

**DISTRIBUTION AND REDISTRIBUTION:
THE SHADOW OF THE NINETEENTH CENTURY**

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1. Introduction

The end of the cold war has been associated with the spread of capitalism and democracy. Yet it has not been associated with the end of diversity in terms of institutions, policies, or outcomes. Some inegalitarian countries redistribute very little while some egalitarian ones redistribute a great deal. Some economies rely a great deal on free market exchange while others are permeated by a dense network of non-market regulations and organizations. Understanding the functioning of democratic capitalism in the modern world requires us to explain this diversity and its persistence.

Most of the current literature on democratic capitalism seeks to understand differences across countries as a function of how markets affect democracy or vice versa. In one of the most highly cited papers in the political economy literature, Allen Meltzer and Scott Richard (Meltzer and Richard 1981) argue that, holding mean income constant, an increase in inequality pushes the median income further below the mean. Thus, in a democracy, increased inequality implies that more redistribution will be chosen by the median voter. The intuition is that in an effective democracy the interests of the majority would lead to more redistribution as the income of the wealthiest increased: distribution and redistribution should be negatively correlated. But empirically this is not the case: the data for advanced democracies show the inverse of this plausible result (Bénabou 1996; Perotti 1996; Lindert 1996; Alesina and Glaeser 2004, Moene and Wallerstein 2001). See Figure 1 for a simple illustration of this “Robin Hood paradox”.¹

¹ A negative correlation of a similar magnitude exists for inequality and government spending. These data are available for a larger number of countries, but adding countries does not alter the pattern.

[Figure 1 about here]

Another prominent argument is that the organizational strength of the working class determine redistribution, and potentially also distribution (which would account for the Robin Hood paradox). If capitalism is about class conflict, then the organization and relative political strength of classes should affect policies and economic outcomes. *Power resources theory* focuses on the size and structure of the welfare state, explaining it as a function of the historical strength of the political left, mediated by alliances with the middle classes (Korpi 1983, 1989; Esping-Andersen 1990; Stephens 1979; Huber and Stephens 2001). Yet the relationship between unionization (which is frequently used as an indicator of the organizational strength of labor) and redistribution is only moderate ($r=.69$) and almost entirely due to the Nordic countries ($r=.33$ when excluded). In multiple regression analyses, unionization usually emerges as only a secondary determinant of redistribution (Moeller et al., Iversen and Soskice 2005).

On the other hand, there is mounting evidence for a fairly strong relationship between partisanship and redistribution (see, for example, Hicks and Swank 1992; Iversen and Wren 1998; Huber and Stephens 2001, Cusack 1997, Allan and Scruggs 2004; Kelly 2005; Kwon and Pontusson 2005). This finding raises another issue, however, because if partisanship is important, the median voter theorem must be systematically violated. There must therefore be some explanation for why this should be the case, and it is by no means obvious – especially if we use a simply left-right conception of politics as advocated by power resource theory. Although Downs only applied his argument to

majoritarian two-party systems, simple models of legislative politics in multiparty systems imply that the median legislator (who presumably represents the median voter) can set the policy (Laver and Schofield 1990).

The median voter theorem, however, rests on another very restrictive assumption, namely that distributive politics is unidimensional. This cannot be true in principle since the game of dividing a pie has as many dimensions as there are groups. Redistribution must therefore be the result of coalitions. Curiously enough, although coalitions are important for explaining partisanship, power resource theory offers no theoretical account of how such coalitions are formed. The notion of multi-dimensionality and coalitional politics will be important to the story we tell below

But while differences in coalitional politics suggest one potential source of diversity between capitalist democracies, we have to explain why and how they differ across countries. Whereas bargaining theory implies that no coalition is stable in a divide the dollar game, we are impressed by the striking continuity in cross-national differences in the pattern of inequality and redistribution -- at least in advanced democracies. The economies which currently have highly egalitarian distribution of market income (D) and extensive redistribution through taxes and transfers (R) appear to also be the ones with these traits during most of the second half of the 20th century. Although long time series do not exist, comparing data on income inequality and government spending for the 1950s and 1960s to the 1980s and 1990s reveals high levels of persistence in both. The cross-time correlation for income inequality is .92 for 10 advanced democracies and .84

for a larger sample of 38 countries -- including democracies and non-democracies, as well as developed and less developed countries. For total government spending (an imperfect measure of redistribution), the correlation is .85 for 20 OECD countries.

To push the continuity further back: the high D&R economies of the last half century were organised economically before industrialization and before the franchise in more cooperative ways (guilds, rural cooperatives) than the low D&R economies. And even before the breakthrough of democracy these countries had (limited) systems of representation that functioned in a manner not too different from current systems of proportional representation.

This paper attempts to put a number of different pieces of work together in order to explain both the correlation between distribution and redistribution and the long term continuity. It thus draws substantially on both empirical and theoretical work of other authors, as well as our own. Sections 2 to 4 of the paper deal with explaining the positive relationship between distributional equality and redistribution. We propose in section 2 that the correlation is indirect: two factors, the electoral system and the degree of economic coordination each impact on both distribution and redistribution. PR promotes both distributive equality and especially redistribution; so does coordinated capitalism with an even greater impact on distribution. PR promotes center-left coalitions; and coordinated capitalism, encouraging the generation of specific skills, reinforces both median voter and business support for wage compression and strong welfare state insurance (Hall and Soskice 2001; Iversen and Soskice 2001; Iversen 2005).

The positive correlation between distributional equality and redistribution is explained by a positive correlation between PR and coordinated capitalism. Using a composite measure of PR² and two measures of non-market coordination,³ Figure 2 illustrates how countries cluster into a PR-coordinated group and a majoritarian-uncoordinated group -- even if there are some questions about where Ireland and France (according to one of the measures) belong. Because coordinated capitalism and PR determine distribution and redistribution, a full account of the correlation between the two pulls us back into the nineteenth century where these institutions became linked up in the process of industrialization and democratization.

[Figure 2 about here]

Section 3 offers a historical explanation of the positive correlation between PR and coordinated capitalistic systems. The argument is that the countries in which there is now a high degree of coordination, and in which economic coordination was beginning to move to the national level and sectoral levels as industrialization developed through the second half of the nineteenth and the start of the twentieth centuries, had previously been primarily coordinated at the local and regional level. Locally coordinated economies

² The proportionality of the electoral system measure in the last column is a composite index of two widely used indices of electoral system. One is Lijphart's measure of the effective threshold of representation based on national election laws. It indicates the actual threshold of electoral support that a party must get in order to secure representation. The other is Gallagher's measure of the disproportionality between votes and seats, which is an indication of the extent to which smaller parties are being represented at their full strength. The data are from Lijphart (1994).

³ One (marked by triangles) is Hall and Gingerich's (2004) measure of nonmarket coordination, based on the existence of coordinating institutions in industrial relations and the corporate governance system. The other (marked by squares) is Hicks and Kenworthy's (1998) index of cooperation, which measures the extent to which interactions between firms, unions, and the state are cooperative as opposed to adversarial.

avored the development of specific assets and activities. The choice of PR – occurring in most of these economies between the 1890s and the 1920s – reflected the need for local and regional economic interests to ensure representation at the national level, as industrialization proceeded, to protect their specific assets. This explanation of PR adoption is somewhat different from that advanced by Lipset and Rokkan (Lipset and Rokkan 1967), and significantly different from Boix’s formalized model (Boix 1999), or the argument provided in Alesina and Glaeser (2004).

2. The positive relation between distributional equality and redistribution.

In this section we argue that the positive correlation between distributional equity and redistribution is not the result of a direct causal relation (one way or the other). As noted above, the best known candidate causal explanation, Meltzer-Richard, implies a negative correlation. Moene and Wallerstein (2004) derive a positive relation, but though elegant it rests on an implausible assumption⁴.

Instead we suggest that two factors, the extent of consensus in the political system and the degree of non-market economic coordination have both impacted in similar ways on both distribution and redistribution. As we illustrated above, and as Gourevitch has documented in greater detail, political systems with proportional representation (PR) are

⁴ Moene-Wallerstein assume that benefits are targeted to the non-employed and that risk aversion is sufficiently high for the relationship between income and preferences for spending to be positive in the relevant interval around the median voter.

strongly correlated with coordinated market economies or CMEs (Gourevitch 2003). In the next section we sketch an historical account of why that should be so. Here the focus is on the relationships between PR and coordination on the one hand and distribution (D) and redistribution (R) on the other. The argument follows the rough causal sketch in Figure 3.

[Figure 3 about here]

2.1 Coordinated Economies

The more the organization of firms and economic institutions facilitate the coordination of economic activity, especially wage-setting and skill-formation, the more likely the political economy is to promote both distributive equality and redistribution. We look at two mechanisms through which this occurs and which have been the subject of considerable work.

2.1.1 *Social policy preferences and Redistribution.* There is a substantial amount of literature which argues that one of the comparative advantages of CMEs is that they provide incentives for employees and companies to invest in industry, occupation and/or company specific assets. A key condition for employee preparedness to make such investments is that there are adequate protections in the event of company or industry failure. As argued in Estevez-Abe et al, some combination of three types of protection are directly involved (Estevez-Abe et al. 2001): First, wage protection is needed to guarantee that relative earnings in the industry or occupation do not fall; this protection

normally takes the institutional form of coordinated wage bargaining⁵. Second, employment protection reduces the likelihood that companies dismiss employees. Third, unemployment protection in the form of high replacement rates and conditions on acceptable reemployment is important, and the more so to the extent that company level employment protection is reduced. Of these three protections the third, replacement rates in the event of unemployment, impacts most directly on redistribution, and it can be conceived very broadly as a protection of income whenever workers are forced into unemployment or into a job where their skills are not fully employable. Any social insurance systems that help maintain a certain level of expected income regardless of adverse employment conditions – including health insurance and public pensions -- serves as a protection of specific skills (Iversen 2005).

