

Corporatism and the Microeconomic Foundations of Swedish Social Democracy: The Swedish Model Revisited*

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The aim of this paper is to advance the research into the workings of 'corporatist' societies by adding a microeconomic dimension and outlining how such a revised model is applicable to recent Swedish experience. Sweden is often regarded as a corporatist society, that is, one in which policy is the outcome of a 'social partnership' between encompassing groups coordinated by government. This corporatist approach, resting on the existence of a macro-economic social contract between peak organizations, is complemented here by an analysis of the micro-level incentives and mechanisms conducive to operating within the corporatist cooperative framework.

These characteristics are seen as together constituting what I term the solidaristic market economy, a system of economic relations different in fundamental respects from the two with which we are familiar. While Swedish reality does not correspond exactly to the economic model set out, the case is made that it is as reasonable to extrapolate from Swedish experience to the solidaristic market economy (and vice versa) as to learn from U.S. experience about the competitive market economy and from the Soviet Union about the command economy.

Complemented by these micro-characteristics, corporatist analysis of economic relations under social-democratic regimes is thus seen as explaining the resilience of the 'Swedish model'. Rather than in constant peril as critics suggest, the encompassing interest organizations and the patterns of relations among them are characterized by continued solidity in keeping with the operating principles of the solidaristic market economy.

While various economic policies are frequently associated with it, social democratic economics cannot be said to exist as a distinct body of literature. When it comes to modern economic systems, it is therefore presumed that there are only two basic types: capitalist (or 'market'), and socialist (or 'command') economies. The economic institutions and policies of states with social-democratic parties in power are simply treated as specific 'mixes' of those of market and command economies. When successfully applied, these hybrid economic programs are then heralded to have found a 'middle way' (Childs 1936, 1985). The contention here is that rather than consisting merely of a mix of state planning and market capitalism, social-democratic economies in fact operate according to an economic logic of their own. The

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argument begins with a survey of developments in a promising area of comparative politics that emerged in the 1960s when European social scientists, dissatisfied with the 'pluralist' framework that dominated American political sociology, began to develop an alternative.

Basing his work on Norwegian experience, Stein Rokkan argued that interest organizations in Europe, rather than competing for the favors of a 'neutral' government as the 'pluralist' framework assumed, more often cooperated among themselves and were incorporated directly into the decision-making process (Rokkan 1966). By the late 1970s, a burgeoning literature had built such insights into a sophisticated theoretical framework commonly termed 'corporatist'. In the process it developed a multi-level analytical framework based on an 'ideal type', with corporatist social systems on one end of a continuum, and pluralist ones on the other (Jordan 1984). Societies, such as Austria, Norway, and Sweden, are generally regarded as on the corporatist end of the continuum (Lehmbruch 1984). A corporatist society, simply defined, is one in which policy is the outcome not of competing interests mediated by the state, but of 'concertation' (Goldthorpe 1984), a 'social partnership' between peak or encompassing representative organizations (Schmitter 1981).

The term corporatist being, unfortunately, reminiscent of anti-democratic prewar ideologies, Marxist-inclined critics have seized on this connection by insisting on viewing concertation primarily in light of the social control function performed by organizational elites over the membership (Offe 1981), especially in the labor movement. Thus certain defenders of these very same arrangements in social-democratic countries reject the term 'corporatist' per se, preferring terminology which lays stress on the active role of mass organisations, such as 'historic compromise between classes' (Korpi 1978), or 'political unionism' (Higgins 1985), or, in Esping-Anderson's (1985) terminology, explains the success of the Swedish Social Democrats as due to their ability to 'reproduce the social-democratic class base'.

