Employment ‘Miracles’

A Critical Comparison of the Dutch, Scandinavian, Swiss, Australian and Irish Cases versus Germany and the US

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Preface

The very positive economic and particularly employment development that took place in the decade up to 2001 (or even longer) in Denmark, Ireland, the Netherlands, Australia and, since the second half of the 1990s, Finland and Sweden has been at the centre of much recent discussion in comparative political economy. Because this development contrasts markedly with near stagnation in France, Germany and Italy, it has been characterised in terms of 'miracles' and 'models'. The Netherlands and Denmark attracted the most attention because their strong employment growth and employment stabilisation at very high levels, respectively, occurred in the framework of welfare systems that are still comparatively generous and that clearly differ from the USA and the UK. In the latter two countries, high employment and low unemployment went together with levels of inequality and poverty not (yet?) acceptable in the northwest of the European continent. It is no surprise, therefore, that politicians, journalists and scientists in other countries where employment has stagnated or even declined started discussing whether they could learn something from Denmark and the Netherlands.

To a large degree, the tenor of this discussion exalted the miracle economies, focussing on successful wage restraint agreements between capital and labour that was hidden under labels like new social pacts and competitive corporatism. Critical accounts were relatively rare. This situation is the context for our book, which critically scrutinises the dominant view by asking whether these small countries can figure as models for other countries. Thus, we ask how important conscious policies and agreements really have been in the miracles, and the degree to which positive developments in the small economies have been facilitated by favourable conditions and accidental, 'lucky' circumstances. We find that conscious policies played a much smaller role than most analyses suggest. All our countries benefited from the very smallness of their economies. They also benefited from lucky changes in their external environment, like sharply rising selective American investment (Ireland), the accelerating demand for commodities by Asian countries (Australia) and particularly the way that global disinflation triggered a

wealth effect and rising private consumption through the house price increase in Australia, Denmark, Ireland and the Netherlands (much as happened in the late 1990s and the early 2000s in the USA, the UK and Sweden). Finally, we also consider the degree to which these miracles are durable. What happened when the bubble burst in the early 2000s? Would the model status of the small economies survive the bursting of the bubble?

The initial step on the way to this book was the organisation of two meetings. One was a workshop that discussed the most publicized model economies of Denmark, the Netherlands and the USA at the Annual Conference of the American Political Science Association in 2001. The second conference, at the University of Amsterdam in early 2002, considered a broader set of countries including Switzerland, because of its remarkable and very special trajectory, and as the contrast case, Germany. This so-called 'expert meeting' was sponsored by the Dutch foundation of scientific research (NWO; grants 490-01-318 and 460-01-110P), and the papers presented there formed the first draft of this book. For critical comments on these drafts as well as for constructive suggestions, we thank Tjitske Akkerman, Karen Anderson, Brian Burgoon, Robert H. Cox, Lei Delsen, Michael Krätke, Ilona Ostner, Henk Overbeek, Erik Seils, Geoffrey Underhill and Mara Yerkes. After this meeting, the authors and the editors worked around their other obligations for quite a while to discuss and re-discuss these and subsequent drafts to bring them into their current form. Finally, we have to mention that we are heavily indebted to the editorial assistance of Natascha van der Zwan.

Uwe Becker and Herman Schwartz

Amsterdam and Charlottesville, March 2005

1 Introduction: Miracles, Mirages and Markets

Herman Schwartz and Uwe Becker

Introduction

Europe entered the 1990s with high unemployment but high expectations. Unemployment, which had nearly doubled to 10 percent in the European Union (EU) in 1978-88, was abating, falling back to 8.1 percent by 1991. Maastricht, the Single European Act and currency union promised to create a true continental market and help reduce unemployment further. And while most economies were sliding into recession at the beginning of the 1990s, the usual business cycle could not but help revive employment and growth over the coming decade.

Indeed, during the 1990s European economies revived unevenly, the euro was launched despite the EMS crises of the early 1990s, and the EU Commission and Court of Justice hastened economic integration. Yet in most countries something went terribly wrong with employment during this decade. In its early years, recession rolled around the continent, driving total unemployment up to post-war highs. Germany, France and Italy, alongside Spain, Finland and Sweden, were hit particularly hard with unemployment levels not seen since the 1930s, and these three large countries, containing more than half of the EU's population, also experienced shallow recoveries. Overall, unemployment did not begin falling until the late 1990s, with total EU unemployment back at its 1990 level of just over 8 percent by 2002. But by 2003 European unemployment started to rise again with the large continental countries again in the worst position.

In contrast, some of the smaller European countries performed remarkably well in the 1990s and early 2000s (cf. Tables 1.1 and 1.2). These so-called miracle economies made substantial progress towards restoring the "magic squares" of the 1950s/1960s. The Keynesian magic square combined full employment, low inflation, external balance and fast growth. In Europe, Ireland, Denmark, the Netherlands as well as Austria (not covered here) all enjoyed rising employment, current account and fiscal balance, and low inflation during the 1980s/1990s upswing. In the second half of the

Table 1.1 Basic employment data for the small 'model countries' in comparative perspective

	Employment Rates																					Standardized Unemployment Rates				
	Overall (15-64 yrs)					Part-time share*			Full-time equivalents		Age 15-24			Age 55-64			Women (15-64 yrs)								
	1983	1990	2001	2002	2003	1990	2002	2003	1990	1999	1990	2002	2003	1990	2002	2003	1983	1990	2002	2003	1983	1990	2001	2002	2003
Australia	62.5	67.9	68.7	69.2	69.3	22.6	27.5	27.9	57	56	61.1	59.6	59.9	41.8	48.2	50.1	51.9	57.0	62.1	62.2	9.9	6.7	6.8	6.4	6.1
Austria	62.9	65.5	67.8	68.2	68.2		13.5	13.6	62	64	54.9	51.7	50.7		28.1	28.9	49.7		61.1	61.2			3.6	4.3	4.4
Belgium	54.6	54.4	59.7	59.7	59.3	13.5	17.2	17.7	51	53	30.4	28.5	27.1	21.4	25.8	28.1	44.5	40.8	51.1	51.4	12.1	6.6	6.7	7.3	8.1
Canada		70.3	70.9	71.5	72.1	17.1	18.7	18.8	63	63	67.1	57.3	57.8	46.3	50.4	53.0		62.7	66.8	67.7		8.1	7.2	7.7	7.6
Denmark	71.7	75.4	75.9	76.4	75.1	19.2	16.2	15.8	71	70	65.0	64.0	59.4	53.6	57.3	60.7	72.8	70.6	72.6	70.5		7.2	4.4	4.6	5.6
Finland	73.2	74.1	67.7	67.7	67.4	7.6	11.0	11.3			52.2	39.4	38.5	42.8	47.8	49.9		71.5	66.1	65.7		3.2	9.1	9.1	9.0
France	60.8	59.9	62	62.2	61.9	12.2	13.7	12.9	56	56	29.5	24.1		35.6	39.3		55.6	50.3	55.8	56.0	8.3	8.7	8.5	8.8	9.4
Germany	62.2	64.1	65.8	65.3	64.6	13.4	18.8	19.6	59	59	56.4	44.8	42.4	36.8	38.6	39.0	52.5	51.2	58.8	58.7	7.7	4.8	7.8	8.6	9.3
Ireland	53.9	52.1	65	65	65	10.0	18.1	18.1	49	56	41.4	45.3	45.8	38.6	48.0	49.3	37.8	36.6	55.2	55.4	14	13.4	3.9	4.4	4.6
Italy	54.5	52.6	54.9	55.6	56.2	8.9	11.9	12.0			29.8	26.7	26.0	21.9	28.9	30.3	40.1	36.2	42.0	42.7	8.8	8.9	9.5	9.0	8.6
Netherlands	52.1	61.8	74.1	74.5	73.6	28.2	33.9	34.5	51	58	54.5	70.5	68.4	29.7	42.0	44.9	40.2	47.5	65.9	65.8	12.0	5.9	2.5	2.7	3.8
Norway	73.9	73	77.9	77.5	75.9	21.8	20.6	21.0			53.4	56.9	55.3	62.9	68.4	68.8		67.2	73.9	72.9		5.7	3.6	3.9	4.5
Sweden	78.5	83.1+	75.3	74.9	74.3	14.5	13.8	14.1	72	66	66.0	46.5	45.0	69.4	68.3	69.0	78.3	81.0	73.4	72.8	3.5	1.7	4.9	4.9	5.6
Switzerland	73.8	78.2	79.1	78.9	77.8	22.1	24.7	25.1			68.3	65.3	63.2	63.1	64.8	65.6		66.4	71.6	70.6			2.6	3.2	4.1
UK	64.3	72.5	72.8	72.7	72.9	20.1	23.0	23.3	62	61	70.1	61.0	59.8	49.2	53.3	55.5	62.5	62.8	66.3	66.4	12.4	6.9	5.0	5.1	5.0
USA	66.2	72.2	73.1	71.9	71.2	13.1	13.1	13.2	65	67	59.8	55.7	53.9	54.0	59.5	59.9	63.5	64.0	66.1	65.7	9.5	5.6	4.7	5.8	6.0