There is an important contrast here with LMEs, especially in the last 30 years. The institutional framework in LMEs has not permitted major programmes of investment in specific skills. Vocational training, whether in professional schools (law, engineering) or community colleges, provides relatively general skills which enable movement across company and industry boundaries as well as retraining. And while skill-specificity and consequent long tenure in CMEs can eliminate mid-career labour markets, labour markets in LMEs are becoming more flexible over time. Portable skills means that employment insecurity is less of a concern, and that more people can use their market power to get adequate insurance against illness and old age.

⁵ We shall see that this is not the only use of coordinated wage bargaining.

Business social policy preferences and Redistribution. Governments decide on replacement rates. In doing so they respond to pressure from organised interests. Unions will naturally support unemployment protection. But against widely held views, the pioneering work of Peter Swenson and Isabela Mares has provided a wealth of historical evidence that employers are not necessarily advocating a minimal welfare state (Swenson 2002; Mares 2003). In CMEs the combination of strong employer organizations and their acceptance of the case for non-minimal replacement rates has meant that there is a floor to replacement rates as well as duration of benefits. There may be more than one reason why employers should want non-minimal replacement rates. We will rest here with the argument that they are necessary for persuading employees to invest in deep specific skills. Of course, actual replacement rates are also influenced by government partisanship; as will be seen, CMEs tend to have more than average left of centre governments; so business associations in CMEs may well call for reductions in replacement rates. The critical point is that organised business in CMEs has not engaged, nor had the motivation to engage, in promoting the wholesale dismantling of the welfare state.

Organized business in LMEs has played a different role⁶. Concerned to promote unilateral management control within companies, its interest has been in flexible labour markets and weak unions. For both reasons, having a minimal welfare state has been important to it. However, organized business has been weaker in LMEs than in CMEs. This reflects the lack of business coordinating capacity in LMEs. It also reflects, as we

⁶ At least in recent decades, though see Swenson for the US in the interwar period.

will see, political systems based on majoritarian elections and single party government, which undermines the incentives of parties to cater to business interests. Thus, although business has been anti-welfare state in LMEs, its impact has been blunted by its lack of political power. The exception is the US, where weak party discipline and power-sharing between executive and legislature enable business to effectively promote a minimal welfare state agenda.

Voters' social policy preferences and Redistribution. Employees with specific skills have an interest in wage protection, employment protection and unemployment protection in the form of high replacement rates, Estevez-Abe et al (2001). In Iversen and Soskice (2001) we show the relatively weak conditions (especially risk averseness) that have to be satisfied in order for specific skills workers to vote for more redistributive spending at given levels of income. Using ISSP comparative surveys we show that this is indeed the case. In so far as CMEs encourage investment in specific skills, therefore, we expect voters in CMEs prefer higher replacement rates than voters with equal incomes in LMEs. This translates into higher actual spending and redistribution if political parties are able to commit to long-term platforms that insure currently employed workers (who are more likely to be politically decisive) against future loss of income. As we argue below, such commitment capacity tends to be greater in PR electoral system where (unlike majoritarian systems), winning the next election is not everything, and where parties can ally themselves openly with groups (such as unions) that promote long-term social

spending. The empirical correlation between vocational training activity (as a measure of specific skill) and redistribution through taxes and transfers is illustrated in Figure 4.

[Figure 4 about here]

2.1.2 Coordinated/centralised wage bargaining and Distribution. Why should coordinated economies be more associated with egalitarian distribution of income? The basic argument is that coordinated economies encourage collective and coordinated bargaining. And that collective, centralized and coordinated bargaining leads to more egalitarian outcomes (Wallerstein 1999). The relationship is illustrated in Figure 5.

[Figure 5 about here]

The explanation has several components. Coordinated economies privilege bargaining procedures in which the locus of bargaining is above the company level, so that there can be some degree of coordination across bargaining units. There are two reasons for this. The first is well known and related to the macroeconomic need for a competitive real exchange rate. The second links to the insurance function of “wage protection” for employees with deep specific skills at company and/or industry level. If workers are to focus their investment in human capital in specific skills they need some guarantee that their earnings will not fall relatively to those of other occupations. Hence the need for wage coordination across different bargaining units (or for centralized wage bargaining).

The next question is then why coordinated bargaining should lead to a more compact distribution of earnings. One reason has to do with the nature of union bargaining, which has been shown to lead to more compact distributions (Freeman 1980). Loosely, effective bargaining requires that union threats of action are credible; this in turn requires that there is wide support within the bargaining unit for the union's position; and in turn that the bottom half of the workforce are not unrewarded. Another way of phrasing this is that unions representing different income groups have to consent to the bargaining proposal of the union central before it can be effectively advanced to employers. This gives low wage unions the capacity to demand their fair share of any agreement. The more centralized the wage-bargaining, the more encompassing the bargaining unit, and the more compact the resulting distributional outcomes.

The second reason is this: Suppose that all that coordinated bargaining did was to keep relativities constant, so that if N individuals start off with real wages $[w_1, w_2, \dots, w_N]$, they will have real wages $[\lambda w_1, \lambda w_2, \dots, \lambda w_N]$ after a certain period of time. Now imagine a decentralised system starting off with the same real wage vector, and that the wages of each individual after the same period are drawn from a non-degenerate random distribution with mean λw_i . Then the distribution on average of the second group will be wider than that of the first over time: some low income earners will have fallen below λw_1 and some high income earners jumped above λw_N . Thus the equality of the

distribution of individual incomes will depend on the degree of coordinated wage bargaining.

2.1.3 Conclusion. CMEs, in summary, have had positive effects relative to LMEs on both the extent of redistribution and the degree of distributional equality. Both voters and business in CMEs have interests in higher replacement rates on average. And business has a more substantial influence on government in CMEs via corporatists arrangements. As Moene and Wallerstein have emphasised, we need to more pay attention to the insurance function of the welfare state (Moene and Wallerstein 2003) rather than simply the redistributive function. That is the argument in **2.1.1** Because CMEs have a comparative advantage in the creation of specific skills, there is an insurance need for high replacement rates,⁷ and these in turn reinforce the comparative advantage of companies in international competition.

CMEs equally have more centralized and coordinated wage-bargaining than LMEs. An important reason for this is the insurance function which wage protection offers those with specific skills who get locked into companies or occupations. Moreover CMEs need effective employee representation at plant and company level (Hall and Soskice 2001); but this raises the danger of competitive wage-bargaining in the absence of centralized and/or coordinated unions. And for reasons explained in **2.1.2** the more centralized is collective bargaining the greater the distributional equity.

⁷ The insurance function operates of course in LMEs as well, but with a greater weight of general skills less insurance is needed.

2.2 PR Political Systems

As Gourevitch has pointed out, and as Figure 1 above illustrated, electoral systems with proportional representation are closely linked statistically to coordinated market economies (Gourevitch 2003). In section 3 we try and explain why that is the case. In this sub-section we discuss the consequences of PR systems for distribution and redistribution.

Three linkages from PR to R and D seem of particular importance. In the first place, PR electoral systems in advanced economies have a bias towards left of center governments over the period since the second world war; this is almost the inverse of majoritarian systems (see Table 1). We sketch in 2.2.1 an analytic argument as to why this may be the case and why it will lead to an increase in redistribution. The second linkage is via the educational system. Standard microeconomic theory says that the relative wages of two individuals will be equal to the ratio of their marginal productivities, absent any influences which might result from market imperfections including collective bargaining. Since the ratio of marginal productivities is closely related to the human capital ratio, the distribution of educational attainments will play a large part in determining the underlying distribution of earnings from employment. We show in 2.2.2 that the electoral system is correlated with the educational attainments of low income groups and argue that there is a good reason why this should be the case. Finally, as we explain in section 2.2.3., PR encourages voter turnout and facilitates a better understanding among the poor

of their economic interests. This reinforces the effects of PR on education and redistribution.

[Table 1 about here]

2.2.1 Electoral systems and redistribution: the PR bias towards center-left

governments. Table 1 shows the data on government partisanship in advanced economies between 1945 and 1998, derived from Cusack and his associates (Cusack and Engelhardt 2002). The scale is a composite index of three expert surveys of the left-right position of political parties in each country. The partisanship of the government is a weighted average of the ideological position of each party times its proportional share of government seats.⁸ Note we compare this measure to the position of the median legislator (which is defined as the left-right position of the party with the median legislator). This should take account of any factor that may shift the whole political spectrum in one direction or another – such as the possibility identified in section 2.1.1. that the demand for “left” policies is greater in specific skills countries.

What accounts for these surprising relationships? We sketch out here an argument developed in detail elsewhere (Iversen and Soskice 2005). There are three income groups in an economy, L, M and H. Under PR there are three parties, *L*, *M* and *H*, each representing one of the groups and sharing the respective group’s goals (“representative” parties). *M* is formateur and has to choose a coalition partner. The key intuition is that a

⁸ We excluded governments that were coded as centrist by the one expert survey (Castles and Mair) which explicitly identified parties as such.

party is less capable of looking after its interest if it is excluded from the coalition. Since M benefits more from taxing an unprotected H than from taxing an unprotected L , M will choose L as coalition partner. This can be modeled in a number of different ways; the only bargaining structure which is excluded is a take-it-or-leave-it offer from M ⁹. The basic point is that it pays L and M to form a coalition and take resources from the excluded H party, rather than H and M forming a coalition to take resources from an excluded L . Thus the upshot is that PR systems tend to privilege center-left coalitions and that such coalitions redistribute more than center-right coalitions.

Majoritarian systems operate quite differently. The three parties are replaced by two, a center-left (LM) and a center-right (MH) party, both competing for M . If both parties could commit to an M platform, then each would win 50% of the time. But they cannot: M electors believe that there is some possibility that an LM government will be tempted to move left and an MH government to move right. The fundamental bias in majoritarian systems arises because, *ceteris paribus*, M has less to fear from an MH government moving right than from an LM government moving left. Under reasonable assumptions the former leads to lower taxes on M , while the latter implies higher taxes on M with the proceeds redistributed to L . Parties will try to deal with this problem by electing strong leaders who are willing and capable of ignoring the pressures from the party base (“leadership parties”). But platform commitment can never be complete.

