

Draft (full bibliography and conclusion to follow)

American Exceptionalism and Comparative Political Economy

David Soskice

**Nuffield College, Oxford University
and Department of Political Science, Duke University**

October 2007

This is prepared for Lloyd Ulman's Festschrift. I thank Des King, Nicola Lacey and Iain Maclean for helpful discussions of this first draft.

Abstract

On a range of social indicators (unionisation, crime and punishment, inequality of education, and distribution and redistribution) the US outperforms other advanced economies. There are large literatures, American-based, on each of the social areas. This essay, by contrast, takes a comparative approach and seeks to explain American performance within a common framework. Using comparative political economy it is argued, first, that American "bad" performance is not *qualitatively* different in these areas to that of other advanced economies (mainly Angl-Saxon) belonging to the Liberal cluster – with Liberal Market Economy production regimes, Liberal (ie safety net) welfare states, and Majoritarian political systems; this is in contrast to the Coordinated cluster of mainly Scandinavian and Germanic societies with Coordinated Market Economy production regimes, Social Democrat or Continental welfare states, and Consensus political systems. The original part of the essay (from a comparativist perspective) addresses the issue of why the US is *quantitatively* worse than other Liberal societies. It explains this by arguing Majoritarian political systems need to be divided into two types: in the Westminster system (the Canadian and Australian federal system are not fundamentally different), strong party discipline and centralised decision-making are mutually reinforcing; in the American, weak party discipline and decentralised decision-making are mutually reinforcing. Both types of majoritarian system focus on the middle classes with a bias towards centre-right politics; but the "weak discipline decentralised" syndrome exaggerates the centre-right bias, allows business a major role in legislation and administration, and facilitates geographical class-sorting. The essay seeks to explain the American excesses in the different social areas in terms of these political differences. By contrast to Lipset's famous work on exceptionalism, there is no reference to social attitudes in the essay (if they exist they are endogenous); in addition, the focus is on class rather than ethnicity or immigration (their importance comes through class); finally there is no reference to some standard political explanations of American difference

(separation of powers): this is not to say that all these are unimportant, of course they are not, but to try and provide a new comparative perspective.

1 Introduction

Is America exceptional? Lloyd Ulman has throughout his career been preoccupied by the divergences and similarities between Europe and the US, especially in the field of industrial relations and redistribution; and before that his preoccupations were in understanding the history of American labor relations. These interests are fused in his typically analytical Presidential Address to the 1986 Industrial Relations Research Association annual meeting, on which I will draw – in which he attempts to understand why different IR systems developed differently. Indeed his paper played a significant part in sparking a revisionist retake on the original debate on the exceptionalism of the American working-class – why no class-consciousness? why no major socialist party? - which Sombart and Perlman had dominated in the early twentieth century and which can be traced back to Engels.

The revisionist retake on American exceptionalism will be summarised below: It focussed on understanding why US labor relations diverged from the British in the critical period at the start of the C20th, hence why unionisation became greater in the UK. There remains a tension between the managerial-technological opportunities view and the view that it reflects differences between the American and British political (and perhaps legal) systems. This essay takes a broader approach in several respects: It looks at four policy areas: labor relations; education; the welfare state and redistribution; and crime and punishment. It generalises the comparison to advanced economies and not just Britain or Europe – thus including the other “settler” communities. And it takes a long-term perspective. In the areas the essay examines there are indeed fascinating and depressing differences between the US and other advanced economies (lower unionisation, lower bottom end literacy, lower equality and lower redistribution, and higher crime and sharper punishment). These are long-

standing differences, though they have become much more sharply visible in the last quarter century; (although present during the Fordist decades, they were then more muted). In this essay modern comparative political economy is used to understand these differences both historically and currently.

The argument of the essay is this: Modern comparative political economy classifies advanced societies along three dimensions, varieties of capitalism, welfare state type, and type of political system. As will be shown in section 2, countries cluster into two types: coordinated and liberal. The US falls very clearly into the liberal cluster – with a liberal market variety of capitalism, a liberal low-redistribution welfare state, and a majoritarian political system. It fits into a common historical pattern: countries which had weak or non-existent guild systems and uncoordinated local economies in the nineteenth century all developed along broadly similar lines. In terms of politics, countries in the liberal cluster have tended to produce right of centre policies – with the exception that, during the long Fordist hiatus from the 1930s to the 1970s, policies were on average more middle of the road. Thus America is not an exceptional member of the liberal cluster in any of these respects.

Nonetheless in each of the areas mentioned (unionisation rates, distribution and redistribution, and crime and punishment) the US is throughout most of the twentieth century – even through the 1930s to 1960s/1970s period – markedly *more* “right-wing” or plain *worse* in its policies and outcomes than the other countries in the liberal cluster¹.

Comparative political economy has generally reacted against notions of national exceptionalism. The motivation behind the essay is thus to use comparative political economy as far as it will go in understanding characteristics of US society and economy – namely allocating it to the liberal cluster. This will take us a long way: it can explain for example why the US has a weak welfare state, why politics are right of centre, why the education system penalises lower income children, even why punishment is severe. What it has not been able to do is to explain why the US is

¹ I have data on comparative literacy only for the 1990s.

worse in these areas than other liberal countries – notably the UK – whose record is also bad.

So why is the US so much worse than other liberal countries in this range of loosely “social” areas?

It is this difference which it is the object of this essay to explain. The essay focuses on the political system. As implied above, the American political system is similar to that of other Anglo-Saxon countries in being in Lijphart's terminology “majoritarian” (Lijphart 1984). A majoritarian political system encompasses the nature of elections, as well as party organisation, and other institutional factors as we will see in the next section. Both the US and the British, Canadian, Australian and New Zealand systems are quite different to the proportional representation elections and consensus based political systems of the coordinated societies of Northern Europe (Lijphart's “consensus” political systems). And while political parties in coordinated societies are “representative” parties in which policies get negotiated out between different groups within the party, Anglo-Saxon parties are predominantly “leadership” parties in which a leader is dominant at least in general or presidential election periods.

The key argument in this essay is that the American political system differs from the other majoritarian political systems of the Anglo-Saxon world in two ways: (1) Party discipline is relatively weak (despite the leadership orientation of parties in presidential elections). And (2) the system is decentralised in a particular way, namely that states and counties have significant powers and do not have (generally) to negotiate policies with other levels. Thus, the political system is markedly more decentralised with less negotiation between different levels (federal, state and county) than in say Canada or Australia, and obviously than in NZ or the UK; and – in part because of the primary system – party discipline is relatively weaker. A trivial conclusion of this difference might be that the American political system permits greater variety. I am going to argue a quite different point: namely that this

difference leads to more right wing policies, with a substantially greater role for business in the political system, than the already relatively right wing policies in the other Anglo-Saxon countries (section 3).

The original debate. How does this relate to the debate on American exceptionalism in relation to labor which goes back to Sombart's celebrated essay "Why is there no socialism in the United States?" (Sombart 1906). Amplified by Perlman, and prefigured by Engels, it became accepted that the American working class was exceptional – in comparison to the advanced economies of Europe – in having neither class-consciousness, nor class-conflict nor a socialist party (Perlman 1928). The explanation was the absence of a feudal past: in Europe workers were collectively exposed to, and hence consciously opposed, an evident oppressor class; to do so they sought the protection of the state by creating socialist parties. Americans, by contrast, – were they even workers? – had a quite different mind-set of rugged individualism, anti-statist and anti-collectivist. The settler communities, in Hartz's brilliant elaboration (Hartz 1955), were populated neither by the aristocracies nor by the lowest classes. They thus became middle class societies.

Labor historians and revisionism. Thus matters lay (more or less) until a wave of revisionism starting in the mid 1980s washed most of this mythology away. The revisionists were mainly American and mainly labor historians². But while initially this appeared an exercise in normalisation of American labor and its history, what emerged was a new picture of difference – less dramatic, more dynamic and more nuanced. Simplifying greatly:

- (i) US labor history and developments are mainly contrasted with those in the UK.
- (ii) Labor relations in the US develop in broadly comparable ways to those in the UK until the early twentieth century, with craft unions seeking control of work practices and the supply of skills. In both countries there are periods, localities, companies and sectors in which workers exhibit class-consciousness.

² Gerber provides a marvellous synoptic view of the revisionist debate (Gerber, 1997).

(iii) But from then on American companies seek to exclude unions, building internal labor markets with nascent Fordism and a high supervision to production worker ratio; while British companies do not. With this goes a substantial increase in union membership in the UK, including in non-craft areas; but American density rates remain low.

(iv) From 1930s to 1960s, as manufacturing companies give in to industry unions, a bureaucratized industrial relations develops in the US with "work-contractualism" (David Brody's phrase) setting out the collectively bargained details of work practices, earnings, seniority and so on. British industrial relations remains "voluntaristic".

(v) Politically, in neither country is there or has there been a successful socialist party – by contrast to the European continent. The name "Labour" party should not mislead: it has never been a socialist party; nor, except in the single area of labour legislation, have the unions had real influence. Moreover, in both countries, unions have been prepared to engage politically when they have seen the opportunity to influence legislation which directly concerned them (especially labor law). This was true even if with craft unionism in the pre WW1 period.

(We might add, though this did not enter into the revisionism debate, that:

(vi) From the mid-1980s on the operation of labor markets in the US and the UK look quite similar, with very low rates of unionisation in the private sector, 7.9% and 17.2% respectively in 2004, and a roll-back of legal privileges for unions. (In Canada in 2004 private sector union density is 17.8% and in Australia 17.4%.) The overall differences in union density come from the public sector: with a lower density in the US and a smaller public sector: this is an issue which we take up later³. Politically there is not much difference between the role of the unions in the Labour Party and in the Democratic Party.)

³ Data on union density comes from Jelle Visser (Visser, 2006).

The argument in the revisionist debate is not over the nature of the UK-US differences but in explaining them. Much of the debate turns on the different paths taken in unionisation in the US and UK at the start of the twentieth century. This is interesting in explaining this key period of divergence. And since US unionisation has remained low (apart from the CIO high period between 1930 and 1960) compared to the UK through the last century, such an explanation may give a clue to the longer term phenomenon of particularly low unionisation in the US. In fact US union membership density has always been below that in the UK: during the Fordist period density rose substantially in both countries with the rise maintained until the early 1980s in the UK as compared to the 1970s in the US; and then as noted fell to low levels thereafter, though to a lower level in the US than the UK.

