European Journal of Political Research **41**: 307–343, 2002

The globalized, generous welfare state: Possibility or oxymoron?

CYNTHIA KITE
Department of Political Science, Umeå University, Sweden

Abstract. Arguments about the incompatibility of globalization and generous welfare spending have given way to more nuanced analyses of how domestic-level institutions mediate the impact of globalization. This article discusses and compares two models – the labour-partisan politics model and the labour-monetary politics model – that identify national-level institutions that are said to make it possible for states to combine generous welfare spending and good economic performance. The empirical analysis shows that the labour-monetary politics model performs better for the period 1973–1989. However, institutional conditions that existed during these years are shown to be rather poor predictors of economic performance in the 1990s. The article goes on to discuss what this suggests for the continued viability of generous welfare spending and argues that while globalization might undermine some institutional settings conducive to continued generosity, there is evidence that other ones remain viable.

Introduction

The negative consequences of globalization on the welfare state are much debated. The standard argument has been that globalization, broadly defined as economic openness, undermines the welfare state. There are a variety of explanations as to why this is so. Some explanations emphasize the fact that globalization expands capital's 'exit' option, thereby increasing the structural power of capital to veto all policies that it opposes (Kurzer 1993; Mishra 1999). For example, globalization has been accused of limiting the state's ability to raise tax revenues needed to pay for generous welfare schemes (McKenzie & Lee 1991; Steinmo 1994). Fearing capital flight and in hopes of attracting new capital, governments might even be tempted to engage in 'races to the bottom' as regards tax burdens and regulatory standards (Kahler 1998; Mishra 1999). Other arguments about globalization's negative effects on the welfare state point out that it tends to weaken labour unions and left parties (i.e., precisely those institutions responsible for building and defending generous social programmes). It has been argued that left ideology has suffered because parties of the right and business have articulated a convincing analysis of 'the imperatives of international markets' that the left has been unable

Published by Blackwell Publishers, 108 Cowley Road, Oxford, OX4 1JF and 350 Main Street, Malden, MA 02148, USA

successfully to refute (Piven 1991: 18). With regard to trade unions, it has been argued that globalization undermines working class solidarity and weakens its capacity for collective action (Piven 1991; Swenson 1991; Pontusson & Swenson 1996).

These general arguments about globalization and the welfare state are valuable and thought-provoking. Nonetheless, empirical evidence suggests that globalization's consequences for welfare states might be more complex and varied. For example, it is not at all clear that globalization leads to policy convergence at low levels of spending (Castles 1998). Both levels and patterns of spending continue to be very different across the Organisation for Economic Cooperation and Development (OECD). Perhaps even more puzzling, the most generous welfare states continue to be found in the world's most open economies (Katzenstein 1985; Rodrik 1998). If globalization does indeed undermine the welfare state, what explains the positive correlation between openness and welfare state generosity? Both Katzenstein (1985) and, more recently, Rodrik (1998) argue that this correlation is not a coincidence. Rather, openness and generosity are two sides of the same coin. In somewhat different ways, both suggest that openness creates certain problems, prompting states to adopt a variety of policies, including increased government consumption and social spending, to mitigate them. Therefore, generous states are to be expected when economies are open.[1]

The fact that empirical evidence raises doubts about the validity of the most sweeping globalization arguments has encouraged the development of an important body of comparative empirical research devoted to developing a nuanced account of globalization's effects on government spending and taxation, economic performance, political parties and trades unions. National-level institutions – particularly those which organize and articulate societal interests – are identified as critical intervening variables, ones which strongly influence both how globalization impacts on states and how states adapt to globalization (see, e.g., Hollingsworth & Boyer 1997). Esping-Andersen (1996: 24–5), while acknowledging the possibility of a 'seemingly universal trade-off between equality and employment' rooted in 'the new global order', argues that national responses to this challenge vary in significant ways due to variation in national institutions, system characteristics and vested interests (Esping-Andersen 1996: 6). Research by Boix (1998) and Mosley (2000) supports the view that governments retain meaningful policy autonomy despite globalization. In short, there is reason to believe that choice still exists and that particular national-level characteristics might make it possible for states to continue to choose generous public welfare schemes without sacrificing good macroeconomic performance *even in the face of deepening globalization*.

The purpose of this article is to contribute to the debate about globalization and welfare by examining two prominent comparative, institutional models. The models are from Geoffrey Garrett's *Partisan Politics in the Global Economy* (Garrett 1998) and Torben Iversen's *Contested Economic Institutions* (Iversen 1999). Each model is based on two variables, one of which (in both cases) is the organizational power of labour, and each rests on a micrologic rooted in expectations about the behaviour of governments and workers under different circumstances. In both models the variables interact to create institutional contexts that are expected to have predictable implications for both levels of social spending and macroeconomic performance.

Garrett (1998) optimistically concludes that his analysis of the 'labour-partisan politics model' (my label) shows that, under certain institutional conditions, both generosity and good performance are entirely compatible with globalization. Iversen's (1999) more pessimistic conclusion is that globalization has undermined the viability of the most well-known type of generous welfare state (the Nordic type) because it has weakened the stability of the institutional context that enables it to be generous without undermining macroeconomic performance. My central question is the following. What does an empirical comparison of the two models reveal about the conditions under which generous welfare spending can be maintained even in the face of significant levels of globalization? Thus, the main purpose is not to review the work of Garrett and Iversen, per se, but to conduct an analysis based on models they have developed and tested. In other words, it is the models and their implications that are of interest.

The rest of the article is organized into three parts. The next section briefly introduces the models. In the third section, 14 OECD countries are separated into groups on the basis of the models' expectations about their macroeconomic performance. These expectations are then compared with actual macroeconomic performance, and the results are used to evaluate the relative strength of the models as instruments for identifying when economic performance will be good or poor. This section also examines the models' expectations and accuracy with regard to levels of welfare spending and the link between economic welfare spending, economic performance and openness. The empirical analysis covers the years 1973–1999, with the data split into two periods: 1973–1989 and the 1990s. The first period covers the years for which data on the independent variables in the two models are available from the authors. The second period covers years in which the average degree of openness in the 14 states increased significantly due to capital market liberalization. The analysis will show that the labour-monetary policy model is reasonably successful for the period 1973–1989, the labour-partisan politics model somewhat less so. However, the institutional arrangements from this period turn out to be somewhat poor guides to economic performance in the 1990s. The most important reason for this is that countries with a tradition of strong social democracy and powerful labour unions did not perform well in the 1990s. However, the analysis also makes it clear that the generous and macroeconomically successful welfare state did not disappear. The implications of these empirical results are discussed in the final section of the article.

When are good performers generous providers?

This section examines the logic of two models in order to answer the question: 'Under what conditions are generous welfare states also good macroeconomic performers?'

The labour-partisan politics model

The first model of interest links economic performance to the 'coherence' or 'incoherence' of national political economies (Garrett 1998). Coherent political economies come in two forms: those in which strong right parties exist along side weak or non-existent trade union organizations and, alternatively, political economies with strong left parties and powerful, encompassing trade unions. Thus, the key variables in the model are: (1) the organization of labour, and (2) the strength of left and right parties.

Where both left-party strength and labour's organizational strength are weak, good macroeconomic performance will be coupled with limited social spending (stable market liberalism). When both are strong, macroeconomic performance is predicted to be good and social spending generous and sustainable (stable social democratic corporatism). In other cases, for instance when only one of the variables is strong, macroeconomic performance will be inferior and generous social spending unlikely and/or unstable. Particularly troublesome are contexts in which sectoral level trade unions are strong but uncoordinated, because this leads to poor economic performance and policy instability regardless of the partisan identity of government. The model is presented in Table 1.

A behavioural logic based on assumptions about actors' interests underpins the labour-partisan politics model. The key actors are labour and government. The interests of labour are assumed to be high wages and low unemployment. Given these interests, encompassing labour institutions are assumed to pursue moderate policies in all cases because they cannot exter-

Table 1. Labour-partisan politics model

		Labour Market Institutions		
		Weak	Industry/sector	Encompassing
Left Political Power	Strong	MIXED Moderate economic performance Tendency to non-generous welfare expenditures	MIXED Poor economic performance Oscillating policy	SOCIAL DEMOCRATIC CORPORATISM Good economic performance Generous welfare expenditures
	Weak	MARKET LIBERALISM Good economic performance Non-generous welfare expenditures	MIXED Poor economic performance Oscillating policy	MIXED Moderate economic performance Tendency to generous welfare expenditures

Source: Based on Garrett 1998.

nalize the negative consequences of militant behaviour, particularly unemployment. Strong, non-centralized labour institutions opt for militancy, both because they can (hope to) externalize negative consequences and because they cannot ensure good macroeconomic performance by exercising restraint. Where labour market institutions are weak (i.e., wage setting is done at the level of the firm), labour's behaviour varies depending on market conditions. Overall then, the behaviour of labour is determined by its organizational structure. This is true despite the fact that Garrett (1998:34) calls labour a strategic actor and says that 'the behavior of labor market actors will be affected by likely government policy responses to different levels of [labor] militancy'.[2]

Turning to the policy choices of governments, the underlying logic of the model is based on the assumption that the overriding interest of governments is to remain in power. Given this, economic policy will vary depending on both government ideology and the behaviour of labour. Voting behaviour research shows that voters reward left governments for redistributive policies, while right governments benefit from adopting policies that strengthen the role of the market (Klingemann et al. 1994). At the same time, voters tend to punish all governments when macroeconomic performance is poor, and reward all governments when it is good. It follows from this that left governments can be expected to implement redistributive policies as long as they do not undermine overall macroeconomic performance. Governments of the right will choose market-strengthening policies provided that they do not have negative macroeconomic consequences. As conceptualized by the model, it is the organizational structure of labour that determines whether or not a particular economic policy will lead to good economic performance. Anticipating this, governments will chose policies that are conducive to good macroeconomic outcomes (given the existing organization of labour).

