The role of corporatism and consensus democracy in socio-economic policy-making and performance.
A comparative analysis of twenty countries.

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Abstract
This paper examines the relation between corporatist institutional arrangements and specific styles of political decision-making. How are these two models related to each other and can differences in these institutions help to explain variations in socio-economic policy-making and performance? It will be argued that the role of corporatism can be connected to the consensus type of democracy. Both types of institutions have in common certain elements of cooperation and consensus between the actors in the decision-making process. Can corporatism be seen as a component of the consensus model of democracy or do we need to separate both concepts? In a comparative study of twenty countries the empirical relationships between both models and their impact on socio-economic performance will be examined. This paper provides a new view on how corporatism can affect socio-economic policy and how the working of corporatist institutions can be better understood by linking it to consensus democracy.
1 Introduction

For more than twenty years there has been going on a vivid debate about the role of corporatist institutions in socio-economic policy-making and performance. It has been argued that in the 1970s and 1980s a (neo) corporatist strategy - which resulted in cooperative relations between unions, employers and the government - could help overcome the economic crisis (Schmidt 1982, Katzenstein 1985). During the late 1980s and early 1990s it has been questioned whether corporatism still has an important role in socio-economic problem-solving in Western capitalist democracies (Therborn 1987; Crepaz 1992). It seems that corporatism still has an impact on socio-economic performance. However, there is still controversy about the strength of this relationship and the way in which corporatist institutions actually contribute to better performance.

The central theme of this workshop is to find explanations for the persistence of policy concertation, despite the fact the some structural factors that traditionally are connected to corporatism have become less important. The goal of this paper is to examine how the role of corporatist institutions in socio-economic policy-making has changed. This paper examines if corporatism is connected to the consensus type of democracy. Both types of institutions have in common certain elements of cooperation or consensus between the actors in the decision-making process. However, there is still controversy about the specific nature of this connection (Lijphart & Crepaz 1991; Keman & Pennings 1995). Can corporatism be seen as a component of the consensus model of democracy - as proposed by Lijphart & Crepaz (1991) - or do we need to separate both concepts? This paper will analyse the linkage between corporatism and consensus democracy. In a comparative study of twenty countries the empirical relationships between both models and their impact on socio-economic performance will be examined. The following research question will be answered: how has the role of corporatism developed in socio-economic policy-making and how is corporatism related to consensus democracy?

In section 2 the role of institutions will be explained. The theoretical relations between corporatism and consensus democracy will be discussed and both models will be examined in a comparative study of twenty Western democracies. Section 3 presents the impact of these institutions on socio-economic policy-making and performance.
The main findings and conclusions of this paper are summarised in section 4.

2 Corporatism & consensus democracy

2.1 Institutions and socio-economic policy-making

The basic interest of this paper is how institutional arrangements affect socio-economic policy and performance. Two kinds of institutional arrangements that are taken as independent variables are consensus democracy and corporatism. Both are considered as specific types of decision-making that are based on consensus between the actors rather than conflict. The main difference between consensus democracy and corporatism is the platform on which they are working, respectively political decision-making and decision-making between social partners and the government in creating social-economic policy. Both consensus democracy and corporatism can be used as scales or dimensions on which formal and informal institutions can be compared between countries and/or through time. Consensus democracy has been developed as a concept in which institutions have a high conflict-solving capacity that was needed in several countries with a strongly segmented society as opposed to majoritarian democracy that concentrates all power in one party. Corporatism is characterised by co-operation between the social partners and the government as opposed to pluralist industrial relations. The concepts of consensus democracy and corporatism are used to understand the interactions between actors and institutions. What are the developments of these institutions and do differences of these institutions matter for socio-economic policy and performance? Is the behaviour of the actors related to their preferences and do they (re)shape specific institutional arrangements to gain certain policy outputs?

Figure 1 contains the basic relations between the actors, institutions and socio-economic policy. The preferences of the actors are translated into outcomes through the institutions (such as elections). The behaviour of the actors can lead to two specific institutional arrangements - consensus democracy and corporatism - which adjust the working and the effect of the formal institutions on socio-economic policy.
Cooperation and agreements between actors can result in institutional arrangements, but still one must discern the behaviour of the actors from the institutional context. The behaviour of actors is goal-related, this means that the behaviour of the actors is based on their preferences\(^1\). Institutions are the rules of decision-making that determine who is allowed to participate in decision-making and which voting rule is used. Institutions aggregate the preferences of the actors into a social choice. Because actors will anticipate on possible decision-making outcomes they can create institutions that shape the behaviour and strategy of the actors.

This paper examines the way institutions can facilitate co-operation between the actors. Actors create special agreements that adjust the working of the formal rules more in accordance with their own preferences. Persistent patterns of this kind of co-operation can result in informal rules or institutional arrangements, such as consensus democracy and corporatism. For this reason it becomes a relevant question to examine if certain institutions lead to policy outcomes that are closer to the preferences of the actors than other types of institutions.

