Organized Market Economies and Unemployment in Europe: Is it Finally Time to Accept Liberal Orthodoxy?

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Introduction

An old specter is haunting Europe: the specter of liberal orthodoxy. I refer to the view that the only way for a nation to secure high levels of economic growth and employment is to develop an economy built around perfectly competitive markets, an ideal-type that implies weak trade unions, substantially deregulated financial markets, and inter-firm relations based on highly-competitive relationships mediated by legal contracts rather than long-term collaborative arrangements. Of course, this is an Anglo-American orthodoxy, developed since the eighteenth century by British and American economists, whose ideals have been implemented most extensively and with great success in the economies of the United States and the United Kingdom.

Whenever the continental European economies have experienced economic problems, the Anglo-American model has been urged on them as a solution. It inspired much of the advice they received about post-war reconstruction and was revived again during the 1970s to indicate how Europe should respond to 'stagflation' (Milward 1984; OECD 1977; Olson 1982; Ruggie 1982; Keohane 1984). Its policy prescriptions call for the deregulation of markets in labor and capital, retrenchment in social policy, and reductions in the state's role in the economy.

However, such prescriptions pose serious dilemmas for most European nations. Many have powerful trade union movements that resist efforts to deregulate labor markets (Calmfors and Driffill 1988). European value systems reflected in the strength of Social Democratic and Christian Democratic parties are inimical to the allocation of resources entirely by competitive markets (Polanyi 194; Esping-Andersen 1990; Kiesbergen 1996). Many European firms have developed strategies whose effectiveness depends on the non-market coordination that high levels of regulation make possible (Soskice 1991; 1994b). Accordingly, European nations have historically resisted wholesale movement toward an Anglo-American model of capitalism (Wood 1997a; Thelen forthcoming). This is not surprising. More surprising is that these nations have had successful records of economic performance, marked by rates of growth,

productivity increase, and unemployment that have often been superior to those of the American or British economies (see Table 1).

From the efforts of political economists to explain how nations that do not embrace economic liberalism still secure economic performance has emerged an important literature on comparative capitalism (cf. Hall 1998). One of its central contentions is that there are at least two viable ways of organizing a capitalist economy.[1] I will refer to one type as that of a 'liberal market economy' (LME) and the other as an 'organized market economy' (OME) (cf. Soskice 1991; Iversen 1994). Liberal market economies instantiate the ideals associated with perfect competition. Images of an organized market economy have evolved over time. In the 1970s, it was associated with the concept of 'neo-corporatism' built around coordinated wage bargaining (cf. Lehmbruch and Schmitter 1979; Goldthorpe 1984; Cameron 1984; Calmfors and Driffill 1988; Alvarez et al. 1991) and later defined in terms of distinctive financial market arrangements, employer associations, and production strategies (cf. Zysman 1983; Soskice 1991; Streeck 1992). The key point is that, as late as the 1980s, many Northern European nations still secured satisfactory levels of economic performance by maintaining organized market economies.

In recent years, however, high levels of unemployment have called this observation into question. In Sweden, rates of unemployment that averaged only 2 percent from 1964 to 1979, tripled during the 1990s, and Germany saw unemployment rise from 3 in the 1970s to 12 percent in the 1990s.[2] This experience has revived liberal orthodoxy: a chorus of commentators now argue that the European nations must deregulate financial and labor markets, cut-back social programs, and reduce government intervention in order to resolve their unemployment problems.[3] The creation of fifty million jobs in the United States since 1970 when the European Union created only ten million has lent force to such arguments. In a new context, comparative political economy faces an old question: can the European nations secure acceptable employment performance again without abandoning the institutions of an organized market economy? Is there still a viable alternative to market liberalism?

This essay proposes some tentative answers to these questions--tentative because full exploration of the issues would demand more space and evidence than this article can provide. I seek simply to provide a framework for approaching these issues, one distinguished by its analytical stance. Most investigations assume the problem is one of establishing whether the European economies can become more like the American. By contrast, I argue that there are at least two models on which effective economic performance has been based and investigate the problems and potential specific to the model that is often neglected, namely the organized market economies of Europe. Only if we consider the distinctive

Table One. Standard and Equilibrium Rates of Unemployment

	Average Rate of Unemployment				*Equilibrium Rate*
Country	*1964-1973*	*1974-1979*	*1980-1989*	*1990-1999*	*1990-1999*
Germany*	0.8	3.2	5.9	9.2	9.4
Switzerland	…	…	0.7	3.4	0.0
Austria	…	…	3.7	5.9	7.2
Norway	1.7	1.9	2.8	4.9	1.9
Sweden	2.0	1.9	2.7	6.2	6.1
Finland	2.3	4.4	4.9	11.9	10.9
Netherlands	1.3	4.9	9.7	5.8	1.1
Denmark	…	…	8.9	9.3	8.2
Japan	1.2	1.9	2.5	3.1	0.7
OME Average	**1.6**	**3.0**	**4.6**	**6.6**	**5.1**
France	2.2	4.5	9.0	11.2	10.1
Italy	5.5	6.6	9.5	10.9	10.0
Belgium	2.3	6.3	10.8	11.4	7.4
Spain	2.6	5.2	17.5	19.7	21.2
Portugal	…	…	7.5	5.7	7.4
Mixed Average	**3.2**	**5.7**	**10.9**	**11.8**	**11.2**
Britain	3.0	5.0	10.0	8.0	8.8
USA	4.5	6.7	7.2	5.8	7.5
Ireland	…	…	14.2	12.2	10.4
Australia	1.8	5.0	7.5	8.9	13.3
New Zealand	…	…	4.4	8.0	11.7
Canada	4.8	7.2	9.3	9.6	11.9
LME Average	**3.5**	**6.0**	**8.8**	**8.7**	**10.6**

Sources: OECD *Historical Statistics, 1960-1994:* Table 2.20; *OECD Economic Outlook No. 61:* Table 21; *OECD Economic Outlook No. 65*: Annex Tables 21, 52. * indicates, prior to 1993: West Germany. The equilibrium rate of unemployment has been calculated by adding the current account deficit as a percent of GDP to the rate of unemployment.

features of such economies, can we arrive at a precise diagnosis of the challenges they face and their potential for coping with these challenges.

The next section provides an overview of the two models of the political economy. The third provides an account of how the organized market economies were once able to secure low levels of unemployment. In the fourth section, I argue that changes in context have undermined the feasibility of the techniques used in the past. The fifth section explores the capacity of these economies to

surmount the new challenges they face and the sixth explores the institutional strains generated by these challenges. Although Europe contains a variety of economic models, I concentrate here on nations that can be called organized market economies, such as Germany, Sweden, Austria, Norway, the Netherlands, Denmark, and Finland, where the dilemmas are most acute (cf. Soskice 1998).