Yet despite these terminological shortcomings, much progress has been made, resulting mainly from the changed context. In continental Europe the utopianism of left-wing intellectuals of an earlier decade has given way to a practicality and pragmatism that has, by and large, paved the way for fruitful advances in political economy whether the adopted framework is termed corporatist or something else. As they have developed, corporatist ideas have crossed beyond the boundaries of academic social science to enter the standard framework of economic policy analysis. The OECD, perhaps the most important arbiter among the varying approaches to comparative public policy analysis, in its information brochure describes the framework for 'structural adaptation' which, 'pervades much of [the OECD's] work' as 'positive adjustment policies' . . . shorthand for an

economic policy approach that enhances a country's ability to adapt to change by moving its economic resources out of declining industries, occupations, and areas into new ones so as to remain competitive and productive. . . .' Its corporatist orientation could hardly be more explicit, as it continues: 'It implies also a high degree of social consensus between the social partners and, in the society more generally'.

Partly because of the generosity of research institutions associated with the OECD and member states, there is significant ongoing effort to identify the relationship between the degree of such corporatist social consensus in societies and their economic performance. Their work has notably exploded the assumption of neo-conservatives of a necessary contradiction between equality and efficiency, finding no evidence that 'increases in the size of public sectors, expanding welfare state programs, lower income inequality or higher potentials for political and organizational penetration into markets have been negatively associated with product and productivity growth' (Korpi 1978, 34). Indeed, as one observer summed up the evidence: 'a consensual political structure and practices of a corporatist mode of interest intermediation and conflict regulation leads to a more reasonable economic performance' (Keman 1984, 166).

But just exactly what is meant by economic performance? Corporatist accommodation has been found to be clearly linked to high levels of employment (e.g. Cameron 1984), but bringing in other measures blurs the picture. For example, in ranking Austria, France, Italy, Sweden, Switzerland, the U.K., the U.S., and West Germany on the basis of their record in price stability, economic growth, and employment in the 1970s, Scharpf found an 'extremely low degree of correspondence' between these measures of economic performance (Scharpf 1981, 7).

The other axis of the correlation also raises questions. Are there other than subjective criteria, ultimately, for locating nations on a continuum from corporatist to pluralist? Here a general consensus seems to have developed, namely to stress the role and structure of organizations operating in the labor market: the trade unions, and the business-interest or trade organizations. Cameron's five-fold classification scheme which incorporates (1) the percentage of the labor force that is unionized, (2) the degree of centralization, (3) the importance of the peak labor organizations in collective bargaining, (4) the scope of collective bargaining, and (5) the extent of worker participation in management, is perhaps the most widely recognized. (Not surprisingly, Sweden, Austria, and Norway easily topped the other OECD nations in their composite scores).

Evidently, this scale like others serves as a shorthand for the more profound aspects of corporatist relations, not only insofar as of labor-business-government relations are concerned, but also with regard to other characteristics of corporatist systems, notably the political strength of labor

parties and the extent to which the economy is a small and open one. Cameron points out that the empirical result of applying his framework is nearly identical to that attained when one uses the more subjective methodology of Schmitter and his associates.

There seems thus to be some good grounds for concluding that economic cooperation between business and labor explains the capacity of certain more egalitarian societies to be economically efficient at least in so far as job creation is concerned. However, this simple corporatist contention runs smack into a sophisticated restatement of neoclassical economic ideas based on a 'public choice' analysis of organizational behavior. A main tenet of public choice theory is that regulations based on free cooperative behavior are inherently unstable since actors come to learn that their interest is best served by 'free riding', that is, deriving benefits from the regulated restrictions on what others are allocated but then violating those restrictions themselves.

