Coping with Money:

European Monetary Integration and the Resurgence of National Corporatism

Byoung-Inn Bai
(Kookmin University)

〈CONTENTS〉

· **Keywords :** corporatism, monetary regimes, fiscal regimes, European Monetary Union

【ABSTRACT】

European corporatism that began in the 1990s came in remarkably good shape, replacing the deep pessimism that characterized the 1980s. Against the backdrop of the European Monetary Union (EMU), most European countries experimented with what currently goes under the name of "social pacts." Faced with this unexpected explosion of corporatism, many scholars have pointed out the possibly positive impact of the European monetary integration on national corporatism although the relationship between them remains unclear. This research explores the impact of European monetary integration on national corporatism through the lens of the relationship between macroeconomic regimes and corporatism. Using 15 OECD countries' data, I show that a non-accommodating monetary regime as in the EMU has a positive impact on the rise of corporatism, but only in conjunction with the degree to which fiscal austerity can be guaranteed. That is, corporatism functions as a supplementary tool for the necessary fiscal austerity that the EMU dictates to member countries. This also explains why current European corporatism goes hand in hand with the welfare reforms unlike traditional corporatism.

Ⅰ. Introduction

Faced with the need to both control unit labor costs and reform the welfare state, virtually all the European countries experimented in the 1990s with what currently goes under the name of "social pacts".[1] Given that traditional corporatism has been based upon "a form of political exchange in which centralized unions delivered overall wage restraint in return for generous welfare programs and macroeconomic policies that sustained full employment,"[2] the resurgence of corporatist arrangements in the 1990s raises an empirical puzzle, for it is more implausible to provide labor unions with generous welfare programs in return for their wage restraint. The move toward Single Market and European Monetary Union (EMU hereafter) exerts a *de facto* pressure on the national welfare state, which is captured by such notions as 'race to the bottom' and 'social

1) Hugh Compston, "The End of National Policy Concertation? Western Europe since the Single European Act," *Journal of European Public Policy* 5-3 (1998), pp. 507-526; Jürgen Grote and Philippe Schmitter, "The Renaissance of National Corporatism: unintended side-effect of European Economic and Monetary Union or calculated response to the absence of European Social Policy?" *Transfer* 1-2 (1999), pp. 34-63; Sofia Pérez, "Monetary Union and Wage Bargaining Institutions in the EU: Extrapolating from Some Member States Experiences," *Comparative Political Studies* 35-10 (2002), pp. 1198-1227.
2) Kathleen Thelen, "Beyond Corporatism: Towards a New Framework for the Study of Labor in Advanced Capitalism," *Comparative Politics* 27-1 (1994), p. 110.

dumping' .[3] In addition, social pacts in the 1990s aimed at labor market flexibilization and welfare reform, which seems to be the opposite of the traditional corporatist alignments.

Observing this unexpected explosion of corporatism, many scholars have singled out the EMU as a major backdrop against the resurgence of corporatism in the 1990s. Here is the logic that change in the locus of macroeconomic policymaking (at the Union level) increases the need to establish corporatism at the national level since there exists no equivalent Union-level wage coordination mechanism. It is a common argument that the benevolent effects of the German model of macroeconomic governance depend on other features of national institutional context such as corporatism.[4] Extending this logic, these scholars suggest that the lack of Union level wage coordination induces employers to consider national wage bargaining as a viable option to cope with possible macroeconomic vicissitudes.[5]

This logic, however, remains incomplete insofar as the underlying relationship between macroeconomic regime, which the EMU introduces, and corporatism remains obscure. The EMU represents not only the change in the locus of macroeconomic policymaking, but also the introduction of *one-fits-to-all* macroeconomic policy. Particularly, it represents the

---

3) Simon Hix, *The Political System of the European Union* (London: Macmillan, 1999); Wolfgang Streeck, "From Market Making to State Building?" in Stefan Leibfried and Paul Pierson (eds.), *European Social Policy* (Washington D.C.: The Brookings Institution, 1995); Fritz Scharpf, *Games Real Actors Play* (Boulder: Westview Press, 1997).

4) Peter Hall and Robert Franzese, "Mixed Signals: Central Bank Independence, Coordinated Wage Bargaining, and European Monetary Union," *International Organization* 52-3 (1998), pp. 505-535; Robert Franzese, "Institutional and Sectoral Interactions in Monetary Policy and Wage/ Price Bargaining," in Peter Hall and David Soskice (eds.), *Varieties of Capitalism* (New York: Oxford University Press, 2001a); David Soskice and Torben Iversen. "The Non-Neutrality of Monetary Policy with Large Price- or Wage-Setters," *Quarterly Journal of Economics* 115-1 (2000), pp. 265-284.

5) Grote and Schmitter (1999); Philippe Pochet, "Renegotiating the Social Contract in the Shadow of EMU: Decentralization, Europeanization, or Renationalization?" Paper presented at the Center for European Studies, Harvard University, 28 October 1998; Collin Crouch, "National Wage Determination and European Monetary Union," in Collin Crouch (ed.), *After the Euro* (Oxford: Oxford University Press, 2000); Pérez (2002).

introduction of non-accommodating[6] monetary policy on the Union level concomitant with fiscal constraints. Thus, in order to verify that the EMU exerts a favorable impact on the resurgence of national corporatism, the relationship between these two variables should be examined.

Literature on corporatism focuses mainly on the issue of the macroeconomic impact of corporatism. As such, the question of why and under what conditions this institution comes about and evolves is understudied. Recent development in this field, however, suggests that the macroeconomic regime may exert an effect on the evolution of corporatist institution. Taking advantage of these insights, this research directly investigates the impact of the macroeconomic regimes on corporatism. As a first step, I develop a sectoral model of distributive impact of macroeconomic regimes and then explore the instances where corporatism can be a viable option. Unlike traditional corporatism literature in which non-accommodating macroeconomic policies are thought of as having a negative effect,[7] I argue that corporatism is likely under the specific configuration of macroeconomic policies. More specifically, I hypothesize and show that both accommodating and non-accommodating monetary regimes have a positive relationship with corporatism, although corporatism under the non-accommodating monetary regime requires the fiscal regime to be accommodating. This finding suggests that there is a substitutive relationship between corporatism and fiscal austerity under the condition of non-accommodating monetary regime, which in turn sheds light on the reasons behind the rise of corporatism against the backdrop of

---

6) Non-accommodating monetary regime is the one that places great priority on price stability than other macroeconomic objectives. The terms 'non-accommodating' and 'accommodating' are almost identical to the common languages of 'restrictive' and 'expansionary' macroeconomic policies respectively. While identical, however, the distinction of accommodating/non-accommodating has an advantage of taking into account the compromising impact of macroeconomic policy on the conflict among social actors. The term 'accommodating' implies that government's macroeconomic policy results in or, at least, helps to compromise the interest conflict among social groups.