⁹ If M can make a take-it-or-leave-it offer, it can enforce M 's ideal point on either L or H . But this is not the reality of most coalition formation where counter-offers are invariably both made and considered.

Note that the insights of this model are completely lost in one-dimensional models such as Meltzer-Richard's. The reason is that these models artificially imposes a symmetry on the distributive game where the interests of M are always equally well aligned with the interests of L and M . With three parties in a PR system this means that M is equally likely to ally with H as it is to ally with L . Likewise, in a majoritarian system, any deviation from an M platform is equally threatening M whether it comes from the center-left or the center-right party (e.g., the center-left party is forced to share with M even if L sets policies).

2.2.2. Electoral systems and educational outcomes. The center-left bias in PR systems increases redistribution of income towards lower income groups, by comparison with majoritarian systems. If so, electoral systems will also affect the distribution of educational spending, and educational outcomes in turn affect the distribution of income. Center-left governments have an incentive to spend more on L 's education than do center-right or middle of the road governments in majoritarian countries. And they have a lesser incentive to spend on H 's education. The model in Iversen and Soskice (2003) assumes that policies are limited to redistributive transfers. But a similar argument can be run with the three groups competing for expenditure on their education. Indeed, if H opts for private education, and if there are positive externalities for M from educational expenditure on L (for example, economies of scale in school buildings), then M has an increased incentive to opt for an LM coalition¹⁰.

¹⁰ Though note too that this weakens the centre-right bias in majoritarian systems, since a left deviation is less frightening for M .

Ansell (2005) has recently documented that left governments spend relatively more on primary education than right governments, which benefits low income groups more than high income groups. Boix (1998) has likewise shown that the left governments spend more on public education than right governments. Ansell also demonstrates that similar effects can be attributed to PR electoral systems.

The limitation of these results is that they do not speak directly to the skills acquired by students, which could vary with the effectiveness of educational institutions across countries. However the OECD has run an international adult literacy survey in the years 1995-8 (OECD 2000), which does speak more directly to the level and distribution of skill acquisition. We confine our attention to the advanced economies included in the survey.¹¹ The survey conducted three tests, testing writing, comprehension and quantitative skills. Figure 6 summarizes the results. The top bars (using top scale) show the percentage of adults who have not completed an upper secondary education but have high scores on document literacy. The bottom bars (using bottom scale) show the percentage of adults taking the test who get the lowest score, averaged across the three test categories.

Compared to majoritarian systems at the top of the figure, it can be seen that the PR countries have far fewer adults who get the lowest scores, and they also tend to produce higher scores among those with little formal education. There is therefore a *prima facie*

¹¹ Flanders have been included for the sake of completeness, but it is likely that linguistic ability among adults is limited as a result of internal migration.

case that the electoral system is an important determinant of the compactness of the skill distribution. Since PR and coordination are co-linear, it is of course also possible that the pattern is related to the prevalence of vocational training in CMEs. Indeed we argue below that this is likely to be a reinforcing factor.

2.2.3. Electoral systems, turnout, and political knowledge.

It is an interesting fact that when PR and government partisanship are both used as explanatory variables in a regression with redistribution as the dependent variable, PR exerts a direct positive effect in addition the effect that goes through partisanship (Iversen and Soskice 2005). It is as if the entire political spectrum under PR is shifted to the left. One reason may be that PR is associated with higher voter turnout (Franklin 1996, 2004). Since abstention is concentrated among the poor, higher turnout means that the preferences of the poor are likely to be accorded greater attention by elites (Lijphart 1999). But those who have an economic interest in redistribution are not always cognizant of that interest, and they do not always vote to advance it (Bartels 2004). In addition to voting, people must therefore also actively seek an understanding of their own economic interests. It is therefore significant that the distribution of political knowledge has also been found to be more egalitarian in PR systems (Abrams 2004).

What explains this effect of electoral system on voting and political knowledge? This is a fundamental question for political economy because it speaks to two issues that are at the heart of any understanding of democratic capitalism: why some people acquire costly information about politics when we would expect them to be “rationally ignorant,” and

why some people vote when we would expect them to “rationally abstain” (Downs 1957). Both spring from the fact that individuals are rarely able to affect the outcome of an election, and therefore have no incentive to spend time and effort participating in it.

We have argued elsewhere that the solution to these puzzles lies not in what voters want from politicians, but what they want from the people who really matter to them: their friends, family, neighbors, and colleagues (Abrams, Iversen, and Soskice 2005). People do not acquire information and go to the polls, we argue, because they are particularly dutiful (as many have argued) or because they are fooled into thinking their vote matters (as others have argued). Rather, they do so because such behavior is sometimes an important source of respect and standing in the groups and networks to which people belong. Most people have a strong desire to participate effectively in the discussions and activities of the groups to which they belong, and once these discussions and activities turn to politics, knowledge about politics and willingness to act in the collectively defined interest become a key marker for the relative standing of individuals in the group. Peoples’ welfare – in the very tangible sense of how much others respect and value them – can therefore become defined in part by their knowledge and participation in politics.

Organized groups and political parties understand the functions of networks in motivating people politically, and they will try to make use of these networks for political ends. Political parties and groups can use their local presence to try to shape the agenda through face-to-face contacts and by initiating discussions about political issues. The intensity of such behavior will increase around elections, but the hot political issues of

the day can and do find their way onto the agenda between elections. Contacting people in localities that are likely to be responsive to the political message is one method. Making use of party or group members, or sympathizers, who can take on the role of “opinion leaders” is another.

The implication of this argument is that political information and participation vary with the strength of collective organizations such as parties, unions, and churches. Such organizations tend to be strong where economic activities are highly coordinated and where agents have made heavy investments in co-specific assets – in CMEs in other words. The importance to politicians and groups of mobilizing voters is also likely to vary with the electoral system. As we have just suggested, in majoritarian two-party systems the need to convince the median voter that leaders are credibly committed to a centrist platform means that parties cannot appear to be too beholden to the interests of their core constituents. They do have an interest in getting core voters to turn out, of course, but parties cannot create strong party organizations around these voters if this is seen by the larger electorate to tie the hands of political leaders. If they did, any pronouncement of centrist platforms would be discounted by the median voter.

Multiparty PR is different because representation does not depend on capturing the median voter. Parties are therefore free to mobilize more narrowly-defined segments of the electorate – subject to the constraint that too narrow targeting will invite the formation of new parties and undermine the attractiveness of the party as a potential coalition-partner in government. The incentive to represent relatively narrow interests has

to be weighted against the potential costs of fragmentation and marginalization in the legislative arena. Still, multiparty PR is far more conducive to the mobilization of narrowly defined interests than two-party majoritarianism, and no group is likely to remain un-represented if such groups can support the existence of a party. Compared to majoritarian systems, parties are likely to have stronger party organizations and less autonomous leaders. The result is that participation and political knowledge in PR systems tend to be diffused to those who have a strong interest in redistribution.

3. Why are CMEs correlated with PR systems and LMEs with Majoritarian?

Both PR systems and CMEs explain at least partially both distributive equality and redistribution. What makes this particularly interesting is that PR systems are strongly positively correlated with CMEs. Is this an accidental correlation? Do PR systems cause CMEs; or vice versa; or do they reinforce each other? These are the questions we try to answer in this section.

3.1 Types of Capitalism and Rokkan's Hypothesis

Table 2 shows electoral arrangements for advanced economies in the post war period. These arrangements have been largely in place since the period 1910 to 1925 before which all the countries had some type of majoritarian system. During this period a

number of countries opted for PR systems. The countries which opted for PR systems are all countries which later became CMEs. Of the countries which did not, all except France and Japan later became LMEs.

[Table 2 about here]

An obvious hypothesis therefore is that it was the switch of electoral systems during and just after WW1 which brought about the different forms of capitalism observed from the 1980s on. This would be an attractive way to reconcile the correlation between capitalist types and electoral systems with the well-known Rokkan and Lipset explanation for PR (Lipset and Rokkan 1967). This explanation is that cleavages which resulted from religious or regional differences in the 19th century brought about a divided right in some countries but not others. Faced with universal franchise in the early 20th century, and a rising political left, the former countries opted for PR in order to preserve the identity of the competing right parties¹² Implicitly, distribution and redistribution in the second half of the twentieth century would thus depend on religious and regional differences in the nineteenth.

3.2 An Alternative Hypothesis

But to us this seems less than plausible, or at least accidental. And we develop a different hypothesis based in large measure on Cusack et al. (2005). It owes much to chapter 4 of

¹² Boix has developed a much-cited formal model of the Rokkan hypothesis (Boix, 1999).

Peter Katzenstein's *Small States* (Katzenstein 1985)¹³, and to Kathleen Thelen's *How Institutions Evolve* (Thelen 2004), as well as work by Swenson (2002) and Mares (2003)¹⁴. A starting point is that in the proto-industrialisation stage – in the first half of the nineteenth century and sometimes later – the local economies of the future PR-adopters were organized in a relatively coordinated and consensual manner¹⁵. Put simply our argument is that in the proto-industrialization stage collective action problems in the PR adopters were solved at the local level; it was there that standards (on skills, product quality, etc) were set; and this took place through guilds, handwork associations, and rural cooperatives with close links to nearby towns. In so far as there was a need for representation in national assemblies, this was met by local notables who could represent their community. As we argue in more detail below, precisely because economic interests were locally rooted, single-member districts did not pose a barrier to a proportional representation of these interests, and SMP ensured that the representative would be attentive to local constituencies.

But as industrialization proceeded in these countries in the second half of the 19th century, so too did the need for national standards, especially those pertaining to the labor force and skill formation. For reasons we will shortly set out, the national standards embodied compromises based on cross-class coalitions (covering different sectors of industry, rural groups, the artisan sector, and industrial workers). This in turn required

¹³ Although Katzenstein himself argues for Rokkan's position.