In explaining the early twentieth century divergence are a wide variety of positions, of which one important element, as Lloyd Ulman and Sandy Jacoby have stressed in different ways, is the role of American management (Jacoby 1991; Ulman 1986).

Ulman sets the scene in his Presidential Address by trying to explain to a hypothetical foreign businessman – we are now in the early C20th – why American companies would choose a non-union alternative given the conservative nature of American unions. Ulman's neat argument is this: "Some American employers and financiers could agree that the pure and simple unionism represented by the American Federation of Labor (another home grown product) was a big improvement over its assorted radical competitors; but, as long as most American unionists seemed to reach the same conclusion, the employers could regard no unionism as the best buy of all." This only partially answers the difference to UK employers. Jacoby suggests that American employers were different, and more hostile to unionisation and encroachment on their managerial prerogatives than their British counterparts; and we can take this, if we go beyond a simple difference in values, as a different perception of the US environment – both of the advantages of non-unionism and the sense of the possible. Holt makes the same point in his

comparative analysis of steel over the pre WW1 period (Holt 1977) as does Voss in relation to the downfall of the Knights of Labor (Voss 1993).

Two main factors have been put forward to account for what Jacoby called "the exceptionally high degree of employer hostility" towards unions⁴ (Jacoby 1991). First, economies of scale in US markets opened the possibility of standardised production, bureaucratising management in giant companies, eliminating the need for craft workers and craft organisation of production and replacing them with semi-skilled workers driven and trained by supervisory staff, and cutting out unions in the process. Second, the state and the legal system have been argued to have given greater protection to business and/or less protection to unions than elsewhere. This has come about for several reasons, it is argued: American unions did not invest in politics, on Gary Marks' thesis because the AFL was composed of closed craft unions (Marks 1989), and on Gompers's view that it was not possible to change the antipathy of the law; and more directly, much work has been done on the antipathy of the courts to union activity.

While there is little doubt that the US and UK went in different directions in terms of company organisation, and that the dividing of the ways took place in the early twentieth century, there is no agreed position on why this happened. Was it driven by the opening vistas of vast economies of scale in the US, but nowhere else? Or was it driven by the realisation that American businesses would not be constrained by the state – but British businesses would – if they sought to push out craft unions and develop giant managerially-bureaucratic non-union companies? The Ulman thesis is consistent with both hypotheses: it paid American employers to move against Gompers-type unions because there was no danger that this would lead to radical alternatives; but (given that this did not happen in the UK) was this because the reward of a non-union environment was greater – the market-technology argument – or because they believed the state would support them? It may be useful to put it from the British perspective: did British companies *not* go in the non-union direction

⁴ Quoted in Gerber (Gerber 1997).

because they had no possibility of reaping the market-technology benefits of a non-union environment, or was it because they feared that the state would impose barriers to that route?

Broadening the argument: The American debate on why American labor relations have developed differently from elsewhere has been largely confined to labor relations history. My strategy is to first explain why the US is similar to other liberal cluster advanced economies; and then to look at a range of other social areas as well as labor relations where we have a similar phenomenon of “even more so” – to repeat, lower unionisation, lower adult literacy, lower equality and lower redistribution, and worse crime and more severe punishment, than in other liberal cluster countries in which these figures are bad anyway. If we can identify a dimension in which the US differs from the other liberal countries, and with which we can at least partially causally explain *all* these outcomes, that might provide a persuasive framework for rethinking the details of the labor relations differences.

The dimension identified in the essay is the decentralisation and weak discipline of the political system – hardly original but not a distinction which has been made in this way in comparative political economy literature. It may be objected that is a pretty loose research methodology. This would be a valid criticism if we had a clear overall framework for analysing a society. But the overall framework is unclear; and this essay should be seen as a contribution to its more transparent construction. The real test is to take some other areas of acknowledged American difference and see to what extent the argument we will develop in section 3 can be usefully applied to them.

One such difference should qualify the view that US-style political decentralisation necessarily has only bad effects. This difference is the great American success in top research universities and in the development of radically innovating new technologies: this is the case in comparison with the UK, let alone the other

countries of liberal cluster. While I shall not do so here, I believe a strong case can be made that this is the consequence of the nature of political decentralisation.

2. The US as Liberal: A Comparative Political Economy Analysis

I want in this essay, not so much to dispute these facts, as to recast them within the framework of the modern comparative political economy of advanced countries. This is because "exceptionalism" is often an apology for analysis of difference. Moreover, most of the attempts at explanation within the exceptionalism literature have been rooted in American history and society – as though it is obvious that other countries are fundamentally different. It is of importance that we can analyse American developments within a comparative framework if we are in turn to understand how other advanced economies can, or why they cannot, adopt or avoid them; and vice versa.

As far as I am aware, no one has so far applied recent advances in comparative political economy to understand what is different about the US and why. Indeed, and by contrast, the modern comparative political economy of advanced economies has gone in a quite different direction – seeking to explain why the US is not exceptional: The success of comparative political economic models can be judged by their capacity to classify advanced economies into groups defined by a limited number of dimensions. Three dimensions in particular are seen as important:

- (1) The type of capitalist system, based largely on the degree of non-market coordination within the business community or communities. This is the distinction between Coordinated and Liberal Market Economies (CMEs and LMEs) in the *Varieties of Capitalism* literature (Hall and Soskice, 2001).
- (2) The type of welfare state. Here the distinction, between Liberal, Social Democratic and Continental welfare states, derives from Esping-Andersen (1990).
- (3) The type of political system, classified by Lijphart (1983) into Consensual and Majoritarian (or Competitive).

Recent work shows that most advanced countries fall into one of two clusters (Estavez-Abe et al 2001; Gourevitch 2003; Iversen and Soskice, 2001, 2006; Cusack et al 2007). One cluster is of CMEs, social democratic or continental welfare states, and

consensus political systems; I will refer to countries within this cluster as *coordinated*. The US, together with the other Anglo-Saxon economies, falls into the other cluster of *liberal* economies in which countries are LMEs, with a liberal welfare state and a majoritarian political system. (The exceptional country, which fits into neither one nor other cluster, is France.)

This section sets out these clusters. There is no space here to go in to the historical origins of these different clusters. Further historical work within the same broad framework suggests that precursors to these clusters – in terms of guilds and *Standestaaten* or their absence – go back to the early nineteenth century; and that the interaction of these earlier institutional forms with industrialisation and the associated growth of national economic networks led eventually to the patterns described above (Crouch 1993; Thelen, 2004; Iversen and Soskice, 2007). Again here, the history of the American political economy falls into a clear Anglo-Saxon pattern. Section 3 looks at the Fordist decades, and more explicitly the move from Fordism to post-Fordism. This section is more relevant for the Liberal than for the Coordinated cluster of countries. The latter countries, with more generally skilled workforces, had not moved to mass assembly line production in the 1930s to 1950s period to the same degree as the Liberal countries. In consequence it was the Liberal countries which had the huge problems of coping with the redundancies of a substantial part of the unskilled or semi-skilled labor force as Fordist manufacturing collapsed, and low skilled work in most other sectors was displaced as a result of the direct and indirect effects of skilled-bias technical change. The next section thus looks at the adverse consequences of the end of the Fordist era in Liberal (to a much less extent in Coordinated) countries for unionisation, for distribution and redistribution, for the bottom end of the educational system, and for crime and punishment. These consequences were mediated – perhaps one should say amplified – through majoritarian political systems.

Thus this most recent comparative political economy sees the US as a liberal economy, sharing welfare state, political system and production regime

characteristics with other countries in the liberal cluster. Moreover, while comparative political economy applied to historical analysis is a rough edged sword, it can go some way to understanding why US labour institutions and parties did not develop in fundamentally different – but rather functionally equivalent – ways to those in other Anglo-Saxon countries. This section shows how many of what may appear as particularly American characteristics are reflections of a wider Liberal political economy phenomenon. Section 3 will attempt to explain what rests of American exceptionalism.

Liberal and Coordinated Clusters: Complementarities between production regimes, welfare states and political systems.

The original VoC literature was concerned with understanding how *production regimes* worked and with the complementarities of their key institutions (education and training systems, labour market regulation, corporate governance and financial systems, and the governance of inter-company relations in terms of market competition and technology transfer). Neither political systems nor welfare states played a major role in the original development of the varieties of capitalism literature (Hall and Soskice 2001). Since then, much work has been devoted to analysing the relation between production regimes and the welfare state, and there has been some research into how both production regimes and the welfare state tie into political systems. Since these linkages have not been set out in convenient form elsewhere they are summarised in this sub-section.

Welfare States: What might be described as a VoC view of the welfare state has been developed by Estavez-Abe, Iversen and others (Estavez-Abe, Iversen and Soskice 2001), add Manow, Ebbinghaus, Mares. Here, a strong welfare state underwrites specific skills; in so far as companies located in CMEs build specific assets which need these skills, then a strong welfare state is likely to be associated with CMEs, (Iversen 2005). Put simply and focussing on human capital, the argument is that a precondition for skill specificity, especially if acquired through deep investments

early in a career, is the need for extensive guarantees: of wage protection, against the possibility that the returns on the skills acquired will decline over time; of employment protection, against the possibility that employment in which the specific skills are needed will be lost; and of unemployment protection, that there will be adequately compensated time for the unemployed to find appropriate reemployment. The strong welfare state now becomes a guarantee that it is safe to invest in specific skills⁵. Hence CMEs with their strong emphasis on vocational training and hence specific skills should be associated with strong welfare states. As Huber and Stephens have pointed out (2001) this affords a bridge to Esping-Andersen's classification (Esping-Andersen, 1990): CMEs have either continental or social democratic welfare states, but not liberal. And by contrast in LMEs where flexible labour markets are important to the production regime the welfare state is liberal.

