An Historical Overview of the Contrast Cases

Part III
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CHAPTER 5
INTRODUCTION TO THE HISTORICAL REVIEW

This Part presents the five countries that serve as the comparative contrasts to Ireland. In the next Part, Irish developments are discussed in the light of these experiences. While this Part provides all our material for comparison with Irish developments, we have chosen to postpone to Part IV any concrete comparative discussions involving Ireland. We are using Senghaas' three groups of explanatory factors (Table 4.3) as a framework for the comparison, with explicit reference to the periodisation presented in Chapter 4.4. As already indicated in Chapter 4, the contrast cases are all clear-cut cases of auto-centric development. Senghaas' table indicates the "values" of the variables favourable to such development. A comparison related to the dimensions of this table help us to clarify — in Part IV — whether Ireland is really closer to the "peripheral" type of development than any of the contrast cases.

This Part is divided into seven Chapters. Chapter 5 provides some quick and clearly incomplete notes on early history. Chapters 6, 7 and 8 discuss each of the three major groups of factors in Senghaas' scheme (Table 4.3). Senghaas' scheme is a list of factors with special relevance to the crucial periods in which a country embarks on an auto-centric trajectory. So far, Senghaas emphasises, no country has experienced a deterioration, from an auto-centric structure to a new position of peripheralisation. Although at some points in Chapters 7 and 8 we have used quite recent data, we do not use Senghaas' scheme to analyse the postwar period. In Chapter 9 rather, we provide a comparison of the economic policy models which emerged in each country during the Golden Postwar Age of the 1950s and 1960s. The approaches surveyed in Chapters 3.4 and 4.1 are more suited to deal with this period. These models developed in the interface between national legacies (from the earlier periods analysed in Chapters 6 to 8) and international restructuring (the constitution of U.S. hegemony in the Western world economy) in the late 1940s. In line with the main focus of our comparative analysis we are particularly interested in the institutional framework emerging in the Golden Age. In Part V, we shall provide up-to-date studies of the transformations of the industrial structures during the postwar period and into the troubled period of the 1970s and 1980s. Here we focus on what was dubbed the national innovation system in Chapter 4.1. The economic policies (and broader institutional changes) during that recent period, will also be analysed in Part V.

We shall first provide a brief overview of the early history of the contrast countries. We start with the European state system of the late mercantilist age of the 17th century. One of our five cases, Switzerland was a small, independent unit, internally quite fragmented. Another one was truly a great power: the Habsburg monarchy at that time encompassed not only Austria, but also the areas of present day Czechoslovakia, Hungary, parts of Poland, Romania and Yugoslavia. Two of our Nordic cases, Sweden and Denmark, were rivalling regional great powers of the North, and Finland was a territory within Sweden.
5.1 SWITZERLAND

The Swiss day of independence was August 1, 1291, when a pact was established between the three forest cantons, Uri, Schwyz and Unterwalden. The Confederation was gradually extended in conflicts with neighbouring powers in the 14th century. In the 15th century, there were numerous internal problems, but the Swiss won fame for their military skills. In 1513, 13 cantons were in the Confederation, and its independence was firmly established at the time of the reformation in the 16th century. In 1515, a treaty with France secured 100 years of peace, with access to French markets. The Swiss reformation started with Zwingli in Zurich in 1519, and soon the Confederation was divided between Protestants and Catholics. Switzerland was not involved in any international conflicts in the period 1531-1798. There was occasional fighting between Catholics and Protestants, but still, the Swiss context was tolerant and stable enough to allow a number of religious and political minorities (like the Huguepots) to settle, adding to the supply of capital, skills and entrepreneurship. This national experience is the background of Switzerland’s persistent emphasis on neutrality. Already the Confederation of 1291 took the form of interlocking military alliances, in which a third party would mediate if hostilities broke out. During the Reformation, the Swiss learned that internal disagreement would tempt foreign powers to invade the country. The Swiss practised this policy of neutrality through the Thirty Years war, and had it written into later international settlements (1648, 1815). Throughout this early period, Switzerland exported labour. In particular, Swiss mercenaries fought on different sides in the struggles between European great powers. Catholics supported the Habsburgs and after 1693, France in the War of Spanish Succession. Protestants first supported France, but after 1693 the Dutch and the British against France.

The independence of the Confederation was recognised by the great powers in the Peace of Westphalia in 1648. But governance of the country was virtually completely decentralised in the 17th and 18th centuries. Geneva was actually not part of the Confederation, but still influenced it strongly, and was regarded by the outside world as part of the Confederation. In the mid 16th century, John Calvin made the city a Protestant stronghold, as a combined political and religious leader. Until the end of the 18th century, Geneva supported the Protestants. The 18th century Enlightenment was also very strong in Switzerland: Rousseau was a native of Geneva. Voltaire lived there after 1755.

5.2 SWEDEN, DENMARK AND FINLAND

The Nordic-Teutonic people had inhabited the Nordic areas since ancient times, sharing the same language. In the Viking age (800-1000 AD), there were occasional attempts at forming a united kingdom, but the structure remained one of petty kingdoms. Vikings settled Iceland, the Faroe Islands and Greenland (ca. 900 AD). Another ethnic group, with a different language, settled the Finnish area (100 AD), but later Swedes settled there also. Finland became a region within Sweden, but with its own language. In 1389, the Danish Queen became ruler of the Swedish-Finnish area also. This Kalmar union broke up in 1523, followed by numerous Nordic wars.

The mid 17th century was a period of economic decline. At the same time, there were major changes in the technologies of war: gunpowder, cannons, armed military vessels, and standing armies of conscripted peasants and/or mercenaries — all such costly arrangements squeezed the state budgets. As we shall see in Part IV, England at this time pursued its policy of anglicisation and plantation in Ireland, partly due to the strategic importance of this area. And it was at this same time that Swiss mercenaries were involved in many of the European wars.

In the Nordic setting, the landed aristocracies proved badly qualified for fighting war under the new conditions. They also had tax exemption, so they did not solve the financial problems of the state. There had been a certain concentration of their feudal estates throughout the first half of the 17th century. The Kings, allied with bureaucrats, the military and the clergy, thus introduced absolutism in Denmark and Sweden throughout the second half of the 17th century, in an attempt to counter the offensive of the landed aristocracy.

However, this parallel emergence of absolutist states was based on different socio-economic foundations. Both the relations of production in agriculture and the position of the urban bourgeoisie differed. Sweden had a large share of small, but relatively autonomous farmers. Some were owner-occupiers, others leased land from the King. Large parts of Swedish agriculture consisted of subsistence activities. Thus, the landed aristocracy was much weaker in Sweden than in Denmark. In Denmark, the bulk of the peasants were subjected to various kinds of feudal ties. But Danish agriculture produced a surplus, and this made it an important export sector. Thus, trade was more developed in Denmark, its towns and merchant capital flourished. Apart from the west coast, the Swedish coastline was on the Baltic sea. Both the geographical position of Sweden and Finland, as well as the nature of the agrarian structure, explain the weakness of towns and merchant capital in that area.

Sweden possesses large deposits of raw materials, especially of iron ore (particularly in the North of the country). Swedish mining was important in its economic structure ever since the formation of a Swedish state in the 13th century.

Swedish absolutism developed as an “agrarian bureaucracy”. Its tax base was weak (subsistence agriculture and weak towns), and the absolutist bureaucracy could not be financed by monetary taxes. Bureaucrats and military leaders in a new state-based bureaucracy crowded out the old landed aristocracy. The new bureaucracy did not enjoy favourable wages, but was financed by various types of indirect taxes, be it the return on their own land or a rent on the tenants who tilled state land. The new Swedish bureaucracy became intertwined with the richest farmers. In the long term, this influenced the nature of Swedish and Finnish conservatism, which always relied on both urban and rural elites. This may also be one of the reasons why Swedish industrialisation started rather late. Swedish farmers were split in different strata with different kinds of privileges. The absence of a homogenous peasant mobilisation may help to explain the rather late arrival of parliamentarism and democratisation of the suffrage in Sweden.

In contrast to Sweden, the Danish absolutist system implied a full transition to money taxes. The landed aristocracy lost its tax-immunity, but they were still quite strong...
5.3 AUSTRIA

While Switzerland was a small federation among large, powerful neighbours, Austria has its background in one of the three ultraconservative European great powers: Austria-Hungary, which together with Russia and Prussia formed the "Holy Alliance" in the era after the Napoleonic wars. With a population of 51 million and a surface of 677,000 square km, it was the second largest state in Europe. But the large multi-ethnic empire was in a long term process of decline, starting from the revolutionary decade of the 1840s. At the same time, Prussia consolidated the powerful German Empire. Pressure for democratisation mounted during the reign of Franz Josef (1848-1916).

The survey of early historical developments above is a rough sketch only, drawing mainly on the research tradition inspired by Stein Rokkan. The comparative points concerning Sweden and Denmark indicate how contrasts may further our understanding of the processes of nation building and the formation of modern parliamentary party systems. The processes of political mobilisation and nation building were also influenced by the nationalist revolutions (the French and American ones) of the late 18th century. According to Rokkan, the political economic and geopolitical "start variables" must be traced in the absolutist period, but in addition, we need to study the processes of industrialisation in the 19th century, the topic of our next chapter. In this we shall be more specific than Rokkan.
ores. These sectors later became the basis of the strong Swedish manufacturing industry. Denmark, and Sweden in one period, experienced increasing demand for their agricultural produce. Denmark lacked its own supply of most industrial raw materials.

Aggregate growth was comparatively strong in the 1870-1914 period. In all countries, linkages influenced the growth of the manufacturing sector. These linkages turned out to be most widespread in Sweden. In Sweden, especially after 1890, manufacturing industry emerged as the main force in economic growth.

In Denmark, industrial development was closely related to agricultural modernisation. Agriculture created Danish industry and influenced its structure. Industrial development was a dependent variable, an aspect of the broader economic development in Denmark. But industrialisation fed back, giving rise to a rapid growth of agricultural productivity (1870-1910).

Finnish industry was the most backward in the Nordic setting, and thus, very vulnerable to foreign competition. But regional patterns were very important. During its time as a Grand Duchy within Russia (1809-1917), infant Finnish industries exported textiles, iron and paper eastward. Among our contrast case countries, Austria is the only other country with an important component of eastward exports (which is quite understandable, given its earlier dual monarchy with Hungary). There was very little structural change in Finnish industry before World War I. Jarberg notes that this was probably because the agrarian population was still increasing. Thus industry could get labour without rising wages. Overseas emigration did not really develop before the 1890s (see Table 4.5), but before that there was much migration of Finnish workers to Sweden. Sweden (and Norway) experienced pressure for higher wages.

Summarising the “growth poles” (or leading sectors) in the last quarters of the 19th century, Jarberg mentioned agricultural development in Denmark, industry in Sweden, and timber products in Finland. In the 1890s, business cycles began to coincide, and all Nordic countries experienced a large increase in GNP and investment. In 1890-1910, Sweden developed particularly fast, catching up with the per capita income levels of Denmark and Norway.

In the following section, we shall look more closely at each of the contrast countries.

6.1 SWITZERLAND

Switzerland had few raw materials, no primary energy (except water power), a rather poor agriculture, and difficult communications. But there were also advantages: a good seasonal supply of labour, and an important position on the trade routes between northern and southern Europe. Already in the 16th century, the country’s food deficit was financed by means of specialised textile products and watches, products which initially required only a small capital stock and which could be transported cheaply. Also the tertiary sector was important: mercenaries, transit trade, later financial services and tourism. The guilds regulated urban craft activities, so industrialisation was located in rural areas until the late 18th century, in the form of putting out and cottage industry. Such a decentralised structure has remained throughout the 20th century.

In the late 18th century, Switzerland experienced an economic miracle. Industries based on wool, cotton, linen and silk goods flourished in Zürich, St. Gallen and Basel. Geneva won international fame for its clocks. Incomes from these activities trickled down quite broadly. “Before 1780, Switzerland was the most advanced textile producer on the Continent — England was scarcely ahead of her — and the world’s largest exporter of cotton products.”

Due to the technological breakthroughs (cf. Chapter 4.4.2 above) within cotton spinning in England during the first industrial revolution (1764-1779), Swiss cottage industry was exposed to “peripheralisation pressure”. Cheap English yarn squeezed the hand-made yarn of the Swiss textile industries. A switch into woollens or linen was not possible, since these were largely replaced by cotton. In the late 18th century, the Swiss tried to construct their own machines, but failed. Technology transfer was attempted, although that was a problem in the period of a British ban on machinery exports, and of wars and blockade. Various forms of industrial espionage were attempted. First, spinning was given up and yarn was imported so that the Swiss could concentrate on weaving. Starting in 1801, spinning was attempted with imported British spinning machines.

The living conditions of large sections of the population deteriorated, bringing mass poverty. Mechanisation of weaving in the 1830s and 1840s made things worse, and emigration gained pace. But the competitive pressure worked only gradually. Violent conflicts were rare. In this period regression to a pure agrarian society seemed a possibility. But the population was limited and land was scarce, so it was necessary to keep on as an exporting country.

Referring back to Table 4.7, we see that the spectacular development of Swiss manufacturing industry clearly corresponds to the four long waves. Switzerland entered the first industrial revolution with a flourishing proto-industry in textiles and watches, and had a long tradition in trade. During the first half of the 19th century there were very difficult adjustments, but textiles survived, producing more sophisticated products. The adjustment crisis was visible already in the 1830s. Many textile producers changed to machine making, textile production went into dyes, weaving, embroidery and lace-making, all mechanised activities. After 1830, imports of yarn declined. The Swiss strategy involved an acceptance of the country’s openness and a search for niches that were not filled by the exports of the stronger competitors. “Switzerland ceded to England the market for mass produced textiles and specialised in fine cloth and embroidery, improved the designs of printed cloth and adapted to the tastes of Arabian, Asian and African customers.” Discussing demand conditions, Porter notes that a “surprisingly large” number of Swiss industries developed from the textile industry. A small home market pushed the industry towards niches and a selective factor disadvantage like high wages made Swiss producers focus on high-price market segments (fine apparel, undergarments, lace, woven silk fabrics, fine yarns).
From 1850, there were backward linkages from textiles to textile machinery and power-supply machinery. Switzerland lacked pit-coal, so instead they improved techniques of water power machinery, and here linkages (turbines) developed. Tunnelling technology became another Swiss speciality, obviously connected to its geographical peculiarity as a mountainous transit trade area.

A financial sector developed following the first surge of industrialisation, mainly doing foreign business. This sector was clearly related to the long transit trade tradition, as well as to Switzerland's domestic stability and neutrality. A railway system was constructed in 1852-64, and transport costs declined. Switzerland benefited from the European episode of free trade in the 1850s and 1860s, as did all our contrast countries, but not Ireland.

Buccich notes that while mechanisation was one aspect of the industrial revolution, two other aspects are not visible in Switzerland, namely the concentration of labour in factories, and the development of a labour/capital cleavage. Firms remained medium/small sized. 18 “Switzerland seemed at that time already to have evolved a perfect synchronisation in the rhythm of development.” 19 A new surge of industrialisation followed in the 1870s and 1880s, focusing on chemical and electrical industries.

**FIGURE 6.1**

*Swiss Complexes and Long Cycles*

![Diagram showing Swiss complexes and long cycles](image)

*Note: Periodisation according to Table 4.7.*

As for the new challenge of the late 19th century, linkages eventually extended also from the development of an electrical industry. One such produced chemicals (dyes, bleaching materials) necessary for the textile industry. In the watch sector, there was a specialisation in luxury watches. The early linkages between chemicals and textiles (especially dying) were further cultivated so that a whole chemical industry developed. 20 The pharmaceutical industry developed from synthetic dyes by means of an accident in which the therapeutic effects of dyes were discovered. Switzerland since then developed products such as herbicides, insecticides, pesticides, flavourings, fragrances. The chemical block also included a strong health complex, producing medicines and drugs. Here, Switzerland’s closeness to Germany, which was at that time becoming a world leader in chemical production, was quite crucial. Silk production also developed. The watch industry involved linkages towards precision mechanics.

In this period, trade activity spread to encompass modern financing activity also. In the fourth long wave, finally, precision machinery emerged as a spin off specialisation from the watch-making industry. This is illustrated in Figure 6.1. 21

### 6.2 AUSTRIA

Our contrast cases are chosen because they are all small, open economies in the 20th century. In the 19th century, however, Austria was a large and relatively closed economy, with a complicated division of labour within the empire. Changing borders complicate the analysis. In 1867 the Austrian empire was transformed into the dual monarchy (Austria-Hungary, lasting until 1918). The two areas were relatively autonomous. Industry developed mainly in the western areas of the empire, that is in present-day Austria (and Czechoslovakia). In Austria, industrialisation started early, but proceeded quite slowly and it is hard to trace one leading sector. Only after the Versailles Treaty at the close of World War I did Austria became a small country with a population of about the same size as Sweden (ca. 6 million).

The region which is today Austria possesses many natural resources: large deposits of salt, magnesite, iron ore, brown coal, and considerable amounts also of bituminous coal, graphite, lead, zinc, copper. There are also oil and natural gas fields, and rivers and lakes which can be used to generate water power. The Danube is navigable, and in the 20th century it has been important for bulk cargo (coal, coke, iron ore, steel, oil, and grains).

Within the dual monarchy, there was a regional specialisation: industry in Böhmen and in the Austrian areas just mentioned, corn in Hungary and oil in Galizia. Given this division of labour, the area as such was relatively autarchic. Mengel and Senghaas claim that the massive railway construction (after 1850) had few linkage effects. 22

During the continental blockade, there was a first surge of mechanisation of the textile industry, leading on to the first wave of industrialisation between 1830 and 1846/7. This was earlier than in the Nordic countries, probably due to the fact that
early Austrian textiles developed in the Vorarlberg region, bordering on Switzerland. It can thus be regarded as a spin-off from the Swiss industry across the border. Besides, this industrial centre, two other early 19th-century core industrial areas are mentioned: around Vienna, where there was a number of manufacturers producing consumer goods; and around other early 18th-century core industrial areas producing consumer goods: like cotton, printed textiles, paper, metal products, raw sugar and cornmeal. Eventually, these produced products were exported to the mines. This was as large as that of England in the late 15th century.

As for the second half of the 19th century, the size of firms increased and the limited competition between banks and industrial firms became evident. This was the case in six years: 1867-73. 70 banks were formed in Vienna, and there were close connections between banks and industrial firms.

6.3 SWEDEN

There were great pressures on Sweden's old agrarian system in the period 1810-25. Population growth was large. Some of these problems were resolved as productivity was raised by the introduction of a new crop, the potato, although the potato never

There were three spurts of industrialisation in Sweden, roughly speaking. The 1850s and 1880s, the 1870s, and the 1890s. In the 1850-80 period, production by British ironworks was relevantly higher in Sweden, particularly in the 1870s and 1880s. In the 1880-1890 period, production by Swedish ironworks was relevantly higher in Sweden. In the 1880s, competitive pressure on iron and iron production was relevantly higher in Sweden.

Generally, Swedish industrial development was responsive to external pressure, both competitive and non-competitive. The latter included investments in new industries and new technologies, which were relatively scarce in Sweden. The former included the production of goods that were not produced in Sweden, such as iron and steel, and the production of goods that were produced in Sweden, such as textiles and clothing. The latter included investments in new industries and new technologies, which were relatively scarce in Sweden. The former included the production of goods that were not produced in Sweden, such as iron and steel, and the production of goods that were produced in Sweden, such as textiles and clothing.
In the other Nordic cases, development blocks were related to staple products. In the Swedish case, however, the manufacturing industry became a development block on its own, relatively autonomously. This feature is probably unique in the Nordic setting. Exklä and Lundqvist claim that "the strong manufacturing sector, as a whole, less strongly rooted in the rest of the economy, has meant that the manufacturing sector has developed independent of the rest of the economy, leading to a more fragmented and less integrated economy." 48

Until the mid-19th century, the Swedish economy was dominated by agriculture. However, the introduction of new technologies and the expansion of the manufacturing sector led to a shift in the economy. The manufacturing sector became more important, especially in the production of textiles, metal goods, and machinery. The growth of the manufacturing sector is often seen as a driving force behind the industrialisation of Sweden.

In the late 19th century, Sweden experienced rapid industrialisation, driven by the growth of the textile, metal, and machinery industries. The manufacturing sector became more important, and the country became a major exporter of manufactured goods. This period is often referred to as the "Golden Age of Swedish Industry." The growth of the manufacturing sector was supported by the availability of natural resources, such as iron ore and timber, and by the expansion of the railway network, which facilitated the transportation of goods.

The share of manufactured goods in total exports increased significantly during this period, with textiles and iron being the main exports. The growth of the manufacturing sector also led to an increase in employment, with many people moving from rural areas to the cities to work in the factories. This period is often seen as a turning point in Swedish history, marking the transition from an agricultural to an industrial economy.
agricultural employees. From 1880, the agrarian share of the labour force declined and from 1900, the number of independent farmers decreased. Owner-occupier farmers remained, although their farms became smaller. Some of the very mobile rural workers remained, but most of the property-less agrarian workers emigrated, together with daughters and younger sons of farmers. The result was a squeeze on the supply of labour power: real wages increased, even in the low-wage regions. Wages were lowest in the South-east. Here estate owners tried to escape the squeeze by importing seasonal workers from Eastern Europe. But this could not halt the secular increase of real wages, and at the turn of the century agricultural workers formed unions.30

As Table 4.5 shows, Swedish emigration peaked in the 1881-90 and 1901-10 period. A number of social reformers from academic circles and the labour movement argued that the exit emigration reflected discontent and that the outflow could be stemmed by reform, for instance better housing and redistribution of land.51

After the turn of the century, another group also spoke out against emigration. Conservative politicians and industrial entrepreneurs were concerned with the rising wage levels. They interpreted emigration as a sign of indifference and antagonism to discipline on the part of the working masses. They opposed social reform, but wanted a “strengthening” of Sweden by re-migration of Swedes, bringing back the “energy of America”.52 These groups also agitated in the U.S., demanded a Swedish-American shipping line to bring emigrants back, and in 1907 founded the “National Society Against Emigration”.53 The same year, a large investigation of emigration was launched, producing twenty topical reports and a volume of conclusions. The organiser of this study, Gustav Sundbårg, blamed the late development of Sweden both with respect to railway construction and universal suffrage, and argued that the key to lower emigration was that Sweden should “not be behind, neither in economic activity, nor in the reform of society”.54 It has been concluded from this that “Sweden did indeed use emigration effectively as a weapon in the fight for planned social change.”55

The halting of emigration was not only a consequence of internal factors, since from World War I and onwards, emigration to the U.S. became increasingly difficult, and the wage gap diminished. But (in comparison to Ireland), the interaction between two domestic features seems decisive: the first one was the development of a block of engineering industries with a strong demand for labour in the decades before World War I. This factor has already been discussed. The second factor was the emergence of the Swedish union and labour movement as a collective actor. This implied that “voice” rather than “exit” became an option for the Swedish working masses. This second factor will be further discussed in Chapter 8 below.