¹⁴ Though only Katzenstein is interested in the PR decisions.

¹⁵ In fact all the PR-adopters were late industrialisers.

national political systems in which these different groups could be effectively represented. But for that purpose SMP did not work well since parties representing minority interests would be greatly disadvantaged. These parties therefore started to support the adoption of PR electoral systems, which permitted the representation of different groups and facilitated cross-class alliances.

The key to our argument is to understand the relationship between investments in co-specific assets, the rise of national industries, and the electoral system. In cases where industrialization was accompanied by heavy investments in relatively mobile assets, or where unions organized around narrow craft skills, the overriding issues from the right became labor market reform and protection against taxation. Even mobile assets do not preclude taxation of the income they generate, and a dominating concern for parties representing the middle and upper classes became the defense of class interests. That, we have argued, is best done in a majoritarian system. The argument in Boix (1999) that equally balanced parties will produce a coordination problem in most cases will be resolved through strategic voting or party alliances.

A necessary condition for PR to be a choice on the right is therefore that parties organize groups whose interests are unlikely to be looked after in a majoritarian system, and that instead requires some form of direct representation. Heavy investment in co-specific assets will produce demand for representative systems that will protect those assets. But it is not a sufficient condition because if these assets are locally confined, most necessary institutions and regulations will be local as well. In so far as policies and regulations

require national standards, properly drawn up boundaries between electoral districts can ensure that interests are represented in rough proportion to their share of the electorate. It is remarkable, though not surprising, that those countries that eventually ended up with PR also exhibited high levels of vote-seat proportionality before the adoption of PR (Cusack et al 2004). Again, when interests are locally defined, properly drawn districts can turn a single-member plurality system into a system that is both proportional and effective in terms of representing local constituencies.

A sufficient condition for right parties representing specific interests choosing PR is that SMP policies and regulations require coordination at the national level, and that representation at that level cannot be guaranteed through redistricting. This is precisely the situation that emerged in a number of European countries in the course of the industrial revolution and with the extension of the franchise. Direct (“corporate”) representation of interests was challenged by pressures for franchise extension, and the regional monopoly of representation by political parties (and hence the proportionality that had characterized these systems) was eroded by the emptying of the country-side and the spread of industry throughout the urban areas. Suddenly the old electoral system produced starkly disproportionate representation, with rural interests often vastly overrepresented and city interests underrepresented. At the same time, local representation at the national level lost much of its rationale since industries had spread across multiple districts and required coordination within national parties. The result was the transition to PR, often with the support of both left and right parties.

Figure 7 (adopted from Cusack et al 2004) illustrates the logic using historical data on vote-seat disproportionality. What we have labeled the proto-industrialization phase emerged in a setting where those countries that eventually transitioned to PR had a system of representation that worked in a fairly proportional manner, even though it was SMP. But as is clear, industrialization at the national level created stark disproportionalities towards the end of the 19th century. Our argument is that in economies characterized by co-specific investments and high levels of coordination, the systematic under-representation of some groups on was unacceptable if the political system was to facilitate the protection, and mutual accommodation, of different interests. This is what gave rise to PR between the end of the war and 1922.

[Figure 7 about here]

What is not evident from Figure 7 is that countries adopting PR shared a set of economic attributes that set them apart from those countries that retained majoritarian institutions. The critical difference was not, we argue, whether the right was evenly split, or it faced a strong left. Based on our reading of the historical literature, the countries that adopted PR exhibited high levels of non-market coordination and shared to one extent or another the following characteristics, which reinforced each other:

(a) industrialization based on export specialization, and specialization in areas which demanded a relatively skilled workforce; (heavy industry in the Ruhrgebiet and Wallonia were partial exceptions to this);

(b) importance of small-scale industry in relatively autonomous towns closely integrated into surrounding countryside; (Ruhrgebiet, East Prussia, Mezzogiorno, exceptions);

(c) unions develop as industry unions, sometimes confessional and/or regional, but with cross-industry linkages, open to cooperation with management over workforce training and accepting of managerial prerogatives, *not* based on crafts, in which skilled workers come initially from the artisan sector (Swenson 2002; Thelen 2004);

(d) coordinated employers, though with sectoral differences (Swenson 2002; Thelen 2004).

Here then is the beginning of a pattern of industrialization in which agreements between different sectors of industry and unions on training and workplace cooperation, and between industry and the handwork sector on training, and on the pattern of non-segmentalist insurance and welfare benefits can develop (Swenson 2002; Mares 2003; Thelen 2004). But many of these agreements require the consent of all the relevant parties, and in many cases this is difficult outside the framework of the political system. Thus representation within the political system is important for the different representative groups involved. And the critical point is that, since agreement *among* the representative groups is necessary, each group has some incentive to ensure the inclusion of other groups. Thus the German social democrats in 1919 with an overall majority and able to decide the Weimar electoral system chose proportional representation, as did catholic parties with overall majorities in Belgium and Italy (Cusack, Iversen et al. 2004). In Denmark both the social democrats and the conservatives ended up supporting PR.

The UK and the US, Australia, NZ and Canada, who retained majoritarian systems, have quite different backgrounds. For the most part, guilds and agricultural cooperatives vanished before the onset of industrialization, and unions were organized along narrow craft lines that put them into conflict with employers. Building directly on Thelen (2004), one can make the following observations about these countries:

(i) English towns, as any reader of *Middlemarch* or *North and South* knows, were not well-organized, autonomous communities. “Whereas the guilds persisted in other countries until they were abolished by acts of state in the nineteenth century, British guilds faded very early and gradually beginning centuries before”, (Thelen 2004). Economic historians date the decay to the Tudor and Stewart period (Coleman 1975). Nor were there rural cooperatives: agriculture was organized primarily along the lines of large tenant farmers with dependent agricultural labor. Thelen makes a similar observation about the US: “The overriding fact about the US case is the lack of guild structures and traditions”, (Thelen 2004). Nor does there appear to be evidence of effective craft guilds in Australia, Canada or NZ. Thus we take it as least as a working hypothesis that local communities were not capable of effective economic coordination as in the PR adopters.

(ii) The development of industrial relations in the nineteenth and early twentieth centuries in the above five countries took the form of craft unionization. The interests of craft unions were opposite to those of employers: the unions wished to limit managerial prerogatives in terms of employment and work practices; to control the supply of skilled

labor by controlling access to apprenticeships; and thus to use their power to raise the relative wages of the craft. Under these conditions there was no incentive for business to engage with unions in the pursuit of a “cross-class alliance” – the term Swenson used to describe the developing relation under industrial union conditions between the LO and the SAF in Sweden from the turn of the twentieth century on.

(iii) Craft unionism contrasted further with industrial unionism by its reduced ability to cooperate with other crafts – it wished to demarcate as broadly as possible the limits of its own craft. And more importantly it set up in opposition to unskilled and semiskilled workers: not only did it wish to raise craft wages relative to those of the less skilled, it also wanted to restrict the ability of the less skilled to acquire skills.

(iv) Reinforcing craft unionism (against industrial unionism) was the fact that there was limited coordination among employers in each of these economies.

Craft unionism was a system for producing specific assets, but it did not lead to strong political pressures for insurance or for the development of national systems of vocational training. Why not? First and most important, as we have shown, the interests of craft unions were directly opposed to those of employers (over managerial prerogatives). Employers wanted legal rules which preserved their ability to act as they wished, and these did not require negotiated agreement with craft unions. Moreover the interests of the latter were also opposed to those of semi-skilled and unskilled workers over wages and the extension of skills. Second the system was inherently self-limiting in the

production of skills: on the one hand because the craft unions wanted to limit their production, and on the other because employers had a strong incentive to adopt technologies which reduced their demand for craft workers. Hence craft workers remained a minority of the working class and politically weak. In so far as the right was in a position to choose proportional representation it had no incentive to do so. To the contrary, majoritarian institutions best protected their class interests in the distributive battle with the left.

Our account of the origins of electoral institutions is very different from the dominant ones, which, in one form or another, builds on work by Stein Rokkan. Alesina and Glaeser (2004, ch. 5), for example, contend that PR emerged as a result of a strong left.¹⁶ But if one examines the historical data there is in fact no relationship between the electoral support of the left and the adoption of PR (Cusack et al 2004). The argument also ignores the simple fact that PR always came about with the support of right parties. There thus has to be an account of the incentives of the right to support PR. Boix (1999) proposes such an argument, suggesting that it is only when the right is divided, without any dominant party, that it is likely to endorse PR – essentially as a defensive move against a strong left. But as Table 3 shows, countries that did have a dominant right party were no more likely retain majoritarian institutions than countries that did not. The table also shows that countries where support for left parties was strong before the adoption of PR (or universal male suffrage in cases that remained majoritarian) were as likely to remain majoritarian as were countries without a strong left.

¹⁶ These authors do not reference Rokkan, but the ideas are clearly consistent with his work.

[Table 3 about here]

The critical variable, we maintain, was the organization of production and labor at the eve of the national industrial revolution. Where guilds and agricultural cooperatives were strong, employers well organized and highly coordinated, and unions organized along industry lines, both right and left parties ended up supporting PR as a political mechanism to protect their mutual investments in co-specific assets. Where guilds and agricultural cooperatives were weak, employers poorly organized and coordinated, and unions divided by crafts, the right opposed PR in order to protect their class interests¹⁷.

