highly differentiated social structures of advanced capitalist societies and the related social comparison processes not only create social and political pressure for equality, but simultaneously pressure for the maintenance of income differentiation and of some inequality (cf. Lehner, 1983 b; see also Hirsch, 1977; Duesenberry, 1967; Thurow, 1981).

Given that this is so, we may interpret income inequality as an indicator of the balance between competing interests in respect of income distribution. In so doing, we may postulate:

Hypothesis 2:

In democratic capitalist countries income inequality is lower, the more the dominant mode of interest intermediation enhances an encompassing concertation of income policies.

More specifically, this means that we expect that income inequality decreases as the strength of corporatism increases. However, no prediction is made as to the impact of concordance, because this mode is not focused on income policies.

Table 2 shows two different measures for income inequality, taken from Dryzek (1978). The two measures point at different aspects of income distribution: the decile ratio indicates inequality at the extremes, whereas the Gini coefficient is concerned more with the middle of the income range (Dryzek, 1978: 403 ff.). We should note that the data basis of Table 2 contains some problems of comparability, which we do not take into consideration here (cf. Sawyer, 1976, esp. pp. 22 ff.).

The data in Table 2 for both measures and the combined ranking provide some support for Hypothesis 2. The rank order correlation between mode of interest intermediation and income inequality is  $R = -.678$ , if we exclude concordance and  $R = -.346$  if we include it.

As has been explained above, we may, with some limitations, interpret income inequality as an indicator of potential distributive conflict. Measured in this way, a high potential for distributive conflict does not mean that we also should expect a high degree of actual distributive struggle. In terms of our

Table 2. *Institutional Structure and Income Equality in OECD-Countries*  
(Percentage of total income going to deciles of population)

	Gini Coefficient	Rank	Ratio of top 10 per cent	Rank	Combined Rank (Median)	Year
<i>Pluralism</i>						
U.S.A.	0.381	11	17.7	13	12	1972
Canada	0.354	8	16.7	12	10	1969
France	0.414	14	21.7	15	14.5	1970
<i>Weak Corporatism</i>						
U.K.	0.318	7	9.4	3	5	1973
Italy	0.398	13	18.2	14	13.5	1969
<i>Medium Corporatism</i>						
Ireland	0.359	10	15.3	10	10	1965/66
Belgium	0.306	2	9.2	2	2	1973/74
Germany	0.383	12	10.8	7	9.5	1973
Denmark	0.423	15	15.6*	11	13	1973
Finland	0.476	17	44.0	17	17	1969
Australia	0.312	5	11.3	8	6.5	1966/67
<i>Strong Corporatism</i>						
Austria	0.306	2	11.8	9	5.5	1970
Sweden	0.302	1	9.7	4	2.5	1972
Norway	0.307	4	9.7	4	4	1970
Netherlands	0.354	8	10.7	6	7	1967
<i>Concordance</i>						
Japan	0.316	6	9.1	1	3.5	1969
Switzerland	0.423	15	26.7*	16	15.5	1961/62

Source: Dryzek (1978) on the basis of Sawyer (1976).

Note: \* Estimated by interpolation.

theoretical argument, we should rather expect that the degree to which income inequality translates into actual distributive struggle (measured by strike activity) depends on the degree of institutional integration of organised interest intermediation. The reason for this is the higher capacity of conflict management which we associate theoretically with higher integration of interest intermediation. This leads to the following hypothesis:

**Hypothesis 3:**

The higher the institutional integration of interest intermediation in democratic capitalist societies, the less distributive struggle (strike activity) will correspond to income equality.