Redistributive policies favoured by the left tend to encourage militancy among workers by reducing the costs of unemployment. Since militancy undermines macroeconomic performance, generous redistributive policies are only sustainable when labour is non-militant. In other cases, left governments have strong incentives to abandon such policies in order to achieve the economic performance necessary for reelection. When will labour eschew militancy? As noted above, it will do so when labour market institutions are centralized, because in this case militancy will tend to create unemployment and inflation which cannot be externalized. Thus, governments can pursue redistributive policies without negative macroeconomic consequences as long as workers are organized into an encompassing, centralized trade union movement. Otherwise, and particularly when there is an intermediate level of union organization, redistributive policies will tend to undermine economic performance, thus forcing the government to abandon or at least limit them.

The partisan preferences of parties of the right lead them to favour policies that strengthen the role of the market in the allocation of resources and risk. These kinds of policies are sustainable when labour has little organizational power because they discourage worker militancy (which is already limited due to its lack of organizational strength) by ensuring that workers have little or nothing to help them bear the costs of unemployment. The result will be good macroeconomic performance with regard to unemployment and inflation. On the other hand, the policies of governments of the right do not discourage wage militancy when labour is organized but non-centralized, because such policies do nothing to address labour's collective action problem. Finally, market-strengthening policies do not encourage wage militancy when labour is centrally organized, though it is likely that labour will seek to undermine government policy and authority by vigorous denouncing it in the mass media.

Garrett (1998:37) is somewhat confusing on this last point. He suggests that market-strengthening policies lead to labour militancy: 'the leaders of encompassing labor market institutions have the capacity to regulate economy-wide wage growth (i.e., pursue moderate policies), but they will act in this fashion only if they are confident that the government will pursue policies favorable to workers'. Yet the logic underlying the model clearly predicts that encompassing labour market institutions will pursue a moderate course *both when government is dominated by the left and when it is dominated by the right*. This is because even when right governments pursue market-strengthening policies, encompassing labour organizations recognize that the costs of militancy – which are likely to be higher under right-leaning, market-strengthening governments than they are under left governments – will be borne by their members.[3] It is therefore in the best interest of labour to continue to pursue wage restraint and avoid militancy. At the same time, one would expect vigorous denunciation of government policy and efforts to turn public opinion against the government, thus undermining its reelection chances and pushing it to abandon market liberalism in favour of redistributive policy. In short, while it is highly likely that organized labour will fight government policies that weaken social protection for their members, one would expect them to do so via a political campaign against the government rather than through wage militancy.

Summarizing the expectations based on the labour-partisan politics model, both generous and limited welfare state spending is compatible with good macroeconomic performance. The partisan identity of the government is an important factor, insofar as it determines whether or not governments favour generous versus limited social spending. However, what is decisive at the national level is the organizational strength of labour. It determines whether or not generous spending is compatible with low unemployment and inflation and good economic growth, or whether governments must accept – willingly or not – limited social spending.

The labour-monetary policy model

Turning to the other model of interest here, the labour-monetary policy model highlights the way in which variations in wage-bargaining systems and monetary policy lead to variations in macroeconomic performance and social spending. Wage bargaining can be decentralized (largely carried out within the firm), centralized (carried out for all workers by central organizations of workers and employers) or industry-driven (carried out by trades unions representing workers in a particular industry/sector). Monetary policy can be accommodating (i.e., the monetary supply is increased in response to developments such as fiscal deficits and wage increases, which implies a relatively tolerant view of inflation) or restrictive (i.e., geared towards a low level of inflation).

When wage bargaining is highly centralized and monetary policy is accommodating (soft), macroeconomic performance will be good and social spending generous. Macroeconomic performance will also be good when wage bargaining is organized by industry/sector and monetary policy is non-accommodating (hard). In this case, however, social spending may be less generous because it is not an integral part of the wage-bargaining system. Macroeconomic performance suffers when centralized bargaining is combined with non-accommodating monetary policy and when decentralized bargaining is combined with accommodation. Table 2 summarizes the model.

As with the labour-partisan politics model discussed above, the predictions of the labour-monetary policy model are based on expectations about the behaviour of actors under a variety of circumstances. Once again, the key actors are workers and governments. In this case, however, it is the interaction between wage-bargaining systems and the government's choice of monetary policy – rather than its partisan identity – that determines macroeconomic performance. With regard to workers, centralized wage bargaining is assumed to have an inflationary bias because negotiations must produce relatively generous wage increases in order to reduce the importance of the wage-drift component of rising wages.[4] This is not overly problematic if monetary policy is accommodating, because real wages can be held relatively constant. On the other hand, if monetary policy is non-accommodating then the inflationary effects of centralized bargaining lead to rising unemployment.

When wage bargaining is not centralized, the preferred monetary policy is different. If wage bargaining takes place at the industry or sector level,

Table 2. Labour-monetary policy model

		Wage Bargaining System	
		Non-centralized, organized	Centralized
Monetary Policy	Hard	SECTORAL HARD Good macroeconomic performance Less generous welfare expenditures	CENTRALIZED HARD Poor(er) macroeconomic performance Less generous welfare expenditures
	Soft	DECENTRALIZED SOFT Poor(er) macroeconomic performance Generous welfare expenditures	CENTRALIZED SOFT Good macroeconomic performance Generous welfare expenditures

Source: Based on Iversen 1999.

then governments will tend to choose non-accommodating monetary policy because it leads to better macroeconomic performance. This is because unions know that wage militancy will be offset by non-inflationary monetary policy. Under these circumstances, the consequences of wage militancy are 'unexportable' (i.e., they cannot be passed on to other sectors of the economy, but must be entirely absorbed by the industry itself, particularly in the form of unemployment). Recognizing that wage restraint is the wiser course of action, unions will eschew militancy. When labour is weakly organized and wage setting decentralized then labour has little or no capacity for strategic action; therefore, monetary policy will have no effect on unemployment. However, superior performance with regard to inflation speaks in favour of a non-accommodating policy in such cases.[5]

With regard to social policy expenditures, higher spending levels are linked to centralized wage bargaining in the labour-monetary policy model (Iversen 1999). This is because generous public spending, although not a substitute for accommodating monetary policy, can be used to reduce centralization's inflationary tendencies. This is possible when labour is willing to forego wage increases in exchange for increased social spending. Similarly, a government commitment to full employment promotes wage restraint because it gives labour an assurance that it need not seek the highest possible wages today due to uncertainty about employment tomorrow. When wage bargaining is not centralized, as noted above, social spending can be expected to be lower. First, such policies are not needed to ease the task of successfully bargaining wages for widely different groups of workers. Moreover, the need to maintain a strict non-accommodating monetary policy when wage bargaining is conducted at the sector/industry level means that other goals – including social policy and employment goals – must, if necessary, be sacrificed to fiscal discipline. On the other hand, if the government's commitment to restrictive monetary policy is absolutely clear, then unions should be non-militant. They may also be willing to forego wage increases in return for social spending. Thus, while the expectation is that spending will be lower, this does not necessarily mean that it will be extremely low, particularly when the left is electorally viable.

A brief comparison of the models and the globalization question

It is important to note that neither the labour-partisan politics model nor the labour-monetary politics model link good macroeconomic performance with a particular level of welfare expenditures. Rather, both generous and non-generous welfare states are, under certain conditions, associated with good economic performance. Similarly, under certain conditions, both generous and non-generous welfare states can be expected to perform poorly. It is therefore not possible to predict economic performance on the basis of welfare state spending alone. Instead, the context in which spending takes place is critically important. Of particular importance for both models is the power of different contexts to promote wage restraint or, at least, to reduce the negative consequences of labour militancy. In the labour-partisan politics model, in the context of encompassing labour organizations, governments of the left can follow their partisan preferences and implement generous social spending without undermining good macroeconomic performance. This is because labour's centralized organizational structure acts as an instrument of wage restraint. In contrast, the labour-monetary policy model emphasizes the role of accommodating monetary policy in dampening real wage increases in the context of centralized wage setting. That is, centralized labour organizations tend to demand substantial wage hikes, but monetary policy – aided by generous social spending – mitigates the negative effects. This, in turn, promotes good macroeconomic performance. Generous social spending is associated with poor macroeconomic performance when a politically strong left implements such a policy when labour is not centrally organized (labour-partisan politics model) and when an accommodating monetary policy is implemented in the context of organized, non-centralized wage setting (labour-monetary policy model). This is because, in these cases, there are no mechanisms to control labour militancy or to offset its consequences.