The welfare state in a CME thus provides the guarantees needed for a work force to invest in specific skills. This has critical implications for voter and group interests. It implies that the CME constituency which supports the welfare state may stretch across the voting population: by contrast to LMEs such as the UK and the US, in which skills are primarily general, and where the median voter is typically hostile to welfare state expenditures seen as benefiting low income groups, the median voter in coordinated market economies with specific skills is typically supportive (Iversen and Soskice 2001). Moreover, as Swenson has shown us in his important historical work, political support for the welfare state is not only to be found in the labour force; business, especially large organised business, while seldom explicitly vocal, is aware of the importance of welfare state guarantees to the stability of the labour market and training system (Swenson 2002). For businesses also have large specific

⁵ This literature incidentally makes it plain that there is no clear-cut split between the institutions of production regimes and those of welfare states: for example, wage bargaining systems both help sustain implicit long-term agreements within companies guaranteeing cooperation in CME production regimes and provide wage protection within the corresponding welfare state.

investments in their workforces. To use Swenson's powerful terminology, where business and unions provide joint support for a particular conception of the welfare state, there is a "cross-class alliance". This leads to a discussion of why there might be differences between political systems.

Political Systems: Consensus versus Majoritarian. Recent work by Gourevitch among others has pointed to a strong correlation between production regimes and the nature of political systems (Gourevitch 2003). CMEs correspond to consensus political systems, to use Lijphart's term (1984), while LMEs are majoritarian. In general therefore government in CMEs has been by explicit coalition or by minority governments with support from other parties, by contrast to single party government in LMEs. This difference between political systems can be disaggregated into (i) differences between electoral systems – PR in the case of consensus systems versus first past the post in majoritarian; (ii) representative political parties in which decisions are negotiated out across the different interest groups within the party in consensus systems versus leadership parties in which the leader decides (Iversen and Soskice 2006a); and (iii) effective committee systems versus government decision in public policy-making. Consensus political systems thus play two related roles in CMEs and their associated welfare states. First they provide a framework for interest groups to take part in policy-making. The importance of this is reflected in the many areas of institutional policy-making in which the major business and union groups have broadly shared goals (training systems, employee representation, collective bargaining, etc.) but often sharply different ideal points within those areas; and where some degree of standardisation nationally is called for. The cross-class alliance behind a strong welfare state is an example. There is broad agreement that workers with specific skills need employment, unemployment and wage protection but sometimes sharp disagreement over the ideal institutional frameworks and rules within which protection should be embodied. Many disputes are settled outside the political system, but they are typically settled within these broad institutional frameworks. Second, a consensus political system allows negotiated change over time

which at least partially takes account of the specific investments individuals and businesses have made in the past. Guarantees that the implied group interests will be represented in future negotiations is based both on the inclusion of interest groups in the process of policy making and on the nature of parties as representative of groups, and hence acting as a long-term guardian of their interests. From this point of view a majoritarian system is quite unpredictable: policy-making is dominated by single-party government and reflects the concerns of the median voter; thus unless the specific investments are owned by the median voter no account of them will be taken. But in an LME, with a preponderance of general skills, and/or short term specific skills, and with innovation systems not geared to long-term incremental innovation and modification, the majoritarian system is not problematic. Moreover in an LME the major problem with interest groups is that they seek to create protection for their interest; if government is geared towards the interests of the median voter, the ability of interest groups to buy into the political system is diminished⁶.

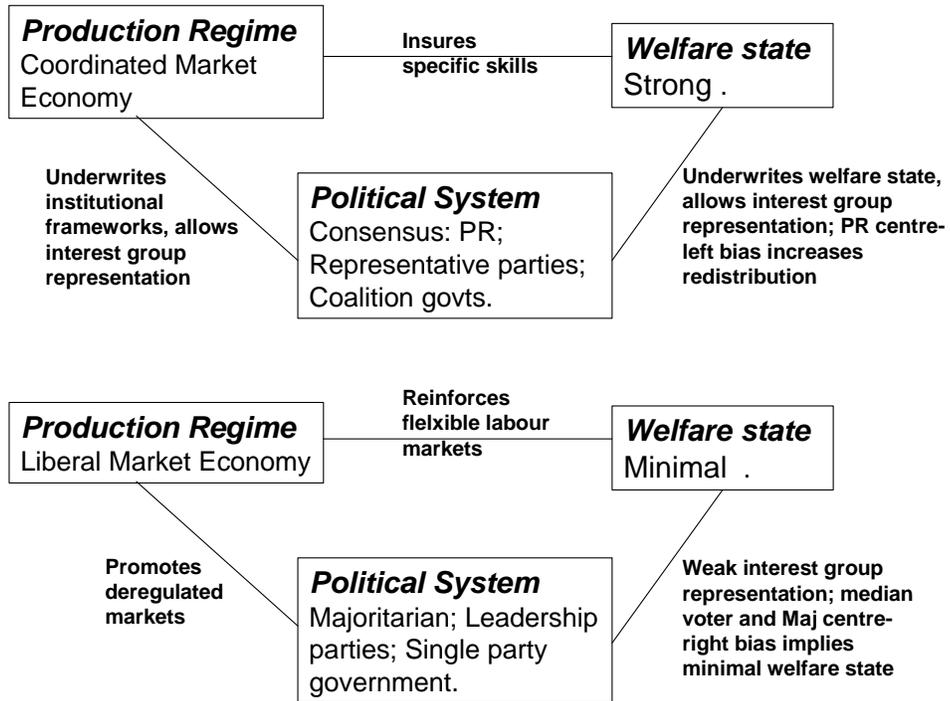
There is a second quite different relationship between political systems and welfare state types, which reinforces the production regime, political system and welfare state nexus. Systems of proportional representation empirically favour left of centre coalitions, while majoritarian systems favour the centre-right. There is no accepted reason why this is so, but one argument is that under PR, with a left, middle and right party, middle class parties will prefer to govern with left of centre parties since they can jointly tax the rich; it does not pay the middle class party to ally with the rich since this leaves little to be extracted from low income groups. By contrast, in the two party centre-left centre-right world of majoritarian electoral systems, the risk adverse middle class voter – never sure of whether a government once in power will not move towards its more extreme supporters – will generally prefer the centre right party which at worst will lower taxes to the centre left which at worst will raise

⁶ This does not apply fully when the executive does not fully control the legislature or its own party, as in the US.

taxes on the middle class and redistribute them to lower income groups (Iversen and Soskice 2006a). Thus welfare state strength in CMEs reflects both directly the need to insure specific skills and indirectly the redistributive consequences of proportional representation in consensus political systems. These contrasts are nicely drawn by Kitschelt (2006) and Stephens (2006) in a symposium on Iversen's *Capitalism, Democracy and Welfare* (2005)⁷.

Thus far the argument is summarised in the figures below:

⁷ This is, of course, an idealised account of the relationship between political systems and varieties of capitalism. Behind its functionalist flavour an historical account is needed of why at the critical periods in which political systems were fashioned (in the case of electoral systems in the early twentieth century) embryonic coordinated economies chose proportional representation; for putative explanations see Cusack et al (2007) and Iversen and Soskice (2007).



3. Explaining the US as Outlier in the Liberal Cluster.

America as Liberal Outlier. While America is a classic liberal country – as show in the last section, liberal market economy (LME) production regime, liberal welfare state and majoritarian political system – it stands out among the liberal economies for poor performance along a range of social dimensions. This can be seen in the Tables and Figures. Table 2 sets this out for unionisation rates (though France joins the US as an outlier here). Private and manufacturing unionisation rates show liberal economies as less unionised than than coordinated. (Employee representation and co-determination within the company show a stronger difference still between the clusters.) And the US stands out among the liberal economies as having by a long way the lowest densities in private and in manufacturing. What is interesting is that the US also has the lowest union density among public sector workers in the liberal cluster. (I have included Jelle Visser's gender data only to show that gender is unimportant in explaining union densities, at least in the last decade and if the shaded "Germanic" countries are excluded.)

If we go back over a longer period, Figure 1 shows that US non-agricultural unionisation rose dramatically from the late 1930s to the late 1940s in a massive burst, up to about one third of the workforce from previous levels below 15%. The reasons for the increase are multiple: the underlying structural reason is probably the widespread use of Fordist organisation and the growing realisation among semi-skilled workers that this gave them coordinated bargaining power within plants – especially as labor markets tightened. But political factors appear to have been of great importance: the NLRA was passed just before this growth decade, and Taft-Hartley comes close to the end of it. Unionisation then began to slide downwards from 1960 on, first slowly, then with greater momentum from 1980 on, to current low levels. Note that even at peak density US unionisation was much below that in the UK, Australia or NZ; and Canada – which had been slow to unionise in the pre

war period – grew sharply after WW2 to overtake the US. Ferber and Western (2001) argue that the *decline* in US unionisation cannot be laid at the door of lost union recognition elections and hence of the NLRB; rather decline is the general consequence of the end of Fordism, the collapse of manufacturing, the relocation of plants and so on. Perhaps they take the question too literally: a company can close in one part of the US and reopen in another in which there are right to work laws – the threat of the power which employers have under Taft-Hartley may be sufficient to deter unions in the new environment. Indeed, the Canadian pattern of decline, in the absence of Taft-Hartley and allowing agency shops at union request is very much more muted (Pokas..2001). In any case the question we are interested in answering is why US unionisation has *overall* been low compared to the other liberal economies.

Incarceration is a second area in which the US performs badly relatively over the long period, and not just in recent decades – even though its recent performance is spectacularly bad. Table 1 shows the current US incarceration rate per 100,000 people is 737, which compares to 186 in NZ and 148 in the UK and 125 in Australia (with a broadly similar figure for Canada). These rates in turn are significantly greater than the figures for coordinated economies. All these figures have greatly increased in the last two decades, from 313 in 1986 for the US, and 93 to 148 for the UK. But US data have always been much higher.

The third area of poor performance is in distribution and redistribution. Figure 3 sets out data for distribution and redistribution roughly averaged over the period 1970 to 1995. Distribution is measured by the D9/D5 ratio of the pre-tax and transfers earned income of an individual in the 90th percentile of the earned income distribution to the pre-tax and transfers earned income of an individual in the 50th percentile of the earned income distribution. And redistribution is measured by the reduction as a result of taxes and transfers in the percentage of those with incomes less than half the median. The US has the most unequal distribution measured in this way, and the lowest rate of redistribution. It substantially outdoes Canada, the UK and Australia.

We do not yet know how far back this outlier position of the US goes, as data have so far not been available on a comparative and comparable basis.