6.4 DENMARK

In Denmark, railway construction was related to the development of agrarian exports. Efficient transport was needed to handle perishables.56 Railways were constructed from the 1860s onwards. There were no Danish exports of industrial products before the 1890s. Industrialisation mainly occurred in the Copenhagen area at least up to 1872.57 “Industrial growth depended on income growth within Denmark and its expansion was due either to fresh demand or to important substitutes. Changes in Danish income growth, on the other hand, were to a considerable extent dependent upon agricultural export capacity. Thus it is possible to see Denmark’s industrialisation as deriving from that country’s relations with Britain, her greatest outlet for agricultural products. The British market determined income growth for her agriculture, and her agriculture’s demand for industrial goods determined the country’s industrial structure.”58 In this respect, Denmark is unique in the Nordic setting. Its industrialisation was based on consumer goods.

There was an agricultural export boom in the 1850s and 1860s. The loss of Schleswig/Holstein in the 1860s stimulated industrial growth, as Denmark was cut off from the competition of these industrially advanced areas. The interest rate was low, and there were even some capital exports.59 In the period 1850-70, six firms were incorporated; in 1872 alone, 16 firms and in 1873-75, 69 firms. Jorberg describes this as import substitution industrialisation with a strong craft element, with little mechanisation, and with many women and children employed.

The most important sectors in terms of manufacturing employment were clothing, gloves, and tobacco. Other firms were brick makers, mills, breweries, fertiliser plants and sugar refineries. Brick making and other construction materials reflected construction activities, and also the availability of limestone (one of the few natural resources). Cotton spinning industries had difficulties because of low customs barriers. They developed only in the 1890s. But cotton-weaving existed. It had earlier been run as a putting out system until the 1850s. By 1880 it had become highly mechanised. The only capital-intensive firms which existed were iron foundries and engineering firms. Before 1897, statistics made it impossible to distinguish between industry and crafts. Only 73,000 workers were in industry proper. By 1914, the number had grown to 108,000.60 Capitalisation increased, indicated by an increasing number of horsepower per industrial worker. Import substitution increased. According to one calculation, just before World War I, 70 percent of all industrial products consumed in Denmark were manufactured in the country.61 Imports were increasingly agricultural products needed as fodder and other inputs, as well as industry’s demand for raw materials. Denmark’s industry was a function of her general economic development, especially agriculture. The persistence of craft products also indicates the home market orientation. Industrial development was “derived”, not a “positive force”.62

The milk separator was invented in the late 1870s.63 In 1880 there were no co-operative dairies in Denmark, while in 1890, there were 679, and in 1913 more than 1100. “One factor strongly promoting the growth of co-operatives was the smaller farmers’ fear of exploitation by their larger colleagues who, having more capital, were able to purchase separators. In addition to the co-operative dairies and slaughterhouses, the farmers set up co-operative societies to purchase raw materials necessary to their own production and to market their finished products, and formed export associations, etc.”64 The co-operatives standardised their products. They also
For her arts and iron paper. Since, from 1819 to 1839, Russia's, e.g., for her exports almost abolished between the two countries, some portions of the trade barriers were inputs into the slaughtering network; skimmed milk was used in pork, meat, and milk.
continued, however, but subject to quotas. Forest exports secured necessary imports and a positive foreign balance. Finnish railway construction was of course connected to the transportation of timber and forest products for export.  

According to Jorberg, the potential of the home market improved, and a strategy of import substitution was possible in the 1890s. In this period, growth was connected to sawmills and the pulp industry. The share of timber plus paper and pulp of the export value had been 47 percent in the 1870s, and was up to 70 percent in 1910-14. The export structure in 1910/14 was 51.7 percent timber products, 19.2 percent paper and pulp, 17 percent agrarian products, and others: 12.2 percent. The 1905 structure of Finnish industry as percentages of total employment was: Metals/engineering: 18.3; timber: 23.7; sawmills: 20; textiles: 11; pulp/paper: 9.2; chemical: 2.7; stone, clay and glass: 9; food/beverages: 10.7; leather: 3.5; others: 12 percent. 

The 1860s were the starting point of a dynamic Finnish development based on timber exports. This development disturbed the stable pre-capitalist social setting of the Finnish peasant society. From 1860 to 1900 timber prices rose three or four times as fast as consumer prices and land prices increased at about the same rates. Between 1860 and 1913 the gross domestic product of Finland increased fivefold, the share of industry and construction in GNP increased from 13 to 25 per cent and the share of the primary sector fell from 65 to 47 per cent. The share of exports in this process was 20-25 per cent of the GDP from the 1890s on, and the share of forest based products was 69 per cent of total exports at the turn of the century. All through this period, Finland's industrial development was "extremely dependent on export developments". The multiplier effect of export industries explains domestic expansion. 

Up to 1900, Finland had sold her own low quality iron to Russia, and imported what was needed of better quality iron. But after 1900, Russia out-competed Finnish iron, even in Finland. Finland, however, had started to develop its own engineering industry as a backward linkage in relation to the sawmill industry and the roundwood mill industry during the strong business cycle upturn of 1895-1900. Earlier, such equipment had been imported from Germany, Sweden and even Norway. As raw iron production declined, metal engineering grew. 

The composition of the forest based exports changed towards an increasing share of pulp and paper production until the export value of paper-products surpassed the value of mechanical wood industry products in the interwar period. Finland's early adoption of pulp and paper production was furthered by its location close to Germany and Sweden, the two centres of invention within these industries. 

Early cartelisation and concentration within Finnish industry facilitated the adoption of new and costly technologies connected to the more technologically advanced pulp and paper industry. At the beginning of the 20th century, however, the big companies with interests in timber resources, the sawmill industry, pulp and paper industry, energy production and the engineering industry controlled entry into the Finnish forest industry. During World War One the imports of vital inputs for this industry — chemicals and machinery, especially from Germany — were closed off. The industry was forced to substitute these missing inputs. The pulp and paper industry created a number of special offices to provide for domestic machinery and supplies, and erected a central laboratory for the study of efficient pulping methods. Young Finns were educated for the leading engineering functions within the industry. Thus the backward linkages were consolidated also within the most advanced industries. 

Finland's position within the Russian empire (as one of the few peripheries that were more advanced than the mother country) furthered industrialisation. Between 1900 and 1909 exports to Russia were 28 per cent of total exports and 73 per cent of non-forest-industry exports. These exports were of primary importance for the early phases of the metal and textile industry along with paper-making. These industries had closer linkages with other industries than did sawmilling. Thus, Finland took advantage of its position between the Russian empire and Western Europe, exporting typical primary products to the advanced West and industrial products to the backward empire. Ireland, on the other hand, was subjected to a far more industrially advanced empire that reinforced her staple trap: the competition from the English textile industry hampered the industrial growth of Ireland and caused severe dislocation within the Irish countryside by increasing the dependence on agricultural production. 

As for agriculture, there was a specialisation in butter for export after 1850. Butter was between 8 and 18 percent of total Finnish exports. In fact Denmark imported and re-exported Finnish butter. The cooperative movement grew in the early 20th century, and cooperative dairies in 1909 were responsible for 80 percent of Finland's butter output. The cooperative movement stimulated the transformation from arable to dairy farming. In 1905, farmers set up an export organisation also. Here a virtuous circle related to the home market is visible: "The steadily increasing timber exports led to a rise in the value of the forests, earlier regarded as more or less worthless. And since the forestry companies owned a smaller share of the acreage than they did, for instance, in Sweden, the peasants were the chief beneficiaries," Agricultural change was to a large extent financed by incomes from the forests. The home industry grew as a result of increased market dependence within the peasantry. 

In the late 19th century, the demographic check mechanisms of the old peasant society disappeared. The timber boom benefited the lower strata within the peasant society economically by providing wage labour within forestry and its related activities. But the upper stratum of the peasant society, the freeholding peasantry, was the main beneficiary of this development. The new market-oriented relations between freeholding peasants and their workers increased the class differences within the peasant society. The numerical proportions between the three main classes of the peasant society — freeholders, crofters, and agricultural workers — changed from 39/32/29 (percentages) in 1870 to 35/17/48 in 1901 (cf. Table 11.9). The proportion of the landowning population grew much more slowly than did the number of agricultural workers, and the crofter population (including tenant farmers) was falling, even in absolute numbers. The crofters were small leaseholders who
obtained their main livelihood from farming. This class declined as the freeholders, stimulated by the market opportunities of commercial farming, started to evict crofters and add their plots to the main farm. Thus, the landless agricultural workers were to a large extent recruited among the crofters.

These large groups of daily hand workers in agriculture became a reservoir for urban industry. But many also tried to get cheap property to become independent farmers. Thus, new soil was broken in this period. Backwoodsmen and unpropertied labourers tried to break soil, rather than choosing an exit option. This was a major precondition of the 1918 Finnish civil war.

### 6.6 SUMMARY OF EARLY INDUSTRIALISATION

From the late 19th century comparable data on shares of the workforce in different sectors are available. In Part IV, we refer to calculations of the Irish industrial labour force at about 100,000 in 1922. According to comparative figures published by Flora et al., that was about 10.2 percent of the labour force. It had probably been declining since the 1880s. It may have been comparable to the share of Norway or Denmark in the 1880s-1890s. Table 6.2 indicates that none of the Scandinavian countries, nor Austria, experienced any decline in manufacturing employment in the period 1880-1920. It also shows the “latecomer” status of Sweden, but its massive industrial expansion in the late 19th century brought it much higher than Ireland in the 1920s. The table also shows the permanently very high share of Swiss employment in manufacturing industries. The general impression is that all the contrast countries developed infant industries which benefited from the liberalisation of the 1850s and 1860s. Their industrial revolutions were concentrated in the second half of the 19th century. Among the contrast cases, only one country had a flourishing proto-industry like Ireland, but Switzerland did not at all experience a deindustrialisation process. As is clear from the table, Switzerland maintained the highest share of workers in manufacturing industry among the countries selected. If the data of Table 6.2 can be trusted, only Finland was at a level of backwardness comparable to Ireland’s at the turn of the century.

Referring back to Table 4.3, the next two Chapters survey socio-economic factors and political and social mobilisation, respectively.
CHAPTER 7
SOCIO-ECONOMIC FACTORS

Discussing the various factors proposed by Senghas for all our five contrast cases would require a large scale project. We have neither the time nor the resources to treat each of the factors in great comparative detail. What follows often relies on quite episodic evidence.

7.1 AGRARIAN PROPERTY

As noted in Part II, the distribution of land holdings is Senghaas’ favoured prerequisite of auto-centric development.

With regard to Switzerland, Bucchi notes a “perfect balance” between town and country. The industrial revolution “did not cause any great social problems or upheavals, because the perfect balance between town and country and the distribution of wealth among wide middle sectors of the population corrected and even attenuated, during the period 1800-1830, that ‘proletarisation’ (the exclusive dependence of two-thirds of the rural population on industry) that the eighteenth-century ‘patriot economists’ had censured.”

The increased competition radiating from British machinery in the early 19th century implied a return to agriculture. But agriculture was innovation oriented: the return to the land in the early 19th century “also afforded the impetus for agrarian reforms, for abolishing the remaining restrictions on land tenure, and providing incentives for livestock-rearing — in short, for the decisive revival of a branch of the economy that eighteenth-century prosperity, forgetful of physiocratic teaching, had come to neglect. (...) The balance, both economic and political, between town and country, and the distribution of functions and activities between them which had been in practice for more than two centuries, had given Switzerland an economic structure both free and expanding and at the same time stable, socially developed, and untouched by the ferment of social or political revolution. The return to the land as a subsidiary source of income and subsistence, together with the decentralisation and specialisation of industry which served to maintain and strengthen the industrial middle class, excluded the development of an industrial proletariat in Switzerland.”

Bucchi also emphasizes the connections between growth of rural incomes and the creation of a domestic market: “A good part of the wages of the numerous industrial population was reinvested in rural property (small houses and farms) throughout the country.” Together with decentralisation, this feature is “the key to a seeming paradox in Swiss economic policy, its strongly agrarian trend despite the prevalence of industry and commerce.”

In Austria, enlightened absolutism between 1740 and 1790 (“Josephinismus”), wrought a number of institutional changes within a setting of mercantilist economic
policies: feudal regulations and internal tariffs were abolished, a number of regulations on peasants and entrepreneurship were lifted. As for agrarian reforms, they favoured commercialisation and modernisation.\(^\text{32}\) In the dual monarchy, the agrarian structures were probably quite different between the two main parts, with many large estates in Hungary. But with the breakdown of the monarchy, Austria was left with its own, more egalitarian agrarian structure.

According to Senghaas the social structures of Scandinavian agriculture spurred "growth with equity".\(^\text{33}\) Egalitarian and modernised agrarian structures (freeholding peasantry, early enclosures, limited large scale landed property) ensured that large proportions of the agrarian based staple export incomes were evenly spread among the freeholding peasants within forestry, fishery and agriculture proper. These agricultural export incomes were spent on agricultural modernisation and increased consumption. The domestic market was extended and new home market-oriented industries emerged. Some of these industries also developed into new export industries that reduced the dependence of these countries on single staple products.

A possible objection to Senghaas is that he generalises from the Danish case. As we have seen in Chapter 6.3, only in Denmark was agriculture really decisive for economic transformation. In Sweden, that sector was temporarily important, while agriculture was not very important in Norway or Finland. In the latter three countries, however, we must remember that the distribution of other natural resources (e.g. ore, forests), was of additional importance. The crucial feature for Senghaas is the creation of an expanding domestic market. Data on the early 20th century pattern of agrarian holdings in Denmark and Ireland is provided and analysed in connection with Table 11.3 below. Judging from these data, it seems that Ireland’s distribution of agrarian holdings after the late 19th century reforms did not differ much from that of the two others.\(^\text{94}\) This leads us to conclude that the distribution of land holdings as such is not as crucial as Senghaas sometimes tends to claim.\(^\text{95}\) But we can easily modify his argument by emphasising the above-mentioned incomes from the additional export activities.

Based on these very preliminary notes, we can only conclude that the agrarian sectors of all our case countries were not marked by glaring inequalities. There was nothing like Latin American latifundias, which tend to be Senghaas’ main comparative contrast. The fact that farmers successfully mobilised in the political sphere is indirect evidence pointing in the same direction. This will be discussed below. The fact that this is not a marked contrast to Ireland will be discussed in Part IV.

### 7.2 INCOME DISTRIBUTION

Even today, strictly comparable data on income distribution patterns are hard to come by, and difficult to interpret. Quantitative historical investigations are of course even more complicated to carry out, and we have found nothing to rely on in this respect.\(^\text{96}\) As a second best option, we shall look briefly at the contemporary situation.

A standard measure of inequalities of personal income is the Gini index. In Senghaas’ analysis, this variable is strongly emphasised, but neither Senghaas nor Menzel have attempted to carry through a quantitative historical analysis. For their historical analysis, they rely, as we shall do, on indirect evidence. In fact, most of this evidence relates to social and political mobilisation, and will accordingly be presented in Chapter 8.

The data compilation by Flora and collaborators provides postwar data on income inequalities in all our contrast countries. A selection is provided in Table 7.1. Due to Ireland’s old-fashioned tax system in the period covered, Irish data, however, are not provided.\(^\text{97}\) A more recent study analyses the contemporary Irish distribution of income in a comparative perspective, but among our case countries only Sweden is included in that study.\(^\text{98}\) Some results from this analysis have, however, been added in Table 7.1.

<table>
<thead>
<tr>
<th>TABLE 7.1</th>
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<tr>
<td><strong>Distribution of Personal Income Before Tax, Postwar Period</strong></td>
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<tr>
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<td>SWEDEN</td>
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<td>FINLAND</td>
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<td>NORWAY</td>
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<tr>
<td>SWITZERLAND</td>
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<tr>
<td>AUSTRIA</td>
</tr>
<tr>
<td>DENMARK</td>
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<tr>
<td>IRELAND</td>
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</tbody>
</table>


If the data are taken at face value, the case of Denmark clearly does not confirm our expectations: the table tells us that inequalities have grown there between the early 1950s and the mid-1970s. Apart from this, the table confirms our educated guesses: Sweden is the most egalitarian case in the mid-1970s (but it seems anomalous that Austria should rank highest in the 1950s). In Sweden, Finland and Norway,
inequalities have decreased, and so has the relative mean deviation. Finland has had the most radical reduction of inequalities, but the reduction in Switzerland is substantial. In the mid 1970s, inequalities were higher in Austria and Switzerland than in Finland and Sweden.

A better documented study, dealing with wage dispersion, has been carried out by Bob Rowthorn, who concludes: “Austria, which has been frequently admired for its labour market performance since 1973, does badly and emerges with a rating which is at best mediocre by international standards. This is explained primarily by the fact that employment opportunities for women are severely limited in Austria and their pay is on average well below that of men. In addition, wage dispersion amongst men is considerable and there is a substantial body of low-paid male workers. Conversely, all of the Nordic countries, without exception, do well and enjoy a clear lead over the rest of the OECD during the period since 1973. All of them have managed to achieve, or maintain, comparatively high levels of employment for both men and women, and as a rule wage dispersion is relatively low; in particular, the earnings gap between men and women is smaller than in most other countries. Thus, in terms of employment and wages, the Nordic countries are strikingly more egalitarian than Austria. This points to a fundamental difference between social corporatism of the Nordic variety and that which obtains in Austria.” Table 7.2 gives the indicators calculated by Rowthorn.

<table>
<thead>
<tr>
<th>TABLE 7.2</th>
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<tr>
<td>Dispersion of Hourly Earnings in the late 1980s</td>
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<tr>
<td><strong>COEFFICIENT OF VARIATION (%)</strong></td>
</tr>
<tr>
<td>AUSTRALIA</td>
</tr>
<tr>
<td>SWEDEN</td>
</tr>
<tr>
<td>DENMARK</td>
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<tr>
<td>FINLAND</td>
</tr>
<tr>
<td>SWITZERLAND</td>
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</tbody>
</table>

Note: ILO-data, covering manual workers in manufacturing, mining and construction. The Coefficient of Variation is weighted by employment, male and female earnings have been counted as distinct observations. The F/M ratio is the ratio of average female to average male hourly earnings.


Indicators of relative poverty are also relevant here. Table 7.3 contains data for EC countries, which means that out of our contrast cases, only Denmark is covered. The table shows that Ireland is clearly worse off than Denmark, but better off than the Southern European EC countries, like Portugal and Greece. Ireland, however, has the largest increase in relative poverty between 1980 and 1985, not only among the countries selected, but in the whole of the EC.

Judging from these very recent data, it seems that our countries form two groups. The Nordic countries form the egalitarian camp (Sweden, Finland, and Denmark, although evidence is conflicting in the latter case), while Austria, Switzerland and Ireland are the relatively speaking — egalitarian camp. It seems that in Ireland, as in Austria and Switzerland, the distribution of income has never been a variable that has really influenced collective bargaining. This contrast may be interesting with respect to questions concerning the relationship between the socio-economic level of development and income distribution, as well as for debates on the redistributive effects of the welfare state, but it must (again) be noted that they tell us nothing about the question which interests Senghaas most, that is, whether the distribution of income influenced the consolidation of home market demand during the industrial breakthrough periods of the respective countries.

<table>
<thead>
<tr>
<th>TABLE 7.3 Percentage of persons below half Average Equivalent Income, EC Countries, 1980, 1985</th>
</tr>
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<tbody>
<tr>
<td><strong>1980</strong></td>
</tr>
<tr>
<td>DENMARK</td>
</tr>
<tr>
<td>IRELAND</td>
</tr>
<tr>
<td>PORTUGAL</td>
</tr>
<tr>
<td>GREECE</td>
</tr>
</tbody>
</table>

Source: Callan & Nolan, “Income Distribution and Redistribution: Ireland in Comparative Perspective”, cf. source of Table 7.1.

Senghaas’ emphasis on the two sets of distributional variables (land holdings and income) reflects his preoccupation with the auto-centric/peripheral contrast (cf. Chapter 4 above), in which the peripheral case has no strong home market. Comparing only high income countries, other nuances relating to the home market have been emphasised. Porter provides much material on the qualities of the home market, qualities that seem relatively independent of the distribution of income. Analysing the Swiss case, he notes that the high per capita income, as well as the inflow of rich tourists and in part the multi-language character of Swiss society, give Swiss firms “a unique window on evolving product needs. The Swiss company has buyers at home that reflect needs in several nations.” It also turns out that firms in the French parts of Switzerland specialise in consumer goods, while the German parts are the most advanced in watchmaking and chemicals. And even more important: “Germany, France, and to a lesser extent Italy, are so closely linked to Switzerland both culturally and geographically as to nearly represent ‘home markets’.”

Similarly, studies of trade integration, especially during the 1960s, demonstrated the important function of the Nordic area (which is, with the partial exception of Finland, a language community) as an extended home market, in which successful firms could prepare themselves for further expansion in the world market.
According to Senghaas’ scheme, we need under this heading information on a number of features such as risk-oriented entrepreneurs/firms, the banking system, the nature of the national innovation system at the firm level, the level of education, and the quality of institutions for higher education. Relating to the Neo-Schumpeterian approach which was presented in Chapter 4, it seems that most of these factors can be treated as factors involved in the functioning of the national system of innovation. As defined in that Chapter, this system consists of the institutions and economic structures which affect the rate and direction of innovation, and that again is, of course, a major variable behind economic growth performance.

FIGURE 7.1
A Sketch of the National Innovation System

A rough visual presentation of the possible impact of these factors is provided in Figure 7.1. The following remarks serve as illustrations of the figure. A number of economic historians have investigated and compared the relationship between the modern corporation (based on managerial hierarchies and a separation between ownership and management) and the banking system. With reference to Germany and Austria there has been a lively discussion concerning the Gerschenkron thesis, according to which the impact by banks was stronger in the late-industrialising countries than in the pioneer countries (and that the impact of the state was similarly stronger within late-late-industrialisers like Russia). We have, however, indicated that the Nordic countries did at least not industrialise before Austria. Denmark, then, is a problem case, since there was no strong impact by banks, but here the cooperative movement may be seen as a “functional equivalent” to banks and/or state intervention. As for Sweden (perhaps a latecomer) and Finland (perhaps a late-latecomer), there was certainly influence from the German model, characterised by active banks and an interventionist state. Still, it would be an exaggeration to argue that in Sweden, banks (e.g., the Wallenberg family) determined the strategies of big business, and that in Finland, the state was the ultimate force behind industrial catching up.

