The Impact of Consensus Democracy and Corporatism on

Socio-Economic Performance in Twenty Developed Countries

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Abstract

This paper analyses the impact of the institutions of consensus democracy and corporatism on socio-economic performance in twenty developed countries. This paper uses new measurements of consensus democracy and corporatism and shows that the positive macroeconomic consequences of consensus democracy and corporatism are generally overestimated and do not hold any longer since the 1990s. In analysing the impact of institutions on performance, too broad conceptualisations and operationalisations should not be used. Moreover, this paper shows that consensus democracy and corporatism have different effects on performance and these different types of institutions each have their own dynamics. This means that these institutions must not be confused, but clearly be separated. Each of them has different institutional characteristics and shows a different impact. They are certainly not the same. This paper shows that neither consensus democracy nor corporatism has a very strong and direct impact on socio-economic performance. Many effects that were found are weak and most of the effects were dependent on other factors, such as the openness of the economy and central bank independence.

Introduction

In comparative political economy many theories have been formulated about the relation between, on the one hand, politics and institutions and, on the other hand, policy choices and socio-economic performance. This paper examines the impact of the institutions of consensus democracy and corporatism. In the political-economy literature it is argued that these types of institutions contribute to better socio-economic performance, but this paper shows that consensus democracy and corporatism do not lead to better socio-economic performance.

In the 1970s and 1980s several studies argued that corporatist institutions have a positive impact on socio-economic performance. In corporatist political economies, workers and employers agreed on wage moderation in exchange for employment and welfare provisions. Some recent studies still claim the success of corporatism (Crepaz 1992; Compston 1997; Wilensky 2002). Wilensky (2002: 482) concludes that corporatist bargaining arrangements are among the most important sources of good economic performance and that 'democratic corporatism also fosters restraint on nominal wages'. Others claim that this effect disappeared or even never existed (Therborn 1987). Flanagan (1999: 1171) found that

> 'a relationship between [collective bargaining] structure and performance probably existed in the late 1970s and early 1980s, but that relationship had disappeared by the 1990s and may not have existed in the 1960s'.

Some studies indicate other possible effects, such as a non-linear relationship between corporatist institutions and performance. Calmfors & Driffill (1988) found that decentralised or centralised wage bargaining structures have better performance than intermediate structures. There is wide disagreement in contemporary comparative political economy about the consequences of corporatist institutions for socio-economic performance.

First studies of consensus democracy were focused on the contribution of institutions to the stability of the political system. Since the 1990s, the impact of consensus democracy on socio-economic performance has been analysed. Again, there is no consensus about the impact of consensual institutions. While Crepaz (1996) and Lijphart (1999) found that consensus democracy is at least not outperformed by majoritarianism, Anderson (2001) questions the conceptualisation and operationalisation as developed by Lijphart (1999) and he found that 'a change from a plurality/single-member district to a PR electoral system would be detrimental to performance' (Anderson 2001: 448). According to Anderson (2001: 450): 'the four core elements of consensus democracy are associated with inferior rather than superior performance'. Armingeon (2002: 99) concludes that 'consensus democracy does not lead to a kinder, gentler and better democracy.'

Lijphart's findings about the impact of consensus democracy on performance may be overestimated, since he makes no distinction between different types of institutions. As Lijphart includes several strongly diverging institutions in his index of consensus democracy, it becomes difficult to determine which institution causes which effect. Therefore at least three elements of

1

Lijphart's conceptualisation of consensus democracy must be separated: executive-legislative relations, corporatism and federalism (see also Armingeon 2002; Lane & Ersson 2000; Keman & Pennings 1995). By incorporating so many different types of institutions in the concept of consensus democracy, it has become likely to draw wrong conclusions about its consequences for socio-economic policy-making.

The problem that has to be solved here is that many rivalling theories explain the same phenomena. These theories are rejected and confirmed by different kinds of data and research methods. This theoretical and empirical puzzle deserves an encompassing study of these crucial institutions in comparative political economy.

This paper shows that the positive impact of consensus democracy and corporatism on socio-economic performance has been overstated in comparative political economy. Institutions of consensus democracy might contribute to political stability, but they do not lead to superior socio-economic performance. Corporatist institutions may have had positive effects in the past, but the results of this paper indicate that corporatism is no longer associated with better socio-economic performance in the 1990s. The next section presents the theoretical discussion of the impact of consensus democracy and corporatism on socio-economic policy-making and performance. The subsequent section presents the measures of consensus democracy and corporatism that are used. After that section, new empirical findings are presented. The last section presents the conclusions of this paper.

Why do consensus democracy and corporatism matter for socio-economic performance?
Lijphart (1999) and Crepaz (1998) disagree with what they call 'the conventional wisdom' that governments in majoritarian democracies are more effective – i.e. that policy implemented in these political systems have a stronger effect – and have a higher performance. Lijphart (1999) states that consensus democracies are not outperformed by majoritarian democracies and Crepaz (1998) argues that consensus democracy contributes to more efficient and responsive decision-making. A crucial characteristic of consensus democracy is the proportional electoral system. Proportionality leads to a better representation of the interests of the people. This is in contrast with majoritarian systems that neglect the interests of considerable minority groups.

The positive effect of consensus democracy on performance is contested by Anderson (2001). He concludes that the positive effect of consensus democracy is limited and that the effect that Lijphart found in his analysis is mainly caused by corporatism and central bank independence, two factors that are part of Lijphart's measurement of consensus democracy. The operationalisation of consensus democracy by Lijphart (1999) is too broad (Anderson 2001). Corporatism and central bank independence are something different from the institutional arrangements of consensus democracy and cannot be used as indicators of consensus democracy.

The research on the effect of corporatism on socio-economic performance has been extensive (see Schmidt 1982; Keman, Woldendorp & Braun 1985; Therborn 1987; Crepaz

1992; Woldendorp 1997; Flanagan 1999; Wilensky 2002 and Schmidt 2002). The general argument pro corporatism is that it allows governments to develop more effective socio-economic policies. Stable corporatist institutions presuppose successful political exchange of moderate wage demands against moderate price policies, which contributes to a lower rate of unemployment.

Flanagan (1999) warns against overestimating the effect of corporatism. The effect of corporatism is constrained by the time dimension (Flanagan 1999). Corporatism might have mattered in the past, but the positive effect on performance has declined. Perhaps corporatism is positively related to performance in certain time periods. This positive effect is not very strong and sustainable. Moreover, the effect of corporatism is likely to be constrained by international developments, such as international political and economic cooperation and international flows of trade and capital. The national capacity for macro-economic steering by the state has eroded.