Indirectly, then, it is clear that if globalization undermines the institutional arrangements conducive to generosity and good economic performance, then this would suggest an incompatibility between globalization and generosity. In other words, globalization could undermine the generous welfare state by undermining the institutional contexts that sustain it. In the case of the labour-partisan politics model, globalization could undermine generosity by weakening centralized labour or by weakening political parties of the left. With regard to the labour-monetary policy model, globalization threatens generous welfare spending if it weakens centralized wage bargaining or reduces the ability of governments to sustain accommodating monetary policies. Whether or not there is empirical evidence that such shifts are underway will be discussed at greater length in the fourth section of this article. First, however, the models will be subject to some simple empirical testing. There are several questions to be answered. Is one of the models more successful in separating states into good and poor performers over the period 1973 to 1999? Is welfare spending highest where the models predict high spending? Are generous and macroeconomically successful states more or less open to the global economy than other states?

Simple empirical tests of the models

Given that both of the models discussed above define contexts in which macroeconomic performance is expected to be good or poor and social spending relatively generous or not, an obvious empirical question is whether the models accurately sort countries in terms of performance and social spending. Is one of the models a better guide to economic performance? This section explores these questions using data provided by Garrett and Iversen on the institutional variables in the models – labour centralization, left political strength, wage bargaining and monetary policy restrictiveness.[6] I first examine the degree to which the models correctly anticipate economic performance through the 1980s. These results are then used to draw conclusions about the relative predictive strength of the two models.[7] In particular, they can reveal whether or not the contexts identified in the models as being conducive to generous and stable welfare spending actually are so. Once this has been established, this section goes on to examine economic performance in the 1990s. A central question to be answered here is whether those states that performed well in the 1970s and 1980s continued to be good performers in the 1990s. Asked differently, the question is whether states whose institutional settings were conducive to successful performance in the 1970s and 1980s continue to perform well. Since institutional approaches to analysis assume that institutions, particularly successful ones, are rather stable, it is reasonable to consider whether future economic performance can be predicted on the basis of established institutions. If it cannot, then this is might be a sign of institutional change. If globalization is increasing at the same time, then it is possible that globalization might be one reason for such changes. Since the traditionally successful, generous welfare states are of particular interest here, I will specifically address the question of whether there is any evidence that maintaining both good macroeconomic performance and generous social welfare spending proved to be more difficult in the 1990s than previously. Thus, the empirical analysis should reveal which institutional contexts have been found in generous, macroeconomically successful states, and whether or not there is evidence of change. What might be causing such change (and, in particular, whether globalization might be implicated) is a question to be addressed in the concluding discussion.

Testing the models' power to identify good and poor performers

The labour-partisan politics model anticipates that two types of states will perform well: social democratic corporatist states (those with strong, centralized labour organizations and strong left parties) and market liberal ones (decentralized labour and weak left parties). Economic performance is always expected to be poor when labour market institutions are strong but non-encompassing. An in-between category is composed of states in which labour is decentralized but left political power is strong, or where an encompassing labour movement coexists with a weak political left. The labour-monetary policy model also predicts good performance in two settings: centralized wage bargaining combined with soft monetary policy and sector-level bargaining combined with restrictive policy. Poor performance is expected when monetary policy is restrictive and wage bargaining is centralized, and when soft monetary policy is combined with sector-level bargaining. How well does actual economic performance correspond to these expectations?

To answer this question states have been grouped into expected good, moderate and poor performers – first on the basis of their levels of unionization and left political strength (to test the labour-partisan politics model) and, second, based on their wage-bargaining system and monetary policy (to test the labour-monetary policy model). These groupings are done using data covering the period 1973–1989[8] (see Appendix A for details). The results are displayed in Table 3.

It should be noted that the rather crude classification of left political strength as above or below average is dictated by the logic of the labour-partisan politics model. The model's partisan variable is the political strength of left parties. It makes rather clear predictions about economic performance and welfare spending when the left is either strong or weak. However, it is unclear what is to be expected when left political strength is 'medium'. In addition, the identity of the 'not left' is given little attention. Following the logic of the model and to make it possible to preserve its predictive power, I have therefore opted to classify states as having above average or below average left political strength. The empirical results turn out to reveal something rather interesting about states with 'medium' left strength, and call attention to the fact that not all 'not left' parties are the same. These implications will be considered in some detail in the fourth section of this article.

Evaluating macroeconomic performance is often very sensitive to the criteria used. The cases of Sweden and Belgium nicely illustrate the problem. Measured in terms of unemployment, Sweden was one of the five best performers between 1973 and 1989, while Belgium was the worst. As measured by inflation, however, Belgium performs above average, while Sweden's performance is below average. In terms of economic growth, both Sweden and Belgium were among the worst performers. To deal with this measurement problem, the analysis presented below evaluates states on the basis of their

Table 3. States grouped by institutional characteristics

Labour-Partisan Politics Model

		Labour Market Institutions: Weak (Low)	Labour Market Institutions: Industry/sector (Intermediate)	Labour Market Institutions: Encompassing (High)
Left Political Power	Above average	Netherlands MODERATE	Italy Norway POOR	Austria Denmark Finland Sweden GOOD
	Below average	Canada France Japan United States GOOD	Belgium United Kingdom POOR	Germany MODERATE

Key: See Appendix A for details.

Labour-Monetary Policy Model

		Wage-Bargaining System: Non-organized (Low)	Wage-Bargaining System: Non-centralized, organized (Medium)	Wage-Bargaining System: Centralized (High)
Monetary Policy	Hard	Canada United States AMBIGUOUS	Japan Germany Netherlands GOOD	Austria Denmark POOR
	Soft	France Italy United Kingdom AMBIGOUS	Belgium POOR	Finland Norway Sweden GOOD

Key: See Appendix A for details.

performance with regard to unemployment, inflation and growth as well as an overall Economic Performance Index (EPI). The EPI is computed by summing states' standardized scores on unemployment, inflation and growth. Positive values indicate *good* performance, whereas negative values indicate *poor* performance. Scores around zero indicate average performance.[9]

Table 4. Economic performance 1973–1999

A. Labour-partisan politics model (numbers in parentheses are group ranks)								
Expected economic performance GOOD	1973–1989				1990–1999			
	Unemployment	Inflation	Growth	EPI	Unemployment	Inflation	Growth	EPI
Social democratic states								
Austria	2.40	4.94	2.59	2.14	4.23	2.37	2.31	1.67
Denmark	6.92	8.41	1.98	–2.04	7.17	2.10	2.27	0.10
Finland	4.73	9.47	3.43	0.65	11.97	2.12	2.07	–1.31
Sweden	2.33	8.54	2.07	–0.09	7.19	3.51	1.61	–2.12
AVERAGE	**4.10 (1)**	**7.84 (3)**	**2.52 (3)**	**0.165 (3)**	**7.64 (3)**	**2.53 (2)**	**2.07 (4)**	**–0.415 (3)**
Market liberal states								
Canada	8.32	7.54	3.45	0.00	9.31	2.20	2.37	0.10
France	7.02	8.55	2.61	–1.17	11.09	1.90	1.84	–1.10
Japan	2.23	5.78	4.22	4.37	3.21	1.20	1.64	2.38
United States	6.88	6.65	2.82	–0.02	5.59	3.00	3.01	1.59
AVERAGE	**6.11 (3)**	**7.13 (2)**	**3.28 (1)**	**0.795 (1)**	**7.30 (2)**	**2.08 (1)**	**2.22 (2)**	**0.74 (2)**
Expected economic performance MODERATE								
Mixed, non-medium labour centralization								
Germany	4.88	3.77	2.35	1.24	8.23	2.52	1.89	–0.70
Netherlands	7.08	4.70	2.32	–0.08	5.45	2.48	3.10	2.47
AVERAGE	**5.98 (2)**	**4.24 (1)**	**2.34 (4)**	**0.58 (2)**	**6.84 (1)**	**2.50 (3)**	**2.50 (1)**	**0.89 (1)**
Expected economic performance POOR								
Mixed, medium labour centralization								
Belgium	8.48	6.28	2.24	–1.41	8.66	2.15	2.09	–0.08
Italy	8.11	12.91	2.75	–3.16	10.77	4.11	1.47	–4.47
Norway	2.35	8.42	3.52	2.18	4.76	2.44	3.26	3.06
United Kingdom	7.90	9.52	2.40	–2.62	8.00	3.72	1.85	–2.27
AVERAGE	**6.71 (4)**	**9.77 (4)**	**2.73 (2)**	**–0.55 (4)**	**8.05 (4)**	**3.11 (4)**	**2.17 (3)**	**–0.94 (4)**
B. Norway counted Social Democratic (average scores)								
Social democratic states	3.75 (1)	7.96 (3)	2.72 (2)	0.57 (2)	7.06 (2)	2.51 (2)	2.30 (2)	0.28 (3)
Market liberal	6.11 (3)	7.13 (2)	3.28 (1)	0.80 (1)	7.30 (3)	2.08 (1)	2.22 (3)	0.74 (2)

Mixed, non-medium labour	5.98 (2)	4.24 (1)	2.34 (4)	0.58 (2)	6.84 (1)	2.50 (2)	2.50 (1)	0.89 (1)
Mixed, medium labour	8.16 (4)	9.88 (4)	2.46 (3)	–2.40 (4)	9.14 (4)	3.33 (3)	1.80 (4)	–2.27 (4)