As for Switzerland, its banking system developed in quite another way: it was initially linked to transit trade and to the impact of refugees in the Swiss federation. The financial sector developed following the first surge of industrialisation (last half of the 19th century), mainly doing foreign business. In the interwar period, internationalisation had already proceeded far, and at that time, the policy of absolute secrecy concerning Swiss bank accounts (originally invented in order to defend the fortunes of refugees from Nazi Germany) developed. Given the stability of Swiss society and its armed neutrality, international investors showed a high confidence in the Swiss banking system. While there has been a strong interaction between Swiss multinational companies and internationally-oriented banks, there seems to have been a certain cleavage between large Swiss banks and the domestically-based, export-oriented firms.

<table>
<thead>
<tr>
<th>TABLE 7.4</th>
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<tbody>
<tr>
<td>Estimated Total National R&amp;D Spending as a Percentage of National Product, 1975-1987</td>
</tr>
</tbody>
</table>

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</tr>
</thead>
<tbody>
<tr>
<td>SWEDEN</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
<td>2.2</td>
<td>2.5</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>JAPAN</td>
<td>2.0</td>
<td>2.0</td>
<td>2.3</td>
<td>2.6</td>
<td>2.8</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>2.4</td>
<td>2.3</td>
<td>2.4</td>
<td>2.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FINLAND</td>
<td>0.9</td>
<td>1.0</td>
<td>1.0</td>
<td>1.2</td>
<td>1.3</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>AUSTRIA</td>
<td>0.9</td>
<td></td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>DENMARK</td>
<td>1.3</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>IRELAND</td>
<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
<td></td>
</tr>
</tbody>
</table>


Research and development activity is a crucial feature of the national innovation system. Numerous indicators are available in this respect, but our comparison here will be restricted only to the most aggregate ones. Table 7.4 shows total R&D spending as a percentage of the national product. This share has increased in most of the countries throughout the last fifteen years. Sweden ranks highest among our cases, at the same level as Japan, which has been included for comparison, given the paradigmatic status of the “Japanese model” (cf. Chapter 2). Among our countries, Switzerland and Sweden have large home-based multinationals. Such firms engage in numerous R&D activities, and most likely account for the comparatively high R&D shares in these two countries. The Swiss rate has been permanently high,
higher than Japan’s during the 1970s. By the late 1980s, Finland has reached a middle position among our contrast countries, and its share has increased more than any of the others between 1975 and 1987. In 1975, its share was not much higher than Ireland’s, so the contrast to Ireland’s stagnation in terms of R&D spending is striking.

Knowledge is an increasingly important input into the present day complex manufacturing production processes. In their study of the 19th century European periphery, Bérond and Rântki deal with education and literacy as important components of the “human factor” in economic development. They find a marked contrast between Scandinavia and the rest of the countries of the periphery, but unfortunately they nowhere comment on the Irish case. Their conclusion is the following: “While elementary public schools, the most significant educational achievement of the prewar period, had brought the general standard of education of the entire population of the Scandinavian countries completely up to date, in the southern and eastern parts of Central Europe this could only be said of about 50-66 per cent of the population, and in the Balkans and in Russia of less than one-third of the population. Except for Scandinavia, then, the periphery was out of phase in respect of elementary training and in terms of literacy — the preconditions of all further development. The 60 per cent illiteracy figure for the countries of the industrial core at the beginning of the nineteenth century had, in a century’s time fallen to one or two per cent, practically tending to zero. Some of the periphery were thus, in a sense, a hundred years behind the core.”

One of their main points is that there was no direct connection between the timing of the industrial revolution and the attainment of an advanced educational system. The spread of Lutheranism, adopted as a state religion in many German states in the 17th century, spurred the development of public education, one of Luther’s aims. The same was the case in Scandinavia: Denmark had compulsory primary school attendance already at the end of the eighteenth century (Norway 1827, Sweden 1842). They emphasize that Finland, which made primary education compulsory as late as in 1866, had completely eliminated illiteracy by the beginning of the twentieth century. While these countries were clearly backward economically, “their achievements in the field of education were so outstanding that even some of the most advanced core countries were unable to match them.” The same goes for the spread of education in the Hapsburg Monarchy. Switzerland is not covered, but the available data indicates that the same was the case there.

However, compulsory education does not immediately translate into a fully literate population. By the mid 19th century, the Nordic illiteracy rate was below 30 percent (England: 33 percent, France: 40-45 percent). Bérond and Rântki note that Scandinavia was at the forefront in European education, and in the years before World War I, illiteracy had totally disappeared.

As for more detailed data, we can revert to the Flora compilation for data which cover all our case countries. There are, however, many problems involved in the interpretation of Table 7.5. The earliest data on primary education relate to the late 19th century: here Sweden and Switzerland rank very high, and Denmark and Austria form a second, also quite high group. Ireland is towards the bottom, but the real bottom is Finland, with only 6.7 percent of the 5-14 age group in public primary schools. Given Bérond and Rântki’s claim that illiteracy was abolished even in Finland at the time of World War I, there is every reason to doubt this number, and consequently, we cannot know whether Ireland was that much lower than the others either.

The data on secondary education also contain some paradoxes: data for the mid-1970s show a good performance by Finland, Switzerland, Sweden and Denmark, while Ireland lies somewhat lower, and Austria astonishingly low. This is most likely due to problems of classification, since the age groups overlap. As for the student share of the 20-24 age group, we easily identify the revolution of academic education of the late 1960s. Here, Ireland and Switzerland are in the bottom league, with less than half the share of Denmark.

On-the-job training is an alternative to secondary and higher education. During the present restructuring race, continuous retraining of workers is more important than ever. There are clearly differences as to how prepared countries are in this respect. In Germany, a very solid apprenticeship system has existed for a long time. It is maintained as something of a collective responsibility of the employers, collaborating with the state-based educational system. Having completed compulsory schooling, young people may establish a contract with a company, receiving a training course under a master craftsman, attending vocational school one day a week. A 1978 household survey showed that two thirds of the workforce had vocational or higher qualifications in Germany, against one third in the U.K. The system has clear-cut career paths, with graded courses, examinations and recognised qualifications for large groups of skilled workers. Twice as many people have such qualifications in Germany compared to the U.K. There is also regular retraining going on in the firm. In contrast, it has been claimed that in the U.S. and the U.K., “both employer and Government policy, or neglect, has tended to permit the development of a larger and larger “periphery” of unskilled and semi-skilled workers, often low paid and insecure, existing round a “core” of skilled or professional secure and relatively highly paid employees.”

The much less dualistic German system is quite costly for employers, but firms deliberately try to internalise a number of educational functions which in other countries only exist outside the factory.

Both Austria and Switzerland have apprenticeship systems which are like the German one. Porter notes that the Swiss apprenticeship system covers all young people who do not go to university. Ireland must surely be closer to the British system. These differences can probably be traced back to the late 19th century, which would be most relevant in terms of Senghaas’ scheme, but a further exploration of this topic would require a more specialised project.
<table>
<thead>
<tr>
<th>Country</th>
<th>% of age group (5-14) in public primary schools</th>
<th>% of age group in secondary schools</th>
<th>Students in higher education % of 20-24 age group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>lower (10-14)</td>
<td>general higher (10-19)</td>
</tr>
<tr>
<td>IRELAND</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1880</td>
<td>37.8</td>
<td>1.6</td>
<td>2.3*</td>
</tr>
<tr>
<td>1890</td>
<td>45.9</td>
<td>2.1</td>
<td>0.7*</td>
</tr>
<tr>
<td>1925</td>
<td>82.9</td>
<td>4.4</td>
<td>1.3*</td>
</tr>
<tr>
<td>1960</td>
<td>87.8</td>
<td>14.9</td>
<td>9.4*</td>
</tr>
<tr>
<td>1975</td>
<td>82.3</td>
<td>32.9</td>
<td>10.3</td>
</tr>
<tr>
<td>DENMARK</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1894</td>
<td>59.6</td>
<td>6.1</td>
<td>0.6</td>
</tr>
<tr>
<td>1906</td>
<td></td>
<td>13.3</td>
<td>1.3</td>
</tr>
<tr>
<td>1925</td>
<td>67.1</td>
<td>30.0</td>
<td>3.9</td>
</tr>
<tr>
<td>1975</td>
<td>72.5</td>
<td>48.7</td>
<td>15.5</td>
</tr>
<tr>
<td>AUSTRIA</td>
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<td></td>
</tr>
<tr>
<td>1881</td>
<td>56.1</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td>1922</td>
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<td>7.9</td>
<td>8.2*</td>
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<tr>
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<td>14.0</td>
<td>16.0*</td>
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<td>1.7</td>
<td>0.8</td>
</tr>
<tr>
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<td>0.9</td>
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<td>1.5</td>
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<td>8.6</td>
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</tr>
<tr>
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<td>1.0</td>
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</tr>
<tr>
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</tr>
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<td>69.1</td>
<td>7.1</td>
<td>5.6</td>
</tr>
<tr>
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<td>67.4</td>
<td>41.7</td>
<td>9.1</td>
</tr>
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<td></td>
</tr>
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<td>1.9</td>
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</tr>
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<td>46.8</td>
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<td>1.3</td>
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<td>38.5</td>
<td>9.9</td>
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</tr>
<tr>
<td>1975</td>
<td>59.6</td>
<td>45.1</td>
<td>18.1*</td>
</tr>
</tbody>
</table>

Notes: * Universities, other numbers higher education (a somewhat broader category).  
1 Includes private primary schools; 2 1965; 3 1915; 4 1960; 5 1905.  
Vol. II. Frankfurt a.M. 1987, Ch. 10.

Concerning higher education, two additional aspects should be investigated. First, the quality (and spread) of institutions for higher education, and second, the patterns of interaction between universities (state-sponsored r&d) and firms (company-based r&d). In the Scandinavian setting, Sweden is famous for its early development of a German type system of technical highschools. The Royal Technical Highschool was founded by the 1850s, and it educated a very large group of engineers, filling up the middle layers of the rapidly expanding firms towards the end of the 19th century, with the most successful engineers advancing into top management positions. Also many top bureaucrats had the same background. Denmark, on the other hand, had a very different system, with numerous folk highschools which educated the rural population. Denmark also had agricultural highschools.

But the impact of this factor, however, is (like most others) not unambiguous. Saul notes that the lack of institutions of higher education is not always a drawback: "Whereas German and British engineers and chemists normally received their training in local colleges and factories, the Swiss in particular moved all over western Europe for the purpose and went back home to pool their experiences."

According to Porter, Swiss firms today have very extensive links to the outside world in this respect: "In many of our case studies, including surveying equipment, heating controls, pharmaceuticals, and hearing aids, Swiss companies developed close relationships with foreign research centres in specific technologies, and in many instances established research subsidiaries in foreign countries. The early establishment of research centres in the United States and the United Kingdom by Swiss pharmaceutical companies, for example, has been vital to their output of innovative new drugs. The adaptability of Swiss companies at sourcing foreign technology, common to a number of nations that have been unusually successful in upgrading industry, seems to stem from a number of factors. The Swiss do not for a moment entertain the possibility that all technology can be developed in Switzerland, given its small size. The high skill level of Swiss scientists and engineers provides a foundation for assimilating foreign technology. Also, language and cultural skills make them particularly able to forge strong relationships abroad."

This brief survey of the components of the national innovation system may indicate that the Swedish, as well as the Austrian and the Swiss systems can be counted as derivatives of a German type system. Possibly this goes for Finland also. Denmark has a quite specific system, reflecting its specific economic structure as analysed in Chapter 6, and to be discussed more comprehensively in Chapter 17. Ireland, finally, may turn out to have a system much more influenced by the English system. The deficiencies of the English system have been much discussed in economic history, in connection with the famous German and U.S. catching up at the turn of the century."
CHAPTER 8
SOCIAL AND POLITICAL MOBILISATION

8.1 MOBILISATION, DEMOCRATISATION, NATION BUILDING, SOVEREIGNTY, AND PARLIAMENTARISM

In Senghaas' scheme, each of the items in our heading for this section is treated separately. In real history, however, they all form aspects (at various times) of a broad process of social and political mobilisation. A summary table (8.1) is inserted here in order to provide some crucial years which will be referred to below.

| TABLE 8.1
| Democartisation - Crucial Dates
<table>
<thead>
<tr>
<th>DK</th>
<th>SW</th>
<th>FIN</th>
<th>AUT</th>
<th>CH</th>
<th>IRL</th>
</tr>
</thead>
<tbody>
<tr>
<td>General suffrage/men</td>
<td>1849</td>
<td>1909</td>
<td>1907</td>
<td>1907</td>
<td>1848</td>
</tr>
<tr>
<td>General suffrage/women</td>
<td>1918</td>
<td>1921</td>
<td>1907</td>
<td>1919</td>
<td>1971</td>
</tr>
<tr>
<td>Parliamentarism</td>
<td>1901</td>
<td>1917</td>
<td>1919</td>
<td>1918</td>
<td>1866</td>
</tr>
</tbody>
</table>

While the Swiss Federal constitution of 1850 prescribed male democracy, it is hard to date the real beginnings of such a system. There was much intimidation and manipulation. Therborn (p.16) suggests 1879 (or the 1880s) as a better dating: that year a proper electoral register was established for the first time. As noted below, postwar governments (at least) have been established according to a fixed distribution of ministers between parties. Thus, Flora, Vol. 1, p.157 gives no list of “party composition of cabinets” for the Swiss case.


Before we turn to each single case, we shall present a distinction between the German and Anglo-American traditions, proposed by Charles S. Maier and further developed by Göran Therborn. The distinction was originally proposed in order to analyse the historical preconditions of corporatism understood as collective bargaining. The distinction turns out to be important when Ireland is to be compared to the contrast cases.

In his historical comparisons of conditions for collective bargaining, Maier noted that the U.S. and England had no corporatism, and France and Italy also had very little. To explain this, Maier emphasised the timing of party formation and collective bargaining. England had unions accustomed to collective bargaining before party consolidation. Italy and France had it the other way around, while the North European countries had a simultaneous development of party and union movement. Therborn restates these findings as a typology of three kinds of labour movements. We do not need to deal with the Latin case, so two remain. The Germanic labour movement integrates under political leadership a mass party and a trade union movement. The trade unions are broadly organised, centralised and uniform. They have a broad social focus, but are politically self-limiting, which is probably a more important predisposition for compromises than their size as such. They are close to the party, and thus predisposed to strike deals.

The Anglo-American labour movement is marked by the fact that trade unions engage narrowly in industrial relations questions only. Political organisation was postponed or was even absent (cf. the U.S.). This labour movement lacks a general class perspective outside the narrow area of questions relating to wages and working conditions. (Ireland and Denmark are close to this one). Assuming that wage earners have three major interests (wages, working conditions and full employment), Therborn expects that the Anglo-American type labour movement would clearly give priority to wages and working conditions, while the Germanic type labour movement would clearly focus on the social wage and employment, or on work time reduction and unemployment compensation if it is weaker.

In this connection, Therborn also proposes a distinction between two types of welfare states, the European type and the Anglo-American. In the latter one, labour does not participate in the administration of the welfare state. As for the type of policy making, he holds that the Germanic approach consists of selective policy-making involving labour, and an Anglo-American approach shifts between Keynesian demand management and general deflation.

Scandinavia

We shall provide a stylised account of Nordic social and political mobilisation, but with certain selected illustrations. For postwar developments, the social alliances and compromises of the interwar period are crucial. We find here a parliamentary alliance between farmers (or certain strata among them) and workers, and we find a social compromise between workers and capitalists, both at the factory and at the organisational levels. The latter compromise is connected to the former alliance by the fact that the compromise involves a shared responsibility: the labour movement is allowed to conduct government policies (with support from farmers and others), while workers accept that the capitalists have the last say in questions of investment and work organisation. In the following section, we shall focus on the mobilisation of the farmers, in order to see how, by the interwar period, they had ended up in a position where they were motivated to form a parliamentary alliance with labour. Then we shall analyse the emergence of the labour/capital compromise. Although we separate these processes, they are inter-related, since working class mobilisation could relate to the earlier achievements of farmers’ mobilisation.

Studies of early Nordic social insurance systems show that Nordic social policies differed significantly from the Bismarck type paternalist social policies. The paternalist approach focused only on workers (to contain their mobilisation). It furthermore differentiated benefits according to the given social stratification, avoiding wide-ranging social equalisation. Finally, its financing was designed to avoid redistributive effects: it was based on premiums or on regressive consumption taxes. In contrast to this, the Scandinavian model of welfare policy was generated...
by pressure from below. It thus aimed to be universal, offering a flat-rate benefit to everyone. Also, its financing was intended to redistribute the burdens of life chances: it relied heavily on taxation to redistribute the burdens to those who could carry them. This German tradition, or the relationship between the state and society that prevailed at the time, was to guide the development of social democracy in the Nordic states.

Accepting these peculiarities of the Nordic systems of social policies, Peter Baldwin has argued that the "character of the social security system in the Nordic countries was not determined by the social democrats but by the people themselves, who, through their political parties, determined the rules of the game." This is a valid point, as the social democrats in the Nordic countries were not the only political forces, but they played a significant role in shaping the social policies.

The exceptionalist nature of the Nordic welfare states, therefore, was not the result of a simple blueprint but rather the product of historical circumstances. The social democrats in the Nordic countries were driven by a desire to eliminate poverty and inequality, and they succeeded in creating a welfare state that was unique in the world.

However, the social democrats in the Nordic countries were not the only political forces, and their success was due to the unique historical circumstances in the Nordic countries. The social democrats were not the only political forces, and their success was due to the unique historical circumstances in the Nordic countries.

The social democrats in the Nordic countries were driven by a desire to eliminate poverty and inequality, and they succeeded in creating a welfare state that was unique in the world. The social democrats in the Nordic countries were driven by a desire to eliminate poverty and inequality, and they succeeded in creating a welfare state that was unique in the world.
Table 2

<table>
<thead>
<tr>
<th>INDUSTRIAL CONFLICT</th>
<th>WORKING CLASS MOBILISATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Less</td>
<td>Less</td>
</tr>
</tbody>
</table>

Note: Koppé modified class mobilisation, and the left in parliament, as independent variables, while industrial conflict is a dependent variable.

Table 2 draws on Koppe's studies, connecting working class conflict and the mobilisation of the working class. This scheme presupposes the achievements of the mobilisation of farmers.

At this point, we shall continue from Chapter 6 on the account of the Swedish case. Among our contributors, Sven is well placed to address the question of the mobilisation of farmers (Table 4.8). The magnitude of farmers' mobilisation in the Social Democratic Party increased from 1970 to 1974 and from 1974 to 1976.
Based on Sweden’s rapid industrialisation at the turn of the century, a strong union movement of both industrial and agricultural workers emerged. The highest growth rates of union density, according to Bain’s data, were in 1897-1899, 1903-1904, 1907, and 1915-1917. From 1924 onwards, union density grew smoothly, reaching 54 percent in 1940, 67.7 in 1950, 73.0 in 1960, 80.4 in 1970 and 87.2 in 1975.  

Even more interesting are union densities by industry. Figure 8.1 traces the development of union density in mining/manufacturing and in transport/communication. The surges of mobilisation around 1906 and around World War I are clearly visible, and we see that in these crucial industrial sectors, union density hovered between 58 and 82 percent (transport/communication) and between 44 and 68 percent (manufacturing/mining) in the interwar period.

**FIGURE 8.1**
*Sweden: Union Density in Manufacturing/mining and Transport/Communication, 1890-1940. Percent.*

![Graph showing union density](image)


While 1890-1918 was a phase of domestic market expansion, the share of exports increased again in Sweden in the 1920s. The period following World War I was first marked by an inflationary world economic boom, marked by high liquidity, a large demand and appreciation of the exchange rate. During World War I, unions had won wage improvements. Due to inflation, real wages declined during World War I, but they rose 1919-21 (and also in the late 1920s). In response to this, there was a massive movement of rationalisation in Swedish industry. Many small firms disappeared, while the larger ones expanded internationally. Agricultural prices were declining and more people left the land. But soon the easing of political tensions, less military spending and very complicated international financial relations (the reparations question, for instance), created instability. The depression was particularly deep during 1921 and 1922 (GNP fell by 20 percent). As a consequence, wages were dramatically cut over 1922/23. As industry could not absorb the whole labour surplus produced by rationalisation, unemployment increased (to 27 percent in 1921-2).  

But these people did not revert to the exit option to any degree comparable to the period before 1917. Between 1921 and 1935, average unemployment among unionised workers was 15.7 percent. At rates over 20 percent (1921-22 and 1932-33), emigration again tended to rise. This situation also discouraged many people in the agrarian sector who in another situation would maybe have migrated to towns, seeking industrial employment. Thus, there was also an overcrowding of the agrarian sector, especially in small farms and within agrarian workers’ families. In the 1875-1895 period there had been a lack of skilled labour, while there had been hordes of unemployed unskilled labourers in the countryside, willing to emigrate. Now, there was high unemployment among skilled workers (many of them unionised) in the urban areas, as well as a pool of agricultural surplus labour. But both these groups were less motivated for emigration. According to Riegler, this was above all due to the strengthening of collective action by unions both in the industrial and agricultural sectors.

Due to the depression, the Swedish krona was close to the old gold parity by 1921. Banks had a hard time, and there was state intervention to solve problems in the private banking system. At an international conference in 1922, a return to prewar gold standard parities was decided, and this reform was completed in 1925 as sterling was made gold-convertible. Sweden reached convertibility by 1924. Following this adjustment, later recessions in the 1920s were milder. But during this period, Sweden had the highest level of strike activity in Europe. Table 8.3 shows this for our six case countries. Between 1907 and 1940, Sweden lost more than 100,000 man days per 100,000 workers in 14 out of 33 years (Finland: 11, Austria: 4 and Denmark: 3). Sweden also recorded the highest loss in one year (1909). Although data for Switzerland and Ireland do not cover as long a period as this, they emerge as more docile in terms of strikes (late 1920s and the 1930s).

After 1924, a major process of rationalisation followed in the export sectors. Although the rationalisation process was mainly inspired from Germany, there were important differences. In Germany it was staged by the state, but in Sweden, it was carried through by the “industrial right” ("industriehögern"), both industrial and financial capital. SAF (the Employers association) and the Swedish Industrial association (1909/10) had the initiative, they provided the support and implemented rationalisation. Rationalisation and high wages interacted. In 1930, among all European industrial countries, Swedish labour earned the highest wages. The wage-gap with respect to the U.S. evened out, making emigration less attractive. This spurred immigration to Sweden, and the overall consequence was high unemployment.

As for fiscal policies, the idea of balanced budgets and “responsible budget policy” reigned. National accounts systems were very primitive, and it is hard to find out whether this policy was procyclical and also whether the later social democratic “proto-Keynesianism” (to be discussed below) was really counter-cyclical.