Calmfors & Driffill (1988) argue that the relation between the centralisation of wage bargaining and the level of unemployment is hump-shaped. The bargaining modes at the extremes, i.e. centralised and decentralised, have lower levels of unemployment than wage bargaining at the sector level, which is in between. Unions and firms at the sector level can try to externalise the negative effects of wage drift to other firms. This is much more difficult at macro and firm level. If firms and workers are well organised at macro level, they are aware of this threat and are more prepared to cooperate.

During the 1970s and 1980s, the neo-corporatist literature was very optimistic about the positive impact of neo-corporatist institutions on performance (Schmidt 1982; Cameron 1984). In past decades, some authors became sceptical about this relationship (Therborn 1987; Calmfors & Driffill 1988; Flanagan 1999). Nowadays a simple one-to-one causal relationship between corporatism and performance is ruled out. The positive impact of corporatism may depend on other factors, such as consensus democracy, openness of the economy and central bank independence.

In some recent studies the role of the central bank has been linked to corporatism. Franzese & Hall (2000) and Iversen (1999) argue that the impact of the central bank independence is dependent on the scope and level of wage bargaining. An independent central bank gives a higher priority to price stability than political actors do. Higher independence of central banks can therefore contribute to better socio-economic performance. Independent central banks only manage to keep inflation low when collective bargaining systems are able to moderate wage demands. This is expressed in the expectation that centralised wage bargaining has a positive impact on performance, if accommodated by the monetary regime. Several authors (Iversen 1999; Franzese & Hall 2000; Traxler, Blaschke & Kittel 2001) argue that the interaction of central bank independence and wage bargaining has an impact on socio-economic performance. Centralised and coordinated wage bargaining lead under central bank independence to lower inflation rates and lower unemployment than decentralised and uncoordinated wage bargaining.

Theoretical framework and hypotheses

Socio-economic policy can be seen as the result or outcome of the decision-making process. Political and economic actors, such as political parties, governments, trade unions and employers' organisations, shape socio-economic policy. A distinction must be made between policy outputs and performance. Policy outputs reflect the actual implementation of political decisions. This output is shaped by actual policy choices. Examples of policy outputs are the level of welfare spending or of expenditures on labour market policy. Performance measures the actual achievement and the societal effects of policy. Unemployment rates and economic growth are indicators of socio-economic performance. Political and economic actors try to decrease the unemployment levels by developing specific types of labour market policy. However, the focus of this paper is not to explain performance levels as such, but the extent to which political-institutional arrangements influence performance. Central in this analysis is therefore the extent to which institutional arrangements matter.

Corporatist institutional arrangements are conducive to agreements between social partners and government on wage moderation, labour market policy and working conditions. The main advantage of consensual wage bargaining is that trade unions and employers' organisations can agree on a package deal of measures that account for long term interests and are broader than only agreements on the level of the wages. In corporatist countries social partners develop a socio-economic policy that is in accordance with the national interests rather than a situation in which interest groups are only interested in their short-term benefits.

Institutions are considered to be the intermediates between actors' preferences and the outcomes of the process. This means that the institutional context is supposed to determine the output of the decision making process. Institutions are considered to influence outcomes which even may well influence actors to change or create institutional arrangements in order to adjust outputs. Several hypotheses about the relation between institutional arrangements are tested. First, corporatist institutions allow agreements between unions and employers' organisations on wage moderation. This will have positive effects on inflation and unemployment. The impact on economic growth is not necessarily very strong. Corporatism can contribute to consolidation of economic growth, but does not lead to a comparative advantage over non-corporatist countries per se. The highest priorities of trade unions are employment and social protection for their members. Macro-level economic growth is a positive spill over. Second, small countries frequently use corporatism as a strategy to safeguard their position on the world market. By contrast, large countries will have more difficulties with developing corporatist institutions (Katzenstein 1985; Olson 1982). Third, the members of interest groups become increasingly diffuse. Trade unions were traditionally strongly supported by male blue-collar industry sector workers. The strength of this group has weakened with increasing service sector employment and increasing labour participation of women and immigrants.

Decision-making in consensus democracy may seem slow and inefficient; the choices made are based on a solid majority, without neglecting the interests of minorities in society

4

(Schmidt 2002: 150). Of course, it is not always possible to make unanimous decisions, but the most important function of the institutions of consensus democracy is that relevant groups have the opportunity to express their voice. The resulting outcome may be not the most preferred, but at least they will agree about the procedure that is used. Hence, the main advantage is that decisions made carry a much stronger support. For this reason, Crepaz (1996) argues that policy-making in consensus democracies is more efficient and more responsive. It is more efficient because fewer actors will try to obstruct it and it is more responsive to voters' preferences, because more actors are involved. Therefore, according to Crepaz consensus democracies have better performance than majoritarian democracies.

The welfare state literature has studied development and possible retrenchment of welfare states and looked for explanations in historical and demographic fields. Later, political variables, such as the political colour of governments and the strength of social democratic and Christian Democratic parties were taken into account as well (Esping-Andersen 1990; Van Kersbergen 1995). Institutional arrangements can have consequences for the policy choices that are made regarding the tasks and size of the welfare state. Since corporatist institutions rely on how interest groups are involved in socio-economic policy-making, it can be expected that a greater involvement of these groups will have a strong impact on the creation and expansion of the welfare state and eventually on the reform of the system of welfare and care.

Crepaz (1998) argues that parliamentary systems with proportional representation are more successful in representing the diffuse interests of the general public. In these systems political parties are stronger and capable of developing an extensive political programme, while in presidential systems with single member districts, such as the United States, parties are weak and legislators are pressured by lobbies. The majoritarian political system enables government to make radical policy changes. These changes can be totally reversed when a new government is installed. In a consensus democracy, policy is the result of a long process of compromising. Once actors have agreed on such a policy, it has a strong support and is quite difficult to change and to reform certain given citizens' rights, especially social rights. Therefore, it can be expected that welfare state provisions are more extensive in countries with a consensual political system. In a majoritarian democracy it is possible for a political party to gain political power and to implement an extreme policy programme. However, in the race between the two main parties to gain a majority vote, their programme is adjusted to please the median voter. In other words, the Downsian behaviour of political parties in a majoritarian system will decrease differences between available policy proposals. The policy most likely to be chosen is found near the political centre.

