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Partisanship at the Origins of Modern Capitalist Institutions

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Abstract: Analyses that gauge the relationship of partisanship to economic outcomes nearly always focus on the level of partisanship, and changes to it, at a time concurrent to the outcomes. However, partisanship at the time an institution was established may correspond more strongly to modern economic outcomes than contemporary partisanship measures. To test this argument, I develop a measure of partisanship at the time that modern capitalist institutions were created. Tests reveal that this measure correlates more strongly to many modern economic outcomes than more contemporary measures of partisanship, suggesting that other economic outcomes may be usefully reexamined in light of the partisanship that existed when the initial institutional bargains were struck.

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Analyses that gauge the relationship of partisanship to economic outcomes nearly always focus on the level of partisanship, and changes to it, at a time concurrent to the outcomes. However, this overlooks the impact of the original design of an institution which can delimit the range of possible outcomes. In this regard, government partisanship at the time an institution was established may correspond more strongly to modern economic outcomes than contemporary measures of partisanship. Additionally, complementarities with other institutions (which may have been created during the same moment of government partisanship) would likewise constrain the range of economic outcomes, thus magnifying the influence of the initial partisanship levels on contemporary outcomes (Hall and Soskice, 2001).

To test this argument, I create a partisanship measure that corresponds, roughly, to the time that modern capitalist institutions were created across wealthy democracies. I then test this partisanship measure on key institutions that exhibit strong complementarities to other institutions, and which exhibit distinctive qualities that differentiate liberal market economies from coordinated market economies. The robustness of the results suggests that examination of other economic outcomes that correspond to contemporary partisanship measures may be usefully reexamined in light of the partisanship that existed when the initial institutional bargains were struck.

In the next section - section two - I identify the time period that modern capitalist institutions were created among wealthy democracies. I then identify those economic institutions that typify countries' general economic organization and which tend to strongly complement other institutions in the broader political economy. In the fourth

section, I discuss the construction of the partisanship measure before turning to statistical tests in section five. Section six concludes.

II) When Were Modern Capitalist Institutions Created?

Among wealthy democracies, industrialization during the nineteenth and early twentieth centuries altered the existing agrarian-based economy and created a new, ‘modern’ form of capitalism. Following World War I, labor’s political influence surged across many European countries, leading to new bargains being struck with regard to the structure of the new institutions of capitalism, which became entrenched over time. But for some countries, the depression and World War II disrupted the structure of their political and economic institutions, and created the opportunity for a new set of institutional bargains after the war ended. Table 1 lists the dates of the last major constitutional change for the 15 countries examined here, illustrating that five countries in the sample significantly altered their institutions after WWII: France, Germany, Japan, Austria, and Italy.ⁱ

Table 1: Most Recent Year of Major Constitutional Change

	Year of last major change of constitution
AUS	1901
AUT	1945
BEL	1831
CAN	1867
DEN	1901
FRA	1946
GER	1949
ITA	1948
JAP	1946
NET	1848
NOR	1814
SWE	1866
SWI	1874
UK	NA
USA	1787

Changes to the structure of the constitution after WWII generally correspond to changes in the countries' economic institutions. For example, France nationalized its major commercial banks and many of its largest companies after the war, along with implementing more centralized state control over the general economy, in contrast to its laissez-faire economy before WWII (Alhadeff, 1968). Sweeping economic reforms that were favorable to labor were likewise implemented in Austria and Italy. The influence of labor in Germany was slightly muted because of American and British influence, nevertheless, new institutional rules were established following the war that firmly entrenched labor's role in the organization of the political economy (e.g., corporate governance reforms; Streeck and Yamamura, 2001).ⁱⁱ Allied influence also muted labor's influence in Japan, yet here too rules were implemented that granted more power to labor,

as with its corporate governance reforms and the use of lifetime employment policies (Gilson and Roe, 1999).

Accordingly, we should look at bargains struck in the early twentieth century for ten of these countries – when many of the rules governing their modern capitalist institutions were established – and immediately after WWII for the other five. Of course, the specific dates will differ for each country, but by constraining the sample to these wealthy countries, the variation in the timing of when their modern capitalist institutions were established is minimized.

III) Which Economic Institutions?

Those economic institutions which exhibit strong complementarities to other institutions offer the broadest implications for understanding the influence of initial bargains on contemporary outcomes. In this regard, I consider the degree of coordination among institutions with an index developed by Hall and Gingerich (2004). The institutions used to calculate the coordination index include shareholder power, dispersion of control, size of stock market, level of wage coordination, degree of wage coordination, and labor turnover. High levels of coordination are associated with a more coordinated market economy.

Additionally, I consider specific economic institutions that correspond to the economy's general reliance on market versus non-market mechanisms, such as the size of equities markets relative to banks (which is particularly useful because data are available across the twentieth century), the diffusion of corporate ownership, and the extent of government intervention. Hall and Soskice (2001), for example, use stock market

capitalization relative to GDP as a general indicator for a nation's reliance on arm's-length interactions relative to relationship-based interactions. This is a good measure, but it needs to be treated with caution. Stock markets are known for occasional bubbles and busts, making it a potentially unreliable measure if examining only one point in time.ⁱⁱⁱ In the long-run (over decades), stock markets tend to settle around an equilibrium price level (e.g., 10% increase per annum for the NYSE), making it preferable to measure a country's reliance on stock markets across long periods of time to gauge a country's overall reliance on markets.

