The Political Frame for Negotiated Capitalism: Electoral Reform and the Politics of Crisis in Japan and Sweden

ELLEN M. IMMERGUT* and SVEN JOCHEM**

This article examines the impact of political institutions on the strength of executive governments as well as the consequences of that strength for policymaking. It argues that both political changes and electoral reforms in Japan and Sweden have weakened the political frame for “negotiated” or “coordinated” decision making in these nations. In Sweden, however, the complete demolition of the old political frame has opened up opportunities and incentives for new modes of governance. In Japan, by contrast, reforms have buttressed rather than dismantled the old frame, impeding the transition to a new approach.

Much of the current debate on “globalization” is concerned with whether “negotiated” or “coordinated” market economies—whose main institutions were created in an era of relative autarky—can survive in a context of increasing liberalization of markets for goods, services, and capital (Berger and Dore 1996; Crouch and Streeck 1997; Hall and Soskice 2001; Streeck and Thelen 2005; Thelen 2004; Yamamura and Streeck 2003). At the heart of the notion of the coordinated market economy is the concept of a “high equilibrium trap”: some communities, industrial districts, or even nations have been able to simultaneously achieve high levels of employment and high levels of wages and job security, breaking with the predictions of neoclassical theory (Kitschelt and Streeck 2003). Although they represent opposite types of “embedded capitalism,” Japan and Sweden have long been considered to be outstanding examples of the benefits of a negotiated or consensual approach. Both achieved extremely high levels of employment and provided employees—at least in core sectors—with high levels of job and income security. The Swedish state—associated with the long political domination of the Social Democratic Party (SAP)—provided this security through a generous welfare state and expansive public sector. In Japan, where the Liberal Democratic Party (LDP) occupied this politically dominant position in the postwar period, the large corporation was the source of security, causing some commen-
tators to characterize the system as one of occupational welfare. In return for this security, unions in both nations practiced wage restraint, allowing a better trade-off between inflation and employment than that expected by economic theory—hence, the “trap.”

This article will not consider the question of whether such a trap is a local equilibrium whose economic viability rests on its relative isolation from alternative markets for various factors of production. Nor will it discuss which system—high-tax/high government expenditure in Sweden or low-tax/low government expenditure in Japan—was economically more efficient, and which one is socially more just. Instead our starting point is the observation that both systems have come under increasing pressure that has culminated in crisis. In contrast to many studies both of the emergence of negotiated economies in the postwar period, and of their viability in the face of increasing economic competition since the 1970s—both of which have focused on the social institutions that make such negotiations possible—this article will examine the role of the political framework within which social concertation takes place.

We seek to investigate the impact of recent electoral reforms on patterns of governance in Sweden and Japan. To this end, we proceed in four steps. First, we analyze the influence of political institutions on the strength, stability, and partisan identity of the executive government in both nations, both before and after the reforms. Second, we review the historical evidence regarding the link between the strength of the executive government and patterns of policymaking in the past. Third, we speculate on the implications of the changed political executive on contemporary models of governance in Japan and Sweden. Our argument is that the loss of one-party dominance has undermined the political framework for state-led negotiation in both nations. Consequently, political actors in both nations are renegotiating their strategies and structures for policy coordination: In each nation, alternatives are being sought to replace “strong-state” governance. At the same time, electoral reform has also changed the terms of political competition in each nation, such that the incentives for innovation seem to be higher in the Swedish than the Japanese political system. This helps to explain, we believe, the very different approaches to the management of crises in Sweden and Japan.

The Impact of Electoral Reform on Executive Governments

One-Party Dominance

In both Japan and Sweden, unions, employer associations, political parties, and bureaucratic agencies established a pattern of “coordinated” or “state-led” policy bargaining. By this we mean that representatives of interest groups and governments not only bargained over various policies—as is the case in any nation with pluralist interest group representation or the more concentrated neocorporatist types of interest intermediation—but
that complex package deals involving both trade-offs between various policy areas (such as economic, tax, regional, and/or social policy) and interest trade-offs over time (such as alternating benefits of occupational health and safety policies between capital and labor, or industrial investment policies between different sectors) could be made, and were upheld. Some authors have referred to these policy linkages as “tightly coupled” systems. Examples include the Swedish solidaristic wage policy—which entailed trade-offs between wage, social, employment, and monetary policies, as well as among firms with varying market positions—or Japan’s Ministry of International Trade and Industry (MITI)-led industrial growth strategy, which permitted the state to invest resources strategically, rather than according to the “watering can” principle.