II. Two Models of the Political Economy

I begin by reviewing the principal differences between liberal and organized market economies, drawing on the models developed by many scholars with an emphasis on the recent formulations of Soskice (1991, 1998; Hall and Soskice forthcoming; cf. Katzenstein 1985; Sharpf 1990; Hall 1986; Zysman 1983; Goldthorpe 1984).[4] The latter see the firm as the central actor in the economy, responsible for the key decisions that ultimately aggregate into overall levels of economic performance. Each firm faces a variety of coordination problems associated with the recruitment, compensation, and training of labor, securing access to finance and technology, and managing relations with suppliers, clients and employees. Thus, the principal challenges facing the firm are relational and its core competencies turn on the strategies devised to manage these relations (cf. Milgrom and Roberts 1992; Aoki 1994).

The defining feature of a liberal market economy is the degree to which its firms rely on the price signals arising from competitive markets and formal contractual relations to resolve such coordination problems. Here, firms typically secure finance via arm's length relations in which equity markets play a large role and bank lending turns heavily on cash flow or collateral. The access of most firms to finance depends heavily on their short-term profitability. Labor is recruited from relatively unconstrained labor markets where trade unions are often weak. Wage determination lies primarily at the firm or plant level and management retains substantial prerogatives over firing. Access to production inputs and technology is generally secured by competitive bidding among suppliers, licensing or hiring technical personnel from fluid labor markets. Vocational training is the responsibility of the worker or individual firm and emphasizes general skills.

By contrast, an organized market economy is defined by the extensive degree to which it relies on institutions other than market mechanisms to resolve the coordination problems facing firms, including relatively-encompassing trade unions, works councils, employers associations, cross-shareholding, and other linkages between firms. These institutions allow firms to engage in high levels of 'non-market coordination' with each other and their employees that have the character of strategic interactions, by providing facilities that allow the actors to exchange information in a context of credibility, to monitor others’ behavior more

closely than market relations allow, to sanction deviation from agreed courses of action, and to deliberate about changes to such arrangements. Thus, corporate finance is usually provided on terms that are more sensitive to a firm's long-term strategy than its short-term profitability by banks or other firms with extensive capacities for network monitoring of firm behavior. Equity markets featuring high levels of cross-shareholding inhibit hostile takeovers and facilitate the exchange of inside information among firms. Labor is recruited on markets that are dominated by powerful trade unions or employer associations often accompanied by institutions that limit managerial prerogatives over lay-offs and work reorganization. Firms typically secure access to inputs and technology via long-term collaborative arrangements whose viability depends on collective capacities for standard-setting and the enforcement of implicit contracts. Vocational training is often accomplished through collaborative schemes that encourage the development of industry-specific skills.

Although this is a schematic account identifying two ideal types, it allows us to identify some of the distinctive strengths and weaknesses of each economy (cf. Hall and Soskice forthcoming). The principal strengths of liberal market economies flow from the capacities they vest in corporate managers to redeploy resources quickly both within the firm and across sectors. Labor can be recruited, laid off, or redirected with relative ease. Well-developed equity markets push capital quickly from spheres offering low returns to those promising higher ones. As a result, these economies tend to be propitious sites for radical innovation of the sort that involve very new technologies or entirely new product lines and high-risk investments (Soskice 1994a). Firms in such economies also tend to be effective at controlling labor costs.

The central weaknesses of liberal market economies flow from the low levels of support they provide for the long-term relationships associated with incomplete contracting among firms or between firms and their employees (cf. Milgrom and Roberts 1992) and the absence of such arrangements in some spheres inhibits their development in others. For instance, the salience of short-term profitability to finance limits the capacity of firms to offer long-term employment contracts, which may reduce the willingness of employees to share their private knowledge or to acquire firm- or industry-specific skills. Accordingly, companies in liberal market economies often find it difficult to raise some kinds of skill levels, to sustain new projects through a downturn in demand or to develop the kind of long-term relations with customers and suppliers that facilitate incremental innovation in products and production processes.

The strengths and liabilities of organized market economies are virtually the mirror-image of those in liberal market economies. Such economies draw their strengths from institutional infrastructures that support long-term relationships alongside market relations. Thus, firms enjoy superior capacities for

vocational training and competitive advantages in sectors that demand highly-skilled labor (Finegold and Soskice 1988). The availability of long-term finance allows firms to develop 'implicit contracts' with employees that encourage them to share knowledge with management (cf. Aoki 1994). Thus, quality-control is easier and close relations with suppliers facilitate continuous innovation. Organized producer groups provide mechanisms for aligning wage growth with productivity growth in the economy as a whole (cf. Golden 1993; Soskice 1990).

The weaknesses of organized market economies flow largely from the slow speed with which they redeploy resources. Financial systems that rely heavily on network reputations and discourage hostile takeovers can be slow to shift funds from areas of low return to those offering higher ones. Where lay-offs are more difficult, it is harder for firms to cut costs and riskier for them to invest in new sectors or technologies where failure might leave them holding labor they cannot shed. Although long-term relationships inside and among firms offer gains from reorganization that might not otherwise be possible, realizing those gains may be a slow process demanding the renegotiation of skill categories, task assignments and resource allocation with multiple actors.

This portrait implies that national economies derive comparative institutional advantages from the coordinating capacities embedded in national institutional infrastructure, and there is considerable evidence that these give rise to national patterns of corporate strategy and economic performance (cf Knetter 1989; Burgess and Knetter 1996; Casper 1998; Lehrer 1997b).

III. Explaining Employment Performance in Organized Market Economies

To understand whether organized market economies can reduce the high levels of unemployment they have recently experienced, we need to explore how they coped with unemployment problems in the past. Why were they able to secure relatively low levels of unemployment for so many years?

It should be obvious that the answer to this question cannot be drawn entirely from liberal orthodoxy. Many organized market economies have long had powerful trade union movements and generous social benefits that militate against the kind of labor-market adjustment on which liberal economics relies. We need an alternative explanation for their economic success. It can be found in the presence and operation in these economies of three relatively-integrated structural capacities: the capacity *to restrain wages* via the coordination of wage bargaining, the capacity *to secure continuing productivity gains* via incremental improvements in product and production processes, and the capacity *to mop up ‘excess’ labor* via distinctive social policy regimes. Each capacity is structural in that it derives from the institutional infrastructure of the political economy, and together they have been central to the employment strategies of Northern Europe.