At the same time, looking exclusively at stock markets can be problematic since a nation with a low stock market capitalization does not necessarily mean low non-market (banking) activity - both could be low. Thus, it would be preferable to have a measure for a nation's reliance on banks as well, such as bank loans relative to GDP, or bank deposits relative to GDP (from which bank loans are derived). To avoid this problem, we can take the ratio of the two - stock market capitalization/bank deposits - to get a more balanced assessment of a country's overall reliance on arm's-length vs. relationship-based forms of economic activity.^{iv}

Table 2 shows the average size of stock markets during the pre- and post-World War II periods across countries, revealing that there have been considerable changes between these two periods. The ordering of countries in the postwar period, however, raises some questions with regard to the utility of the stock market capitalization measure as an indicator for the LME-CME orientation of a country since some countries seem out of place, such as Switzerland (being too LME), and the USA (being too CME) relative to conventional assessments of their financial, and capitalist, systems.

**Table 2: Stock Market Capitalization to GDP,
Pre-WWII and Post-WWII**

	High (LME)											Low (CME)			
Pre- WWII ^a	UK	BEL	FRA	JAP	AUT	CAN	SWI	USA	NET	AUS	SWE	GER	DEN	NOR	ITA
	1.24	1.15	1.04	0.85	0.76	0.74	0.58	0.57	0.56	0.445	0.44	0.44	0.27	0.19	0.17
Post- WWII ^b	CAN	SWI	UK	AUS	JAP	USA	NET	NOR	DEN	BEL	SWE	GER	ITA	FRA	AUT
	1.12	0.96	0.93	0.64	0.52	0.52	0.42	0.29	0.23	0.23	0.21	0.19	0.17	0.17	0.1

^a avg. 1913-1929^v

^b avg. 1950-1990

Data Source: Rajan and Zingales (2003).

These results suggest that it may be preferable to account for the reliance on banking.

Table 3 illustrates the ratio of stock market capitalization to bank deposits.^{vi} Compared to the stock market capitalization table, the country orderings seem more in line with the LME-CME expectations: the USA is appropriately LME for the post-war period and Switzerland remains on the LME side, but less so than before.

**Table 3: Ratio of Stock Market Capitalization to Bank Deposits,
Pre-WWII and Post-WWII**

	High (LME)											Low (CME)			
Pre- WWII ^a	JAP	CAN	UK	FRA	NET	BEL	USA	AUS	GER	AUT	ITA	SWE	SWI	DEN	NOR
	4.8	4.23	3.09	2.42	2.07	1.98	1.73	1.1	1.1	1.02	0.77	0.64	0.58	0.43	0.25
Post- WWII ^b	CAN	UK	USA	JAP	AUS	SWI	NET	GER	DEN	NOR	BEL	FRA	SWE	ITA	AUT
	2.89	2.77	1.97	1.56	1.4	1.37	1.18	0.74	0.7	0.66	0.61	0.49	0.42	0.32	0.2

^a avg. 1913-1929^{vii}

^b avg. 1950-1990

Data Source: Rajan and Zingales (2003).

Tables 4 and 5 show changes to these variables for the pre- and post-WWII periods.

These tables also show the magnitude of the change in these variables, where a small change is expected for those countries that kept their pre-existing constitution (10

countries), and a big change for those that changed their constitution (5 countries). Using the stock market capitalization measure, as in table 4, there is, on average, a smaller change for those countries that did not change their constitutions, when considering the absolute value of the change. For the actual change (not taking the absolute value), there is, on average, a small decrease among those countries with no change in their constitution; the size of the stock market increased for some of these countries in the post-war period while for others it decreased. But for countries in which the constitution changed, there is, on average, a large decrease in the size of the stock market capitalization.

**Table 4: Stock Market Capitalization
Pre- and Post-WWII Change**

	AUS	AUT	BEL	CAN	DEN	FRA	GER	ITA	JAP	NET	NOR	SWE	SWI	UK	USA
Pre-WWII ^a	0.445	0.76	1.15	0.74	0.27	1.04	0.44	0.17	0.85	0.56	0.19	0.44	0.58	1.24	0.57
Post-WWII ^b	0.64	0.097	0.23	1.12	0.23	0.17	0.19	0.17	0.52	0.42	0.29	0.21	0.96	0.93	0.52
Absolute difference	0.195	0.66	0.91	0.38	0.03	0.87	0.25	0.004	0.32	0.13	0.104	0.23	0.38	0.31	0.05
Difference	0.195	-0.66	-0.91	0.38	-0.03	-0.87	-0.25	-0.004	-0.32	-0.13	0.104	-0.23	0.38	-0.31	-0.05
Expectation ^c	s	b	s	s	s	b	b	b	b	s	s	s	s	s	s

Average change of the absolute difference	Small change expected	0.27
	Big change expected	0.42

Average change of the difference	Small change expected	-0.06
	Big change expected	-0.42

^a avg. 1913-1929

^b avg. 1950-1990

^c s=small change; b=big change

Table 5, which uses the preferred measure for the LME-CME orientation of the capitalist economy – stock market capitalization over bank deposits – likewise demonstrates a larger change for those countries that changed their constitutions; more than twice as large of a change, on average, when considering the absolute value of the difference. This dramatic difference is even more emphatic when accounting for the direction of the change. Countries without a constitutional change tended to change towards banks or markets nearly evenly, while those with constitutional changes all moved toward a greater reliance on banks in truly dramatic fashion.