C. Labour-monetary policy model (numbers in parentheses are group ranks)

Expected economic performance GOOD	1973–89				1990–1999			
	Unemployment	Inflation	Growth	EPI	Unemployment	Inflation	Growth	EPI
Centralized, non-restrictive/soft								
Finland	4.73	9.47	3.43	0.65	11.97	2.12	2.07	–1.31
Norway	2.35	8.42	3.52	2.18	4.76	2.44	3.26	3.06
Sweden	2.33	8.54	2.07	–0.09	7.19	3.51	1.61	–2.12
AVERAGE	**3.14 (1)**	**8.81 (3)**	**3.01 (1)**	**0.913 (2)**	**7.97 (3)**	**2.69 (3)**	**2.31 (1)**	**–0.12 (3)**
Sectoral, restrictive/hard								
Germany	4.88	3.77	2.35	1.24	8.23	2.52	1.89	–0.70
Japan	2.23	5.78	4.22	4.37	3.21	1.20	1.64	2.38
Netherlands	7.08	4.70	2.32	–0.08	5.45	2.48	3.10	2.47
AVERAGE	**4.73 (2)**	**4.75 (1)**	**2.96 (2)**	**1.84 (1)**	**5.63 (1)**	**2.07 (1)**	**2.21 (2)**	**1.38 (1)**
Expected economic Performance POOR(ER)								
Mixed systems								
Austria	2.40	4.94	2.59	2.14	4.23	2.37	2.31	1.67
Belgium	8.48	6.28	2.24	–1.41	8.66	2.15	2.09	–0.08
Denmark	6.92	8.41	1.98	–2.04	7.17	2.10	2.27	0.85
AVERAGE	**5.93 (3)**	**6.54 (2)**	**2.27 (4)**	**–0.437 (3)**	**6.69 (2)**	**2.21 (2)**	**2.22 (2)**	**0.81 (2)**
Others – decentralized								
Canada	8.32	7.54	3.45	0.00	9.31	2.20	2.37	0.10
France	7.02	8.55	2.61	–1.17	11.09	1.90	1.84	–1.10
Italy	8.11	12.91	2.75	–3.16	10.77	4.11	1.47	–4.47
United Kingdom	7.90	10.46	2.40	–2.62	8.00	3.72	1.85	–2.27
United States	6.88	6.65	2.82	–0.02	5.59	3.00	3.01	1.59
AVERAGE	**7.69 (4)**	**9.22 (4)**	**2.81 (3)**	**–1.39 (4)**	**8.95 (4)**	**2.99 (4)**	**2.11 (3)**	**–1.23 (4)**

D. Decentralized states (see Note 11 for a discussion)

Expected economic performance MODERATE								
Decentralized, restrictive	7.70	7.10	3.10	–0.01	7.45	2.60	2.69	0.845
Decentralized, non-restrictive	7.67	10.64	2.59	–2.31	9.96	3.24	1.72	–2.610

Source: For years 1973–1997, OECD *Historical Statistics*, various years; for years 1998–1999, OECD *Economic Outlook*, December 2000.

The data is reported for the two periods of interest and is presented in Table 4.

Looking first at the labour-partisan politics model, eight states are expected to perform well, four social democratic states and four market liberal ones. Four states are expected to perform poorly, while two are expected to perform moderately. Group averages for each indicator can be used to evaluate the model's accuracy. The model anticipates that the average figures for the first two groups of states will be best and that the worst averages will be found in the group that includes states whose labour market institutions are classified as intermediate. With regard to the period 1973–1989, while the model's predictions about which states will perform poorly are largely correct, it has considerable difficulty predicting good performance. States whose economic performance is predicted to be moderate outperform social democratic states on inflation and overall performance as measured by the EPI, and they outperform the market liberal group on unemployment. Expected poor performers have a slightly higher growth rate than social democratic states. In general the model seems to overestimate the performance of social democratic states and market liberal ones with regard to unemployment, and it underestimates the performance of states with mixed institutions like those found in Germany and the Netherlands.

An unexpected finding is that, as operationalized by Garrett, Norway's labour centralization score is lower than might be expected. It ranks is only seventh (of 14 states), after Belgium and before Italy. This leads to Norway being classified as intermediate with regard to labour centralization, which in turn leads to the expectation that it will perform poorly, which it clearly does not. At the same time, Iversen's operationalization of wage-bargaining systems ranks Norway as the most centralized of the 14 states, suggesting that Norway is mis-classified as intermediate.[10] The question is whether or not the labour-partisan politics model performs better if Norway is reclassified as social democratic rather than mixed. To check this possibility, Norway has been moved and the average scores for all economic indicators have been recalculated (see Table 4B). The results improve the model's performance. The shift lowers the average level of unemployment and raises the growth performance of the group of social democratic states. This then raises the group's EPI score to about the same level as the mixed, non-intermediate labour group. In fact, with Norway reclassified as social democratic, it is only the far superior inflation record of the mixed group that keeps the social democratic states from outperforming this group as measured by the EPI. In short, if Norway is counted as social democratic, then it is reasonable to conclude that the model provides some insight into macroeconomic performance before 1990, at least insofar as it correctly anticipates which states will perform poorly as opposed to moderately good or good.

Turning to the 1990s, however, the data indicate that institutional conditions in the 1973–1989 period are not highly reliable indicators of performance in the 1990s. Average scores are not as the model expects. In particular, on all indicators except inflation, states that are expected to perform moderately outperform those expected to perform better. Mixed states outperform both social democratic and market liberal states on unemployment, growth and overall performance as measured by the EPI. This time, reclassifying Norway does not generally improve the model's performance. As section B of Table 4 shows, even if Norway is classified as social democratic, the mixed, non-medium labour group outperforms both social democratic and market liberal states. The source of the problem is that the model underestimates the performance of two states with 'incoherent' political economies (Germany and the Netherlands).

What about the labour-monetary policy model? Section C of Table 4 presents the same macroeconomic data organized on the basis of the expectations of the labour-monetary policy model. States with decentralized wage bargaining are grouped together below the groups of states for which the model makes clear predictions. As regards the economic performance of these states, a reasonable assumption is that their performance ought to be poorer than that of states who can use monetary policy to positively influence the behaviour of a labour movement capable of acting strategically as regards wage setting (i.e., they ought not to outperform those states that the model predicts will be good performers).

As Table 4C shows, group averages for the 1973–1989 period are as expected for both unemployment and growth. The relatively poor inflation performance of centralized non-restrictive states is also anticipated by the model insofar as a soft monetary policy is deliberately used in these states to compensate for the inflationary consequences of centralized wage bargaining. The average EPI scores show that, overall, the actual performance of those states predicted to exhibit good performance is, in fact, much better than that of states expected to perform poorly. They also perform better than states with decentralized wage bargaining. Thus, the model's expectations are a good guide to economic performance in the 1970s and 1980s, clearly better than those of the labour-partisan politics model.

However, data for the 1990s suggests that, even in this case, institutional characteristics from the years 1973 to 1989 turn out to be poorer predictors of economic performance in the 1990s. While sectoral-restrictive states continued to perform well, centralized non-restrictive ones did not. Macroeconomic performance was somewhat better in states where centralization was combined with restrictiveness (Austria) or sector-bargaining was combined with non-restrictiveness (Belgium and Denmark) than it was in centralized non-restrictive settings. An examination of the data reveals that average economic performance across the 14 states was somewhat poorer in the 1990s than in the 1970s and 1980s, except with regard to inflation, which was significantly lower. Relatively speaking, however, the deterioration in unemployment and growth was greater in centralized non-restrictive settings than in others. This explains why – contrary to the model's expectations – this group was outperformed by the group composed of Austria, Belgium and Denmark. It is also worth noting that Finland's, Norway's and Sweden's low inflation rates suggest that centralized non-restrictive states did not use soft money policy as an instrument of macroeconomic policy in the 1990s – a point I will return to later in the discussion. Finally, the group of states whose institutional contexts were characterized by sector-level wage bargaining and restrictive monetary policy before 1990 was expected to perform well, and did. In fact, this group performed best in both periods.

Having looked at both models it is possible to conclude that the labour-monetary policy model outperforms the labour-partisan politics model, both in the period 1973–1989 and in the 1990s.[11] However, the data in Table 4 also suggest that something has changed in the 1990s. In particular, some institutional settings identified by the models as conducive to good economic performance appear either to be less beneficial in the 1990s or to have changed. That is, states whose institutional settings, as measured by data from the period 1973–1989, ought to have led to good performance in the 1990s did not, in fact, outperform those with supposedly less beneficial institutional settings. For the labour-partisan politics model the problem is that both social democratic and market liberal states are outperformed by states whose performance is predicted to be moderate. In the case of the labour-monetary policy model, which does not predict particularly good performance in market liberal settings, the problem is that centralized non-restrictive states (a group that captures largely the same states as the labour-partisan politics model's social democratic group) perform worse than the mixed group of Austria-Belgium-Denmark.[12]

Thus, for both models, the most troublesome group of states is the one that includes Finland and Sweden. Their economic performance declined greatly in the 1990s, which explains why their groups, as a whole, performed below expectations. The better-than-expected performance of Germany and the Netherlands is problematic for the labour-partisan politics model. Although these states do not have 'coherent' political economies, they performed as well as or better than the social democratic group in the 1970s and 1980s, and better than both these states and market liberal ones in the 1990s. By contrast, the labour-monetary policy model correctly anticipates that Germany and the Netherlands will perform well. Looking at particular states, the labour-partisan politics model has overly optimistic expectations with regard to France in both periods, Denmark in the first and Finland and Sweden in the second.[13] The labour-monetary policy model incorrectly anticipates poor economic performance in Austria in both periods, and good performance in Finland and Sweden in the 1990s. We will return to a discussion of how these results might be interpreted in the next section. First, however, we turn to a brief consideration of social spending.