Finally we take another "social outcome" variable. This is the level of adult literacy. In this case, there is no long range data, only an OECD IALS survey of 13 OECD countries in the mid-1990s. Two key indices are the percentage of adults with lowest level of literacy, and the percentage of adults who did not complete upper secondary education (ie graduate from high school) who have high literacy scores. These are shown in Figure 2. It will be no surprise that liberal economies do uniformly worse than coordinated economies on both indices. In the case of the percentage with low levels of literacy, one would expect coordinated countries – with PR and hence broadly centre-left policies – to have been concerned about both the education of both middle class *and* low income children. In contrast, in liberal economies the majoritarian political focus on the middle classes might have been expected to bias governments towards middle-class education. So liberal economies could be expected to perform worse than coordinated ones. How liberal economies were ranked among themselves would then depend on interalia the proportion of middle class children and the extent to which middle class and low income secondary education could be formally or informally separated. Hence there is no particular reason why the US should do worse than other liberal economies – and in fact it does better than Ireland and the UK, though worse than Canada and the US. The performance of high school dropouts has more relevance, since this picks up directly the performance of low income children. So it is particularly relevant that high school dropouts in the US relative to the other liberal economies are most likely by a wide margin not to have high literacy scores. The implication here is that the US is particularly bad – among liberal economies – at educating low income children.

Liberal Responses to Post-Fordism. It is useful to put these four outcome areas in a post-Fordist perspective as far as liberal economies are concerned, and then to ask why the US performs so particularly badly. The discussion in the last section already

supplies much of the architecture needed to understand why liberal economies should not fare well in general in these areas.

(1) *Unionisation*. Given that the primary concern with businesses in LMEs in the modern world – under financial market pressure and generally unable to build market reputations for products based on experienced and skilled workforces as in CMEs – is to be able to move rapidly, involving high risk taking and low cost hiring and firing, unionisation is often seen as an encumbrance. Moreover workforces are usually not in a position to coordinate strategies, and most employees are anyway focussed on the external labour market, it is usually difficult to build the pressure to force unionisation on unwilling managements. There are many exceptions to this, but they tend to reflect particular specific assets which a company has. Hence with the decline of Fordism as a competitive strategy, and the need to build organisations based on flexible employees with good general education and capable of acquiring relevant technical, social and organisational skills rapidly within the company, companies in LMEs no longer had the need for unions.

This was accompanied in liberal economies by contested political strategies of combining the opening of economies to world markets with financial market liberalisation and flexibilisation of labor markets. This was most notable in the UK and NZ – with explicit moves against union privileges, but equally Australia dismantled its tariff barriers. More or less rapidly all the liberal economies moved over two decades to liberalised financial markets putting short-term pressure on profits, government withdrawal of support for loss-making companies, and flexible labour markets, forcing companies to develop more flexible forms of organisation to survive.

(2) *Crime and punishment*. The collapse of Fordism, a system which (interpreted broadly) had provided employment for unskilled and semi-skilled workers and hence for a large proportion of children of low income families who had relatively low levels of secondary education, meant that whole cohorts of young people were

forced to choose between upgrading education or working in low level insecure labour markets. One result was huge increases in staying on rates in secondary education and in college education. (We will see below that this became a middle-class "panic" issue politically as better and better education became more important for their children's careers.) But those who did not improve their education outcomes faced low level labor markets in which conditions were worsened by labour market flexibilisation implying reduced wages to reflect skill-biased technical change. Moreover the chance to train became illusory for those at the bottom, as companies were only prepared to invest in specific skills for those with good general education and who could be trained more cheaply. In turn this meant that the likelihood of spells of unemployment was increased by the low probability of having been trained in company-specific skills.

As Freeman has argued (1996), the return to crime for those with low education now rose significantly relative to the low return from conventional labor markets. This led to the second political panic issue for the middle-classes. In each of the liberal economies, majoritarian political systems led parties to compete for middle class voters by proposing increased punishment. This did not happen in coordinated economies since (i) the route from school via vocational training into secure employment continued to function, (ii) PR meant that the school system for lower level students was maintained at good levels, and (iii) the PR system meant in any case that politicians competed with each other to secure votes to a much lesser extent. In the liberal economies the removal of young men into prison had the paradoxical effect (Freeman) of reducing the supply of criminals and hence raising the rate of return to crime for those with low education. So a momentum has been built up in liberal economies of increased rates of both crime engagement⁸ and punishment – albeit with crime starting to decline in the 1990s as demand growth raised the return to conventional low end labor markets.

⁸ This does not imply that rates of crime increased, see below.

(3) *Distribution and redistribution.* The end of Fordism in liberal economies both increased inequality of pre-tax pre-transfer incomes and reduced redistribution. The first was a consequence of labor market liberalisation: we have already noted the decline in the relative marginal productivity of those with low levels of education; in addition the decline of unionisation adds to inequality since unionisation is positively correlated with earnings equality (Wallerstein).

The decline in redistribution in recent decades is directly a consequence of politics, but indirectly a consequence of the developments above. Labor market flexibilisation has led to rising poverty as wages have fallen at the bottom end and unemployment has risen; in addition, some proportion of the poor have dropped out of labor markets as conventionally measured. Given the mode of operation of welfare states, redistribution and welfare state benefits have been focussed more on the poor and very poor than was the case under Fordism. Thus, in majoritarian political systems, the incentive for the median voter to support the welfare state has diminished. Hence redistribution – at least redistribution per individual poor person – has declined in most liberal economies.

(4) *Adult literacy.* The low level of literacy in liberal economies stems from the relatively low quality of secondary education for children from lower income backgrounds. Again this is a broad consequence of majoritarian political systems: the median voter votes for parties which protect or improve public education for middle class children. The post-Fordist period has been one in which this has become a “panic” issue for middle class parents for the reason discussed in (1) above: namely the skills-bias in technical change. This implies that politicians can distinguish between public expenditure on secondary education for different income groups.

Explaining American Outliers. By placing the US as an outlier among liberal economies, we have (in the simplest way) controlled for the major factors in comparative political economy which lead to variance in unionisation, crime and punishment, distribution and redistribution and adult literacy. Indeed, most of the

analysis above of how liberal economies reacted to the post-Fordism resonate with analysis outside the comparative political economy rubric of American response. And while this type of comparative analysis is simplified it is not difficult to show and to analyse systematically different patterns in the coordinated cluster of economies. We could, moreover, probably go back for most of our four areas to a pre-Fordist world and reproduce similar patterns.

Criteria for an explanation. There are four criteria which I would like an explanation of these outliers to satisfy:

(i) *Common basic explanation for the 4 cases.* First, I want a single basic explanation to cover – or at least be an important part of the story – in all four cases. Given that these four areas are typically analysed by quite different groups of social scientists (unionisation by labor relations specialists, crime and punishment by criminologists, distribution and redistribution by labor economists or political scientists or sociologists working on the welfare state, and adult literacy by education specialists), if the same explanation was reasonably plausible in all four cases that might thought persuasive.

(ii) *Institutional explanation.* This reflects recent developments in comparative political economy that outcomes depend on institutions. Institutions are the rules of the game, and given preferences of the players and a unique equilibrium, they determine outcomes.

(iii) *Exogenous institutions or institutions determined by exogenous factors.* In essence this implies that we can ground the institutional explanation sufficiently deeply in the development of the society that we are not subject to problems of institutional endogeneity. This is in line with our historical grounding of liberal and coordinated economies in section 2.

(iv) *Explanation creates a further subdivision in the institutional complementarities overall framework (production regime, welfare state, political system) on which the essay is based.* This is ultimately an aesthetic requirement.

Weak party discipline and decentralised politics. The explanatory factor (variable) on which I will focus in order to explain these American outlying results is that of party discipline, and closely related, the degree of centralisation of the federal system. These complementary variables operate in a quite different way in the US political system to those of the other liberal economies. All the liberal economies have majoritarian systems – in general (as in the US today⁹) at each level of government¹⁰. But apart from the US, major parties operate with relatively strong party discipline (in Australia and Canada with relative autonomy between federal and state parties). And, also apart from the US, national government is either centralised as in the UK and NZ; or, as in the federal systems of Canada and Australia, there is substantial negotiation on the major policy areas between the different levels of government (federal and state). In the following table, Table 0, the key differences are summarised.

We can think of the combination that distinguishes the US political system from other liberal economies, namely < leader-driven electoral parties, weak party discipline, primary choice of candidates, independent state decision-making > as a related set of characteristics, which we will call the American political syndrome. (It will be noted that this is not a particularly usual classification of the US system: it would be common to point to the separation of powers between the President, Congress and Supreme Court as marking the difference with the UK *Westminster* system. But the Westminster system, in which neither the courts, nor the legislature count for much against the Prime Minister, may be itself a bit unusual: Canada and Australia have supreme courts capable of acting as arbiters of the constitution; and the French President can normally run the legislature.) It is a syndrome because these characteristics are complementary to each other: Weak party discipline would not last long if party leaders could control the choice of candidates: hence the primary system. Aspirants to become candidates in a system of weak party discipline

⁹ Not always at the state level:

¹⁰ Apart since 1996 NZ which switched then to PR; and among non-national exceptions are elections to the Scottish Parliament and the London Assembly.

need to assemble a strong team to win primaries; and, if only limited discipline is imposed on them as candidates, they will have a strong incentive to chase the median voter in their district, as well as catering to any special preferences of the district – irrespective of party policy. And both special preferences and differences in median positions are possible where the state government can choose a range of positions on its own accord.

So what might one expect from this political syndrome? It might be thought that the most likely consequence of weak party discipline – and hence the ability of individual members of the legislature to influence legislation – would be to promote a greater variety of legislation. There might indeed be more extreme legislation; but there would be no particular reason why it should affect the mean of the distribution of laws – variety might favour the left as much as the right. The same tendency might be expected of a federal system in which each level of the system had control over legislation in different areas; in those areas reserved for decision-making at the state level, for instance, we might expect an increase in variety corresponding to a spread of median voter interests in different states, but no particular reason to expect a shift in the location of the state legislative distribution.

I argue here that, by contrast with these expectations, what I will call the weak party discipline syndrome is associated with a rightward shift in the legislature in liberal economies – even given that liberal economies are anyway associated with centre-right results. This is Hypothesis 1. I will further argue in Hypothesis 2 that it leads to business-dominated politics.