Such “state-led” policy coordination, we assert, is possible only under the auspices of a “hegemon.” A hegemon is important for the establishment of a coordinated market economy or a state-led governance pattern, because a strong government of long tenure is a necessary political condition for establishing the trust amongst the social partners necessary for coordination. As Peter Gourevitch and James Shinn (2005) point out, the government must be able to make a credible commitment that promises will be kept, and this implies both that the executive government can get its policies through the legislature and that the same executive will be around for a sufficient period of time that trades can be enforced. And indeed, the coordinated policy regimes of Japan and Sweden did develop under conditions of hegemonic liberal democratic or social democratic rule (respectively) that T. J. Pempel (1990, 1998) has termed “One Party Dominance.” In Japan, a member of the LDP held the position of prime minister uninterruptedly from 1955 to 1993. In Sweden, a member of the SAP held the post of prime minister uninterruptedly from 1936 to 1976; from 1946 to 1969, the same person, Tage Erlander, held this position. In both countries, executive governments were backed by large parliamentary majorities. Furthermore, peculiarities of the political institutions in these nations helped these executive governments extend their tenure well beyond a single electoral period.

According to the “veto points” model (Immergut 1990), this configuration of institutions and votes will produce executive dominance, as is shown in Figure 1. The executive government is backed by a stable parliamentary majority, and although there is a second chamber, its majority supports the government. In such a system, there are no veto points. Consequently, the most important stage of the policy process is the executive stage, and parliamentary discussions serve mainly as signaling games to constituents. In such a system, interest-group influence is virtually limited to the executive. Because groups dissatisfied with the outcome of executive-level negotiations do not have recourse to an alternate veto point, package deals become possible; a minority interest cannot threaten to torpedo a particular policy unless its particular demands are met. Government power can be used to persuade groups to stick to
complicated coordinated agreements; and because the executive can deliver on its promises, groups can trust that they will indeed be rewarded for sticking to their end of a particular policy bargain. As Fritz Scharpf (1997) argues, the “shadow of hierarchy” induces cooperation among social actors.

One important difference in the two systems that should be mentioned, however, is the somewhat lower level of party coherence in the Japanese political configuration. Whereas the extremely high level of party discipline in the Swedish SAP places cabinet power squarely in the hands of the prime minister, the Japanese fractions should result in significant negotiations. These took place within the LDP’s policymaking organ, the Policy Affairs Research Council. With these splits within the political executive, the scope for administrative decision making is increased, as the veto players theory predicts (Tsebelis 2000; 2002, 36). Whereas in the Swedish executive, politicians dominated the bureaucrats; in Japan—

FIGURE 1
Veto Points and Executive Dominance

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<table>
<thead>
<tr>
<th>Arenas</th>
<th>Moves</th>
<th>Results</th>
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<tbody>
<tr>
<td>Executive</td>
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<tr>
<td>First chamber</td>
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<tr>
<td>Second chamber</td>
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- Does the executive government lack parliamentary majority?•Is party discipline weak?
- Is the agreement of the second chamber necessary for passage of legislation?•Does the majority in the second chamber differ from: a) First chamber? b) Government?
- If yes, first chamber is a veto point
- If no, first chamber is not a veto point
- If yes, second chamber is a veto point
- If no, second chamber is not a veto point

Political power concentrates in first chamber
Political power concentrates in second chamber
Political power remains in executive government
Political power remains in first chamber or executive government

- Japan 1955–1992
- Sweden 1944–1969
although there are scholarly debates about the extent of bureaucratic dominance—the bureaucracy long enjoyed relative independence from the politicians (Christensen 2000, 22).

**Political Institutions and One-Party Dominance**

The Westminster model of government is also an example of executive dominance, as executive governments are backed by clear first-chamber (House of Commons) majorities, and the second chamber (House of Lords) can delay—but not veto—legislation. The British electoral system is an important part of this political configuration, as single-member districts (SMDs) tend to produce clear majorities. Indeed, as votes for small parties are “wasted,” SMD electoral systems are thought to encourage parties to fuse into a two-party system. As in Britain, Swedish and Japanese political institutions helped maintain the system of executive dominance. In contrast to Britain, however, executive dominance was based on *one-party dominance* within a multiparty system rather than on *partisan alternation* between government and opposition.

The strong position of these executive governments and the extremely long tenure in government of the respective dominant parties resulted from an interaction between electoral victories and political institutions in the two nations—although one must note from the outset that political strategies and political philosophy also played an important role in generating the postwar patterns of governance. The first of these institutional features was the *electoral system*, which united the dominant party and split the opposition. Each country based Lower House elections on medium-sized, multimember districts. In Japan, candidates ran individually (but under party labels) and were elected by single nontransferable votes (SNTV)—the least proportional of proportional representation methods, according to Arend Lijphart (1994). In Sweden, the d’Hondt method (also not extremely proportional) was used until the early 1950s, when the SAP bowed to opposition pressure, and agreed to switch to a more proportional formula (the modified St-Laguë method), as well as to slightly increase the average size of the electoral districts. Even after this change, however, the system provided an advantageous seats-to-votes ratio for the largest party, and hence, for the Social Democrats (von Sydow 1986).