Although liberal orthodoxy normally associates powerful trade unions with labor-market rigidities, a large literature shows how powerful trade unions and employers associations of the sort commonly found in organized market economies can generate the coordinating capacity to produce nominal and real wage moderation (). Powerful trade unions seem to be a drawback only in the absence of institutional structures for the coordination of wage bargaining (cf. Przeworski and Wallerstein 1982; Calmfors and Driffill 1988; Scharpf 1990; Soskice 1990; Alvarez et al. 1991; Golden 1993; dore et al. 1994; Hall and Franzese 1998; Iversen 1998).

In such systems, however, wage restraint is only sustainable over the long term if it is leavened by some gains in real wages and these are possible without a decline in international competitiveness and corresponding unemployment only if the nation can generate sustained increases in productivity. Accordingly, the structural capacity for continuous productivity gains present in these economies is a crucial complement to systems of coordinated wage bargaining. Powerful trade unions and works councils militate against the use of lay-offs to secure such gains, but institutional structures that provide long employment tenures and active worker participation in the management of the production process enhance the ability of firms to exploit the private knowledge of the workforce and secure continuous improvements in product and production processes (cf. Aoki 1994; Milgrom and Roberts 1992; Soskice 1994a). Industry-wide trade unions and employer associations are also conducive to the development of training systems that give firms access to highly-skilled labor and the levels of productivity it offers (Culpepper 1997).

In short, the interaction of these two structural features have allowed many organized market economies to maintain relatively low rates of unemployment in the context of substantial real wage increases offset by productivity growth. We can think of this dynamic as the historic 'employment machine' of the organized market economies. It is reflected in rates of increase in labor productivity that have been consistently higher than in liberal market economies, maintaining their competitiveness despite the higher rates of real wage growth there that liberal critics often emphasize.[5]

However, this employment machine has a drawback: it encourages firms to respond to rising real wages by economizing on labor. To some extent, this is offset by structural capacities for enhancing productivity but, over time, real wage increases will bias firms toward more capital intensive forms of production that militate against job growth (cf. Berthold *et al.* 1999). Thus, although these economies provide a core labor force with high levels of job security and wages, they are often not as effective as liberal market economies at expanding employment. They face the potential for excess supply in the labor market. Accordingly, the third leg of the triad behind the operation of these economies for

some decades has been a set of social policy regimes designed to limit the size of the active labor force or to mop up excess labor there. Among the organized market economies of Europe, two kinds of social policy regimes address these problems differently (cf. Esping-Andersen 1990; 1999).

One regime, characteristic of the Nordic economies, uses the expansion of public sector employment, notably in services such as day-care, health-care, and education, to absorb excess labor. Here, social democratic parties that attach high value to access to work and have few reservations about high levels of government spending, have expanded both the public sector and the workforce (cf. Wren 2000). Generous maternity benefits, day-care provision, and regulations governing absenteeism have drawn women into the workforce and increased employment in public services.

The other approach, typical of what Esping-Andersen (1990) calls the 'conservative' welfare states of Germany, Austria, and the Netherlands, uses generous early-retirement programs, maternity and disability benefits to encourage many to exit or remain outside the labor force, thereby reducing the total numbers seeking work and classified as unemployed. Christian Democratic parties that embrace the traditional family structure and eschew a large public sector have been influential proponents of this approach.

The differences between the two regimes show up in total employment which tends to cover 70-75 percent of the adult population in the social democratic regimes and only 50 to 65 percent in nations with conservative social policy regimes. In different ways, however, these two social policy regimes have depressed unemployment in the organized market economies for some years (Mares 1997; Ebbinghaus and Manow 1998; Stephens and Stephens 1999; Scharpf 1999).

Table Two. Percent of Employment in the Agricultural, Industrial and Service Sectors

Country	*1960*			*1974*			*1994*		
	Agri	Indstry	Srvices	Agri	Indstry	Srvices	Agri	Indstry	Srvices
Germany	14	47	39	7	47	46	3	38	59
Switzerland	15	46	39	8	44	48	4	29	67
Austria	23	40	37	11	42	46	7	33	60
Norway	22	36	43	11	34	55	5	23	71
Sweden	16	40	44	7	37	56	3	25	72
Finland	35	33	32	16	36	48	8	27	65
Netherlands	10	41	50	6	36	58	4	23	73
Denmark	18	37	45	10	32	58	5	27	68
Japan	30	29	41	13	37	50	6	34	60
OME Average	**20**	**39**	**41**	**10**	**38**	**52**	**5**	**29**	**66**
France	23	38	40	11	39	50	5	27	68
Italy	33	34	34	18	39	43	8	32	60
Belgium	9	45	46	4	41	55	3	29	68
Spain	39	30	31	23	37	40	10	30	60
Portugal	44	31	25	35	34	31	12	33	56
Mixed Average	**29**	**36**	**35**	**18**	**38**	**44**	**7**	**30**	**62**
Britain	5	48	48	3	42	55	2	24	72
USA	9	35	56	4	33	63	3	24	73
Ireland	37	24	39	23	33	45	12	28	60
Australia	11	39	50	7	37	58	5	24	71
New Zealand	15	39	47	11	36	53	10	25	65
Canada	13	33	54	6	31	63	4	23	73
LME Average	**15**	**36**	**49**	**9**	**35**	**56**	**6**	**25**	**69**

Source: OECD *Historical Statistics, 1960-1994*: Tables 2.9, 2.10, 2.11, 2.12. Totals do not always sum to 100% because of rounding.

IV. Changes in the Context for Successful Employment Performance

If we could simply extrapolate this analysis of the past into the future, the outlook for the organized market economies of Europe would be relatively good. These economies have had distinctive capacities for maintaining low levels of unemployment. However, the situation is neither so simple nor so promising. The successful operation of this ‘employment machine’ has depended on the presence of several contextual features that may no longer obtain in: (i) the production regime, (ii) the social regime, and (iii) the macroeconomic policy regime.[6]

i. The Production Regime

The employment machine of the OMEs was especially feasible when employment was concentrated in the industrial sector because, as Iversen and Wren (1996 cf. Schettkatt 1992) point out, industrial production takes a form that has long been provided greater scope for rapid productivity gains than the agricultural or service sectors. Indeed, the industrial sector has been notably large in many organized market economies (see Table 2).

In recent years, however, the size of the industrial sector has been declining and the service sector now accounts for most of the growth in economic activity and employment in the developed world (Esping-Andersen 1995; Iversen and Wren 1996). This is significant because many analysts suggest that the rate of increase of productivity is lower in the service sector than in the industrial sector. Although we should be cautious about taking this as a fact that can be projected into the future because productivity in services is difficult to measure and new technologies may improve it considerably, the slow rate of productivity growth in services must be taken seriously.