Welfare spending

In evaluating a state's generosity with regard to public spending to promote welfare, spending on both social security transfers and public provision of services must be considered. The 'transfers approach' to welfare provision is the 'redistribution of cash income amongst members of a society', with final consumption decisions left to individuals (Castles 1998:128). Alternatively, various types of welfare services (e.g., education, health care, child care, etc.) can be provided by national or local governments, thus giving governments greater control over consumption and increasing the role of the government as employer. These expenditures show up in data on government final consumption. Data on both types of spending for 1973–1989 and the 1990s are presented in Table 5.

The data suggest that there is no necessary relationship between these two types of welfare spending. States might spend above average on both transfers and final consumption, as does Sweden, or below average on both, as does Japan. Alternatively, states might be rather generous with regard to one type of spending, but not the other (e.g., the Netherlands). Given this, an overall measurement of welfare spending must take into account both transfers and government consumption. This can be done using a simple index based on summing social security transfers and government final consumption as a percent of gross domestic product (GDP). This measure is presented in the final section of Table 5. For the period 1973–1989, Sweden stands out as a particularly generous welfare provider, followed by the Netherlands and Denmark. All three devote more than 40 per cent of GDP to transfers and government final consumption. Belgium, France and Austria spent just under 40 per cent, while Japan stands out as devoting relatively little of its GDP – only about 20 per cent – to transfers and government final consumption. The United States, Finland and Canada are also rather small welfare spenders. The most generous states in the 1990s were

Table 5. Government welfare spending

	Social security transfers as percentage of GDP			Government final consumption as percentage of GDP			Social security transfers PLUS government final consumption as percentage of GDP	
	1973–1989	1990s		1973–1989	1990s		1973–1989	1990s
Netherlands	25.24	25.54	Sweden	26.84	26.96	Sweden	44.02	49.91
France	21.94	22.46	Denmark	25.27	25.78	Netherlands	41.97	40.00
Belgium	21.51	23.50	United Kingdom	20.75	21.31	Denmark	40.89	46.05
Austria	18.97	21.06	Canada	20.12	19.76	Belgium	38.19	37.94
Sweden	17.18	22.80	Germany	19.94	22.54	France	38.24	41.36
Italy	16.53	19.01	Norway	19.37	21.10	Austria	37.09	40.70
Germany	16.38	17.56	Finland	18.58	22.55	Germany	36.32	37.33
Denmark	15.62	20.15	United States	18.23	16.55	Norway	33.92	38.16
Norway	14.55	16.06	Austria	18.12	19.56	Italy	33.04	36.16
United Kingdom	11.78	14.00	Belgium	16.69	14.44	United Kingdom	32.53	35.56
Finland	11.04	22.23	Netherlands	16.74	14.36	Canada	30.75	35.18
United States	10.79	12.64	Italy	16.51	17.04	Finland	29.61	45.01
Canada	10.62	12.56	France	16.30	19.09	United States	29.02	29.11
Japan	9.81	12.31	Japan	9.64	9.41	Japan	19.45	21.73
AVERAGE	15.85	18.71		18.79	19.32		34.64	38.16

Source: OECD *Main Economic Indicators*, various years.

Sweden, Denmark and Finland, while Japan and the United States were the least generous.

Contrary to what might be expected, spending data for the 1990s shows that welfare spending generally increased as a percentage of GDP. In fact, overall spending as measured by both transfers and government consumption increased in all countries except the Netherlands and Belgium. Average social security transfers increased most – from about 16 per cent to well over 18 per cent.[14] Moreover, it increased in all states. The biggest increases in social security transfers were recorded in Sweden and Finland, while increases in government final consumption were greatest in Finland and France. Overall for the 1990s, six states spent an average of over 40 per cent of GDP on transfers and government final consumption, while only two states spent less than 30 per cent.

How well do the two models anticipate these results?[15] The labour-partisan politics model anticipates generous welfare spending when labour market institutions are encompassing and the left is politically strong. Non-generous policies are expected in the opposite cases (i.e., when both labour and the political left is weak). In general, other cases ought to fall somewhere in-between. The labour-monetary politics model anticipates generous spending in states where centralized wage setting is combined with non-restrictive monetary policy. Beyond this, the model has less clear implications, though it can be expected that in other cases spending is less generous because it is not an integral part of the wage-bargaining system. In addition, where labour is weakly organized and monetary policy is restrictive, it is particularly likely that welfare spending will be limited. This is because the organizational weakness of labour means it has limited political clout to press for generous spending, while a commitment to strict monetary policy tends to encourage restraint with regard to government spending.

Table 6 groups states into three categories of spenders. 'High spenders' devote 40 per cent or more of GDP to transfers and government final consumption. 'Low spenders' are those spending 30 per cent or less of GDP on transfers and government final consumption. Other states are classified as 'medium spenders'. Looking first at the labour-partisan politics model (section A), the results are as anticipated. The most generous states combine the highest average labour centralization value with the highest average left political strength value. The least generous states have the lowest values on both variables. Medium spenders fall in between.

Table 6 (section B) also reports results for the labour-monetary politics model. As the model anticipates, low spenders combine a quite low wage centralization score with restrictive monetary policy. The results are somewhat less clear for high spenders. As predicted, in both periods, high spenders have

Table 6. Welfare spending and model expectations

A. Labour-partisan politics model					
1973–1989			1990s		
	Labour centralization	Left political strength		Labour centralization	Left political strength
Spending ≥40%			*Spending ≥40%*		
Sweden	4.23	3.09	Sweden	4.23	3.09
Netherlands	2.26	2.19	Denmark	4.18	2.10
Denmark	4.18	2.10	Finland	3.87	2.67
France	1.01	1.76	Austria	4.59	3.37
			Netherlands	2.26	2.19
AVERAGE	**3.36**	**2.46**		**3.36**	**2.53**
Spending ≤30%			*Spending ≤30%*		
Finland	3.87	2.67	United States	1.94	0.70
United States	1.94	0.70	Japan	2.18	0.93
Japan	2.18	0.93			
AVERAGE	**2.66**	**1.4**		**2.06**	**1.08**
Spending >30% & <40%			*Spending >30% & <40%*		
Belgium	3.32	1.74	Norway	3.30	2.85
France	1.01	1.76	Belgium	3.32	1.74
Austria	4.59	3.37	Germany	3.74	1.81
Germany	3.47	1.81	Italy	3.19	2.73
Norway	3.30	2.85	United Kingdom	2.82	1.44
Italy	3.19	2.72	Canada	1.85	0.92
United Kingdom	2.82	1.44			
Canada	1.85	0.92			
AVERAGE	**2.94**	**2.08**		**3.04**	**1.92**

B. Labour-monetary policy model

1973–89			1990s		
	Wage setting centralization	Monetary restrictiveness		Wage setting centralization	Monetary restrictiveness
Spending ≥40%			*Spending ≥40%*		
Sweden	0.524	0.26	Sweden	0.524	0.26
Netherlands	0.381	0.50	Denmark	0.496	0.39
Denmark	0.496	0.39	Finland	0.436	0.31
France	0.127	0.29	Austria	0.424	0.60
			Netherlands	0.381	0.50
AVERAGE	**0.467**	**0.38**		**0.398**	**0.392**
Spending ≤30%			*Spending ≤30%*		
Finland	0.436	0.31	United States	0.071	0.62
United States	0.071	0.62	Japan	0.234	0.48
Japan	0.234	0.48			
AVERAGE	**0.247**	**0.47**		**0.153**	**0.55**
Spending >30% & <40%			*Spending >30% & <40%*		
Belgium	0.329	0.31	Norway	0.531	0.24
France	0.127	0.29	Belgium	0.329	0.31
Austria	0.424	0.60	Germany	0.343	0.79
Germany	0.343	0.79	Italy	0.186	0.10
Norway	0.531	0.24	United Kingdom	0.203	0.25
Italy	0.186	0.10	Canada	0.071	0.41
United Kingdom	0.203	0.25			
Canada	0.071	0.41			
AVERAGE	**0.277**	**0.37**		**0.277**	**0.35**

the highest average wage centralization score. On the other hand, high spenders have somewhat higher monetary restrictiveness scores than do medium spenders. This suggests that the wage-bargaining system, and the role of welfare spending in it, has a more significant impact on welfare policy decisions than does monetary policy.

The data in Table 6 suggests that certain states do not quite fit the expected spending patterns. Compared to the expectations of both the labour-partisan politics model and the labour-monetary policy model, the Netherlands seems to overspend, while Norway underspends. France also appears to be something of an overspender. Finland underspent before 1990. Overall, however, both models provide some insight into variations in levels of welfare spending. Of particular importance here, they provide information as to which institutional settings are conducive to generous spending.