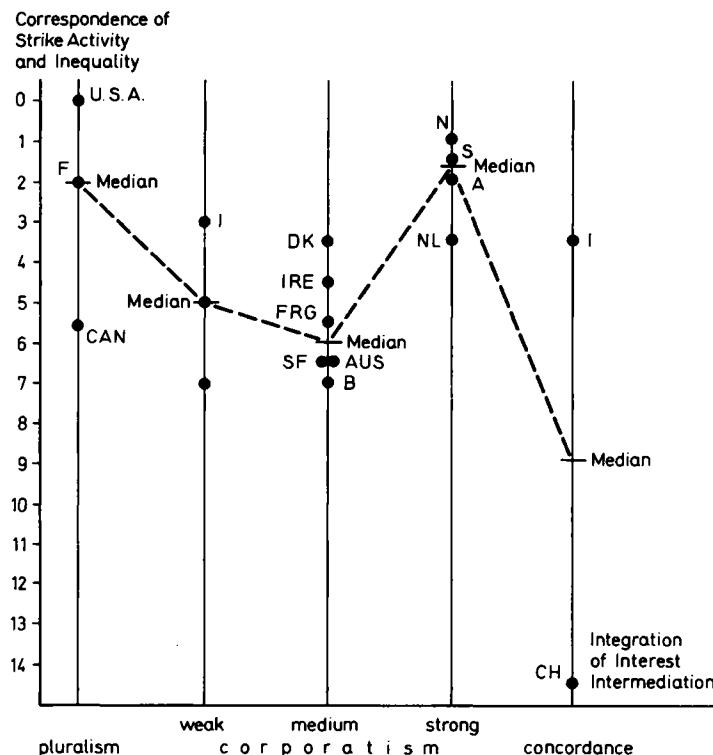
In order to test this hypothesis, we may compare the countries' rankings for strike activity and income equality. The correspondence of distributive struggle and income inequality may be measured by the absolute magnitude

of the difference between each country's ranks for strike activity and inequality. The lower this difference is, the greater the correspondence between income inequality. Using this measure, Figure 3 shows the nature of the actual relationship.

It is quite obvious that Figure 3 does not support Hypothesis 3. Contrary to this hypothesis, there is a high correspondence between strike activity and income inequality in the "strong corporatism" countries. A rather weak tendency in the expected direction can be observed for "pluralism", "weak corporatism" and "medium corporatism", whereas the situation in the "concordance" countries is quite ambivalent.

This result certainly merits further analysis, although only a brief discussion is possible here. Hypothesis 3 is based on the assumption that a higher

Figure 3. *Institutional Structures and the Correspondence of Strike Activity and Income Inequality in OECD-Countries*



(absolute magnitude of rank differences for strike activity and income inequality; combined rankings from tables 1 and 2)

institutional integration results in an increased capacity to manage distributive conflict. It enhances the control of special interests' power and efficacy, and provides for a more efficient interest aggregation. The rejection of Hypothesis 3 seems to raise doubts on the validity of this assumption. This points to an important limitation in the theoretical argument presented in the second part of this paper.

This argument only deals with the structural conditions of the integration of interest intermediation and neglects the substance of the strategies involved, as well as the relationship between structural arrangements and substantial strategies of accommodation and concertation. This is an important limitation of our argument, since the effective working of certain institutional structures is usually bound up with certain requirements as to the substantial content of integrative strategies (cf. Scharpf, 1977). Corporatism, for example, relies heavily on a tri-partite concertation of income policies and, thus, on successful attempts to reduce income inequality. This strategy is obviously very sensitive to income inequality and is therefore associated with a strong correspondence between distributive struggle and inequality. This is less true of modes of interest intermediation which have no major focus on income policy. It is certainly not the case in a country like Switzerland, where contractual regulations rule out strike activity in order to avoid a penetration of consociational decision making by distributive struggle.

These examples stress the importance of a further consideration of the relationship between institutional structures and substantial strategies of control of pressure politics. A systematic account of this relationship would, however, exceed the scope of this paper. It is, as Fritz Scharpf (1977) stresses, an important avenue for further theoretical and empirical research (see also Lehner and Keman, 1984). In the remainder of this paper, we will continue to concentrate on the structural aspects of the integration of organised interest intermediation — although we remain fully aware of the limitations of this approach.

Inflation and unemployment are important aspects of distributive conflict in modern democratic capitalist societies, as Mancur Olson (1982) points out. He argues that much of inflation, unemployment and the combination of both, as well as differences between countries may be explained in terms of distributive conflict and the related influence of economic policy (see also Frey, 1983; Streissler, 1973). This is of importance when it comes to the Phillips-curve relationship, that is the assumption that there is an inverse relationship between inflation and unemployment. Experiences of stagflation as well as considerable differences in the combination of inflation and unemployment across the OECD-countries (see below Tables 3 and 4, and Figure 4) strongly suggest that both inflation and unemployment and the Phillips-curve relationship are to a considerable extent determined by economic policy.