Corporatist institutional arrangements allow interest groups better access to the decision-making process. In these systems, the demands of labour organisations for an extensive system of welfare provisions have a higher chance to be honoured by government and parliament. Government and legislators are more pressured by interest groups. Moreover, when unions are able to make agreements with employers' organisations, the other political players are more

willing to accept these agreements as a basis for their decision-making, because support of the main actors in the field becomes a given. It can be argued that corporatism facilitates the development of a welfare state. What is the impact on welfare state reform? Two opposite effects are possible. On the one hand, established socio-economic policy is difficult to change. Once workers have gained certain social rights, they will not be given up easily (Pierson 1994; 2001; Kuhnle 2000). On the other hand, when both unions and employers organisations agree on a reform, it becomes easier for the political actors to make this decision (Ebbinghaus & Hassel 2000). The 1980s saw a decline of the influence of unions at the national level. Moreover unemployment increased rapidly. Unions were prepared to make agreements with employers' organisations and government on wage moderation and welfare state reform. In return, trade unions were back at the negotiating-table, where they could regain influence, and hope for economic recovery, including more employment, which consequently would strengthen their position among the workforce. Corporatism is expected to coincide with higher welfare states until the mid1990s. Corporatist institutions have contributed to welfare retrenchment or moderation of welfare state growth in some countries in the 1990s.

Table 1 gives an overview of the hypothesised effects of corporatism and consensus democracy on socio-economic performance. The institutions of consensus democracy are expected to neither have a positive nor a negative impact on performance. Institutions of consensus democracy play a role for political stability, but not for socio-economic policy, with the exception of social policy. Since more parties are involved in coalition government and minority groups have better access to the political arena, consensus democracy is expected to lead to higher social expenditures. Corporatism is expected to have no positive or negative effects on GDP per capita and economic growth, but it is expected to be related to socio-economic performance indicator dealing with work, wages and prices. Because of coordinated and centralisation of groups action in a corporatist institutional setting, general interests are served better than in pluralist countries. In corporatist countries employers' organisations and trade unions are able to make agreements about wage moderation and stimulation of employment. Therefore, corporatism is expected to contribute to lower inflation rates and unemployment rates. Corporatism favours better access to decision-making and policy-making to many small groups than pluralism. In corporatist countries these groups have more and more efficient channels to claim the development of social policy. Thus, corporatism is expected to be associated with higher social expenditures.

Table 1 Hypotheses of the impact of institutions on performance

Type of performance	Consensus Democracy	Corporatism	Indicator used
GDP per capita	Neutral	Neutral	GDP per capita (in constant US Dollars) OECD
Economic growth	Neutral	Neutral	growth of real GDP (% change from previous year)
Unemployment	Neutral	Lower	standardised unemployment rate OECD
Inflation	Neutral	Lower	consumer price index (% change from previous year)
Misery index	Neutral	Lower	unemployment plus inflation
Performance index	Neutral	Higher	economic growth minus inflation minus unemployment
Social expenditures	Higher	Higher	total social security benefit expenditure as % of GDP

Table 1 shows that effects of consensus democracy and corporatism on performance are not expected to be the same. Consensus democracy only makes a difference for social expenditures, while corporatism also matters for unemployment and inflation. As a result, corporatism also has an impact on the misery index and the combined performance index.

GDP per capita expresses the wealth of the population in a country. Economic growth measures the degree to which the economy is expanding. Unemployment measures the degree to which workers are able to find a job. Low inflation rates indicate price stability, which means that people's purchasing power does not decline. Misery index expresses the mix of unemployment and inflation and a high degree of misery indicates a greater distance of the Phillips curve. The performance index combines economic growth, unemployment and inflation. Social expenditures show how much comparatively is spent to social policy.

Measures of consensus democracy and corporatism[1]

For analysing the impact on socio-economic performance, two new measurements of consensus democracy and corporatism are used. Consensus democracy can be seen as a special institutional arrangement between actors to overcome instability in the political system. The degree in which these institutions exist in a political system can vary between countries and through time. Consensus democracy is not an absolute state of an institutional context, but it can be used to compare political systems on the degree in which their institutions have consensual elements.

Lijphart (1984) operationalised the consensus versus majoritarian model of democracy in two dimensions. The first dimension characterises the relations between parliament and the government, while the second dimension measures the degree to which constitutional features are federal and/or decentralised. This federal versus unitary dimension is not a good measurement of consensus democracy, since federalism has another function than consensus building practices. Moreover, the use of this dimension does not lead to a more precise ranking of countries on a consensus versus majoritarian scale. In *Patterns of democracy* Lijphart (1999) adds some indicators to his index of consensus democracy, such as the interest group system – which is more or less the same as corporatism – and the role of the central bank.

This paper uses a dynamic index of consensus democracy. As the most important characteristics of consensus democracy proportional representation and oversized coalitions are taken. These features of consensus democracy have been used to construct a new measurement. The indicators for proportional representation are parliamentary fragmentation (effective number of parliamentary parties), the disproportionality of the electoral system (reduction of the proportionality by taking the relative difference between the effective number of electoral and parliamentary parties) and a qualitative classification the electoral system (from most to least proportional). The oversizedness of coalitions is measured by the proportion of minimal winning coalitions and the dominance of the government over opposition (surplus of the proportion of seats of a government coalition). These five indicators are calculated for twenty countries for each year from 1965 to 1998. For each country, the standardised z-scores of the five indicators are calculated. The sum of these five z-scores - again standardised - can be used to compare these twenty countries in this time period.