On September 21, 1931, Britain was forced to leave the gold standard. Sweden had no choice but to follow Britain’s devaluation. In Germany, there was a turn to a
strategy of autarchy following the Nazi seizure of power, and England consolidated its new “System of Imperial Preferences” at the 1932 Ottawa conference. Following these events, Swedish monetary policies were rather accommodating. The Central Bank stabilised the krona at an exchange rate which favoured exports. The interest rate was low. The domestic market kept growing, and housing construction, for instance, flourished.

As the crisis hit Sweden with a lag in 1930, the unions’ high wage policy had to be modified, and social democracy here was a crucial factor. During the deflationary crisis of 1921/22, the labour movement had pushed for a programme of union-directed unemployment benefits, supported by the state. But this was not implemented before 1934. A state- and local government-sponsored programme of emergency relief, however, had been in operation since the end of World War I, but that programme relied on a minimum wage. This became the focus of labour resistance. Unions opposed the emergency relief programme, since their position would deteriorate if too many workers were taken out of the labour market.

In the spring of 1928, the Swedish Labour party discussed their new party programme. A setback (from 41 to 37 percent — Table 8.4 below gives the percentages for all labour parties) in the Autumn 1928 election confirmed the need for a new strategy: maybe the working class would not continue to expand, securing the automatic achievement of a parliamentary majority. Some argued that working class expansion had already peaked. The new strategy was first reflected in the party’s 1930 parliamentary motion, which argued that the emergency relief should be replaced by productive state-financed employment, paid according to prevailing collective agreements, and with the same working conditions. The motion did not pass, but it was an important factor behind the party’s mobilisation in 1931 and 1932. In 1932, the Labour party went from 35 to 41.7 percent of the vote, and formed its first government since 1926. Analyses of the election result also showed that much new support was won among poor people in rural, agricultural areas. Already by 1933, the so-called red/green alliance was a reality: The Labour party made a deal with the Farmers’ party: 200 million SEK were granted to exceptional public works, while — to the benefit of the farmers — food prices were increased and protectionist tariffs introduced. Although the economic effects of these allegedly “expansive” fiscal policies are hard to ascertain ex post, it was important that support for the unemployed no longer took the form of stigmatising “emergency relief”.

### TABLE 8.3
** Strikes Before 1940 - Man-days Lost per 100,000 Non-Agricultural Wage Earners **

<table>
<thead>
<tr>
<th>Year</th>
<th>A</th>
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<th>FIN</th>
<th>IRL</th>
<th>SW</th>
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<td>426620</td>
<td></td>
<td></td>
<td>295402</td>
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</tr>
<tr>
<td>1905</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>1907</td>
<td></td>
<td>339769</td>
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<td></td>
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</tr>
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<td></td>
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<tr>
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<td></td>
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<td>11</td>
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**Note:** Only years with a loss of more than 100,000 man days per 100,000 non-agricultural wage-earners are listed, except for the case of Switzerland, where the year of the highest number of lost man days is listed. Data for the following periods: Austria 1891-1913; 1919-1937; Denmark 1897-1940; Finland 1907-1940; Ireland 1923-1940; Sweden 1886-1940; Switzerland 1927-1940.

**Source:** Peter Flora, et. al., _State, Economy, and Society in Western Europe 1815-1975_, Vol. 2, Frankfurt a. M. 1988, Ch. 10.
TABLE 8.4
Electoral Support for Socialist Parties in the Interwar Period

<table>
<thead>
<tr>
<th>Year</th>
<th>DK</th>
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<th>SW</th>
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<td>39.8</td>
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Note: For the Nordic countries, share of votes for social democratic and communist parties. In the cases of Denmark, Norway and Sweden, these were small, but in Finland it was large. Thus, the Finnish left was more split. Austria only had one Socialist party. In the Swiss numbers, votes for the Communist party are not included (it gained less than 3 percent in all elections).


The Labour party began to emphasise the mutual interdependence between farmers and workers, and the virtuous circle created by increasing wages and food prices. In this way, the labour movement continued a long tradition of collaboration between workers and farmers (the cooperative movement, the temperance and free church movements). Threats were emphasised (despite the fact that these were very weak in Sweden). State intervention would be extended, also covering agricultural prices. And even more important, the old idea of "socialisation" of the means of production was replaced by the more modern idea of a mixed economy, and the ideology of the "people’s home" replaced the emphasis on class struggle, pure and simple. The new reformist message was that there were alternatives within capitalism, and that it was of crucial importance that the Labour party supported the alternative which benefited the broad masses. Within economics, there was a change from the frugal "state economic" approach to a more "social economic" approach, based on the idea that deficit financing could stimulate an economic sector in which capacity was not fully utilised. It is noteworthy that at that time, Sweden had the world's smallest bureaucracy, but the world's most far-reaching public policy. The point was that the labour market organisations themselves implemented the policies, and also the local authorities.

The 1930 proposal is seen by Riegler as the point of transition from a passive approach (which accepted mass migration) to an active strategy to secure the "right to work", that is an active labour market policy. Distress over emigration was matched by claims that the state should engage more in social policies. He concludes that economic changes and social experience had caused a change from emigration as an individualistic pursuit of a better standard of living, to a collectivist strategy for improving Swedish society. 147

This was the start of what Körpi calls the "Historical compromise", in which the business community had to recognise the strong position of the social democratic movement and the trade unions. Both camps were highly concentrated, more than in any of the other Nordic countries. In 1936 a deal securing labour peace was struck between the labour market parties ("Saltsjöbadavtalen"). 148 At that time, trade unions adopted similar positive attitudes to Taylorism and strategies for work rationalisation. "One of the reasons for the change in attitudes was the belief - rightly or wrongly - that the social democratic government could guarantee that new production technology would not result in widespread unemployment. Another reason was their belief that unions - thanks to their strength - would be capable of appropriating what they considered their rightful share of the productivity gains from new production technology and other forms of rationalisation of production." 149 When negotiating with the employers, unions could always count on the use of state power by social democracy to back them up. In this indirect way, the welfare state and the full employment commitment were important preconditions for the compromise. "The fact that workers may expect to find alternative employment if fired implies a more positive attitude among workers towards new process technology than in other countries." 150

Switzerland

In the wake of the French revolution, Switzerland was invaded in 1798. Local autonomy was abolished. A new constitution broke the power of old oligarchic elites, dismantling all hereditary distinctions and established equality before the law. This was the "Helvetic revolution" of 1801. But this "Helvetic Republic" faced great problems due to linguistic, cultural and religious diversification. This was recognised by Napoleon, who influenced an "Act of Mediation" in 1803, which established a federalist system. The central government ("Diet") had power only in foreign policy matters: war and peace, currency regulation, military forces. All other matters were to be determined at canton level, and there were 19 cantons at that time. The French threat of annexation during the wars (1803-1813) enforced unification.

But with the fall of Napoleon, the conservative great powers forced Switzerland to return to its older, decentralised structure. Switzerland’s traditional problems
As noted in Chapter 6, the constitution of Switzerland was under great pressure during the post-Napoleonic era. The period in the mid-19th century, when the Swiss Confederation was formed, is characterized by a struggle between the federal government and the cantons. The cantons, particularly the Canton of Zürich, were deeply concerned about the loss of sovereignty and the influx of federal officials. In the 1830s, the Canton of Zürich under the leadership of Count Gustav von G nébitz, had already declared its independence from the federal government. However, in 1833, the federal government intervened in Zürich, leading to a military conflict. The Canton of Zürich was forced to surrender and was subsequently annexed by the federal government.

In 1840, the federal government adopted a new constitution that granted the cantons more autonomy. This constitution was known as the "Bundesvertrag" and was signed on May 1, 1841. The constitution provided for a federal assembly, a federal council, and a federal president. The cantons retained their autonomy in matters of local government and taxation.

The constitution of 1840 was, however, not without its problems. The cantons were suspicious of the federal government and sought to maintain their own power. In 1847, the Canton of Graubünden, which is today known as the "Engadine," declared its independence from the federal government. This action was followed by a series of conflicts between the cantons and the federal government. In 1848, the federal government was forced to sign the "Bundesvertrag" of 1848, which granted the cantons even more autonomy.

The constitution of 1848 was not the last word in Swiss politics. In the 1850s, the federal government was forced to sign the "Bundesvertrag" of 1851, which granted the cantons even more autonomy. This constitution was known as the "Bundesvertrag" of 1851 and was signed on May 1, 1851. The constitution provided for a federal assembly, a federal council, and a federal president. The cantons retained their autonomy in matters of local government and taxation.

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tensions. At the peak of the Nazi threat in 1943, the same bourgeois parties admitted a Socialist representative to the Federal Council in the interests of national solidarity. In the social realm, in 1937, organised labour and employers’ associations also concluded a “Peace Treaty” in which both parties agreed to arrive at collective wage agreements without recourse to the threat of either strikes or lockouts. All these practices continue to this day. In Chapter 9, we shall study some consequences of this peculiar version of proportionality.

Austria

Pressure for democratisation mounted during the reign of Franz Josef (1848-1916). Austria experienced a stepwise extension of voting rights, culminating in general suffrage in 1907. The Christlich-Soziale Verein was founded in 1887, and later became the Christian-Social party, the large conservative party of Austria.

The Dual Monarchy was a mosaic of more than 10 nationalities. Austria-Hungary was one of the countries which triggered off World War I, and the war crushed the monarchy and divided what was left of the empire in the second half of 1918. The new republic was left with only 27 percent of the area of imperial Austria. The population was reduced from 51 million to about 2.3 million in 1923: Austria became a small country. What had been a “domestic” division of labour was now a question of foreign trade. Austria had been specialised in industry, while much of the agriculture was subsistence oriented. Social relations in industry were, as we shall see, quite tense in the aftermath of the Great War.

The Austrian National Council had given the country the name “Deutsch-Österreich” and wanted to be a part of Germany. It was the victorious Allies of the First World War who forced them to change the name and to include a ban on “Anschluss” in the new constitution.

In the 1918 elections, the Social Democrats became the largest party. Revolutions raged in Russia and Hungary. The brief Hungarian “Räterepublik” inspired Austrian workers, and unionisation exploded (770,000 in 1919). The whole period of Austrian history between 1914 and 1945 has been described as a long period of unrest.

In 1920, Karl Renner of the Social Democratic party was elected the first president of the Republic. Social Democracy was in a strong position to push for reforms. In the period 1918-1920, there was a government of socialists and the Christian-social party. Socialists proposed a nationalisation of large industries and banks. In the period 1918-1920, Austria was a leading country as far as social legislation is concerned: for example, the 8-hour day was passed in 1919. For the Austro-Marxists, social policy was a means of convincing workers that significant reforms could be attained within capitalism. The first signs of Austria’s later famous “Social partnership” can be traced to the first republic. The idea was to maintain wartime collaboration. In 1917, principles of “Parity” or balance between the classes were applied in some committees in industry, and despite protests, some of these principles were maintained after the war. President Renner was an important influence in this regard.

But while these measures reflected the sudden power of working class organisations following the setbacks for the earlier ruling groups in World War I, these very ruling elites had earlier experimented with collaborative institutions. There was a “socialism of the chair” (Kathetersozialismus), similar to that of Bismarck’s Germany in the 1880s. Already in the 1880s, sickness and accident insurance for industrial workers had been introduced. The idea was to anticipate working class demands for social protection, thus precluding autonomous working class mobilisation. The Conservatives lost interest in social policies, but in 1907, the Christian Social party, together with the Liberals began to design pension schemes which split different occupational groups. This coincided with universal suffrage for men (Table 8.1). In 1894, the authorities had entertained the earliest ideas about workers “chambers” to contain the struggle for general suffrage. In 1917, however, such a chamber was organised as an expression of workers’ self-organisation. The unions and the Social Democratic Party had decided in favour of an Arbeiterkammer, and legislation passed in 1920. These chambers would advise authorities on matters relating to workers (work environment, insurance, housing, nutrition, health, education), keep statistics, make surveys on living conditions, and generally promote the economic interests of workers and white collar employees.

The Austrian working class organisations here took up an idea of corporatist organisation of social groups in chambers which went back to the trade chambers in the 19th century. The origins of the business chamber, the post-1945 “Bundeswirtschaftskammer”, can be traced back to the first law on trade chambers (1848). The system was extended in 1850 (regional chambers) and 1868. Chambers gave advice, and could also send delegates to one of the four parliamentary houses. In 1876, the first meeting of representatives from all chambers took place. The assembly was dominated by the gross-bourgeoisie. The idea of separate industry chambers was discussed, but rejected. Only in 1938, during the fascist period, was a national chamber (Bundeskammer) established.

Another important group was the “Freie Industriverbände”, set up to support employers in industrial conflicts. In the phase of protectionism following the world economic slump of the 1870s, an anti-free trade “Industrielle Club” of 60 large companies was formed (1875). In 1892 it became a member of “Zentralverhandel des Industriellen Österreichs”, small firms organised in “Bund Österreichischer Industrieller” (1897). There was tight collaboration between the trade chambers and these employers’ organisations. In 1918 a comprehensive association for all industry was established. This “Hauptverband der Industrie Österreichs” was an independent organisation in function until 1934. In 1934 a “Bund der Österreichischen Industriellen” was established as a subdepartment under the Ministry of Trade and Transport.

As for farmers, serfdom had been abolished in 1781. In 1808, the first “agrarian society” was founded. These regional societies aimed to improve soil cultivation, and defend agricultural interests. From 1848 there were attempts to establish agricultural chambers, regulated by law, not electing their own representatives. The first one, however, was not established until 1922.
In the early 1930s, the Austrian Social Democratic Party (SPÖ) was the dominant political force in Austria, having won the most seats in the parliamentary election of 1930. However, the party was split into factions, and the leadership was divided. This weakened the party's ability to effectively respond to the economic crisis that was gripping the country. The economic depression of the 1930s had a profound impact on Austria, with high unemployment and a significant decrease in industrial output. The SPÖ's traditional support came from workers and the lower middle class, who were hit particularly hard by the economic crisis. The party's response to the crisis was largely ineffective, and it was unable to provide the economic support that its constituents needed.

In addition to the economic crisis, the rise of Nazism in Germany also posed a threat to the stability of the Austrian social democratic movement. The Nazi party, which had gained power in Germany in 1933, began to expand its influence in Austria. The SPÖ was forced to adopt a more anti-fascist stance in order to fend off the rising tide of Nazism. However, this move alienated some of the party's more conservative members, who saw it as a betrayal of the party's socialist principles.

The 1933 presidential election in Austria was a pivotal moment for the social democratic movement. The incumbent president, Karl Lueger, was re-elected with a narrow margin of victory. The SPÖ's candidate, Fedor Gumpold, was defeated by a small margin. This election result was seen as a clear victory for the conservative forces in Austria, and it marked the beginning of the end for the social democratic movement in the country.

In the wake of the 1933 presidential election, the SPÖ's leadership was forced to make difficult decisions. They had to balance the need for political survival with the principles of socialism. The party leadership recognized the need to align with other left-wing forces in order to resist the growing power of the Nazi regime. This led to a period of political cooperation between the SPÖ and other left-wing parties, such as the Communist Party of Austria (PKA) and the Socialist Party of Austria (SVP).

However, these efforts were not enough to prevent the complete collapse of the social democratic movement in Austria. The Nazi regime in Germany invaded Austria in 1938, and the authoritarian government of Adolph Hitler quickly imposed its rule on the country. The SPÖ and other left-wing parties were suppressed, and their members were arrested or executed. The social democratic movement in Austria was effectively dismantled as a political force.

In the aftermath of the Nazi occupation, the social democratic movement in Austria was forced to operate underground. The SPÖ continued to exist in underground cells, and its leaders worked to lay the foundations for a new social democratic movement after the war. The movement faced many challenges, including the need to rebuilding its ranks, re-establishing its political influence, and addressing the issues of social justice and economic security.

In the years following the Second World War, the social democratic movement in Austria grew in strength, and it played a key role in the country's reconstruction. The SPÖ was instrumental in the creation of the Federal Republic of Austria in 1945, and it was one of the main parties in the government that oversaw the country's economic recovery.

The social democratic movement in Austria continued to play a significant role in the country's political life, and it remains a major force in Austrian politics today. The party's commitment to social justice and economic equality continues to resonate with the Austrian people, and it has been successful in gaining the support of a broad spectrum of voters. The social democratic movement in Austria has faced many challenges, but it has maintained its strength and relevance in the face of changing political and social circumstances.
8.2 THE STATE

General remarks

The processes dealt with in Chapter 8.1 are usually treated as processes within civil society. The actions of the state, and of bureaucracy as the more or less direct executor of government policies, continuously interact with and intervene in civil society. The present vogue of “statist” studies is just the most recent expression of such views. There are certainly scholars who claim that most of the processes which took place in civil society were in practice crucially influenced by the state.\textsuperscript{168} Thus, freedom of association may be blocked by the state; the state may influence access to parliament (and thus influence the chances of changing the legal codes by which the state influences social development), and the state may influence parliament’s struggle to appoint the government which will rule the state. Systems of taxation are imposed by the state apparatus. Although bureaucracy is often regarded as a pure tool of other elites, and/or as the body which implements parliamentary decisions without adding anything to them, there may have been much latitude left for improvisation by the bureaucrats. The state implements measures, but if they are fully determined by e.g. interest group mobilisation, it is of secondary importance to discuss the state, but if the state has some kind of autonomous influence on the outcome (by defining the agenda, implementing, supervising, defining specific rules within a broader legal framework, etc.), then the specific contribution of the state must be explained. The multitude of such possible interactions is why it has been quite difficult to maintain a strict separation between civil society and the state in our analysis. Certainly, state policies have been mentioned many times in Chapter 8.1, and even in Chapter 7.

Senghaas’ scheme relies, as we have seen in Part II, on a dichotomy between auto-centric and peripheral developments. For the latter kind of third world development, Elschnig has developed the notion of “state classes”. This notion highlights the problem of distinguishing between state and civil society, since here, a class — a collective actor within civil society — has the state apparatus as its very social base. Once we turn to comparative studies involving third world states and even Southern-European states, the notions of patronage and clientilism arise. Patronage has been defined as the public employment of political clients as a reward for their votes (cf. Section 4.2). If the parties competing for government (at local or national level) tend to reward clients in this way, bureaucracy may be over-inflated and may strangle the economy with taxes. In predominantly agrarian societies, such a regime can clearly hamper agrarian transformations. There are reasons to believe that there have been more elements of patronage in Ireland than in any of the contrast countries. A further discussion of this, however, is reserved for Part IV. In the following section we discuss a number of features pertaining to the comparison of the contrast cases.

First, we shall briefly mention that in Austria, Sweden and Denmark, the state apparatus was inherited from their earlier period as (regional) great powers. Switzerland remained a stable territory from a very early date and the Swiss state apparatus emerged under the constraint of strong cantons. Finland was, as mentioned, the case closest to Ireland, being controlled by Russia until 1917.

Different experiences during World War II are also worthy of mention (although they may have just as much importance for the “Nation” as for the state apparatus): Switzerland and Sweden are famous European neutralists. Denmark was occupied by Nazi Germany, while the case of Austria’s indigenous fascism and later annexation by Hitler was mentioned above. Finland’s fate during World War II was more complicated. Finland was invaded by the Soviet Union in November 1939, but fought back hard in the Winter war. In March 1940, there was peace, with Finland ceding areas containing 12 percent of its population. Given further Russian pressure, Finland turned to Germany for protection, but remained neutral when Germany invaded the USSR in June 1941. German troops operated from the North of Finland and Russia bombed Finland. An armistice with Russia was signed in September 1944, and there were struggles with the Germans, who refused to leave.

Neutrality has a particular influence on 20th century industrial developments. There are important connections between Sweden’s engineering industry and the country’s armed neutrality, based on indigenous production of military equipment, and it seems that the same connection exists in Austria. In Switzerland this influence is most pronounced with respect to trade. In Sweden, the state and the big private firms are involved in large-scale projects, with large and complex technological systems which may also give spin-offs to the civilian sector. (Nuclear power research switched to development of nuclear power plants as a Swedish project to produce atomic bombs was shelved.) The state also cooperates with private industry in matters of computers and space technology.

Switzerland’s industrialisation, as we have seen, took place mainly in the countryside. Trade, on the other hand, was located in the towns. As industry was in the countryside, it was free “almost entirely from those administrative, social, and political costs which even in those days became translated into taxation.” Government was very cheap. “The decentralisation and rationalisation of industry also helped to mitigate the inevitable social consequences of the industrial revolution, for family incomes from industrial activities were supplemented both by the subsistence livelihood derived from small rural properties and by the investment of savings in land. In Switzerland the phenomenon of the proletariat, which accompanied the industrial revolution in other countries, was practically non-existent.”\textsuperscript{169} The state was simple, modest and decentralised.

Switzerland’s armed neutrality is organised as a militia, which by the late 1980s contained 625,000 citizens — soldiers who could be mobilised in 48 hours. This army is a very important element in the Swiss socio-political system, it is a “bedrock for Swiss neutrality and the essential cohesive factor in a disparate, multilingual and dual-religious confederation”. It also permeates the Swiss corporate system: “The boardrooms and senior managements of big Swiss companies and banks are sprinkled with colonels, majors and captains. Officer training and promotion in the militia often opens the way to a career in business and banking”.\textsuperscript{170}
As for Austria, structural features such as the prevalence of steel, iron, and coal industries, as well as the lack of industrial raw materials, like huge forests, mineral or energy sources, played a role in its development. A customs union between Austria and Hungary was introduced in 1851. Austrian tariffs were lowered in 1852, and free trade was introduced in 1865 (through the Mukachevo Agreement). Austria, however, followed a different path than the other countries in the late 1870s. The 1920s are considered to be a period of economic reconstruction, but the economic growth of Austria is difficult to evaluate. Many regulations connected to World War I were still in force in the mid-1920s. The countries considered the situation with regard to the protection of their industries again increased.

The 1930s, however, were marked by a period of economic decline. The implementation of protectionist policies in Austria led to a decrease in trade and industrial output. Austria was isolated from the rest of Europe due to the economic crisis, and the country was forced to rely on its own resources. The economic situation was further complicated by the occupation of Austria by Germany in 1938. The occupation led to the imposition of German economic policies on Austria, which had a significant impact on the country's economy.

Trade policies have been an important aspect of economic development in Austria. The country has a history of protectionist policies, which were used to promote local industries and discourage imports. The protectionist policies were maintained throughout the interwar period and were further strengthened during World War II. After the war, the country adopted a more liberal approach to trade, and the European Economic Community (EEC) was established in 1957. Austria became a member of the EEC in 1961, and this resulted in a significant opening of the country's economy to foreign trade.