Referring to the determination of unemployment and inflation by public policy, we are dealing with the substance and the structural conditions of

economic policy. As far as the substance of economic policy is concerned, we are concerned with different policy priorities and different policy strategies concerning inflation, unemployment and the fiscal and economic conditions affecting them. We are also speaking of government intervention, which negatively or positively affects the operation of the market and, through that influence, unemployment and inflation. As Olson (1982) stresses, policy priorities, policy strategies and the general substance of government intervention, are, to a large extent at least, expressions of critical policy choices which in turn represent a certain accommodation of conflicts of interests. Inflation and unemployment affect the income and wealth of individuals and groups, the profit of firms and the development of sectors and regions in different and often conflicting ways. That is why policies on inflation and unemployment usually involve and reflect a high degree of distributive conflict (cf. Friedman, 1977; Hankel and Isaak, 1981; Hankel and Lehner, 1976; Hirsch and Goldthorpe, 1978; Keman, 1984; Mueller, 1983; Olson, 1982, 1983; Paloheimo, 1984 a, 1984 b; Richardson and Henning, 1984; Scharpf, 1983; Schmidt, 1982).

Considering the relevance of distributive conflict for inflation and unemployment we may conjecture that countries which manage distributive conflict will perform better in terms of unemployment and inflation than those with poorer management. The following hypothesis derives from this theoretical argument:

Hypothesis 4:

The higher the institutional integration of interest intermediation in democratic capitalist societies, the better their performance in terms of unemployment and inflation.

Concerning the Phillips-curve relationship, our theoretical argument suggests:

Hypothesis 5:

Countries with a high institutional integration of interest intermediation are likely to deviate from the Phillips-curve relationship by combining low inflation and low unemployment, whereas countries with low integration are likely to deviate by combining high inflation and high unemployment.

Table 3 shows the inflation rates for the countries concerned. The figures on top of each category of countries show the average rate for these countries. Looking at Table 3, it may be observed that our data do not provide much support for Hypothesis 4. For the periods 1960—66 and 1967—73 there is no remarkable difference at all, whereas there is a weak tendency in the predicted direction in the periods 1974—80 and 1960—80. We have, however, to acknowledge that there is much variation within each category. The control of inflation across time, indicated by the percentage difference between the periods of 1960/66 and 1974/80, makes a stronger case for Hypothesis 4. However, the impact of institutional structures on performance concerning inflation seems to be rather slight. Moreover, the "pluralism" countries perform much better than theoretically expected.

Table 3. *Institutional Structure and Inflation in OECD-Countries, 1960—1980*  
(average annual percentage changes of consumer price indices)

	1960/66	1967/73	1974/80	1960/80	Difference between 1974/80 and 1960/66
<i>Pluralism</i>	2.4	5.1	9.9	5.8	7.4
U.S.A.	1.7	4.9	9.2	5.3	7.5
Canada	2.1	4.5	9.3	5.3	7.2
France	3.5	5.9	11.1	6.8	7.6
<i>Weak Corporatism</i>	3.9	6.0	16.5	8.8	12.6
U.K.	3.4	7.0	16.0	8.8	12.6
Italy	4.4	5.0	17.0	8.8	12.6
<i>Medium Corporatism</i>	3.8	5.9	10.6	6.8	6.9
Ireland	3.9	8.2	15.4	9.1	11.5
Belgium	2.8	4.5	8.1	5.2	5.3
Germany	2.7	4.3	4.8	3.9	2.1
Denmark	5.8	6.7	11.0	7.9	5.2
Finland	5.1	6.4	12.5	8.0	7.4
Australia	2.2	5.1	11.9	6.4	9.7
<i>Strong Corporatism</i>	3.9	5.8	8.2	5.9	4.3
Austria	3.7	4.8	6.3	4.9	2.6
Sweden	4.1	5.3	10.3	6.6	6.2
Norway	4.0	6.3	9.0	6.4	5.0
Netherlands	3.6	6.3	7.1	5.6	3.5
<i>Concordance</i>	4.7	5.9	6.9	5.8	2.2
Japan	5.7	6.7	9.7	7.4	4.0
Switzerland	3.6	5.1	4.0	4.2	0.4

Source: OECD historical statistics.

A similar situation exists with respect to unemployment. Again the data generally do not provide much support for Hypothesis 4, although there is a tendency in the predicted direction (see Table 4). As is the case with inflation, there is a considerable variation within the different categories. We should, however, note that the countries with a high institutional integration ("strong corporatism" and "concordance"), with the exception of the Netherlands, tend to perform considerably better than the rest. As far as unemployment is concerned, institutional integration seems to have a somewhat stronger impact.