**Table 5: Stock Market Capitalization over Bank Deposits
Pre- and Post-WWII Change**

	AUS	AUT	BEL	CAN	DEN	FRA	GER	ITA	JAP	NET	NOR	SWE	SWI	UK	USA
Pre-WWII m/b ^a	1.1	1.02	1.98	4.23	0.43	2.42	1.1	0.77	4.8	2.07	0.25	0.64	0.58	3.09	1.73
Post-WWII m/b ^b	1.4	0.2	0.61	2.89	0.7	0.49	0.74	0.32	1.56	1.18	0.66	0.42	1.37	2.77	1.97
Absolute difference	0.36	0.78	1.38	1.33	0.27	1.93	0.36	0.45	3.27	0.89	0.41	0.22	0.79	0.32	0.24
Difference	0.36	-0.78	-1.38	-1.3	0.26	-1.93	-0.36	-0.45	-3.26	-0.89	0.41	-0.22	0.79	-0.32	0.24
Expectation	s	b	s	s	s	b	b	b	b	s	s	s	s	s	s

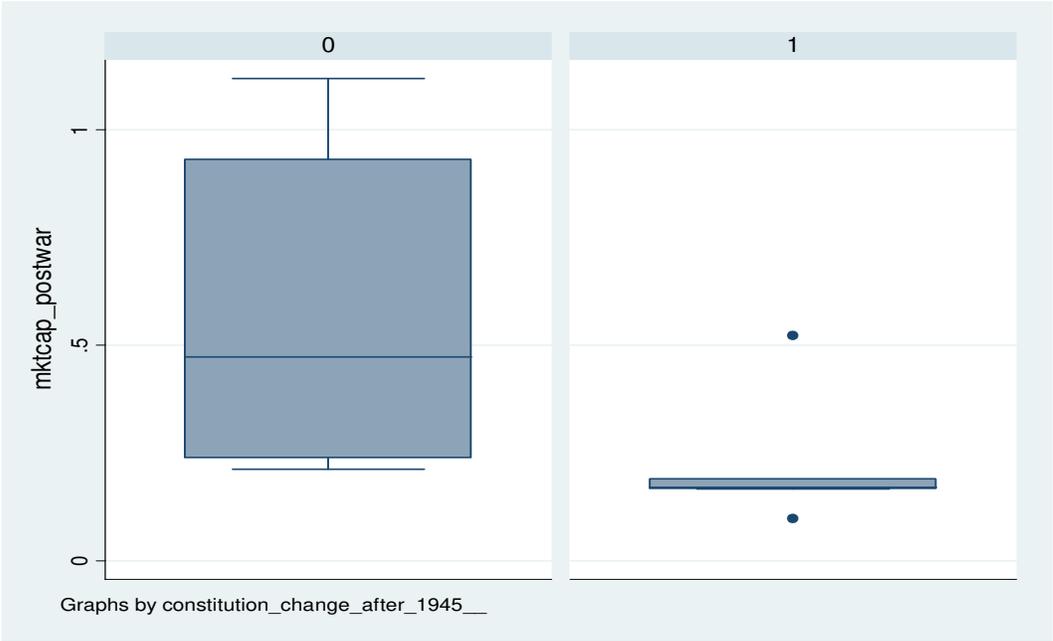
Average change of the absolute difference	Small change expected	0.62
	Big change expected	1.36

Average change of the difference	Small change expected	-0.2
	Big change expected	-1.36

^a m/b = market capitalization over bank deposits. The average is taken for 1913 and 1929
^b average of 1950, 1960, 1970, 1980, and 1990.

The box plots in figures 1 and 2 demonstrate that the reliance on markets in the post-WWII period differed markedly depending on whether a country's constitution changed after the war. For both measures, the reliance on markets is less than half that of those countries whose constitutions did not change. Table 6 details the numerical values for each box plot.

Figure 1: Box Plot of Market Capitalization over GDP During the Post-WWII Period for Countries without and with Constitutional Change after WWII



Note: 0 and 1 correspond to no constitutional change and to constitutional change, respectively.

Figure 2: Box Plot of Market Capitalization over Bank Deposits for the Post-WWII Period for Countries without and with Constitutional Change after WWII

