

13

**Westminster, Consensus Democracy
and Patterns of Democracy:
Corporatism Reconsidered**

Two models of democracy:

Westminster

Concentration of Executive Power

Cabinet Dominance

2-Party System (Majoritarian Voting)

Disproportional Effects of Elections (Strong Majority)

Interest Group Pluralism

Unitary and Centralized Government

Unicameralism

Weak Constitution

Dependent Central Bank

Consensus Democracy

Broad Coalitions

Executive-Legislative Balance of Power
(Government dependent on parliament and vice versa)

Multiparty System

Proportional Representation

Interest Group Corporatism
(Central organized labor unions and business associations)

Federalism

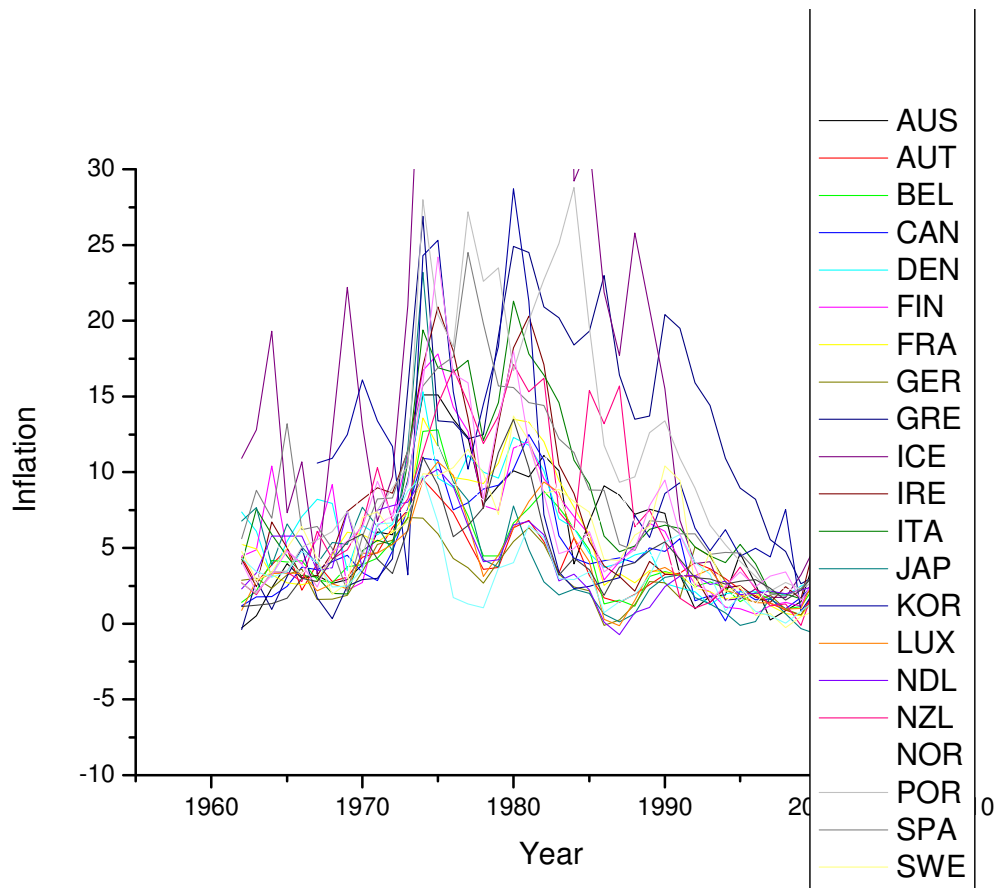
Bicameralism

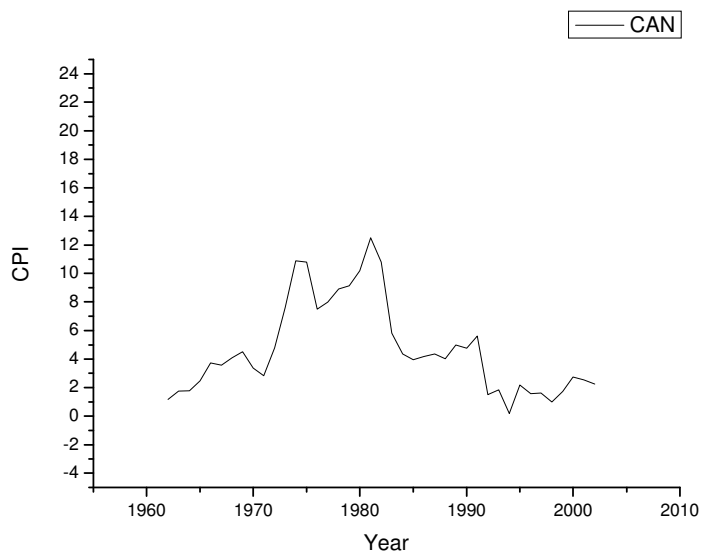
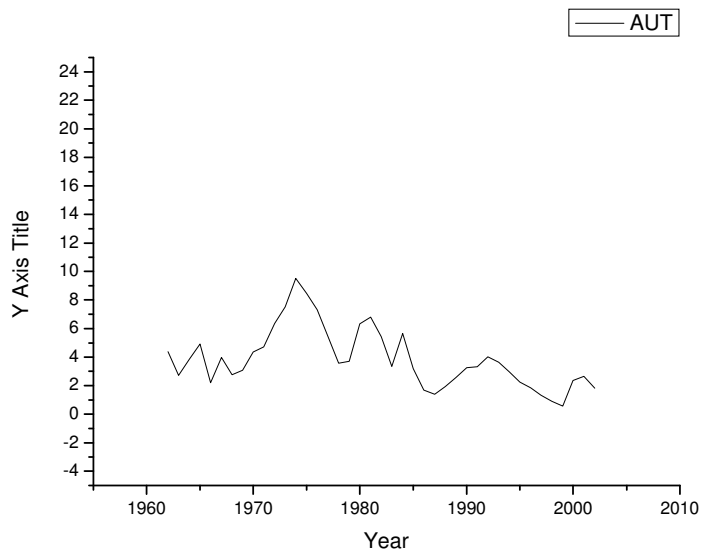
Constitutional Rigidity (Strong Courts)

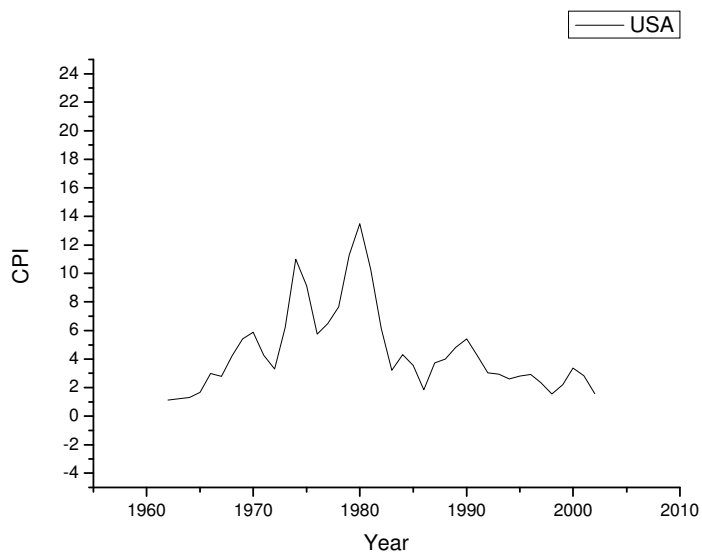
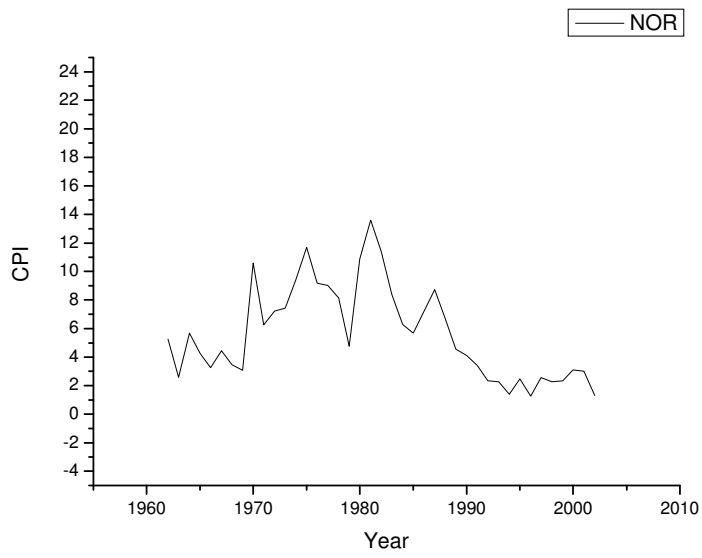
Central Bank Independence