7) For example, Wolfgang Streeck and Philippe Schmitter, "From National Corporatism to Transnational Pluralism: Organized Interest in the Single European Market," *Politics and Society* 19-2 (1991), pp. 133-164.

the EMU. That is, as the EMU dictates non-accommodating fiscal regime for the maintenance of non-accommodating monetary regime, corporatism becomes a supplementary tool for the necessary fiscal austerity. This also explains why current European corporatism goes hand in hand with the welfare reforms unlike traditional corporatism.

This article is organized as follows. The next section (section 2) briefly discusses the argument linking EMU and the resurgence of corporatism. In sections 3 and 4, I elaborate on a sectoral distributive model of macroeconomic regimes with respect to the location of corporatism. In section 5 I conduct an empirical test of the argument using 15 OECD countries' data. I conclude with a brief summary and discussion of the findings.

Ⅱ. EMU and the Resurgence of Corporatism

Corporatism began the 1990s in remarkably good shape. The pessimistic view that prevailed in the 1980s seemed spurious. Among the countries that had experienced the dissolution of corporatism in the 1980s (i.e., Sweden, Denmark, Austria and the Netherlands), all except Sweden showed an apparent return toward previous corporatist institution in the 1990s. The famous breakdown of Swedish centralized wage bargaining seemed to be an exception rather than a rule.[8]

In addition to this demystification, what we observed in the 1990s was a veritable explosion of corporatist policymaking in other European countries under the name of 'social pacts,' that is, peak-level deals between governments, unions, and employer associations. This was especially true during Stage Ⅱ of the EMU. Preparing for the launch of the European single currency, governments and social partners in Europe

8) Compston (1998); Grote and Schmitter (1999); Peter Lange, Michael Wallerstein, and Miriam Golden. "The End of Corporatism? Wage Setting in the Nordic and Germanic Countries," in Sanford M. Jacoby (ed.), *The Workers of Nations* (New York and Oxford: Oxford University Press, 1995).

struck deals to cope with the new macroeconomic environments: Belgium, Italy, Spain and Ireland in 1992-93 and again in 1995-96, and Portugal and Finland in 1995-96. A distinctive feature of these social pacts is that they represent a trend among European countries to use corporatist arrangements as a tool for welfare retrenchment and labor market flexibilization.[9] For example, the negotiation among the social partners and government in Italy in the early 1990s included the reform of the pension system and the removal of *scala mobile* (inflation-linked wage escalator) as well as the confirmation of national-level wage coordination.[10]

Observing this unexpected explosion of corporatism, many scholars have pointed out the possibly positive impact of the EMU on national corporatism.[11] Here the point of emphasis is the "asymmetric" nature of the EMU in dealing with macroeconomic problems of member states. The EMU has a strong bias toward non-accommodating monetary policy in which price stability is the first and foremost concern in policymaking. This sole concern for monetary rigor renders the institutional structure of the EMU severely asymmetric in the sense that other complementary macroeconomic tools are not feasible at the Union level while member states are deprived of the traditional policy tools such as depreciation and fiscal expansion that they may use to cope with changing international economic environments.[12]

This asymmetry raises a severe concern for member states' macroeconomic management. Economic theory tells us that monetary union requires several supplementary conditions for it: a high level of labor mobility,

---

9) Kenneth Dyson, *The Politics of the Euro-Zone: Stability or Breakdown?* (Oxford: Oxford University Press, 2000).

10) Lucio Baccaro, "The Construction of 'Democratic' Corporatism in Italy," *Politics and Society* 3-2 (2002), pp. 327-357; Marino Regini, "Between Deregulation and Social Pacts: The Responses of European Economies to Globalization," *Politics and Society* 28-1 (2000), pp. 5-33; Marino Regini and Ida Regalia, "Employers, Unions and the State: the Resurgence of Concertation in Italy?" *West European Politics* 25-1 (1997), pp. 210-230.

11) Grote and Schmitter (1999); Pochet (1998); Crouch (2000); Pérez (2002).

12) Dyson (2000); Hix (1999).

fiscal federalism and/or wage coordination.[13] Given that depreciation ceases to be a viable option with the launch of monetary union, asymmetric macroeconomic difficulties within the union can only be addressed by labor mobility and/or fiscal transfer. Fiscal federalism makes it possible for the states experiencing economic recession to engage in expansionary fiscal policies so that they can mitigate macroeconomic difficulties. Labor mobility and wage coordination at the union level will mute out cyclical recession by either allowing labor to move from recessive to prosperous regions or keeping labor cost down.

However, the asymmetric EMU lacks all of these possibilities. The labor mobility within the EU remains quite low: a fact readily explicable by the EU's greater cultural and linguistic diversity. Although the Single European Act removes the barriers to the free movement of labor across countries, the remaining cultural and linguistic difference among member states still exerts great negative effect on the degree of labor mobility. In addition, the European Union does not have fiscal capacity to cope with asymmetric macroeconomic cycles among member states. A possible alternative to fiscal federalism is to enhance fiscal harmonization, which seems most implausible due to the interest conflicts among member states and the EU decision-making process.[14] To make things worse, the convergence criteria of the EMU posit strict fiscal discipline as a membership requirement. The combination of monetary centralization and fiscal constraint is at the core of the asymmetric characteristic of the EMU.[15]

Based upon these discussions, many scholars have argued that national level corporatism turned out to be a viable option on which member states can rely. Given the highly asymmetric nature of the EMU, corporatism is in some sense the only possible tool for member states to cope with new

---

13) Barry Eichengreen, "Fiscal Policy and EMU," in Barry Eichengreem and Jeffrey Frieden (eds.), *The Political Economy of European Monetary Unification* (Boulder: Westview Press, 1994); Barry Eichengreen, *European Monetary Unification: theory, practice, and analysis* (Cambridge, MA: MIT Press, 1997).

14) Eichengreen (1997); Hix (1999).

15) See Barry Eichengreen and Jürgen von Hagen, "Federalism, Fiscal restraints, and European Monetary Union," *American Economic Review* 86-2 (1996), pp. 134-138.

macroeconomic environments.[16] The logic is that the change in the locus of monetary policymaking (at the union level) increases the need for corporatism at the national level given the asymmetric characteristics of the EMU. Combined with the common argument that the benevolent effect of the German model is due to the combination of a non-accommodating monetary regime and corporatist institutions,[17] these scholars suggest that the lack of wage coordination at the Union level induces employers to consider national corporatism as a viable option to cope with possible macroeconomic vicissitudes.[18]

This logic, however, remains incomplete insofar as the triple relationship among monetary union, social actors' preferences and corporatism remains unclear. In addition, the focus on the locus of monetary policymaking raises a serious question since the rise of European corporatism in the 1990s broke out before the full-fledged monetary union. Thus, in order to understand the possible relationship between monetary union and corporatism, we should take a direct look at the relationship between corporatism and the characteristics of macroeconomic regimes that the EMU is supposed to introduce. Doing so will also allow us to answer the question of why corporatism rises under the seemingly unfavorable conditions as opposed to the expectation of traditional corporatism literature. In the following section, I develop a model to see the triple relationship among macroeconomic regimes, social actors' preferences, and corporatism and then test the model using 15 OECD countries' data.