Interestingly enough, the picture becomes much clearer when we consider inflation and unemployment conjointly in terms of the Phillips-curve relationship (see Figure 4). As Figure 4 shows, there are remarkable differences be-

Table 4. *Institutional Structure and Unemployment in OECD-Countries, 1960—1980*  
(annual average of unemployment as percentage of total labour force)

	1960/66	1967/73	1974/80	1960/80	Difference between 1974/80 and 1960/66
<i>Pluralism</i>	3.7	4.0	6.3	4.7	2.5
U.S.A.	5.1	4.5	6.8	5.5	1.7
Canada	4.9	5.1	7.2	5.8	2.3
France	1.2	2.4	4.8	2.8	3.6
<i>Weak Corporatism</i>	3.2	4.0	5.7	4.3	2.6
U.K.	1.4	2.4	4.7	2.8	3.3
Italy	4.9	5.6	6.7	5.7	1.8
<i>Medium Corporatism</i>	2.1	2.4	5.0	3.2	2.9
Ireland	4.9	5.6	6.7	5.7	1.8
Belgium	2.1	2.2	5.7	3.3	3.6
Germany	0.7	1.0	3.5	1.7	2.8
Denmark <sup>1</sup>	1.7	1.0	4.4	2.6	2.7
Finland	1.4	2.6	4.6	2.9	3.2
Australia	1.9	2.0	5.2	3.0	3.3
<i>Strong Corporatism</i>	1.3	1.6	2.4	1.8	1.1
Austria	2.0	1.5	1.6	1.7	—0.4
Sweden	1.5	2.2	1.9	1.9	0.4
Norway <sup>2</sup>	1.0	1.1	1.8	1.3	0.8
Netherlands	0.6	1.6	4.1	2.1	3.5
<i>Concordance</i>	0.7	0.6	1.1	0.8	0.5
Japan	1.3	1.2	1.9	1.5	0.6
Switzerland	0.0	0.0	0.3	0.1	0.3

Source: OECD historical statistics; data for Switzerland: Schmidt (1985).

Notes: <sup>1</sup> break in series 1974/75.

<sup>2</sup> break in series 1971/72.

tween the different categories. Clearly, Figure 4 lends some support to Hypothesis 5.

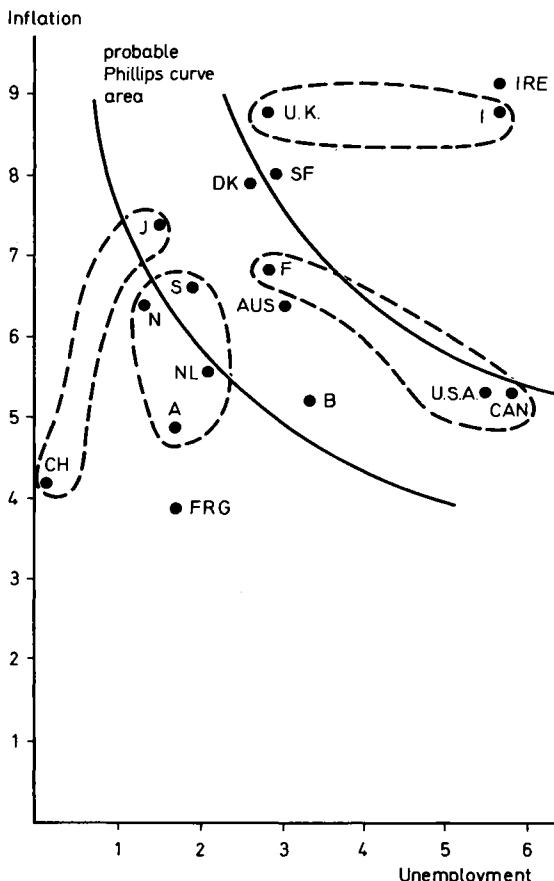
Our rather crude analysis of the relationship between the institutional integration of interest intermediation and inflation and unemployment points to a considerable ambivalence in the relationships involved. This ambivalence also exists with respect to economic performance and fiscal expansion. In this respect, our theoretical argument suggests:

## Hypothesis 6:

The higher the institutional integration of interest intermediation in democratic capitalist societies, the better their economic performance and the lower their fiscal expansion.