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\(^1\) This does not necessarily mean that their behaviour is rational or egoistic.
There can be made a distinction between formal and informal institutions. Formal institutions are the written rules, such as the constitution and the voting procedures, and informal institutions are based on habits and historical agreements that can not legally be enforced. Consensus democracy and corporatism are characterised by both certain formal and informal institutions. Informal institutions can adjust the working of formal institutions. It is expected that the actors adjust or create specific institutional arrangements in order to reach certain outcomes. Institutions must be considered as dynamic equilibria. Which institutions maintain and how institutions are changed depends - besides the transaction costs changing institutions - on the interests and preferences of the actors and the power balance between them. The creation and change of institutions does not happen by coincidence, but is related to the intentions and preferences of the relevant actors. In this paper institutions are taken as independent variables. To examine the impact of corporatism and consensus democracy on socio-economic policy-making, we need an operational definition. In the next two sections a description is given of respectively corporatism and consensus democracy.

2.2 Corporatism
The basic idea behind corporatism is the presence of cooperative relations between social partners and the government on socio-economic issues. Many corporatist scholars have argued that the consensual industrial relations have a positive impact on the effectiveness of the socio-economic policy-making process. Consequently, this would lead to more favourable policy outcomes and better socio-economic performance. However, at this point there exists some dispute. Many studies, using different conceptualisations and operationalisations of both corporatism as the independent variable and a variety of socio-economic indicators as the dependent variable, lead to extremely diverging conclusions about the effect of corporatism on socio-economic performance (cf. Schmidt 1982; Therborn 1987; Crepaz 1992; Woldendorp 1997). There can be distinguished two dimensions of corporatism: the existence of an interest groups system and concertation by socio-economic interest groups. In a corporatist system of industrial relations there exists considerable cooperation.
between workers and employers. The central government does not try to intervene directly by imposing decisions on the social partners, but to create certain autonomy for these groups. This enables them to reach agreements on their own without direct intervention by the central government.

The second dimension concerns the incorporation of interest groups in the process of policy formation and implementation. Corporatist theory states that the socio-economic policy formation by the government is not necessarily a neutral process to which everyone has equal access, but that some interest groups are strongly involved in this process. This leads to a system of cooperation between the government and social partners. There has been suggested that corporatism and consensus democracy are strongly related to each other (Lehmbruch 1979). Lijphart & Crepaz (1991) think that this linkage is so strong that they consider corporatism as an indicator of consensus democracy. Although it seems plausible that there exist a strong conceptual and empirical linkage between them, there must be made a strong analytical distinction between both institutional models. First, the scope of the interest groups system is restricted to socio-economic issues, and second, concertation takes place by means of non-parliamentary consultation. In this view corporatism is defined as a system in which the political decision-making by the government and the free competition between voters and political parties is adjusted or restricted by allowing certain socio-economic actors - such as trade unions and employer's organisations - special privileges and access to the policy arena. The ideology behind this expects that a direct involvement of the most relevant actors leads to a more efficient system of decision-making which will have a stronger legitimacy and where the role of the state can be limited. Opponents of corporatism fear that a strong involvement of interest groups in the policy-making process will restrict the free competition between parties for the votes of the electorate and lead to a decreased access to the political arena for new parties and new issues. As suggested in figure 1 consensus democracy is an institutional model that can be applied to political decision-making. It is possible that there exist overlap or linkages, but consensus democracy is working in a different arena of decision-making with different actors and consequently having different kinds have institutions.
In some corporatist polities, the government does not follow an authoritarian income policy, but creates an institutional environment in which social partners can agree more or less voluntarily on wage moderation. This cooperation is induced by short-term incentives, such as a threat of the government to impose wage moderation, and long term perspectives on lower unemployment and increasing economic growth. In a corporatist system of socio-economic policy-making there is not a single dominant actor which can impose a certain decision, but the actors are dependent on each other on their willingness to cooperate. In this respect there can be seen similarities with consensus democracy. In the consensual type of decision-making political power is not concentrated in a single party government, but divided among several political actors.

The 'Does corporatism matter?' debate is characterised by a wide disagreement on how corporatism should be measured and how countries can be placed on a scale of corporatism. Many authors on the role of corporatism have developed their own measurement and applied this to a group of OECD-countries (Lehner 1987; Schmidt 1982; Lehmbreuch 1984; Cameron 1984; Schmitter 1981; Crouch 1985; Keman 1988). The main problem of these measurements of corporatism is that they apply to the situation in the 1970s and 1980s, give only a score for one time point and provide no data for Spain, Portugal and Greece. Lijphart & Crepaz (1991) have taken the mean of 12 corporatism scales, but the underlying concepts of these measurements diverge too much to combine them in one dimension of corporatism. Therefore, a new index of corporatism is constructed.

Two important features of corporatism are the consensus style of collective bargaining and the presence and strength of trade unions. The first feature can be measured by two indicators proposed in OECD (1997: 70): centralisation (which is taken from Calmfors & Drifill 1988) and coordination of the wage setting. The second feature can be measured by trade union density and the coverage rate of collective bargaining.