Hypothesis 1: In a majoritarian system, the weak party discipline syndrome implies a rightwards shift on average in the legislature compared to strong party discipline.

Here is the argument. As seen in section 2, in a majoritarian system there is a centre right bias because the decisive middle class voter: (i) can never fully trust the electoral promise of either a centre-left or a centre-right party to commit to a middle-class

program if elected because of inner party extremist pressures; and (ii) prefers the outcome of a CR government which moves to the right after the election – since the worst that middle-class voters will suffer will be a reduction of public expenditure but also a reduction of taxes – to the outcome of a CL government which moves left – since then middle-class voters may suffer an increase in taxation with the proceeds distributed to lower income groups.

In the weak party discipline syndrome, the choice of candidates through primaries raises the anxiety of middle class voters about the inability of candidates to commit to a middle class platform, since the primary forces the potential candidate to concentrate on the median voter within the party. One way of modelling this is that, ex-ante, voters will attach a symmetrically lower probability to both candidates of not defecting from their median voter commitment. In that case, the ex-ante likelihood that middle-class voters will vote centre-right increases compared to the strong party discipline case. This is because, with a defection from the median voter position, the median voter is going to be worse off; and because the median voter is worse off if the centre-left candidate defects (after having won the election), then an increased probability of defection will increase the likelihood of the median voter voting centre-right. Lingle, Owen and Sommer (1995, 371) note that divisive primaries damage the Democrats more than the Republicans.

Hypothesis 2: In a weak party discipline syndrome in liberal economies business will invest money in individual legislators to a greater extent than in a strong party discipline system; business is likely to do so to a greater extent than unions. This gives business an important say in general legislation which affects business.

There are several steps in the argument:

(i) With weak party discipline, individual legislators can influence legislation, whereas they cannot with strong party discipline. With strong party discipline, the party leader will decide policy in the interest of the median voter (or perhaps to the

right of the median voter on our argument) and of interest groups who have invested in the government.

(ii) In a liberal economy with strong party discipline, it is difficult for interest groups to finance governments on a large scale because – in a liberal economy – interest group members (individual businesses or unions) are uncoordinated and it is difficult for interest groups to discipline them and prevent them from free-riding on whatever legislative benefits financial contributions to the government may bring. Hence with strong party discipline, business tends not to have strong influence on governments, apart from its usefulness in promoting the interests of the median voter.

(iii) With weak party discipline, it can pay individual large businesses and unions to “buy” politicians since individual legislators can influence legislation in ways specifically to favour the company or union and intervene in many ways on behalf of their clients. This differentiates the US from other liberal economies.

(iv) Both large businesses and unions invest in politicians in the US, but more politicians have links to business than to unions. One explanation is, of course, the preponderance of business in the US as compared to unions. But this may be endogenous – we want in part to explain union weakness as a consequence of weak party discipline. There is a more basic reason: As Gary Marks pointed out (Marks, ?), unions are typically primarily interested in passing or repealing laws from which many unions would benefit. Large companies, on the other hand, typically have specific concerns (being able to secure influence on a range of agency decisions on mergers, dumping, the precise form of regulations, including complex tax laws, etc.); they have of course an interest in the outcome of much legislation which affects the company sector as a whole – including an interest opposite to that of the unions in much legislation affecting industrial relations.

(v) The ability of business to influence this more general legislation comes from a network externality effect, which can be thought of as follows: The large companies who have invested in close links with one or more politicians can be thought of as

members of a club. The club generates two sorts of political goods, private political goods, and public political goods which benefit business generally (such as labor legislation) – so that companies cannot be excluded from the benefits; (it is possible that there are also club goods from which all or a subset of members benefit and from which non-members can be excluded, but this is not central to the argument). For an individual company it is only worth while joining the club because of the private benefits. But the set of “owned” politicians can be mobilised by the relevant lobbies to act collectively to press for or against more general legislation. The bigger the set of such politicians the more effective the overall influence over general business-relevant legislation.

Reinforcing effects. These two effects, a bias to the centre-right (greater than that in a strong-discipline majoritarian system), and the extensive influence of business (compared to its limited influence in a strong-discipline system), reinforce each other.

Independent decentralised decision-making. Independent decision-making on a wide range of areas at state and county level, in which in general only limited negotiation takes place with higher authorities, (i) directly increases “bad” outcomes in the four areas we are concerned with, (ii) increases policy “competition”, and (iii) effectively underpins the whole weak political discipline syndrome. All this assumes unimpeded mobility of companies and individuals.

Direct consequences of decentralisation. Individuals and companies can locate where they wish. This at once rules out significant redistribution, since those who pay taxes which give them no benefit will be likely to relocate in non-redistributing jurisdictions. This at least partially explains the middle class move from city centres with low income median voters to suburbs. In principle, as Tiebout argued, people will locate to areas creating the local public goods they want and are prepared to pay for. But this can lead to bad distributional outcomes: It enables the middle classes to set up their own middle class public education systems, excluding lower income households by high local taxes and high property prices. It enables states to pass right

to work laws, thus impeding unionisation by providing a safe environment for anti-union companies. And it arguably raises penalty, since if higher punishments deter crimes in any given state they presumably push criminals across state lines, thus leading to further demands in other states for stronger action against crime.

Increased policy "competition". In majoritarian systems, two candidates compete for the median voter. In strong party discipline countries, policies are chosen by party leaders. With weak party discipline the candidate has considerable freedom to choose his or her own policies (including emphasising popular and deemphasising less popular policies of his or her party for the perceived median voter in the relevant electoral district). This is particularly so of state gubernatorial candidates in the US.

Even with strong discipline, competition can be intense since both parties are competing for the same voter (voter group). In a "panic" situation, as with crime and education in the last two decades, the game is for the one candidate to show the median voter that s/he is tougher or more concerned than the other. In a weak discipline world, where there are many concurrent elections, and the media is alerting median voters to a range of possible policy options, then the temptation for the candidate is to go high up the range; if all candidates do that average policies can become extreme.

Underpinning the weak political discipline syndrome. The ability of individual states to legislate over a very wide area of policies, generally unimpeded by the Federal government, enables different interests to be supported by different states. In so far as those interests imply significant enough differences in median voter positions or in other policy areas which have implications for federal policy making, then party discipline becomes difficult to impose. Party discipline relies on a sufficient homogeneity of preferences across electoral districts. Otherwise, strong party discipline lets the door open to third party or independent candidates. In this sense the legislative independence given to states underpins weak party discipline.

Thus we can tell a historical story: The other liberal economies had their constitutions fashioned by the UK parliament, in all cases giving substantial powers to the national parliament, and only allowing state/regional law-making in context of negotiation with the centre. Thus state or regional interests could not be protected on the same scale as in the US. In the US, it was the states – controlled by their pre-existing interests – that had to agree the federal constitution, and this they were only prepared to do if those interests could remain protected by unimpeded state legislative powers. This in turn has underpinned a system of weak party discipline which has limited federal attempts to cut back on state powers.

Understanding the four cases. We are now in a position to sketch out how our theory of the weak political discipline syndrome can explain the particularly “bad” American outcomes in unionisation, crime and punishment, distribution and redistribution, and education, even in comparison to bad outcomes in these areas in the other liberal economies. This sketch should be read in close conjunction with the analysis above as to why liberal economies performed generally badly in these areas. Of course, in each of the areas at which we are looking there are going to be many individual differences between the US and the other liberal countries which may account for some of the difference in the relevant outcome. Our purpose is different: to suggest that there is one broad factor which accounts for a significant part of the difference in all four outcomes, namely the difference between the weak and strong political discipline syndromes. Equally we are concerned to explain the American outcomes relative to those of the other liberal economies – thus we are holding constant the nature of the production regime (liberal market economy), of the welfare state (liberal welfare state) and of the broad political system (majoritarian).

Unionisation. We can look at two episodes, before discussing the current period, the first being the decade before WW1 when unionisation rose more rapidly in the UK than the US, and the second Taft-Hartley and successive unsuccessful attempts to repeal it in comparison with Canada. The basic point covering both episodes is the contrast between: The government of a nation state controlling a majority in the

legislature, acting in the interest of the median voter (or somewhere to the right of MV), and with regional bodies being required to accept national decisions or to negotiate out policies with the higher level. And a legislature in which business has powerful voice, representing the individual interests of large companies, probably exercising de facto veto power over issues to which business is strongly opposed, and with regional and local jurisdictions capable of shaping a pro-business and anti-union environment. Thus our interpretation of the pre WW1 period is that, in the UK, it was one when the Campbell-Bannerman and then Asquith Liberal governments saw the craft aristocracy of the working class as its median voters. This government passed the Trade Disputes Act (1906) which eliminated the possibility of suing a union for tort, thus reversing the Taff Vale decision of the Judicial Committee of House of Lords (this was until a year ago the misleading name of the UK supreme court). Was it just responding to the unions as a pressure group? It is true that there were in the Liberal government a small number of largely trade union so-called lib-lab MPs. But it was a radical government with a huge majority which in no way depended on this small group. It was, for example, the government which successfully challenged the legislative powers over taxation of the House of Lords – Lloyd George's famous speech about the irrationality of these powers residing in "five hundred ordinary men chosen randomly from the ranks of the unemployed", as well as introducing social benefits.

Thus, if as seems not implausible, British and American (especially engineering) companies pre 1900 were not dissimilar in their attitudes to (craft) unions – they would have preferred to do without them – the British government push to develop industry collective bargaining, and the clear implicit refusal of the government to provide police or military support at any level to companies trying to rid themselves of unions, meant that accepting unionisation was a sensible option. The rejection of unionisation by American companies, by contrast, is well explained by Lloyd Ulman's hypothesis: *ceteris paribus* companies do better without craft unions, despite their anti-militant approach; and that anti-militant approach makes rejection

unrisky. And American government at all its levels puts no constraints on this or is positively encouraging.