Neither economic performance nor fiscal expansion are precisely defined in a generally accepted way. They need an operational definition. Here, economic performance is defined in terms of (1) growth of GDP, 1960–1980; (2) GDP per capita, 1980; (3) control of inflation, 1960/66 to 1974/80; and (4) control of unemployment, 1960/66–1974/80. Overall economic performance is measured as the median of each country's ranking on these four var-

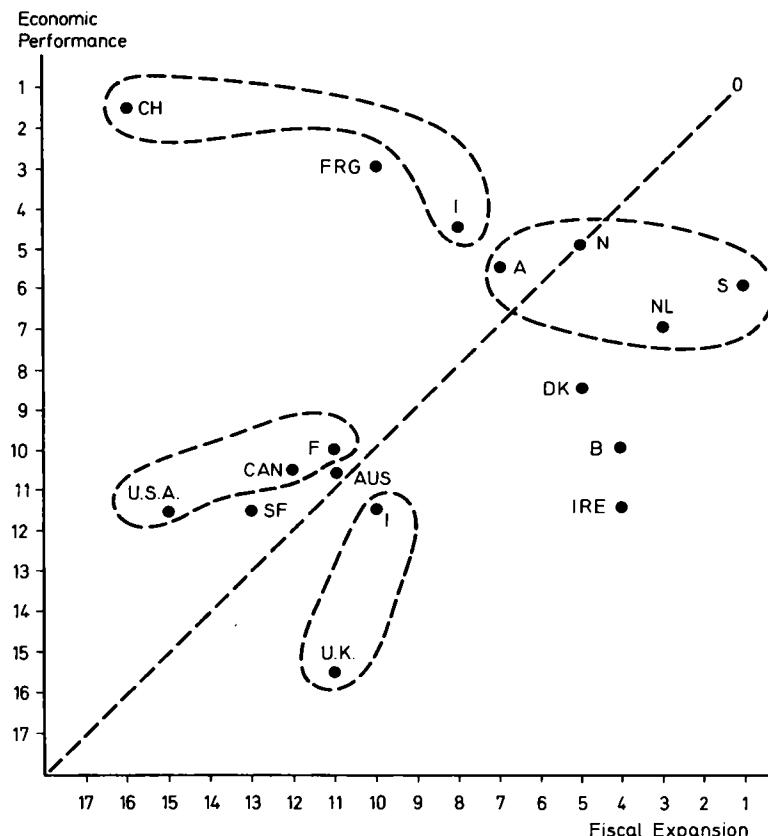
Figure 4. *Inflation and Unemployment in OECD-Countries, 1960–1980*  
(average annual rates for period 1960/80 from Tables 3 and 4)



iables. Similarly, fiscal expansion is defined in terms of (1) growth of outlays, 1960—1980; (2) level of outlays as a percentage of GDP, 1980; (3) increase in taxation, 1960—80; (4) level of taxation as a percentage of GDP, 1980; and (5) public debts as a percentage of GDP, 1977—81. Again, overall expansion is measured as the median of each country's ranking on these variables. The relevant data and the rankings are shown in Tables 5 and 6. We will not discuss the content of these tables here, but only consider Figure 5 which shows the overall picture for economic performance and fiscal expansion.

As Figure 5 shows quite clearly, the more integrated countries ("strong corporatism" and "concordance") tend to perform considerably better in

Figure 5. *Institutional Structure, Economic Performance and Fiscal Expansion in OECD-Countries, 1960—1980*



(overall measures from Tables 5 and 6)

Table 5. *Institutional Structure and Economic Performance in OECD-Countries, 1960—1980*

	Growth of GDP 1960—1980 ann. average change %	GDP per capita 1980 rank	US-Dollar rank	Combined rank for growth and level (Median)	Ranks for Inflation <sup>1</sup>	Overall Economic Performance <sup>2</sup> Unemploy- ment <sup>1</sup>
<i>Pluralism</i>						
U.S.A.	3.5	14	11,360	9	11.5	12
Canada	4.1	12	10,130	11	11.5	10
France	4.6	4	11,730	7	5.5	13
<i>Weak Corporatism</i>						
U.K.	2.3	17	7,920	15	16	13
Italy	4.4	6	6,480	16	11	16
<i>Medium Corporatism</i>						
Ireland	4.2	8	4,880	17	12.5	15
Belgium	4.1	12	12,180	6	9	8
Germany	4.6	4	13,590	2	3	2
Denmark	3.4	15	12,950	4	9.5	7
Finland	4.2	8	9,720	14	11	11
Australia	4.1	8	11,470	8	8	14
<i>Strong Corporatism</i>						
Austria	4.2	8	10,230	10	9	3
Sweden	3.0	16	13,520	3	19	9
Norway	5.6	2	12,650	5	3.5	6
Netherlands	4.4	6	11,470	8	14	4
<i>Concordance</i>						
Japan	7.2	1	9,890	12	6.5	5
Switzerland	5.4	3	16,440	1	2	1