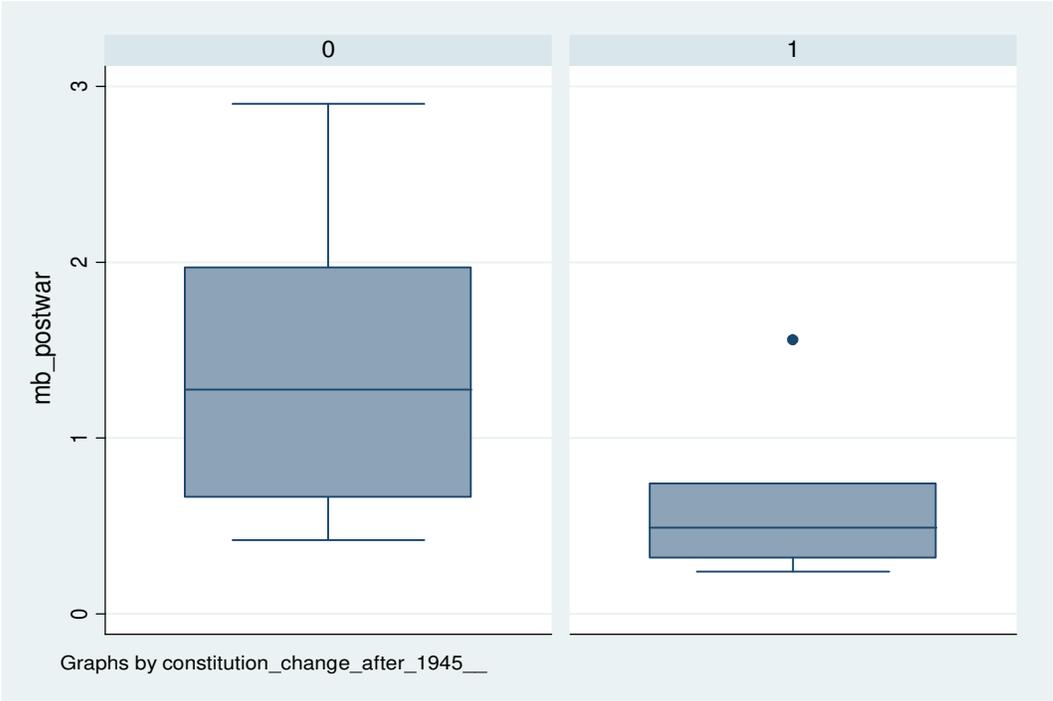


Table 6: Description of the Box Plots

	Market Capitalization over GDP, Post-WWII		Market Capitalization over Bank Deposits, Post-WWII	
	No	Yes	No	Yes
Constitutional Change after 1945?				
Median	0.473	0.17	1.275	0.49
Minimum value	0.212	0.097	0.42	0.24
Maximum value	1.118	0.522	2.9	1.56
25% value	0.2375	0.16	0.66	0.32
75% value	0.93	0.19	1.97	0.74
Mean	0.5575	0.229	1.4	0.67
N	10	5	10	5

How do we appropriately assess the impact of partisanship on these dramatic and long-lasting changes to nations' economic institutions?

IV) Measuring Partisanship

Partisanship is generally regarded as influential to each of the variables discussed above. The more left wing the government is, the more coordinated the economy tends to be (more CME than LME), the smaller the stock market tends to be relative to banks, the more concentrated ownership tends to be, and the more government intervention in the economy that occurs.

To measure government partisanship, I use an indicator from Franzese (2002), which takes the average ideological value assigned to political parties by multiple expert studies.^{viii} This ideological value, normalized to between 0 and 10, where 10 is the most right-wing (I invert it so that 10 I the most left-wing), is then weighted according to the number of cabinet posts held by each party. To extend Franzese's measure prior to

WWII, I use Dodd's (1976) ideological placement of political parties during the interwar period. I normalize his score so that it corresponds to the 0 – 10 scale. Data on the partisan composition of government is obtained with Mackie and Rose's (1990) and Flora's (1987) data which, respectively, provide the proportion of seats in parliament held by each political party as well as the coalition parties forming a government, if a coalition occurred. Based on observation of such coalitions in the postwar period and coalitions in the interwar period where data are available (e.g., Australia), cabinet seats are generally assigned to parties according to the proportion of seats the coalition partner holds as a percentage of total coalition seats. Thus, based on the proportion of parliamentary seats each coalition party holds, we can determine the percentage of cabinet seats the party held, and then calculate the average partisan score for each government so that it corresponds to Franzese's measure. These data are available across countries for 1929, which offers a useful indicator for countries' partisanship levels; indeed, many of the key bargains over the structure of modern capitalist institutions were struck during this interwar period. Left-wing power before WWI (in 1913) can be determined only approximately by using the proportion of parliamentary seats held by left-wing political parties. This lacks a measure for ideological position, but it is clear that left-wing parties were far weaker at this time than in the interwar years, which is consistent with financial indicators for this period, such as the size of stock markets being relatively larger (Rajan and Zingales, 2003), and with qualitative assessments of states' general levels of economic intervention being quite low. Table 7 presents the numerical values for this partisanship measure: Partisanship at the Origins of Capitalist Institutions (POCI). This variable measures government partisanship for 10 countries in 1929, and is updated to

1950 for the 5 countries whose constitutions, and broader economic institutions, changed after WWII.

Table 7: Partisanship at the Origins of Capitalist Institutions (POCI)

	POCI
AUS	3.5
AUT	4.8
BEL	4.7
CAN	2.8
DEN	6.4
FRA	5.7
GER	4
ITA	4.9
JAP	1.35
NET	4.3
NOR	7
SWE	6.3
SWI	3.9
UK	2
USA	3.3

V) Tests

I test for correlations between the economic variables of interest - coordination index, stock market capitalization, stock market capitalization relative to bank deposits, diffusion of corporate ownership, and government intervention - and the level of partisanship at the time capitalist institutions were created (the POCI variable). I compare the results of the POCI measure to two alternative partisanship measures: one which measures partisanship in 1950 to account for the possibility of new bargains being struck after the war, and a second a partisanship measure which is determined by taking countries' average level of partisanship during the post-WWII period.