+ Significant statistical break thereafter, lowering rates.

*The part-time shares of most European countries in 1990 included all jobs from 1 to 35 hours a week, thereafter the definition of part-time work became 1 to 30 hours.

Sources: OECD 1995, Statistical Annex; OECD 2003a: 175 and Statistical Annex; OECD 2004, Statistical Annex

Table 1.2 Economic basic data: GDP growth, labour productivity, labour costs and export shares; annual changes in percent

	Annual GDP growth		Productivity (GDP/hour)		Real wages		Real unit labour costs		Export shares	
	80-90	90-00	80-90	90-02	91-95	96-00	91-95	96-00	1983	1994
Australia	3.2	3.5	1.3	2.2					1.1	1.1
Austria	2.3	2.3			2.0	0.7	-0.1	-1.0	0.9	1.0
Belgium	2.1	2.1	2.1	1.7	1.8	0.5	0.2	-0.6	2.9	3.3
Canada	2.8	2.8	0.9	1.5					4.4	4.0
Denmark	1.9	2.2	1.7	1.8	0.6	1.3	-1.1	-0.1	0.9	1.0
Finland	3.1	2.2	2.8	2.7	0.1	0.8	-2.1	-1.1	0.7	0.7
France	2.4	1.8	2.9	2.0	0.5	1.1	-0.6	-0.3	5.1	5.7
Germany	2.2	1.6	2.0	2.5	2.0	0.0	-0.1	-0.4	9.6	10.4
Ireland	3.6	7.3	3.8	4.7	1.8	1.8	-1.3	-2.7	0.5	0.7
Italy	2.2	1.6	2.1	1.7	-0.5	0.1	-1.7	-1.1	4.1	4.6
Japan	4.1	1.3	3.5	2.4	0.9	0.4	0.3	-0.4	8.4	9.0
Netherlands	2.2	2.9	1.9	1.2	0.9	0.9	0.0	-0.2	3.9	3.6
Sweden	2.2	1.7	1.2	2.0	0.0	3.2	-0.2	0.9	1.5	1.5
Switzerland	2.1	0.9	1.0	0.4					1.5	1.7
UK	2.7	2.3	1.9	2.2	0.8	2.4	-1.1	0.5	5.5	5.2
USA	3.2	3.2	1.2	1.6	0.7	2.0	-0.4	0.1	12.1	12.4

Sources: OECD 2002a: 32f; OECD 2004a; European Commisson 2003: 113ff; Scharpf and Schmidt 2000: 371 (export shares).

decade they were joined by Finland and Sweden as they astonishingly recovered from their crises. Britain also performed relatively well. Outside Europe, the same was true for the USA and Canada, and Australia entered the miracle league. While none of these has all the elements of the 1950s/1960s magic square, they all scored better on the relevant indicators than they each did in the early to mid-1980s. Some saw unemployment rates fall to levels not seen since the 1960s. And all did better than France, Germany and Italy – though even they had a few years of considerable GDP growth in 1998-2001. The miracles attracted considerable academic and journalistic attention because their success did not visibly rest on the wholesale assaults on unions and welfare state that characterized Thatcher's Britain or Reagan's America. Academic pilgrims to the miracle economies sought policy solutions to Europe's unemployment and growth problems. Many of these analysts credited traditional corporatist policy responses to macro-economic imbalances for the miracles' successes. In this understanding of the employ-

ment miracles, wage restraint permitted enhanced international competitiveness and thus created growth in output and employment. Thus, for example, the Wassenaar Agreement around wage restraint in the Netherlands was seen as restoring Dutch competitiveness in world markets and igniting a decade of stable growth. The analyses also tended to have an analytical bias in favour of country-specific policy initiatives, and to assume that policymakers made rational responses to the problems confronting them. This put much causal weight on visible policy choices that were then assessed as either effective or ineffective in setting things right. The possibility that many policy choices might have been irrelevant and that economies benefited from changes in the larger global economic environment was lost on these analyses.

Did analysts ask the right questions, look at the right evidence, and get the right answers about the causes and effects of the miracles? This book questions this, which is why it tries to apply normal social science to an analysis of the miracle economies. The authors approach the miracles by asking three empirical questions so that they can then return to and answer the causal question about the origins of the miracles. First, empirically, we want to know just how miraculous these macroeconomic miracles were. Did they really represent a substantial deviation from prior trends? Many of these countries did face substantial economic problems at the start of the 1980s. But over a longer-term perspective that encompasses several sets of ten-year business cycles, the miracles could perhaps represent a return to trend, rather than a deviation from a (worsening) trend. Similarly, because the "miracle" economies were partially defined by reference to some other set of non-miracle economies, it could simply have been that both sets of countries just changed places with their reference group.

The second empirical issue concerns the economic measures used to define the miracles. Here simple empirical issues have been obscured rather than highlighted by the miracle discourse. The "numbers" that comprise the magic square are all proxy measures for more important underlying changes in the economy. Good inflation and growth numbers, for example, are proxies for profitability and productivity. Similarly, use of standardized unemployment rates as a proxy for how many people are working could hide considerable broad unemployment disguised in disability schemes, early retirement, part-time work, and withdrawal from the labour market. Thus, we tried to avoid using only standardized unemployment measures as the metric for success, preferring instead to look at employment levels, and in some cases even at total working hours for the average employee.

The third empirical issue is whether the fruits of and costs involved in cre-

Table 1.3 Basic social data: Income inequality, poverty rates (defined as income lower than 50 percent median) and net unemployment replacement rates (incl. housing assistance)

	Year	Gini-coeffi cient	Percentile ratio 90/10	Poverty rate	Replacement rates 1999*
Australia	1994	0.311	4.33	14.3	46.0
Austria	1997	0.266	3.37	8.0	64.0
Belgium	1997	0.250	3.19	8.0	63.5
Canada	2000	0.302	3.95	11.4	65.5
Denmark	1997	0.257	3.15	9.2	63.5
Finland	2000	0.247	2.9	5.4	64.5
France	1994	0.288	3.54	8.0	71.0
Germany	2000	0.252	3.18	8.3	65.5
Ireland	1996	0.325	4.33	12.3	42.5
Italy	2000	0.333	4.47	12.7	46.5
Netherlands	1994	0.253	3.15	8.1	75.5
Sweden	2000	0.252	2.96	6.5	72.5
Switzerland	1992	0.307	3.62	9.3	76.5
UK	1999	0.345	4.58	12.5	32.0
USA	2000	0.368	5.45	17.0	57.5

* Average of two family types at Average Production Worker (APW) level, first six months of unemployment. Average of a) fully insured single APW and b) fully insured couple with single-earner APW and two children. After 6 months (U.S.) or 1 year (most other countries) the rates become lower, in the U.S. dramatically lower.
Source: LIS 2002; Alan and Scruggs 2004 (for the replacement rates)

ating the miracles were evenly distributed. Was rising employment accompanied by substantial hidden costs like rising inequality, poverty or social exclusion? The figures in Table 1.3 answer this question negatively, and it is just this combination of employment growth and generous social security that renders the "miracles" the topic of a model discussion. A related empirical issue is the degree to which rising employment in the miracle economies reflected changing gender relations and an increase in female labour market participation. It appears that all "employment" miracles involved a dual "feminisation" of the work force: rising female employment but also the increase of the number of, often low-paid, part-time and flexible jobs – though there are differences here between three of the four Scandinavian countries (the labour market of which "feminised" earlier) where part-time work decreased (Denmark and Sweden) or remained low (Finland) in the 1990s and the other small miracle countries.