Ⅲ. Theory: Macroeconomic Regime, Sectoral Interests and Corporatism

Most of the literature on corporatism has been focused on the impact and role of corporatism on macroeconomic performance. Traditional corporatism

16) Pochet (1998); Pérez (2002).
17) Hall and Franzese (1998); Soskice and Iversen (2000).
18) Grote and Schmitter (1999); Pochet (1998); Crouch (2000); Pérez (2002).

literature set up the linear relationship between corporatism and macroeconomic performance based upon Olsonian logic of collective action, in which "encompassing" trade union was supposed to be combined with better economic performance through the inducement of wage restraint behavior for the sake of the national economy.[19] Calmfors and Driffill, however, challenged this view by showing that macroeconomic performance of a totally decentralized labor market could be the same as or better than a highly centralized one: hence a non-linear relationship between these two variables.[20]

Simple relationship between corporatism and macroeconomic performance, be it linear as in the traditional model or non-linear as in the Calmfors-Driffill model, has been seriously questioned by the later developments in this field. Among others, the characteristics of macroeconomic regime and sectoral composition have been singled out as major factors that affect the relationship between macroeconomic performance and corporatism. Unlike the Calmfors-Driffil model, Iversen suggests that the shape of the curve is interchangeable between 'hump-shaped' and 'U-shaped' depending on the characteristic of the monetary regime.[21] According to him, the benevolent effect of highly centralized wage bargaining is contingent on 'accommodating' monetary regime, on which the Calmfors-Driffil model is based. If a monetary regime turns into a 'non-accommodating' one, in which monetary authorities keep 'nominal' spending and money supply constant, the macroeconomic benefit of the

19) David Cameron, "Social Democracy, Corporatism, Labour Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society," in John H. Goldthorpe (ed.), *Order and conflict in contemporary capitalism* (Oxford: Oxford University Press, 1984); Collin Crouch, *Industrial Relations and European State Traditions* (Oxford: Clarendon, 1993); Mancur Olson, *The Rise and Decline of Nations* (New Haven and London: Yale University Press, 1982).

20) Lars Calmfors and John Driffill. "Bargaining Structure, Corporatism, and Macroeconomic Performance," *Economic Policy* 6-1 (1988), pp. 13-61.

21) Torben Iversen, "Wage Bargaining, Central Bank Independence, and the Real Effects of Money," *International Organization* 52-3 (1998), pp. 469-504; Torben Iversen, *Contested Economic Institutions* (Cambridge and New York: Cambridge University Press, 1999).

highly centralized wage bargaining diminishes so that the shape of the curve changes. According to him, this is the case because the social wage, which is conducive to mitigate distributional conflict, is jeopardized by the non-accommodating monetary regime. As long as the encompassing trade union should compromise the demand from different wage groups, the conflict between the monetary regime and the encompassing trade union is inevitable and thus, the putative economic benefit of this centralized organization ceases to exist.[22)]

Garrett and Way[23)] and Franzese[24)] go further to point out that the size and strength of the sheltered sector relative to the exposed one determines the macroeconomic performance of corporatism. Franzese, for example, shows that the putative macroeconomic performance of a non-accommodating macroeconomic regime (as in central bank independence literature) depends on the sectoral composition of corporatism: the larger and stronger the sheltered sector, the less the macroeconomic performance.[25)] In a similar vein, Garrett and Way argue that the ill performance of corporatism in the 1980s is closely related to the existence of strong public sector unions, which, unlike the exposed sector, have less incentive to engage in wage restraint behavior.[26)]

Literature in this field has been centered on the relationship between corporatism and macroeconomic performance, and has explored the variables intervening with and affecting it. As such, the question of under what conditions corporatism evolves is not directly addressed. Nonetheless, recent development on the non-linear relationship between corporatism and macroeconomic performance suggests an important implication for this

22) See also Torben Iversen and David Soskice. "Monetary Integration, Partisanship and Macroeconomic Policy," Paper presented at the 95th American Political Science Association meeting in Washington D.C., September 2-5, 1999.
23) Geoffrey Garrett and Christopher Way, "Public Sector Unions, Corporatism, and Macroeconomic Performance," *Comparative Political Studies* 32-4 (1999), pp. 411-434.
24) Franzese (2001a).
25) Franzese (2001a).
26) Garrett and Way (1999).

question: the characteristics of macroeconomic regime and the concomitant sectoral distributive effect will affect the level of corporatism.

As Traxler and Kittel put it, corporatism is based upon coordination among different actors at various levels.[27] This is the main reason why it is difficult to establish a linear relationship between corporatism and economic performance since the macroeconomic impact of corporatism depends on other factors that influence coordination among different social groups. Seminal works by Iversen, Iversen and Soskice, Garrett and Way and Franzese show that characteristics of macroeconomic regime make it easy or difficult to compromise distributional conflict between the exposed sector and the sheltered sector so that the economic performance of corporatism shall differ from the expectation of the traditional literature.[28]

The logical extension of these findings is that corporatism should vary according to the extent that coordination of different sectoral interests could be successfully resolved given the characteristics of the macroeconomic regime. As in Iversen's works, a non-accommodating monetary regime may render it difficult to mitigate distributional conflict among wage groups in different sectors by making the provision of social wage implausible.[29] The same logic should be applicable to the fiscal regime. Accordingly, social actors in different sectors should have different incentives to corporatism depending upon the characteristics of the macroeconomic regime. This can be illustrated by looking at sectoral distributive effect of macroeconomic regimes (Table 1).

---

27) Franz Traxler and Bernhard Kittel, "The Bargaining System and Performance: A Comparison of 18 OECD Countries," *Comparative Political Studies* 33-9 (2000), pp. 1154-1190.
28) Iversen (1998, 1999); Iversen and Soskice (1999); Garrett and Way (1999); Franzese (2001a).
29) Iversen (1998, 1999).

Table 1. *Sectoral Distributive Effect of Monetary and Fiscal Policies*

		Monetary Policy	
		Non-Accommodating	**Accommodating**
Fiscal Policy	Non-Accommodating	Monetarist Equilibrium	Harmful to sheltered sector Beneficial to exposed sector
	Accommodating	Harmful to exposed sector Beneficial to sheltered sector	Keynesian Equilibrium

In general, producers in the exposed sector prefer a monetary policy that results in real exchange-rate stability or depreciation since it allows them to maintain their competitiveness against overseas producers. At the same time, they oppose large fiscal deficits that can drive up nominal domestic interest rates that attract capital inflows and thereby produce currency appreciation and, over the long term, increase tax pressure to levels higher than faced by their overseas competitors. Conversely, producers sheltered from international competition prefer real currency appreciation that reduces the prices of imported goods. In practice, sheltered producers are likely to favor fiscal expansion because most government spending goes to domestically produced goods such as health care, income transfers, infrastructure, and so on.