Corporatism can be considered a special institutional arrangement regarding socio-economic policy-making between employers' organisations and trade unions. In contrast to pluralism, interest groups have special access to the process of policy-formation and implementation. Corporatist institutions are characterised by cooperation and consensus rather than conflict. The corporatism index is based on four indicators: centralisation of wage bargaining, coordination, union density and collective coverage rate. Figure 1 shows twenty democracies on the basis of their scores on consensus democracy and corporatism.
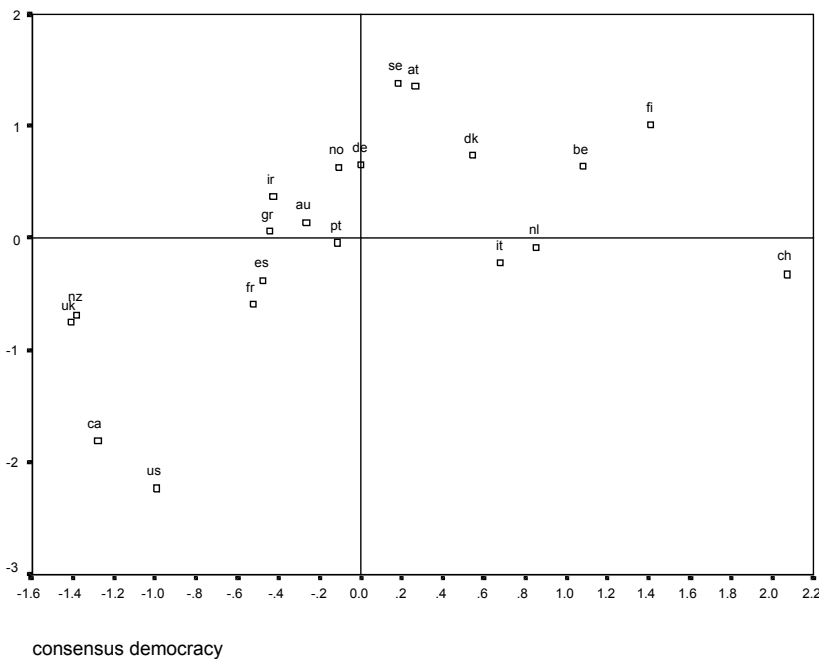

consensus democracy

Figure 1 Consensus democracy and corporatism in twenty countries (1965-98).

Country labels: al = Australia, at = Austria, be = Belgium, ca = Canada, ch = Switzerland, de = Germany, dk = Denmark, es = Spain, fi = Finland, fr = France, gr = Greece, ir = Ireland, it = Italy, nl = Netherlands, no = Norway, nz = New Zealand, pt = Portugal, se = Sweden, uk = United Kingdom and us = USA.
Source: Vergunst (2004: Figure 4.2, p. 79).

8

Empirical findings

The impact of institutional arrangements on several socio-economic indicators is examined for twenty developed democracies between 1965 and 1998. First, the mean scores of four clusters of countries are presented in graphs. Second, bivariate correlation coefficients are presented. Third, several multivariate regression models are tested, in which the effects on socio-economic performance are controlled for contextual factors.

On the basis of their scores on consensus democracy and corporatism, the twenty countries are divided in four clusters[2]. Cluster 4 consists of consensus and corporatist countries: Austria, Belgium, Denmark, Finland, Sweden and Switzerland. Cluster 3 consists of consensus or corporatist countries: Germany, Greece, Italy and the Netherlands. Cluster 2 consists of non-corporatist and non-consensual countries: Norway, Australia, Ireland, France, Portugal and Spain. Cluster 1 consists of majoritarian and pluralist countries: New Zealand, Canada, United Kingdom and USA. The mean scores of several performance indicators for these clusters in four time periods are visualised in Figure 2.
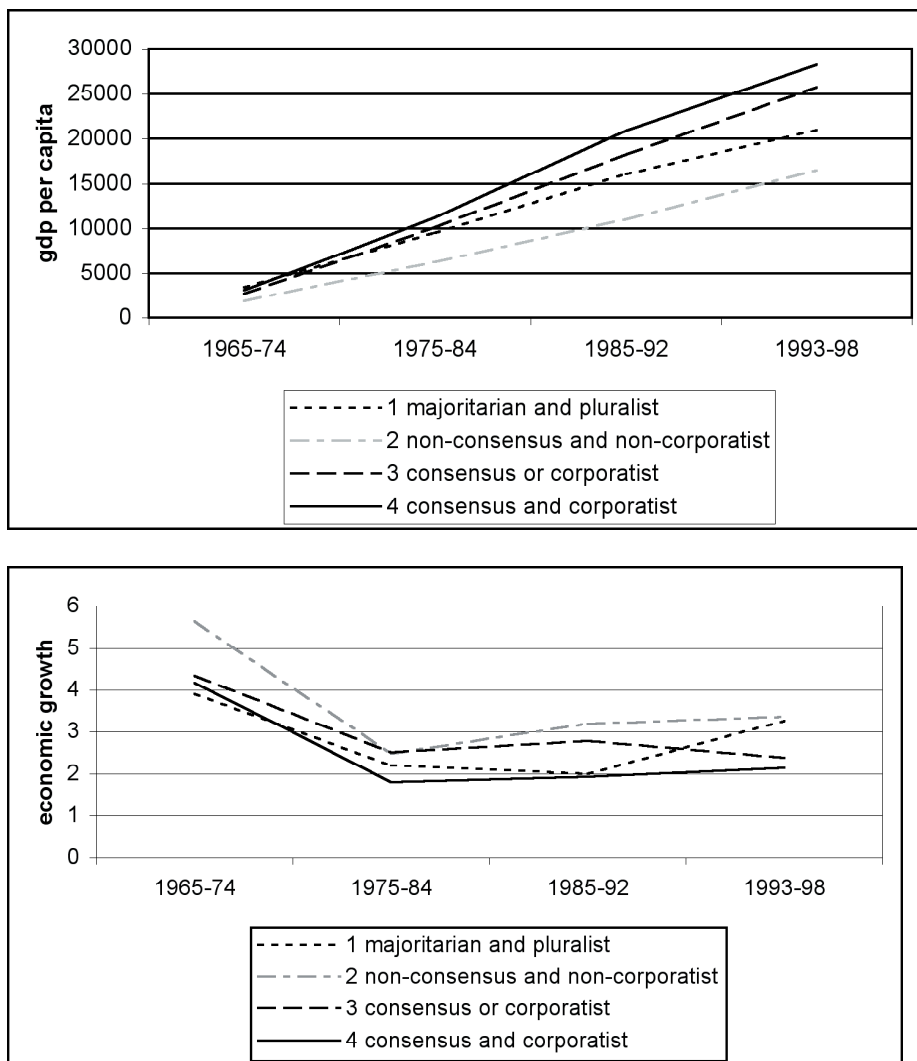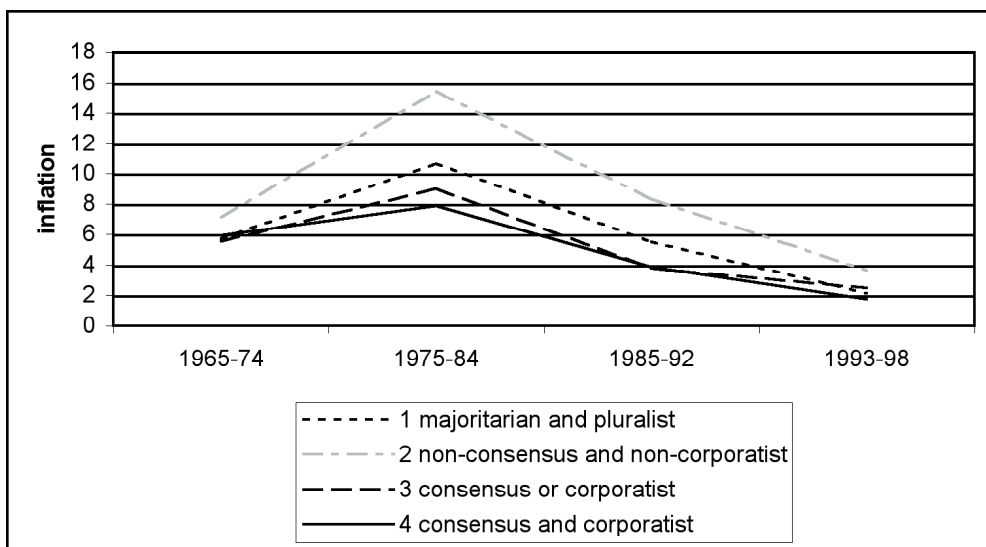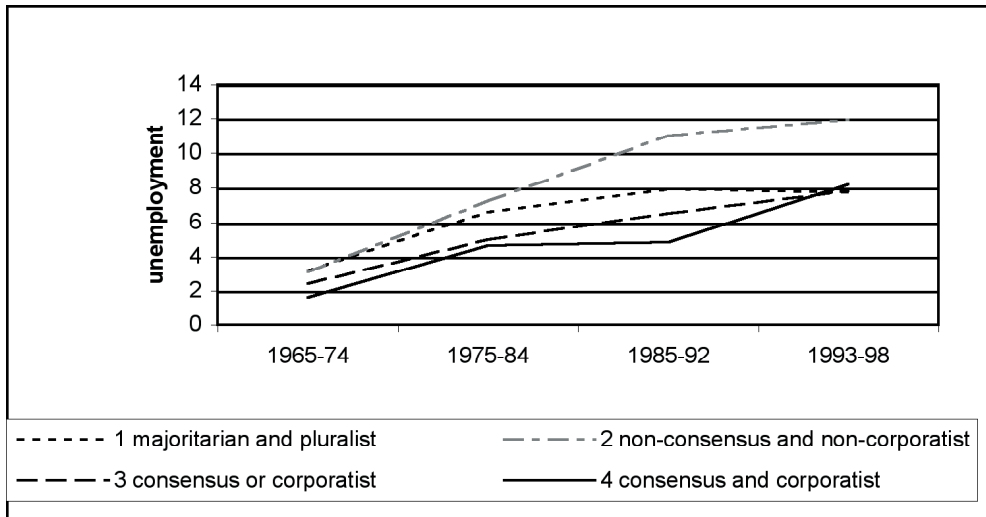