In conclusion, the economic development of Austria over the past century has been characterized by a mix of protectionist and liberal trade policies. The country's economic growth has been driven by a combination of factors, including industrialization, tourism, and the integration into the international economy. Despite these challenges, Austria has managed to maintain a strong and diversified economy, and it is now a major player in the global economy.
resources). Most likely, such legislation also existed in the other Nordic countries, at least in Finland and Sweden. A further investigation of this question is not possible here.

Postwar State Interventionism

The postwar era has become famous as the era of the active, Keynesian, interventionist state. To finish off this section on the state, we shall look at some results of comparative work on the postwar state in the OECD area. Comparing postwar macroeconomic performance, M. G. Schmidt has argued that the historically developed structure of the state and the bureaucracy must be taken into account. His general term for this is: “modes of regulating economic and class conflicts”. 178

Following Lembruch, Schmidt distinguishes between three types of policy coordination: first, a corporatist mode, i.e. tripartite cooperation, in and across policy areas. The second is a pluralist-sectoralist mode, which “involves a low degree of policy coordination across policy areas”, but does not “preclude tripartite networks within certain policy areas”. Finally, the third is a pluralist mode, characterised by the absence of “integrated policy networks and an underlying consensus between labour, employers and the state”.

At times, Schmidt indicates that these systems of policy coordination are connected to the long term distribution of power resources, as analysed by Komi. The corporatist mode of regulation relies on a power balance between labour and capital, a balance which influences the structure of industrial relations, power relationships in parliament and the prevailing ideological hegemony of “solidaristic” values in the electorate and in political elites. These countries also have strong welfare states. Tripartite relations are dominated by compromise and equal exchange, and such principles also influence the timing and the content of economic and labour market policies. The pluralist-sectoralist mode corresponds to a larger variety of power distributions. If mass unemployment develops, it is softened by welfare state provision. 179 In the pluralist mode, non-socialist tendencies dominate, and the welfare state is very weak: social policies tend to be of the liberal, “marginalist” type.

Schmidt predicts that due to failures of policy coordination, the latter two cases may be hit by mass unemployment. But comparative studies of the 1970s and 1980s show that even in some countries in which labour is very weak, and the welfare states are less developed, full employment has prevailed (Japan and Switzerland). 180 To account for these cases, Schmidt introduces a fourth mode, called “paternalist unilateral and social partnership”. In this way Schmidt saves the notion of corporatism as a distinct pattern which integrates labour. But he also argues that consensus may also rely on another type of social partnership which excludes labour, but still goes for full employment for paternalistic reasons. 181 By including “conservative reformism”, 182 Schmidt attributes a certain autonomy to the nature of the state and its bureaucracy, since there, there is no connection to any underlying power balance. In fact, private business tends to be strongest. Schmidt’s comparison is summarised in Table 8.5.

<table>
<thead>
<tr>
<th>TABLE 8.5</th>
<th>Schmidt’s Typology</th>
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<tr>
<td><strong>MODE OF REGULATING THE ECONOMY AND CLASS CONFLICT</strong></td>
<td><strong>Developed welfare state</strong></td>
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<td>Corporatist</td>
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<td><strong>WORKING CLASS</strong></td>
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<td><strong>Strong</strong></td>
<td>Austria, Norway</td>
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<tr>
<td></td>
<td>Sweden</td>
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<tr>
<td><strong>Weak</strong></td>
<td>Ireland, Italy</td>
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Note and sources:

Schmidt implies that both corporatism and paternalism may involve a political-administrative apparatus with strong coordinative potential. In that sense, the Japanese and Swiss cases may not be so different from Austria, Norway or Sweden. But whether their performance is due to particularities of their state apparatus, or to superior national systems of innovation (in which the state of course is involved, c.f. Figure 7.1), or to elements of paternalism and conservatism in their civil societies, is not easy to determine. Schmidt attributes the Swiss success to the longstanding “New Deal” social partnership, designed to avoid 1930s-like disasters. 183

The main point here is that our case countries are found in three out of Schmidt’s four groups. If his classification is relevant, the state apparatus in Austria, Sweden and Switzerland has strong coordinating abilities, but in the latter case, labour does not play a crucial role. Rather, there is some kind of consensus with a certain amount of paternalism involved. Finland is classified with Ireland in this comparison, indicating that economic policy management may not be strong enough to generate full employment. Instead, welfare state measures serve as compensation. As we shall see, however, Finland’s labour market performance was much better than Ireland’s in the 1970s and 1980s.

More detailed accounts of the state in the contrast cases are included in Chapter 9.
8.3 SUMMARY

Chapters 6, 7 and 8 have provided some material on the contrast countries, organised according to Senghaas’ scheme. Within the framework of this project, a full explanation of their different development patterns — virtuous and/or vicious circles — is beyond reach. Our aim, after all, is to provide material which can be fed into a comparison with the Irish case.

We have indicated a certain scepticism towards Senghaas’ emphasis on the distribution of agrarian holdings and of income. This criticism will be substantiated in Part III below. But it should be noted that this criticism is not a rejection of Senghaas’ approach altogether. We may have challenged his inclination to present the structure of land holdings as the crucial variable, but it is plain to see that in reality, his approach is a multi-causal one. This is where the real difficulty lies, and we need both deduction and induction: deduction is needed because Senghaas’ list of factors needs to be discussed more systematically, since he himself at times collapses conditions and results. Induction is needed in the form of further indepth comparisons.

Despite this criticism, Senghaas’ formula for the Scandinavian development pattern, as already indicated in Chapter 4, seems a relevant account of the virtuous circles involved: In the last quarter of the 19th century, export incomes were converted into funds for import substitution, and the domestic market expanded as a consequence of increasing demand for equipment and consumption goods. The export sector lost its enclave nature, a “national” and “domestic” market was constituted. Local linkage effects surpassed a certain threshold. Socio-structural conditions explain the broad nature of these effects. In this situation, price competition from stronger competitors leads to “innovative responses”. Given the property, resource and income distribution in Scandinavia, as well as the peculiar socio-institutional developments, rural incomes were broadly spread, and import substitution became “broadly effective”. Similar dynamics were certainly involved in the Swiss case, and also in Austria.

Senghaas’ scheme is relevant for the periods throughout which an auto-centric development pattern became firmly established. This had occurred in the Nordic area with the late 19th century surges of industrialisation and adjustment to the “great depression” of that time, a development which was consolidated by the integration of working class and farmers’ organisations in the “historic compromises” of the 1930s. The response of these countries to the economic problems of the early 1930s may be seen as evidence of their auto-centric development pattern. Despite major problems — unemployment and financial disorder — they all had an industrial base, and they all experienced an inward orientation in which the domestic market interacted with this base. Political developments, on the other hand, were different: Switzerland remained stable (and later neutral), Denmark, Sweden and even Finland developed social democratic, red/green alliances, and Austria developed Austro-Fascism. In Switzerland the consolidation of the 1930s rather implied the emergence of strictly consensual politics, with all major parties represented in government. In Austria, however, the final consolidation did not occur until after World War II. The compromise pattern established in Scandinavia was to prove crucial throughout the Golden Age until the early 1970s. In Austria, postwar developments towards a highly centralised and consensual system were driven by the “Urangst” — the fundamental fear — of a new civil war. Chapter 9 compares these postwar economic policy models.
THE POSTWAR ECONOMIC POLICY MODELS

9.1 SWEDEN

Swedish economic policies relied on traditional Keynesian demand management techniques in the 1945-47 period. The particular Swedish model of economic policy was not launched until the first large scale application of selective employment policy during the 1957-8 recession. Then followed two periods of response to international economic instability: the mid-1970s are classified as a period of fumbling (or muddling through), and from 1980 onwards Swedish neo-liberalism comes to the fore. Elements of the Swedish model, namely employment policy, have been maintained throughout the neo-liberal phase, just as some Keynesian elements survived in the Swedish model. The latter two periods will be discussed in Part V.

Some critical structural aspects of the Swedish economy must be kept in mind. As we saw above, large export-oriented corporations emerged in the early 20th century. The degree of concentration increased dramatically in the second half of the 1960s. In the 1970s and 1980s, export shares of Swedish production rose rapidly. In the mid-1970s there was also a major increase in the share of foreign production by Swedish firms in their total foreign sales.

Labour had an absolute majority in parliament in 1945. The experience of running a wartime economy had shown that there was large scope for intervention (taxation, public spending, compulsory accumulation of capital). At the ideological level, the 1930s idea of the “people’s home” had been reinforced. It was emphasised that Sweden had done better than Nazi Germany, while keeping the democratic system intact. Sweden’s social democrats had defended Sweden as a geo-political unity, protecting also the Swedish welfare state. Historians regard this shift from the capitalismsocialism, to the dictatorship/socialism as a way in which the social democrats tried to overcome the embarrassing fact that Sweden had not participated in the struggle against fascism.

The early postwar years saw a very strident debate on economic planning, but the social democrats proved very strong in the 1948 election. After that, Swedish business accepted the political dominance of social democracy until the early 1970s. But due to a polarising debate on economic planning, and also an overheated economy just before the elections, there was little room for generous reforms. The dominance of the social democrats was not so self-evident during the 1950s. They remained in power, however, thanks to their homogenous and well-organised movement, with a very effective leadership, a new red-green alliance between Labour and the Agrarian party, and the fact that the new large white collar and middle class strata shared a belief in the welfare state. It should also be noted that none of the cold war accusations of communism could be applied to the Swedish social democrats.

As for economic policies, during the Keynesian phase 1945-1957, fiscal policy was the main instrument to secure full employment and economic stability. It was counter-cyclical, but predominantly expansive. Monetary policy was passive, and the interest rate was kept low. Wage stabilisation was pursued to avoid inflation and trade deficits. In addition, there were a number of ad hoc measures, that is many direct regulations during the war and immediately after. Sweden revalued the krona in 1946 (17 percent) to counteract inflation, but devalued following sterling (30 percent down) in 1949. The latter action generated a profit boom and excess demand had to be eliminated by investment and export surcharges.

The social basis of this Keynesian accord was the home market industries. The accord dated back to the famous 1938 Saltsjobad-agreement. The quarrels on planning soon faded and the employers’ association (SAF) settled on a neutral attitude towards the union confederation (LO). Actually SAF proposed coordinated wage agreements, since the sheltered sector industries wanted to counteract destabilising wage compensation following wage drift in the export sector. The export sector was more inclined to go for decentralised wage settlements, but since the coordinated system gave moderate wage increases, they accepted it. Profitability was good at that time. There was little tension between firms oriented towards domestic market and export-oriented industries. There were current account deficits in the late 1940s, but in the first half of the 1950s, devaluation and the Korean boom created a surplus.

The trade union movement was very strong, but made few demands at that time. The radical postwar programme had been moderated by the opposition of business and bourgeois parties. The strong parliamentary position of the social democrats was also important. In addition, the Liberals under Bertil Ohlin shared the Keynesian views. The Agrarian party actually took part in government, favouring low interest rates and expansionary fiscal policy. In sum, there was consensus. The inflationary consequences of Keynesianism at full employment were counteracted by government demands for wage moderation. Incomes policies were more or less compulsory. There were also ad hoc measures to prevent cost-increases from pushing up prices.

Sweden had not been in the war, and could deliver raw materials, semi-finished goods and investment goods — i.e. input commodities — which were in high demand after the war, as reconstruction began. Thus, the existing industries (wood, engineering, iron/steel) could continue. Productivity grew due to catching up with U.S. technology. Innovations mainly occurred in the old firms. The general postwar international climate stimulated entrepreneurship: it was not entrepreneurship as such which created a high rate of growth.

The economic policies of the Keynesian phase, especially the 1949 devaluation, encouraged low-tech exporters, competing mainly on costs, not to be very import-intensive (and thus, not much hit by the post-devaluation rise in import prices). The forest industry, another low-tech exporter, was also favoured by increasing raw materials prices during the Korean boom. The low rate of interest was also favourable to capital-intensive, low-tech industries (wood, pulp, iron/steel). But all industries (with a few exceptions) benefited from high profitability. Erixon opposes the claim that the high profits stimulated r&d-intensive investments. Rather,
he argues that in the Keynesian period, high profits and a generous profit tax system (a remnant from the 1930s) gave rise to “locking-in effects”. He concludes that Swedish welfare capitalism did not succeed in creating future-oriented “development blocks” in the Swedish business sector. The pharmaceutical industry, for instance, did not really start to renew itself before the second half of the 1960s. Economic policies contributed only weakly to industrial renewal. The very large firms were the main elements of strength, with long experience as exporters, and with a strong tradition of labour/capital consensus.

The Swedish model characterises the period 1958–76. As early as in the late 1940s, LO economists pointed out problems connected to the Keynesian approach: excess demand spurred inflation, and high profits amplified this by generating wage-drift and competing wage claims. Increasing inequality of distribution weakened the cohesion of the union movement. Inflation, together with current account problems, forced authorities to turn to contractionary policies which threatened full employment. But direct regulations were not regarded as an alternative. Such problems were felt in many countries, but only in Sweden was a programme launched to secure full employment without the negative effects of Keynesianism.

Rudolf Meidner and Gösta Rehn, the famous pair of LO economists, in the mid-1950s proposed a model which intended to combine growth and wage stability in an original way. A generally expansive economic policy would spur inflation, while restrictive economic policies would increase unemployment. The instances of overheating of the economy during the Keynesian phase had shown that the combination of labour shortages and high profits would create wage-drift. The model proposed restrictive fiscal policy to handle excess demand and reduce wage inflation. But not even coordinated collective bargaining would guarantee wage restraint if profits were allowed to become very high. Thus, a reduction of wage-drift required a reduction of profits. To ensure that the squeeze on profits did not hamper capital accumulation, the model required that public savings would be high. The state would, as a part of the fiscal policy strategy, tax the companies, recycling these funds at a low interest rate. Furthermore, labour shortages would be avoided, and full employment would be achieved, through selective labour market policies in the form of training programmes, stimulation of occupational and geographical mobility, regional policy, and labour market information. Finally, the model reflected the strength of the labour movement by devising a solidaristic wage policy. This reflected the norms of fairness and equality: equal pay for equal work, and reduction of sectoral wage differentials. But such a solidaristic wage policy would also speed up structural change by eliminating unprofitable firms or forcing them to rationalise. A “rational wage structure” would counteract competitive wage increases. The model reflected the view that LO could only increase wages for its members by contributing to increasing productivity. With business becoming more productive, it could sustain higher real wages and a more solid revenue basis for the welfare state. The model assumed that wage bargaining would be the task of the labour market organisations, but that the state would intervene, conducting fiscal, monetary and manpower policies. It was also consistent with Sweden’s world economic integration, since free trade would ensure that firms did not pass their increased costs on to consumers. The model spurred concentration of capital, favouring large, export-oriented firms.

However, reality did not correspond to all these ideas. Nevertheless, the following Rehn-Meidner elements can be discerned in the 1958–78 period: an active labour market policy was first implemented in the 1957–8 recession, and in the mid-1960s. It was organised by the AMS (the labour market management board), which had an employee majority on its board. Fiscal policy was contractionary or weakly expansive in the 1960s and early 1970s. But the fact that recessions were not counteracted by expansive policies was possibly more a result of bad timing, than of deliberate implementation of the Swedish model.

Nyborg argues that the “social democrats started building an alternative state apparatus, often in open confrontation with the existing one”. The National Labour Market Board (AMS) had been set up in 1948, and other parts of this “reform bureaucracy” were the National Housing Board, The National Board for Vocational Training, The Board for Social Affairs, and the Social Insurance Board. The AMS was the “crown jewel”. It broke deliberately with the canons of traditional bureaucracy (e.g. seniority, formal competence), being staffed with a number of cadres from the labour movement, “reliable scientific experts and ideologies”. Given the Rehn-Meidner-model, this reform bureaucracy obtained a crucial position in the Swedish institutional system.

Sweden’s macroeconomic performance did not differ markedly from other OECD countries, except for more redistributive effects in Sweden than in the other countries. The effects of solidaristic wage policy were felt in the 1960s. The decrease in wage differentials between different manufacturing sectors over 1960–76 was a Swedish peculiarity. Sweden (and Denmark!) are the top OECD countries regarding male/female wage equality (Table 7.2). The public share of total gross savings also increased strongly (35.8% in 1962, 44.7% in 1970), due to the collective pension schemes.

Counter-cyclical policy was not excluded by the Rehn-Meidner model. But the model was specified only for an economy with permanently high demand, reflecting Golden Age conditions. There were counter-cyclical elements: Ericson mentions the turn to an active monetary policy (linked to housing financing); interest rate penalties; rules for liquidity and cash accounts in commercial banks, ceilings on commercial lending, and discount policies. From the late 1950s to the mid-1970s, there was a system of investment reserve funds: firms could deposit pre-tax deductions from profits in such funds, on the basis that an amount was put into the Central Bank at zero interest rate. The funds could be released again if the Central Bank judged that this would be useful for stabilisation purposes. Empirical studies suggest that the policy had some effects, especially in the 1960s.

The public sector expanded, becoming a force in the policy for increased equality. The state was financed by progressive taxes and increased payroll taxes during the 1960s. As for industrial policies, there was a government investment bank and the industry department, with state-owned firms as a particular (but very small) group. But such policies were not very important for restructuring.
9.2 FINLAND

The Finnish economy was in the 1950s and 1960s a market economy, with a strong emphasis on industrialisation and heavy industry. The government pursued a policy of import substitution and industrialization, aiming to reduce the country's dependence on foreign trade.

During this period, the industrial sector grew rapidly, with the production of machinery, textiles, and paper products increasing significantly. The government also invested heavily in infrastructure, such as roads and railways, to support industrial growth.

However, by the late 1960s and early 1970s, the Finnish economy faced new challenges. The rapid industrialisation had led to environmental problems, and there was a growing awareness of the need to diversify the economy and focus on sectors that were better aligned with environmental concerns.

The government responded by introducing new policies to support the development of service industries and technology-based enterprises. This period saw the emergence of a new wave of innovative companies, many of which were based on technology and knowledge-intensive sectors.

9.3 SWEDEN

In Sweden, the period from the early 1950s to the early 1970s was marked by rapid economic growth and industrialisation. The government pursued a policy of import substitution and industrialization, aiming to reduce the country's dependence on foreign trade.

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9.4 NORWAY

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the union movement reunited into one central organisation.\textsuperscript{170} Since then, unionisation has soared. At the same time, a broad centre/left government took office. This government was a coalition between agrarian (The Centre Party) and working-class interests (both the Social Democrats and the People's Democrats, the latter including the Communist Party majority). However, when it came to economic policies, these governments maintained the routines of the traditional Finnish model. Economic policies were still largely pro-cyclical, and large export gains were still followed by massive strike-waves. This protest however, had no marked impact on parliamentary policies, as both the agrarian and the working-class parties were "responsible" members of the government. This emerging "corporatist" pattern (with leftwing representatives as "hostages") would gain in importance through the 1970s.

Finland's Golden Age model was very different from the Swedish one. The Swedish one was generally tight, but with some counter-cyclical measures. The Finnish one was pro-cyclical: tight in hard times, but forced by high levels of conflict to be generous in good times. There was no active labour market policy in Finland, rather a significant labour surplus was exported as foreign workers to Sweden. This latter feature explains the relatively moderate rates of unemployment (cf. Table 4.1, lower than Belgium and Denmark).

With very different economic policy models, both Sweden and Finland attained high levels of economic growth (Table 4.1) throughout the Golden Age period. This shows that success was possible in that period with quite different types of economic policies. (But not with just any type of economic policies, as the case of Ireland may show, cf. Part IV). Since Finland's pro-cyclical, non-consensual model of the 1950s and 1960s is hardly a model for emulation, we refrain from more detailed discussion of it here.

9.3 DENMARK

Constructing a Danish Golden Age model is more difficult than constructing a Swedish or a Finnish one. As we have seen, agriculture has been the dominant Danish export sector, with an adjustment from corn exports to dairy and meat products in the late 19th century. In the 1950s, however, the continued dominance of agrarian exports was one of the reasons why Danish growth was not so impressive (cf. Table 4.1).

Denmark was not much damaged after World War II, but it was necessary to readjust from a war economy, which implied abnormal supply conditions and heavy state intervention. There was an attempt to liberalise trade with England in the fall of 1945, as the Danes used their inflated liquidity to buy consumption goods that the sterling area had available. A large trade deficit developed towards England, which could not extend credits, and thus imports had to be restrained.

In 1947, a social democratic government took over, and in 1948-50, national budgeting got under way. Liberalisation started again in 1949, as terms of trade for agricultural exports improved and the Marshall Aid was effective. Throughout this period, the long term bond interest rate rose from 3.6 percent to 4.6 percent. In 1949, the liquidity situation was normalised. However, credits for housing were cheaper, since specific state loans were granted.

In 1949, Britain devalued by about 30 percent against the dollar. Most other OECD countries, including Denmark, followed, devaluing by the same percentage.\textsuperscript{199} Danish terms of trade deteriorated; dollar imports became much more expensive, inflation increased, and from the end of June 1950, the Korean war added to the problems. A deterioration of the current account was expected. The discount rate was lifted from 3.5 to 4.5 percent. Devaluation was never considered as a solution to the problems.\textsuperscript{200}

The period 1950-7 was marked by "current account-restrained growth", due to the weak foreign exchange earning by agriculture (2/3 of export incomes in 1955). Agriculture was hampered by over-production as most foreign markets in this field were regulated. Any domestic upswing would quickly drain the currency reserves, and it was difficult to borrow abroad. This stop-go policy created problems for manufacturing industry in particular.\textsuperscript{201} Productivity growth was slow.\textsuperscript{202} The trade-off was between full employment and Denmark's need for international liquidity. Increased borrowing seemed legitimate as long as it was used to buy investment goods, which gave sufficient returns, compared to the prevailing interest rate.\textsuperscript{203} In the 1950s, the current account squeeze explains the level of unemployment.\textsuperscript{204}

By the mid-1950s, the doctrine of low interest rates was broken, and monetary policy became part of the stabilisation policies. The public sector borrowing requirement fell after 1954-55, and there was a surplus 1959-60. The low foreign exchange rate earning ability of Danish agriculture squeezed industrial investments. In contrast to the Northern neighbours, Denmark had rather high unemployment (a minimum 4-5 percent against Sweden's 2-3 percent and Norway's 1-2 percent). Denmark now proved to have the most open credit markets (especially towards Germany) among the postwar Nordic countries. The interest rate often went above the international average. Denmark had flourishing and large markets for private bonds, private savings and institutions for private pension schemes, c.f. Chapter 4.1, on the capital-product based financial system. The Central Bank maintained a high interest rate in order to force firms to borrow in international financial markets, thereby financing the chronic balance of payments deficit.\textsuperscript{205}

The dominant social forces of the early 1950s had been well-off farmers, large scale agribusiness and trade/finance interests. These were the major forces behind the Liberal party (really a party for the big farmers), and the Conservative party. But external events created problems for this bloc. The different trade liberalisation agreements (the GATT-rounds, EFTA and EEC) towards the end of the 1950s, did not encompass agricultural exports. For political and military reasons, all Western countries were motivated to shelter their national agricultural sectors.