Centralisation describes the level of wage bargaining - national or central, intermediate or sectoral and decentralised or firm-level - and coordination measures the degree of consensus between the collective bargaining partners.
Trade union density and coverage rate of collective bargaining are indicators of the strength of the trade unions. We do not only take into account the membership of unions, but the coverage rate as well. This measures the range of collective bargaining, beyond union members.

The corporatism index in figure 2 is based on the summation of the z-scores of four variables: centralisation and coordination of collective bargaining, trade union density and coverage rate of collective bargaining.

Figure 2  Levels of corporatism

The scale of figure 2 ranges from least (on the left side) to most (right) corporatism levels in 1994. The strongest cases of corporatism are Norway, Austria, Finland and Sweden. Least corporatist countries are USA, New Zealand, Canada and the UK. Medium corporatism can be found in are Italy, Denmark, Germany and Belgium. Table 1 contains the corporatism scores for 1980, 1990 and 1994. Unfortunately it is not possible to calculate the scores for more than three time points, because there are no more data available.

Table 1 Levels of corporatism
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>usa</td>
<td>-2.35</td>
<td>-2.39</td>
<td>-2.08</td>
<td>-0.10</td>
<td>0.20</td>
<td>0.02</td>
</tr>
<tr>
<td>new zealand</td>
<td>-0.21</td>
<td>-0.83</td>
<td>-1.73</td>
<td>-0.14</td>
<td>-0.20</td>
<td>0.06</td>
</tr>
<tr>
<td>canada</td>
<td>-1.94</td>
<td>-1.78</td>
<td>-1.55</td>
<td>-0.20</td>
<td>-0.25</td>
<td>0.51</td>
</tr>
<tr>
<td>uk</td>
<td>-0.26</td>
<td>-0.90</td>
<td>-1.11</td>
<td>0.86</td>
<td>1.07</td>
<td>0.74</td>
</tr>
<tr>
<td>australia</td>
<td>0.57</td>
<td>0.48</td>
<td>-0.43</td>
<td>0.68</td>
<td>0.66</td>
<td>0.74</td>
</tr>
<tr>
<td>ireland</td>
<td>-1.00</td>
<td>-0.39</td>
<td>-0.39</td>
<td>0.59</td>
<td>0.66</td>
<td>0.75</td>
</tr>
<tr>
<td>switzerland</td>
<td>-0.43</td>
<td>-0.34</td>
<td>-0.20</td>
<td>0.49</td>
<td>0.76</td>
<td>0.85</td>
</tr>
<tr>
<td>spain</td>
<td>-0.40</td>
<td>-0.34</td>
<td>-0.07</td>
<td>1.28</td>
<td>1.18</td>
<td>1.18</td>
</tr>
<tr>
<td>greece</td>
<td>0.11</td>
<td>-0.18</td>
<td>-0.01</td>
<td>1.20</td>
<td>1.19</td>
<td>1.32</td>
</tr>
<tr>
<td>france</td>
<td>-0.41</td>
<td>-0.15</td>
<td>0.00</td>
<td>1.68</td>
<td>1.54</td>
<td>1.38</td>
</tr>
</tbody>
</table>

Sources: OECD (1997a); IPD (1996)

This index is medium to strongly correlated to other corporatism scales\(^2\) (correlation coefficients vary from .57 to .80). One advantage of this index is the possibility of distinguishing three time points instead of only one. Another improvement compared to the other scales is that it is based on four neutral quantitative variables instead of using expert judgements. In section 2.4 the connection of corporatism to consensus democracy will be examined and in section 3 the effect of corporatism on socio-economy policy.

### 2.3 Consensus democracy

Consensus democracy is the political-institutional model that Lijphart (1984) has developed on the basis of his work - among others - on consociationalism. In a reaction to the predominant Anglo-American pluralist argument that a stable democracy is only possible in a homogeneous society, some scholars have proposed that consociational practices were in use in some small countries with a segmented society to protect the political stability. This has resulted in case studies describing how political elites could overcome conflicts between the rivalling subgroups. In his later work Lijphart has considered consociationalism as a model of conflict regulation that could be applied to every plural society. In *Democracies* the consensus versus majoritarian models of democracy are used to analyse twenty-two political systems in twenty-one countries\(^3\). On the basis of eight\(^4\) indicators Lijphart identifies two dimensions of consensus democracies. The first dimension -

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\(^2\) These scales are taken from Lehner (1987); Schmidt (1982); Lehmbruch (1984); Cameron (1984); Schmitter (1981); Crouch (1985); Keman (1988).

\(^3\) In Lijphart (1984) France is divided in two political systems: the fourth and the fifth republic.
characterising the executive-legislative relations - is measured by the proportion of
minimal winning cabinets, average cabinet durability, the effective number of
parliamentary parties, the number of ideological issue dimensions and the
disproportionality of the electoral system. The second dimension - a federal-unitary
scale - is measured by the proportion of tax collected by the central government,
constitutional flexibility and unicameralism.