Figure 2 Socio-economic indicators per cluster

Sources: GDP per capita (in constant us dollars) and Economic growth (annual change of real GDP) from Comparative Political Data Set (Armingeon, Beyeler & Menegale 2000).

Sources: standardised unemployment and inflation (consumer price index) OECD Economic Outlook, various years.

The first graph in Figure 2 shows that clusters 4 and 3 (i.e. countries with both consensus democracy and corporatism or with one of these) have the highest levels of GDP per capita. Cluster 2 (non-corporatist and non-consensus) has the highest economic growth. Cluster 2 also has the highest levels of both unemployment and inflation. The countries in cluster 4 have lower levels of both unemployment and inflation than the other groups. From Figure 2 it can be concluded that cluster 2 performs worst in terms of GDP per capita, unemployment and inflation, but is doing best in average economic growth. This last result might be an indication that this group of countries is catching up. Countries in cluster 4 perform better on unemployment, inflation and GDP per capita, but have lower levels of economic growth than the other groups. In general, this means that the combination of consensus democracy and corporatism (cluster 4) leads to a performance that is better than for cluster 2 and at least equally good as or even better than cluster 1 (majoritarian and pluralist).

Instead of taking some separate indicators of performance, a composite index of performance can be constructed. Performance is calculated as economic growth minus inflation minus unemployment[3].
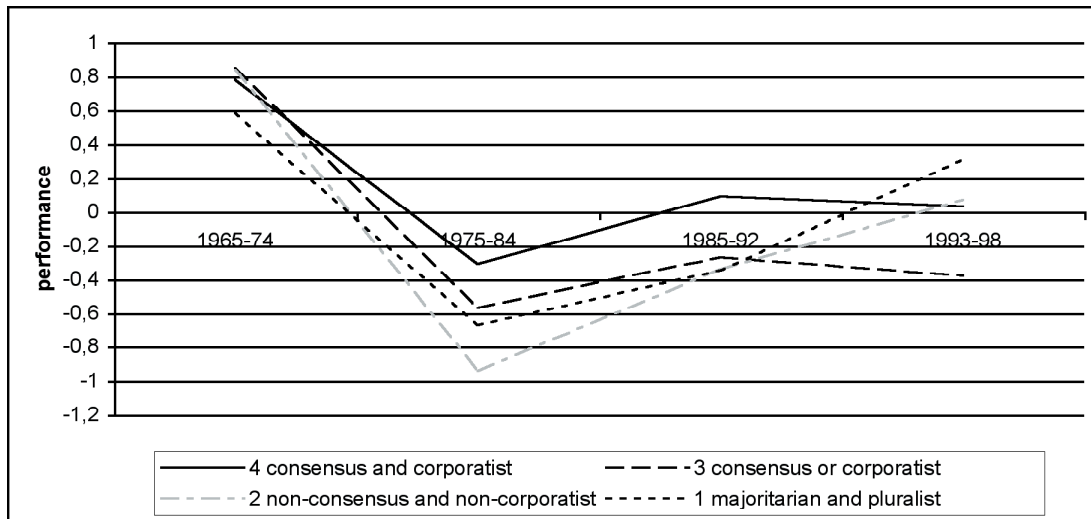

Figure 3 Performance index by cluster

Sources: Comparative Political Data Set (Armingeon, Beyeler & Menegale 2000); OECD Economic Outlook, various years; own calculations.

If we look at the means of both indexes for the four clusters, it confirms the picture that the combined model of corporatism and consensus democracy has a slightly better performance than the others in the 1970s and 1980s, but this advantage disappeared in the 1990s. The worst performance is found in the non-corporatist and non-consensus democratic category.