3.3 The Role of Christian Democracy

In Rokkan's explanation for the adoption of PR, what he calls cross-cutting cleavages are critical for the decision of right parties to support PR. By far the most important such cleavage was the conflict between the Catholic Church and a secularizing state, especially over who controlled education. Because the anticlerical forces on the right wanted to reduce the influence of the Church, no common ground could be found, and the survival of center-right parties therefore dictated their support for PR. As we have said earlier, this could only accidentally lead to the same group of countries adopting PR

¹⁷A fourth, Denmark, is also ambiguous in the sense that unions in this country were initially organized along craft lines. Employer organization and coordination, on the other hand, have been exceptionally strong (as have agricultural cooperatives), and the Danish employer association forced unions into a highly centralized, and ultimately cooperative, industrial relations system in national settlement of 1899 (before the adoption of PR in 1918).

as our argument implied - namely countries with local economic coordination. But we also think the argument is wrong on its own terms. Although Christian Democratic (CD) parties were originally founded to defend the interests of the Catholic Church, this was a concern they were trying publicly to repudiate during the period of PR adoption. Based on Kalyvas' seminal book on the formation of Christian democratic parties, we make two arguments. The first is to propose a very different reason for why Christian democratic parties supported PR. The second is to suggest why CD parties tended to be strong in countries with high levels of local coordination.

According to Kalyvas, the “anticlerical attack” takes place between the 1860s and 1880s in the five countries in which CD parties were formed in the 19th century: 1878 in Belgium and the Netherlands, 1867-1874 in Austria, 1870 to 1878 in Germany and 1861 to 1890 in Italy (Kalyvas, 1996, p25). Fighting back this onslaught was indeed central to the goals of CD parties in this early period: they were formed for this reason. But the goal of the defense of the Catholic church was becoming an embarrassment to them by the turn of the century as they were trying to turn themselves into “catch-all” parties; and the period of sharp onslaught on the church had passed. As we explain in a moment, the term “catch-all” has a different meaning here than the standard Downsian conception of parties. CD parties were trying to appeal to a broad spectrum of classes and occupational groups, but they were not simple vote-maximizers.

As Kalyvas shows, while no party lost its catholic identity in the first two decades of the twentieth century, all five CD parties were concerned to minimise their connections to

the Catholic Church and to the hierarchy, to stress Christianity rather than Catholicism, and to place the interests of state above church (Kalyvas, 1996, ch 5, esp. pp. 241-256). Kalyvas notes: “.. it is inaccurate to see as political science literature does, the secularization of confessional parties as both a post-World War II phenomenon and a reaction imposed on these parties exogenously by a secularising societal environment.” And he concludes “The declericalization of confessional parties [during this period] had important consequences that were not anticipated at the time of their formation. Confessional parties reduced the salience of religion and eroded their members’ links to the church. .. Paradoxically, organizations formed to bring religion back into politics and society took it out.” Kalyvas does not address the issue of PR adoption. But he clearly implies that the connection between CD and PR is not religion since, again, at the time of the transition to PR CD parties were trying to shed their religious image. Had the CD parties been center-right parties with the sole difference of the Catholic connection, that would not have been a good argument for espousing PR, especially in countries such as Belgium in which the CD party had an overall majority at the moment of the PR choice.

An important clue to understanding why the CD parties opted for PR comes from their uniform pattern of internal organization as they struggled to free themselves from the Catholic hierarchies at the turn of the century. They turned themselves into catch-all parties of a very particular kind. As Kalyvas explains, each party was organized into a collection of social groups, artisans, industrial workers, small employers, industrialists, peasants and so on (op. cit., pp. 236-7). It “eventually reflected in a peculiar organizational structure based on autonomous class-based or ‘social’ organizations”

(ibid., p. 237). “The Zentrum ‘ was compelled to develop social policies that could win the endorsement of Silesian landlords, Ruhr trade unionists, Rhenish industrialists, Swabian artisans and Bavarian peasants alike,” (Epstein, 1971, p. 44, quoted in Kalyvas, p. 236). Thus the reason why the parties opted uniformly for PR was that the maintenance of majoritarian voting would have destroyed the basis of the organization as representative parties; they would have had to appeal to the median voter, hence alter the balance of power with the party by imposing a stronger leadership structure, and hence give up their appeal to many of the social groups. Again, they were catch-all parties, but not Downsian vote-maximizing parties.

Contrary to Downs, it is thus not the religious nature of CD that leads these parties to support PR, but rather the fact that they represent a variety of groups with very specific interests. In turn, it is not accidental that CD party formation took place in countries which had had local economic coordination at the start of our period. We want to suggest a somewhat different understanding of the development of CD parties which makes it no accident that local economic coordination was at their origin. We very much accept Kalyvas’s analysis of the strategy of the RC hierarchy – which only agreed to allow the development of such parties with the deepest suspicion that it would diminish their pastoral role, because the alternative was worse. We add only that a necessary condition was that the various groups making up the embryonic parties had themselves a prior coordinating capacity. Our claim then is that local economic coordination is not accidentally associated with the formation of Christian Democratic parties. We hypothesise that where there was local economic coordination in predominantly catholic

areas, the associational activity on which it was based was likely identify itself as catholic. One reason for this conjecture is that where guild activity was important, it had historically linked itself to religious festivities. Thus we argue that local economic coordination in catholic areas provided the prior coordinating capacity enabling Christian Democratic parties to form, or at least for enabling catholic voting fodder to turn into autonomous CD parties.

This conjecture is consistent with two cases where a liberal onslaught did not lead to the formation of a CD party. The best known is France. Kalyvas argues that non-formation in the French case was because the French catholic hierarchy believed – at the time of the anti-clerical onslaught – that the weak Third Republic was likely to fall and be replaced by a conservative pro-catholic (indeed ultramontane) regime; given its deep hostility towards lay catholic activity outside its control, the hierarchy did not therefore push the development of a catholic party, believing as it were that salvation would come of its own accord. We do not dispute this argument; but we also note that the nature of guild activity in 18th century France appears to have been quite different from elsewhere with significant state control. This impeded the development of the model of autonomous local coordination. Thus the prior coordinating capacity was absent in the French case. The Irish Catholics in New South Wales, in which the guild system inherited from England was weak, also sustained an attack on catholic education without a catholic party developing.

Thus we believe that the fact that Christian Democratic parties were associated with the adoption of PR was not because the CD parties were unable to ally with other center right

parties because of their need to defend the catholic church. Rather, it reflected the need of these parties and their constituents to be represented in a political system in which national standards and frameworks were being agreed.

3. Conclusion

One of the most notable distinctions among current advanced democracies is that some exhibit a fairly egalitarian distribution of income with high redistribution, while others redistribute little even though that are very inegalitarian. We believe that much can be learned about contemporary capitalist systems, and the economic and political institutions that underpin them, by explaining the causes of this clustering. Our strategy has been to recount some of the most important and likely causes of inequality and redistribution, and then ask why these causes tend to be linked in a way that produces clustering. We have argued that a key aspect of the political system, whether the electoral system is PR or majoritarian, and a key aspect of the economic system, whether transactions are market-based or mediated by non-market coordination, are critical to understanding distribution and redistribution. The reason that the latter are linked is that PR and coordination are also linked. How these institutions became causally related required a move back in time to the political and economic conditions that emerged in the latter half of the 19th century and the early 20th.

Coordination of economic activity was not always associated with PR. When production was embedded in local economies, single member districts with plurality voting was not

only compatible with the representation of interests but a particularly effective system of such representation since it cultivated strong links between local communities and their representatives. What caused this institutional equilibrium to break up was the rise of industry at the regional and national levels. Industrialization produced a need for national standard setting, as well as class compromise at the national level, at the same time as it threatened the representation of particular economic interests in the legislature. If diverse agricultural and industrial interests had been forced to merge into a single median voter party in order to survive under a majoritarian rules, it would have been very hard to attend to the specific interests of each, and class compromise of the type Katzenstein has described so effectively would have been jeopardized. This combination of circumstances is the genesis of PR – *not* the rise of the political left or the lack of a dominant party on the right, as so commonly assumed. Had defense of distributive class interests been the overriding concern, the right would never have consented to PR.

Our account helps bring the politics of the origins of electoral institutions into line with what we know about the consequences of economic and electoral institutions.

Majoritarian electoral rules provide the middle and upper middle class with guarantees against redistributive demands, as reflected in smaller welfare states, but only PR can ensure a party system which pays close attention to (co-)specific investments and interests. Exactly how specific interests are attended to in a PR system is still a matter of some uncertainty, however. Although PR is often described as a consensus system, many government proposals are passed with bare majorities. But these usually involve redistributive policies. In more “technical” matters of common interest – in the areas of

industrial relations, training, corporate governance, and so on – broad-based and inclusive bargaining (often facilitated by strong committees and corporatist representation in the bureaucracy) tend to prevail. In such a system, having parties that represent the salient interests is an important precondition.

A related issue is the relationship between specific interests and the nature of political parties. When interests are highly specific, say tied to particular industries, there cannot be one party representing each interest. Compromises therefore have to be worked out inside political parties. The same is true when parties are organized around religion – as in the case of Christian democratic parties in several European countries. These parties have to work out procedures to accommodate different interests, often across class. An important difference between PR and majoritarian systems, as we understand it, is that parties under PR are not under great pressure to have strong leaders who are free to pursue popular electoral strategies. Parties can be set up to facilitate internal compromises between different groups. This correspond to our previous distinction between representative parties under PR and leadership parties under majoritarian rules. But, like the nature of Christian democratic parties, whether party organizations differ systematically across electoral systems is clearly an area ripe for future research.