This argument – about the role of the UK government – goes against the conventional wisdom about the “hands off” role of the British state in industrial relations except in the most dire emergencies. Recent work by Howell (2005) demonstrates that this view is misleading. Summarised by Allen (2006), “rather than a feeble “nightwatchman” state that was not powerful enough to protect labor even when the Labour Party was in power, the driving force in the erosion of trade union power and influence was a British state that acted much more like an architect in shaping labor’s actions. In the hands of the Thatcher governments, this led to labor’s present state of deep erosion. Professor Howell’s *Trade Unions and the State* takes this conventional wisdom head on. He suggests that Howell argues that there were three discrete varieties of state intervention into labor relations over more than a century. The first was the transition to industry-wide between trade unions and employer associations at the turn of the 20th century, when larger scale industry displaced the early model of small-firm capitalism. The second was in the early post-WWII period when the mass production industries produced new workplace concerns about microlevel work organization. The third was the Thatcher revolution, which also focused on micro-level work, but this time to replace collective institutions with flexible institutions that emphasized individual adaptation, fundamentally undercutting the trade unions. During each of these three periods, significant labor mobilization materialized which is what traditional accounts of British labor have always emphasized. Howell’s twist on this conventional wisdom account is that each of these transitional periods of labor relations was actively managed by significant state action, responses that Howell argues the labor market actors were unlikely to have developed themselves.

The argument here only differs from Howell’s important account in relation to the meaning of the state. Our point is that the government can – because strong party discipline enables it to control the legislature – and does – because it wishes to

remain in power – pursue something like the interests of the median voter. The median voter has certainly shifted across the political spectrum from the aristocracy of the working class in the early twentieth century to the middle classes by the 1970s; and as noted earlier the government may have in general a centre-right bias – as in the 1930s and the 1980s in particular when Labour was perceived as not offering a plausible median voter alternative.

Taft-Hartley is explained by the centre-right, pro-business bias of the American congress, by contrast to the Canadian federal parliament. And the lack of success of a series of attempts to repeal elements of the legislation can be explained by the ability of the business lobby to organise in Congress against such anti-business moves.

Fast forwarding to the present, why is unionisation still so low in the US as compared to Canada and the UK (roughly 7% against 17% in the UK and Canadian private sectors, and 12% against 24% in UK and 32% in Canadian manufacturing, quite aside from large differences in the public sectors)? We know from Farber and Western that the factors driving decline in the last three decades are similar in the three countries. But we are now in a situation in which employers in the private sector in all three countries have no obvious difficulties in choosing whether or not to be unionised. Given the similar nature of the production regimes, can we explain why current levels of unionisation should be different?

(i) It is probably still the case in the other liberal economies that government policy – although strongly committed to labor market flexibility – is not strongly against unionisation as such. This is for median voter reasons: It largely affects highly skilled workers and white collar workers in stable companies; there is little serious concern that low skilled workers will unionise. So this may account for some proportion of the difference.

(ii) A second reason concerns public sector workers. The difference in unionisation rates of public sector workers is substantial (36.4% in the US, compared to 72.3% in Canada and 58.8% in the UK). Here the combination of the business and centre-right

bias in US legislatures and the presidency is likely to be important. In addition, the combined effects of decentralised decision-making and business mobility means that businesses can avoid the cost of higher public sector wage costs at state or county level by moving elsewhere.

Education. Table 3 shows the scores of the 5th percentile in a range of literacy skills (prose, documents and quantitative) across eleven countries, five CMEs (Sweden, Norway, Netherlands, Germany and Finland) and six LMEs (New Zealand, Ireland, Australia, the UK, Canada and the US) taken from an OECD and Canada Statistics international survey over the period 1994-1998, the International Adult Literacy Survey. These results relate to the whole adult population of 16 to 65. As expected the 5th percentage lowest performer in each of the CMEs performs significantly better than the corresponding lowest performer in each of the LMEs; what is striking is how the US does worst in each category.

Results in the IALS are also divided up into 4 levels. The 5th percentile scores do not translate into the same ordering as the proportion who score in the lowest level, as Figure 2 shows. The UK and Ireland have higher proportions than the US who score in the bottom category (though Ireland should probably be disregarded as a result of its major changes in economic structure between the 1970s and the 1990s). What is significant is the second set of results which can be read off Figure 2. This is the proportion of non-secondary school completers who nonetheless score well in the literacy tests. Here the US comes at the bottom by a significant margin.

In effect both measures, the 5th percentile scores and literate non-completers, imply that the US performs badly right at the bottom end of the spectrum. Of course there are deep structural reasons for this. But I want to suggest that the way the political system is organised plays a most important part, and that the American decentralised weak discipline variety sharply aggravates the problem. The decentralised system of local decision-making acts as an effective "class-sorting" device. In all the liberal economies, there is easy geographical mobility; but apart from in the US, national

and/or regional governments exercise a greater or lesser degree of control over social services, and in particular over education. In the US, comparatively speaking, the Tiebout-like matching of preferences of individuals and local public goods has allowed a highly effective movement of the middle-classes into what are in effect their own public schools, from which lower income groups are excluded by property taxes and property prices. This is not to say that the other liberal economies have not reacted to middle class needs over education. But the degree of disparity between schools has been muted by the requirements of "national" standards however imperfectly adhered to.

The stronger powers of national government affect education indirectly as well as directly. Because of the many services which are provided on the basis of demography to local areas by central government in strong discipline systems, as opposed to being provided out of local taxes, class-sorting and local incomes decline more slowly. This stabilises incomes and has multiplier effects on the local private sector, with bank branches for example providing a wider range of services.

The importance of class-sorting depends on the degree of poverty in any country. As we will see in the next sub-section, distribution is unusually unequal and redistribution more limited than in other liberal countries. In other words the US is a country which creates more poverty than other liberal countries, and this worsens education at the bottom end of the income distribution as the children of the poor are more effectively sorted out from middle class children in the US because of the decentralised political system.

Distribution and Redistribution: Distribution. The political system has no direct effect on the distribution of income as opposed to its redistribution. But it does indirectly: Two main factors determine the aggregate distribution of earned income: the distribution of education and skill outcomes and the degree of unionisation. The first is more or less self-explanatory. Table 4 shows the close relationship across advanced countries between the distribution of literacy and the distribution of income. We do

not show it here but the distribution of literacy is closely correlated with various measures of the distribution of education. What we see in Table 4 is that the US has both the most unequal distribution of earned income, measured by the Gini coefficient (confirming the D9 to D1 ratio shown in Figure 3), and the inequality of the literacy distribution measured by the D9 to D1 ratio.

There is no analytically satisfactory explanation of the equalising effect of unionisation, though it is statistically validated across advanced countries, and we will take it for given here (Wallerstein, Freeman). Unionisation might also, very loosely, be read inversely as the degree of labor market flexibility.

From the previous sub-sections, we have argued that the particularities of the American political system have played a major part in explaining the relatively faster decline in unionisation and weakness of the bottom end of the education distribution as compared to the other liberal countries.

Redistribution. As can be seen from Figure 3, the US performs the least well of all advanced countries in the reduction of poverty (measured as the proportion of individuals with an income below half the median income). Redistribution is determined by the political system. In our discussion of the American weak party discipline syndrome, we argued that two factors will characterise legislators – they will be centre-right and close to business, and in both cases more so than in other liberal countries. Hence they will generally be less favourable to redistribution than in other liberal countries.

Moreover, the net costs of redistribution are likely to be greater in the American case than elsewhere. This is because the concentration of incomes at the bottom of the income scale – as a result of worse education for low income groups and low unionisation implying labor market flexibility at the bottom end – makes the welfare state one in which taxes on the middle classes go to those at the bottom of the income scale rather than being an insurance policy for the middle classes should they happen to fall ill or become unemployed.

Crime and punishment. Finally, we turn to analyse the extreme position of the US in crime and punishment, as shown in Table 1. Although property crime has fallen significantly in the 1990s, crime still remains unusually high in the US. We have used homicide data in Table 1 since it is broadly comparable across countries (more or less: well-defined, and fully reported). Whether or not the total number of crimes escalated dramatically between the 1970s and 1990s (Boggess and Bounds, 1991), as in the popular imagination, Freeman (1996) shows convincingly that the number engaged in crime – institutionalised plus non-institutionalised – rose dramatically, and that those engaged in crime were concentrated among high-school drop-outs. Freeman argues that the decline in real earnings and opportunities for those with low skills in legal labor markets (depending on definitions, real earning declines of around 25% between the 1970s and 1990s, (Freeman, 30)) made illegal work relatively profitable; but with the massive increase in incarceration of who had moved into, or were already engaged in, crime, the supply of criminals was reduced relative to “demand” creating incentives for further moves into crime by the non-institutionalised. Freeman's main contention is thus to explain the very large increase in the total number engaged in crime whether actively or (to use a theatre term) resting. As crime persisted so this became an on-going process¹¹. Since the incarceration rate increased from around 200 per 100,000 in the late 1970s to a current figure of over 700, the total number per 100,000 (incarcerated plus non-institutionalised) is very high.

Freeman focuses on the US, but it is plausible that the same broad logic applies in the other liberal economies. Of course, the number engaged in crime per 100,000 in the US is almost certainly several times higher than the numbers even in the UK and NZ. As with the other topics covered the interesting question is therefore: Why the exaggerated American numbers, given a similar mechanism?

¹¹ Interestingly recent calculations by Autor, Katz and Kearney (2005) show how low skill earnings have stabilised in the last decade, and this may have contributed to declining crime rates (they do not explain this as a result of the decline of the low-skill labor force because of increased incarceration – though they might well have done).

Freeman does not attempt to explain the rise in incarceration. As we noted earlier for all the liberal countries, the end of Fordism led to the increasing presence of large numbers of unemployed high school drop outs with low skills – creating a middle class panic (as well as a panic among low income groups¹²); only the relatively wealthy could assuage their anxieties about security by private means. This was a panic about crime. (It is disingenuous to say that it was simply artificial: had incarceration not risen, and the population of non-incarcerated semi-employed low-skilled young men grown, the crime rate would doubtless have risen (Freeman, 37)). Competition among politicians in majoritarian systems for middle class votes bid up punishment; see Lacey (2008) for a detailed discussion.