Economic prospects were regarded as poor in 1957-58 due to a business cycle setback, and an EEC without England (and consequently without Denmark). At the same time, a stalemate political situation provoked major strikes and broad social
unrest in 1956-7. A majority “triangle” government took office in 1957. This coalition may be analysed as a kind of compromise between the labour movement (represented by the Social Democrats) and the “new” industrial bourgeoisie (temporarily represented by the Radical Liberals, since the traditional Liberal party was still a shelter for agricultural interests). Furthermore, from 1960, Denmark became a member of EFTA, with Norway, Portugal, Switzerland, Austria, Sweden and England.

This was due to a number of positive factors, “one-time advantages”: first, improvement in the terms of trade after 1957; second, there was foreign currency to finance investments and expansion of employment. Third, there was a demographic wave: higher birth-rates during the 1940s resulted in 100,000 more entering the labour market (compared to the 1930s generation), and this was a very mobile labour force. Fourth, there was a labour supply from agriculture, whose use of extra labour declined. Fifth, most restrictions on foreign trade were dismantled. In the late 1950s, trade in manufacturing goods was liberalised and convertibility made it possible to convert the agricultural sterling incomes into dollars that would buy up-to-date machinery. With the traditional export sectors restrained, Danish manufacturing producers had new opportunities: traditional sectors, like textiles expanded, but in particular, a group of medium-sized, quite productive producers of niche products suddenly made impressive progress. For the first time in Danish history, manufacturing exports exceeded the share of agricultural exports.

The second, third and fourth circumstances gave a growth of labour power for non-agricultural sectors of about 300,000 (15 percent of the labour force). Productivity went up by 6 percent p.a., employment grew at only 2 percent, but it increased faster than the labour force. In four years 1958-62, Denmark had arrived at full employment. Unemployment was down to one percent in 1962. 1957/8 gave the most definite improvement of the current account/unemployment trade off. At that point (1958/9) the current account was 2.5 percent (of GDP) in surplus, and total national debt was close to zero, brought down from more than 10 percent in 1950. But — from that point it was to rise again! Due to this major change, our delineation of a “Danish model” does not include the 1950s. Rather, we hold that the “Golden age” model reflects a departure from the dominance of the agricultural sector.

The new government implemented a series of economic policy reforms favouring the newly expanding export industries. Thereby, Denmark was able to reap the full benefits of the generally expansive mood of the Golden Age world economy of the 1960s: full employment, increasing real wages, increasing industrial investment (to 1966), high productivity gains, rising housing standards, defence of agriculture and small industries.

In the 1950s, economic policies had to emphasise the current account problem, neglecting the concern for growth. “The time horizon was short, currency reserves small and goal-conflicts pronounced.” In the 1960s, the concern for growth became more important, and wage differentials narrowed. The number of wage earners was expanding particularly rapidly in the 1960s.

There was activism in several economic policy fields throughout the 1960s. There were even regional policies, interest rate subsidies and new credit institutions sponsored by the state, with a system of care for the elderly, disabled, and survivors (“The social reform commission”). There was a rationalisation and concentration of agriculture, but at the same time increased subsidies. A framework for protection of social citizenship was set up in the form of an extended welfare state. Also short run allowances, like unemployment and sickness compensation, were improved. As for pension systems, Denmark followed the Swedish universalist flat-rate system in the late 1950s, but never went on to a full-fledged ATP-reform. The balance of payments deficit was now accepted even by the bourgeois parties. In contrast to 1950s pessimism, optimism now reigned: the deficit-financed investments in manufacturing industry were bound to pay off later. From 1961 net debt abroad started to increase again. Now Danish authorities gave private persons and firms increased options concerning lending abroad (this indicates a higher interest rate at home than abroad). Between 1957 and 1970, Denmark had a higher yearly GNP growth rate than Norway and Sweden, above the EFTA-average. Manufacturing industry increased its share of export incomes from 35 to 60 percent in the same period.

In 1964-5, there was a tightening of liquidity: the interest rate jumped. This gave rise to a system of “bond rationing” from 1965, i.e. limitations on the amount that the mortgage institutions could lend. The objective was to differentiate loans according to their use, not according to creditworthiness.

Politically, this was the high time of Social Democracy. In the 1960s and 1970s, the Social Democrats took 42 percent of the vote, more than ever since the war. A bourgeois majority government took over in the period 1968-1971. The 1957-60 Social Democratic/Radical Liberal government and the bourgeois government 1968-71, have actually been the only two majority governments in Danish postwar history. In the period 1960-72, the public share of national income increased from 25 to 50 percent, with stronger growth in the days of the bourgeois government. Two tax reforms (1962 and 1967) increased the automatic stabiliser effects of fiscal policy. Following the reform of housing finance in 1958, construction of private housing expanded rapidly. The burdens of taxation (1960-72) increased considerably, since the balance of payments were in deficit. As a consequence, the elections of 1972 produced a tax revolt (as we shall see).

Despite the success of the new manufacturing sectors, the traditional interest groups were still strongly represented in Danish political life. Representatives of the farmers, of agrarian export industries and sheltered sectors all wanted their shares of the growth. Several programmes supporting the farmers followed through the 1960s. Both the so-called “Total Solution” of 1963 and the later more decentralised incomes policies settlements gave large improvements for all wage-earners and made public employee wage leaders. The total solution was actually the only successful case of government-coordinated, centralised incomes policies in the 1960s. It coordinated income across sectors and granted a productivity-linked wage increase to manufacturing workers. The total solution was one imposed by the state. In fact, 1963 turned out to be the only year since 1960 that Denmark had a surplus on its current account. Later attempts to coordinate wage developments
came unstuck, however. Efforts at active labour market policies (1969) were also largely unsuccessful.

The year before the "Total Solution" (1962), an "Economic Council" of "wise men" — modelled after the Western German "Sachverständigen-rat" — had been founded to give advice on incomes policies. This might be seen as an attempt at corporatism, since the Council includes representatives of the most important interest organisations, the central bank, the economic ministries and some specialist economists. It has a "formandskap" (group of chairmen) of three professional economists, leading a corps of economists/bureaucrats. Its task was originally to establish the latitude for the growth of money incomes, wages in particular. It actually advised the total solution, but it has since then not had major importance. Since the early 1970s, it has evaluated the economic situation more generally. The Council was not able to influence government or parliament in any significant sense.

Fiscal and monetary policies were expansive. The labour market organisations emphasised wage increases, not concerning themselves with long term effects. Fiscal policies over the period 1958-74/5 were expansive as the level of spending increased. But there was a budget surplus in order to finance a private savings deficit. This private deficit was related to residential construction. This means that the public sector, and "non-residents" did most of the saving during the postwar period.

In the period 1958-73, 200,000 people left agriculture. Public employment increased from 250,000 to 500,000. But employment in manufacturing industry was unchanged 1962-73. This surge of economic growth gave rise to bottlenecks, with strong wage increases. Frictional unemployment was the only type of unemployment. This is the background to the heavy inflationary pressure which existed as the crisis struck in 1973/4. The labour market was very tight, and wages grew by 20 percent more than abroad. There was a pressure on firms, forcing them to restrict growth, but few survived. Employment expanded in sheltered sectors. Already during the Golden age, a "kævtrækning" — a "lopsiding" — of the Danish economy took place.

In the period 1959-73, a larger current account deficit than 1950-58 developed. This reflected both political priorities and the fact that in the 1960s — in contrast to the 1950s — international capital markets agreed to finance a Danish savings deficit. By the mid-1960s, demand for imports, also driven by public spending and housing, fed the current account deficit. The deficit increased fastest in 1961-2, 1964 and 1965-70, when growth of domestic demand was strongest. "It was no longer possible to accept the deficit by referring to the satisfactory returns from foreign loans. But this point of view was not mentioned in the debate."

Currency trouble began in the mid-1960s. Sterling was devalued in November 1967. Unlike 1949, only a few European countries followed England. One group were agricultural exporters with many exports to England, and Denmark was among them, due to concern for its growing current account deficit. Denmark devalued by 7.9 percent, half of the British devaluation. Following this, the Social Democratic government tried to abolish an indexation clause due to the inflation following on devaluation. But the government fell on this proposal. The majority VKR (Liberal, Radical Liberals and Conservatives) government took over in 1968.

In the spring of 1969, instability again was felt in international currency markets. At this time the international level of interest rates was above the Danish level. Thus, Danish residents began to switch their private short term loans (contracted abroad) to Danish loans. There was immediate pressure on currency reserves. Between March and May 1969, the discount rate had to be increased from 6 to 9 percent. The long term bond rate went to 9.5 percent in April and in the summer it passed 10 percent for the first time, and has been there ever since (except for October 1972 and the spring of 1986). But conditions were favourable. While unemployment had increased in 1968, it went down again in 1969. Export prices developed favourably, so that net debt did not increase dramatically. In 1969, there was an important turning point in monetary policy. Earlier, monetary policy had focused on investments (volume and composition). From 1969, defence of the currency reserves became the overarching concern, as the interest rate differential increased in order to push residents to borrow abroad.

The problem for the VKR-government was partly that a strong growth of the public sector was determined in advance. Since their strategy was based on the abandonment of incomes policy, they could not employ such solutions. Thus, the government tried a tighter fiscal policy instead (but there were not any well-developed ways of judging whether it was in fact restrictive). They also lifted the rationing of bonds. As a result, the housing sector started booming again.

A Social Democrat government (minority) ruled from the fall of 1971. An import surcharge was announced (1971-April 1973). As an attempt to create wage moderation (in a situation of international boom, low unemployment, increasing inflation), a law on "economic democracy" was proposed. Note that only in the early 1970s were planning models introduced to improve the basis for economic policy making.

The period 1968-73 saw the end of the boom. The increasing importance of public employees reflected the massive extension of the welfare state, within education as well as through the provision of social security and health services. The modernisation of education was due to new qualification requirements, since the structural changes (urbanisation, continuous restructuring of the productive apparatus, etc.) defined both new technological challenges and new tasks for the social sector. Public spending and tax rates grew faster than in any of the other Nordic countries in the 1960s. Among the sheltered sectors, housing was particularly important. This sector attracted large resources through the expansionary period of the 1960s, and this consolidated both the importance of craft workers and real estate owners within Danish capitalism. Housing, construction and the public sectors were the only sectors that expanded their share of Danish employment during the 1960s. Most analyses of Danish postwar capitalism agree that such trends served to hamper the ongoing expansion of new manufacturing industries. The sheltered sectors absorbed too large a share both of employment and of financial resources (heavy state loans and much private speculation consolidated a high level of interest
In 1969, the discount rate jumped from 6 to 9 percent. The Danish manufacturing export sector therefore remained too small to finance the broad spectrum of imports that escalated with the strong transformation of the economy and society through the 1960s. The result was an increasing balance of payments deficit. Both internal and external pressures proved so strong that the Danish “Golden Age” model was in ruins already before the international crisis hit the country in 1974/5.

9.4 AUSTRIA

We start our survey as Germany loses World War II. The Moscow declaration of 1943 implied that Austria was a free state. But in 1945 the country was divided into 4 occupation zones (USSR, France, England, US). The August 1945 Potsdam agreement gave the Soviets the right to seize German assets in their occupation zones as reparations. Both in the later DDR and in parts of Austria, factories were dismantled and machines sent off to the USSR. A Soviet-controlled corporation seized more than 400 industrial enterprises in Austria. As a response, the Austrian parliament in July 1946 and March 1947 passed far-reaching nationalisation laws, liquidating many German assets redefining them as “Austrian property”. In this way continued Soviet confiscation was precluded. The occupying powers disapproved of this, but the Austrian government anyhow managed to take control of about 70 of the largest industrial enterprises, among others a number of chemical and electrical-engineering industries. Private capital was scarce. Investments were rather controlled in the period 1945-55, since Austria (as well as Greece) received some of the largest payments for postwar recovery. More than $136 million from the United Nations Relief and Rehabilitation Administration 1946-8, then a large share of Marshall Aid ($1.6 billion) was received in aid in this period.

A currency reform was attempted in the late 1940s, but successful reform came only in 1951. In this so-called Raab-Kamitz era the economic situation was stabilised. In monetary policies, Austria pursued the hard currency option, pegging the Austrian Schilling to the DM. This was combined with Keynesian fiscal policies and moderate wage/pricise policies. The economy gradually picked up, and in particular 1954 and 1955 were boom years (GNP growth rates of 8.6 and 11.1 percent). Since 1958, Austria has had counter-cyclical policies like Sweden and Norway.

The economic recovery was the economic basis for the State Treaty of 1955 which gave Austria its full independence. Part of the agreement was that Austria should deliver to the USSR $150 million in specified goods over a six year period. In addition, the Soviet Union also got some oil deliveries and a cash refund for handing back the Danube Shipping Company. (By February 1964, Austria had formally fulfilled its payments to the USSR.) As a consequence of the Treaty, Austria was relieved of the costs of the occupying armies (the U.S. had paid its own costs since 1947, but the Soviets only waived them in 1953, and Britain and France only in 1954). Occupying forces and the control measures of the Allied powers finally disappeared. The Second Republic got its own constitution, stating that Austria should be a neutral country. It was these circumstances, and certainly no ideology of nationalisation, which determined the large share of public ownership of heavy industry.

There was a high rate of investment in fixed assets throughout the early postwar period: at about 27 percent of GDP, this was at the level of other peak countries like Norway and Switzerland. Investment was concentrated in sectors of production with growing markets and/or sellers’ markets. In the 1950s, these sectors were basic industrial goods: steel, metals, paper and refractory stones. There was also a boom in Alpine tourism. The state did not involve itself in economic planning. Public firms have been run like private firms. In the late 1960s, the Austrian Industrial Corporation (ÖIG) was created to coordinate the nationalised industries.

The reorganisation of the business community in 1946-7 involved a fusion of two historical traditions of business representation. The principle of chambers, as noted in Chapter 8, dates back to 1848. Austria’s professional organisations, however, descended from the ancient guilds, and their influence had so far been confined to the regional level. “By combining the territorially organised, centralised economic chambers with the functionally organised, decentralised professional associations, Austria gave its postwar business community great political cohesion.” The Federal economic chamber (Bundeswirtschaftskammer) has six sections (commerce, industry, trade, banking/insurance, transportation, tourism). It covers practically all Austrian enterprises (about 250,000 members), both private and public. The business community thus speaks with a single voice, and resolves conflicts of interest within the organisation. The Federation of Austrian Industrialists, (VOI; Vereinigung Österreichischer Industrieller), on the other hand, is much smaller, organising only 4,000 firms. Its linkage to the Chamber is with the industry section, of course. The VOI represents larger, more export-oriented firms, but it adjusts to the broader concerns of the Chamber.

The events of the 1930s and 1940s — the “legacy of political conflict and economic adversity” — “had created a durable consensus among competing party elites”. The Allied Commission for Austria allowed three political parties: The Conservative “Peoples party” (ÖVP; Conservatives or Catholic Christian Democrats), The Social Democratic Party (SPÖ; Labour) and the Communist KPÖ. Karl Renner again led the first provisional government. According to the “parity” principle, each party had a third of the government ministers. The first elections in November 1945 returned ÖVP (Conservatives) and SPÖ (Labour) as the two large parties, while the Communists gained little support. ÖVP had an absolute parliamentary majority, and had the prime minister (Bundeskanzler), while SPÖ had the president. This was the start of the “Great Coalition” between Reds and Blacks, between Social Democrats and Christian-Democrats, as ÖVP continued the Christian Social approach. Both sides were organised according to the “Bündliche prinzip”, that is, as pillars. The black side united employers, farmers, and workers. In this way, interest differences which the Christian Social party had failed to master in the interwar period were contained. Employers and farmers were the strongest elements.

The Austrian parliament has two chambers: one is the national assembly (Nationalrat), the other one consists of representatives of the individual member states of the federation (Bundesrat). ÖVP (Conservatives) and SPÖ (Labour) ruled in coalition from 1945. SPÖ won most votes in 1953 and 1959, but the electoral system made ÖVP the largest party in terms of MPs. Both parties organise a large
number of members, partly for pragmatic reasons: in Austria, one’s career may depend on party membership. A school headmaster, for instance, must be a member of one of the two major parties, the large majority of white collar railway employees are red, and the party preferences of public employees in different counties seem to vary with the dominance of party. 235

All political parties took part in the reconstitution of the Austrian union movement after the war. A fully centralised union confederation (ÖGB) was established. It is independent, and in contrast to the Arbeiterkammer (The Labour Chamber), membership in the ÖGB is voluntary. The union confederation was willing to collaborate with the state, and pushed for incomes policy collaboration, which would also include agreements on monetary and fiscal policies.

In the inflationary chaos of the immediate postwar period, five important wage/price agreements were established. In July 1947 food prices exploded: ÖGB, the Labour Chamber and the chamber of the Employers made the first price and wage agreement. Farmers did not take part. Both unemployment and inflation were high in this period. This kind of coordination was institutionalised in 1951 (”Wirtschaftsdirektorium”), lasting until 1954. The period 1951-57, however, saw relatively decentralised price and wage formation. In 1957, the threat of inflation reappeared. From that time on, collaboration became fully institutionalised. As already noted, the Austrian economic miracle (Wirtschaftswunder) had started already in 1947-54: GNP growth was on average 11.2 percent, in 1955-64 it was down to more normal 5.7 percent. The early start is important, since at that time eastern markets were largely cut off, full sovereignty had not really been achieved, and, although there were incomes policies, the “Sozialpartnerschaft” system had not been fully developed (the Joint Commission — outlined below — was still not in operation). Thus, there was an early postwar surge of growth before some of the main institutions that have been regarded as crucial to the later Austrian model were established.

SPÖ (Labour) controlled the Ministry of Social Affairs, and according to Esping Andersen and Korpi, their chief goal was to “abolish the corporatist organisation of social insurance schemes, to place the benefits and rights of workers on a par with those that obtained for salaried employees, to enhance the position of workers within the self-governing social insurance institutions (which play a significant role) and, finally, to improve the benefit levels of social insurance”236. The reform of the social insurance system, however, was determined by a compromise between the two large parties. There was no full unification of existing insurance bodies, but a certain centralisation. SPÖ pushed for a system of “general people’s insurance”, but was countered by the ÖVP (Conservatives). In 1955 a “general social insurance law” was passed, with some improvements, but no “general people’s insurance”.237 A new offensive followed in the 1970s, during the one-party SPÖ government. In 1974 continuation of wage payments during sickness was provided for workers, a privilege which had earlier only applied to salaried employees. In 1979, a lump sum of compensation in case of lay-offs was granted also to workers, again equalising workers and salaried employees.

In the early 1950s, economic policies were restrictive. Not until the 1958-60 recession did the labour movement succeed in implementing an expansive, Keynesian policy. After 1961, registered unemployment hovered below 3 percent. But policies have been general, rather than “active” in the sense of Swedish labour market policies. The state-owned firms have played a certain anti-cyclical role.

**FIGURE 9.1**
The Austrian Joint Commission on Wages and Prices its Structure as it Developed in the Early 1960s

<table>
<thead>
<tr>
<th>Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assembly of the Joint Commission (formal)</td>
</tr>
<tr>
<td>“Präsidentenvertreter” - Regular Meeting of the Presidents (informal, usually once a month)</td>
</tr>
<tr>
<td>Subcommittee on wages (formal)</td>
</tr>
<tr>
<td>Subcommittee on prices (formal)</td>
</tr>
<tr>
<td>Council for Social and Economic Questions (formal)</td>
</tr>
<tr>
<td>Members (Voting)</td>
</tr>
<tr>
<td>SPO (Labour) “Red” pillar</td>
</tr>
<tr>
<td>— Federation of Trade Unions (v)</td>
</tr>
<tr>
<td>— Central Assembly of the Chambers of Labour (c)</td>
</tr>
<tr>
<td>ÖVP (Conservatives) “Black” pillar</td>
</tr>
<tr>
<td>— Federal Chamber of Commerce (c)</td>
</tr>
<tr>
<td>— Conference of Presidents of the Chambers of Agriculture (c)</td>
</tr>
<tr>
<td>Members (non-voting from 1966)</td>
</tr>
<tr>
<td>Cabinet (Federal Chancellor as chairman)</td>
</tr>
</tbody>
</table>

Note: (v) — voluntary; (c) — compulsory. While the chambers of labour and commerce are organised at the national level, the chambers of agriculture are organised at the federal level. Thus, compulsory membership in the latter case means that each farmer must be a member of his/her respective regional chamber, while the conference of regional presidents is the institution represented in the Joint Commission at the national level. Furthermore, criteria for relating the chambers/unions to the red or black pillar, is the fact that, for instance in the agricultural chambers, the association of conservative farmers have always maintained strong dominance, similar to the dominance of the social democrats in the trade union federation and the labour chambers.


In 1957, there was the threat of inflation arising from the Korean War. From that time, the “Joint Commission for Price and Wage-questions” (PK — “Die Paritätische Kommission für Preis- und Lohnfragen”) became the central institution in the coordination of incomes policies, the “Prime council” in which economic and social questions were discussed. 238 The four main social partners are represented on this commission. First, the Federal Economic Chamber, that is the employers’ organisation; second, the umbrella organisation uniting the regional agricultural chambers; third, the Central Assembly of the Chambers of Labour (AK), organising all wage earners;
and last, OGB, the central labour union. The first have leaders with close connections to the Conservatives (OVP) and the two latter have close connections to Labour (SPÖ) (cf. Figure 9.1).

"Paritätisch" means "equality of status". The two opposing interests have equal shares of the votes. All decisions are unanimous. This is the independent part of Austrian social partnership. Representatives of the state are only marginally involved. (The converse "dependent" part of Austrian social partnership comprises the numerous state-appointed committees, etc to be discussed below.) In a full meeting ("Vollversammlung") the government has two representatives, and each of the four associations have two.\(^{239}\) The PK is led by the Prime Minister, and other ministers take part. The activity of the Joint commission was extended from prices (1957) to wages (1962) and more general economic issues (1963). One sub-committee deals with wages, and another sub-committee with prices (but not all prices). Coordination is informal. There is no constitutional base for The Meeting of the Presidents (see Figure 9.1). As is often said, it does not even have an address. The whole commission was in fact intended to be temporary! The commission is not legally based, while the chambers are.\(^{240}\)

In sum, the chambers form a traditional statutory system (compulsory membership), the entirely homogenous and concentrated union confederation, OGB, is a voluntary organisation, and the PK is a fully informal, non-constitutional arrangement.