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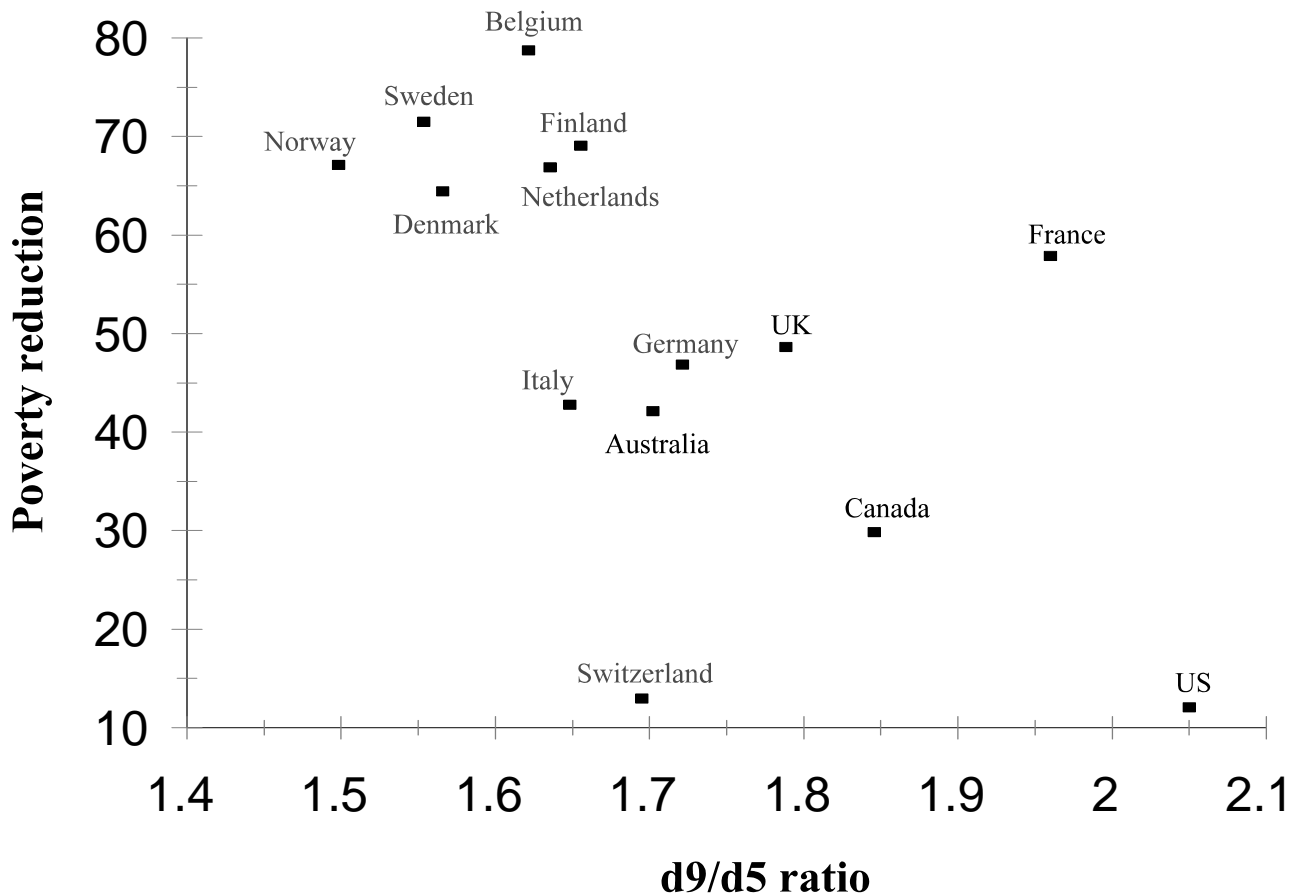
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FIGURES AND TABLES

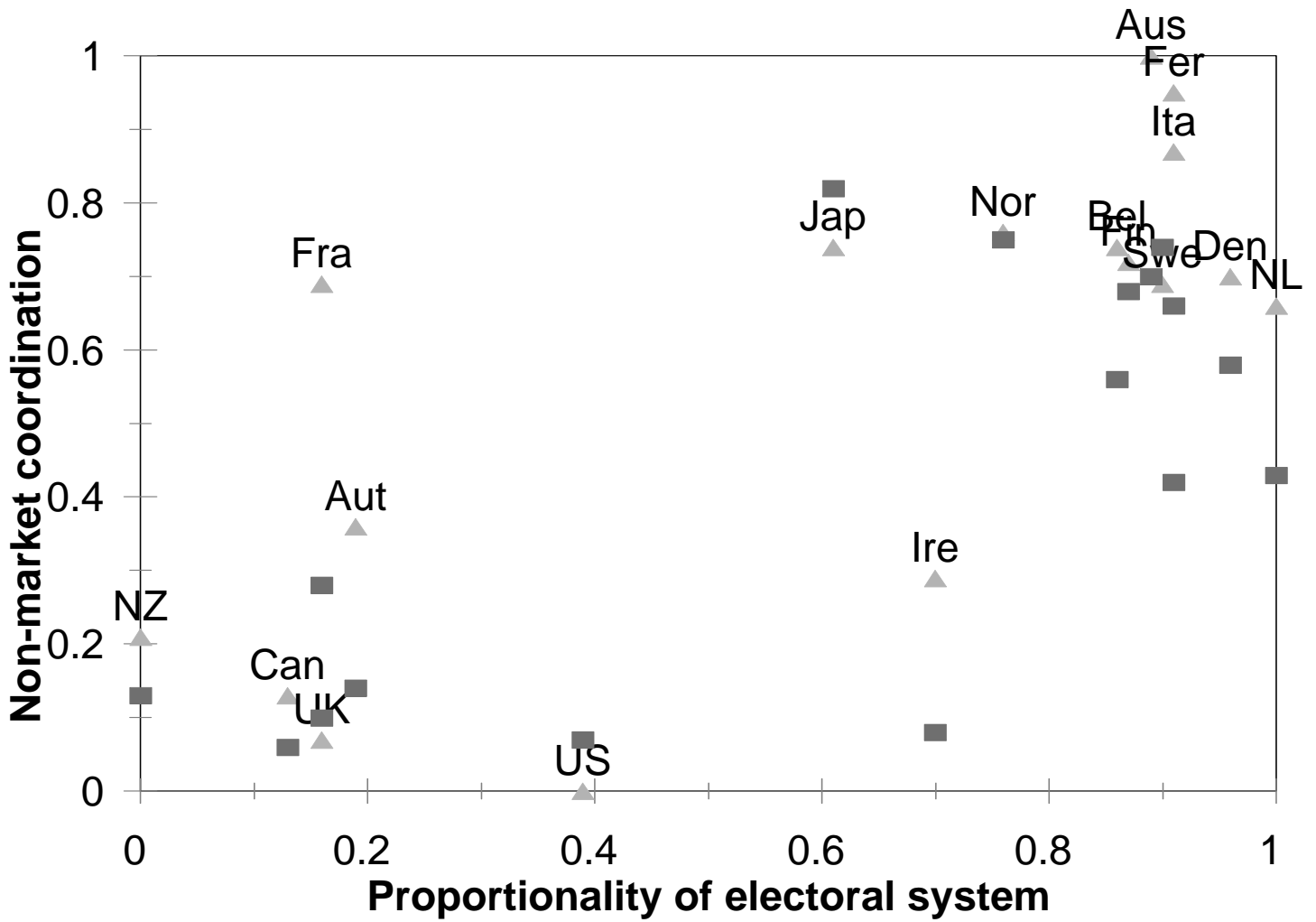
Figure 1. Inequality and redistribution (ca. 1970-1995)



Notes: Poverty reduction is the percentage reduction of the poverty rate (the percentage of families with income below 50 percent of the median) from before to after taxes and transfers. The d9/d5 ratio is the earnings of a worker in the top decile of the earnings distribution relative to the earnings of a worker with a median income.

Sources: Luxembourg Income Study and OECD.

Figure 2. PR and non-market coordination.



Sources: Proportionality of electoral system: Lijphart (1994); non-market coordination index (triangles): Hall and Gingrich (2004); cooperation index (Hicks and Kenworthy).

Figure 3. A sketch of the causal argument.