This process was greatly amplified in the US for two main reasons connected with the political system, linking decentralisation with weak party discipline. These two reasons are: First the extraordinarily rapid adoption by candidates in both primaries and legislative and gubernatorial elections of more severe punishment strategies, of which the flagship was “three strikes and you’re out”. While this competition between parties was well in evidence in the other liberal countries – notably in the UK ignited by Blair when he became shadow Home Secretary, in the US it was on a different scale. As noted above, the primary system put many Democrat candidates in exceptionally difficult positions during a period in which low end labor markets were collapsing and many of their natural constituents wanted more radical measures; but the middle class electorate to which running Democrats had to appeal was both suffering from this middle class panic over crime *and* required persuasion that the Democrat candidate repudiated radical pressures from Democrat constituencies. Signalling with tough anti-crime policies was thus necessary for a chance of Democrat electoral success in many elections; and Republican candidates (as the natural party of law and order) were concerned to stay ahead of the Democrat game. Two factors are important here: one was that candidates could be and were

¹² Only in brackets because of course it was the middle class panic which mattered in majoritarian societies.

likely to be judged not just on their own policies but on the range of policies being developed across the US – so toughness was relative to the toughest punishment policies in the US; the other was a related common pool problem that if candidate A in district Y raises the ante and this increase punishment policies adopted elsewhere, district Y voters do not have to pay the full costs of higher imprisonment. Western (2007) shows persuasively that much of the competitive ante-upping came from gubernatorial elections – so gubernatorial candidates were in effect competing not just within the state but against gubernatorial candidates across the states.

The second main reason for increased incarceration was that through the 1980s police forces adopted major changes in pressing charges especially against drug offenders (Boggess and Bounds, 1991). It is easy to link this to the crime panic, for much of the media publicity and perhaps direct visual evidence was of “menacing” unemployed young men taking or pushing drugs, and therefore likely to commit drug-related theft or robbery. Police forces who could keep this evidence off the streets by increased incarceration were rewarded. This is a classic common pool problem in the US – though hardly at all in the other liberal countries, as a result of the decentralisation of political decision-making. While there are many variations in the US, individual police forces or the boards to which they are responsible or their voters seldom bear much of the cost of the increase in imprisonment.

4. Conclusion (to follow).

Tables and Figures

Table 0: Characteristics of Majoritarian Political Systems

	<i>Elections</i>	<i>Parties</i>	<i>Party Discipline</i>	<i>Candidate selection</i>	<i>National-State Gov</i>
United States	Majoritarian	Leader-driven campaign	Weak	Primaries	Independent Decisions
Australia	Majoritarian	Leader-driven stable	Strong	Centrally-imposed	Negotiated Federalism
Canada	Majoritarian	Leader-driven stable	Strong	Centrally-imposed	Negotiated Federalism
NZ	Majoritarian (till 1996)	Leader-driven stable	Strong	Centrally-imposed	Centralised
UK	Majoritarian	Leader-driven stable	Strong	Centrally-imposed	Centralised

Table 1: Crime and Incarceration Rates

	Incarceration rate (per 100,000), 2006	Homicide rate (per 100,000), 2006
Liberal economies		
US	737	5.6
New Zealand	186	2.5
England and Wales	148	1.6
Australia	125	1.9
Coordinated economies		
Germany	94	1.2
Netherlands	128 (100 in 2002-3)	1.5
Sweden	82	1.1
Denmark	77	1.0
Finland	75	2.9
Norway	66	1.1
Japan	62	0.9
[France]	[85]	[1.7]

Sources: Adapted from Cavadino and Dignan (2005), Barclay and Tavares (2003), International Centre for Prison Studies (2007), Hall and Soskice (2001).

Table 2: Unionisation Rates

	Private	Public	Manufacturing	Men	Women	Employee Representation
US	7.9	36.4	12.9	13.8	11.1	0
Canada	17.8	72.3	30.5	30.6	30.3	0
Australia	17.4	46.4	35.0	25.9	21.7	0
UK	17.2	58.8	24.6	28.5	29.1	0
Ireland	30.4	68.0	40.0	38.0	37.4	0
Netherlands	22.4	38.8	28.0	29.0	19.0	1
Germany	21.9	56.3	45.0	29.8	17.0	2
Austria	29.8	68.5	57.0	44.0	26.8	2
Finland	55.3	86.3	83.8	66.8	75.6	2
Norway	43.0	83.0	54.0	55.0	60.0	2
Sweden	77.0	93.0	95.0	83.2	89.5	2
Japan	17.9	58.1	27.0	22.0	17.0	2
France	5.2	15.3	7.5	9.0	7.5	0

Sources: Columns (2) to (6) from Visser (2006), data: 2004, US, Canada, Australia, UK; 2003, Ireland, Japan, France; 2001, Netherlands, Finland; 1998, Norway,

Contribution to Lloyd Ulman's Festschrift: David Soskice, September 2007

Austria; 1997, Germany, Sweden. Column (7) constructed by author, to be replaced by proper citations.

Table 3: Scores of 5th Percentile on Prose, Document and Quantitative Literacy from International Adult Literacy Survey 1994-1998.

	Prose	Document	Quantitative
<i>Sweden</i>	214.0	218.6	215.9
<i>Norway</i>	208.8	202.5	208.9
<i>Netherlands</i>	202.8	202.4	200.9
<i>Germany</i>	199.6	207.2	217.8
<i>Finland</i>	198.8	189.9	197.1
<i>New Zealand</i>	164.8	153.8	154.1
<i>Ireland</i>	159.6	146.7	146.2
<i>UK</i>	151.2	143.3	141.5
<i>Australia</i>	145.1	143.7	149.5
<i>Canada</i>	144.5	133.9	155.1
<i>US</i>	136.7	125.4	138.3

Figure 1: Unionisation Non-agricultural Workforce in US, 1880-2000:

(Taken from Ferber and Western, (2001))

