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Corporatism and job satisfaction

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ABSTRACT

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We introduce reported job satisfaction as a measure of economic performance and find it positively correlated with GDP per capita and the labor force participation rate in a sample of OECD countries and negatively correlated with unemployment. Moreover, we find that many measures of corporatism, which we define in the wider sense as institutions that hamper with the allocation of the factors of production and the distribution of income in a capitalist economy, are negatively correlated across countries with job satisfaction. Thus job satisfaction is positively correlated across countries with measures of the protection of property rights and negatively correlated with the volume of regulations of credit markets, labor markets and businesses, in addition to barriers to entrepreneurship, corruption and lack of access to capital. In contrast, measures of capitalism, such as the number of listed companies and market capitalization, are positively correlated with job satisfaction. *Journal of Comparative Economics* **41** (1) (2013) 35–47. The Center on Capitalism and Society, 1126 International Affairs Building, Columbia University 420 W. 118th st., MC 3334 New York, NY 10027, USA; Department of Economics, University of Iceland, Saemundargata 2, 101 Reykjavik, Iceland; Department of Economics, Mathematics and Statistics, Birkbeck College, University of London, Malet St., London WC1E 7HX, UK.

1. Introduction

In this paper we propose job satisfaction as a measure of economic performance and relate it to a variety of social institutions that fall under corporatism and capitalism. We are interested in testing to what extent capitalist institutions may enhance job satisfaction and economic performance while corporatist institutions that hamper with the allocation of resources and income may act to lower performance. We will test to see whether some signature features of corporatist and modern-capitalist economies – features such as the high employment protection in a country and the collective bargaining favored by corporatism; the large public sector; the bureaucratic red tape; and the individual freedoms relied on by capitalism – are conducive or inimical to job satisfaction. Our thesis is that capitalist systems may provide a better opportunity for individuals and firms with new ideas to replace existing ones, for new firms to leapfrog existing ones and for individuals with ideas to prosper while the corporatist system has a stifling effect by protecting vested interests in the form of jobs, businesses and industries.

Our thesis that the institutions of corporatism may have a detrimental effect on economic performance is closely related to the contributions of Thrainn Eggertsson (such as Eggertsson, 2005), whose work we celebrate in this symposium. In his

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work, he describes how productivity depends not only on physical technology but also on social institutions that provide people with incentives. The set of possible institutions in society is then determined by technology in the narrow sense and also social knowledge and social technologies, as well as factors such as geography and natural resources. In Eggertsson's work, societies do not always end up choosing the best institutions from the set of feasible institutions. There are forces that intervene and prevent societies from optimizing; forces such as the failure of collective action, the narrow self-interest of ruling groups, beliefs, values and cognitive limitations. In our case the belief in the beneficial effects of corporatist institutions and the vested interests of many social groups in maintaining this system may have affected overall job satisfaction in society and economic performance.

The structure of this paper is as follows. We first discuss corporatism as an economic system, then review the literature on job satisfaction and take a preliminary look at the statistical relationship between job satisfaction and the conventional measures of economic performance; output per capita, labor force participation and unemployment, in a sample of 27 countries. We then introduce and discuss different types of corporatist institutions that are used in our analysis of the data. The data analysis starts with a series of scatter plots and tables that report statistical relationships between job satisfaction and various institutional variables. We also estimate principal components in order to explore the relationship between job satisfaction and institutions further. In order to test for robustness we also use data on 47 thousand individuals where we can control for individual attributes that may affect job satisfaction in addition to our institutional variables. The final section concludes.

2. Corporatism as an economic system

Corporatism has a long history on the continent of Europe. In essence, the difference between corporatism and the liberal capitalism that developed in the United States is the notion of individuals forming groups, such as labor, business and the scientific community, which represent their interests and together determine how society develops, in contrast to the uncontrolled development of the capitalist economy through the trials and errors of individual entrepreneurs. As in Phelps (2013) we define corporatism as the set of institutions and interventions in the functioning of a capitalist system that is intended to prevent capitalism from harming the objects of traditional values – state, family, community and religion. In a corporatist system, competition in the market place is deemphasized and in its place comes a sense of shared objectives for society that are meant to ensure that each individual serves the interests of society. Individuals and businesses should thus have social responsibilities that transcend their private interests.

The recent labor economics literature has made much of corporatism. The exact definition of the term is often lose and varies from one author to another. However, the term is generally used in a much narrower sense taken to mean that wages are formed in labor markets where encompassing unions and employers' associations represent the interests of their members. Corporatism then takes on a meaning close to "centralization of bargaining," where the main implication is that the macroeconomic effects of the wage bargaining process are taken into account by the two parties to the bargain. Bruno and Sachs (1985) add to this definition the active involvement of the government in wage agreements taking the form of incomes policy. Measures of corporatism are then used to explain differences across countries in labor market performance, such as real wage flexibility and the inflation–unemployment trade-off. While most studies, such as Crouch (1985) and Bruno and Sachs, find a beneficial effect of measured corporatism, Calmfors and Driffill (1988) detect a hump-shaped relationship between unemployment and centralization so that both countries with centralized wage bargaining and those with the most decentralized labor markets perform better than those in the middle. Tarantelli (1986) extends the definition of corporatism to encompass the degree to which there is a high ideological and political consensus and also a high level of integration and cooperation of trade unions and employer's representatives with the government. His extended index shows a high level of correlation with the "misery index," defined as the sum of the rate of inflation and the unemployment rate, for the OECD countries.

In this paper we widen the definition of corporatist institutions. Clearly, the corporatism found on the European continent reaches its influence beyond the labor market. It involves the existence of tripartite relationships between strong labor unions, employers' associations and the government as social partners not only in reaching wage agreements but also in managing the direction of the national economy. Through this tripartite relationship the social partners affect both the allocation of the factors of production as well as the income distribution. Moreover, corporatism predates the modern use of the term by labor economists. In fact, it traces its roots to the late 19th century and the beginning of the 20th century. In the 1920s its tenets became popular among European nationalists who felt the need for a return to unity and purpose in society, the intellectuals who felt the need for economic order, the peasants, artisans and other interest groups losing ground to modernization who wanted protection; and the scientists who wanted state support for research and artists who wanted it for the arts. All these factions hoped for some way of curbing or over-riding various tendencies and impulses of the modern capitalist economy. This had to mean putting the private-enterprise economy under political control.

A corporatist model was built by Benito Mussolini in Italy in the1920s and 1930. Germany's development of corporatism started sooner than Italy's with one of the early corporatist critics of capitalism, Ferdinand Tönnies, who proposed the thesis in 1887 that communities and guilds were being destroyed by capitalism, and Emile Durkeim, who maintained that