Because of these general preferences over the macroeconomic policy, the equilibrium points between these two sectors would be the upper-left and lower-right cells in Table 1. In the lower-right cell, accommodating policies can meet the needs of both the exposed and sheltered sectors. However, given that accommodating monetary and fiscal policy will have inflationary pressure, this equilibrium severely depends upon the government's ability to choose depreciation policy. The flourish of welfare state in the 1970s largely depended upon a government's ability to pursue this policy option.[30]

In the upper-left cell, the coordination between the exposed and sheltered sectors is possible to the extent that the pressure to currency appreciation from fiscal expansion can be decreased. Given the non-accommodating

30) See Crouch (2000).

monetary regime, fiscal expansion that exerts inflationary pressure will force the central bank to maintain high interest rates, which in turn attracts capital inflows and currency appreciation. To the extent that non-accommodating fiscal policy mutes out this inflationary pressure, the sectoral interests can be compromised.

The incentives to corporatism depend on the conditions for sectoral equilibrium. Unless the equilibrium conditions are met, disadvantaged sectors will have a strong incentive to corporatism as a way to compensate for their loss of profitability. In each type of monetary regime, there exist certain kinds of conditions that make it possible to manage sectoral equilibrium. Under the non-accommodating monetary regime, the Monetarist equilibrium is possible only insofar as it is accompanied by a non-accommodating fiscal regime. Otherwise, the exposed sector would be worse-off as the fiscal regime goes on to an accommodating one. In this situation, the exposed sector should have a stronger incentive to corporatism to the extent that fiscal non-accommodation is not guaranteed.

The same logic can be applicable to Keynesian equilibrium with some complications. Under the accommodating monetary regime, the Keynesian equilibrium depends on two conditions: the accommodating fiscal regime and the government's ability to deal with inflationary pressure through occasional depreciation policy. Since the size and strength of the sheltered sector are directly affected by the characteristics of the fiscal regime, the sheltered sector should prefer an accommodating fiscal regime. When this condition is met, however, its profitability depends on the government's ability to deal with inflationary pressure. Due to this, we can expect that the sheltered sector should have strong incentive to corporatism to the extent that inflationary pressure can be managed through corporatist arrangements.

This discussion suggests that corporatism has a substitutive relationship with other macroeconomic policy options, especially with regard to fiscal regime. Given the characteristics of the monetary regime, the scope of fiscal accommodation will determine the incentive of each sector to corporatism. Under the accommodating monetary regime, the sheltered sector has a strong incentive to corporatism when the provision of fiscal accommodation is questioned. Similarly, the credibility of fiscal non-accommodation diminishes the incentive of the exposed sector under the non-accommodating monetary regime.

From this, we can expect that the dominant sector in a corporatist arrangement should be different according to the characteristics of the monetary regime. Under an accommodating monetary regime, we should see sheltered sector dominance. Conversely, the change of monetary regime into a non-accommodating one will put the sheltered sector dominance into question since it will exert a negative effect on the competitiveness of the exposed sector in the world market unless it is accompanied by fiscal non-accommodation. In this regard, the observed negative relationship between public sector dominance and non-accommodating monetary regime with respect to the macroeconomic outcome can be thought of as the result of the failure of maintaining equilibrium conditions under the non-accommodating monetary regime.[31]

This logic further suggests an answer to the puzzle of the resurgence of corporatism combined with labor market flexibilization and welfare reforms. Corporatism, in this model, is conceived of as an apparatus to accommodate sectoral distributive interest conflicts. Further, this model implies that there must be different sectoral composition within corporatism depending upon the characteristics of the monetary regime. Under the accommodating monetary regime, the dominant feature of corporatism should be the maintenance of a large public sector so as to compensate for the sheltered sectors from possible detrimental effects of accommodating monetary policy. Conversely, under a non-accommodating monetary regime, the dominance of the public sector union in corporatism should be diminished. This is a direct corollary of the fact that monetary equilibrium depends upon the government's ability to hold down fiscal expansion. Otherwise, the exposed sector will be worse-off by the introduction of the non-accommodating monetary regime. Consequently,

31) See Garrett and Way (1999); Iversen (1998); Franzese (2001a).

corporatism under a non-accommodating monetary regime should guarantee the exposed sector dominance and the concomitant downsizing of the large public sector.

Ⅳ. Macroeconomic Regimes and Corporatism: An Empirical Test

1. Model Specification

The sectoral interest configuration in Table 1 suggests that the relationship between macroeconomic regime and corporatism is not monotonic, but rather nonlinear in the sense that the incentives to corporatism depend upon the degree to which the combination of macroeconomic regimes can resolve sectoral distributive conflict. Under the non-accommodating monetary regime, for example, we should see a high incentive to corporatism among exposed sectors to the degree that fiscal non-accommodation is not guaranteed so as to maintain equilibrium conditions. If a government's fiscal behavior is credibly non-accommodating, then there must be less incentive to corporatism.

Current discussion suggests that the level of corporatism depends upon a specific combination of monetary and fiscal regimes. Unlike the argument that corporatism would be in trouble under the non-accommodating monetary regime, this model suggests that we should observe at least the same level of corporatism under both types of monetary regimes. Thus, the general relationship between monetary regime and corporatism should be a U-shaped one, which can be captured by the following model,

$$\mathbf{CORP}_{i,t} = \beta_0 + \beta_1\mathbf{M}_{i,t} + \beta_2\mathbf{M}_{i,t}^2 + \beta_3\mathbf{F}_{i,t} + \beta_4\mathbf{CORP}_{i,t-1} + \sum B_k Z_k + \varepsilon \quad \text{——— (1)}$$

where **CORP** = corporatism index, **M** = non-accommodating monetary regime index, **F** = non-accommodating fiscal regime index, **Z** = control variables, and ε is error term.

If the relationship between monetary regime and corporatism is a U-shaped one, we should see the negative $\beta 1$ and positive $\beta 2$. The slope of the U-shaped curve is going to be negative as the value of the independent variable goes to 0. Conversely, it turns positive as the value goes higher. In the above equation, the slope of the function is $\partial CORP/\partial M = (\beta_1 + 2\beta_2 M)$. If M goes very small ($M \rightarrow 0$), the slope comes down to β_1, which is required to be negative for the U-shaped curve. At the high value of M, β_2 should be positive in order for the curve to be a U-shaped one.