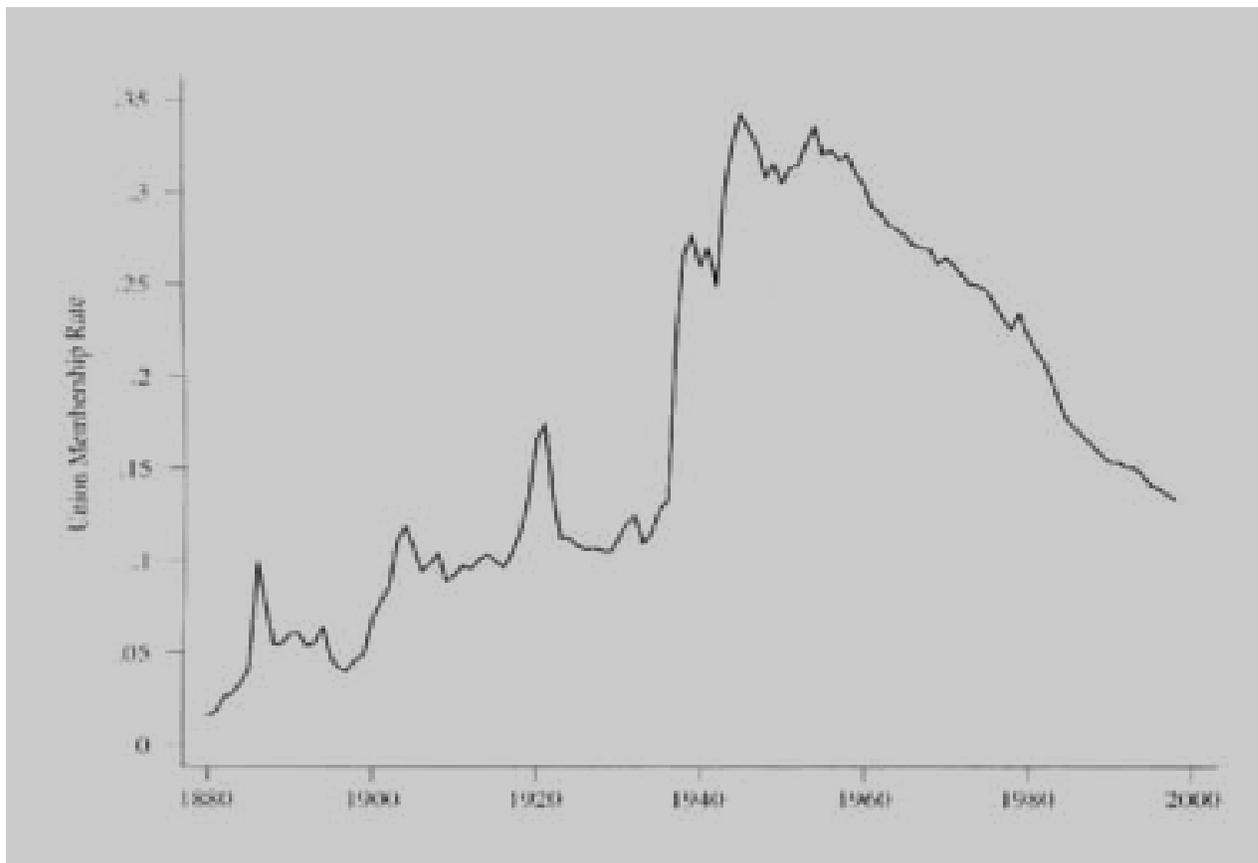
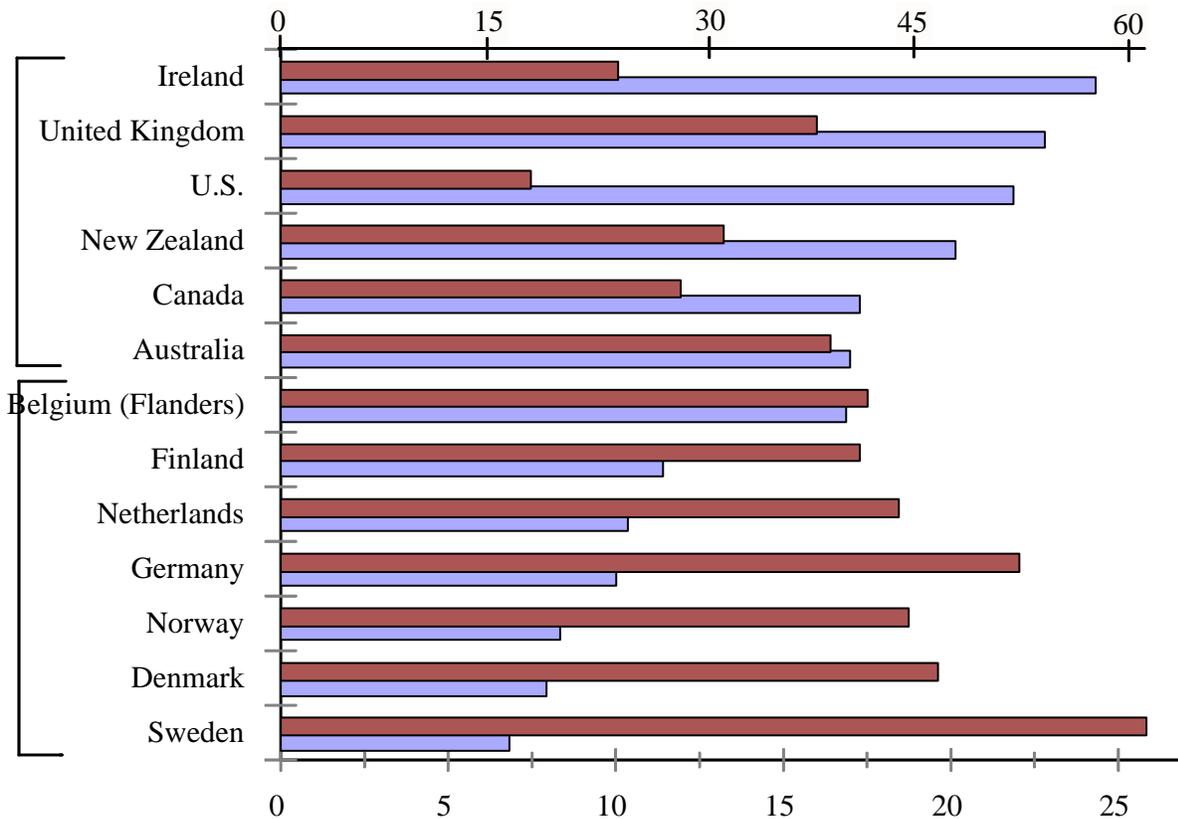
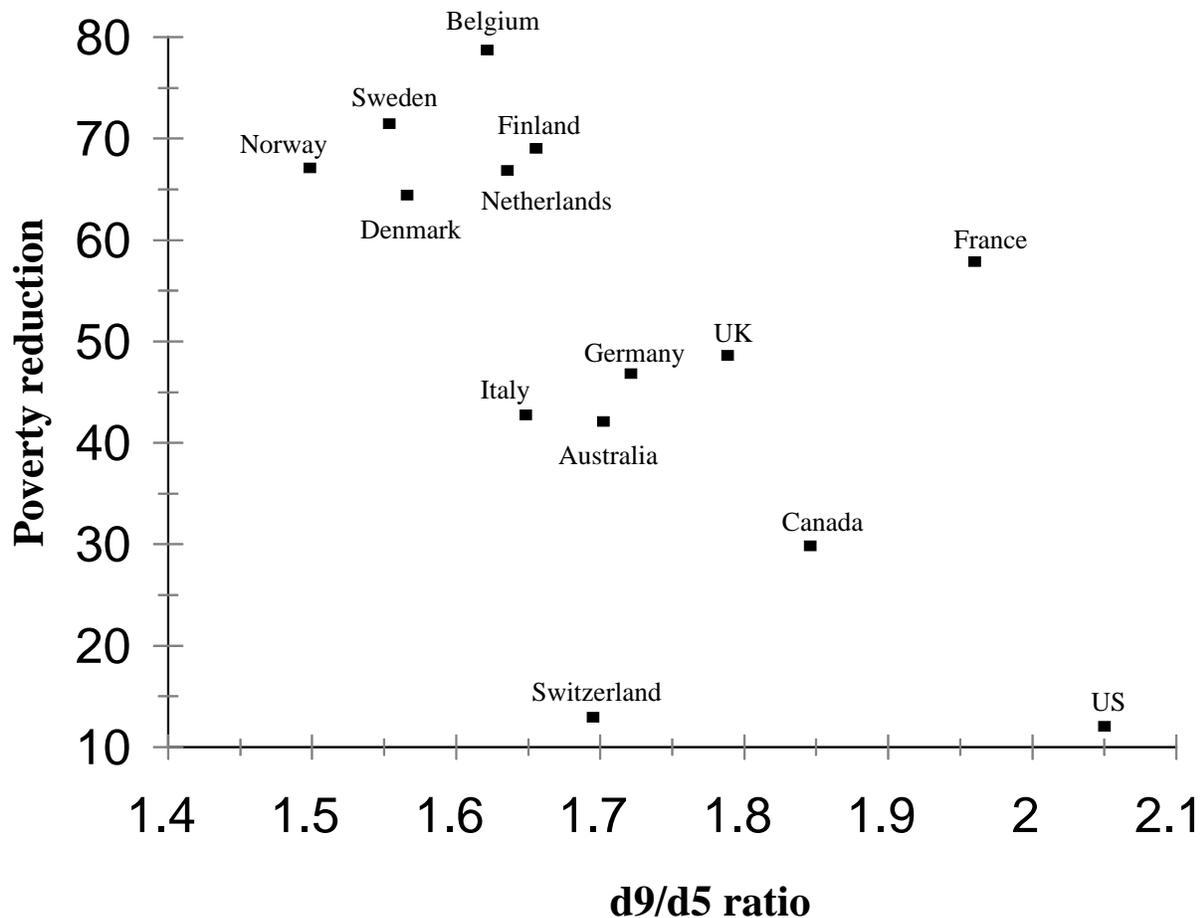


Figure 2: Comparative Literacy Data: The percentage of adults, 16 - 65, with poor literacy scores (bottom scale), and the percentage of adults with low education and high scores (top scale). 13 OECD countries, 1994-98.



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.

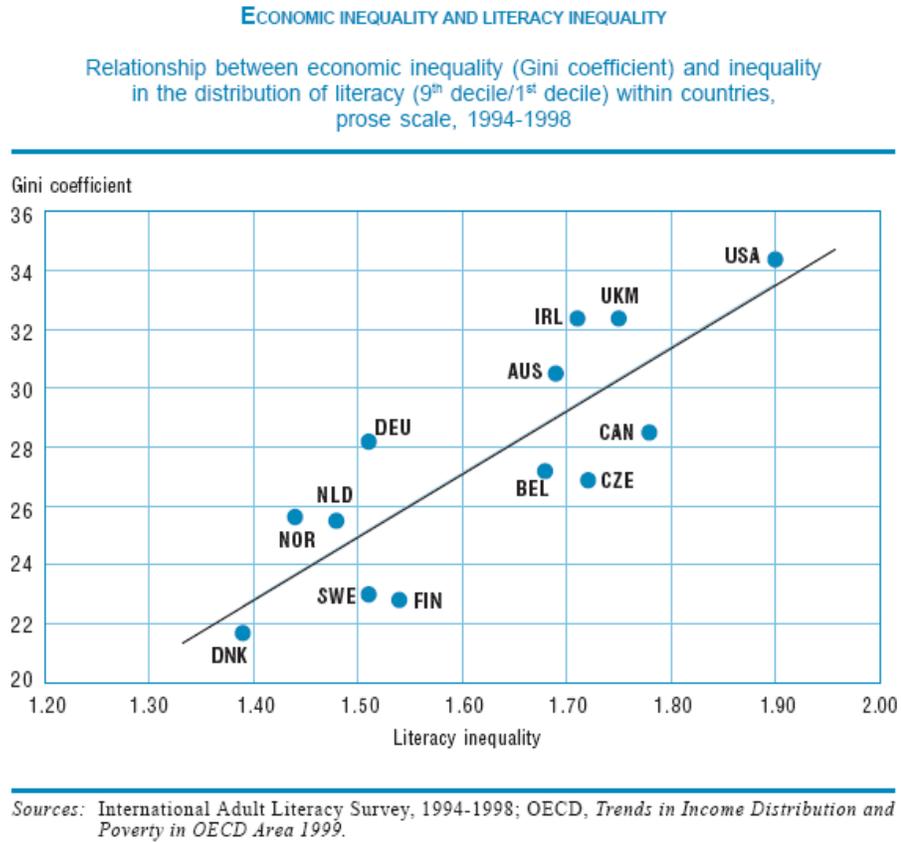
Figure 3: Inequality and Redistribution, Comparative Data, c 1970-1995



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 4: Plot of Income inequality and Literacy Inequality



Bibliography

Michael Cavadino and James Dignan, Penal Systems: a Comparative Approach, Sage Publications, 2006.

Thomas Cusack, Torben Iversen and David Soskice, "Specific Interests and the Origins of Electoral Systems", *American Political Science Review*, August 2007

Gosta Esping-Andersen, Three Worlds of Welfare Capitalism, Polity Press, 1990.

Margarita Estevez, Torben Iversen, David Soskice, "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State", in Peter Hall and David Soskice (eds) Varieties of Capitalism: the Institutional Foundations of Comparative Advantage, (OUP, 2001), pp 145-183.

Peter Gourevitch (2003) *Yale Law Journal*

Peter Hall and David Soskice, "Introduction", in Peter Hall and David Soskice (eds) Varieties of Capitalism: the Institutional Foundations of Comparative Advantage, (OUP, 2001), pp 1-68.

James Lingle, Diana Owen and Molly Sommer, "Divisive Nominating Mechanisms and Democratic Party Electoral Prospects", *Journal of Politics* 57(2): 370-383

Torben Iversen and David Soskice, "An Asset Theory of Social Preferences", *American Political Science Review*, December 2001.

Torben Iversen and David Soskice, "Electoral Institutions, Parties and the Politics of Class: Why Some Democracies Distribute More than Others", *American Political Science Review*, May 2006 .

Torben Iversen and David Soskice, "Distribution and Redistribution in Advanced Economies: the Shadow of the Nineteenth Century", ms 2007.

Bruce Western, Punishment and Inequality in America, Russell Sage Foundation, 2007.

Contribution to Lloyd Ulman's Festschrift: David Soskice, September 2007

Nicola Lacey, The Prisoners' Dilemma: Political Economy and Punishment in Contemporary Democracies. Cambridge University Press, 2008 forthcoming.

Chris Howell, Trade Unions and the State, Princeton University Press, 2005.

Richard Freeman, "Why Do So Many Young American Men Commit Crimes?", *Journal of Economic Perspectives*, 10 (1) Winter 1996, 25-42.