Instead of Lijphart's indicators an alternative operationalisation is used. It is based
on the same model of consensus democracy, but different variables are used for the
comparative analysis. The consensus model captures the political institutions that
facilitate representation of minorities in a plural society as opposed to majoritarian
democracy, which concentrates all political power in a minimal majority. At several
points the operationalisation that Lijphart has proposed is adjusted. First of all, the
federal-unitary dimension of Lijphart is not used. This dimension measures a
different kind of institutions and it does not lead to a better ranking of countries on a
consensus versus majoritarian scale. Federal institutions do indeed give minorities
better possibilities of representation, but it does not necessarily coincide with a
consensus style of decision-making. Moreover, in his later work Lijphart (1994) has
also deleted this second dimension of consensus democracy.

Second, some other variables are used for the first dimension of consensus
democracy. The variables used by Lijphart (1984) are the proportion of minimal
winning cabinets, average cabinet durability, the effective number of parliamentary
parties, the number of ideological issue dimensions and the disproportionality of the
electoral system. Cabinet durability can not be used, since it measures an effect and
not a feature of an institution. The number of ideological issue dimension may
indicate to what extent societal cleavages are translated at the political level. It
measures the fragmentation of the political culture, but it has nothing to do with
political institutions. It can be related to the electoral fragmentation, but it is not more
than a prerequisite and condition of consensus democracy. Therefore, this indicator
is deleted as well. The remaining three variables are - more or less adjusted - used
in an alternatively constructed model of consensus democracy.

Two central features of consensus democracy are proportional representation and

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4 Lijphart has deleted a ninth indicator - the use of referendums - on empirical grounds.
oversized coalitions. The first is measured by three variables: parliamentary fragmentation (effective number of parliamentary parties), disproportionality (reduction of the effective number of parties from electoral to parliamentary) and the type of electoral system. The second feature is measured by the presence of minimal winning coalitions and the dominance of the government over opposition (surplus of the proportion of seats of a government coalition).

For twenty countries the scores on these five variables are calculated between 1965 and 1995. The sum of the z-scores of these variables result in a scale that ranges from majoritarian (negative scores) to consensus democracy (positive scores). These z-scores are calculated for each country for each year, except for Spain (since 1977), Portugal (since 1976) and Greece (not between 1968 and 1973), since these three countries have experienced a dictatorial regime. Figure 3 is based on the mean of the z-scores on consensus democracy in the period 1965-95.

![Figure 3 Countries ranked from majoritarian to consensus democracies.](image)

In this figure New Zealand and United Kingdom are the strongest cases of majoritarian consensus democracy in this set of countries, whereas Switzerland is the clearest case of consensus democracy. They formed the prototypes in Lijphart’s model of
majoritarian versus consensus democracy. Other examples of majoritarian democracy are Canada and USA. Weak majoritarian countries are Spain, Greece, Ireland, France and Australia. Other examples of consensus democracy are Finland, Belgium and the Netherlands. Weak consensus democracies are Austria, Denmark and Italy. At the centre of this scale we find the remaining countries Norway, Portugal, Germany and Sweden.

2.4 Linkages of corporatism and consensus democracy

The underlying characteristic of both corporatism and consensus democracy are the consensual style of bargaining and decision-making. Another similarity is the access of specific groups to the decision-making process, respectively interest groups in corporatism and minority groups in consensus democracy. These institutions are open for these groups to prevent that they will obstruct the decision-making process or deny the outcomes, when they feel that both their interest are neglected and that they did not have had the opportunity to be involved in the decision-making process.

There can be many reasons why institutions are based on consensus. The most obvious reason is the presence of sharp divisions between segments or groups in society. Another possibility is that these institutions are created by the actors, because they think that this style of decision-making will help that their most preferred alternatives are chosen. The source of the creation of institutions and institutional change can be one or more actors - such as a dominant government. Institutions can also be seen as equilibrium points in decision-making between actors who have certain preferences on political and economic issues. Such institution as an equilibrium point is stable when there is no other point that is more preferred by actors. Institutions will change when other actors are involved or actors have other preferences. Most important in this view is that institutions do not exist by accident, but are dependent on the interests and the power of the actors. Which institutions survive relies on the preferences of actors and their perception of the choice or outcomes that will be realised. In some situations consensual institutions are needed to reach the goals of the main players and that could otherwise not be achieved. Some have suggested there is a trade off between efficient decision-making and the creation of legitimate decisions based on a broad consensus. In section 3 we will
examine if the claim that the price of consensus is poor economic performance is true. In sections 2.2 and 2.3 the operationalisations of corporatism and consensus democracy were presented. What is their relation empirically? In figure 4 twenty countries are drawn on the basis of their scores on corporatism versus consensus democracy in 1994.

![Consensus democracy versus corporatism in 1994](image)

**Figure 4 Consensus democracy versus corporatism in 1994**

In figure 4 most countries can be found in the bottom left and top right quadrant of the diagram. The correlation coefficient between consensus democracy and this index of corporatism is a significant .66. This means that both concepts are linked to each other considerably. There are no clear cases of corporatism without consensus democracy and vice versa.

The correlation coefficient between corporatism and consensus democracy in 1980 and 1990 are respectively .44 and .52. This means that the correlation has become stronger through time. In a pooled regression analysis (with n = 20 and t =3) the beta coefficient of the impact of corporatism on consensus is .50 (t-value is 8.72).