All of these issues point to the importance of actors and factors that are usually excluded from the "neo-corporatist" causal versions of the miracle stories. Most causal stories about the miracles come out of the corporatist concertation literature. Although Andrew Shonfield articulated parts of the core argument as early as 1965, three seminal contributions brought this literature to full fruition by the late 1970s and early 1980s. First David Cameron's (1978) empirical argument linked trade exposure to the size of government. Second, a set of essays edited by Peter Lange (1982) and Peter Gourevitch (1984) showed the positive contributions of unions and the divergent consequences of differing union structures in negotiations over macro-economic policy outcomes. Third, Peter Katzenstein's (1984, 1985) twin books on democratic corporatism argued for the importance of a shared sense of social purpose. In essence, all three argued for the presence of a political exchange in which unions gave up current wages and security in a given job for social benefits and security in employment. This political exchange, they said, produced wage restraint, superior inflation and employment outcomes, and thus international competitiveness. While this line of argument bifurcated in the 1990s into a "Central bank independence" stream and a "Collective bargaining" stream, it lately has reconsolidated as a stream looking at the interaction of unions and central banks, much as in Scharpf's 1987 work, *Crisis and Choice in European Social Democracy*.

Thus, from the perspective of these arguments, the late 1990s boom in Europe is a function of prior pacts restraining wages, which is why analysts hunted for evidence of pacting in the "model" economies. But the rate of growth of gross fixed capital formation in the European Union 15 barely changed from the decade of the 1980s to the decade of the 1990s, suggesting some problems with this argument. If this causal orientation towards bargains between social partners is incorrect, then there is a large problem transferring "lessons" from the miracle economies – the lessons have been mis-learned and will be misapplied. Many of the chapters here thus present evidence that the underlying reflation mechanism in these economies was not wage restraint but rather the historically specific combination of housing market booms driven by disinflation, unusually exuberant American import demand that inflated profit margins for firms turning strong dollars into weak euros, and shifts in the composition of employment, but not the total number of hours worked, that made more income available for consumption.

Use of the corporatist concertation argument also reflects a causal bias to-

wards an inward, domestic-centred view. This is consistent with Fritz Scharpf's dichotomization of policy research into interaction-oriented research (which asks: why do governments *respond* to problems) and problem-oriented research (which asks: why do these problems *exist* for the government). Both views obscure the relationship between 'internal' policy choices and the external environment. Thus, many policy studies assume that agents are capable of assessing their environment, making bounded policy choices, and thereby remedying the problems that sent them in a search for policy choices in the first place.

Despite acknowledging the structural constraints imposed variously by path dependence, institutional legacies, or norms (either as logics of appropriateness or more profoundly as identities), most policy studies are imbued with the notion that this strategic behaviour by actors allows them to attain their preferred objectives, which usually are to change local structures either at the margin or more profoundly in order to bring them into greater conformity with their environment. Most policy studies "prove" this assertion by looking at relatively bounded periods of time in which a given policy change is followed closely by an improvement (or decline, if they wish to lament a policy change) in the conditions that actors are addressing. This mentality colours both optimistic and pessimistic views of the viability of the welfare state in an era of increasing "globalisation", or more specifically an era of increased trade and capital flows. Take, for example, Martin Rhodes's analyses (1998, 2001) of Spanish, Dutch and Italian growth, which he attributes to "competitive corporatism", or Niamh Hardiman's (2001) efforts to apply this to an analysis of the Irish miracle, or the similar analysis presented in Hassel and Ebbinghaus (2000) with respect to European pensions reform. All of them argue that firms and workers are deliberately "pacting" to share the costs of adjustment to world markets. In these analyses, firms, workers, and politicians share an apparently correct assessment of the challenges posed by world markets, the kinds of changes needed to bring local economies into conformity, and the will to make those changes.

Here we wish to suggest that this sort of behaviour, which we will label "pluck", is relatively absent from most of the miracle economies. Instead, these economies are mostly characterised by "luck" and "stuck". Positive outcomes – e.g. GDP growth and increased levels of employment – can occur if the external environment changes in ways that make what were dysfunctional and unchanged institutional structures and policies more functional in the context of the new environment. Dynamics that are endogenous to a given but dysfunctional institutional structure can generate or prevent

changes that accidentally make institutional structures more functional in the context of a changed environment. In this situation actors make no positive response to changes in their external environment, continue to unconsciously replicate existing policy routines, and yet nonetheless benefit from an exogenous change or changes that make those policy routines look better. This is luck. During the 1990s, disinflation and falling interest rates due to the balancing of the US federal budget created a major, positive, external stimulus for countries that luckily enough possessed housing markets capable of transforming falling interest rates into new purchasing power and rising employment.

What about stuck? Stuck arguments would suggest that local institutions evolve incrementally according to logics of appropriateness held by actors in those institutions, and that the institutional outcomes were either better than prior configurations or at least less dysfunctional than those into which the competition stumbled. In a stuck situation, the actors' conscious policy responses to a changed environment or a challenge are conditioned by embedded notions about the social purpose of their activity and what could be attained given the existing institutional landscape. In that sense they are not perfectly free choices, but rather conditioned by accidental or incidental qualities of those organisations. Because the external environment (the world market) surrounding any given set of production and public sector institutions is also not characterized by optimal organisations, local organizations merely have to be less dysfunctional than their global competitors in order to look "good". Note that stuck arguments are thus not arguments for convergence toward any optimal organizational form, nor do they offer much guidance about policy transferability. As Alchian and others have argued, markets are like ecologies. Firms display a multitude of strategies – expressed as organizational structures – that can be well or ill suited to their environments. Most analysts understand this to mean that competition will extinguish unsuitable organizational structures. But while competitive pressures force firms to adapt their strategies (organizational structures) to the environment, they do not necessarily enforce conformity or predominantly tend to extinguish non-conforming firms. During the 1990s the revival of corporatist routines, we argue, created a major, negative, internal limit on the expansion of local purchasing power and the subsequent expansion of employment.

Pluck can be distinguished from stuck by the degree to which the actors' behaviour deviates from national logics of appropriateness and constitutes new (or substantially reconstitutes old) institutions based on a strategic appreciation of and response to problems created by a misfit between local in-

stitutions and the environment. This admittedly sets a very high standard for intentional behaviour in order to avoid the post hoc, propter hoc arguments that characterise many policy analyses. The typical policy analysis has a binary view of actor behaviour. The only two choices are passivity and action, with action understood as a positive choice for a "new" policy. In this view, any time a positive choice for a "new" policy is followed by a good outcome, actors are credited for their strategic behaviour and for the instrumental appropriateness of their policies. But it is precisely because local routines can give rise to "new" but arguably *bad* policy choices that happen to be rewarded by the environment simply because other localities are making even *worse* policy choices (for whatever reason), that it is important to make the distinction between "stuck" and "pluck".

Distinguishing luck, stuck, and pluck requires us to consider how the external environment changed or did not change during the 1980s and 1990s, before turning to the usual summary of the chapters which introductions necessarily contain. We will also say a bit about the strategy of comparison the book uses in order to be able to make arguments about the degree to which the policy lessons from the miracle economies are transferable.