I first test for correlations with respect to the coordination index developed by Hall and Gingerich (2004) since it provides a general measure for the level of institutional complementarity for nations' political economies. The main drawback of this measure is that it is a static measure for the post-WWII period alone, and is calculated with data for the 1990s only. Although Hall and Soskice (2001) argue that complementary institutions would constrain change across the post-WWII period, it would be useful to have a measure that averaged the variables that comprise this index across the entire period. Nevertheless, the tests illustrate that the POCI variable is the only partisanship variable to display statistically significant results. It is likely surprising to many readers that the post-WWII average partisanship variable does not return statistically significant results, but this result reinforces the importance of being sensitive to the initial bargains over institutional design to subsequent outcomes.

Table 8: POCI and Institutional Coordination

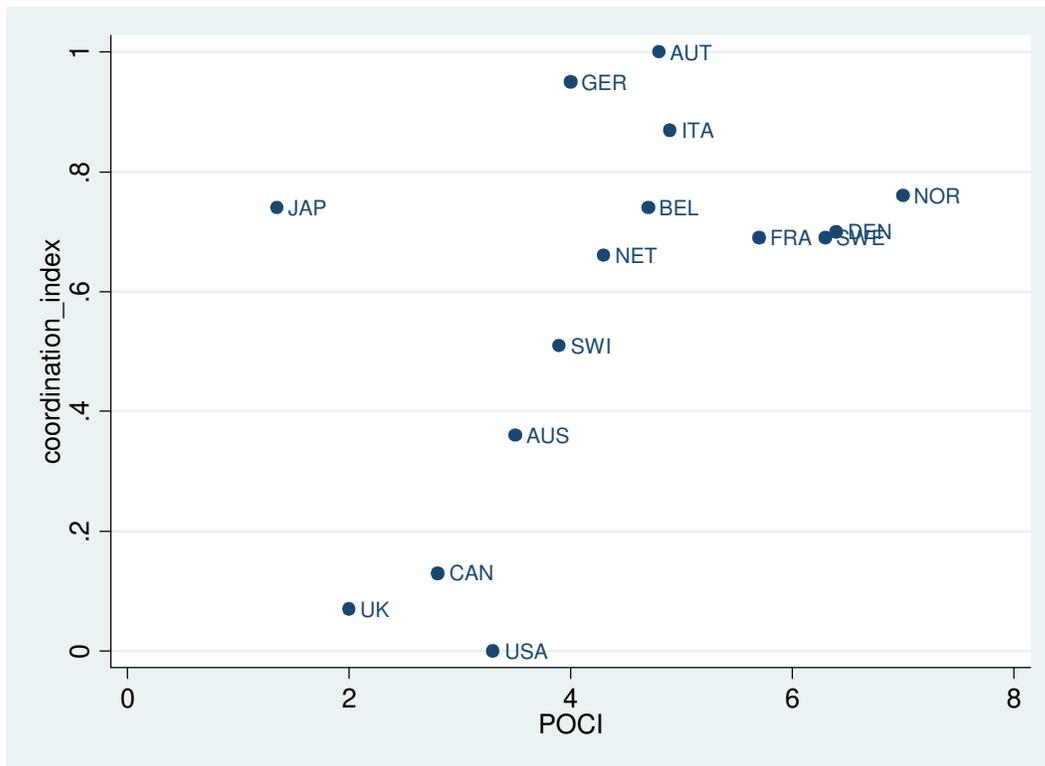
	DV: Coordination Index			Japan Excluded
	POCI	0.09** (2.13)		
Post-WWII Average Partisanship ^a		0.09 (1.38)		
Partisanship 1950			-0.002 (-0.04)	
Adjusted R ²	0.2	0.06	-0.07	0.41
N	15	15	15	14

^a calculated from the partisanship levels at decade intervals from 1950 to 1990. *** statistical significance at the 1% level; ** statistical significance at the 5% level.

Note: t-statistics in parentheses.

The scatterplot in figure 3 shows that Japan is a clear outlier. However, its placement at such a far right-wing extreme is problematic since the left exercised considerable bargaining power in the years immediately after the war, when bargains over capitalist institutions were struck (Garon, 1987; Gilson and Roe, 1999). That Japan is too far left is a result of the partisanship variable being measured in 1950, immediately after the bargains were largely concluded.

Figure 3: POCI and Institutional Coordination



Post-WWII Japan

The Japanese labor movement surged immediately after WWII ended. In December 1945, 380,000 workers were members of labor unions, swelling to 900,000 in January

1946. The prewar Sodomei, or Japan Confederation of Trade Unions, was revived by social democrats and other moderate left-wing organizers in August 1946, and soon numbered 855,000 members. In late August, Communist activists organized the Congress of Industrial Organizations (Sanbetsu Kaigi), which had 1,630,000 members. Another national organization, the Japan Congress of Trade Unions (Nichiro Kaigi), and a number of independent enterprise-wide federations of local labor unions in large multi-plant companies such as the steelmaker Japan Steel Tube (Nippon Kokan, or NKK Corp.) were established as well.

Nosaka Sanzo, a leading Communist, published “An Appeal to the Japanese People” which served as the basis for the Emancipation League (formerly the Anti-War League), founded in 1944. The League’s program was couched in moderate language so as to appeal to a wide audience, but among its key policy prescriptions, it advocated “maintaining and strengthening state control over banks” (Colbert, 1952: 64). The program served as the ideological basis for a large segment of the postwar labor movement. The more moderate Socialists, in 1946, proposed a system of state control of key industries (Colbert, 1952: 88), as well as the establishment of a Supreme Economic Council to determine general economic policies, subsidiary councils for each industry, and at each level of planning or supervision trade-union representatives, as well as representatives of business and government, would participate. The long-term financial program of the Socialist Party called for the socialization of all banks and insurance companies, entailing the establishment of a Banking Control Committee to be headed by the Finance Minister and to be responsible for the utilization of funds. Additionally, it proposed that half of each bank’s managers would be selected from among its employees

(Colbert, 1952: 90). The resemblance to France's postwar Socialist Party policies is striking (Kuisel, 1981).