In addition to the general non-linear relationship between monetary regime and corporatism, current hypothesis suggests that the impact of monetary regime on the corporatism should be conditioned by the characteristic of the fiscal regime. In the sectoral distributive model, corporatism is conceived of as having substitute relationship with the fiscal regime in the sense that corporatism is used as a bulwark to the fiscal vicissitude. If increasing monetary non-accommodation is not accompanied by the concomitant fiscal non-accommodation, the exposed sector is supposed to be worse-off. To the degree that fiscal non-accommodation is not fully satisfied under the non-accommodating monetary regime, the incentive to the wage coordination increases. This implies that the positive impact of the non-accommodating monetary regime on corporatism should be curved to the extent that fiscal non-accommodation is sufficiently satisfied. To allow for this possibility, I introduced specific interaction between monetary and fiscal regime with the following model[32]:

$$\mathbf{CORP}_{i,t} = \beta_0 + (\beta_1 \mathbf{M}_{i,t} + \beta_2 \mathbf{M}_{i,t}^{2})(k - \mathbf{F}_{i,t}) + \beta_3 \mathbf{F}_{i,t} + \beta_4 \mathbf{CORP}_{i,t-1} + \sum B_k Z_k + \varepsilon \text{ ——— } (2)$$

In this model, the interaction between monetary regime and fiscal regime is designed to depend upon the value of positive number k, which designates a threshold to the sufficient fiscal non-accommodation. The idea is that the positive impact of the non-accommodating monetary regime depends upon the degree to which fiscal non-accommodation is

32) I owe this model to Iversen (1998) although the usage and interpretation of the model is slightly different from his. The following discussion is based upon Iversen (1998), pp. 488-489.

concomitantly followed. Thus, after this threshold, we should see a decrease of corporatism because the necessity of corporatism as a bulwark against fiscal vicissitude diminishes. Conversely, under the condition of fiscal accommodation, we should see the increase of corporatism as the monetary regime goes more non-accommodating. In equation (2), if the fiscal regime goes to a more non-accommodating one (i.e. if F goes to large), k-F is going to be negative and vice versa. Thus, this interactive model allows the possibility that negative value of (k-F) changes the direction of monetary impact on corporatism.

This hypothetical interactive impact of monetary and fiscal regime can be easily observed by looking at relevant coefficients of interactive terms. By multiplying through k-F, equation (2) comes down to,

$$\mathbf{CORP}_{i,t} = \beta_0 + \beta_1 k\mathbf{M}_{i,t} - \beta_1 k\mathbf{M}_{i,t}\mathbf{F}_{i,t} + \beta_2 k\mathbf{M}_{i,t}^2 - \beta_2\mathbf{M}_{i,t}^2\mathbf{F}_{i,t} + \beta_3\mathbf{F}_{i,t} + \beta_4\mathbf{CORP}_{i,t-1} + \sum B_k Z_k + \varepsilon \quad \text{—(3)}$$

In this extension, the signs of interactive terms are determined by β_1 and β_2. If β_1 and β_2 are negative and positive respectively as expected, then the coefficient of $M_{i,t}F_{i,t}$ should show positive sign, while that of $M_{i,t}^2F_{i,t}$ negative. In equation (3), the coefficient of $M_{i,t}F_{i,t}$ is $-\beta_1 k$, which should turn out to be positive as long as β_1 is negative and k is positive. Likewise, the coefficient of $M_{i,t}^2F_{i,t}$ ($-\beta_2$) should be negative as β_2 is positive. Current hypothesis on the relationship between macroeconomic regime and corporatism can be directly estimated by looking at the signs of each term in equation (3).

2. *Data and Variables*

To verify this model, I conduct pooled cross-sectional and time-series analysis using data of 15 OECD countries from 1970 to 1995. The countries are confined to 15 OECD countries due to data availability. 1970 is selected as a starting year since it was the last year that the Bretton-Woods system ended. As such, macroeconomic policy (especially monetary policy) has had a greater impact on domestic institutions since then. What follows are brief descriptions of data and variables that are employed in regression analysis.

1) Corporatism

There is no general agreement with respect to the measurement of corporatism. In general, two kinds of measurement are generally used: centralization and coordination. While centralization is more focused on the structural aspect of corporatism by looking at the level on which wage-setting occurs, coordination is more like a behavioral measurement addressing whether the actual wage restraint behavior comes about.[33] As each measurement has relative strength, I combined four different indices of Hall and Franzese, Iversen, Kenworthy and Golden-Wallerstein-Lange's bargaining level index.[34] These four indices adopt different measurement scales so that I normalized each index in order to make them comparable and took the average for the final measure of corporatism. The higher value of this variable designates the more centralized and coordinated wage bargaining.

2) Monetary Regime

To measure the characteristic of monetary regime, I combined the data on central bank independence and 'hard currency' index. As theories of central bank independence imply, the highly independent central bank will have strong conservative effect on monetary policy.[35] However, one of the problems of this index is that central bank independence is neither a necessary nor a sufficient condition for commitment to conservative monetary policy. Because of this, Iversen suggests combining hard currency index based on the movement of exchange rate with central bank independence index.[36] The rationale behind using hard currency index is

33) For the detailed discussion on the relative strength of these indices, see Lane Kenworthy, "Wage-Setting Measures: A Survey and Assessment," *World Politics* 54 (2001), pp. 57-98.

34) Hall and Franzese (1998); Iversen (1998); Kenworthy (2001); Miriam Golden, Peter Lange, and Michael Wallerstein, "Union Centralization among Advanced Industrial Societies: An Empirical Study," Dataset available at http"//www.shelley.polisci.ucla.edu/data (Version dated June 16, 2006).

35) Hall and Franzese (1998).

that a continuous commitment to anti-inflationary policies will therefore reveal itself in the form of a strong and (relatively) appreciating currency. Thus, hard currency index can be used as a proxy for the degree of monetary non-accommodation. Empirically, such currency 'regimes' can be measured by the growth in nominal effective exchange. Based upon IMF data on nominal effective exchange rate, I calculated hard currency index using 1970 as a base year. This index varies from 0 (a relatively depreciating currency) to 1 (a relatively appreciating currency). The final monetary index is an average of these two indices. Monetary regime index is calculated by normalizing the average of hard currency and central bank independence score.

3) Fiscal Regime

Conventional measure of fiscal regime is the balance of budget. Balance of budget is a proper measure if one is interested in how prudent fiscal policy is. Budget balance, however, does not directly tell us about how accommodating fiscal policy is. Since the characteristic of fiscal regime is a main focus of this study, I constructed fiscal non-accommodation index using the data on the ratio of public debt to GDP and that of government workers to the manufacturing workers.[37] Under the accommodating fiscal regime, we should expect that government would not mind running high level of public debt. In this way, the level of public debt can be a proxy for fiscal non-accommodation. However, this index alone is not complete since public debt can move up and down due to various reasons other than the characteristic of fiscal regime. For this reason, I include the data on public sector size in constructing the fiscal regime index. The underlying idea is that the size of the public sector will increase under the accommodating fiscal regime since the government's intervention to mitigate interest

36) Iversen (1998).