Applying public choice theory to interest group behavior, Mancur Olson Jr. cogently argues that the existence of powerful institutionalized interest organizations will bring economic decline through 'institutional sclerosis', that is the forming of distributional coalitions in the form of combinations or cartels or through special interest lobbies that shield members of these organizations from the exigencies of the market. The result is a decline in innovation, mobility, and, sooner or later, economic performance (Olson 1982). The same kind of logic applies to cooperative economic behavior. 'Suppose we are talking about a labor union, the members of which earn wages that are in the aggregate one percent of the national income of the country in question. If they get one percent of the benefits of their action and bear the whole costs of their action, then it will pay them to try to make the society more efficient and prosperous only if . . . the cost-benefit ratio is better than a hundred to one.' Hence the conclusion:

Both cartelization and lobbying to get a larger percentage of the national output, will, in general, make the society less efficient and productive. . . . The special-interest group's members . . . get the whole of the increase in the size of their slice of the pie but they will bear only one percent of the losses from the shrinkage of the pie. It pays our hypothetical special-interest group to seek to redistribute income to its own members even if this reduces the national income by up to 100 times the amount redistributed. (Olson 1983, 11-14)

Yet despite the currency of the term 'Eurosclerosis', Olson recognizes the fact that in certain European countries 'cartelization' has not had the expected results. Responding to his critics, he points to the other side of his argument: 'suppose, by contrast, that an organization for collective action encompasses half of the income-earning capacity of a country. If that organization uses some of its resources to make the country in which its constituents live more efficient and prosperous, the constituents of the organization will get, on the average, one-half of the increase in the national

income. Thus such an organization has some incentive to strive to make the country more prosperous' (Olson 1986, 72).

Like the corporatist analysts, Olson identifies Austria, Sweden, and Norway as societies with such 'encompassing' organizations. The experience in these countries has indeed emerged as common ground for fruitful research to test the assertions of both practitioners and critics of the corporatist approach. Research in this vein has analyzed the relationship between economic performance and the degree to which trade unions are encompassing organizations, correlating various measures of economic performance with the percentage of the potentially organizable in labor unions and the degree of centralization of trade union structures (e.g., Lange & Garrett 1985). This relationship is clearest, notes Paloheimo (1986), when there are large labor-oriented, social-democratic parties continuously in or near power able to play their part in implementing what he terms the 'neo-corporatist strategy for economic growth'.

It is not the only path however; the alternative 'laissez-faire strategy for economic growth', also appears to succeed, he finds, as Olson asserts it should, in countries with right-wing parties in office and 'where there are weak and fragmented trade unions' (Paloheimo 1986, 8). This body of literature gives rise to the notion of a 'u-shaped curve' for economic growth on the one side of which is the corporatist model and on the other the neo-conservative one, each achieving respectable economic performance but through diametrically opposite means. And at the bottom of the curve are those societies caught in the middle, like Britain with its powerful but fragmented labor movement, structurally impeded from successfully implementing either strategy.

By pursuing 'the corporatist strategy for economic growth' the social-democratic system emerges through this perspective not as a middle way, but as a kind of polar opposite to a system based on the laissez-faire strategy. But does such a dual 'u-shaped' approach indeed reconcile the corporatist and public-choice expectations and thus meet Olson's objections? Only in the short term, he in effect responds, insisting that the encompassing interest organizations at the base of the functioning of the corporatist strategy are inherently unstable.

Branch organizations of an encompassing neo-corporatist business or labor organization have an incentive to push for the interest of their own branch, even when this is not in the interests of the members of the encompassing organization as a whole. . . . In the long run the members of these relatively encompassing parts of the neo-corporatist organization will suffer in comparison with the members of units that are less encompassing. . . . Subsets of members that would gain from monopolizing a particular market, or from special-interest legislation for that market, may be able, if 'selective incentives' can be found, to organize a caucus or lobby *within* neo-corporatist organization to pressure it to serve the sectional interest at the expense of the encompassing interest. . . . In the very long run, how could a society prevent subsets of members of the neo-corporatist organization with a legal

monopoly of representation from being controlled in large part by internal lobbies working on behalf of internal sub-groups? (Olson 1986, 77–79)

And in case anyone missed the implications of his argument, Olson concludes this essay by citing ‘observers on the Swedish scene who point to events that would appear to be consistent with the theoretical logic I have just set out’. In the pages that follow I argue the opposite, namely that by extrapolating from certain characteristics of Sweden’s experience, we can extend corporatist insights to the long-term strategies of the encompassing organizations and explain their continued acceptance of their role and their ability to play it successfully. In so doing I shall be setting out in skeletal form the characteristics of a system based on ‘solidaristic market’ economic relations.