Two important implications follow. First, if the European economies are to create a significant number of new jobs, they will have to do so in services. Second, if productivity increases in services cannot match high and rising real wages, the organized market economies may not be well-equipped to create jobs there. Their employment strategies may have been more suitable for an industrial than a post-industrial economy. This shift in the sectoral structure of the economy may confer relative advantages instead on liberal market economies, whose institutions provide more support for low-wage labor and for corporate strategies that do not depend so heavily on continuous increases in productivity.

ii. The Social Regime

The social policy regimes that once underpinned the employment strategies of the organized market economies are also coming under pressure from several directions whose importance varies by regime.

The conservative regimes are challenged by an aging population that is reducing the numbers in work available to support those who are retired. The result is a fiscal crisis in these welfare states where benefits may have to fall by half or social charges double to support the number of pensioners expected in 2020. This calls into question strategies that have encouraged exit from the labor force or early retirement to reduce levels of unemployment (cf. Scharpf and Schmidt 2000). Long-run relief is available from cultural trends that are bringing more women into the labor force; but in the short-term this also swells the ranks of the unemployed especially when women find entry into traditional positions in the core economy difficult or seek jobs that existing labor regulations do not support.

Because they have higher rates of total employment, many nations with social democratic policy regimes face less acute challenges from demographic change. But most have reached the limits to which employment in the public sector can be expanded, and there is some question whether these nations can maintain the high tax rates that finance public sector employment in the face of the competitive deregulation that that more intense global competition may inspire (cf. Glyn and Rowthorn 1988; Dehejia and Genschel 1998). In sum, the social policy component of the employment strategies utilized by organized market economies in the past may no longer be as viable in the coming years.

iii. The Macroeconomic Policy Regime

Despite the tendency of liberal economics to attribute unemployment to labor-market rigidities flowing from government regulation and strong trade unions, there is substantial evidence that the character of macroeconomic policy can also affect it. The sharp increase in unemployment in Europe during the 1990s coincided with tight monetary policies that originated with the German *Bundesbank* and were then transmitted throughout Europe by the fixed exchange rates of the European Monetary System followed by the transition to monetary union whose convergence criteria put severe restrictions on the fiscal and monetary policies of many of the European nations. The American job expansion was fueled by buoyant levels of aggregate demand, fed by the Reagan-era deficits and later an accommodating monetary policy, while levels of demand in Europe stagnated. Several economists have argued that a significant portion of European unemployment can be explained as the effects of macroeconomic policy and there is some evidence for this in the right-hand columns of Table 1 which adjust for differences in demand by adding the current account deficit (as a percent of GDP) to the the current rate of unemployment (Soskice 1998, forthcoming; Fitousi and Phelps 1986; Fitousi 1997; cf. Blanchard 1999). They show that equilibrium rates of unemployment have generally been lower in the organized market economies than in their liberal counterparts.

However, macroeconomic policies can matter in a number of other ways as well and notably to the capacity of wage bargaining systems to deliver the wage moderation that is conducive to low levels of unemployment. Martin (1979) argues that the effective operation of the Rehn-Meidner model in Sweden depended on restrained fiscal policies. Iversen (1999) suggests that centralized bargaining systems work best under an accommodating monetary policy. And several analysts argue that bargaining systems coordinated at the industry level function most effectively under non-accomodating policies (Soskice and Iversen 1999; Hall and Franzese 1998; Iversen 1998, 1994; Franzese 1994). Over time, the organized market economies of Europe developed macroeconomic regimes

that were conducive to the efficient operation of the institutions organizing their political economies.

Thus, the advent of Economic and Monetary Union (EMU) has important implications. Even if the new European central bank pursues relatively accommodating policies, which is far from certain given its independence, because national monetary policy is no longer possible, the context within which national industrial relations systems operate has changed. Nations with centralized bargaining systems can no longer count on accommodating monetary regimes and bargaining has shifted to the industrial level in several of them (cf. Iversen 1994). Those where bargaining is coordinated at the industrial level no longer have central banks that can respond directly to national wage negotiations so as to enhance wage discipline across sectors, as the *Bundesbank* once did, since the European central bank must consider rates of inflation across the continent (Hall and Franzese 1998; Soskice 1997). Thus, a change in macroeconomic regime is forcing many of the organized market economies to reorganize the institutions and practices on which they have long relied for wage coordination.

At a more general level, EMU also puts pressure on these nations to modify their labor market regulations. Since its members can no longer deploy a national monetary policy to respond to economic shocks, which may often be asymmetric across the union, the burden of adjustment to such shocks must be borne more heavily by labor markets; and many nations are considering reforms to labor regulations and social policies designed to render wages more flexible and labor more mobile. Some countries, such as the Netherlands, have devised coordinated responses to this challenge that reinforce the organized character of their economies, but others may be pushed toward deregulation.

In sum, important developments in the production regime, social regime, and macroeconomic regime have altered the context for unemployment strategy in ways that call into question the viability of the practices utilized in past decades by the organized market economies to keep unemployment low. Some adjustment in strategy is inevitable. Must it entail wholesale deregulation? To address this question, we should look at the new challenges that changes in the contemporary world now pose for these nations?

V. Economic Challenges at the Turn of the Century

The most prominent challenges generated by recent economic and political developments are those associated with: i. a technological and managerial revolution, ii. the pressures of globalization, and iii. the rise of the service sector. Outlining each in brief terms, I will assess the capacities of the organized market economies to deal with them.

i. Coping with a New Technological Revolution

A certain amount of technological change is always taking place. However, economic history is punctuated by moments when such changes are so far-reaching that they transform the business of many sectors at the same time, creating an industrial revolution. Innovations associated with steampower, iron and steel-making, electrical goods, and the internal-combustion engine were far-reaching enough to do so (cf. Landes 1969). At the close of the twenieth century, developments in microprocessing, telecommunications, and biotechnology again seem to have this character: they are transforming the nature of products, production, and distribution across many sectors simultaneously.

Similarly, new approaches to the organization of business, such as the invention of the assembly line or multidivisional form, occasionally display such power that they transform corporate structures and strategy around the world (cf. Chandler 1962; 1974). Once again, we are seeing a revolution here as well, based on a new set of practices associated with just-in-time inventory systems, team methods of production, quality circles, new forms of sub-contracting, and customized production strategies, all demanding extensive reorganization of relations inside firms and among them (cf. Womack et al. 1990). Many of these managerial techniques have been adopted around the world under the impetus of that most powerful motor for institutional isomorphism, the force of competition in international markets, which has been intensified by growing international interdependence; and the new microprocessing and telecommunications technologies have rendered many of these practices more feasible.