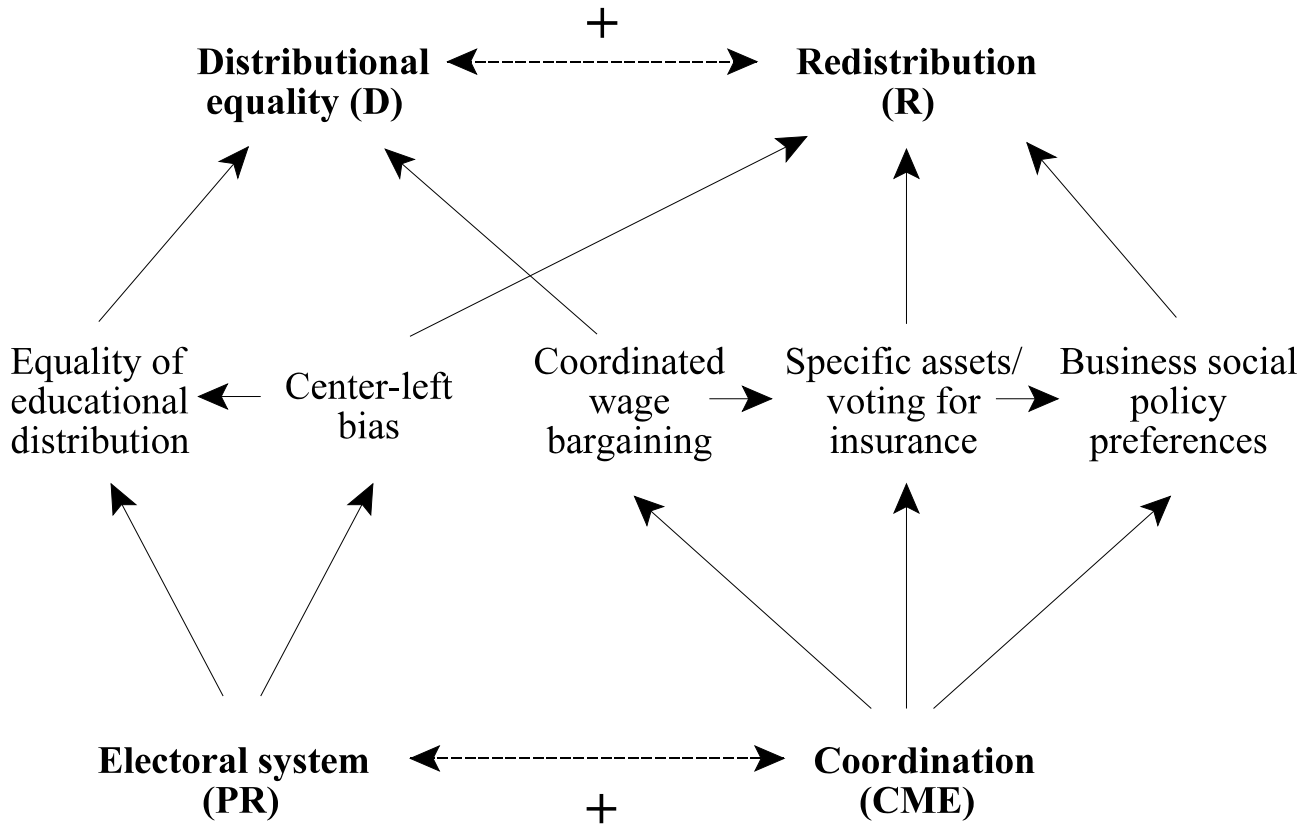
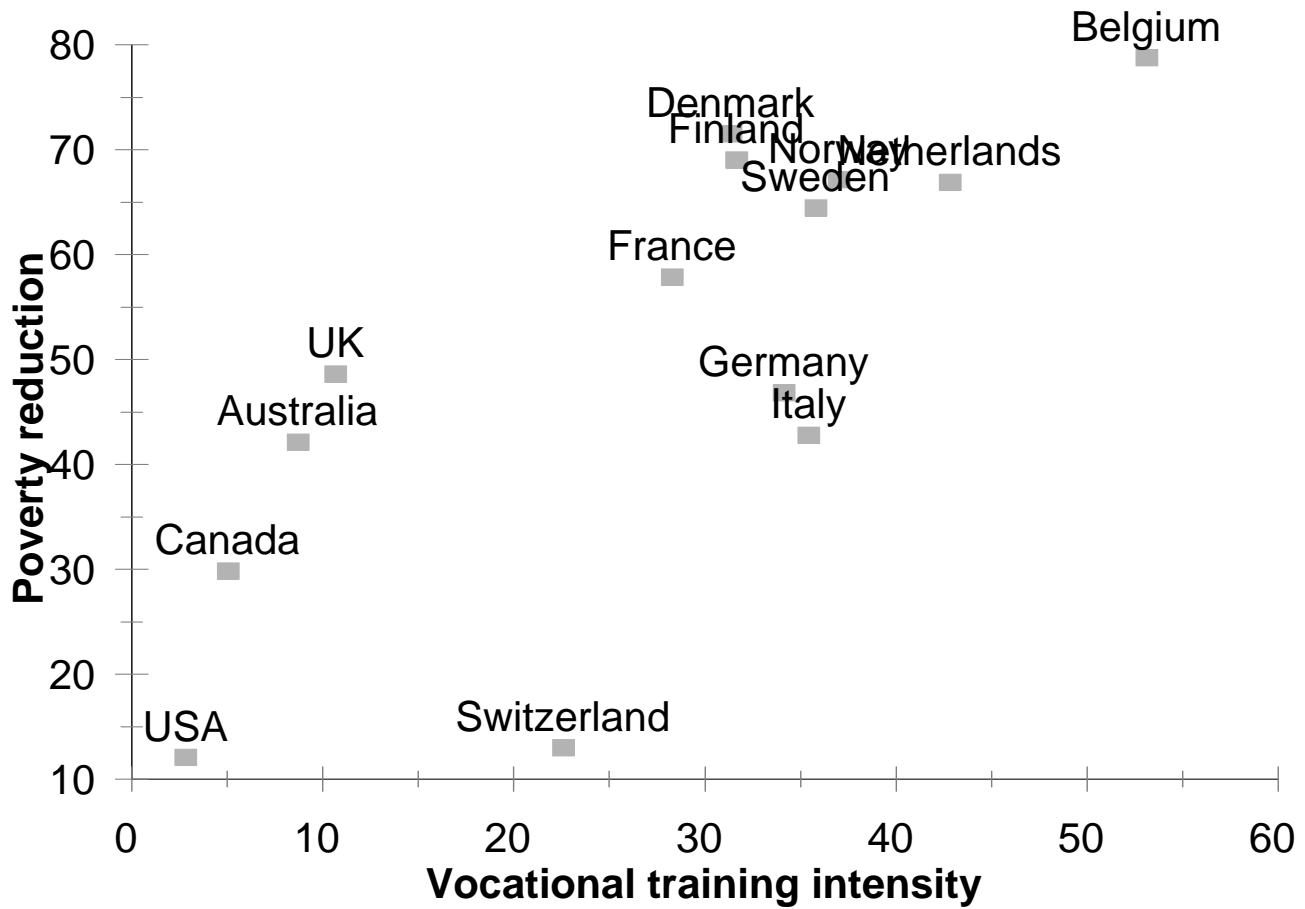
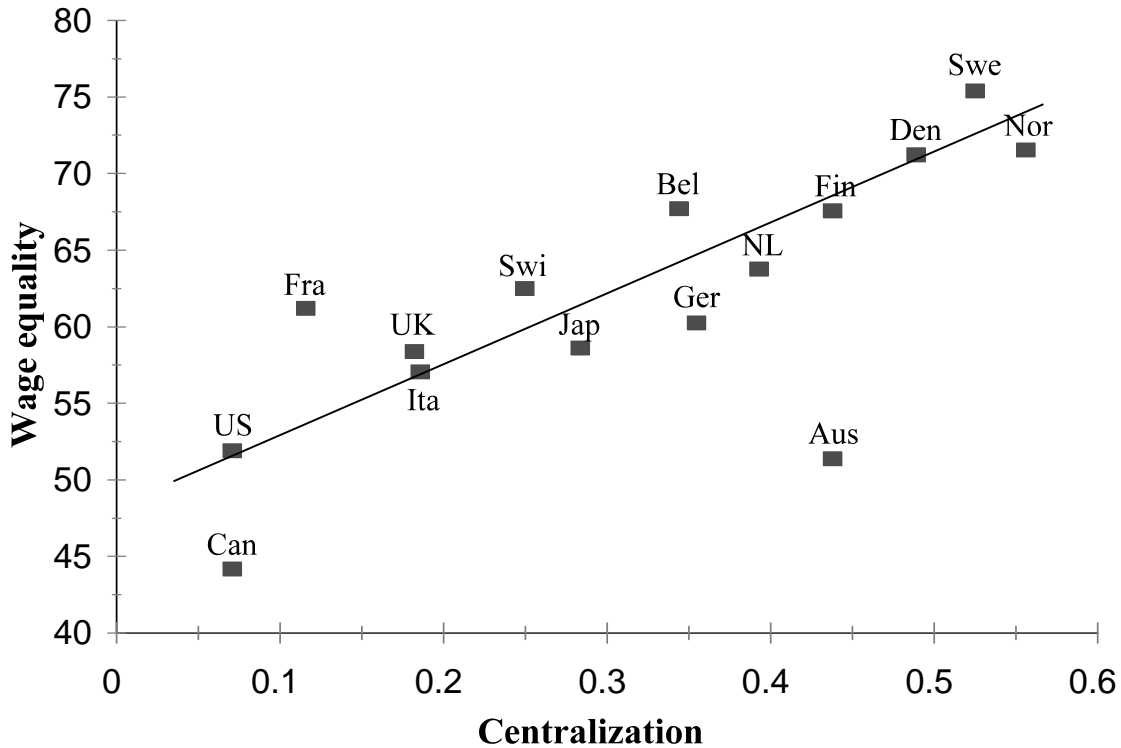


Figure 4. Vocational training and redistribution



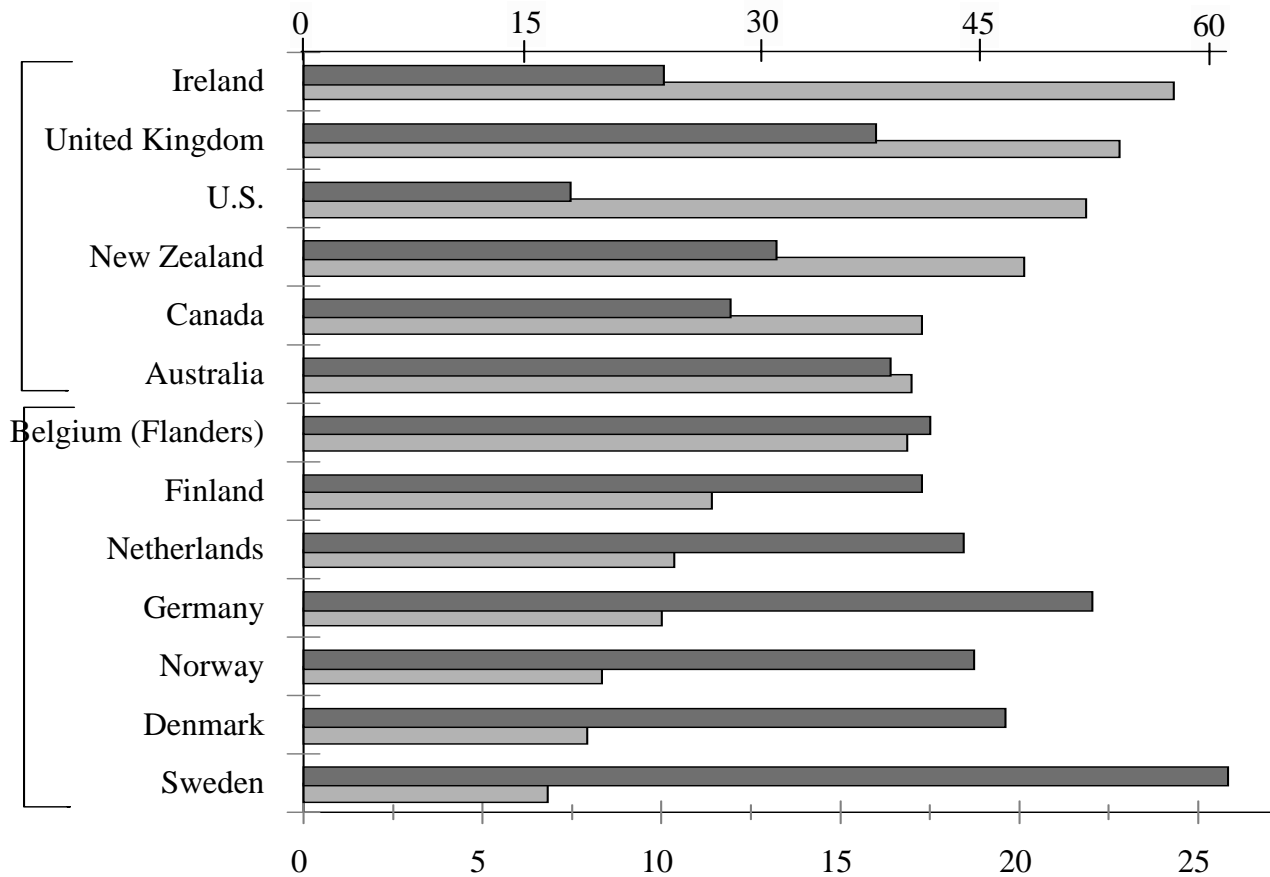
Notes: Poverty reduction is defined the same way as in Figure 1. Vocational training intensity is the share of an age cohort in either secondary or post-secondary (ISCED5) vocational training. *Source: UNESCO (1999).*