Alternate Economic Models

Corporatist theory, reduced to its bare essentials, is based on the notion of a macroeconomic social contract in which labor keeps down money-wage increases and collaborates on industrial adjustment in return for a ‘social wage’ in the form of redistributive social and full-employment policies (e.g. Kuttner 1984, 138–168). The additional micro-level burdens that the social wage places on firms is more than balanced by macro-level payoffs in the form of fewer work distributions and a greater openness to new technology. As one corporatist writer put it: ‘Labour, interested in wages, working conditions, social security, and to a lesser extent, participatory democracy, is forced to take account of inflation, productivity, and the need for investment; employers, interested in profit, productivity, and investment are forced to take account of social policy’ (Wilensky 1976, 53).

Such an explanation, however, presumes that certain non-economic preconditions will remain stable over time. As long as prevailing conditions do not change, each actor will continue to act responsibly, in an accommodating fashion. However, if a destabilizing element is introduced which undermines the confidence in macro-level payoffs – such as government miscalculating trends in setting fiscal or monetary policies, as took place in Sweden in 1976 – we are left uncertain as to why actors should continue to act in the same manner instead of pursuing their own immediate micro interests through wildcat strikes and local deals (‘wage drift’) which would in turn further undermine the confidence in the macro-level partnership. Inevitably, it would seem, the relentless narrowing of perspectives by micro actors predicted by Olson would set in – unless there are perceptible microeconomic gains worth defending for employers and employees operating within the system. Otherwise, the complex network of agreements,

institutions, and policies that are at the base of the workings of the system would, over the long run, not be 'robust' enough to withstand the strains.

To identify these gains, we first set the workings of solidaristic market economies against those of societies lacking in encompassing organizations and solidaristic market relationships, i.e. the world of classical economics. Classical economic analysis is built on the notion of a competitive market of independent suppliers competing among themselves to meet demand. For any given supplier, demand is necessarily uncertain since it depends on the decisions of a great many autonomous consumers. The classical competitive microeconomy operates in a Hobbesian world where the less competitive firms give way to the more ruthlessly so. For markets to operate as they should, that is to reach price levels that 'clear' all available products and services, firms must engage in a no-holds-barred price auction. There is no sharing of useful information; each firm uses whatever means at its disposal to get the upper hand. Moreover, since labor is treated as a commodity, the antagonism extends to relations within the firm. Like suppliers, employees are expendable if others prepared to work better or for less come along, since if one firm doesn't hire them, its competitor will. Unions are presumed to be weak. Uncertainty is the driving force, compelling actors to take risks. It requires only the rigorous enforcement of property laws to maintain this process and secure the economic blessings of a thriving free market.

As set against the Soviet model, with its inflexibility and hence wastage, gross inefficiency, and graft, the competitive market of neoclassical microeconomics wins the contest hands down (Sik 1980). By distorting market signals, the command economy breeds hoarding, bribery, 'black markets' and the installation of a 'nomenklatura', rewarding personal and political connections and inside knowledge rather than efficiency. But we can conclude that the only route to efficient production and distribution is through the ravages of the competitive marketplace only if any systematic reduction of uncertainty necessarily implies direct state control over the economy. Yet, in fact, the Soviet model's reduction of uncertainty through central planning is more apparent than real. Economic decision-making, despite being 'public', is carried out in a highly secretive environment in which officials at all levels hoard needed information.