The policy-making process involves all major pressure groups, promoting cooperation and integration. The two major principles of the Joint Commission are: first, unanimity, that is full consensus, meaning that any group can veto any decision. Second, no publicity: the public is not allowed to witness the decision-making process, they are only informed afterwards. Thus, this system violates two major conditions of any parliamentary system: majority rule and publicity. Pelinka actually argues that the Joint Commission is "a representative institution like a parliament", but it is also a version of "consociational democracy", different from competitive democracy.\(^{241}\) In a historical perspective, Katzenstein regards the Joint Commission as a synthesis of the two ideological opposites of the First Republic: Christian-Social corporatism and nationalised socialism.\(^{242}\)

The Meeting of the Presidents seeks compromise if the subcommittees have failed to reach agreement, and they define the agenda of the Assembly meetings. The Assembly only approves, so the Regular Meeting of the Presidents is the "hard core" of the whole Austrian system of industrial relations. This means that there is a strong concentration of power in the hands of a few peak leaders, sometimes termed an "oligarchy".

About every third month there is an "economic discussion" (Wirtschaftliche Aussprache) in which the peak leaders meet with the director of Austria's Economic Research Institute to discuss the most recent information on economic development. The subcommittee on wages does not dictate the outcome of collective bargaining, but approves initiation of negotiations for new agreements, and in some cases influences the duration of contracts.\(^{243}\) Government officials are not represented on this committee. OGB members submit requests to the OGB leadership, which influences the subcommittee in its queuing of requests for wage increases. Wage policy has generally been countercyclical, but the system allows wage drift, which has been contained within "responsible" limits, except for a 1974/5 wage explosion.\(^{244}\)

Individual firms and branches must submit requests for price increases to the Federal Economic Chamber. They must argue that the increases can be justified in terms of increasing costs. If the price affects the whole economy, the request is passed on to the Joint Commission. The Commission covers about 33 percent of prices, and a further 20 percent are determined administratively (food, energy, public services).\(^{245}\)

The third leg (see Figure 9.1) of the system — a council for social and economic questions — was intended as an application of French indicative planning.

While Austria's Social Partnership took the shape of a grand parliamentary coalition, the Joint Commission has been dubbed a "paracoalition". Pelinka quotes seven conditions of this system: 1. A stable consensus between the main social groups; 2. A highly concentrated organisation of all groups (e.g. there can be no competition between different union confederations); 3. Very close relationship between pressure groups and parties: with overlapping between leading pressure group members and members of parliament; 4. Acceptance of the social status quo by all major groups; 5. A mixed economy with both private and public elements (as for the latter: nationalised firms and banks, as well as a generous social welfare system); 6. De facto acceptance of the present income distribution; 7. Agreement on economic growth — not the altering of income distribution — as the main goal of economic policies.\(^{246}\)

Turning now to the role of the state apparatus, Katzenstein argues that what distinguishes the Austrian state is "its centralised, publicly licensed economic chambers, in which membership is compulsory".\(^{247}\) As already noted, the most important private interest groups, OGB and VÖI, collaborate closely with their respective chambers.

The Austrian state bureaucracy seems quite strong (and certainly has a legacy back to the old German-style paternalism), and the federal system quite weak. But on closer inspection, it turns out that the network of partnership institutions (a comprehensive system of advisory councils) is the real core of the system, and that the Joint Commission is the core within this core. State bureaucracy is one, but not the most important actor. Bureaucrats are "neutral" brokers, preferring informal, secretive and centralised bargaining in the network. "Rather than initiating political strategies, the Austrian government is expected to ratify decisions reached in negotiations between Austrian interest groups; it insists on consultation but not co-determination in the shaping of critically important economic and social choices. (…) The government trades its partial political emasculation for a predictable formulation of policy and its easy implementation".\(^{248}\) In Austria's corporatism, both business and labour have potential veto power.
The relationship between the political parties and interest groups requires sophistication, balancing interests and parties to not be too autonomous (loss of democratic consent). Breaking the political parties, the government must not be too interested (loss of political parties). After the government's intermediation role, it's a contract-based system of voluntary exchange among the parties and the government. The government, as the 'third party', plays a mediating role by holding the balance between the parties, ensuring that the contract is fair and that the benefits are distributed fairly. However, this role is not without its challenges, as it requires a high level of expertise in policy-making and a good understanding of the interests of all parties involved.

Karsten also argues that the Austrian model is unique because it does not rely on a single political party to dominate the government. Instead, it relies on a coalition of parties to form a government, which helps to ensure that the interests of all parties are represented. This system has been successful in maintaining stability and reducing the risk of political instability. However, it also has its drawbacks, such as the potential for gridlock and slow decision-making. The Austrian model is a good example of how a country can balance the interests of its citizens and maintain a stable government, but it is not without its challenges.
9.5 SWITZERLAND

We have seen that four of our contrast cases have quite strong labour movements, Sweden and Austria in particular. Switzerland is often mentioned as a country in which labour is very weak. According to traditional measures (cf. e.g. Table 8.2), trade unions and social democracy are very weak in Switzerland. But still, they participate in decisions to a large extent. In Chapter 8, four important Swiss traditions were mentioned, and among these, proportionality seems a decisive feature if we want to understand why labour still participate. Since World War II, the Swiss have extended their system of allocating a share of the government positions to the main parties, which roughly represent religious and socio-economic pillars. Such a system is not really in line with the ideas of representative, parliamentary democracy. The Swiss give priority to regulation of conflict by consensus, rather than by majority. The phrase “Konkordanzzwang” — meaning that achievement of consensus is imperative — is often used.

Between 1848 and 1891, the Radicals, that is the protestant forces, dominated the government (Federal Council; Bundesrat). Since 1891, Catholics were granted one member, increased to two since 1919. Labour was admitted in 1943. “This progressive incorporation of opposition into government was in fact a strategy consciously adopted by Swiss ruling elites to defuse conflict outside the parliamentary arena. This strategy finds its fullest expression in the admittance of a Socialist to the government coalition by the conservative bloc at the height of the Nazi threat during World War II.”

The development of this proportional system since 1943 is summarised in Table 9.2, which shows that the government always reflects a larger share of the votes than is required for a simple majority. The principles of parliamentarism are quite diluted, and as for the representative aspect, MPs and members of government are not really committed to the positions of their parties.

The 2:2:2:1-formula has been in operation since 1959 (see Table 9.2), and is often called the “magic formula” (Zauberformel). According to that formula, three parties — Freisinnig-Demokratische Partei (the “Radicals”, a mainly Protestant party), Christlich-Demokratische Partei (“The Catholic Conservatives”) and the Social Democrats — have two seats each in the government, while the Swiss People’s party (the agrarian party) has one. Note that the 2:2:2:1 formula “is the hallmark of proportional rule practised, in varying degrees, at all levels of government through Switzerland.”

Given that the system emphasises consensus, it is not surprising that Switzerland has numerous corporatist channels. Corporatism here means a system of interest intermediation in which private interest groups, economic, social and professional associations, exert direct influence on the state apparatus and government policies. There is also influence from the state on the associations. Developed as a response to the recession of the 1930s, there is a consultative procedure (Vernehmlassungsverfahren), which requires the Federal Council to consult all interested parties before a bill is submitted to parliament. There is also the system of direct democracy — leading to extensive use of referendums — mentioned in
Sweden, it reflected a situation where the employment rate declined, as both the demand for and the supply of labour diminished. In the other European full employment cases, the employment rate increased, so supply and demand of labour both increased. We shall discuss this further in Chapter 17.

9.6 COMPARISONS

Our contrast cases consist of three Nordic and two Alpine countries. We have found similarities and differences between all of them, but it seems that the similarities between the members of the Nordic group are greater than the similarities within the Alpine group. Austria, in fact, appears to be a country marked by the strength of labour, which is in contrast to Switzerland. Is it similar to the Nordic group? In the following section we present some reflections on this question. Finally, we compare the two Alpine countries.

Austria and Scandinavia

According to Korpi’s power resource indicators (Table 8.2) both Sweden and Austria score very highly. In fact, Austria has both salaried employees and manual workers in the same highly centralised trade union confederation, while Sweden has the LO and the TCO. Both in Sweden and in Austria there are close ties between the Social Democratic Party and the union confederation. But all the Nordic countries have a fragmented non-socialist side, with Conservative parties, Farmers’ parties and Liberal and/or Christian parties. In contrast, Austria’s Conservative party (ÖVP) encompasses the whole right wing. Swedish Social Democrats managed to dominate governments until the 1970s, while the SPO in this period was a junior partner.

More important, however, is the fact that the whole Austrian system is pillarised with two pillars (red and black). As for the union confederation, for instance, this means that religious and political cleavages exist as major elements within it. In the Nordic countries, only the left, i.e., social democracy, managed to build a “pillar”, so if a “pillarised” socio-political system requires a minimum of two pillars, the Nordic systems cannot be counted as such.

As for private business, Austrian capital is perhaps weaker than Swedish capital, due to the large nationalised sector. Nordic social democracy did not imply much nationalisation, although the principle was often supported. In Austria, there was full consensus on this matter, since nationalisation related to the threat of Soviet confiscation. But again, the nationalised sector is influenced by a balance between the red and the black pillars. If social democrats are in a majority position in a Nordic country, the need to balance another pillar is not an imperative throughout the system. To the extent that the Nordic systems implied class compromises, these compromises implied greater organisational autonomy of the left.

The most striking difference between Austria and Scandinavia is the compulsory chambers. Visions of such a strongly corporatist system may have been floating around also in the Nordic area in the immediate postwar period, but they never came to anything. Thus, when it is stated that the Nordic countries have quite centralised organisations, which link up with the state in a corporatist fashion, these organisations are always voluntary organisations in civil society. Austria, in contrast, has overlapping interest representation, with both compulsory and voluntary organisations. Of the four major organisations taking part in the Joint Commission, ÖGB is the only voluntary one, while the three chambers are compulsory (see Table 9.1). The employers’ association, for instance, has to channel its influence through the chamber. Furthermore, the parliament is possibly less important in Austria than in any of the Nordic countries. Parties have to maintain specific relations to the Chambers: ÖVP (Conservatives) to the agricultural and trade chambers, and SPÖ (Labour) to the labour chamber and to ÖGB.

Even in the Nordic cases, varieties of corporatism surely exist, particularly in the form of committees, consultative procedures, and informal influence. But the chambers make Austrian bureaucracy and parliament more dependent on the social partners. In the Nordic cases, bureaucracy and other state institutions are not staffed according to any principle requiring proportionality between reds and blacks. The Nordic countries have committees like Austria’s dependent part of Sozialpartnerschaft, but not institutions like the independent Sozialpartnerschaft.

In Austria (and in Switzerland), the main parties are ‘in’, while smaller parties are ‘out’. This might make the Alpine party systems more stable than the Nordic ones. The party systems of Scandinavia seem more vulnerable to change than the Alpine ones. In Austria or Switzerland, new parties may challenge the old structure, but have trouble breaking into the system. In the Nordic cases, such new challenges more easily influence the other parties.

As already hinted at (cf. the end of Chapter 8.1), the “consensual systems” of Austria and Scandinavia have different origins. The Scandinavian system developed from below in the interwar period, via red/green compromises. Austria, on the other hand, had Austro-Fascism and then Anschluss to Nazi Germany. In Scandinavia, the party systems survived the difficult 1940-45 period. In Austria, parties were reconstituted after the war. All the Nordic countries regained their independence (only Sweden was able to remain neutral, like Ireland), while Austria was supervised by the allied forces until 1955. At that time, neutrality was written into the Constitution of the Second Republic. The party system of 1945 reinforced the pillarisation of society into black and red pillars, and as indicated, this dichotomy was built into most institutional arrangements. In Scandinavia, this was not possible, since the non-socialist side was split into three, four or more parties. Scandinavia may have a “red” pillar, linked to the labour movement, but lacks the encompassing type Christian-Democratic movement, which mobilises both business interests, many white collar workers and farmers. Thus, there is no “black” pillar.

One might say that the Nordic non-socialist side is more ‘pillarised’ according to class lines, since there are separate Conservative and Farmer parties. But pillarisation is not the right word, since the Nordic systems do not entail proportional representation by the representatives of the ‘pillars’ throughout the system. Due to the fragmentation of the right side in the Nordic area, the social democratic “pillar”
was central in a bargain which resulted in relative social democratic dominance in the political sphere, accepting that business forces maintained their decision making power in the economic sphere of the mixed economy. In the Alpine cases, the state was never taken over by the social democrats, since proportionality and compromises exist at all levels of the state. If there is a social democratic government in Austria, its policies are tempered by consensual mechanisms throughout the political-administrative system. Of course, there are mechanisms creating consensus in the Nordic cases too, but not ensured by proportionality. Thus, the chances that Labour would succeed in getting through more distinctly social democratic policies seem higher in the Nordic cases. Income distribution might be one example.

As indicated in Chapter 7, the income distribution of Austria is relatively skewed, compared to those of the Nordic countries. Whether this difference reaches back to roots in early history, or whether the welfare states of postwar Scandinavia have been successful in their aims at redistribution, involves difficult empirical investigations. In terms of rhetoric, at least the Scandinavian social democracies were always eager to point out their efforts to create equality, while the acceptance of the status quo seems more typical of the Austrian situation.

Another example might be the social security system. While there is a postwar discontinuity in the Austrian party system, the Nordic countries have a postwar continuity in their social security systems: they instituted universal pension schemes in the early postwar period. In Austria, it seems, if Korpi is right, a highly stratified system was maintained. The old “estate” approach lived on in ÖVP (Conservatives). In Scandinavia, the continuity of social democracy was stronger, there had been no fascist detour. While the old social security approach — with a good deal of paternalism and occupational segregation — survived in Austria, a new approach was launched in Scandinavia. In Austria, there was a Grand Coalition, dominated by ÖVP (Conservatives), in Norway and Sweden (partly also in Denmark), there was social democratic hegemony.

Austria and Switzerland

Referring to data on the orientation (national or international) of the business community, the strength of unions and social democracy, as well as institutional centralisation of business and labour, Katzenstein concludes that Austria and Switzerland are “polar types of democratic socialism and liberal capitalism”.279

But Katzenstein also emphasises one common feature, namely the centralisation of the dominant actors (business, unions). Thus both versions of “democratic corporatism” lead to “similar political consequences”: state and society are closely integrated. “Relying on broadly based, centralised internal consensus, they leave the state bureaucracy relatively passive and lacking in autonomy. The policy process in both countries is predictable. Continually modifying and reaffirming the consensus on political strategies and structures, it relies on intricate political bargaining between peak associations and the state to compensate for the relative passivity of the state bureaucracy. Finally, it incorporates virtually all important sources of potential opposition.”280

As we have seen, labour market policies more effectively marginalise certain groups in Switzerland, but not even Austrian politics show much concern with the distribution of income.281 The latter is certainly a difference compared to the Nordic setting. The Nordic countries have higher employment and participation rates, particularly for women. This will be discussed in Part V.

Katzenstein argues that the relationship between labour and capital in none of the two cases consists of “natural” convergence between actors with about the same amount of power resources (while such a statement possibly fits the Nordic cases). Rather, the relationship is “a deadlock forced by the need actors perceive for political cooperation within the constraints and opportunities of corporatist structures.”282 As power differences narrow in the two societies, the corporatist arrangements are strengthened.

The similarity between the two Alpine countries is that the checks and balances of civil society in both cases extend into the political and bureaucratic system. Austria has its great coalitions, Switzerland its “magic formula”. Austria has two pillars, blacks and reds, while Switzerland — in our most simplified account — has four: one related to farmers, one to labour, and two conservative ones, related to Protestants and Catholics respectively. In Switzerland, economic chambers do not play the role they have in Austria. Parliaments and state apparatuses are weaker than in the Nordic cases.

9.7 SUMMARY

This chapter has presented as much information on the five contrast cases as could be gathered, organised and analysed during the short project period. Early history has been covered only very briefly, certain aspects of 19th century and interwar history have been discussed, while the 1945-73 period has been analysed in somewhat more detail. The Nordic area has probably been more thoroughly analysed than the Alpine area, due to the author’s specialisation in Nordic matters. The period since 1973 will be analysed in Part V. Certain remarks have been made on comparative contrasts and similarities. But full-fledged comparative analyses have not been conducted. Such analyses follow in Part IV, where we introduce the chronology of the Irish experience.
REFERENCES

1. The economic policy models of the Nordic countries were analysed along these lines in Lars Mjøset, "Nordic economic policies in the 1970s and 1980s", International Organisation, 41: 3, (Summer) 1987, pp. 403-456.


6. This perspective was employed in Mjøset, "Nordic Economic Policies in the 1970s and 1980s". For small countries, these dominant export sectors will generally be the point of departure for their national systems of innovation, i. e. what Porter’s "diamond" is about: determinants of a nation’s competitive advantages.


8. ibid, p. 453.

9. ibid, p. 394, p. 417, p. 456. "In Denmark, the agrarian sector played a leading part. In Sweden its role was as important as that of industry. In Norway, where there was a big service sector, both agriculture and industry played a smaller part in developments, while in Finland agriculture had only a minor effect on economic development."

10. ibid, p. 378.

11. ibid, p. 387. Denmark had a continuous growth of per capita income 1885-1905, while Norway had a spurt 1870-75, then a long period of weak growth.


13. In a population of 1.8 million inhabitants at that time, there were only 10 towns with more than 5000 inhabitants. In certain rural districts, as high a share as two thirds of the population was occupied in industry. 90 percent of world demand for watches was met by Swiss suppliers. B. M. Biucchi, "The Industrial Revolution in Switzerland", in Carlo M. Cipolla, editor, The Fontana Economic History of Europe, Vol. 4.2., London 1973, p. 631.


15. Menzel & Senghaas, op. cit., p. 182. Cf. Biucchi, "The Industrial Revolution in Switzerland", p. 631: at the time of the industrial revolution, England (with a population of 8 million, Ireland and Scotland excluded) absorbed 58 percent of world cotton, but Switzerland (with less than 2 million inhabitants) absorbed 23 percent. The cotton industry employed 150,000 workers at the eve of the industrial revolution.


18. ibid, p. 325: Switzerland has "relatively small industries and with relatively focused strategies, concentrating on highly differentiated, high-quality segments. Success in industries involving high-volume mass production is rare. This pattern is a function of a small home market, high wages, and an expensive currency".


20. Saul, "The Economic Development of Small Nations", (reference in Part II, note 50) p. 113 f notes that there was also an element of free riding behind Switzerland’s industrial success: "Switzerland had no patent law to 1887 and it was partly for this reason that French dye makers crossed the border in the 1860s to manufacture fuchsin dye when they were being frustrated by patent holders in their own country. The Swiss Law of 1887 left all processes unprotected, covering only inventions that could be represented by a model. The ability of the Swiss chemical industry to concentrate successfully on the production of speciality dyes depended on the fact that German dye firms were unable to patent their own processes in Switzerland. The manufacture of aluminium in Germany made little progress before 1914 basically because of difficulties in sustaining the patents for the Héroult process. Consequently the A. E. G. group, holding the Héroult rights, set up their plant at the Rhine Falls in Switzerland where all the process patents for aluminium were ineffective." As for World War I and World War 2, Porter, The Competitive Advantage of Nations, p. 326 notes that many of the Swiss industries "gained important advantages from the invalidation of German patents and because German industry was cut off from world markets, advantages made particularly significant by the similarities that already existed between successful Swiss and German industries."

21. The present situation will be discussed in Chapter 10.


24. Alexander Gerschenkron, An economic spurt that failed, Princeton 1977 is an analysis of this period, providing an interpretation of Austria in terms of his famous model, (cf. footnote 48 to Part II), according to which latecomers require a stronger interventionism (by large banks, in this case) in order to succeed in industrialising.

25. Butscheck, op. cit., p. 26, on the interwar period, p. 28-64.


29. Riegler, ibid, p. 34. The earliest emigrants had often been religious or political minorities leaving in groups. Earlier emigrants would often send prepaid tickets to relatives who were to follow. Furthermore, both shipping and railway companies advertised a lot. U.S. railway companies were interested in selling the land they had been granted to immigrants. Actually, in 1883, the Swedish government banned the activities of emigration agencies, cf. p. 37.

30. ibid, p. 49.


32. Riegler, op. cit., p. 42.


34. The first trunk line sections were opened to railroad traffic in 1856. By 1868, 1668 km of railroad lines had been constructed; between 1871-1880, 4176 km were constructed, 80 percent of this by private railroad firms. Bengt Holgersson & Eric Nicolaid, "The railroads and the economic development in Sweden during the 1870s", Economy and Society, XI: 1968.


36. ibid, p.470.
37. But since 1890, exports of ore (share of raw materials) increased again, due to the "Gussstahlproces", which increased international demand for Swedish ore again.

38. Riegler, op. cit., p. 46 f.


40. Here, there was quite close interaction with the state apparatus: ASEA, for instance, had close relations to SJ (The Swedish Railroad Co) and to Vattenfall (The State Water Power Co), and Ericsson to Swedish Telecomm (Televerket). ASEA even produced locomotives. In Sweden, railways were constructed on the basis of strict state planning. State-financed railways accounted for only 33 percent of the total railway line (1860-1914), but many of the private lines were narrow gauge lines which did not meet proper specifications. Although Sweden’s railway construction started very late, at the time of World War 1, it ranked as the number one European country in terms of railroad-length per capita, only behind the U.S., Canada, Australia and Argentina. Lars Erik Hedén, "Swedish railways 1860-1914", *Economy and History*, X: 1967, p. 5.


43. ibid., p. 29.

44. Jerberg, op. cit., p. 448.

45. ibid., p. 448.

46. Edquist & Lundvall, op. cit., p. 10, notes that only at this historical juncture, there was an interaction between the growth of manufacturing industry and urbanisation in Sweden.

47. Jerberg, op. cit., p. 448 (1890-1914).

48. ibid., p. 449. According to Table 6.2 below, however, Sweden had a much smaller share of the labour force in the manufacturing sector, narrowly defined, than Denmark and Norway in the period 1880-1910, catching up only in 1910-20.


50. Riegler, op. cit., p. 45.

51. Knut Wicksell, the famous economist, agitated and wrote eagerly against emigration.

52. Franklin D. Scott, "The Study of the Effects of Emigration", *Scandinavian Economic History Review*, VIII: 2, 1960, p. 169. Thorsten Gårdlund, *Industrialisemens samhälle*, Stockholm 1942, p. 233 ff, later pointed out that many of the engineers who contributed to the Swedish metallurgical industry at that time had first been engineers in the U.S.