Sources: OECD historical statistics; UN Statistical Yearbook.

Notes: <sup>1</sup> Ranking according to differences between 1974/80 and 1960/66 in Tables 2 and 3.  
<sup>2</sup> Median of rankings for growth of GDP, GDP/capita, inflation and unemployment.

Table 6. *Institutional Structure and Fiscal Expansion in OECD-Countries, 1960/62—1980*

	Growth of outlays 1960—1980 %	Level of outlays of GDP 1980 %	Combined rank	Increase in taxation 1960—1980 %	Level of taxation % of GDP 1980	Public debts <sup>1</sup> % GDP, 1977—1981 annual average	Overall fiscal expansion <sup>2</sup> %
<i>Pluralism</i>							
U.S.A.	19.4	17	33.2	16	16.5	15	31.1
Canada	40.8	14	40.7	12	13	33.5	10
France	33.5	16	46.2	9	12.5	—	42.2
<i>Weak Corporatism</i>							
U.K.	36.8	15	44.6	11	13	26.3	13
Italy	51.5	10	45.6	10	10	—4.4	16
<i>Medium Corporatism</i>							
Ireland	75	4	60.1	3	3.5	66.7	4
Belgium	70.6	6	51.7	4	5	71.3	3
Germany	46.6	12	46.9	8	10	70.8	14
Denmark	142.3	1	49.0	6	3.5	78.7	2
Finland	43.1	13	38.2	13	13	26.7	12
Australia	54.3	9	34.1	14	11.5	30.6	11
<i>Strong Corporatism</i>							
Austria	51.1	11	48.5	7	9	35.1	9
Sweden	111.2	2	65.7	1	1.5	82.4	1
Norway	65.2	7	49.4	5	6	51.0	6
Netherlands	85.5	3	62.5	2	2.5	52.2	5
<i>Concordance</i>							
Japan	60.4	8	32.7	15	11.5	42.3	8
Switzerland	72.6	5	29.7	17	11	45.3	7

Sources: OECD historical statistics, and national account and revenue statistics; IMF government finance statistics.

Notes:

<sup>1</sup> Overall general government deficit; central government for Canada, Italy, Ireland (1977—1980), Belgium, Denmark, Netherlands; Norway only 1977—1979.

<sup>2</sup> Median of rankings for growth and level of outlays, increase and level of taxation, and public debts.

economic terms than the less integrated countries ("pluralism" and "weak corporatism"). No clear tendency exists with respect to the "medium corporatism" countries. As an examination of Table 5 shows, the generally better performance of the integrated countries is anything but uniform with respect to the variables involved. Only Switzerland ranks high on all four variables, whereas the relatively high overall performance of Sweden, for example, is accounted for primarily by high GDP per capita and low unemployment. Similarly, among the low performers, only the United Kingdom ranks low on all four variables, whereas Italy, for example, performs relatively well with respect to GDP growth and unemployment.

The case described in Figure 5 certainly provides considerable support for Hypothesis 6 as far as economic performance is concerned. The situation is quite different when we consider fiscal expansion. In this respect, the "strong corporatism" countries perform much worse than predicted, whereas the "pluralism" countries do much better than expected. As far as fiscal expansion is concerned, our data reject Hypothesis 6 rather than support it. This is also true when we consider economic performance and fiscal expansion together.

The relationship between the two gives us some indication of the relative economic efficiency of public policy. We may define high efficiency as a combination of high economic performance and low fiscal expansion, while high fiscal expansion and low economic performance may indicate inefficiency. Defined in this way, the efficient countries are those to the upper left of the dashed line 0 in Figure 5; the inefficient ones are those to the lower right of that line. Evidently, the situation with respect to efficiency is quite similar to that concerning fiscal expansion. As far as efficiency is concerned, the data in Figure 5 do not support Hypothesis 6.