A body of critical economic literature explores the effects of uncertainty. The microeconomic benefits of reduced uncertainty brings up the notion of 'information costs' and their effect on the behavior of firms (e.g. Okun 1975). In a complex, ever-changing market, buyers and sellers have to invest time and effort to find the desired commodity or service at the best price. It turns out to be more efficient to instead reduce the uncertainty by developing long-term arrangements with suppliers and sub-contractors, as well as one's own employees – the successful Japanese are exemplary here –

on the principle of trust, namely that both sides will incorporate changes in market conditions into the pricing of their product or service. As a rule, in effect, the wider and fuller the access to reliable information among economic actors (buyers and sellers of goods and labor), the lower the information costs, and the greater the over-all efficiency. A similar line of reasoning explains the tendency of even non-unionized firms to retain 'tried and true' existing employees rather than seeking 'cheaper' substitutes even in times of high unemployment.

Another applicable concept in this regard is that of transaction costs. In a recent essay, D. C. North points out that economists have still largely failed to incorporate the fact that

the exchange process is not costless . . . the costs of transacting can be high, because there are both problems of being able to measure the attributes of what is being exchanged and problems of enforcement of the terms of exchange; and in consequence gains to be realized by engaging in cheating, shirking, opportunism, etc. . . . Resources devoted to transacting are large (although small per transaction) but the productivity associated with the gains from trade is even greater [for] individuals in highly complex interdependent situations to be able to have confidence in their dealings with individuals of whom they have no personal knowledge. . . . An ongoing exchange relationship is only possible as the result . . . of the existence of norms of behaviour to constrain the parties in interaction (North 1985, 4-6).

The solidity of the norms surrounding transactions is but another manifestation of the impulsion to reduce uncertainty.

In the competitive market economy each firm seeks to entice experts, skilled workers, and top managers away from its competitors and find cheaper unskilled workers (or machines) all in an effort to produce, market, and sell more. Precisely because such a climate breeds uncertainty at the micro level, producers will seek out less 'classical' methods of competition to reduce risk by securing their market share through government contracts, special-interest legislation, subsidies, protective tariffs, and tax loopholes, not to mention the tendency to invest large proportions of revenues in short-term projects such as 'unfriendly' takeover bids of cash-rich corporations or expensive advertising campaigns, instead of in long-term projects requiring scientific research and coordinated planning. As the stakes of failure and success rise, firms are motivated to attempt to improve their comparative position by keeping needed information from potential competitors who then make errors in allocating resources, to the advantage of the firm but at the expense of aggregate efficiency.

Just as the owners operate in a climate of fear of being outcompeted by rivals, so employees relate to real or potential co-workers within the firm. In order to look good in comparison to possible rivals, they will hoard information, perhaps spread false rumors, even to the detriment of the efficient operation of their firm. Since competitive market systems provide comparatively little at the macro-level in the way of a social net to 'catch'

those who lose their jobs or their businesses – the additional taxation and bureaucracy entailed being viewed as unwarranted and costly outside interference – fear or failure on the labor or commodity market is especially intense. The effect of such a condition is well portrayed by Kuttner:

I recently interviewed a trade unionist from . . . General Electric. GE is a company which would just as soon be rid of unions. It has embarked on a program of rapid automation, and is shifting a good deal of human labour to its non-union plants in the South. My union friend . . . meticulously described how the union, in defense of the remaining jobs, systematically limits output. The union, he confessed, could probably improve productivity by 40 per cent without even trying. The GE situation is typical of industrial America (1984, 185).

One measurable transaction cost thus incurred is in unfair labor practice litigation.

When the NLRA was passed, it was thought that unfair labour practices might wither away as unions and collective bargaining gained greater acceptability and as the statute clarified the rules of the game in labor-management relations. Instead, the number of unfair labor practice charges filed by unions, employers, and individual workers has doubled every decade since the late 1950s (Flanagan 1986, 4).

Solidaristic market relations characteristic of corporatist systems like Sweden bring down such information and transaction costs in significant ways at least partially discernible to microeconomic actors by fostering a high level of confidence on their part that the others with whom they transact share both the required knowledge and appropriate norms and values so as to be depended upon to carry out their part. Understood in this manner, solidaristic economic relations operate at all levels, from the shop floor to that surrounding the implementation of government policies. We can now turn to a consideration of the main aspects of this system.