Globalisation and the miracles

All the miracle economies confronted a changing external economic environment in the 1980s and 1990s. This change can be summed up in two words: globalisation and Europeanisation. But both words need to be unpacked if they are not to obscure specific dynamics. Unpacking them shows that globalisation and Europeanisation tended to have the same effects. Both increased trade and capital flows, both tended to pull more married women into the economy, and both put pressure on governments to make their public sectors more cost efficient. In addition, Europeanisation committed governments to fiscal balance and improved employment. At least at a rhetorical level, it provided support for moving in the sort of direction taken by the miracle economies. Nonetheless, the failure of all EU nations to move in that direction suggests that like globalisation, Europeanisation led to diverging, not converging, outcomes. For this reason we will conflate Europeanisation and globalisation in the discussion below.

What role did globalisation play in the employment and economic miracles described in this book? Generally speaking, globalisation has been characterised as a pernicious force. A host of arguments suggests that globalisation constrains governments' use of macro-economic policy to ameliorate

unemployment, forces cutbacks in the welfare state, and is causing a shift in the distribution of GDP away from labour and towards capital. These arguments also suggest that globalisation promotes the homogenisation of national models. But this simplistic vision is clearly wrong for three reasons.

First, at the most general level, globalisation is about the emergence or re-emergence of markets in economic and social spheres that states had closed to markets after the Great Depression. But markets tend to generate differentiation, because markets produce winners and losers. Consequently, globalisation as an economic phenomenon cannot be a force for homogenisation or convergence (Berger and Dore 1996). Even if political actors swayed by common ideas try to force all economies into one mould, market-based competition will differentiate those economies on the basis of factors politicians cannot control. In turn, globalisation does not uniformly lead to an erosion of all welfare states or to rising unemployment everywhere. Economic winners will enjoy more or better employment, and have more resources to deploy on their welfare states. This means that political responses to perceived economic problems matter, because they can affect a country's position in the world markets.

Were our miracles then the outcome of good policy, understood as brilliant strategic responses to changes in the world economy? This seems doubtful for two reasons. First, all of the small economies studied in this volume possess substantial market power in the world economy. Even when they export relatively undifferentiated commodities, they often supply a hugely disproportionate share of world exports for those commodities. Australia and the Netherlands, for example, supply 40 percent and 32 percent of world exports of animal hair and of fresh flowers and vegetables, respectively (Intracen website). Bad policy could lead to some erosion of each country's market share, but it would take years of sustained bad policy to cause a total displacement of production into new suppliers.

Second, the simplistic globalisation argument is wrong because status quo local policies could combine with changes in the global economy that accidentally favoured local conditions to produce strong growth. This seems to be what happened in the Netherlands. There, local policies of wage restraint that were intended to boost competitiveness in world markets produced no increase in Dutch shares of world goods markets (Salverda, below). Indeed, Dutch wage restraint may have tended to depress local employment by dampening local consumption. Instead, falling global interest rates, the tax deductibility of mortgage interest, and mortgage refinancing generated classic Keynesian stimulus to the economy as homeowners steadily reduced their mortgage payments. Increases in gross fixed capital formation for

non-residential purposes lagged capital formation in housing until the very end of the 1990s, suggesting that domestic, rather than export markets, led growth, and that domestic growth came from housing. So some of our economic and employment miracles could be seen not only as benefiting from globalisation but also perhaps being a consequence of globalisation, in this case the integration of financial markets that permitted rapid transmission of interest rate changes globally.

If globalisation is about the expansion of trade and capital flows as part of the re-emergence of markets, then globalisation will have quite complex effects on income and employment. Expanded trade access, for example, will have the effect of concentrating production in regions with existing production competence, permitting them to attain greater economies of scale. Although foreign direct investment (FDI) can shift the location of production, FDI tends either to disperse best practices models for production or to shift the production of labour-intensive, cost-sensitive production to low-wage labour-surplus areas. But both of these do not automatically reduce total employment, because both also lower the prices of the goods being produced. This generates substitution effects, as consumers shift consumption to other goods, creating employment in those other sectors.

Trade also creates more demand for transportation and financial services related to trade, and this too increases employment. So globalisation changes the geographic and sectoral distribution of employment rather than reducing global employment. This is especially clear when we look at the state-owned or -regulated services in the transportation, power and water generation and distribution, and retail and wholesale distribution sectors. The precise redistribution of gains within a society remains a political choice.

Finally, globalisation and the welfare state are not in direct conflict. Many of the processes encompassed in globalisation have causal roots in the prior existence of the welfare state, and simultaneously create political demand for expansion of state-sponsored social protection. States' efforts to create markets by privatising state-owned services did remove insulation from market pressures. But it also created new demands for access to education, for early retirement, and for services facilitating female labour market participation. Below we consider four specific pressures on our cases in more detail. While three of these are conventionally seen as being 'global' in origin, and one 'domestic', all in fact derive from the interaction of local welfare states with the expansion of global markets. The specific pressures are low-wage competition from Asia (and for our European cases, increasingly, Eastern Europe), expanded intra-OECD FDI, the marketisation of the service sector, and married women's uneven re-entry into labour markets.

The first specific global pressure on our cases came from the emergence of high-volume but low-wage production of manufactured goods in Asia. The post-war system of social protection essentially priced low skilled male labour out of manufacturing markets in the OECD. Unionisation and tight labour markets raised wages above the levels that prevailed in many Asian and Latin American economies characterised by overt repression of labour unions; welfare states raised the reservation wage. It is important not to overstate the wage gap, because productivity is much lower in most of Newly Industrialising Asia, making the relative gap in *unit costs* much smaller than the absolute wage gap. Nonetheless, even by 2000, manufacturing wage costs in the richest Asian economies only stood at about 40 percent of the US level, while wages in the poorest were less than 10 percent (US Bureau of Labor Statistics website). This provided a big incentive to relocate labour-intensive production involving little skilled labour away from OECD economies.

And indeed, labour-intensive industries characterised by batch production at individual workstations, like garment assembly, shoes, toys, luggage, and cheap household goods, all gradually did move offshore to Asia along with some other capital-intensive but medium-skill industries like ship-building and consumer electronics. In turn, the supply industries for these sectors also migrated to collocate with their sources of final demand. Thus, even some capital-intensive industries like fibre production and textiles weaving eventually relocated to Asia. From 1980 to 2000 industrialising Asia more than doubled its share of total world trade from roughly 8 percent to nearly 20 percent, reflecting even larger shares (circa 40 percent) of industries like woven clothing, or consumer electronics assembly (WTO website; Intracen website).

This shift put downward pressure on wages and employment at the bottom end of the labour market, because low- or no-skill men were unable to shift into other forms of employment. Adrian Wood argues that this sort of Southern competition alone accounts for a loss of at least 9 million OECD manufacturing jobs, equivalent to about two-thirds of Euroland's total unemployment in 1998 (Wood 1994:67). In almost every OECD economy, both the number of manufacturing jobs and the number of hours in manufacturing have fallen since 1990, and in many, employment has fallen by about 1 percent per year since 1979 (US Bureau of Labor Statistics website). But this pressure did not operate uniformly on our cases. First, our countries started with different volumes of labour-intensive manufacturing. Second, the response to the disappearance of labour-intensive manufacturing could take the form of lost jobs, falling wages, fewer hours of work, or substitution of capital for labour.

Low-wage competition generated two natural, market-based responses. First, falling prices for increasingly commoditised manufactures increased disposable income in the economy as a whole, shifting demand towards services and better quality manufactures in all of our cases. Second, this shift permitted firms that had been labour-intensive to respond to low-wage competition by moving upmarket and substituting capital for labour, although this did not happen uniformly in all our cases. While these shifts helped GDP to grow, they also potentially exacerbated the wage/employment problem at the bottom of the labour market. For example, from 1980 to 1993 employment in textiles, clothing and footwear (TCF) in the USA declined by 30 percent, in the Netherlands by 40 percent, and in Sweden by 65 percent. All told, European TCF employment contracted by 800,000 jobs (ILO website).