These developments have serious implications for employment. First, they mean that many of the jobs available in coming years will be in entirely new sectors devoted to the development of such technologies in semiconductors, software, and bioengineering. Can the organized market economies create jobs in such sectors? Second, to remain competitive, firms in all sorts of sectors will have to build these technologies into their production and distribution processes. Can firms in the organized market economies do so? Finally, firms will also need to adopt the new managerial techniques to compete effectively. Can enterprises in the organized market economies make effective use of these techniques?

The first of these challenges poses the greatest problems for organized market economies. The orientation of their financial markets to long-term monitoring rather than to short-term risk-taking, lengthy employment tenures, and highly-consensual systems of decision-making make it more difficult for such economies to shift resources, whether in the form of labor or capital, across sectors or into radically new product lines rapidly.[7] Although some European nations have made inroads where they already had a foothold, as in pharmaceuticals and telecommunications, many have not been able to take full advantage of the potential for employment growth in such high-growth sectors as semiconductors or biotechnology (cf. Ziegler 1997). Nor have firms in the organized market economies of Europe been adept at the radical innovation that drives growth in these new sectors (Hall and Soskice, forthcoming; Hall 1997).

As liberal orthodoxy suggests, the structures of a liberal market economy are better suited to such tasks. Since managerial prerogatives are high in such economies, it is easier for firms to embark on new ventures and to reorganize to accommodate such changes (cf. Lehrer 1997b). Financial markets with high levels of capital mobility and venture capital and fluid labor markets make it easier for firms in such economies to assemble the capital and labor needed to move into radically new pursuits and more feasible because they know they can divest those assets if the endeavors do not prove profitable. This encourages risk-taking, especially in new technologies, and the strength of the American economy in many sectors dominated by radical innovation provides support for this view (cf. Soskice 1994a).

However, the situation of the organized market economies is far from entirely bleak. In many respects, they are better-placed than their liberal counterparts to meet the other two challenges that this new technological revolution poses.

With a highly-skilled workforce oriented toward continuous improvement in products and production processes, these economies can readily incorporate new technology into existing products and production processes (Soskice 1994a). Although such changes often require renegotiation of skill categories and job tasks because of the extensive involvement of employees in corporate decision-making, once this has been accomplished, that involvement means that firms can often count on more extensive cooperation from their employees than their Anglo-American counterparts secure.

Moreover, for full effectiveness, many of the new managerial techniques rely on incomplete or relational contracting of the sort that has long been practiced in organized market economies and for which their institutions and dense business networks provide ample support (cf. Casper 1997). This is not surprising given that many such techniques originated in Japan, itself an organized market economy. Conversely, as many Japanese transplants have

found, it can be more difficult to implement such techniques in a liberal market economy, where there are few supporting institutions for them. Nations like Germany and Sweden have long had high levels of quality control and product customization of the sort that the new managerial revolution emphasizes. In short, although the organized market economies of Europe are likely to be slower to shift resources into some of the new sectors created by this technological revolution, in other respects, they are well-equipped to take advantage of it.

ii. Coping with Globalization

Every age has a term that encapsulates the ideals and anxieties of the time. In Europe today, that term is surely 'globalization'. It captures the hopes of some for a new transnational community and the fears of many that international forces beyond the control even of governments will destroy their jobs and culture. As such, the term has become highly ambiguous. I use it to refer to the processes that follow from recent increases in the flows of goods and capital across national borders, inspired by declining transportation and communication costs, falling trade barriers, the expansion of international financial markets, and the growing accessibility of foreign markets. Although these processes have affected all nations, their impact has been strongly felt in Western Europe, where development of a single European market and democratization to the South and East have intensified competition and open up new production sites. Firms now face greater incentives to locate abroad and to rationalize their operations so as to compete more effectively in global markets.[8]

What impact will globalization have on the organized market economies of Europe? Liberal orthodoxy offers a clear-cut answer: globalization is likely to shift employment away from such economies unless they deregulate, truncating social programs and labor regulations. Much of the political discomfit in Europe today arises because this diagnosis offers the organized market economies a highly unpalatable choice: dismantle the institutions many there associate with social progress or face higher levels of unemployment.

However, there are good grounds for questioning core elements of the conventional image of globalization on which this diagnosis rests. First, it regards firms as essentially similar across nations and subject to the same incentives. Second, it associates firm competitiveness almost exclusively with labor costs. From this, it follows that many firms will be tempted to move their production off-shore in search of cheaper labor. Third, it posits a particular political dynamic. Governments will come under increasing, and potentially irresistible, pressure from business, backed by threats to exit the national economy, to deregulate so as to lower domestic labor costs, reduce rates of taxation, and render domestic markets more flexible. What resistance there is to such steps will come from trade unions seeking to protect the wages of their

members and social democratic parties trying to preserve social programs. Thus, the model postulates a frontier defined by a trade-off between unemployment and liberal policies and predicts that the position of any nation on it will be determined largely by the amount of political resistance that labor and the left can mount to such proposals. (Ohmae 1991; Reich 1994).

In the short term, this model forecasts substantial woe for organized market economies, as strong labor movements and social democratic parties generate conflict over deregulatory reform and delay it, raising levels of unemployment. In the long term, it predicts that economic institutions and public policies will converge across nations driven by processes of competitive deregulation. Thus, contemporary views of globalization contain a 'convergence hypothesis' analogous in force, but considerably less sanguine in social implications, to the one generated forty years ago by theorists of industrial society (cf. Kerr 1973; Graubard 1964; Berger and Dore 1995).

To date, those who have challenged this view have generally tried to show that the internationalization of trade and finance is not as unprecedented or extensive as many suppose or that globalization does not mean that nation-states have been superseded because the architects of the international regimes producing it are national governments(cf. Wade 1996; Boyer 1996; Cohen 1996). There is some validity to both views.

However, there are even stronger grounds for challenging the conventional image of globalization, rooted in the observation that the institutional differences between liberal and organized market economies create comparative institutional advantage. Theories of comparative economic advantage have been central to international economics for over a century but most turn on national differences in factor endowments (cf. Stolper and Samuelson 1941). More recently, it has been suggested that comparative economic advantage may also derive from the institutional structures of a nation (Zysman 1994; Nelson 1993; cf. Porter 1990). This intuition is congruent with the observation of ‘endogenous growth’ theorists that economic growth in most nations cannot be explained entirely by changes in the level of capital, labor and technology there (Romer 1986; Grossman and Helpman 1994). But most studies anticipating comparative institutional advantages remain vague about how they are generated.