The Solidaristic Market Economy

What distinguishes the solidaristic market economy as such is its propensity to reduce the uncertainty of market competition to only those spheres of activity where they are seen to contribute to aggregate productivity, while building relations of solidarity in other spheres to complement that productivity. There are many aspects to the application of this fundamental principle.

Best known is the solidaristic market economy's guaranteed safety net to protect individuals (but not firms) from the 'excesses' of the market. Related to this is the tendency to engage systematically in Keynesian-inspired efforts to stabilize aggregate demand through spending and taxing to smooth out the peaks and valleys of the business cycle. Yet these characteristics are not the most fundamental. Indeed the label 'interventionist' is more a hindrance than a help in getting at its essence. The term immediately raises the spectre of government bureaucrats replacing market actors in investment decisions and thus raises the hackles of main-

stream economists. In fact the question is of a different order: not who makes the decisions, but what factors must they bring to bear in making them. If the context is one where immediate, narrow short-term gain must be realized at all costs, then a market actor – even against his ‘better’ judgement – will make decisions in that framework. The solidaristic market economy is instead concerned with creating a context in which market decisions will be of a different order.

As one long-time leading proponent and practitioner of social democratic economic policy in Sweden and at the OECD has repeatedly argued, the goal is not to weaken market force but to create an appropriate environment for dynamic microeconomic market behavior in competitive industries. It seeks no less than to induce the market to live up to the claims made for it and unleash its productive power to maximize human welfare (Rehn 1984). In the schematic description of the major characteristics of a solidaristic market economy below, Sweden serves as both inspiration and illustration.

In this sense, the starting point is that a solidaristic market economy is a small and (therefore) open economy. Unimpeded foreign competition makes it impossible to ‘corner’ the domestic market: like tariffs, subsidies to inefficient producers are excluded. Consequently, there is noticeably less variation in working conditions, size, degree of technological development, etc., than under competitive capitalism, and a greater degree of industrial concentration.¹

Underlying these characteristics is a ‘small country mentality’, a widely shared understanding and consensus that continued prosperity depends on industry’s being able to remain internationally competitive. This consensus is expressed through the ‘corporatist’ actions and interrelations of organizations on the labor market, and, more generally, in what might be termed the ‘buffer zone’ – the vital center of social-democratic life. The wide scope of publicly-oriented private activities of organizations in the buffer zone serves to reinforce the operational values of the solidaristic market economy.

The solidity of these values is at the foundation of solidaristic market relationships. Information and transaction costs are brought and kept down since consumers and producers are able to rely on the system functioning as it should with no group or individual taking a ‘free ride’ at the expense of another. They are assured that where the market is in force, it is only the market which rewards: that powerful groups and organizations do not get preferential treatment due to inside information or connections, or the exercise of political pressure. In consequence, uncertainty is reduced not only on the labor market, but also in the commodity market itself. Secrecy prevails over the narrow area of design of marketable products, but collaboration on applied research and joint planning are the rule.²

Exchange of information through various formal and informal channels of communication reduces uncertainty. The organizational environment in which industry operates fosters a high level of informal communication. On the business side, the regular gatherings of trade associations provide forums where the various representatives meet regularly to share experiences. Similarly, on the labor side, joint organizations made up of representatives of different locals meet regularly to compare their experiences in adapting to new technology, redesigning the working environment, and the like.

Moreover, the communication of information relevant to firm decision-making takes place at the level of the wider 'corporatist' societal institutions through which representatives of the interest organizations (predominated by those active in the competitive sector of industry) are brought into relevant aspects of decision-making in other sectors. Representatives of labor and management sit on public boards investigating public policies and making long-term administrative decisions in such areas as retraining, research, education, communications, transit, energy, environmental protection, health services, and consumer information.