The graphs in Figure 2 and 3 do not only indicate the cross-national patterns, but show the dynamic dimension as well. GDP per capita increases in all four categories and the differences between the clusters are increasing as well. This indicates a diverging pattern in terms of GDP per capita. Economic growth was highest in all four categories in the first period, 1965-74. After the first oil shock of 1974 economic growth declined. In the periods after 1974 average growth for these categories stabilised between 2 and 3% a year. Unemployment increased in all clusters, although differences in growth of unemployment can be seen for these categories. Unemployment increased strongest for the non-corporatist and non-consensus democratic cluster, while the other clusters stabilised around an unemployment rate of 8% in the last period. An interesting result is that unemployment in the consensus and corporatist cluster increased later than in the other clusters. This shows why studies published in the 1980s were still positive about the impact of corporatism on unemployment. This positive effect of corporatism disappeared in the 1990s. Inflation shows an interesting pattern of rise and decline. Inflation was highest for all categories between 1975 and 1984, with a record for the non-corporatist and non-consensus democratic category of 15%. After this period, inflation decreased for all categories. Combined with rising unemployment rates, in the same period 1975-84, these countries coped with a serious stagflation crisis.

Although Figures 2 and 3 give a general overview of the cross-national and diachronic patterns, it is only a rough indication of the empirical relationship between institutional variables and several macro-economic variables. Table 2 shows bivariate correlation coefficients between institutional variables and performance indicators. Again these results are rough, but they are helpful in comparing them with results found in other studies and in looking at developments through time.

In general, the correlation coefficients between the institutional variables and economic variables in Table 2 are weak, with the exception of social expenditures. Corporatism has a significant positive effect on social expenditures, that increases through time. Consensus democracy also has an increasing positive effect, but not as strong.

The other correlations are much weaker and only significant in a few cases. Corporatism is very weakly to not related to the levels of the GDP per capita and economic growth. Both consensus democracy and corporatism have a slight lowering impact on unemployment levels, but this effect disappeared in the 1990s. Consensus democracy has a slight lowering effect on inflation rates, while there is almost no relationship between corporatism and inflation. The impact of consensus democracy on GDP per capita, inflation, misery index and performance index is stronger than that of corporatism. For these performance indicators, the combined effect of corporatism and consensus democracy is slightly stronger than the impact of the separate indicators. The fact that Lijphart (1999) includes corporatism as an indicator of consensus democracy explains his optimism about the relationship he found. It seems that Anderson (2001) is right in his critique on Lijphart that his index of consensus democracy is not accurate because it contains factors that do not belong to the institutional arrangements of consensus democracy. The indexes used in this paper are clearer and enable an analysis of the different institutions of corporatism and consensus democracy without mixing them. This means that not only on theoretical grounds consensus democracy and corporatism must be separated, empirically these institutions seem to have different effects on socio-economic performance.

Table 2 Correlation coefficients between institutional and socio-economic variables

Correlations	Economic growth				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	0.12	-0.25	-0.12	-0.28	-0.26
corporatism	-0.02	-0.12	-0.03	-0.17	-0.06
	GDP per capita				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	-0.06	0.35	0.47**	0.44*	0.45**
corporatism	-0.25	-0.03	0.05	0.21	0.11
	Unemployment rate				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	-0.36	-0.20	-0.39*	-0.11	-0.33
corporatism	-0.43*	-0.35	-0.20	0.13	-0.28
	social expenditures				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	0.27	0.33	0.41*	0.48**	0.37
corporatism	0.52*	0.49*	0.54**	0.72**	0.55**
	Inflation				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	-0.01	-0.36	-0.25	-0.15	-0.31
corporatism	0.11	-0.04	-0.03	0.01	-0.05
	Misery index				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	-0.30	-0.36	-0.45**	-0.15	-0.39*
corporatism	-0.30	-0.19	-0.16	0.12	-0.20
	Performance index				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	0.27	0.30	0.36	-0.05	0.31
corporatism	0.18	0.17	0.09	-0.17	0.18

Significance * 10% ** 5%

Correlation coefficients are calculated over averages for each country for each period; number of cases is 20, except for 1965-74, n = 17 (Greece, Spain and Portugal are excluded).

Sources: Economic growth (annual change of real GDP) and GDP per capita in constant US Dollars (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000); unemployment: standardized unemployment rates; Inflation: consumer price index (OECD Economic outlook, various years).

Misery index = unemployment + inflation (own calculations)

Performance index = economic growth – unemployment - inflation (own calculations)

The conclusion from the bivariate correlations is that the impact of the institutional variables on some macro-economic performance indicators generally is hardly significant. Corporatism and consensus democracy have a modest lowering effect on unemployment and inflation rates and have a weak positive relation to GDP per capita and economic growth, which is not constant through time. The lowering effect of corporatism on unemployment clearly declined through time. Corporatism and to a lesser extent consensus democracy seem to matter for social policy. These institutions are related to more social expenditures as a percentage of GDP.

Compared with other results, such as Schmidt (1982); Crepaz (1992; 1998); Lijphart (1999) the results of Table 2 are considerably weaker. These former studies did not analyse exactly the same countries for the same time periods. Moreover, in Table 2 several time periods are analysed separately. The most important explanation of these deviating results appears to be that corporatism had an impact on unemployment and inflation in the past, but this effect disappeared altogether.

After the presentation of mean scores and bivariate correlations, several models are tested in multivariate regressions. The multivariate models measure the extent to which there is a combined effect of corporatism and consensus democracy and these effects can be controlled for other factors. The main goal of empirical testing is to find the impact of institutions, not the level and changes of the performance indicators as such. Finding the best fitting model is balancing between a model that is parsimonious on the one hand and a model containing all relevant factors on the other hand. Tables 3 to 8 present several models of the impact of institutions on performance. These models are calculated for twenty countries and the averages for three time periods (1975-84, 1985-92 and 1993-98). The first period, 1965-74, is not included in the analysis, because no scores for the institutional models in this period for Greece, Spain and Portugal are available. Using three time periods increases the number of cases to 60 instead of 20, but it does not lead to serious problems of autocorrelation, because of the limited time span. A second problem that may but does not occur is multicollinearity, which means that the independent variables are highly correlated.[4]

With three periods and twenty countries there is variation through time and across countries. The time component is very limited, and the models are not really pooled time series. Using annual scores between 1975 and 1998, increases the number of time points, but lead to replication of some of the variables, in particular the corporatism scores which are measured for the periods 1975-84, 1985-92 and 1993-98. Therefore, variation over three time periods and twenty countries is examined.