Recent analyses of the differences between liberal and organized market economies, however, specify the sources of comparative institutional advantage with much more precision (Soskice 1998; Hall and Soskice forthcoming). They suggest that firms derive distinctive advantages from the institutional structures available for various kinds of coordination in the economy. Some kinds of activities can be pursued more efficiently where there are plentiful mechanisms for non-market coordination of the sort found in organized market economies,

while others can be accomplished more efficiently in liberal market economies where inter-firm and intra-firm relations are mediated more heavily by market mechanisms (cf. Hall 1997). Soskice (1994a) has shown, for instance, that the two kinds of economies are conducive to quite different types of innovation.

Such a perspective calls into question the core postulates of the conventional view of globalization. It rejects that proposition that firms are essentially similar across nations, suggesting instead that firms will develop nationally-distinctive strategies to take advantage of the institutional infrastructure present in their economy. Although many assume that all firms will behave like American corporations, firms in different types of economies tend to pursue quite different strategies (cf. Soskice 1998; Knetter 1989; Burgess and Knetter 1996; Schettkat 1992; Lehrer 1997b).

Second, this approach suggests that firms in organized market economies may not be as mobile as conventional views of globalization imply. Other things being equal, companies will prefer lower labor costs; but many firms in organied market economies compete on quality as well as price and derive a significant portion of their competitive edge from the institutional infrastructure supporting various kinds of non-market coordination there. They may be reluctant to give up that infrastructure simply for the sake of cheaper labor, and few nations offering low-cost labor also provide this kind of institutional support. Indeed, it is firms in liberal market economies, which compete more frequently on price and depend primarily on market mechanisms to mediate their relations with other actors, that will be more likely to leave the national economy in search of low-cost labor. Lane (1997) finds that German firms are more reluctant to move their operations abroad than British firms.

Third, while this approach admits that many firms will move components of their operations abroad when opportunities to do so increase, it suggests that the dynamic driving this movement may not conform to conventional views. Instead of roaming the world for cheap labor, firms are just as likely to use the enhanced possibilities for movement to exploit the benefits available from cross-national variation in the institutional frameworks of political economies. Firms may move to liberal market economies in order to secure the opportunities for radical innovation that they offer, as when German banks locate their merchant banking in London and European pharmaceutical companies place laboratories in the U.S; but firms may also move toward organized market economies to secure access to the skilled labor, high levels of quality control, and other institutional advantages they provide, as when General Motors' locates its new engine plant in Dusseldorf.

Finally, this perspective calls into question the political dynamic that is conventionally associated with globalization, namely one which pits labor against capital as business interests press governments for greater deregulation. We are

likely to see such conflict in liberal market economies where business will be interested in deregulation because it can sharpen the effectiveness of the market mechanisms on which the firms there depend for coordination. In organized market economies, however, large portions of the business community may resist deregulation in order to preserve the institutional infrastructures supporting the kind of non-market coordination on which they rely for competitive advantages. Here, the pressures of globalization may even unite business and labor interests in defense of arrangements that both find useful, as Wood (1997), Thelen (forthcoming) and Swenson (1989) have found in detailed case-studies. Thus, political pressure to deregulate in organized market economies may be less substantial than conventional wisdom postulates

In short, while firms in organized market economies can be expected to move some of their operations and assets abroad as they search for market access and market share in a globalizing economy, this need not produce domestic deregulation or unemployment. Just as the American economy has long benefited from the reach of its multinational enterprises, so may the Europeans (cf. Doremus et al. 1998).

iii. Coping with the Rise of the Service Sector

Equally important challenges confronting the organized market economies today stem from the rise of the service sector (see Table 2). If the Europeans are to create significant numbers of jobs, they will have to do so in services. This development has breathed new life into liberal orthodoxy. Demand for many kinds of services, especially in retailing, personal or domestic services, tourism, and restaurant work, is highly price-elastic and positions there are often associated with low wages and low rates of productivity growth. Accordingly, even sophisticated analysts have begun to speculate that job creation in the service sector may require widespread acceptance of low wage-rates, higher levels of income inequality, reductions in social benefits to lower the reservation wage or non-wage labor costs, and the expansion of part-time or temporary employment (cf. Iversen and Wren 1996; Scharpf 1997; Esing-Andersen 1999).

These proposal pose profound challenges to organized market economies where powerful trade unions and political parties committed to social equality have long sought to increase wage floors and reduce income differentials. To the many Europeans who believe that economic progress means shorter working hours, more egalitarian wage structures, and greater job security, such measures seem a retrograde step. At best, efforts to introduce such measures threaten the social consensus that underpins the operation many political economies. At worst, they threaten the regulatory foundations on which the capacity for non-market coordination has been built.

However, there are several reasons for believing that the European economies may be able to create service-sector jobs without wholesale deregulation. First, despite the emphasis of some on personal services and retailing, the service sector is a broad one, including business services in accounting, finance or advertising, health care, and education where many positions demand high skills and the productivity that can justify relatively high wages. Employment can be created in many spheres of services without substantially increasing income inequality or job insecurity.

Second, as Esping-Andersen (1996) points out, the route taken toward service section expansion in the United States, where low wages and labor-market flexibility have generated jobs in retailing, personal and food services, is not the only possible one. The Nordic nations have already expanded employment in health, education and social services, not by lowering wages but by expanding public provision of such goods (cf Iversen and Wren 1998). There are some trade-offs here: the tax rates required to fund job expansion in these sectors may squeeze disposable income enough to limit job growth in personal services, but this route to service sector expansion is available to all the organized market economies of Europe at least on a modest scale.

The economies in most difficulty are those led by Christian Democratic parties reluctant to expand the public sector enough to create service employment there but committed to generous social programs and labor regulations that discourage job creation in private services by raising the reservation wage and limiting labor flexibility (Wren 2000; Scharpf and Schmidt 2000).[9] However, there may be ways to expand the service sector even here. As more women enter the workforce in these nations, the demand for many kinds of services that housewives once performed is growing, as is the pool of women available for service-sector work, often on a part-time basis. The result is likely to be some expansion in services.

Moreover, selective regulatory changes that stop well short of large-scale deregulation, such as those that permit the extension of shop hours and part-time employment, can improve service sector growth even here. As Scharpf (1997) has suggested, by reducing the social security taxes that make up almost half of labor- costs in many of these economies, notably on positions at the bottom of the wage distribution, the cost of labor could be reduced to encourage job expansion without radically without altering wage distributions or the disposable income of workers. Of course, the problematic political issue is how to replace the government revenue lost with such initiatives, but higher taxes on assets or incomes might be used to make up the shortfall. It can be difficult to mobilize political consent for such measures, but French governments have already begun to take such moves, coupled to more means-testing of social benefits, and there is substantial potential for this in most such nations (cf. Levy 2000).