Consider the role played by the post office in a solidaristic market economy. As stated in its latest (to 1989) three-year plan, the Swedish Post Office is 'a market-oriented public utility . . . [conducting] its operations so that business interests and the interests of the national economy are both satisfied' (p. 2). To best serve its clients, it needs money, and money is to be found in the profit-making enterprises. That means providing services tailored to corporate needs as articulated at the national level by representatives of industry on its board and users' council.³

In this illustration we see the principle of complementarity at work. The solidaristic market economy enhances the operations of the market by limiting it to those areas where competition has the salutary effects claimed for it while concertation characterizes the remaining sectors of the socio-economic system reducing uncertainty and consequently eliminating the costs entailed by unnecessary risk. In such an economy, another characteristic emerges: cooperative or non-profit forms of ownership and management abound in many fields of endeavor, especially in the service sector. As long as the operations of the market are facilitated by competitive energies being channelled into those activities where they respond to demand as efficiently as possible, then it matters little from the standpoint of the market whether the enterprises are owned by the shareholders, the workers, public authorities or any combination thereof.

As the corporatist literature stresses, there are macro-level economic arrangements based on encompassing agreements between centralized trade unions and employers associations seeking to ensure that industry remains internationally competitive. Due to the application of these agree-

ments uncompetitive producers cannot stay in business by reducing wages and wage drift is kept sufficiently low so that firms cannot draw skilled labor away from competitors by offering appreciably higher pay. Within the firms themselves, cooperation is encouraged by small pay differentials, consultative mechanisms ensuring the employees are informed of and able to participate in decision-making, and protected against arbitrary dismissal. The entire participation process fosters a spirit of trust and thus informal communication among workers as well as between management and labor. The service sector, public and private, generally follows the lead of private industry in order not to undercut its competitiveness through inflationary wage settlements. Strikes and lockouts are few but widespread so that specific employers or groups of workers are not played off one against the other. Similarly, nation-wide environmental, safety, consumer and worker-protection standards make it very difficult for firms to play off one region or industry against another and gain advantage from transferring costs to others.

Generous social support services that carry no stigma, as well as training and retraining, mobility support and a sufficiently high and flexible level of employment in public works, enable those concerned to allow non-competitive firms to 'exit'. High taxes on private consumption and income – but not on reinvested profits – pay for these services.

The evident macroeconomic benefits accruing to the successful application of these general principles take the form of reduced transaction costs. As payoffs for respecting the norms surrounding economic relationships become clear, the cost of enforcing them – through tax inspectors and the like – are lowered, and the possibilities for the most rational application of human and material resources enhanced. In following the principle that competitiveness is channelled toward industrial production and away from basic human services, information costs are reduced since an informed, educated populace means a significant reduction in uncertainty and the information costs it entails.⁴

Solidaristic Policy Commitments and Human Nature

These then are the major aspects of solidaristic market relations. No part of the above argument should lead one to conclude that a solidaristic market economy automatically results from the existence of corporatist structures. The operations of these structures must be supported by policies based on appropriate commitments. The first of these is the attainment of full employment. The alternative 'Dutch' solution of seeking increased productivity while effectively letting employment take care of itself, pro-

viding a generous dole for the jobless, must be rejected. Otherwise, one finds oneself with a significant group semi-permanently outside the labor market, the presence of which inevitably subjects institutions based on solidaristic labor-market relations to the irresistible strains foreseen by Mancur Olson.

The second policy commitment concerns the manner in which services are provided to citizens. The key principle is that they not be marginal, that is intended just for those unable to afford privately bought services, the services must rather be institutional, intended for everyone (Titmuss 1974). As noted in the case of the post office, service delivery organizations are rendered inefficient if limited to serving those scorned by the marketplace. The existence of an alternative network of 'elite' institutions in education, training, health and welfare services, etc., places firms under irresistible pressure to make such services available, either through high pay or special arrangements, to their most highly prized staff. Such micro decisions bring macro results. For example, secondary pensions and medical coverage provided by employers, however efficient, serve to inhibit labor mobility as compared to nationwide public plans in which all acquired benefits are fully and readily transferable. As a general rule, the absence of universal guarantees places great strain on the underlying solidaristic market relationships, as well as checking the necessary movement of labor from 'sunset' to 'sunrise' industries.