37) These data are taken from Robert Franzese, "The Positive Political Economy of Public Debt: An Empirical Examination of the OECD postwar Experience," Paper presented at the Workshop on Political Economy, The Eitan Berglas School of Economics, Tel Aviv University, 30-31 January, 2001b.

conflict among social actors will be mainly conducted by the public sector. Public debt may or may not be concomitant to public sector size. Because of this, I simply use the product of these two indices and rearranged them so that higher value referred to non-accommodating fiscal regime.

The inclusion of public sector size has another merit with respect to the current research question. In the previous section, I elaborated on a sectoral distributive model of macroeconomic regimes. By allowing fiscal regime index to vary according to public sector size, sectoral hypothesis can be tested through the fiscal regime index. Although indirect, it simplifies the test of the model.

4) Control Variables

As political variables, I included the effective number of parties and government partisanship index calculated by standard partisan deviation within government. Corporatism is defined as "a system of governance characterized by institutionalized relationships among the state, trade unions and employers' associations," in which these actors "share the making and implementing of certain types of policy".[38] And, it is argued that this type of governance is more likely where the central state has less capacity in implementing policy and, thus, requires high consensus among veto players such as coalition partners and local governments.[39] Hence, the more veto players in the policymaking process, the more likelihood of corporatism. Based upon this argument and in order to control the partisan impact on corporatism, I included the number of veto players and partisanship index as control variables.[40]

In addition to these political variables, *Trade Openness* is included to address the putative positive relationship between trade openness and corporatism,[41] and *Unemployment Rate* is introduced to control for any

38) Ivor Roberts and Beverly Springer, *Social Policy in the European Union: Between Harmonization and National Autonomy* (Boulder and London: Lynne Rienner Publishers, 2001), p. 16.
39) Scharpf (1997), Ch. 9.
40) These data are borrowed from Franzese (2001b).
41) Cameron (1984).

possible impact of macroeconomic conditions in each country on the maintenance of corporatism. Finally, *the lagged dependent variable* and the *1st-order spatial lag* are included to address serial and spatial correlation respectively.

3. Estimation Results and Discussion

Panel data analysis raises the issues of panel heteroskedasticity and autocorrelation. In order to correct panel heteroskedasticity, I estimated equation (3) by ordinary least squares (OLS) with panel-corrected standard errors.[42] Autocorrelation is a situation where the OLS assumption that error terms are independent of each other (zero covariance among error terms) is violated. Typically, autocorrelation is considered in terms of a time-series model, but it could happen spatially. That is, the issue of autocorrelation applies equally to all OLS models, whether they are based on time-series of observations, cross-sections, or combinations of both.[43]

To address both types of autocorrelation, I included both the 1st-order lag of dependent variable for the correction of serial correlation and the vector of spatially weighted dependent variable to deal with spatial correlation. The main idea of spatial correlation is that observations close to each other in space (termed neighbors) might influence each other so that residuals may be correlated across the neighbors.[44] To test this, I neighbored 15 countries according to their geographic vicinity and macroeconomic interdependence and created spatial weights matrix. After multiplying this matrix by residual vector, I standardized the product to get spatially weighted residuals. Simple test verifies that there is a spatial correlation with correlation coefficients of 0.23. The vector of spatially weighted

---

42) Nathaniel Beck and Jonathan Katz, "What To Do and (Not To Do) with Time-Series Cross-Sectional Data," *American Political Science Review* 89-3 (1995), pp. 634-647.

43) Michael D. Ward, Statistical Models of Political Process, unpublished manuscript, 2002.

44) Robert Franzese and Jude Hays, "Spatial-Econometric Models of Cross-Sectional Interdependence in Political Science Panel and Time-Series-Cross-Section Data," Political Analysis 15-2 (2007), pp. 140-164.

dependent variable is included to correct this problem.

The estimation results are reported in Table 2. The variables of interest are the monetary and fiscal regimes. Model 1 estimates the impact of these two variables on corporatism without considering the possible interactive effect of them while Model 2 hypothesizes that the impact of monetary regime should be conditional upon the characteristics of fiscal regime.

Table 2. *Estimates of the Impact of Macroeconomic Regimes on Corporatism*

VARIABLES	MODEL 1	MODEL 2
Monetary Regime	0.26 (0.08)***	-2.29 (0.70)***
Monetary Regime^2	-0.11 (0.08)	2.76 (0.72)***
Fiscal Regime	-0.16 (0.11)	- 0.53 (0.22)**
Monetary Regime* Fiscal Regime		3.26 (0.93)***
Monetary Regime^2* Fiscal Regime		-3.60 (0.90)***
No. of Political Parties	0.01 (0.01)	0.03 (0.01)**
Government Partisanship	-0.03 (0.01)**	-0.05 (0.01)***
Trade Openness	0.09 (0.05)*	0.08 (0.05)
Unemployment Rate	-0.02 (0.003)***	-0.02 (0.003)***
Corporatism t-1	0.60 (0.05)***	0.57 (0.05)***
Spatial Lag	0.30 (0.05)***	0.31 (0.05)***
CONSTANT	0.13 (0.08)	0.40 (0.15)***
N	390	390
R-squared	0.77	0.78
χ^2 (Prob. χ^2)	672.77 (0.0000)	736.76 (0.0000)

Data sources: Iversen (1999), Franzese (2001b), Kenworthy (2000), Golden-Wallerstein-Lange (2006), and IMF's *International Financial Statistics* (various years).
Note: (1) Estimation method is OLS with panel-corrected standard errors. Panel-corrected standard errors are in parentheses.
(2) *** p<0.01 ** p<0.05 * p<0.1

What is interesting in Model 1 is that out of two macroeconomic variables, only the characteristic of monetary regime has statistically meaningful relationship with corporatism. As monetary regime turns into non-accommodating one, we should expect the ascending degree of national corporatism while there is no statistically meaningful relationship between fiscal regime and corporatism. Yet, the hypothesized U-shaped relationship between monetary regime and corporatism is not detected. In order for this relationship to be U-shaped, it is necessary for the coefficient of monetary regime to be negative while, at the same time, that of the squared monetary regime to be positive. The former showed the opposite sign while the latter did not acquire statistical significance, which suggests that the relationship between monetary regime and corporatism is rather a linear one.

The story differs, however, when the possibly interactive effect of monetary and fiscal regimes is considered. In Model 2, the signs of monetary regime variables are consistent with the expectation, which confirms the U-shaped relationship between monetary regime and corporatism. As is expected, the increasing monetary non-accommodation exerts initially a negative influence on corporatism, but its impact turns into positive as the degree of monetary non-accommodation deepens.

These seemingly conflicting results between Model 1 and Model 2 can be explained by the nature of interactive model. In general, the effect of each independent variable under the interactive model is conditioned by the other variable's value in interaction.[45] For example, if the model under estimation is "$Y = ß_0 + ß_1X + ß_2Y + ß_3XY$," the marginal effect of X ($\partial Y/\partial X$) becomes $ß_1 + ß_3Y$. It is clear from this formula that the marginal effect of X will vary according to the values of Y and that $ß_1$ is the marginal effect of X when Y has zero value.