The empirical connection that has been found does not mean that they are the same or as Lijphart & Crepaz (1991) have suggested that corporatism is a characteristic of
consensus democracy. There is an underlying concept of striving to consensus, but both concepts have to be distinguished analytically. Moreover, for both models different variables have been used.

Table 2 Correlation coefficients between the Indicators of corporatism and consensus democracy

<table>
<thead>
<tr>
<th></th>
<th>Corporatism</th>
<th>Consensus Democracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electoral system</td>
<td>-0.72</td>
<td>-0.73</td>
</tr>
<tr>
<td>Dominance government over opposition</td>
<td>-0.08</td>
<td>0.45</td>
</tr>
<tr>
<td>Recoded</td>
<td>0.22</td>
<td>0.66</td>
</tr>
<tr>
<td>Effective number of parliamentary parties (seats)</td>
<td>0.40</td>
<td>0.80</td>
</tr>
<tr>
<td>Reduction proportionality</td>
<td>-0.33</td>
<td>-0.55</td>
</tr>
<tr>
<td>Centralisation of wage bargaining</td>
<td>0.83</td>
<td>0.43</td>
</tr>
<tr>
<td>Coordination of wage bargaining</td>
<td>0.82</td>
<td>0.45</td>
</tr>
<tr>
<td>Trade union density</td>
<td>0.63</td>
<td>0.26</td>
</tr>
<tr>
<td>Coverage rate of collective bargaining</td>
<td>0.84</td>
<td>0.39</td>
</tr>
</tbody>
</table>

Table 2 shows clearly the correlations between corporatism and consensus democracy and the respectively four and five variables they are based upon. Striking however is that corporatism is strongly correlated to an indicator of consensus democracy (electoral system) and medium to another one (effective number of parties). Consensus democracy is weakly to medium related to the indicators of corporatism. This means that there is some connection between these two models both directly and through the underlying indicators.

2.5 Corporatism and consensus democracy and their explaining factors

Before we turn to the next section where the impact of institutions on socio-economic policy is examined, some factors that can explain the creation and persistence of corporatism and consensus democracy are highlighted. Traditionally corporatism has been connected to strong trade unions and social democratic governments. Does this connection still exist and are there possibly other factors that can explain corporatist institutions? Consensus democracy is thought to secure political stability in segmented societies. Does it play a more important role in divided societies and which conditions facilitate the evolution of consensual practices?
In the corporatism debate it has been argued that corporatist institutions are connected to peaceful industrial relations, which are expressed in a low number of strikes. Moreover, corporatist institutional arrangements are typical of social-democratic governments that try to intervene in industrial relations not by a restrictive policy, but by creating an environment which facilitates cooperation between workers and employers. This has been summarised in hypothesis A.1.

**Hypothesis A.1**  
Corporatism is related to more stable industrial relations and social democratic governments.

Katzenstein (1985) has argued that corporatism is a strategy of small countries to improve their position in the world market economy. This means that corporatism can especially be found in small countries that are dependent on developments in the world economy. This means larger shares of import and export as percentage of GDP.

**Hypothesis A.2**  
Corporatist institutions are more dominant in small countries and countries with a more open economy.

The consociational school in comparative politics has argued that countries with a strongly divided society need special institutional arrangements to secure political stability. For this reason we can expect that consensus democracy - which not the same as consociational democracy, but based on the same concept - occurs more often in countries with a segmented society.

**Hypothesis B.1**  
Ethnic and religious segmented societies have more institutions belonging to consensus democracy.

There are also cultural explanations for the type of democracy. It has been argued that majoritarian democracy is typical of the Anglo-Saxon political culture, which has been
exported to several former English colonies.

**Hypothesis B.2**

Majoritarian democracy can be found more in Anglo-Saxon countries, larger countries and countries with right wing governments.

The hypotheses can be tested by calculating the correlation coefficients between the institutions and the several factors. The results of this analysis are presented in table 3.

**Table 3**  
Favourable conditions corporatism and consensus democracy

<table>
<thead>
<tr>
<th></th>
<th>Corporatism</th>
<th>Consensus democracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working days lost</td>
<td>-0.033</td>
<td>0.007</td>
</tr>
<tr>
<td>Colour of government</td>
<td>0.311</td>
<td>0.252</td>
</tr>
<tr>
<td>Population</td>
<td>-0.576</td>
<td>-0.605</td>
</tr>
<tr>
<td>Area</td>
<td>-0.639</td>
<td>-0.686</td>
</tr>
<tr>
<td>Opennes economy</td>
<td>0.244</td>
<td>0.335</td>
</tr>
<tr>
<td>Ethnic fragmentation</td>
<td>-0.516</td>
<td>-0.477</td>
</tr>
<tr>
<td>Religious fragm.</td>
<td>-0.306</td>
<td>-0.403</td>
</tr>
<tr>
<td>Anglosaxon culture</td>
<td>-0.582</td>
<td>-0.651</td>
</tr>
</tbody>
</table>

Notes: working days lost per thousand workers (ILO); colour of government (Woldendorp et al. 1998), from 1: rightwing dominance to 5: leftwing dominance; population in thousands (OECD 1997b); area in square kilometers; openness of the economy: import and export in % of GDP (OECD; Lane, McKay & Newton 1997); ethno-linguistic and religious fragmentation index from 0: most homogeneous to 1: most heterogeneous (Lane, McKay & Newton 1997); Anglosaxon culture dummy variable with 1 as Anglosaxon cultural heritage; catholicism: % catholics (Lane, McKay & Newton 1997).