There is in these two policy prescriptions a presumption underlying the effective workings of the solidaristic market economy; it is that people *want* to be productive, that is, to work. Evidently, no description of Swedish economic relations can ignore the inherited Lutheran work ethic. But attitude toward work is more than a question of national character. Sweden's most famous analyst of public opinion (and now editor of the Conservative daily, *Svenska Dagbladet*) Hans Zetterberg, surveyed attitudes toward the 'work ethic' in the U.S., the U.K., Germany, Sweden and Japan. As he concluded before his confreres in Montreal:

The category 'will to work' falls outside the ones dealt with by mainstream economists. They talk about the price of labor and they treat wages as the one and only force driving us to work more or less hard. A very striking fact in our research, however, is that in most countries there is little immediate correlation between good pay and hard work. Majorities in every country report from their workplaces that there is little or no difference in pay between those who work hard and efficiently and those who don't. This came almost as a shock to the economists in our research teams (Zetterberg 1984, 4).

On a similar note, Robert Frank looked at the behavior of real estate and automobile salesmen in the U.S. – the most competitive of occupations in the most competitive of societies – occupations requiring no teamwork and for which relative individual productivity is apparent for all to see. He found that pay differentials between the most productive and least

productive among the salesmen were noticeably smaller than their difference in productivity. How did the companies manage to keep the most productive from demanding more or going elsewhere? The answer is that the productive salesmen want to be respected for their success but not resented by their co-workers (Thurow 1985). The main contention of the *In Search of Excellence* school of management (Peters & Waterman, 1982) follows similar lines. Characteristic of 'excellent' firms is not the difference of the Hobbesian competitive economy but rather a stimulating and rewarding working environment. Sweden's high labor participation rate testifies to a human desire to work once drudgery is no longer a significant factor and worker health and safety protection is secured.

To conclude, the characteristics of the solidaristic market economy presented here appear to constitute the elements of a system of economic relations different in fundamental aspects from the two with which we are familiar. Mancur Olson notwithstanding, social-democratic economics as practiced in contemporary Sweden is thus more than a felicitous mix of borrowed policies and favorable circumstances; its success (see e.g. Bosworth & Rivlin 1987) no accident.

NOTES

- The research for this paper was done during the author's year (1985-86) as a visiting researcher at the Department of Political Science, Stockholm University.
- 1. 57 percent of workers in manufacturing are employed by Sweden's 40 largest manufacturing firms (Eliasson 1986).
- 2. Sweden's world famous institute of wood technology research is but one of several score collaborative research institutes on whose board sit representatives of industry, labor and public agencies involved in the funding. Close cooperation between producers extends, for example, to a plan underway for Volvo and SAAB to cooperate at fostering the modernization of their common suppliers.
- 3. Among the services are the handling of companies' internal mail and the delivery of their products. The Swedish post office goes so far as to deliver the bread for a bakery early in the morning in postal trucks that would otherwise be sitting idle. Of course not only firms are served by the post office's guarantee of overnight delivery and the handling of bills through the 'postgiro'.
- 4. Sweden achieves this notably through free public education at all levels, a major effort at adult education, publicly-owned communications media, heavy expenditure on libraries, museums and, of course, research and development. The system discourages spending on domestic advertising in favor of research and development. There are no radio or television commercials, and newspapers receive subsidies to lessen their dependence on advertising. (R&D spending in Sweden was at 2.7 percent of GNP in 1986, a rise from 1.6 percent in 1973: an exceptional record, according to the OECD 1986.)

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