Spending and economic performance

The empirical analysis has thus far suggested that the macroeconomic performance of established social democratic states/centralized soft states seems to have declined significantly in the 1990s.[16] At the same time, it this group of states that, on average, has the highest levels of welfare spending. These findings raise two obvious questions. First, has a negative relationship between welfare spending and economic performance somehow developed? Second, might deepening globalization play a role here? That is, might it have made generosity and good macroeconomic performance incompatible? Turning to the first question, Table 7 groups the states in terms of both economic performance and welfare spending for the years 1973–1989 and the 1990s. What is immediately clear is that, just as both models anticipate, there is no obvious relationship between macroeconomic performance and size of the welfare state in either period. Both before and after 1990 there are more generous and less generous welfare states in both categories. Above average welfare spending does not ensure good performance, but does not guarantee poor performance either. Similarly, below average spenders might have above average macroeconomic performance (e.g., Japan) or below average macroeconomic performance (e.g., the United Kingdom). Other variables are clearly more important determinants of economic performance.[17]

The decline in economic performance in Finland and Sweden in the 1990s has been used to argue that it has become increasingly difficult to sustain good macroeconomic performance and generous welfare spending. Yet Table 7 suggests that such a simple conclusion is too hasty. First, as regards Finland and

Table 7. Economic performance and welfare spending

1973–89

		Welfare Spending: Above average	Welfare Spending: Below average
Economic Performance	Above average	Austria Germany Norway	Finland Japan
	Average	Netherlands Sweden	Canada United States
	Below average	Belgium Denmark France	Italy United Kingdom
	EPI:	0.1	–0.13

1990–99

		Welfare Spending: Above average	Welfare Spending: Below average
Economic Performance	Above average	Austria Netherlands Norway	Japan United States
	Average	Belgium Denmark	Canada Germany
	Below average	Finland France Sweden	Italy United Kingdom
	EPI:	0.3	–0.56

Key: ‘Above average’ performers are states in the top five as measured by the Standardized Economic Performance Index. The bottom five are classified as ‘below average’ performers. Other states are classified as ‘average’ (summed scores are reported in Appendix A). ‘Above average’ spenders spend above the mean on transfers and government consumption combined. ‘Below average’ spenders spend less than mean spending.
Source: Generated from data presented in Tables 4 and 5.

Sweden, it is more reasonable to conclude that rising welfare spending in the 1990s was prompted by poor economic performance rather than the cause of it (see Note 14). Moreover, two of the good performers in the 1990s (Austria and the Netherlands) were among the most generous welfare spenders. In addition, Denmark (whose welfare spending increased considerably in the 1990s – from 41 per cent of GDP to 46 per cent) improved its economic performance during the same period.[18] In addition, although two relatively non-generous states experienced above average macroeconomic performance (Japan and the United States), other non-generous states performed poorly. As a group, above average spenders performed slightly better than non-generous ones as measured by EPI.

Openness, spending and economic performance

While Table 7 suggests that there is no clear relationship between performance and the size of a country's welfare spending, this does not necessarily mean that there is no such relationship at a given level of openness. This question arises because, as has been noted in empirical literature (see, e.g., Garrett 2001; Hirst & Thompson 1999), despite a generally high overall level of economic openness, countries are not equally open. When openness is measured as trade as a percentage of GDP or national rules governing international capital flows, national level variation is revealed. Evidence of such variation is presented in the last two columns of Table 8.

On the basis of data in Table 8, states have been classified as having a 'high', 'medium' or 'low' level of openness. This makes it possible to look for evidence as to whether generous welfare spending is in fact linked to poorer macroeconomic performance at higher levels of openness (see Table 9). As Table 9 makes clear, openness has increased significantly in the 1990s. While 11 of the 14 states were classified as having medium or low levels of openness in the period 1973–1989, 11 of the 14 are classified as having high levels in the 1990s, a change which largely reflects the liberalization of regulations covering capital movement. Table 9 provides no evidence to support the claim that good economic performance and generosity has been or has become incompatible with economic openness. In the 1973–1989 period, there is little difference in the economic performance of the least generous, least open states and the most open, more generous states. Moreover, contrary to the globalization literature, the data covering 1973–1989 suggests that it is when states are *less* open that generous welfare spending is associated with lower economic performance! For the 1990s, those highly open states that have higher levels of welfare spending outperform less generous open states.

Table 8. Economic openness

	Exposure to trade		Capital market openness		Openness	
	1973–1989	1990s	1973–1989	1990s	1973–1989	1990s
Austria	74.78	78.34	11.71	13.00	High	High
Belgium	131.13	136.85	10.00	14.00	Medium	High
Canada	51.16	63.79	12.41	14.00	Low	High
Denmark	65.21	65.79	10.53	14.00	Low	High
Finland	56.68	66.75	10.71	12.00	Low	Medium
France	43.82	59.68	10.82	13.00	Low	High
Germany	52.38	44.89	14.00	14.00	High	High
Italy	47.29	48.31	11.06	14.00	Medium	High
Japan	23.57	44.98	10.12	11.00	Low	Low
Netherlands	102.82	18.61	13.06	14.00	High	High
Norway	82.66	100.58	9.06	13.75	Medium	High
Sweden	61.72	65.99	10.88	12.50	Low	High
United Kingdom	54.29	53.80	12.29	14.00	Medium	High
United States	18.24	23.00	13.18	14.00	Medium	Medium
AVERAGE	**61.84**	**62.62**	**11.42**	**13.38**		

Key: 'Exposure to trade' is the sum of exports as a percentage of GDP and imports as a percentage of GDP.
Source: OECD *Historical Statistics*. Data for the 1990s includes the years 1990 to 1997. 'Capital market openness' is Quinn's 14-point index of openness. It is calculated for years up to 1993 (Quinn 1997). I have then used a database created by Kastner and Rector (Krasner & Rector 2000) to determine whether or not policy changes since 1993 can be expected to have significantly altered states' capital market openness. Few states have made any changes at all, and those that have been made are minor. This suggests that the Quinn scores give an accurate picture of openness through the 1990s. States' classification on 'openness' is based on their scores on both exposure to trade and capital market openness. States with a high score on one of these indicators, and a high or medium score on the other are classified as having 'high openness'. States with a low score on one indicator and a low or medium score on the other are classified as 'low'. Other states are classified as having 'medium openness'. Scores on 'exposure to trade' and 'capital market openness' are classified as follows:

Exposure to trade: High = exports + imports as a percentage of GDP > 75%
Medium = exports + imports as a percentage of GDP between 35–75%
Low = exports + imports as a percentage of GDP < 75%

Capital Market Openness: High = 13–14 on Quinn scale
Medium = 11–12 on Quinn Scale
Low = less than 11 on Quinn Scale.

Table 9. Economic performance, welfare spending and economic openness

1973–1990

		Welfare Spending >40% GDP	Welfare Spending 30–40% GDP	Welfare Spending <30% GDP
Economic Openness	High	Netherlands EPI = –0.08	Austria Germany EPI = 1.69	
Economic Openness	Medium		Belgium Italy Norway United Kingdom EPI = –1.25	United States EPI = –0.02
Economic Openness	Low	Sweden Denmark EPI = –1.07	France EPI = –1.17	Canada Finland Japan EPI = 1.67

1990s

		Welfare Spending >40% GDP	Welfare Spending 30–40% GDP	Welfare Spending <30% GDP
Economic Openness	High	Austria Denmark France Netherlands Sweden EPI = 0.35	Belgium Canada Germany Italy Norway United Kingdom EPI = –0.73	
Economic Openness	Medium	Finland EPI = –1.31		United States EPI = 1.59
Economic Openness	Low			Japan EPI = 2.38

Source: Table is based on data presented in Tables 5, 7 and 9.

Changing causal relationships or changing variables? Reconsidering globalization and generosity

This section turns to an examination of the implications of the results of the empirical analysis presented above. Of particular importance is what the results imply for the continued viability of the generous welfare state. The most important overall conclusion is that generous welfare spending is still possible, but perhaps there are fewer institutional settings in which states can maintain both expensive welfare policies and good macroeconomic performance. In this section I will discuss how the empirical analysis leads to this conclusion, and briefly suggest topics for future research.

The empirical analysis of the two models shows that expectations about performance in the 1990s based on institutional conditions as existed during 1973–1989 are often incorrect. There are two possible explanations for this. One is that the causal relationships identified in the models, while reasonably accurate up to 1989, do not hold in the 1990s. For some reason, things are different and new models are needed. While this possibility cannot be entirely ruled out, the discussion here will focus on a second possibility – that is, that national-level institutions in some states have undergone significant change. Thus, expectations based on institutional arrangements as they were in the past (even the recent past) are bound to be misleading in many cases. In short, if labour encompassment, wage-bargaining systems, left party strength and/or monetary policy restrictiveness have changed significantly in the 1990s, this can account for the seemingly poorer performance of the models. In this case, new research guided by the same models is needed. I focus on this explanation both because there is evidence of change in some countries, and because these changes are not infrequently linked to globalization.