In Model 2, the coefficients of monetary regime variables represent their effects on corporatism under the condition that fiscal regime has a zero value. That is, the expected U-shaped relationship between monetary regime and corporatism requires that fiscal regime is fully accommodating (zero value). Yet, as fiscal regime becomes more non-accommodating, the relationship between monetary regime and corporatism becomes weak.

The marginal effect of monetary regime on corporatism in Model 2 is (-2.29+2*2.76+ 3.26**Fiscal Regime*+2*(-3.60)**Fiscal Regime*). Assuming Fiscal Regime has a zero value, this is equivalent to (-2.29+2*2.76). If *Fiscal Regime* becomes unity, the highest value, the marginal effect of

45) Cindy Kam and Robert Franzese, *Modeling and Interpreting Interactive Hypotheses in Regression Analysis* (Ann Arbor: University of Michigan Press, 2007).

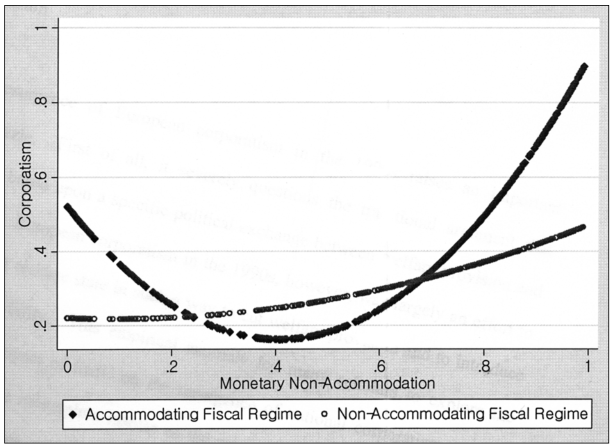
monetary regime comes down to (-2.29+2*2.76+3.26+2*-3.60), which is negative. This suggests that under the condition that fiscal regime is fully non-accommodating, the ascending value of monetary non-accommodation does not lead to any further increase in corporatist arrangement.

With respect to the hypothesis under consideration, this implies that there is a trade-off between monetary and fiscal non-accommodation. While the increasing monetary non-accommodation may intensify the propensity for deeper corporatist arrangement, this propensity is alleviated by the fiscal non-accommodation. This trade-off can be seen in Figure 1, which depicts the impact of monetary regime on corporatism under the varying fiscal non-accommodation.

As Figure 1 shows, the U-shaped relationship between monetary regime and corporatism is weakened as fiscal non-accommodation increases. Further, the comparison of two lines at the different values of monetary non-accommodation reveals that the rise and fall of corporatism is a function of the varying combination of monetary and fiscal regimes. At the accommodating monetary regime (low value of monetary non-accommodation), highly non-accommodating fiscal regime has dampening effect on corporatism. This suggests that corporatism should flourish when both monetary and fiscal regimes are accommodating, on which traditional corporatism model relies.

At the non-accommodating monetary regime (high value of monetary non-accommodation), fiscal non-accommodation also exhibits a dampening effect on corporatism. This general tendency, however, illuminates additional insight about the possibly substitute relationship between corporatism and fiscal non-accommodation under the condition of non-accommodating monetary regime. The level of corporatism under the non-accommodating monetary regime combined with non-accommodating fiscal regime is lower than under the situation combined with accommodating fiscal regime. The difference between two lines at the highly non-accommodating monetary regime is equivalent to the degree to which corporatism substitutes the fiscal austerity. As is discussed in section 3, corporatism can be a useful tool to deal with fiscal vicissitude under the condition of highly non-accommodating monetary regime. As such, if fiscal non-accommodation is guaranteed, the incentives to corporatism will decrease. Thus, the lower level of corporatism should be observed.

Figure 1. *The Conditional Impact of Monetary Regime on Corporatism*



These results suggest that the resurgence of European corporatism in the 1990s is a function of the characteristics of newly introduced macroeconomic regimes. European monetary integration is characterized by the introduction of non-accommodating monetary regime at the Union level. Under this circumstance, member states' incentives to corporatism are largely dependent upon their ability to keep non-accommodating fiscal regime. To the extent that they are successful in keeping fiscal non-accommodation, *ceteris paribus*, the need for corporatism will diminish. In turn, the incentives to corporatism will decline as the introduction of fiscal non-accommodation becomes promising.

Ⅴ. Conclusion

The resurgence of European corporatism in the 1990s raises an important empirical puzzle. First of all, it severely questions the traditional argument that corporatism is based upon a specific political exchange between welfare provision and wage restraints. European corporatism in the 1990s, however, was largely an effort to reform traditional welfare state in such a way to cut welfare provision and to introduce labor market flexibility. This empirical anomaly led many scholars to explore the possible positive impact of EMU on the resurgence of national corporatism. These studies, however, are incomplete insofar as the relationship among characteristics of macroeconomic regimes, social actors' preferences, and corporatism remains obscure.

This research directly explores this relationship by elaborating sectoral distributive model of macroeconomic regimes. The model developed in section 3 suggests that corporatism is a function of the characteristics of macroeconomic regimes and has a substitutive relationship with other macroeconomic policy tools. As such, the incentives to and level of corporatism should depend on the degree to which other macroeconomic tools are available. Unlike traditional models of corporatism, this model suggests that we should observe the rise of corporatism under the different configuration of macroeconomic regimes.

The empirical test using 15 OECD countries' data supports the hypothesis. As far as monetary regime is concerned, we should observe a high level of corporatism at both types of monetary regimes conditional on the characteristic of fiscal regimes. The regression results show that there exists a certain kind of trade-off between monetary and fiscal regimes with respect to the level of corporatism, which in turn suggests that corporatism has a substitutive relationship with other macroeconomic tools due to the specific trade-offs.

With respect to the relationship between European monetary integration and corporatism, these findings suggest that the resurgence of European corporatism is largely related to the degree to which member states can combine fiscal non-accommodation with non-accommodating monetary regime that is set up at the Union level. This partially answers the question of the strange combination between welfare retrenchment and corporatism. Recalling the sectoral model in section 3, the new corporatism in Europe should be one that guarantees the exposed sector dominance through the curtailment of traditionally large public spending. This could also be the reason why a country like Italy, which is famous for fiscal imprudence, is singled out as the new face of corporatism in the 1990s.[46]

REFERENCES

Baccaro, Lucio. "The Construction of 'Democratic' Corporatism in Italy." *Politics and Society* 3-2 (2002).

Beck, Nathaniel and Jonathan Katz. "What To Do and (Not To Do) with Time-Series Cross-Sectional Data." *American Political Science Review* 89-3 (1995).