Finally, the oft-repeated premise that productivity in services cannot grow fast enough to support real-wage increases of the sort that coordinated bargaining systems tend to demand may well be incorrect. The technological innovations of the new industrial revlution in micro-processing and telecommunications lend themselves to applications in the service sector and may well facilitate more rapid productivity increases there in the coming years. In this case, the organized market economies will find it easier to accommodate expanded service sector employment without substantial modifications to their wage or industrial relations structures. In short, job creation should be possible in the organized market economies even within the context of post-industrialism.

VI. Institutional Convergence and the Politics of Adjustment

Familiar processes of *hysterisis* make it difficult for nations to reduce rates of unemployment once they have has risen, especially when the incidence of long-term unemployment is high as it is in many European economies; and some features of these economies, including their capital intensity, high non-wage labor costs, and levels of employment protection, mean that the process of lowering unemployment rates may be more protracted than it would be in some liberal market economies (cf. Blanchard and Summers 1986; Blanchard 1999; Berthold *et al.* 1999). In general, adjustment processes of this sort should be slower in organized market economies where the presence of institutionally-entrenched producer groups means that many facets of adjustment must be negotiated and cannot be accomplished simply through changes in relative market prices. This is a cost borne by economies that promote extensive forms of non-market coordination, high real wages, and extensive social protection. For these reasons, any decline in unemployment in continental Europe is likely to be gradual.

However, I have argued that the organized market economies of Europe have more resources, institutional and otherwise, for coping with the challenges posed by technological revolution, globalization, and post-industrialism and returning to lower levels of unemployment than many conventional analyses allow. The implication is that they can do so without radically transforming the shape of their economies, although the effort is bound to entail some selective deregulation. I want to conclude by considering this issue more closely: can such economies find and implement limited reforms to cope with these challenges without dissolving into liberal market economies and erasing the alternative economic model they have developed?

There are some grounds for skepticism on this point implicit even in the analytical framework developed here. Perhaps the most important turn on the *institutional complementarities* that can be found among the multiple sub-spheres of the economy. Two institutions are complementary when the presence of one

raises the returns available from the other; and such complementarities are often found within liberal or organized market economies (Milgrom and Roberts 1992, 1995). Financial institutions that provide capital on terms independent of short-term profitability make labor-market institutions associated with long job-tenures more feasible, for instance, and the latter render corporate strategies and structures based on implicit contracts with employees more productive (cf. Aoki 1994; Hall and Soskice forthcoming).

Since organized market economies often have tight institutional linkages of this sort, the important implication is that deregulatory reforms to institutions even in one restricted sphere of the economy may put significant pressure on institutions in other spheres that can snowball into wider deregulation across the economy. The prospects for this kind of dynamic in Europe stem primarily from initiatives to deregulate financial markets (cf. Streeck 1997). Powerful trade unions and differences of opinion among the member-nations of the European Union (EU) have limited deregulatory initiatives in the spheres of social policy and labor markets. But the EU has actively encouraged deregulation of financial markets and many of the large European banks have been receptive as they seek market share in increasingly global capital markets. More firms have turned to these markets for finance where it is often provided on Anglo-American terms that stress financial transparency, short-term profitability, and the corporate strategies associated with 'share-holder value' (Ziegler 1998; Vogel 1999).

Financial deregulation not only threatens the dense network-monitoring systems associated with house-bank relationships, cross-shareholding, and close inter-firm collaboration. Through institutional complementarities, it also raises the prospect of widespread changes in labor-market practices. Without access to patient capital, many firms would have difficulty maintaining long-term employment contracts, and more liberal lay-off strategies could precipitate changes in industrial relations systems touching works councils and wage coordination. Financial-market deregulation could be the wedge that drives large-scale deregulation in organized market economies.

Although this dynamic is a lively possibility, to see it as inevitable would be premature. The number of German firms that have sought a listing on American stock exchanges remains negligible and well-publicized efforts to increase 'share-holder value' have often had little effect on the distinctive modes of operation of European firms. There are signs that, while the large banks are internationalizing, a dual system is emerging in which other financial institutions continue to maintain close relationships to industry networks and cross-shareholding remains high among firms in many parts of Europe (cf. Deeg and Perez 1998; Griffin 1997). The organized market economies may be able to sustain some financial reform without widespread effects on other spheres.

The other challenge to institutional stability in the organized market economies is more sociological. Effective non-market coordination depends on more than the presence of appropriate institutions. Since there may be multiple equilibria on which the actors can coordinate even in the presence of one set of institutions, effective coordination also depends on shared understandings among the actors, the reputations they cultivate with each other, their capacities to work out on-going problems, and the level of consensus among them about appropriate goals. In sum, achieving effective equilbria in such settings also requires an appropriate social underpinning (cf. Streeck 1992, 1997).

However, high levels of unemployment, rapid technological change, globalization, and the movement toward a post-industrial economy threaten the social understandings that underpin organized market economies by placing new issues on the agenda and disrupting longstanding compromises among social actors. Greater international interdependence intensifies cleavages between the traded and sheltered sectors of the economy (Frieden 1991; Pontusson and Swenson 1995). Efforts to expand the low-wage service sector can unsettle hard-won compromises about wage equality and social benefits. High levels of unemployment can deepen insider-outsider conflicts and call into question the good faith of those who bargained peaceable under full employment.

Indeed, although *hysterisis* is normally seen as an economic phenomenon, there may be analogous processes of *political hysterisis* whereby rising levels of unemployment intensify conflict among the relevant producer groups to such an extent that it becomes more difficult for them to negotiate that adjustments that would bring unemployment down. Rothstein (1999) argues that some of Sweden's recent problems stem from precisely such a breakdown in trust among the key social partners. High levels of unemployment also destabilize collaborative systems of vocational training as firms facing low levels of demand decline to train and those seeking apprenticeships find there are no positions for them; and they can make it difficult to maintain the effectiveness of coordinated wage bargaining as skilled workers with substantial organizational power protect their wages at the expense at the expense of unemployed outsiders (cf. Culpepper forthcoming). In short, organized market economies may not operate as effectively when unemployment is high as when it is low; and frustration with the difficulties of negotiating adjustment when settled understandings have been disrupted and new issues are on the table may fuel initiatives to deregulate them.

Whether such difficulties will precipitate breakdowns in coordination and a reversion toward deregulation is largely an issue whose outcomes turn on the effectiveness of existing institutions for resolving conflict in the polity and political economy and on the quality of the leadership available at the time (cf. Thelen forthcoming). Such problems put heavy political demands on nations.