## 5. Conclusions

In the previous section we have examined empirically the relationship between institutional structures and public policy performance. The underlying hypothesis was that countries with integrated interest intermediation and encompassing interest aggregation would perform better than the others. This hypothesis received considerable support with respect to the management of distributive conflict, weaker support with respect to economic performance and little or no support with respect to fiscal performance. Moreover, the empirical evidence pointed to a considerable ambivalence in the relationship.

Obviously, this requires further theoretical investigation. The purpose of further research must be to find systematic explanations for the deviant cases. By systematic explanations I mean explanations which explain deviations in terms of new and consistent hypotheses rather than of *ad hoc* arguments referring to individual cases. There are, of course, in most individual cases arguments which explain this deviation from our theoretical expectations. The Federal Republic of Germany, for example, often deviates in performance

from the other "medium corporatism" countries. An *ad hoc* explanation could refer to the existence of strong elements of societal corporatism in Germany. Such an explanation, however, does not increase the explanatory power of our theoretically derived hypothesis concerning the relationship between institutional structures and policy performance — unless it can be generalised in terms of either a systematic redefinition of the relevant features of institutional structures and/or a new or modified hypothesis stipulating the nature of the relationship.

So far, our argument has basically been concerned with institutionally determined capacities to integrate interest intermediation and to provide for an encompassing interest aggregation. We have, however, neglected the transaction costs involved in interest intermediation and aggregation. We have, in other words, neglected the fact that capacities have their price.

An interesting approach to these problems is offered by Buchanan and Tullock (1962), who argue that in collective decision making the externalities of decisions decrease as the inclusiveness of decision making increases. At the same time, transaction costs increase as well. In other words, the less inclusive participation is, the more the costs of public goods and services are externalised to the individuals and groups receiving little or no profit from these goods and services and the lower, accordingly, is the efficiency of the provision of public goods and services. In order to increase efficiency, we have to increase participation which, however, also increases transaction costs in terms of time, organisation and other efforts.

Applied to our case, this means that a more integrated interest intermediation and a more encompassing interest aggregation reduces externalities and increases the efficiency of public policy. At the same time, however, it involves higher transaction costs. Such transaction costs may include, for example, more time consuming bargaining, inflexibility of decision making or a lowered capacity for innovation.

Following this line of argument, it may be suggested that different types of structural arrangements of the interactions of government and private sector are associated with different positive *and* negative policy-making potentials. They may offer different capacities to manage distributive conflict and economic policy. They tend, however, to create different types of deficiencies. (Lehner and Keman, 1984; Lehner, Schubert and Geile, 1983).

In a simplified and abstract manner, this situation is described in Figure 6 which is taken from Lehner, Schubert and Geile (1983). In this figure, a different type of positive and negative policy-making potential is associated with each type of structural arrangement. Corporatist interactions, for example, allow on the one hand for co-operative policy-making, but may also result in much inflexibility and immobilism. By contrast, strongly fragmented interactions and a high degree of particularism may often be associated with uncontrolled interest aggregation and policy-making, but may also enhance spontaneous policy-making.

Figure 6. *Positive and Negative Policy-Making Potentials of Institutional Networks*

organised interest intermediation	political administrative decision structure integrated	fragmented
integrated	Co-operative policy-making Immobilism Inflexibility	Private bargaining Sectoralisation
fragmented	Authoritative allocation Overregulation Routinisation of problem-solving	Spontaneous policy-making Uncontrolled developments Randomisation of problem-solving

The argument illustrated in Figure 6 certainly needs to be further developed and brought into a more concrete and precise format. Basically, however, it provides a means by which we may more systematically explain the ambivalence of institutional structures, which we have observed in the previous section. In order to utilise this approach, we have to dismiss the assumption of simple and direct relationships between institutional structures and policy performance. More precisely, we have to consider that institutional structures allow for different policy strategies, and that performance is the result of an interaction of institutional structures and policy strategies. We have already raised this point, originally made by Fritz W. Scharpf (1977), in the previous section.

Scharpf's approach opens up an interesting field for policy research focusing on the complex relationship between institutional structures, types of policies and policy-outcomes. Such research is necessary in order to gain a better understanding of the power structure underlying organised interest intermediation and the operation of power in modern democratic capitalist societies.

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