Figure 5. Earnings Equality and Centralization of Wage Bargaining



Notes: Wage equality is measured as the ratio of gross earnings (including all employer contributions for pensions, social security etc.) of a worker at the bottom decile of the earnings distribution relative to the worker at the median (d1/d5 ratios). Figures are averages for the period 1977-1993 computed from the *OECD Employment Outlook* (1991, 1996). Centralization is measured as the one divided by the number of unions at different bargaining levels weighted by relative union size (“concentration”) and then transformed into a single number depending on the importance of different bargaining levels (“centralization of authority”). The index is from Iversen (1998).

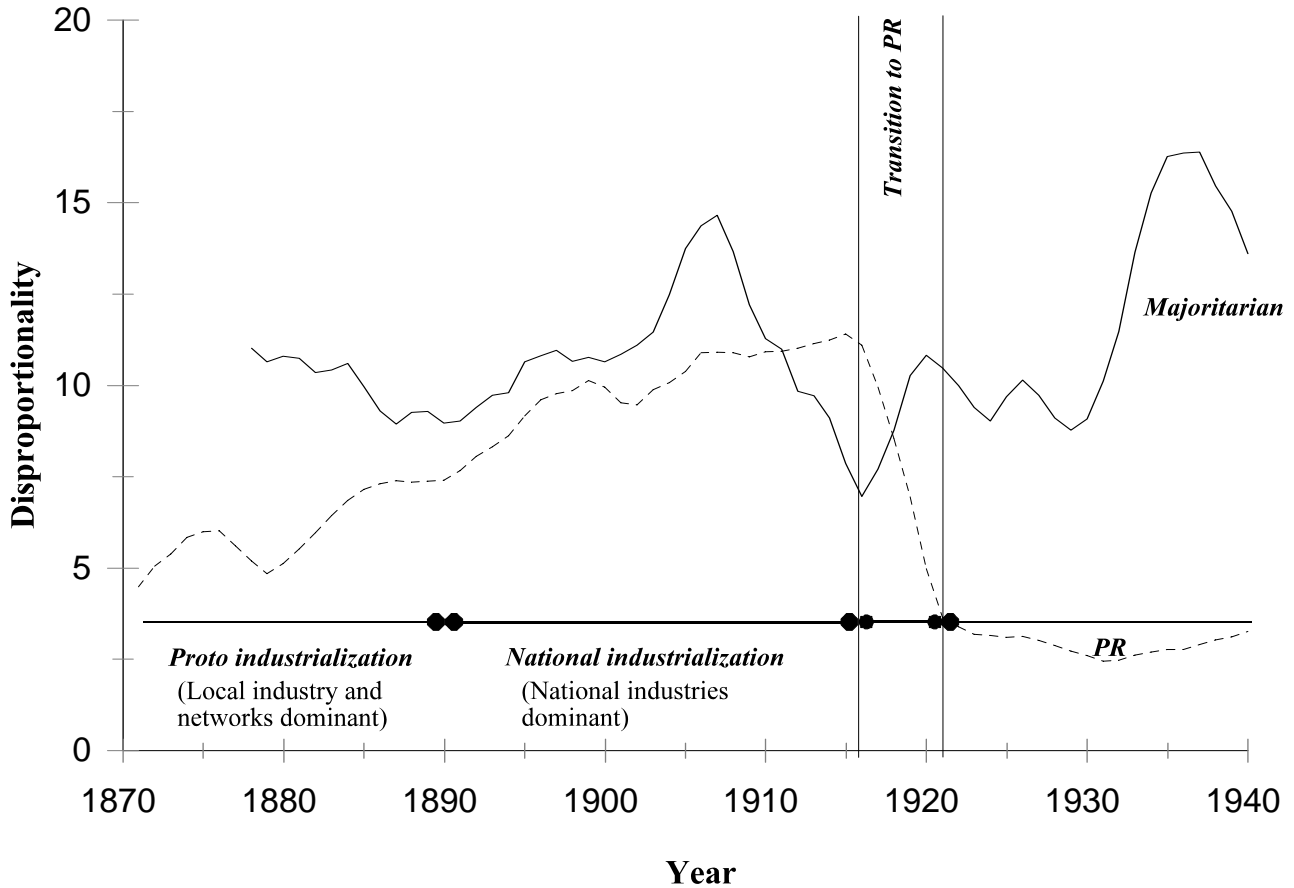
Figure 6. The percentage of adults with poor literacy scores (bottom scale), and the percentage of adults with low education and high scores (top scale). 13 OECD countries, 1994-98.



Notes: The top bars (using top scale) show the percentage of adults who have not completed an upper secondary education but have high scores on document literacy. The bottom bars (using bottom scale) show the percentage of adults taking the test who get the lowest score, averaged across three test categories.

Figure 7. Disproportionality by electoral system, 1870s-1940.

Notes: The measure of disproportionality is defined as the square root of the sum of



squared differences between vote and seat shares (see Fallagher 1991). Vote shares refer to the outcomes of national elections and seat-shares to representation in the lower house. An exception is Denmark where the upper house remains as powerful as the lower house until the constitutional reform in 1901. In this case we use the mean seat shares in the two houses. Of the countries that were (quasi-)democracies before 1900, there are pre-1900 data for 12 cases: Belgium, Canada, Denmark, Germany, Italy, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the UK, and the US. 5-year moving averages are used to smooth single-year spikes.

Table 1. Electoral system and the number of years with governments farther to the left or to the right than the median legislator (1945-98).

		Government partisanship		Proportion of right governments
		Left	Right	
Electoral system	Proportional	291 (9)	171 (0)	0.37
	Majoritarian	116 (1)	226 (7)	0.66

Note: Excludes governments coded as centrist on the Castles-Mair scale.

Source: Cusack and Engelhardt 2002.

Table 2. Key indicators of party and electoral systems

	Electoral system	Expectation that single party government forms without need for third party support	Effective number of legislative parties	Proportionality of electoral system	
majoritarian	Australia	Majoritarian ¹⁾	Yes	2.5	0.19
	Canada	SMP	Yes	2.2	0.13
	France	Run-off ²⁾	Yes	3.8	0.16
	Ireland	STV ³⁾	Ambiguous	2.8	0.70
	Japan	SNTV ⁴⁾	Yes	2.7	0.61
	New Zealand	SMP	Yes	2.0	0.00
	UK	SMP	Yes	2.1	0.16
	USA		Yes	1.9	0.39
	<i>Average</i>			2.5	<i>0.30</i>
	Proportional		PR	Ambiguous	2.4
Austria		PR	No	5.2	0.86
Belgium		PR	No	4.4	0.96
Denmark		PR	No	5.1	0.87
Finland		PR	No	2.6	0.91
Germany		PR	No	4.0	0.91
Italy		PR	No	4.6	1.00
Netherlands		PR	No	3.3	0.76
Norway		PR	No	3.3	0.90
Sweden				3.9	<i>0.90</i>
<i>Average</i>					

Notes: ¹⁾ The use of the single transferable vote in single-member constituencies makes the Australian electoral system a majority rather than plurality system; ²⁾ the two-round run-off system has been in place for most of the postwar period with short interruptions of PR (1945 until early 1950s and 1986-88); ³⁾ The Irish single transferable vote system (STV) is unique. While sometimes classified as a PR system, the low constituency size (five or less) and the strong centripetal incentives for parties in the system makes it similar to a median voter dominated SMP system; ⁴⁾ The single non-transferable voting (SNTV) in Japan (until 1994) deviates from SMP in that more than one candidate is elected from each district, but small district size and non-transferability makes it clearly distinct from PR list systems.

Table 3. Type of economy, party dominance on the right and electoral system

		Single right party dominance?	
		<i>Yes</i>	<i>No</i>
Organization of production and labor	<i>No guilds / cooperatives, weak employer coordination, and craft unions</i>	<i>United Kingdom, United States</i>	<i>Australia, Canada, New Zealand</i>
	<i>Guilds/ cooperatives, employer coordination, and industrial unions</i>	<i>Belgium, Denmark, Greece, Switzerland</i>	<i>Germany, Norway, Sweden, Netherlands</i>
	<i>Ambiguous cases</i>	<i>Italy</i>	<i>France , Japan</i>

Notes: Italicized countries retained majoritarian institutions. Bolded countries had left parties with above median electoral strength in the last election before the adoption of PR, or, in the cases where countries remained majoritarian, the first election under universal male suffrage. Referring to the same elections, single party dominance is measured by the percentage lead of the largest party over the next largest party. The “right party dominance” cut-off point is the value that would produce a number of countries with a dominant right party that is equivalent to the number of countries (7) that actually remained majoritarian.