The second specific pressure on our cases came from capital flows among rich countries, rather than to low-wage ones. This kind of investment tended to generate good jobs at high pay. But it also necessarily involved a reduction in the total number of manufacturing jobs, because this investment almost always involved displacement of lower productivity firms in the host (recipient) economy. Successful multinational firms uniformly have higher productivity than firms in their host economy. In the six largest OECD economies, on an unweighted basis, the ratio between assets and employment for inwardly investing manufacturing firms at the beginning of the 1990s was 1.6 (versus a nominal economy-wide ratio of 1), suggesting higher capital intensity and lower than average direct employment from FDI (UNCTAD 1993, p. 5). Thus, when FDI occurred in existing sectors, it carried in more efficient production norms, causing job losses as domestic firms adapted to higher productivity levels or simply exited the market. The only case where FDI generated substantial numbers of new jobs was Ireland, where MNCs built completely new export complexes in electronics and chemicals.

The third pressure on employment in our countries came from the marketisation of the public sector and especially infrastructure and transportation services. Virtually all of these were publicly owned at the beginning of the 1980s, and virtually all had been commercialised or privatised by the end of the 1990s. Regulation of prices and profits in nominally privately owned utilities firms had the indirect effect of guaranteeing stable wages and employment for relatively unskilled workers. Pervasive public ownership in Europe often carried with it civil service status for these workers. Both guaranteed a degree of overstaffing. Deregulation of public utilities in the USA and the export of this model through the World Trade Organisation led to parallel deregulation and privatisation in Europe and elsewhere (Schwartz 2001a).

Although deregulation permitted new firms offering new services to enter markets, the net employment effect was a loss of jobs in most places. For example, the share of telecommunications employment in total employment in Sweden, the USA, Britain and Denmark fell by 30 to 50 percent in the 1990s (Herretier and Schmidt 2000, pp. 577-578). Again, however, there were winners and losers in this process. Some former public service providers aggressively expanded outside their former product and geographic markets, absorbing private sector rivals and shifting the location of employment. For example, the Dutch postal service KPN grew significantly by facilitating the flow of packages into Europe, between European countries, and, sometimes, even inside their neighbours as firms tried to avoid using less nimble and more expensive local posts.

The last pressure on employment levels came from a once-only re-integration of married women, especially married women with children, into formal labour markets. The reintegration of national markets through globalisation (here, increased FDI and trade) increased the returns from education in ways that favoured labour market re-entry by married women at the same time that they began to desire employment. Voluntarily or involuntarily, women surrendered the social protection afforded them by male breadwinner wages and exposed themselves directly to labour markets. From 1970 to 1996, the average rate of female labour market participation in the OECD rose 15 percentage points to 63 percent in a fairly linear increase.[1] There was of course substantial variation, with the Scandinavian and Anglo economies seeing 20 percentage point rises off already high rates of female labour market participation, while the continental economies saw roughly 10 percentage point increases off a lower base. Meanwhile, the average level of male labour force participation in the OECD fell from about 90 percent to 83 percent in 1970-96. Much of this was a withdrawal of older manufacturing workers choosing early retirement in the face of low wage competition or demands for greater skill levels or new skills.

Two things link female labour market re-entry to globalisation. First, the destruction of male breadwinner jobs in the bottom half of the income distribution through increased trade and increased inward FDI coincided with, and indeed enabled, a shift of employment away from manufacturing and towards services, especially in the smaller European economies. This shift largely benefited women. They were more willing to accept the higher emotional and social intensity, and the part-time and "flex-time" nature of much service sector employment.

The second factor relevant to the discussion of globalisation concerns the returns from education. On the demand side for jobs, women had to confront the fact that they could no longer depend on men as reliable wage

earners or marriage partners, although again, this was less true in the continental economies. But it is also true that their own, increased rate of higher education not only permitted them access to a much broader range of jobs than before, but also at much better rates of pay than before. Competition with imports manufactured with low-wage labour and the increased salience of inward FDI in all OECD economies shifted the demand for skilled and credentialed labour upward. Women were well positioned to take advantage of this shift in demand. Women's rates of higher education had not only equalized with those of men in most OECD countries by the 1980s, but by the 1990s substantially exceeded those for men in many countries (Jönsson 1999, pp.4-5, but see also Daly 2000).

Finally, women's labour market entry was a self-sustaining process. Not only did one part of the welfare state – education – assist labour market entry, it also created demands for expansion of other public and publicly subsidised branches like child and elderly people care. It created demand for more private and public services, which women typically staffed. In this sense, globalisation – understood as the expansion of labour markets into part of the female population – created demand for an expansion of the formal welfare state, and indeed could not have occurred in the absence of the formal welfare state as a place for married women to (re-)enter labour markets and as a support for that (re-)entry.

A specific (corporatist) variety of capitalism?

One of the questions touched upon in the preceding section was whether globalisation had forced the small miracle economies to develop in a liberal direction. The answer has to be that despite some similarities with respect to deregulation of labour markets, welfare retrenchment and reorganization, tax cuts, and an increasing reliance of firms on the stock market for access to new capital, they nonetheless have largely retained their specific character, and that two of them – Australia and Ireland – anyway already featured strong liberal traits before recent developments took shape. Moreover, it is not clear whether the changes that have taken place in the 1990s have been induced solely by increased global competition. The end of the rather leftist politico-ideological tide in the late 1970s/early 1980s, the breakdown of Soviet socialism a decade later, the stagnation of Japanese capitalism and the recent economic strength of liberal, American capitalism could also have been of causal importance here. And perhaps one has to add changing expectations of both firms and citizens of the variety and quality

of services from the public sector as a base for the liberalization of the public sector.

The explanation of political-economic changes is not the subject here, however. The question rather is whether the small miracle economies constitute a specific variety of capitalism and whether this gives them a competitive edge. These questions make sense because the discussion about varieties or types of capitalism has had a strong revival in recent years and because, apart from Australia and Ireland, the small countries discussed in this volume have a number of relevant features in common that render them similar in politico-economic terms. All of them are prominent corporatist political economies, where corporatism is understood both as an institutional structure for regular consultation on issues such as wages, investment and social security between organised capital and labour (as well as politicians in the tripartite variety of corporatism), and as the specific and more or less symmetric agreements and exchanges between the labour market parties located in that institutional framework. As the historical record shows, the institutional framework does not automatically generate these agreements. Because corporatism involves a form of macroeconomic regulation or coordination, it is not surprising that, as the data in Table 1.4 show, the European continental countries in our sample also have high coordination scores in the most prominent and roughest typology of capitalist varieties – that of Hall and Soskice (2001), which distinguishes between liberal market economies (LMEs) and coordinated market economies (CMEs). Australia and Ireland, by contrast, are located in the vicinity of the liberal pole where the USA, Britain and Canada are also found.

Ireland is worth a special note. Its liberal traits have recently been reinforced by a centralised 'competition state' (Boyle 2004), and it has also been mentioned as one of the examples where so-called new social pacts have brought about success (Hassel and Ebbinghaus 2000). Social policy and the interests of labour are not exchanged against those of capital, however, but subordinated to the needs of the economy. Perhaps this is a 'new corporatism', but it is quite different from the symmetrical and exchange-based corporatism discussed in this section.