Table 3 contains the correlation matrix between the institutional models and their favourable conditions. It shows that corporatism is not correlated to the working days lost. Only consensus democracy is in 1980 weakly negative related to industrial disputes. Corporatism is weakly connected to leftwing government. This confirms the second half of hypothesis A.1. In accordance with hypothesis A.2 corporatism plays a more important role in smaller countries. Corporatism is weakly positive related to countries that are more dependent on the world market economy. Hypothesis B.1 must be rejected. Consensus democracy is not connected to societies that are ethnic and religious more fragmented. Surprisingly, corporatism occurs more often in ethnic and religious heterogeneous societies. Hypothesis B.2 finds support in the negative
relation between consensus democracy and Anglo-Saxon cultural heritage. The same result holds for corporatism.

3 Socio-economic policy-making and performance

3.1 Do different institutions matter?

This section focuses on the effect of institutions on outcomes. Do the different institutional arrangements lead to different policy choices and different levels of socio-economic performance? It is expected that institutions that are based on consensus rather than conflict create a context in which actors are more willing to cooperate. In the end, this will lead to better socio-economic performance. For both institutional models separate analyses have been done. In each section first hypotheses will be formulated about the expected relations and next these hypotheses will be tested by means of a comparative analysis. Finally, the results of a multivariate regression analysis are presented.

3.2 Corporatist socio-economic policy-making

There has been a long and vivid debate on the effect of corporatism on socio-economic performance (Schmidt 1982; Crepaz 1992; Woldendorp 1997). The general hypothesis is that corporatist institutions enables governments to make a more effective socio-economic policy. Stable corporatism presupposes successful political exchange of moderate wage demands against moderate price policies, which contributes to a lower rate of unemployment.

Since the late eighties some have doubted about the positive socio-economic effect of corporatism. Therborn (1987: 259) concludes that ‘there is little evidence that corporatism matters as a determinant of economic outcomes’. Corporatism has mattered in the past, but now it has little explanatory and prescriptive power. Recently there is a renewed attention to the cooperation between the government, workers’ and employers’ organisations which enables agreements about socio-economic policy, such as wage moderation and a restructuring of the system of social security. Some have even spoken of a Dutch miracle (Visser & Hemerijck 1997). Here we will test the hypothesis that corporatism leads to better socio-economic outcomes and to a more active social policy.
Hypothesis C.1
Corporatist institutions contribute to better socio-economic performance, i.e. lower unemployment, lower inflation and more economic growth.

Hypothesis C.2
More corporatism leads to more spending on social security and to a bigger government.

Table 4 contains the correlation coefficients between corporatism and socio-economic variables.

Table 4 Correlation coefficients corporatism, consensus democracy and socio-economic performance.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>-0.416</td>
<td>-0.115</td>
<td>0.163</td>
<td>-0.151</td>
<td>-0.312</td>
<td>-0.121</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.046</td>
<td>-0.013</td>
<td>0.110</td>
<td>-0.405</td>
<td>-0.187</td>
<td>-0.045</td>
</tr>
<tr>
<td>Economic growth</td>
<td>-0.191</td>
<td>-0.081</td>
<td>-0.157</td>
<td>-0.293</td>
<td>-0.096</td>
<td>-0.131</td>
</tr>
<tr>
<td>GDP per cap</td>
<td>-0.199</td>
<td>-0.233</td>
<td>-0.232</td>
<td>0.254</td>
<td>0.149</td>
<td>-0.030</td>
</tr>
<tr>
<td>Government exp.</td>
<td>0.499</td>
<td>0.568</td>
<td>0.699</td>
<td>0.093</td>
<td>0.255</td>
<td>0.333</td>
</tr>
<tr>
<td>Social security exp.</td>
<td>0.270</td>
<td>0.409</td>
<td>0.562</td>
<td>0.174</td>
<td>0.360</td>
<td>0.482</td>
</tr>
<tr>
<td>Income inequality</td>
<td>-0.099</td>
<td>-0.511</td>
<td>-0.301</td>
<td>-0.409</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table 4 it is clear the corporatism has a weak negative impact on unemployment in 1980 and is almost not correlated to unemployment in 1990 and 1994 and to inflation and economic growth at all three time points. Hence, there is no support for hypothesis C.1. Corporatism is medium positive related to the level of government and social security expenditures. This confirms hypothesis C.1. Finally, in 1990 corporatism has contributed considerably to a decrease of the income inequality.