To examine if variation over time or across nations is highest, an ANOVA[5] is calculated for each of the performance indicators. Variation over time is greater than variation across nations for inflation (consumer price index) and GDP per capita (in constant US Dollars). Variation across nations is greater than over time for unemployment, economic growth (annual change of real GDP), misery index (unemployment and inflation), performance index and social expenditures. This means that the time dimension is dominant for inflation and GDP per capita and that differences between countries are most important for the other performance indicators.

For each performance indicator, several regression models are tested. The first model presented includes the institutional variables and contextual variables that yield significant coefficients. The other models are a parsimonious model and a model with only the institutional variables included. The first analysed performance indicator is inflation, which is shown in Table 3.

Table 3 Regression models of the impact on inflation (Consumer price index)

	model 1 b (s.e.)	beta	model 2 b (s.e.)	beta	model 3 b (s.e.)	beta
consensus democracy	-0.533 (0.409)	-0.103	-1.489 (0.780)	-0.287*		
corporatism	-0.656 (0.410)	-0.128	0.671 (0.769)	0.131	-0.947 (0.346)	-0.185**
openness of the economy	-1.970 (0.156)	-0.864***			-2.007 (0.154)	-0.880***
Adjusted R^2	0.74		0.06		0.74	
degrees of freedom	56		57		57	

Dependent variable: inflation (consumer price index)

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***$p< 0.001$ ** $p<0.01$ * $p<0.1$

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Vergunst (2004: Table 2.7); corporatism Vergunst (2004: Table 3.4); Openness economy: index for the financial openness of an economy[6] (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000)

In Table 3 three models are tested that can have an impact on inflation, measured by the consumer price index. The first model takes consensus democracy, corporatism and openness of the economy (measured by an additive index of restrictions on payments and receipts of goods and invisibles, restrictions on payments and receipts of capital and legal international agreements that constrain a nation's ability to restrict exchange and capital flows (Armingeon, Beyeler & Menegale 2000)) as independent variables. For this model, there is no strong impact of institutions. Openness of the economy is significantly related to lower inflation rates. Although the impact of corporatism is not significant, in this model corporatism together with openness lowers significantly the inflation level. This seems in line with arguments made by Katzenstein (1985) that small open countries use corporatism as a strategy to cope with international competition. When openness of the economy is removed, as in model 2, the explained variance, as expressed by R^2, is very low and consensus democracy has a significantly but very small lowering impact on inflation. When consensus democracy is omitted, as in model 3, corporatism and openness of the economy together have a mitigating impact on inflation.

Table 4 Regression models of the impact on unemployment

	model 1 b (s.e.)	beta	model 2 b (s.e.)	beta	model 3 b (s.e.)	beta
consensus democracy	-0.242 (0.549)	-0.060	-0.814 (0.612)	-0.202		
corporatism	-0.745 (0.524)	-0.188	-0.008 (0.604)	-0.002		
central bank independence	-1.191 (0.470)	-0.295*			-1.246 (0.444)	-0.308***
EU membership	3.390 (0.883)	0.497***			3.636 (0.881)	0.453***
Adjusted R^2	0.32		0.01		0.29	
degrees of freedom	55		57		57	

Dependent variable: unemployment rate.

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***$p< 0.001$ ** $p<0.01$ * $p<0.1$

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Vergunst (2004: Table 2.7); corporatism Vergunst (2004: Table 3.4); Central bank Independence: sum of the z-scores of central bank independence of Franzese & Hall (2000: 198) and Busch (1993: 60)[7].

Table 4 presents three regression models on unemployment. Institutions have no significant impact. In the first model, central bank independence has a lowering effect on unemployment, while EU countries have higher unemployment rates. When the institutional variables are removed, as in model 3, the effect of the control variables remains the same. This means that both consensus democracy and corporatism have no impact on unemployment. This result holds when controlled for other factors and only these institutions are examined. Institutions do not seem to matter with regard to unemployment.

Table 5 Regression models of the impact on misery index

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	-0.068 (0.516)	-0.011	-2.303 (0.894)	-0.377*		
corporatism	-0.737(0.587)	-0.122	0.663 (0.882)	-0.110		
central bank independence	-1.013 (0.480)	-0.165*			-1.009 (0.466)	-0.165*
work days lost (log)	2.283 (0,523)	0.363***			2.716 (0.428)	0.432***
EU membership	4.173 (0.891)	0.343***			3.627 (0.828)	0.298***
openness of the economy	-1.636 (0.218)	-0.609***			-1.510 (0.204)	-0.562***
Adjusted R^2	0.76		0.08		0.76	
degrees of freedom	53		57		55	

Dependent variable: misery index (unemployment and inflation).

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***$p< 0.001$ ** $p<0.01$ * $p<0.1$

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Vergunst (2004: Table 2.7); corporatism Vergunst (2004: Table 3.4); Central bank independence: sum of the z-scores of central bank independence of Franzese & Hall (2000: 198) and Busch (1993: 60); log of work days lost due to strike Comparative Political Data Set (2000); openness economy: index for the financial openness of an economy (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000).

Table 5 shows regression models of the misery index, which is the combination of inflation and unemployment. Consensus democracy has a lowering effect on the misery index in model 2, but when control variables are added this effect disappears, as in model 1. Central bank independence has a very weak, significant lowering effect on the misery index. Open economies are associated with a lower degree of misery and (the logarithm of) the number of work days lost due to strike and EU membership is associated with a higher degree of misery. Again, institutions are not actually related to the misery index. This is in line with the finding that institutions are not related with unemployment.

Table 6 Regression models of the impact on performance

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	0.014 (0.103)	0.018	0.181 (0.116)	0.238		
corporatism	0.115 (0.101)	0.154	-0.088 (0.114)	-0.118		
central bank independence	0.237 (0.099)	0.311*			0.258 (0.093)	0.337**
EU membership	-0.601 (0.179)	-0.396***			-0.527 (0171)	-0.348**
openness of the economy	0.115 (0.044)	0.343*			0.097 (0.042)	0.289*
Adjusted R^2	0.33		0.04		0.33	
degrees of freedom	54		57		56	

Dependent variable: performance index (economic growth minus unemployment minus inflation).

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***$p < 0.001$ ** $p < 0.01$ * $p < 0.1$

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Vergunst (2004: Table 2.7); corporatism Vergunst (2004: Table 3.4); Central bank independence: sum of the z-scores of central bank independence of Franzese & Hall (2000: 198) and Busch (1993: 60); openness economy: index for the financial openness of an economy (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000).