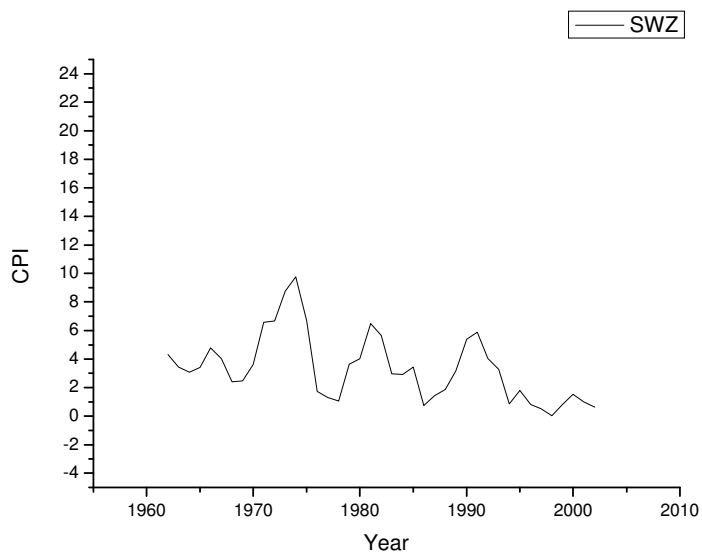
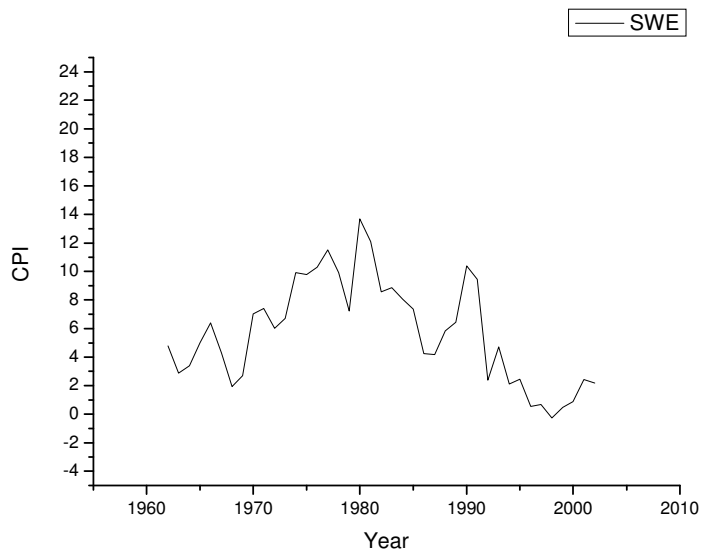
Corporatism and Inflation

1. Inflation
2. Three Types of Wage Negotiations
3. Wage-Inflation-Spirals
4. Government-induced versus Corporatism-induced Inflation









Three Types of Wage Negotiation

Individual-Firm (Enterprise Level)

Sectoral Union – Sectoral Employer Association
(Sectoral Level)

National Union – National Employer Association
(sometime with government involvement)
(national level)

'institutionalized negotiation, bargaining, collaboration, and accord about wages and "income policies" (and perhaps additional economic issues) between representatives of the major economic groupings in the society (most typically labour confederations and employers' associations) and often including, in addition, representatives of the government' (earlier version of Cameron, 1984, quoted by Bruno and Sachs, 1985):

'cases in which a centrally coordinated union movement has developed within a political system responsive to labour demand' (Crouch, 1985):

'the integration of trade unions in economic policy making in exchange for their incorporation of capitalist growth criteria in union wage policy and their administration of wage restraint to their members' (Panitch, 1980):

'wage setting by central organizations, commanding the obedience of individual workers and employers to achieve a high level of employment' (Newell and Symons, 1987).

Excerpt from Calmfors & Driffill

Outcome

Enterprise Level:

Moderate wage increase,
dependent on post-tax profits of corporations

sectoral level: relatively high wage increase
dependent on power of unions

national level: moderate wage increase
dependent on power of union + degree to which
negotiators 'internalize externalities'

Why is inflation higher in countries with decentralized negotiations between unions and employer organizations?

Why is inflation higher in countries with decentralized negotiations between unions and employer organizations?

Because unions cannot (never) negotiate real wage increases but only nominal wage increases.

This implies that corporations (have to) raise prices as inflation increases, which implies inflation, which leads to higher demands of the unions, which causes even more inflation, and so on...

Why do centralized unions demand moderate wage increases?

..., because they correctly anticipate the inflationary effect of wage increases AND internalize this effect.

Why do decentralized unions do NOT demand moderate wage increases?

Even though they also correctly anticipate the inflationary effect of wage increases, they do not internalize this effect, because each wage increase negotiated by a single union on inflation is small.

therefore

there is a competition between unions in countries with decentralized wage negotiations.

Workers will receive a relatively high net pay rise, if they work in a sector which union has negotiated a relatively large wage increase.

Workers will receive a relatively low net pay rise, if they work in a sector which union has negotiated a relatively small wage increase.

Corporatism, Inflation and Central Bank Independence

CBI is theoretically related to corporatism.

While corporatism is believed to increase inflation, CBI aims at lowering inflation.

Some hypotheses:

CBI lowers inflation, because central bankers have no incentive to manipulate the political business cycle.