From this comparative analysis it can be concluded that corporatism has not a very strong positive impact on the socio-economic performance. In the past it has had a lowering effect on unemployment, but this effect has diminished. The message can also be reversed. Corporatism has at least not a really negative effect.
3.3 Consensus democracy and socio-economic policy-making

Lijphart (1994) rejects what he calls the conventional wisdom that there is a trade off between the consensus and majoritarian model of democracy. Consensus democracy is expected to provide better minority representation, whereas majoritarianism provides more effective government. Lijphart (1994: 5-8) concludes that consensus democracy is superior, since it is both able to represent minorities more accurately, has a higher quality of democracy and it is not outperformed by the majoritarian model with regard to either the maintenance of order and peace or macro-economic performance. What has been considered as a main advantage of majoritarian democracy - a fast and efficient government - does not necessarily lead to a better macro-economic management. Decision-making in consensus democracy may seem slow and inefficient, the choices that are made are based on a solid majority, without neglecting the interests of minorities and sectors in society. Of course, it is not always possible to make decisions with unanimity, but the most important function of the institutions of consensus democracy is that relevant groups have the opportunity in letting hear their voice. The resulting outcome may be not the most preferred, at least they will agree about the procedure that has been used.

Crepaz (1996: 7-8) uses two arguments why consensus democracy is expected to lead to better macro-economic performance. First, he expects that corporatism has caused a positive effect. Corporatism is seen as the sixth dimension in the operationalisation of consensus democracy (Lijphart & Crepaz 1991), while the federal-unitary dimension is deleted. Second, Crepaz (1996: 8) expects that consensus democracy ‘creates more stable, steady, continuous, and more predictable forms of government than majoritarian systems with alternating governmental responsibilities.’ In his empirical analysis a lowering effect of consensus democracy on unemployment and inflation are found. Furthermore, Crepaz (1996: 23) concludes that ‘the inclusive and accommodative nature of consensual constitutional structures tends to produce more peaceful industrial relations than exclusive and majoritarian systems.’ This argument seems tautological, since in his operationalisation corporatism is one of the features of

\[5\] In this respect Therborn (1987) statement seems true.
consensus democracy. Hence, it is hardly surprising to find that corporatism leads to more consensual industrial relations. This seems to confirm the conclusion of Keman & Pennings (1995: 273, 281) that consensus democracy and corporatism may have something in common, ‘namely collective decision making by means of compromise and cooperation between the relevant actors involved’, but these concepts do not have ‘the same meaning and can be distinguished empirically in relation to the features of liberal democratic decision making’. In this paper consensus democracy is seen as a separate concept and the hypothesis will be tested whether it has a positive effect of economic performance.

**Hypothesis D.1**

Consensus democracy leads to better socio-economic performance, i.e. lower levels of unemployment and inflation and a higher level of economic growth.

This hypothesis is possibly counterbalanced by increasing effects of consensus democracy on government expenditures. It is expected that in a plural society the institutions of consensus democracy enable several segments to influence more the socio-economic policy. In a consensus democracy minorities have more possibilities to formulate their preferences, more access to the government and more capabilities to enforce these than in a majoritarian democracy, where all political power is strongly concentrated in one political party which will lead to more obstacles.

**Hypothesis D.2**

Consensus democracy leads to higher government expenditures and more spending on social security.

These hypotheses can be tested by examining the correlation coefficients of table 4. Consensus democracy has a very limited positive effect on socio-economic performance. Only in 1990 there is a weak lowering effect on unemployment and in 1980 on inflation. In 1980 consensus democracy has a weak negative effect on economic growth. Therefore, hypothesis D.1 is not confirmed. Hypothesis D.2 finds a very weak empirical basis. Consensus democracy leads slightly to a bigger
government. This effect increases through time. Finally, consensus democracy contributes to a more equal income distribution.

The conclusion about the impact of consensus democracy on socio-economic performance is almost to that of corporatism. There is hardly a really positive influence, but at the other hand consensus democracy does not hurt.

### 3.4 Socio-economic policy-making and performance

It is argued in this paper that corporatism must not be considered solely, but should be related to consensus democracy. In the multivariate regression analysis both institutional models will be taken as independent variable, together with a control variable - openness of the economy, measured by the sum of the shares of the import and export of the GDP. Other variables could be taken as well, but for the purpose of this paper the focus will be limited to these three independent variables. Consensus democracy has been measured for twenty countries between 1965 and 1995, whereas for corporatism only scores for 1980, 1990 and 1994 are available. An OLS regression analysis will be done for a pooled time series for \( n=20 \) and \( t=3 \), which increases the total \( n \) to 60. The standard errors are corrected\(^6\). The effects on six socio-economic variables have been calculated. The results are presented in table 5.