Table 6 shows no significant impact of institutions on the overall performance index. Central bank independence is related to better socio-economic performance. According to the first and third model independent central banks and open economies have higher performance and EU members have lower performance levels, but the effects are not strong.

The positive conclusions of Lijphart (1999) and Crepaz (1996) about the impact of consensus democracy are not reflected in the findings presented here. It becomes clear that one of the indicators that is part of Lijphart's operationalisation of consensus democracy, central bank independence, has a stronger effect than the index of consensus democracy. This means that using a broad operationalisation as done by Lijphart (1999), that includes variables such as central bank independence, leads to conclusions that overestimate the positive effect of consensus democracy.

Table 7 Regression models GDP per capita (in 1000 constant US Dollars)

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	1.618 (0.726)	0.200*	3.146 (1.179)	0.390**		
corporatism	1.539 (0.708)	0.193*	-1.077 (1.163)	-0.135		
industrial employment	-0.891 (0.132)	-0.557***			-0.785 (0.150)	-0.491***
central bank independence	2.731 (0.757)	0.337***			3.144 (0.832)	0.388***
openness of the economy	1.412 (0.310)	0.398***			1.290 (0.358)	0.363***
Adjusted R^2	0.70		0.08		0.60	
degrees of freedom	54		57		56	

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***$p< 0.001$ ** $p<0.01$ * $p<0.1$

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Vergunst (2004: Table 2.7); corporatism Vergunst (2004: Table 3.4); industrial employment: employment in industry as % of total employment(OECD Labour Force Statistics 2000); Central bank independence: sum of the z-scores of central bank independence of Franzese & Hall (2000: 198) and Busch (1993: 60); openness economy: index for the financial openness of an economy (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000).

Consensus democracy is associated with higher GDP per capita and this effect is smaller when controlled for other factors. The impact of corporatism on GDP per capita is very small. Openness of the economy and central bank independence are much more important. Industrial employment is associated with lower GDP per capita. Countries with relatively more industrial employment did not develop economically as strong as those countries with a less.

Table 8 Regression models of the impact on social expenditures

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	0.838 (0.613)	0.130	0.969 (0.831)	0.150		
corporatism	3.128 (0.641)	0.492***	2.950 (0.820)	0.464***	3.650 (0.518)	0.574***
federalism	-2.208 (0.630)	-0.309***			-1.947 (0.604)	-0.272**
openness of the economy	1.801 (0.230)	0.635***			1.833 (0.230)	0.646***
Adjusted R^2	0.66		0.29		0.66	
degrees of freedom	55		57		56	

Dependent variable: social expenditures (as % of GDP).

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***$p< 0.001$ ** $p<0.01$ * $p<0.1$

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Vergunst (2004: Table 2.7); corporatism Vergunst (2004: Table 3.4); federalism 1=unitary, 3=federal (Lane & Ersson 1994a; own estimations added); openness economy: index for the financial openness of an economy (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000).

Table 8 shows the impact on social expenditures (as % of GDP). This is the first and only performance indicator that shows a significant positive impact of corporatism that lasts if control variables are added. Corporatist countries have a larger welfare state. This effect is controlled for federalism and open economy. In federal countries, central government is less dominant and there can be more competition between states to moderate taxes. This contributes to smaller welfare states in federal countries (Pierson 1995). Open economies have a larger

welfare state. Open economies are more vulnerable to international factors and can therefore develop a stronger welfare state to protect workers against unexpected risks. Moreover, as shown in Table 7, countries with open economies are richer and this can make it easier for these countries to develop larger welfare states.

Conclusions

This paper has examined several possible effects of institutional arrangements on performance. Consensus democracy and corporatism appeared to have not a straightforward positive effect on socio-economic performance. The conclusions made by Lijphart and Crepaz are overestimated, since they use a broad operationalisation of consensus democracy that includes corporatism and central bank independence. The positive correlations in their analyses are not explained by consensual institutions, but by other variables.

Consensus democracy is indeed connected with lower misery (unemployment and inflation), but the impact of central bank independence is much stronger. Institutional arrangements of consensus democracy and corporatism are not positively related to a general performance index.

Countries that neither belong to corporatism and consensus democracy, nor to pluralism and majoritarianism - performed worse than the countries that belong to one side of the scale. This means that choosing one of both models pays off instead of keeping in the middle. This seems to fit Calmfors & Driffill's hump-shaped relationship between corporatist institutions and inflation. Centralised and decentralised wage bargaining systems show indeed lower inflation rates than intermediate systems.

The lowering effect of corporatism on unemployment has become weaker. This indicates that the effect of corporatist institutions has become smaller and corporatism has become less important. This confirms the argument made by Therborn and Flanagan that the impact of corporatism is on the decline.

The most important finding of this paper is that in analysing the impact of institutions on performance, too broad conceptualisations and operationalisations should not be used. Moreover, this paper shows that consensus democracy and corporatism have different effects on performance and these different types of institutions each have their own dynamics. This means that these institutions must not be confused, but clearly be separated. Each of them has different institutional characteristics and shows a different impact. They are certainly not the same. Another finding of this paper is that neither consensus democracy nor corporatism has a very strong and direct impact on socio-economic performance. Many effects that were found are weak and most of the effects were dependent on or under condition of other factors, such as the openness of the economy and central bank independence. This means that the institutions of consensus democracy and corporatism can have positive effects on socio-economic performance, but this effect is conditional. There is no empirical ground to believe that the institutions of consensus democracy and corporatism contribute to better socio-economic performance.

Notes

[1] The measurements of consensus democracy and corporatism are explained in more detail in Chapter 4 of Vergunst (2004).

[2] These four cluster are discussed in more detail in Chapter 4 of Vergunst (2004).

[3] Standardised scores are used.

[4] Multicollinearity is tested by examining the Variance Inflation Factor (VIF). In none of the regressions reported here, tolerance is below 0.45. Tolerance = 1/VIF. For critical values of tolerance see Pennings, Keman & Kleinnijenhuis (1999: 199-200).

[5] Analysis of Variance (see Pennings, Keman & Kleinnijenhuis 1999: 141-144).

[6] This index is measured by restrictions on payments and receipts of goods and invisibles, restrictions on payments and receipts of capital and legal international agreements that constrain a nation's ability to restrict exchange and capital flows (Armingeon, Beyeler & Menegale 2000).

[7] For the CBI index, means of scores from both authors are used.

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