With the exception of Finland, the continental 'miracle' countries also share an unbroken associational tradition from medieval guild structures to modern corporatist institutions (Crouch 1993, p. 299ff), and related to this continuity a past marked by a weak feudalism, the absence of absolutism or at least of absolutist repression, traditions of a relatively low level of polarisation between social classes and a relatively high level of social trust (although for a long time combined with clear hierarchical distinctions and

Table 1.4 Coordination and corporatism scores of the small 'model economies' in comparison (mid-1990s)

	Coordination Index according to Hall and Gingerich (scale 0 to1)	Average* Corporatism Score (scale 1 to 5)
Australia	.36	1.7
Austria	1.00	5.0
Belgium	.74	2.8
Canada	.13	1.2
Denmark	.70	3.5
Finland	.72	3.3
France	.69	1.7
Germany	.95	3.5
Ireland	.29	2.0
Italy	.87	1.5
Netherlands	.66	4.0
Norway	.76	4.9
Portugal	.72	1.5
Spain	.57	1.3
Sweden	.69	4.7
Switzerland	.51	3.4
UK	.07	1.7
USA	0.00	1.2

* Of the coorporatism rankings of 13 different inquiries by different authors.
Sources: Hall and Gingerich 2001: 46; Siaroff 1999: 185

elitist paternalism), and a rather evolutionary process of democratisation (Katzenstein 1985). Finally, these countries share a socially anchored notion of the general interest, which is presumably what is at stake when unions and employers negotiate wage levels, working time, labour flexibility, etc. with an eye to their effects on economic growth, employment and inflation. Responsibility for the common good evolved as an affair of socio-political associations as well as of the state.

Would it make sense to construct a corporatist type of capitalism? Yes. This is because the number of countries with a high degree of corporatism is considerable – apart from the miracle countries, also Austria, Norway, Germany and, at a somewhat lower level, Belgium (and because there appear to exist different forms of politico-economic coordination.) A brief look at Table 1.4 reveals that France, Italy and Spain as well as Portugal score relatively high in the coordination index, but low in the corporatism ranking. One has to wonder whether it is plausible to put together these forms of capitalist regulation under the heading of coordination, and possibly the picture becomes even more complicated when the peculiarities of eastern Asian

and central and eastern European market economies are also taken into consideration. If one decides to construct a corporatist type (and possibly some other additional types), then the next question is the criteria that underpin the category.

The theories on the varieties of capitalism currently discussed do not explicitly reserve space for a separate corporatist type. Early empirical arguments about corporatism had already emerged in the 1920s (Hilferding 1924), were revived in the 1960s (Shonfield 1965 and Galbraith 1967), were formalized by Schmitter (1979), before then taking a turn into the welfare state literature through the notion of forms of 'welfare capitalism' (Esping-Andersen 1990). But Katzenstein's *Small States in World Markets* (1985) and Albert's *Capitalisme contre capitalisme* (1991) were the first to explicitly consider the interaction of corporatism and the contemporary form of globalisation and the different potentials for adjustment that inhere to different political economies. Albert, descriptively referring to corporatism without specifying a distinct corporatist capitalism, identifies two types that he judges to present alternative but viable models of adjustment to global capitalism: the 'Rhineland model,' encompassing Europe and Japan, and 'Anglo-Saxon capitalism'. Hutton (1995), who distinguished 'stakeholder' from 'shareholder capitalism', Dore (2000) and Hall and Soskice (2001) with their 'liberal' and 'coordinated' varieties of capitalism all present similar typologies and the argument that each type possesses different institutional advantages in international competition. Rhodes and van Apeldoorn (1997), who identify Anglo-Saxon, Germanic and Latin forms of capitalism, and Amable (2003; cf. Hollingsworth and Boyer 1997), who distinguishes among market-based Anglo-Saxon, social democratic, continental European, Mediterranean and Asian 'social systems of innovation and production', present non-dichotomous typologies.

If we accept a dichotomy between liberal and non-liberal types, then the question is whether or not the non-liberal type has to be sub-divided, and the basis for constructing consistent subordinate categories. A simple dichotomous typology is clearly an oversimplification of reality and obscures fundamental analytical differences, as Hall and Soskice (2001, p.33ff) note (cf. also the critical discussion in *European Comparative Politics* 1, no. 2, 2003). Corporatism *is a way of organising capitalism* that is not only different from a purely arms-length transaction, market-based economy, but also different from etatist economies that rely on political regulation, and from communitarian economies in which huge industrial-financial conglomerations crowd out independent businesses.

Although the key criterion for distinguishing among variations of capital-

ism has to be the form that its organisation or regulation takes, it should be supplemented by other criteria. But the choice of these criteria is a function of what it is we want to know about these capitalisms. Is the object of inquiry only how (macro-) economic processes are coordinated or also how economic and social goals are coordinated and balanced? Most typologies are descriptive and dodge this question of appropriate criteria. Hall and Soskice (2001, p.6) opt to look only at micro-economic processes and thus centre their theory on the firm. They use divergences in relationships among firms, between firms and investors, between firms and employees, and the ways that skills formation occurs to distinguish types of capitalism. By contrast, the 'regulation theorists' (Amable, Boyer, Hollingsworth) offer a very broad catalogue of criteria that also include the macro-relationship between capital and labour, the 'conceptions of fairness and justice' held by them, the norms, rules and 'receipts for action' prevailing in a society, and the structure of the state and its policies (Hollingsworth and Boyer 1997, p. 2).

It is not necessary here to discuss the question of the appropriate criteria in detail, but it is obvious that a typology containing corporatism has to be built on a broader set of criteria similar to that of 'regulation theory'. European corporatism is a macro-politico-economic phenomenon, and it involves the relationships between capital and labour, state and economy as well as a normative set of interaction patterns. The same holds for the broadly understood liberal, etatist and communitarian varieties. And all of these varieties involve certain ways of relating social security and welfare to economic performance. It is here where a further distinction comes in between social democratic, which stresses equality of condition, and conservative, which stresses care and harmony, as sub-forms of the corporatist, etatist and communitarian varieties of capitalism. These sub-forms depend on power relations and dominant 'conceptions of fairness and justice'. Putting together the whole picture, we have

1 a basic dichotomy between liberal and coordinated capitalism, where the latter
2 is divided into corporatist, etatist and communitarian varieties that can
3 be further divided into social democratic and conservative sub-types.

It is important to stress that we are talking about ideal types that should not be confused with real capitalist countries. Real cases only approximate ideal types more or less, and typically are hybrids containing elements that might qualify them for other types, if viewed only in isolation. Because of the basic dichotomy of liberal and coordinated capitalism, it does not make

sense to construct a liberal sub-variety of corporatist capitalism, but it is of course possible that corporatist and liberal elements come together in a country and constitute a specific hybrid. It is often said that Switzerland – with the lowest corporatism score of our continental countries – has a strong liberal component (Katzenstein 1985), and in some periods of Dutch capitalist development, liberalism has also played a prominent role, while etatism has joined corporatism in other periods. In Scandinavia, this combination has been important. And where Scandinavian corporatism is mainly social democratic, Dutch and Swiss corporatism has mainly been conservative. In fact, our continental model countries are nothing more than hybrid political economies with a strong corporatist component.

The next question we have to address is whether the corporatist model countries have a competitive edge because of their corporatism. Or in the words of Hall and Soskice: Do they have corporatist institutional advantages? Without doubt, they have the institutional possibility to negotiate economic, social and, if they intend to, environmental targets by adjusting wage growth, profits, taxes, social security benefits, regional development and environmental measures. This is advantageous at least for parts of a corporatist country's population because it reduces the risk of poverty and social exclusion and environmental damage by unfettered market forces. But is it also an advantage in international competition?

Katzenstein (1985) and Scharpf (1991 [1987]) and more recently a number of analysts of 'new social pacts' (e.g. Hassel and Ebbinghaus 2000; Pochet and Fajertag 2000) have argued that corporatism facilitates the improvement of competitiveness by making it possible to credibly exchange nationwide wage restraint for, among other things, social rights. Our model countries plus Austria and Portugal are typically presented as the main examples of social pacts, although allegedly non-corporatist Australia, Ireland and Italy have also been identified as countries with new social pacts. And it has been these countries, and particularly the Netherlands, that have been the focus of recent social pact discussions. Similarly, Martin Rhodes (1998, 2000) has labelled German arrangements 'competitive corporatism'. The core assumption in this discourse is the conviction that reducing wage costs is a key for improving competitiveness: 'Wage restraint is part of a supply side policy of employment and economic growth by restoring competitiveness and sound public finances' (Hassel and Ebbinghaus 2000, p.4). We have to see whether the contributions to this volume will support this view.