---

\(^6\) To correct the standard errors an SPSS-macro is used that has been developed by Prof. Kleinnijenhuis (Keman, Kleinnijenhuis & Pennings 1999).
### Table 5 Regression models

<table>
<thead>
<tr>
<th>Independent</th>
<th>Unemployment</th>
<th>Inflation</th>
<th>Government share of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consensus democracy</td>
<td>-0.179 (-1.67)</td>
<td>-0.118 (-1.27)</td>
<td>-0.192 (-3.09)</td>
</tr>
<tr>
<td>Corporatism</td>
<td>-0.053 (-0.43)</td>
<td>0.240 (2.86)</td>
<td>0.566 (6.19)</td>
</tr>
<tr>
<td>Openness economy</td>
<td>0.093 (1.36)</td>
<td>-0.190 (-2.05)</td>
<td>0.327 (5.78)</td>
</tr>
<tr>
<td>Constant</td>
<td>(3.85)</td>
<td>(4.38)</td>
<td>(17.26)</td>
</tr>
<tr>
<td>Adj R2</td>
<td>0.014</td>
<td>0.023</td>
<td>0.372</td>
</tr>
<tr>
<td>n</td>
<td>60</td>
<td>60</td>
<td>57</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent</th>
<th>Social expenditures</th>
<th>Economic growth</th>
<th>GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consensus democracy</td>
<td>0.034 (0.46)</td>
<td>-0.268 (1.62)</td>
<td>0.264 (5.05)</td>
</tr>
<tr>
<td>Corporatism</td>
<td>0.239 (4.05)</td>
<td>0.020 (0.14)</td>
<td>-0.324 (-5.05)</td>
</tr>
<tr>
<td>Openness economy</td>
<td>0.381 (4.29)</td>
<td>0.376 (2.42)</td>
<td>-0.107 (-2.69)</td>
</tr>
<tr>
<td>Constant</td>
<td>(6.88)</td>
<td>(2.03)</td>
<td>(5.54)</td>
</tr>
<tr>
<td>Adj R2</td>
<td>0.228</td>
<td>0.089</td>
<td>0.048</td>
</tr>
<tr>
<td>n</td>
<td>57</td>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

Notes: beta regression coefficients, t-values between brackets.

The models in table 5 have very low explained variances; the regression coefficients are low and most of them are not significant. The explained variance in a time series can be increased by including the lag of the dependent variable as an independent variable. This would have increased the fit of the model, but most of the variance will be explained by the lagged variable. The practical problem in this case is that for including a lagged variable a longer time series is needed than the three time points. This is difficult, since for the corporatism variable only three scores through time are available.

From table 5 the general conclusion can be drawn that both corporatism and consensus democracy do not perform better than their counterparts. None of the tested models has an explained variance that justifies the conclusion that institutions indeed make a difference for socio-economic performance. The beta coefficients do no prove the superiority of corporatism and consensus democracy, but at the same time they do not perform very badly. Both models have a very small negative impact of unemployment. The effect on inflation is very weak negative for consensus democracy and weakly positive for corporatism. Corporatism contributes medium to a bigger government and to a lesser extent to more expenditures on social security. The effect on economic growth and GDP per capita is puzzling. Consensus democracy has a
negative weak effect on the first and a positive weak effect on the latter. Corporatism seems to have a weakly negative effect on GDP per capita.

4 Conclusions

In this paper the strength of corporatist institutions and their effect on socio-economic policy-making has been examined. The major contribution of this paper is the conclusion that corporatism must not be considered as an isolated operating factor, but that it can be linked to consensual practices in political decision-making. The empirical findings confirm the connection between these two institutional models. Corporatism and consensus democracy are related to each other both directly and indirectly - by their underlying indicators. The most work that has been done for this paper was focused on the operationalisation of the institutional models. Both corporatism and consensus democracy were measured in a different way as has been done so far. These models capture more adequately their strive to consensus and cooperation and can be used in further comparative analysis.

After the construction of these models the first results were presented of the analysis of these institutions as independent variables. This is only a first attempt to examine the impact of corporatism and consensus democracy on socio-economic policy-making. The bivariate correlation coefficients do not lead to an optimistic view of the merits of corporatism and consensus democracy. In 1980 there can be found a decreasing effect of corporatism on the unemployment rate and again in 1980 consensus democracy is related with lower levels of inflation. In 1990 and 1994 the effect of both institutions on unemployment and inflation seem to have disappeared. These results give reason to question the contribution that corporatist and consensual institutions can have on socio-economic performance. The years that have been analysed are chosen on the basis of the availability of data. Before definitive conclusions are drawn about the impact of institutions on socio-economic performance, a more extensive analysis must be done. The correlations with economic growth and GDP per capita are very weak and seem to indicate an absence of a relationship between these institutions and economic affluence.

In order to analyse the working of both institutional models several multivariate regression models are tested. None of them has an explained variance of 0.4 and
more. This means that for the cases and the years that have been analysed other factors than these institutions can explain socio-economic performance better.

Two roads can improve the research to the impact of corporatist and consensual institutional practices on socio-economic performance. First, more refined statistical techniques can be used to examine the developments through time. The main problem will be to find the data that are necessary. Many socio-economic data have missing values, but more importantly corporatism must be measured at more than three time points. Second, on the basis of these findings several countries can be selected for a qualitative analysis. Such a case study analysis can highlight which developments explain the impact of cooperation and consensus on socio-economic policy-making that has been found.

The analysis of the impact of institutions on socio-economic performance in this paper does not result in a definitive conclusion about this relationship. However, new data are presented and possible linkages are discussed. The findings of this paper give a basic idea for the direction of the future research that still has to be done.
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