However, there are reasons for cautious optimism on this front. In these economies, the actors do not operate on a *tabula rasa*. In most cases, they have experience of resolving such problems in the past and deliberative institutions available for doing so. Moreover, the key producer groups operate from bases of organizational power entrenched and substantial enough to remind their counterparts that reaching agreement is likely to be less costly than trying to impose a settlement unilaterally. The capacity of the 'social partners' in these political economies to find negotiated adjustment paths is ultimately founded on a finely-tuned balance of power among them that remains robust even when consensus founders.[10]

Recent experience bears out this observation. Despite recent strains, bargaining over wages and working conditions remains relatively coordinated in all of the organized market economies (Iversen 1998; Regini 1995; Lange et al. 1995). Where there have been major changes, for the most part, these entail a shift downward in the level at which bargaining is conducted, as from the peak to the sectoral level in Sweden. However, recent challenges have also revived negotiations at the peak level in some nations, such as the Netherlands, where unusually-broad agreements covering labor regulations and social policy as well as wages have been secured with a view to expanding employment (Visser and Hemerijck 1997; Rhodes 1997).

The pace and extent of such agreements will vary across nations. Some types are likely to be harder to secure in organized market economies dominated by a core labor force focused on industrial production and inclined to resist deregulatory moves or the development of low-wage sectors in order to protect their existing privileges. The German trade unions, for instance, refused to countenance the development of a low-wage economy in the east after unification and they have resisted more recent moves to trim social benefits and deregulate shop hours in the name of employment creation (cf. Locke and Jacoby 1995; Webber 1994; Manow and Seils, 1999). In such economies, more rapid progress is likely to be made on schemes to preserve jobs in the core industrial sectors of the sort that have shifted work-time and working conditions in the German chemical and automobile industries.

Conversely, economies with a large service sector, substantial wage dispersion, and more heterogeneous trade unions are more likely to secure broad agreements that reform social regimes, taxation systems, and labor regulations in order to expand employment, since the trade unions there will speak more strongly for the interests of those on the margins of the core labor force. Such agreements have been prominent in Italy, Spain and Portugal (Perez 1999; Rhodes 1997).

However, the Dutch case indicates that, with sufficient government pressure, such agreements can even be forged in organized market economies;

and the experience of the Netherlands, Denmark and Germany indicates that selective deregulation can be implemented in such economies without unraveling the coordination processes that underpin the distinctiveness (Visser and Hemerijck 1997). There may be many ways to improve the functioning of these economies without impairing their coordinating capacity. As Levy (2000) points out, many have social policy regimes that are susceptible to incremental reform; and, since benefits in many have traditionally been highly-differentiated by occupational groups, it may be possible for them to create jobs through the cultivation of dual labor markets without damaging coordination elsewhere in the economy.

In sum, there is no doubt that the organized market economies face significant challenges and will have to make some changes to meet them, but the pressures for convergence to a liberal model seem far from inexorable. The outcomes should vary across nations in response as much to political as economic factors.

Conclusion

I have argued that the liberal views permeating economic commentary about Europe today, while telling in some points, misdiagnose the problems of the European economies because they tend to assume there is only one viable way to organize an economy when there are at least two routes to economic success. As a consequence, these analyses overstate the problems stemming from globalization and the rise of the service sector and fail to appreciate the comparative institutional advantages that organized market economies retain even in the face of such challenges. The result is often a blanket endorsement of deregulation that ignores the corrosive effects it can have on the existing strengths of these economies.

To understand economic and political developments in Europe, we need to acknowledge the distinctive character of organized market economies in terms that appreciate both their weaknesses and strengths. Building on a growing body of work, I provide the outlines of such a diagnosis, which concludes that these economies have considerable resources for coping with the challenges they face. They are well-positioned to adapt to the managerial revolution and to diffuse new technology. They bring an important set of comparative institutional advantages to global competition. Although many are not as well-placed to promote job growth in the service sector as most liberal market economies, their prospects for doing so are substantial.

It may take some time to lower rates of unemployment again in these economies and that may require selective deregulation as well as other adaptations in their institutional frameworks. However, that does not seem to

require convergence to a liberal model and the pressures for such convergence, while substantial, seem far from inexorable. Even in the face of contemporary challenges, there remain at least two viable models for economic success, whose fate will turn as much on the politics as on the economics of adjustment.

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Notes *unempltrvsd*

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[1] To speak of such a dualism is a slight simplification, since virtually all analysts acknowledge some variation within these types, and some emphasize additional categories of variation (cf. Shonfield 1969; Zysman 1984; Katzenstein 1985; Scharpf 1990; Iversen 1994).
[2] I focus here on 'unemployment' rather than on 'employment', even though measures of the former are highly sensitive to official definitions and cross-national comparisons must be made with caution, because unemployment is the more intense social problem of high political relevance.
[3] This view is widely reflected in the press (cf. *The Financial Times*, 27 October 1997: 14) and in the publications of international organizations (cf. *The OECD Jobs Study* 1995).
[4] For a more extended discussion of the differences between these types of political economies, see Hall and Soskice, forthcoming.
[5] In the OMEs listed in Table 1, labor productivity increased by 4.8 percent from 1960-73, by 1.9 percent from 1973-79, and by 2.1 percent from 1979-93 compared to an annual average of 3.1, 1.3 and 1.8 percent in LMEs over these periods; and unit labor shares averaged 64 percent in both kinds of economies in 1993 (OECD 1996a, b; Tronti, 1997; OECD 1997). Annual increases in the real hourly wage in manufacturing averaged 4.4 percent from 1960-73, 1.3 percent from 1974-82, and 1.6 percent from 1983-90 in these OMEs compared with increases of 2.9 percent, 1.1 percent and 0 respectively in the LMEs.
[6] Although there is an increasing amount of scholarly work pertinent to these issues, I want to note that my own thinking about them has been especially influenced by the analyses of my colleagues, Torben Iversen and Anne Wren, whose work points toward precisely this kind of problematic.
[7] As Soskice (1994) notes, the 'group-based' business organization of the organized market economies in Asia seem to be much more conducive to rapid

movements of resources of this sort than are the ‘industry-based’ organized market economies of Europe.

[8] Here I tread what some call ‘Europeanization’ and ‘globalization’ as components of the same process. This section draws on Hall 1997.

[9] It should be noted that, while this stance is characteristic of most Christian Democratic parties, some as in Italy and Spain have been more tolerant of a large public sector, and the views of all such parties are in flux today.

[10] Of course, socioeconomic developments can alter this balance of power in significant ways by shifting the interests of the actors and thus the opportunity-costs of alternative courses of action, but even those disadvantaged by such shifts often retain residual bases of organizational power (cf. Swenson 1999).