What about the quite different argument advanced in the variety of capitalism literature about coordinated market economies (CMEs)? This argues that CMEs are quality-sensitive while LMEs are rather cost-sensitive (Hall

and Soskice 2001, p.37). The argument holds that in CMEs the capital-labour-state networks and their long-term orientation have brought about an education and training system that generates a higher skill level for the labour force than that found in LMEs. In turn, this results in a concentration on quality production, that renders cost (and wage) competition less urgent for CME countries. CMEs have 'comparative institutional advantages' in quality production.

It is probably true that CME companies are more oriented towards long-term perspectives than LME companies, because of their stronger inter-firm networks, their lesser reliance on the stock market for financing, and the stake (direct or indirect) unions and/or politicians have in their activities. It is not obvious, however, that this long-term orientation is causally linked to prevailing education and training systems in the countries under consideration. These countries possess quite different training systems, and the famous apprenticeship system that is said to be the basis for quality goods production in the car, machinery and tool industries of the German-speaking countries is not a general feature of all CMEs (cf. Estevez et al. 2001). Moreover, one can question the existence of a direct link between a certain training system and quality production. Is the hierarchical, typically Fordist production system that is said to prevail in LMEs (but also in France; cf. Boyer 2000, p.29) less able to produce quality than a skill-based system of flexible specialisation? A striking result of one of the very few comparative investigations of quality production (Aiginger 2000) is the unexpectedly high ranking of the USA and Britain – indeed, Britain is ranked just behind Germany. Another question is how good is the quality of so-called quality goods? Sometimes one wonders whether, for example, the construction, car repair or utilities branches in the USA are really producing inferior quality compared to their German, Swedish or Swiss equivalents. And what about those coordinated political economies that do not share in the quality image – such as Belgium, France and the Netherlands?

These questions do not suggest that CMEs in general and the corporatist variety in particular do not have specific comparative institutional advantages. They only imply that the matter is complex and that more research will have to be done. The picture becomes even more complicated when one takes into consideration that countries are not only hybrid in the sense of combining aspects of different varieties such as corporatist consultation and liberal employment protection, but that they also reveal the co-existence of different politico-economic constellations and production strategies. Branches with strong unions co-exist with branches with weak unions; the industrial sector – which most studies on capitalist varieties concentrate

Table 1.5 Comparative advantages (merchandise) of main OECD countries in 2002

	Main industrial sectors revealing comparative advantages*; ranking based on share in total exports	Exports as %/GDP excl. and incl. services	
Australia	Minerals (36%; 3.19); fresh food (21%; 4.85); basic manufactures tures (10%; 1.35); processed food (8%; 2.02)	18.2 (2000)	22.9 (2000)
Austria	Non-electronic machinery (18%; 1.85); basic manufactures (13%; 1.71); transport equipment (12%; 1); miscellaneous manufactures (11%; 1.3); wood products (9%; 2.97)	35.6	52.1
Belgium	Chemicals (28%, 2.4); transport equipment (15%; 1.19); basic manufactures (8%; 1.14); processed food (6%; 1.43)	86.6	91.0
Denmark	Non-electronic machinery (14%; 1.45); chemicals (13%; 1.13); miscellaneous manufacturing (12%; 1.4); processed food (12%; 2.83); fresh food (11%; 2.68)	32.5	44.2
Finland	Wood products (26%; 8.32); IT and consumer electronics (19%; 1.86); non-electronic machinery (13%; 1.27); basic manufactures (9%; 1.28)	33.8	38.2
France	Transport equipment 21%; (1.67); chemicals (16%; 1.43); non-electronic machinery (11%; 1.12); basic manufactures (8%; 1.07); processed food (8%; 1.89)	21.7	27.3
Germany	Transport equipment (23%; 1.80); non-electronic machinery (17%; 1.71); chemicals (14%; 1.26); miscellaneous manufacturing (9%; 1.02); basic manufactures (9%; 1.18)	30.8	35.5
Ireland	Chemicals (41%; 3.56); IT and consumer electronics (22%; 2.11); electronic components (11%; 1.21); miscellaneous manufacturing (9%; 1.01); processed food (8%; 1.97)	75.6	94.7
Italy	Non-electronic machinery (19%; 1.93); miscellaneous manufacturing (12%; 1.38); basic manufactures (11%; 1.5); clothing (6%; 1.68); leather products (5%; 3.67); textiles (5%; 1.86)	20.9	27.0
Japan	Transport equipment (26%; 2.08); non-electronic machinery (16%; 1.64); electronic components (15%; 1.62); IT and consumer electronics (13%; 1.20); miscellaneous manufacturing (9%; 1.01); basic manufactures (7%; 1.01)	10.5	11.2
Netherlands**	Chemicals (18%; 1.59); IT and consumer electronics (16%; 1.49); processed food (12%; 2.82; miscellaneous manufacturing (11%; 1.02); fresh food (10%; 61.8	2.25)	52.7

Norway	Minerals (64%; 5.66); basic manufactures (8%; 1.06); fresh food (5%; 1.17)	31.2	41.8
Sweden	Non-electronic machinery (16%; 1.97); wood products (15%; 4.78); transport equipment (13%; 1.06); chemicals (12%; 1.05); basic manufactures (10%; 1.40); miscellaneous manufacturing (9%; 1.03)	33.8	43.3
Switzerland	Chemicals (33%; 2.87); miscellaneous manufacturing (21%; 2,46); non-electronic machinery (17%; 1,72); basic manufactures (8%; 1,11)	32.3	44.3
UK	Chemicals (15%; 1,32); non-electronic machinery (13%; 1.33); IT and consumer electronics (13%; 1.25); transport equipment (13%; 1.0); minerals (12%; 1.01); miscellaneous manufacturing (11%; 1.23)	18.0	25.8
USA***	Transport equipment (16%; 1.28); non-electronic machinery (14%; 1.46); chemicals (13%; 1.15); electronic components (12%; 1.32); miscellaneous manufacturing (11%; 1.32); fresh food (6%; 1.38)	6.7	9.7

* The first figures between brackets refer to the share of the sector in total exports (exclusive of services), the second show the ratio of exports to imports in the respective sectors; a value higher than 1 indicates a comparative advantage.
** Dutch comparative advantages in IT and consumer electronics are due to re-exports; cf. Kuster and Verbruggen 2001.
*** IT and consumer electronics divided, the US would have comparative advantages in IT.
Sources: ITC 2004; OECD 2003b; WKO 2003: 13; WTO 2003: 24; Nationmaster 2004

on – co-exists with the quite differently organized service sector; both sectors exhibit considerable intra-sectoral diversity with both quality-oriented branches and Fordist branches. And multinational companies – at least the big ones – have their own 'regimes of border-crossing corporate governance' (Streeck 2001a, p.5).

In this sense the whole variety of capitalism literature is an institutionalist restatement of Ricardo's argument about comparative advantage: Liberal political economies are as good in the production of quality goods as coordinated political economies, but since they are even better in mass production and high technology, they tend to concentrate there. CMEs that are less competitive in mass production (large-scale) can concentrate therefore on quality production based on small-scale flexible specialisation that is particularly found in the machines, instruments and tools industry. *To some degree* this is supported by the data in Table 1.5. But even where this distinction between mass production and flexible specialisation-based quality production is appropriate, in a context where manufacturing is only good for a third or less of GDP, the latter will only be a relatively small part of the entire economy.

This means, coming to the final point to be made here, that the discussion about institutional complementarities has to be viewed in this light. What is complementary to a number of branches need not necessarily be complementary in other branches or the economy as a whole. Moreover, nobody knows exactly what is complementary and what not because the question of complementarities is a question of interpretation (Streeck 2002, p.4). A political economy as a whole is open for many changes as well as for policy confusion, and path dependence therefore should not be exaggerated. Perhaps it is mainly transformation costs, the inertia of action and power relations that keep political economies on 'path', but not the requirements of institutional complementarity.