53. Scott, op. cit., p. 171. The Society was later renamed "Society Home in Sweden" (Sällskapet Hjem i Sverige). It sponsored many pamphlets against emigration.


57. ibid., p. 408.

58. ibid., p. 406 f.

59. ibid., p. 407.

60. ibid., p. 411 f.

61. Reported in Jerberg, op. cit., p. 413.

62. ibid., p. 413 f. This may be an important background for the fact that Denmark has had a balance of payments problem again since industrialisation. During the last decades of the 19th century, gross investment (as a share of GNP) increased strongly and the necessary capital could not be raised on a domestic basis only. "There was a tendency for the balance of payments deficit to rise on the upward of the trade cycle; but at the same time there was also a tendency for raw materials prices to fluctuate more than prices for finished products. Export prices, that is, rose more slowly than import prices". Jerberg, op. cit., p. 414. Denmark’s net debt increased from 200 mill. kr. in 1899 to more than 850 mill. kr. in 1912. This was financed by bond emission abroad (by the State, mortgage banks, and the City of Copenhagen). "During the decade prior to the First World War the deficit on the balance of payments corresponded to about 20 percent of the value of gross investment. Developments show that, owing to changed competitive conditions, price developments, and a new opening for extensive new agricultural investment during the 1890s and the first decade of the twentieth century, Danish agriculture was unable to go on financing its own and other sectors' investments out of big surpluses. Thus it is clear that Denmark’s economic development was not deeply marked by the growth of her industries. Agriculture and services were much more crucial to the growth of national income. The lack of an industrial export sector was to some extent compensated for by the ‘industrialisation’ of agriculture. But around the turn of the century imports were about 50 percent bigger than exports, and Denmark’s balance of payments deficit was about 40 mill. kroner a year. Only thanks to loans from the international market was it possible to cover this deficit and keep investments at the level necessary for further growth. But developments were to show that Denmark could not go on concentrating exclusively on her agricultural sector. Thanks to conditions during the First World War she was able to repay most of her foreign debt. But the balance of payments problem has been troublesome all through the twentieth century." Jerberg, op. cit., p. 414 f.

63. Most historical accounts present this as a Swedish invention by De Laval, i.e. a proof of the excellence of Swedish engineering skills already at that time. But Edquist & Lundvall, "Comparing Small Nordic Systems of Innovation" note that the milk separator was a simultaneous invention both in Denmark and Sweden.

64. Jerberg, op. cit., p. 395 f, and p. 471. Finnish cooperatives were not able to standardise their products, and these cooperatives did not become important until well into the 20th century.

65. Kennedy also notes "the importance initially of an enterprising agricultural sector, efficient in production, technologically progressive, quality conscious and with a powerful tradition of cooperation"; Kieran A. Kennedy, "Impressions of a Visit to Denmark", *Central Bank of Ireland Autumn Bulletin*, 1975, p. 93. See Part IV below for a closer comparison between Ireland and Denmark.


69. ibid., p. 473 f, cf. also p. 463 f.

70. ibid., p. 419.


72. In absolute numbers, the labour force in industry was 107,800. We know that Ireland had above 100,000 in manufacturing industry in 1922. In both countries, total population was about 3 million, so the Irish and Finnish shares were about equal. See also Table 20 in Jerberg, op. cit., for the sectoral distribution of population. The country composition of exports is in Table 21.


75. ibid., p. 421-3.
76. Raumolin, "The impact of forest sector on economic development in Finland and Eastern Canada", p. 400.
77. ibid, p. 402.
78. ibid, p. 404.
79. Alapuro, op. cit., p. 34-35.
81. ibid, p. 401; Jutikkala, Bonden i Finland genom tiderna, op. cit., p. 386.
82. Alapuro, op. cit., p. 33-34. Studies of Norwegian 19th century development along the lines of Senghaas' scheme show that although agriculture was very poor and had a very low productivity (even the distribution of holdings was not particularly egalitarian, although data are fragile), extra money income from side-activities (work related to the forest sector and to fisheries) served to bolster the development of a home market which interacted with a domestic manufacturing industry in the second half of that century.
83. ibid, p. 43-51.
84. This is further discussed in Part IV.
85. Eoin O'Malley, op. cit., p. 53.
87. Kristine Brueland, British Technology and European Industrialisation. The Norwegian textile industry in the mid nineteenth century. Cambridge 1989. Cf. also the studies published in Scandinavian Economic History Review, XXIX: 1, 1982 (“Proto-industrialisation in Scandinavia”), edited by L. Jörberg). Some of the evidence here supports the view that it was advantageous for countries of the European periphery at this time to have its proto-industry linked to its dominant export sectors, not to the leading sector of textiles. With reference to Norwegian developments, this argument is made in Lars Mjæset, "Norske utviklingslinjer", Ch. 5 of L. Mjæset, Kontroverser i norsk sosiologi, Oslo 1991. The case of Switzerland, however, shows that adjustment was possible even within textiles.
88. This is further discussed in Chapter 12 below.
89. Biucchi, op. cit., p. 635 f.
90. ibid, p. 651.
91. ibid, p. 637.
92. This was different from the continuing serfdom in Prussia and Russia, and also from the consolidation of large estates in Hungary.
93. Cf. especially Chr. 2 and 3 of Senghaas, The European Experience.
94. An index for different years between 1950 and 1964 (mainly around 1960), is provided in a standard source book: World Handbook of Political and Social Indicators. It is a Gini index based on the number and acreage of farms (the closer it is to one (or to 100), the more uneven the distribution). The first edition, edited by Bruce Russett, New Haven & London 1964, Table 69, has the following numbers, ranked from the most even distribution: Denmark 45.8; Sweden 57.7; Iceland 59.8; Finland 59.9; Norway 69.9; Austria 74.0; Uruguay 81.7. (The sources are either the United Nations or FAO, and for Uruguay a UCLA Centre for Latin American Studies). To the extent that the postwar structure reflects long term historical forces, and to the extent the index can be trusted, this indicator confirms our conclusion. The case of Austria is especially striking here. Ireland is also below Norway. The case of Uruguay is included, since that country will be commented on further in Part IV. The second edition of the World Handbook, edited by C. L. Taylor & M. Hudson, New Haven & London 1972, provides roughly the same data, but with significant improvements for Finland and Sweden. For our discussion, the oldest data are the most relevant. The third edition of the World Handbook, edited by C. L. Taylor and D. A. Rodicke, London 1983, Vol. I, also give data for a second period, around 1970. In that edition, there are no data for Ireland, while a figure for Switzerland (1970) is added (49.4). Most of the 1970 figures are similar to those quoted above, only in Finland, the figures show much greater equality, ca. 1960: 35.1, ca. 1970: 25.5. Sweden was by ca. 1960 at 50.0, but in 1970: 54.6.
95. For the more detailed argument, see Lars Mjæset, "Comparative typologies of development patterns: The Menzel-Senghaas Framework", in L. Mjæset, editor, Contributions to the Comparative Study of Development, op. cit.
96. Jörberg, op. cit., p. 461 claims that in the Nordic industrial revolutions, wages did not squeeze profits. He actually claims that income distribution was “topsided”, biased in favour of capital. But he does not provide substantial data analysis to support this claim.
97. But an analysis based on more detailed data also gathered by the Flora project, is Franz Kraus, "The Historical Development of Income Inequality in Western Europe and the United States", Ch. 5 in Peter Flora & Arnold J. Heidenheimer, The Development of Welfare States in Europe and America, New Brunswick 1981. Unfortunately, none of the results reported there is of relevance to the problem discussed here.
98. Tim Callan & Brian Nolan, "Income Distribution and Redistribution: Ireland in Comparative Perspective", in John Goldthorpe and Chris Whelan, editors, The Development of Industrial Society in Ireland, Oxford 1992. The comparative material is derived from the Luxemburg Income Study (LIS) dataset, as reported in M. O’Higgins, G. Schmaus & G. Stephenson, "Income Distribution and Redistribution: A Microdata Analysis for Seven Countries", The Review of Income and Wealth, June 1989, pp. 97-125. Nolan and Callan discuss lessons of the Irish experience for the debates concerning the Kuznets’ hypothesis, that the relationship between economic development (as indicated by per capita national income) and income equality takes the form of an inverted U-shape, with high levels of equality before industrialisation and high levels in the mature stage after “take-off”. We are not in a position to take up this debate here. It should be noted, however, that Senghaas’ view — following the “growth with equity” school (cf. for instance Irma Aдельman, “Beyond Export-Led Growth”, World Development, 12: 9, 1984) — is opposed to this Kuznets’ thesis.
100. Porter, op. cit., p. 323.
102. Only one of Senghaas’ factors (Table 4.3) is not taken into account: The “availability of risk-oriented entrepreneurs/firms” seems to us to be much more of a dependent than an independent variable. In other words, we are in agreement with the Neo-Schumpeterian criticism of Schumpeter: it is not the entrepreneur as such which is the driving force of modern capitalism, but rather the conditions with which (s)he interacts.
103. More information relating to present day industrial structures is provided in Chapter 9, and in Part V.
104. Cf. Chapter 4 above. It should be remembered, however, that the Austrian banks also were the crucial weak links in the chain which unleashed the 1930s great depression as financial disorder spread to Europe after the Wall Street events of October 1929.
106. So far, we have not found synthetic studies of R&D activities in a historical and comparative perspective. Of course, historians of technology provide many case studies, which show that the German innovation system was highly developed around the turn of the century.
109. ibid, p. 55. **More specific data to be found in Peter Flora, op. cit., Vol. II, Ch. 10. According to this compilation, the years for introduction of compulsory schooling (but for an unspecified number of years) were: Ireland: 1831; Finland: 1866; Austria: 1774; Sweden: 1842; Switzerland: 1874 (but earlier in important cantons), Denmark: 1814 (7 years duration, but only 3 days a week). For 8 years (unless otherwise noted) compulsory schooling, were: Ireland: 1892 (towns only); Finland: 1921; Austria: 1869; Sweden: 1878 (6 years), Switzerland: 1874; Denmark: 1849 (7 years).**

110. Berend & Ränki, op. cit., p. 55. They also note that Japan already by the mid 19th century had reached the educational standard of England.

111. See reference 110 above.

112. ibid, p. 57. **Our guess is that Ireland is relatively close to Scandinavia on this indicator, but there has been no time to search for comparative, historical time series of illiteracy rates. On indicators of adult literacy in the 1960s and 1970s, all our case countries score 98-99 percent, according to the compilation in V. Bornschier & Peter Heinz, eds., *Compendium of data for world-system analysis*, Soziologisches Institut der Universität Zürich, Bulletin: Sonderhammer, März 1979, Table 5.4.1.**

113. **Financial Times, July 23, 1986. (Special report: Work.) Here there is also a reference to a more detailed study of similar plants. 14 out of 16 U.K. foremen had no qualifications, while in Germany, all 16 workers were certified craftsmen, 13 were masters and the rest working to become just that.**


115. Among the Japanese large firms, the system is similar to the German one. Companies become increasingly like universities. *"The Japanese system, more than the German, depends for its obvious success on the primacy of company and collective over civil society and the individual in key respects", Financial Times, July 23, 1986, p. 11.*

116. Porter, op. cit., p. 319, and as is clear from Table 7.5., Switzerland’s share of younger people in universities is the lowest among the selected countries, even slightly below Ireland.


118. Porter, op. cit., p. 320.


120. The notion of corporatism is used in social science with a disturbing multitude of meanings attached to it. We shall encounter a state-oriented definition in Chapter 8.2, and a more restricted definition linked to centralisation of labour market negotiations in Part V.


123. Walker, Korpi, "Labour Movements and Industrial Relations" in E. Allardt, et. al., *Nordic Democracy*, Copenhagen 1980, claims that the pattern of Danish labour organisation resembles the British pattern, whereas Norway and Sweden displays a genuine "Nordic" pattern (large industrial unions), and Finland (at least until the 1970s) a more "South-European" pattern. Thörnborn would possibly subsume all the latter under the Germanic type.


125. This model of social policy is analysed in greater detail in the section below on Austria.

126. Peter Baldwin, *The Politics of Social Solidarity*, Cambridge 1990, p. 62 f. Baldwin challenges the "social interpretation" (which is above all that of Korpi and Esping-Andersen), which regards this Scandinavian welfare system as the "autonomous achievement of the underprivileged classes".


129. ibid, p. 93 f, with the final comment: "The solidity of one age has its roots in the selfishness of another".


131. ibid, pp. 9-10.

132. In Sweden, the Agrarian party split out from the Conservative party, in Denmark the Radical liberals (smaller farmers) split from the Liberals (large farmers).


137. Chapter 11 provides a rough comparison of Ireland and Finland.

138. Cf. his approach to the analysis of institutions, quoted in Chapter 2 above.

139. See Table 8.3 below.


141. George S. Bain & Robert Price, *Profiles of Union Growth*, Oxford 1980, p. 164 (Fig. 10.1) and p. 170 (Table 10.1).


144. Riegler, op. cit., p. 50.


146. Cf. for instance the writings of the later finance minister Ernst Wigforss.


148. In 1943, TCO, the federation for white collar public employees was formed, while a federation for private white collar employees (DACKO) had been formed in 1931. These two federations fused into the new TCO in 1944. The union federation for people with an academic education (SACO), was formed in 1947. According to Thorsten Nybom, *Samhällsförsamling och samhällsorganisation i Sverige 1890-1975 - en principskiss*, in T. Nybom & Rolf Thorstendahl, editors, *Byråkratiering och markfördelnings*, Lund 1989, p.122, this rapid organisation of white collar workers was unique, not only in international but even in a Nordic comparison.


150. ibid, p.22.


152. ibid, p.635 f.

153. The following relies on Kerr, "The Swiss party system: steadfast and changing", p.110 ff.
154. There were certainly in many cases external influences (e.g. by great powers) behind the extension of political and civil rights in this period. For an analysis in the Nordic setting, see Risto Alapura, "Interstate Relations and Political mobilisation in the Nordic Countries", in Risto Alapuro, et al., editors, Small States in Comparative Perspective: Essays for Erik Allardt, Oslo 1985, pp. 93-107.


159. As in Germany, liberalism was quite weak, never able to mingle with the strong aristocracy. There was also a special tradition of "Austromarxism": Pioneer Austrian social democrats like Karl Renner and Otto Bauer emphasised the "balance between the class forces". Austromarxism had some influence on Swedish developments, through refugees like Rudolf Meidner.


163. Austria is a Catholic country, and Catholic social theory is one of the important roots of Christian-social ideology. This theory rejected both capitalism and Marxism, arguing for an "equilibrium" between the classes. The state was to decide fair prices and payments of interest should be banned. Karl von Vogelsang (1818-1890), Karl Lueger (1844-1910) were major contributors to such a theory. But since World War 2, the Church has not engaged in politics.


165. Ibid., p. 180ff.

166. This relates to the preconditions for postwar social policies. The major difference in the postwar period, according to Korpi, is that the working class accumulates power resources, and as a consequence, at least in some countries (the Nordic ones), social policies are not imposed "from above". The labour movement changes from being just the object of social policies; it becomes a subject of social policies.


176. This account relies on Krisher och krisepolitik i Norden under mellankrigstiden, Møtesrapport, Nordiska historikernmet i Uppsala 1974, pp. 41-44.

177. Ibid., p. 46.


179. Ibid., p. 45.

180. The reasons for placing New Zealand and Iceland in this group are not clear.

181. Schmidt also notes that the corporatist approach creates employment in the public sector, while the conservative-reformist approach relies on growth of total employment or rapid adjustment of the labour supply to demand.

182. Schmidt, op. cit., p. 14. Terms like "corporatism without labour" and "quasi-corporatism" have also been used.

183. Ibid., p. 37 ff. The Swiss road to full employment is "unique". But elsewhere Schmidt argues that a specific feature of his approach is the distinction of "two roads" both to full employment and mass unemployment (p. 61). It seems however, that he ends up with "national models".


186. Cf. Chapters 3 and 4 above.


189. Ibid., p. 12 f.

190. Ibid., p. 18.

191. For the origins of this organisation, cf. Chapter 8.


193. Ericson, "Structural change and economic policy in Sweden during the postwar period", provides a table summarising the advantages due to low growth of labour costs.


195. The structural schism between these two decisive sectors in the Finnish industrial structure is brought out clearly in Erik Dahmén, *Ekonomisk utveckling och ekonomisk politik i Finland*, Helsingfors 1963, p. 37 ffl. 79; p. 88 ff.


Due to the expectations towards this government, the long term interest rate went down from 9.5 to 8.5. Dansgård Hansen, Kjærgaard & Rosted, op. cit, p. 40.

The background was the turmoil connected to the 1968 devaluation of the franc. To avoid capital flight (and to force borrowers into international capital markets), interest rates had to be raised. Especially since that time, Denmark’s interest rate level has been above the average of the main industrial countries. Cf. Mjøset, ed., Norden døgen derp, op. cit., p. 151.

Dansgård Hansen, Kjærgaard & Rosted, op. cit, p. 349.

Dansgård Hansen, Kjærgaard & Rosted, op. cit, p. 40.


For the Danish failure to continue along the housing policy strategies laid down by Sweden, see Esping-Andersen & Kort. “From poor relief towards institutional welfare states: The development of Scandinavian Social Policy. “op. cit. A calculation of the share of housing financing which was due to the tax exemptions allowed by the very generous income tax code, showed that this percentage was 70 in Denmark in the 1960s, while it was 37 percent in Sweden and even lower in the other Nordic countries. (One could even lend money on the prospective increase in the value of one’s property.) Cf. also Gosta Esping-Andersen, Politics against Markets, Princeton 1985, for the classic analysis of how the cleavage between owners and tenants became more important than the worker/employer cleavage in predicting party preferences of the voters in 1972.


This analysis was repeated in most other analyses, irrespective of political convictions. It flourished on the left, but it was also the official view among planners, cf. Perspektivplanredgørelse 1972-87, Copenhagen 1973, and Perspektivplanlægning 1970-1985, Copenhagen 1971, cf. L. Mjøset, editor, Norden døgen derp, op. cit, p. 211. In the late 1950s, the public sector was rather small. There were many needs to be cared. Dansgård Hansen, Kjærgaard & Rosted, Danish Økonomisk politik, op. cit, p. 346-8, for instance, argue that the strong growth of the welfare state between 1958 and the early 1970s, was the basis of the problems. Since there is a lag of up to 6-8 years from the time the government decides to expand the financing of projects, when the operating expenses begin to be incurred. Dansgård Hansen, et. al. argue that this was part of the basis of the later “unpredictable” growth in public spending.

These arguments often put the blame on the parliamentary system, in which there were few possibilities of viable majority constellations. Governments have, apart from the two exceptions mentioned above, been either minority governments or “across the middle” governments.


Katzenstein, Corporation and Change, op. cit., p. 51. Only later did the Socialist party establish the following guidelines for the sector: its function should be the supply of raw materials and semi-finished goods to manufacturing industry at prices cheaper than world market levels, the prevention of exploitation of national wealth by private profit entrepreneurs and furthermore to serve as a flagstaff of social progress and job security”. Helmut Kramer, “The Present State of the Austrian Economy”, in Alan Matthews & Eda Sagarr, Economic Performance in Two Small European Economies: Ireland and Austria Compared, Dublin 1988, p. 16. These principles were opposed by the Conservative ÖVP. For the size of this sector, see Chapter 6.

Katzenstein, Corporation and Change, op. cit., p. 65 f.

ibid, p. 62.

ibid, p. 73.

A large conflict in 1950 was by some regarded as an attempt at a communist coup, by others as just a “General strike”. (There were many unofficial strikes at that time.)

Veiden, Det østerrikske forhandlingssamfunnet, p. 41.
programme to the idea of consensus, and entered into a new coalition in 1959. At that time, the
partners even accepted its electoral strength, granting the party two seats. Proportionality is thus a
result of a historical learning in the politics of accommodation.

265. ibid, p. 117.

266. ibid, p. 114.

267. Katzenstein, *Corporatism and Change*, op. cit., p. 86 f. The six largest Swiss multinationals are
Nestlé, Ciba-Geigy, Hoffmann-LaRoche, Alusuisse, Brown Boveri, and Sandox. These firms have
between 95 and 71 percent of their employees (between 95 and 63 percent of their sales) abroad.

268. Jürg Niehans, "Benefits of Multinational Firms for a Small Parent Economy: The Case of
Switzerland", in Tamir Agmon & Charles P. Kindleberger, editors, *Multinationals from Small


270. ibid, p. 92.

271. ibid, p. 93.

272. ibid, p. 96.

273. As a share of the "dependent population" (or labour force), i.e. excluding self-employed, then also
many farmers.


276. Cf. above, Chapter 8, and the introduction to Chapter 17 below.

f.

278. For such schemes in the case of Norway, see Trond Bergh, "Ideas and realities in Norwegian


280. ibid, p. 135.

281. ibid, p. 135 f.

282. ibid, p. 136.

236. Esping-Andersen & Korpi, op. cit., p. 192. This interpretation means that they adopted the same
approach as Swedish Social Democrats.


238. The story starts with a letter from the ÖGB (the Union Federation) leadership to the employer and
farmer chambers in March 1956: It proposed that the three parties should establish a fixed institution
to discuss wage/price stability. The employers rejected the idea. At that time they preferred to see
the employers' chamber as an advisory body only. But less than a year later, the government urged
the four large interest organisations to arrive at a policy for stable prices. ÖGB was the most
enthusiastic part. On the 23rd of March 1957, the commission was founded, and it developed the

239. After 1966, the government ministers did not have voting rights. See below.

240. At least the chambers of the employers and employees are, while the farmers’ chamber only exists
in some federal states, not at the national level.

9-11.


243. ibid. p. 47, 61: unlike any other European trade union confederation, ÖGB encompasses blue
collar workers as well as private and public white collar employees. It has 15 constituent unions,
and directs their collective bargaining and overall strategies. The system is highly centralised.

244. Ibid. p. 69.

245. ibid. p. 68.

246. Anton Pelinka, "Austrian Social Partnership", op. cit., p. 74, for the growth rather than redistribution
point. See also Katzenstein, *Corporatism and Change*, op. cit., p. 36, 39: the growth policy has left
unaltered an inequalitarian distribution of income.


248. Ibid. p. 68, 72.

249. ibid. p. 74 f.

250. Quoted in Katzenstein, ibid., p. 74.

251. Which was the classic pattern, also reflected in Korpi's stylised version of the Swedish model.


253. Ibid. p. 74.

254. ibid. p. 76.

255. ibid. p. 77.


262. ibid. p. 138.

263. ibid. p. 138 f.

264. Kerr, "The Swiss party system: steadfast and changing", op. cit., p. 126. The break in 1953 was due
to the resignation of a Socialist Federal Councillor in 1953, but the party soon adapted its ideological