In trying to interpret what the models' poorer performance in the 1990s means, the declining macroeconomic performance of Sweden and Finland during this period is particularly important. Based on their institutional characteristics as measured using 1973–1989 data, both models expect these states to perform well. In the 1990s they do not. On the other hand, in the case of Sweden, there is considerable evidence that institutional change might explain why. In particular, it is clear that Swedish wage bargaining is no longer the centralized system that it once was (Iversen 1999; Martin 2000). Trade union membership remains strong, but wage bargaining is no longer centrally controlled. It is conducted at the sectoral level. Retaining a soft monetary policy in the face of this wage-bargaining change is a recipe for poor performance according to the labour-monetary politics model. On the other hand, the Swedish government abandoned soft money policy in the early 1990s and committed itself to a non-inflationary economic policy, a commitment that is reflected in the strengthening of central bank independence. Together, these changes seem to have transformed Sweden into a sectoral-hard monetary policy state, a context that the labour-monetary politics model (correctly in both periods) also associates with good economic performance. In keeping with the model's expectations for states with such institutional settings, Sweden's economic performance did indeed start to recover in the latter part of the 1990s.

The Swedish case thus suggests that the well-known generous, Nordic social democratic context so conducive to both generous welfare spending and good macroeconomic performance might now be more difficult to sustain. Additional support for this view comes from developments in Denmark, which points in the same direction. Even here a traditionally social democratic/centralized soft setting seems to have given way to less centralized wage bargaining and hard monetary policy (Iversen 1999).[19] In this case, however, the shift occurred in the 1980s, which provides a clue as to why Danish economic performance, so poor in the 1970s and into the 1980s, has subsequently improved so significantly. To further investigate the extent to which social democratic/centralized soft contexts are transforming, in particular moving towards a sectoral-hard system, additional research on Finland in particular is necessary. What the empirical analysis presented here makes clear is that Finland has not practiced soft monetary policy in the 1990s. What is unclear is whether its wage-bargaining system has undergone change. Recent research (Wallerstein & Golden 2000) suggests that it has not, but this is based on data up to 1993. However, even if change in wage bargaining has not occurred, the shift away from soft monetary policy suggests that even in this case the social democratic/centralized soft context has eroded.

The cases of Sweden, Denmark and Finland raise the possibility that the social democratic/centralized soft institutional context might be disappearing. If so, does this mean the end of the generous welfare state, and what, if anything, does globalization have to do with this change? On the one hand, as Tables 8 and 9 make clear, states with this institutional setting had relatively low levels of openness in the period 1970–1989, but this is no longer the case. Perhaps these contexts come under pressure at higher levels of openness. For example, openness might make them unsustainable by undermining trade unions and raising the cost of maintaining inflationary policies. Even if this turns out to be true, however, the analysis presented here suggests that the generous welfare state has a future. First, the empirical analysis suggests that the labour-monetary policy model's sectoral-hard policy states continue to perform well in the 1990s. Second, two of these states – Germany and the Netherlands – are rather generous welfare spenders, particularly the Netherlands. Finally, and of particular importance here, there is no reason to assume that these countries' systems are vulnerable to economic openness. This is because, as shown in Tables 8 and 9, these states have had a high level of openness at least since the early 1970s. In short, the cases of Germany and the Netherlands suggest that even in a context of globalization, generous welfare spending can be combined with good macroeconomic performance. Austria, also highly open, generous and macroeconomically successful, is further evidence that this remains possible.

On the other hand, it might be that the sectoral-hard context is the only one in which general welfare spending is sustainable.[20] If so, it is not surprising that states with a historical commitment to broad and generous welfare spending are evolving in this direction. What is interesting here is that we might be witnessing the erosion of the social democratic (i.e., left) context traditionally conducive to both generous welfare spending and good macroeconomic performance and a convergence towards a Christian democratic one. Recall that the labour-partisan politics model did not anticipate good economic performance in the case of mixed systems like those found in the Netherlands and Germany. It is highly likely that this is a consequence of the fact that the model emphasizes the importance of *left* parties in creating generous welfare states with good performance. The Netherlands and Germany have achieved this with a large measure of Christian democratic party strength, something that the labour-partisan politics model misses, but that the labour-monetary policy model indirectly captures via its emphasis on the interaction of wage bargaining and monetary policy. Thus, the evidence presented here suggests that, in an era of globalization, a more Christian democratic path to generosity and good performance might be the more viable one.

While the loss of the traditional social democratic/centralized-soft context is perhaps regrettable, the conclusion to be drawn here is that this does not mean that we are now witnessing the death of the generous welfare state. Moreover, the fact that there may now be fewer viable institutional contexts for the generous welfare state does not necessarily mean that particular policy directions are similarly limited. To the contrary, Mosley (2000) has recently argued that there is little evidence that states' spending choices are more limited now than in the past. As long as macroeconomic indicators are good, states seem to be free to spend as they wish. Further research into variations in welfare spending, and particularly into whether these seem to be stable or declining across states, can provide new insight as regards spending autonomy.

A final point to be made is that despite the widespread assumption that minimalist welfare states and unorganized labour are an advantage in a global economy, the data presented here tend to refute any simple relationship between these variables and good macroeconomic performance. As shown in Table 4C, the average performance of states with decentralized wage setting was worse than other groups on virtually all measures of economic performance both before and after 1990. Of this group, only the United States performed above average as measured by the EPI, and even in this case only in the 1990s. Italy and the United Kingdom have performed rather poorly since 1973. This, despite the fact that their social spending and wage centralization levels have been low. Just as research on the fate of the generous welfare state in globalization ought to focus attention on states that seem to suggest its vulnerability (like Finland and Sweden) as well as states (like Austria and the Netherlands) that seem to suggest its viability, there are clear benefits to be had from research directed at states whose economies are not thriving, despite their lack of generosity and labour weakness.

Acknowledgment

This research was conducted as part of the project 'Research Group on the Swedish Welfare State and Globalization' funded by the Bank of Sweden Tercentenary Foundation (Project Number 1998–5055:01). The author gratefully acknowledges this support.

Appendix A: Values of independent variables

Labour-partisan politics model State	Labour centralization	Left Strength	Labour-monetary policy model State	Wage-bargaining centralization	Monetary policy Restrictiveness
Austria	High	Above average	Finland	High	Below average
Denmark	High	Above average	Norway	High	Below average
Finland	High	Above average	Sweden	High	Below average
Sweden	High	Above average	Germany	Medium	Above average
Canada	Low	Below average	Netherlands	Medium	Above average
France	Low	Below average	Japan	Medium	Above average
Japan	Low	Below average	Austria	High	Above average
United States	Low	Below average	Denmark	High	Above average
Germany	High	Below average	Belgium	Medium	Below average
Norway	Medium	Above average	United States	Low	Above average
Italy	Medium	Above average	Canada	Low	Above average
Belgium	Medium	Below average	France	Low	Below average
United Kingdom	Medium	Below average	Italy	Low	Below average
Netherlands	Low	Above average	United Kingdom	Low	Below average

Key: On the two variables 'labour centralization' and 'wage bargaining', states are classified as 'high', 'medium' or 'low'. States with the five highest scores are considered 'high', while those with the lowest five scores classified as 'low'. Other states are given the value 'medium'. For the 'left political strength' and 'monetary restrictiveness' variables, states are classified as being 'above average' or 'below' depending on whether their score on the variable falls above or below the mean score for all 14 states. One exception is Denmark, whose score on 'monetary restrictiveness' is equal to the mean for the variable. It is therefore classified as 'average'.

Source: Data on 'labour centralization' and 'left political power' provided by Garrett. Data on 'wage bargaining' and 'monetary policy' supplied by Iversen.

Notes

1. A different argument has been put forward by Iversen & Cusack (2000), who link increased welfare spending to de-industrialization rather than globalization.
2. The logic behind these predictions about labour's behaviour is familiar and based on assumptions about its interests. As noted above, trade unions are assumed to pursue maximum wages compatible with high levels of employment for their members. When strong, uncoordinated unions pursue this interest, it leads to inflation and unemployment. Since the benefits of wage militancy accrue entirely to union members and the costs are born by the whole economy, it is often in the union's best interest to ignore these more widely distributed costs. This tendency is reinforced by the fact that each union expects that unilateral moderation on its part would keep its own members' wages down, without having a significant positive impact on overall unemployment and inflation. A strong, centralized labour organization overcomes these problems. Since the costs of wage militancy cannot be 'exported' to non-union members, union leaders internalize them, which tends to lead to more moderate wage demands. This tendency to moderation is reinforced by the fact that moderation can be expected to have positive, economy-wide consequences for inflation and unemployment.
3. They are likely to be higher because increasing the market's role means that those without jobs are less likely to have generous government programs that help them bear the cost of unemployment.
4. This view of centralized bargaining as inflationary contrasts with the widely accepted view (see, e.g., Olson 1982; Katzenstein 1985; Calmfors & Driffill 1988) that union centralization leads to wage restraint. Empirical evidence in support of Iversen's view can be found in Johansson & Magnusson (1998).
5. The labour-monetary policy model is therefore somewhat ambiguous with regard to states in which wage bargaining is decentralized.
6. Garrett's data covers the years 1966–1990, Iversen's 1973–1993. Because Iversen's data is aggregated in three-year intervals, the overlapping period that can be used is 1973–1989. I am grateful to these authors for sharing their data.
7. It is important to note that a variety of other factors obviously influence macroeconomic performance and social spending. Garrett (1998) and Iversen (1999) develop elaborate statistical models to explain a variety of indicators of economic performance – including unemployment, inflation, GDP growth and income inequality. In addition to the institutional variables of interest here, these include a wide variety of other independent variables. As measured by their R^2 values, they perform very well. The analysis presented here is not an attempt to offer a competing explanation of economic performance, nor is the goal to fully account for social welfare spending. The goal is much more modest: to determine the extent to which the variables identified in the labour-partisan politics model and the labour-monetary policy model are useful predictors with regard to performance and spending, given that numerous other factors are also important.
8. As noted previously, this is the period for which data is available for all four variables.
9. Note that because the index is based on standardized scores, it rewards or punishes states for exceptionally good or poor performance on one or more variables. This should be kept in mind when the results are evaluated.
10. Garrett classifies Norway as a 'social democratic state'. He does so on the basis of a

'leftlabour' variable which is created by summing states' standardized scores on the two variables 'labour market institutions' and 'left political strength'. Calculated this way, Norway's relatively high score on 'left political strength' compensates for its more average 'labour centralization' score, thus pulling it into the 'social democratic' category.