CBI lowers inflation because central bankers are committed to reduce inflation.

CBI lowers inflation because unions and employers anticipate anti-inflationary policies when negotiating wages.

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A Dichotomy of Central Banks

Iversen distinguishes between

accommodating and non-accomodating central banks.

Accommodating is defined as

“expansionary monetary policies in the present of high wage increases”

Non-accomodating is defined as

“restrictive monetary policy in the presence of high wage increases.”

What are the consequences of accommodating and non-accommodating monetary policies on the results of wage negotiations?

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Low wage increases: non accommodating and accommodating central banks respond identically (in technical terms: pooling equilibrium)

High wage increases (separating equilibrium):

Accommodating central banks will implement expansionary monetary policies

Outcome: high inflation

Non-Accommodating central banks will implement restrictive monetary policies

Outcome: High Unemployment

Conditional effects (Keefer/ Stasavage)

Hypothesis 1: The delegation of monetary policy making authority will have greater effect on credibility when there are a larger number of veto players.

... because reversal of CB's decision is less likely.

Hypothesis 2: The interaction of checks and balances and central bank independence will have a larger positive effect on credibility when there is some political instability and polarization.

... because ??? Not understandable in original text.

Hypothesis 3: Central bank independence is more likely to endure in countries that exhibit multiple veto players in government and either moderate political instability or polarization.

... because with multiple veto players CBI is less easy to abandon.

**Table 4: Determinants of central bank independence:
polarization and checks and balances**

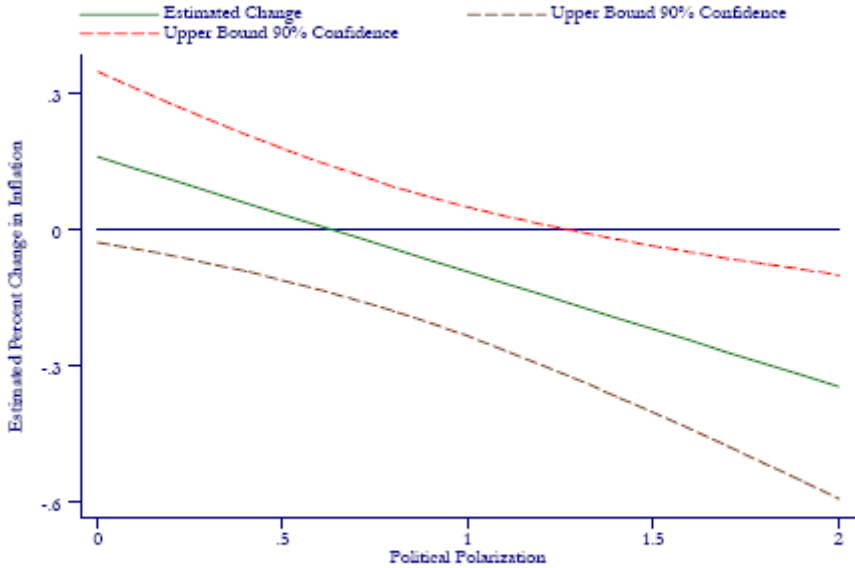
Dependent variable: central bank independence	Atlas-New* Executive Constraints (1)	Atlas-New* Executive Constraints (2)	Atlas-New* Party Frac (3)	Sullivan-New*Exec Constraint (4)	Sullivan-New*Exec Constraint (5)	Sullivan-New*Party Frac (6)
Intercept	0.32 (0.04)	0.54 (0.09)	0.58 (0.05)	0.32 (0.04)	0.32 (0.060)	0.44 (0.050)
Polarization measure (see column heading)	-0.13 (0.14)	-1.38 (0.44)	-1.46 (0.31)	-0.00002 (0.000013)	-0.00002 (0.00003)	-0.00006 (0.00003)
Executive constraints or Party Fractionalization (see column heading)	0.10 (0.05)	-0.028 (0.14)	-0.43 (0.10)	0.0057 (0.004)	0.007 (0.01)	0.41 (0.14)
Interaction term		0.215 (0.07)	2.20 (0.57)		-6.54e⁻⁷ (5.55e⁻⁶)	0.00007 (0.00005)
R ²	0.05	0.13	0.10	0.12	0.05	0.05
p-value for F statistic	0.14	0.041	0.0011	0.0065	0.27	0.23
Number of observations	186	186	190	126	196	202

Note: Period dummies and income per capita not reported (income per capita is always highly insignificant). Ordinary least squares with White's heteroskedastic-consistent standard errors

→ CBI not robustly related to political polarization.

And how this non-finding was later reported (APSR 2002)

Figure 4: Estimated effect of an increase in central bank independence at different levels of polarization



Note: Change in CBI is one standard deviation = 0.13