Calmfors, Lars and John Driffill. "Bargaining Structure, Corporatism, and Macroeconomic Performance." *Economic Policy* 6-1 (1988).

Cameron, David. "Social Democracy, Corporatism, Labour Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society," in John H. Goldthorpe (ed.), *Order and conflict in contemporary capitalism*. Oxford: Oxford University Press, 1984.

Compston, Hugh. "The End of National Policy Concertation? Western Europe since the Single European Act." *Journal of European Public Policy* 5-3 (1998).

Crouch, Collin. *Industrial Relations and European State Traditions*. Oxford: Clarendon, 1993.

_______. "National Wage Determination and European Monetary Union," in Collin Crouch (ed.), *After the Euro*. Oxford: Oxford University Press, 2000.

Dyson, Kenneth. *The Politics of the Euro-Zone: Stability or Breakdown?* Oxford: Oxford University Press, 2000.

Eichengreen, Barry. "Fiscal Policy and EMU," in Barry Eichengreen and

46) Baccaro (2002); Pérez (2002); Regini (2000); James Walsh, "Political bases of macroeconomic adjustment: evidence from the Italian experience," *Journal of European Public Policy* 6-1 (1999), pp. 66-84.

Jeffrey Frieden (eds.), *The Political Economy of European Monetary Unification*. Boulder: Westview Press, 1994.

__________. *European Monetary Unification: theory, practice, and analysis*. Cambridge, Massachusetts: MIT Press, 1997.

__________ and Jürgen von Hagen. "Federalism, Fiscal restraints, and European Monetary Union." *American Economic Review* 86-2 (1996).

Franzese, Robert. "Institutional and Sectoral Interactions in Monetary Policy and Wage/ Price Bargaining," in Peter Hall and David Soskice (eds.), *Varieties of Capitalism*. New York: Oxford University Press, 2001a.

__________. "The Positive Political Economy of Public Debt: An Empirical Examination of the OECD postwar Experience." Paper presented at the Workshop on Political Economy, The Eitan Berglas School of Economics, Tel Aviv University, 30-31 January, 2001b.

__________ and Jude Hays. "Spatial-Econometric Models of Cross-Sectional Interdependence in Political Science Panel and Time-Series-Cross-Section Data." *Political Analysis* 15-2 (2007).

Garrett, Geoffrey and Christopher Way. "Public Sector Unions, Corporatism, and Macroeconomic Performance." *Comparative Political Studies* 32-4 (1999).

Golden, Miriam, Peter Lange, and Michael Wallerstein. "Union Centralization among Advanced Industrial Societies: An Empirical Study." Dataset available at http://www.shelley.polisci.ucla.edu/data. Version dated June 16, 2006.

Grote, Jürgen and Philippe Schmitter. "The Renaissance of National Corporatism: unintended side-effect of European Economic and Monetary Union or calculated response to the absence of European Social Policy?" *Transfer* 1-2 (1999).

Hall, Peter and Robert Franzese. "Mixed Signals: Central Bank Independence, Coordinated Wage Bargaining, and European Monetary Union."

International Organization 52-3 (1998).

Hix, Simon. *The Political System of the European Union*. London: Macmillan, 1999.

International Monetary Fund. *International Finance Statistics*. Washington, D.C.: International Monetary Fund, various years.

Iversen, Torben. "Wage Bargaining, Central Bank Independence, and the Real Effects of Money." *International Organization* 52-3.

_______. *Contested Economic Institutions*. Cambridge and New York: Cambridge University Press, 1999.

_______ and David Soskice. "Monetary Integration, Partisanship and Macroeconomic Policy." Paper presented at the 95th American Political Science Association meeting in Washington D.C., September 2-5, 1999.

Kam, Cindy and Robert Franzese. *Modeling and Interpreting Interactive Hypotheses in Regression Analysis*. Ann Arbor: University of Michigan Press, 2007.

Kenworthy, Lane. "Wage-Setting Measures: A Survey and Assessment." *World Politics* 54-1 (2001).

Lange, Peter, Michael Wallerstein, and Miriam Golden. "The End of Corporatism? Wage Setting in the Nordic and Germanic Countries," in Sanford M. Jacoby (ed.), *The Workers of Nations*. New York and Oxford: Oxford University Press, 1995.

Olson, Mancur. *The Rise and Decline of Nations*. New Haven and London: Yale University Press, 1982.

Pérez, Sofia. "Monetary Union and Wage Bargaining Institutions in the EU: Extrapolating from Some Member States Experiences." *Comparative Political Studies* 35-10 (2002).

Pochet, Philippe. "Renegotiating the Social Contract in the Shadow of EMU: Decentralization, Europeanization, or Renationalization?" Paper presented at the Center for European Studies, Harvard University, 28 October 1998.

Regini. Marino. "Between Deregulation and Social Pacts: The Responses of European Economies to Globalization." *Politics and Society* 28-1 (2000).

_______ and Ida Regalia. "Employers, Unions and the State: the Resurgence of Concertation in Italy?" *West European Politics* 25-1 (1997).

Roberts, Ivor and Beverly Springer. *Social Policy in the European Union: Between Harmonization and National Autonomy*. Boulder and London: Lynne Rienner Publishers, 2001.

Scharpf, Fritz. *Games Real Actors Play*. Boulder: Westview Press, 1997.

Soskice, David and Torben Iversen. "The Non-Neutrality of Monetary Policy with Large Price- or Wage-Setters." *Quarterly Journal of Economics* 115-1 (2000).

Streeck, Wolfgang. "From Market Making to State Building?" in Stefan Leibfried and Paul Pierson (eds.), *European Social Policy*. Washington D.C.: The Brookings Institution, 1995.

_______ and Philippe Schmitter. "From National Corporatism to Transnational Pluralism: Organized Interest in the Single European Market." *Politics and Society* 19-2 (1991).

Thelen, Kathleen. "Beyond Corporatism: Towards a New Framework for the Study of Labor in Advanced Capitalism." *Comparative Politics* 27-1 (1994).

Traxler, Franz and Bernhard Kittel. "The Bargaining System and Performance: A Comparison of 18 OECD Countries." *Comparative Political Studies* 33-9 (2000).

Walsh, James. "Political bases of macroeconomic adjustment: evidence from the Italian experience." *Journal of European Public Policy* 6-1 (1999).

Ward, Michael D. *Statistical Models of Political Process*, unpublished manuscript, 2002.

APPENDIX. *Descriptive Statistics*

Variables	Mean	Std. Dev.	Min.	Max.
Corporatism	0.48	0.27	0.02	0.91
Monetary Regime	0.59	0.30	5.53e-7	0.99
Fiscal Regime	0.79	0.12	0.46	0.98
No. of Political Parties	1.83	0.86	1	4.13
Gov't Partisanship	0.74	0.66	0	2.77
Trade Openness	0.50	0.25	0.08	1.40
Unemployment	5.51	3.58	0.002	18.40