At first, American General Headquarters (GHQ) actively promoted labor unions, but as the Cold War began and the communist threat increased, GHQ modified its policies. After ordering the cancellation of the General Strike on February 1, 1947, General MacArthur directed Prime Minister Yoshida to hold a general election in April in order to alleviate social unrest. The Japan Socialist Party's (JSP) subsequent election victory brought Japan's first Socialist government to power (Koshiro, 2000); they won a plurality of seats, but the right-wing combination of Liberal and Democratic Parties prevented any effective left-wing legislation from being passed. GHQ became increasingly worried about the rise of communism and the growing strength of labor, so as of July 1948, national civil servants were deprived of the right to strike via a change in the National Civil Service Law.

The election on January 24, 1949 shattered the Socialist Party, whose seats fell from 143 to 48 in the Lower House, while the Communist Party was strengthened, winning 35 seats and nearly 10 percent of the vote. The overall result, however, was a swing to the right and Yoshida became premier of the new post-election government. Yoshida now moved the anti-union struggle into high gear. This took two forms: (1) extensive subversion of left-wing unions from within, via 'democratization leagues' or *mindō*; and (2) an 'anti-inflationary' policy, one of whose chief features was wholesale dismissal of militant workers.

The implementation of the Dodge Plan led to firings and layoffs on a large scale, causing the elimination of a large sector of the militant left, and to the reorganization and

strengthening of oligopoly capital. Although the Dodge program involved expanding big industry and therefore employment in big industry, the reorganization was used carefully to weed out militant workers and to weaken the union movement. In 1949 alone, 435,465 workers were dismissed from their jobs, and around 300,000 more in 1950. In the same period, the number of unions declined by over 5,500 and union membership fell by 880,000. The government purges were accompanied by direct promotion of the anti-communist *mindō* (Halliday, 1978: 217-20).

As the old workers union (Sanbetsu) and the left were gravely weakened, the Yoshida government, the Employers' Federation (Nikkeiren) and GHQ worked towards a new union coalition based largely on the *mindō*. The new federation, Sōhyō, was founded in July 1950, immediately after the purge of the Japan Communist Party and the start of the Korean War. As the head of Sōhyō wrote in 1965: “the history of the foundation of Sōhyō is closely connected with the fight against the domination of the Japanese trade unions by the Communist Party” (Halliday, 1978: 220). Just after the formation of Sōhyō, Sanbetsu membership dropped to 47,000 and in 1953 it went down to 13,000. The Federation was dissolved on February 15, 1958. Sōhyō's domestic platform and the wrecking of the Sanbetsu were a big victory for business in imposing the seniority-wage system and intra-enterprise unions (Halliday, 1978: 220).

To retain the loyalty of the remaining workers, managers offered them lifetime employment (Price, 1997: 253). Labor wanted to have influence over the form of corporate financing, making it long-term to suit their employment stability goals. However, labor was weakened, and their economic initiatives were stymied by America's intervention to quell the growing communist threat. But, as Gilson and Roe (1999) assert,

“Because labor retained potential political influence despite the fact that managers recovered workplace authority in the early 1950s, the government wanted [the lifetime employment] bargain [forged in the wake of the labor strife of the late 1940s] to remain stable.” Indeed, the postwar constitution contains a ‘right to employment’ clause that commits government policy to full employment. And legal norms of lifetime employment arose through active courtroom struggles of unions against abusive dismissals of labor activists during the 1940s and 1950s. Japanese courts required employers to show ‘just cause’ for the dismissal of regular employees, since dismissals were (and are) normally considered an ‘abuse of right’ that shifts the burden of proof to employers. Thus, firms have had to exhaust alternative measures of reorganization and employment adjustment, thereby strengthening union involvement (Hanami, 1989). Furthermore, employment security has been supported by effective cross-class alliances with business to make political demands for state support of jobs and employment adjustment in declining industries (Kume, 1998). Subsequently, the government would intervene by forcing delegated main banks to bail out weak affiliated industrial firms (Aoki, 1994). In this way, lifetime employment began and endured as a political bargain, with long-term financing arising alongside it as a necessary component of that bargain. Thus, a more accurate POCI measure would correct for this course of events, however, doing so would lead to subjective biases; thus, I leave the Japan measure as is although the results would likely improve were it corrected.

Tests on Individual Institutions

Next, I turn to tests on individual economic institutions. First, I consider measures for the reliance on stock markets: the post-WWII average stock market capitalization relative to GDP and the post-WWII stock market capitalization relative to bank deposits.^{ix} Both of these measures are tested to demonstrate robustness, although the latter is a better indicator for the general organization of countries' political-economic institutions. Table 9 shows both pre- and post-WWII correlations. While it is useful to observe the pre-WWII correlation, as it shows the robustness of the argument across time, more important to contemporary outcomes is the strength of the POCI measure relative to the other partisanship measures for the post-WWII period.