What the chapters say

All 'miracle chapters', i.e. with the exception of those on the contrasting cases of Germany and the USA, examine the dimensions of the 'miracles', their social implications and their causes. Most attention was paid to the Netherlands in the international discussion, so this is the case we start with. Most analyses concluded that its economic success was brought about by conscious action. This is the basis for the claim that the Dutch model should serve as an international example. But Wiemer Salverda shows that this claim collapses in the face of detailed data as well as in comparison with the 1970s. Causal relationships worth mentioning between the pursued policy of wage restraint, exports and job growth cannot be detected. Salverda also shows that the success of the Dutch model should not be exaggerated. It was strongly limited to a few aspects of the labour market. While the total number of people employed increased dramatically, this largely occurred through a shift of working hours from the male core labour force to students, youth and married women who took on very short working hours in pursuit of "pin money". Meanwhile, despite a gentle rise after 1985, the total number of hours worked per capita remains below the level set in 1979. Similarly, with the exception of the late 1990s, Dutch GDP growth per capita was not higher than that of its five major competitors, the USA, Belgium, Germany, France and the UK, and relied much more on labour mobilization than on increased productivity.

The Danish case was less spectacular, and Sweden only regained international attention in the late 1990s. As Christoffer Green-Pederson and Anders Lindbom argue, these countries traded places in the eyes of those looking for social democratic success stories. During the 1970s and 1980s, Swe-

den was a model country for foreign observers seeking ways to keep unemployment at golden age levels. However, as unemployment increased to 10 percent in Sweden during the early 1990s, the same observers portrayed this country as a failure. Denmark occupied Sweden's role as an economic miracle by bringing down its traditionally high unemployment to roughly 5 percent in the decade after 1993 and maintaining a high employment rate at the same time. According to Green-Pedersen and Lindbom, this success was the result of conscious labour market and welfare policies made possible by changes in the party composition of the government. The authors provide some support for the stylised picture of Denmark as a miracle economy, but they also say that Sweden should not be portrayed as a failure. For the very recent Swedish labour market performance might merit a 'miracle' description, too, compared with many of the big European countries. Despite labour market successes, both of these universal welfare states face significant macro-economic problems such as the huge size of the black labour market and the costs of public employment. Normal policy routines may not suffice to keep things on track.

The next Scandinavian country included here, Finland, was recently named the 'Nokia model' because of the prominent role this high-tech company played in this small (not even 5 million inhabitants) country's recovery from its severe crisis in the years after 1989 when unemployment hit the 20 percent mark. Today, this percentage is more than halved, and Finland has become a star performer in terms of technological achievement, education and economic growth. According to Jaakko Kiander, its very strong revival since the mid-1990s can neither be explained by liberal reforms of the labour market (that were barely in place) nor by fundamental changes in public policy. Rather, traditional monetary policy and pro-cyclical fiscal policy were of considerable importance. Conscious adjustment to increased global competition at the public as well as private level appears to be the second part of the story and resulted in a long-term orientation of the national innovation system and technological breakthroughs. In spite of the crisis in the early 1990s and industrial restructuring, Finnish political governance and corporatist institutions remained relatively stable. This does not support the view that the Finnish recession was caused by system weaknesses of the Nordic model.

Switzerland, our next country, presents a remarkable and very special case, although not for the reasons usually advanced. For decades, this country has had, together with Iceland and Norway, the highest employment rate in the world and, on average over these decades, also the lowest unemployment rate. In the 1990s, however, Swiss GDP and productivity growth were

considerably below OECD averages. Moreover, the welfare system, regularly described as the most liberal one on the European continent, became more generous in those years when retrenchment politics prevailed elsewhere. And yet the country maintained its high employment and low, though somewhat increasing, unemployment levels. This is what might be considered a miracle according to François Merrien and Uwe Becker. The miraculous development was possible because slow productivity growth was accompanied by job destruction. Swiss exports and export market shares remained relatively stable. This is the second aspect of the miracle and appears to be due to the markets and market niches Switzerland is active in (except for bulk chemicals, particularly machine tools and instruments, pharmaceuticals and other fine chemicals) as well as to the strong image of the country as a supplier of quality goods and services. This suggests both that Switzerland was stuck, and that the usual corporatist logics do not provide much analytic traction there.

Ireland, the 'European tiger', is a case that barely fits the parameters of (symmetric) corporatism and that is often presented as benefiting from its special location in a more globalised economy. Mary Daly's chapter distances itself from this claim. She shows that the Irish story needs to be cast in terms of an interaction between policy, politics and economics as well as American investment that could qualify for a combination of pluck and luck; luck that was also accentuated by a strong house price bubble. Ireland's long-run growth strategy was underpinned by significant adaptation of political institutions and compromises among interest groups. She further argues that the attribution of 'success' to the Irish model may be premature. The last few years have shown that Ireland's particular dependence on exports by multinational firms made it particularly vulnerable to recession in the USA. At the same time, Ireland's economic success created social problems that now pose a challenge for both the sound management of public finances and the maintenance of the policy consensus that underlay fiscal balance in the first place. 'Success' has polarised society between winners and losers and enforced a series of economic/social trade-offs between social and economic goals.

As in Ireland, Australia's housing and equity market also contributed to GDP growth and rising employment – despite an occasionally unfavorable external economic environment. Herman Schwartz's paper compares the dynamics and substance of Australian policy responses to its prior poor export, employment, and fiscal performance to see whether remediation should be attributed to pluck, luck, or just being stuck. While luck, in the form of growing Asian demand for Australian mineral exports, certainly

helped, the Australian case is one in which luck favored the prepared. A range of 'pluckish' policy choices in the1980s made it possible for Australia to translate this external demand into rising employment and accelerated productivity growth rather than higher inflation, and also helped Australia overcome the potentially bad luck of the Asian financial crisis. At the same time, the Australian state expanded some forms of social protection without increasing its fiscal deficit or public debt. This suggests a range of transferable policy options for European economies currently facing problems similar to those Australia confronted in the 1980s.

The model case for all who want to liberalise the economy is the USA. It contrasts the European 'miracles' and Australia by its sheer size as well as by its degree of labour market flexibility and its really residual welfare system. American success permitted some to advocate the advantages of the LME model over the CME model. But Cathie Jo Martin's chapter on the success of the American economy throughout the 1990s calls into question the neat division of the world into LMEs and CMEs, as well as the lessons to be learned from the US case. Much of what made the 1990s an economically successful decade in the US has nothing to do with the kinds of policy prescriptions that might emerge from an LME model of economic and employment growth. Instead, Martin's analysis of the American model in the latter part of the 1990s shows that as in Ireland, success may be transitory, that success has created large distributional inequities, and that success may reflect circumstances outside of the American model. What the American model shows most strongly is how aggregate demand and employment continue to be closely tied together, and how the American housing and equity markets rapidly transformed disinflation into expanded demand. This contrasts with the larger European economies, where the structure of housing and equity markets, along with more monetarist central banks, impeded this transformation.

The final chapter discusses Germany as a case contrasting the development of the USA and the miracle economies that is regularly advised, just as France and Italy, to liberalise its political economy and to learn from the success stories. Becker suggests that the usual comparisons with the small model states and the USA miss important scalar differences, however. Regions within southern Germany that are as large as the small model economies have experienced "miracle"-like levels of employment and GDP growth even while Germany as a whole experienced low employment and GDP growth and continued high unemployment during the 1990s. According to the mainstream view, aggregate German stagnation reflects poor adjustment to globalisation, overly high non-wage labour costs, and too many

economic rigidities. But Becker argues that Germany is no more rigid than Sweden or the Netherlands. Moreover, one still cannot seriously discuss the German political economy without taking into consideration the bad luck caused by the continuous, large costs of German unification. In contrast, the model economies have partly benefited from luck. All this means that one has to be careful in comparing small to big countries and that too much stress on rigidity versus flexibility is misleading.

Note

1 Separate data for married women only are not available. So the figures here and below understate the shift in married women's labour market behaviour.