11. A limitation of the labour-monetary policy model is its lack of predictions with regard to the five states with decentralized wage bargaining. Assuming, however, that a decentralized wage-bargaining system is more likely to lead to a lack of wage restraint on the part of workers due to the 'free rider' problem, it is possible to develop expectations with regard to the five decentralized wage states. This allows us to further evaluate the strength of the model to anticipate economic performance. Restrictive monetary policy – particularly one that has credibility due to consistency or an independent central bank – is likely to lead to better overall macroeconomic performance than soft monetary policy in the face of potential 'free rider' problems. In addition, states with an institutional setting combining decentralized wage bargaining and credible, restrictive monetary policy are likely to outperform states whose wage setting and monetary policy work against each other. These latter states are those that the model predicts will perform poorly. The bottom of Table 4 (section 4D) divides up the category of decentralized wage states into two subgroups in order to test this extension of the model. The United States and Canada are states with decentralized wage setting and restrictive policy. Italy, France and the United Kingdom are decentralized, soft monetary policy states. An examination of the average performance of these groups confirms the argument outlined above. For the period 1973–1989 these states performed worse than centralized, non-restrictive and sectoral-restrictive states, but better than others. Decentralized, soft monetary policy states performed particularly poorly. This extension of the logic of the model thus provides further support for its ability to outperform the labour-partisan politics model for the 1973–1989 period.
12. They are also outperformed by states with decentralized wage setting and restrictive monetary policy.
13. This assumes that Norway is most correctly categorized as a 'social democratic state', despite its rather average score on 'labour market centralization' as measured by Garrett.
14. One probable explanation for increased spending on social security transfers in the 1990s can be found in Table 4 – rising unemployment. On average, unemployment for the 1990s was 7.68 per cent, compared to 5.74 per cent during 1973–1999. Only two states (the United States and the Netherlands) had lower unemployment levels in the 1990s. The social security transfer-unemployment link seems particularly plausible for Sweden and Finland: two states where both unemployment and transfer spending increased dramatically.
15. Again, the purpose of this analysis is not to fully explain welfare spending, which clearly depends on a variety of factors, not least demographic ones. The goal is to determine to what extent the models' expectations about generous and non-generous welfare spending hold for the 1970s and 1980s, and whether institutional conditions from this period can anticipate spending in the 1990s.
16. As noted above, these are largely the same group of states. The 'social democratic' category is the labour-partisan politics model's name for these states, 'centralized soft' comes from the labour-monetary policy model.
17. It is important to note that the performance being measured here is macroeconomic performance as measured by inflation, unemployment and growth. Above average

performance on these measures does not necessarily mean that an economy is dynamic or performing well in terms of other indicators of economic performance.

18. As measured by the EPI, only Italy and the United Kingdom had a worse economic performance than Denmark in the period 1973–1989. In the 1990s, Denmark was ranked sixth as measured by EPI score, up six places compared to 1973–1989. Moreover, its EPI score in the 1990s was considerably higher than Canada's, the state ranked seventh.
19. Note, however, that Wallerstein & Golden (2000) cast doubt on the argument that Danish wage bargaining has remained significantly decentralized.
20. Austrian wage bargaining is centralized, but different in fundamental ways from the centralized systems traditionally found in the Scandinavian states. See Iversen 1999 for a discussion.

References

Boix, C. (1998). *Political parties, growth and equality: Conservative and social democratic strategies in the world economy*. Cambridge: Cambridge University Press.

Calmfors, L. & Driffill J. (1988). Centralization of wage bargaining. *Economic Policy* 6: 14–61.

Castles, F.G. (1998). *Comparative public policy: Patterns of post-war transformation*. Cheltenham: Edward Elgar.

Esping-Andersen, G. (1996). After the golden age? Welfare state dilemmas in a global economy. in G. Esping-Andersen (ed.), *Welfare states in transition: National adaptations in global economies* (pp. 1–31). London: Sage.

Garrett, G. (1998). *Partisan politics in the global economy*. Cambridge: Cambridge University Press.

Garrett, G. (2001). The causes of globalization. *Comparative Political Studies* 33: 941–991.

Garrett, G. & Mitchell, D. (2001). Globalization, government spending and taxation in the OECD. *European Journal of Political Research* 39: 195–177.

Hirst, P. & Thompson, G. (1999). *Globalization in Question*, 2nd edn. Cambridge: Polity Press.

Hollingsworth, J.R. & Boyer R. (1997). *Contemporary capitalism: The embeddedness of institutions*. Cambridge: Cambridge University Press.

Iversen, T. (1999). *Contested economic institutions: The politics of macroeconomics and wage bargaining in advanced democracies*. Cambridge: Cambridge University Press.

Iversen, T. & Cusack, T.R. (2000). The causes of welfare state expansion: Deindustrialization or globalization? *World Politics* 52: 313–349.

Johansson, L. & Magnusson, A. (1998). *LO Andra Halvseklet Fackföreningen och Samhället*. Stockholm: Atlas.

Kahler, M. (1998). Modeling races to the bottom. Paper delivered at the American Political Science Association Annual Meeting, Boston, MA, September 3–6.

Kastner, S. & Rector, C. (2000). Veto players and capital control liberalization in parliamentary democracies. Paper presented at the Annual Meeting of the Midwest Political Science Association, Chicago, IL, April.

Katzenstein, P. (1985). *Small states in world markets*. Ithaca, NY: Cornell University Press.

Klingemann, H.-D., Hofferbert, R. & Budge, I. (1994). *Parties, policies and democracy*. Boulder, CO.: Westview Press.

Kurzer, P. (1993). *Business and banking*. Ithaca, NY: Cornell University Press.

Martin, A. (2000). The politics of macroeconomic policy and wage negotiations in Sweden. in T. Iversen, J. Pontusson & D. Soskice (eds.), *Unions, employers, and central banks: Macroeconomic coordination and institutional change in social market economies*. Cambridge: Cambridge University Press.

McKenzie, R.B. & Lee, D.R. (1991). *Quicksilver capitalism: How the rapid movement of wealth has changed the world*. New York: The Free Press.

Mishra, R. (1999). *Globalization and the welfare state*. Cheltenham: Edward Elgar.

Mosley, L. (2000). Room to move: International financial markets and national welfare states. *International Organization* 54(4): 737–773.

New York Times. (1999). A new Swedish prosperity even with a welfare state. October 8: A1.

Olson, M. (1982). *The rise and decline of nations*. New Haven, CT: Yale University Press.

Organization for Economic Cooperation and Development (OECD). (2000). *Economic Outlook*. Paris: OECD.

Organization for Economic Cooperation and Development (OECD). (various years). *Historical Statistics*. Paris: OECD.

Organization for Economic Cooperation and Development (OECD). (various years). *Main Economic Indicators*. Paris: OECD.

Piven, F.F. (1991). The decline of left parties: An overview. in F.F. Piven (ed.), *Labor parties in postindustrial societies* (pp. 1–19). Oxford: Oxford University Press.

Pontusson, J. & Swenson, P. (1996). Labor markets, production strategies and wage bargaining institutions: The Swedish Employer Offensive in comparative perspective. *Comparative Political Studies* 29: 223–250.

Quinn, D. (1997). The correlates of change in international financial regulation. *American Political Science Review* 91(3): 531–551.

Rodrik, D. (1998). Why do more open economies have bigger governments? *Journal of Political Economy* 106: 997–1032.

Steinmo, S. (1994). The end of redistribution? International pressures and domestic tax policy choices. *Challenge* (November–December): 9–17.

Swenson, P. (1991). Labor and the limits of the welfare state: The politics of intraclass conflict and cross-class alliances in Sweden and West Germany. *Comparative Politics* 23: 379–399.

Wallerstein, M. & Golden, M. (2000). Postwar wage setting in the Nordic countries. in T. Iversen, J. Pontusson & D. Soskice (eds.), *Unions, employers, and central banks: Macroeconomic coordination and institutional change in social market economies*. Cambridge: Cambridge University Press.

Address for correspondence: Cynthia Kite, Department of Political Science, Umeå University, S-90187 Umeå, Sweden
Phone: +46 90 786 5072; Fax: +46 90 768 6681; E-mail: *Cindy.Kite@pol.umu.se*