Table 9: Partisanship Measures and Stock Market Reliance

	DV: Pre-WWII Market Cap/Bank Deposits			DV: Pre-WWII Market Cap		
Pre-WWII Partisanship	-0.67*** (-4.41)			-0.12** (-2.83)		
Adjusted R ²	0.61			0.36		
N	13			13		
	DV: Post-WWII Market Cap/Bank Deposits			DV: Post-WWII Market Cap		
POCI	-0.39*** (-4.11)			-0.13*** (-3.1)		
Partisanship 1950		-0.1 (-0.73)			-0.04 (-0.8)	
Post-WWII Average Partisanship			-0.43** (-2.8)			-0.14** (-2.14)
Adjusted R ²	0.53	-0.3	0.32	0.38	-0.02	0.2
N	15	15	15	15	15	15

*** statistical significance at the 1% level; ** statistical significance at the 5% level.

Note: t-statistics in parentheses.

Table 10 illustrates the robustness of the POCI variable when controlling for legal family: common or civil law (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998). The pre-WWII tests are particularly illuminating since they demonstrate no statistically significant correlation to the legal family variable (which is very heavily cited in economics journals), while the partisan variable remains statistically significant across both periods. This evidence offers support for critiques of the legal family argument, which charge that it fails to account for the underlying political mechanisms that legal structures arise from, and are conditioned by.

Table 10: POCI and Stock Market Reliance

	DV: Pre-WWII Market/Bank	DV: Pre-WWII Market Cap	DV: Post-WWII Market Cap/Bank Deposits	DV: Post-WWII Market Cap
Pre-WWII Partisanship	-0.69*** (-3.86)	-0.13** (-2.76)		
POCI			-0.22*** (-2.78)	-0.08* (-1.8)
Common Law	-0.1 (-0.16)	-0.11 (-0.64)	1.08*** (3.78)	0.32* (1.98)
Adjusted R ²	0.56	0.33	0.77	0.49
N	13	13	15	15

*** statistical significance at the 1% level; ** statistical significance at the 5% level.

Note: t-statistics in parentheses.

The concentration of corporate ownership is often viewed as another important indicator corresponding to the general structure of capitalist systems, with coordinated market economies exhibiting more concentrated ownership than liberal market economies. I look at three measures for ownership concentration: (1) the commonly used

measure of widely held ownership; (2) a concentrated ownership measure that combines the extent of family and state ownership; and (3) an aggregate diffuse ownership measure which combines the widely held measure with ownership by widely held financial corporations and widely held nonfinancial corporations. Data on these indicators come from La Porta et al (1999). Most analyses focus on the first only, but I test the additional indicators to assess whether partisanship exhibits correlations to general corporate ownership outcomes. I expect a negative relationship for the first corporate ownership measure (widely held top 10), a positive correlation for the second (family and state ownership top 10), and a negative correlation for the third (diffuse ownership aggregated top 10). Table 11 again reveals stronger correlations for the POCI variable compared to the alternative partisanship measures, and table 12 demonstrates the robustness of this relationship to the inclusion of control variables. The proportional representation variable (PR) is included to account for Pagano and Volpin's (2001) argument that coalition governments offer more groups the capacity to prevent changes to the status quo - concentrated ownership.

Table 11: Partisanship Measures and Corporate Ownership

	Widely Held Top 10 ^a			Family and State Own. Top 10 ^b			Diffuse Own. Aggregated Top 10 ^c		
POCI	-0.14*** (-4.66)			0.12*** (4.18)			-0.12*** (-3.38)		
Post-WWII Average Partisanship		-0.14*** (-4.02)			0.14*** (3.9)			-0.12** (-2.23)	
Partisanship 1950			-0.07 (-1.67)			0.05 (1.41)			-0.02 (-0.57)
Adjusted R ²	0.60	0.34	0.11	0.54	0.5	0.06	0.43	0.22	-0.05
N	15	15	15	15	15	15	15	15	15

^a Top 10 refers to a sample of the 20 largest firms with 10% as the cut off for control, as measured by La Porta et al (1999).

^b Family and state ownership = family ownership + state ownership.

^c Diffuse ownership aggregated= widely held + widely held financial corporations + widely held nonfinancial corporations.

*** statistical significance at the 1% level; ** statistical significance at the 5% level.

Note: t-statistics in parentheses.

Table 12: POCI and Corporate Ownership I

	Widely Held Top 10	Family and State Own. Top 10	Diffuse Own. Aggregated Top 10
POCI	-0.099*** (-3.54)	0.09*** (3.07)	-0.07** (2.59)
Common Law	0.1 (0.61)	0.03 (0.17)	-0.001 (-0.01)
PR	-0.19 (-1.3)	0.2 (1.27)	-0.35** (-2.26)
Adjusted R ²	0.76	0.6	0.72
N	15	15	15

*** statistical significance at the 1% level; ** statistical significance at the 5% level.

Note: t-statistics in parentheses.

Indeed, government partisanship at the time when capitalist institutions were created explains a greater amount of variation in the widely held measure (60%) than other widely cited contemporary partisanship measures (e.g., Roe, 2003, with an adjusted R-squared value equal to 45%). Weaker results are observed with respect to medium-sized firms, as shown in table 13. This may be due to actors' greater attention to rules affecting the largest firms, which are more likely to have been important to, and present during, the initial bargains.

Table 13: POCI and Corporate Ownership II

	Widely Held Top 20 ^a	Family & State Own. Top 20 ^a	Diffuse Own. Agg. Top 20 ^a	Widely Held Med 10 ^b	Family & State Own. Med 10 ^b	Diffuse Own. Agg. Med 10 ^b	Widely Held Med 20 ^c	Family & State Own. Med 20 ^c	Diffuse Own. Agg. Med 20 ^c
POCI	-0.1*** (-2.88)	0.08*** (2.95)	-0.09*** (-2.9)	-0.02 (-0.89)	0.08* (1.94)	-0.02 (-0.64)	-0.02 (-0.61)	0.08** (2.18)	-0.01 (-0.61)
Common Law	-0.14 (-0.62)	0.03 (0.2)	-0.05 (-0.27)	0.2 (1.09)	0.03 (0.15)	0.12 (0.64)	0.53** (2.29)	-0.1 (-0.4)	0.39* (1.96)
PR	-0.35 (-1.73)	0.19 (1.2)	-0.29 (-1.67)	0.08 (0.54)	-0.009 (-0.04)	-0.02 (-0.18)	0.15 (0.8)	-0.03 (-0.17)	0.03 (0.18)
Adjusted R ²	0.57	0.57	0.63	0.14	0.11	0.11	0.5	0.3	0.53
N	15	15	15	15	15	15	15	15	15

^a corporate ownership for a sample of the 20 largest companies with 20% share ownership as the cutoff for blockholding.

^b corporate ownership for a sample of companies worth more than \$500 million with 10% share ownership as the cutoff for blockholding.

^c corporate ownership for a sample of companies worth more than \$500 million with 20% share ownership as the cutoff for blockholding.

*** statistical significance at the 1% level; ** statistical significance at the 5% level; * statistical significance at the 10% level.

Note: t-statistics in parentheses.

The extent of government intervention is tested next. In this context, an economy with higher levels of intervention is generally equated with exhibiting stronger features of a coordinated market economy. Intervention is tested with a measure constructed by Nicoletti et al. (1999: 74) and is described as capturing “public ownership” (in turn taking into account the “size” and “scope” of the public sector, “control of public enterprises by legislative bodies,” and “special voting rights”) and “(state) involvement in business operations” (in turn including “price controls” and “use of command and control regulations”). The control variable, state centralization, is from Verdier (2003).^x

Table14: POCI and State Control

	DV: State Control			
POCI	0.38*** (3.24)			0.23*** (2.77)
Post-WWII Average Partisanship		0.37* (1.96)		
Partisanship 1950			0.1 (0.99)	
State Centralization				0.69 (0.97)
Common Law				-0.83** (2.71)
Adjusted R ²	0.4	0.17	0.00	0.56
N	15	15	15	15

*** statistical significance at the 1% level; ** statistical significance at the 5% level.
Note: t-statistics in parentheses.

Again, the POCI variable demonstrates stronger correlations to the dependent variable than the alternative partisanship measures.

VI) Conclusions

The results illustrate the importance of looking at bargains that may have been negotiated many decades prior to an institution's contemporary manifestation. Moreover, cross-section time-series tests that analyze contemporaneous levels and changes to partisanship miss the more fundamental circumstances that contribute to the structure of an economic institution – the nature of the bargains when it was created. The tests here focus on those attributes of capitalist systems viewed as useful indicators for a nation's overall political economy. In view of the robustness of the results for the POCI variable, it would likely be worthwhile reexamining other economic outcomes that correlate with government partisanship.

In addition to implications for understanding the origins of wealthy economies' contemporary institutions, it is useful to keep in mind the importance of the political bargains struck over developing countries' institutions. For those countries presently negotiating the structure of their institutions, the evidence here suggests that the nature of bargains struck today could have decades-long consequences.

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ⁱ Germany and Austria changed their constitutions markedly after WWI as well. Austria reinstated its 1920 constitution after WWII (along with the 1929 revisions to the president's powers) after it was replaced by an Austrofascist constitution of 1934.

ⁱⁱ Some of these were reimplemented from the interwar period, but because these interwar bargains were so short-lived, there was insufficient time for these practices to become properly institutionalized.

ⁱⁱⁱ For this reason, I exclude data for 1938 and 1999 from the analysis.

^{iv} Each variable is multiplied by 100 before taking the ratio to avoid mathematical problems that occur with dividing numbers less than one.

^v Unless change of gov. after WWI, then 1913 only; includes Austria, Germany, and Italy.

^{vi} Bank deposits data are from Rajan and Zingales, 2003. For data in the post-WWII period, bank deposits exhibit greater than 95% correlation to bank lending (data for bank assets are from Beck, Levine, and Demirguc-Kunt, 2001).

^{vii} Unless change of gov. after WWI, then 1913 only; includes Austria, Germany, and Italy.

^{viii} The expert studies include Laver and Hunt (1992), Laver and Schofield (1990), Dodd (1976), Castles and Mair (1984), Laver and Budge (1992), Sani and Sartori (1983), Morgan (1976), Inglehardt and Klingemann (1987), Mavgardatos (1984), Bruneau and MacCleod (1986), Blair (1984), Kerr (1987), Taylor and Laver (1973), Browne and Dreijmanis (1982), and de Swaan (1973). Multiple expert studies are used to minimize the bias/subjectivity caused by relying on only one or a couple.

^{ix} Both variables are with respect to GDP, which drops out when taking the ratio of them.

^x To extend his centralization measure across countries and time, I supplement it with data from Flora (1983).