Although it is simply a matter of historical luck that the SAP and LDP emerged early on as the largest parties in their respective party systems, once there, the medium-sized, multimember districts helped the parties maintain their dominant position, because the *advantages* of disproportionality for the largest party gave party adherents an incentive to remain within the party—thus counterbalancing the centrifugal effects, such as the incentive to form factions in the SNTV system—and *quirks* of disproportionality gave the opponents a disincentive for fusion. In many districts, the smaller parties in both Japan and Sweden gained more seats by
maintaining separate identities than if they had fused. Moreover, by maintaining separate profiles, they were able to attract a greater number of voters by covering a larger ideological space than would have been possible under a unified party label. Thus, despite these possibilities for the smaller parties to maximize their votes and seats—and in fact because of these possibilities—the dominant parties benefitted from a divided opposition. Finally, the disproportional representation of rural areas—which became more severe as these areas lost in population—happened to buttress the dominant party in each system, as Japanese rural areas voted LDP, while the Swedish North was overwhelmingly left wing.

Second, in addition to the electoral system, *bicameralism* in both nations aided the dominant party. Both systems were based on what Lijphart (1984, 1999) terms as “incongruent” bicameralism—that is, elections for the two chambers are held at different times and according to different formulas, such that incongruent majorities in the two chambers, and hence a veto point, is likely to arise. Nevertheless, in both systems, the second chamber served to secure the tenure of the dominant party. Because the dominant parties held relative or absolute majorities in both houses of parliament, opposition parties would need to rally two different antigovernment legislative majorities to block legislation. In order to unseat the government, as we will see, more than two electoral victories would be required.

In Sweden, the electoral method for the Upper House was extremely favorable for the SAP, and indeed, it was the absolute majority that the party enjoyed in the Upper House that made possible its 44-year tenure in government. Members of the Upper House were indirectly elected in staggered elections, with local politicians (those who had been elected to the county councils) serving as electors. This electoral method radically improved the seats-to-votes ratio (advantage ratio) of the party, simply because the slight disproportionality in the county council elections was then magnified as the popularly elected county councillor took part in the first chamber elections using the d’Hondt formula with extremely small numbers of voters. In addition, as only one-eighth of the chamber was elected each year, electoral swings were highly buffered. When the electoral popularity of the Social Democrats declined—as in the 1948 and 1958 elections, for example—Upper House majorities based on elections held as many as 12 years previously, helped keep the party in power. The reason for this was that although the Lower House majority traditionally served as the basis for government formation, the Upper House could veto all legislation, including yearly budgets. Thus, the Upper House—when filled with a majority for the dominant party—served as a kind of *negative* veto point. If the Lower House vetoed (Social Democratic) government legislation, the Upper House could veto the decision of the Lower House. Furthermore, the Upper House majority could be predicted into the future, as the electors for the Upper House were elected well in advance of the Upper House elections.
In Japan, on the other hand, the electoral method to the Upper House was less favorable to the dominant party than in Sweden, but the second chamber may have helped to stabilize LDP governments by allowing for protest votes. That is, knowing that the loss of an Upper House election will not unseat the government—especially if not all of the seats will be exchanged in any case—voters can punish their preferred government for specific policies without causing a change in government. This may reduce the pressure on governments and parliament to call for votes of confidence and early elections, for example, in the case of scandals. In any case, bicameralism meant that the LDP needed to suffer several electoral defeats in order to lose control of the government, and even then, its influence on legislation remained significant.

Electoral and Constitutional Reforms

Despite the many benefits afforded by each country’s political institutions to these dominant parties, both the SAP and the LDP agreed to change their political systems when faced with credible threats by the opposition. As was the case in the other policy areas examined in this special issue, the Swedish institutional reforms were more radical than the Japanese, and they have had more far-reaching consequences on patterns of governance. Ironically, Social Democrats agreed to these radical reforms from a position of nearly unprecedented parliamentary power, enjoying absolute majorities in both chambers of the Swedish parliament; while in Japan, it was an opposition reform coalition that passed reforms favorable to the LDP.

In Sweden, the SAP agreed in 1969 to make the electoral system extremely proportional, and to eliminate the Upper House of parliament—a long-standing demand of the Liberal Party. There seem to have been four main motivations for the party to agree to relinquish some of its institutional advantages. First, the opposition had been able to mount a credible threat to one-party dominance by forming a series of electoral alliances that improved the advantage ratios of the bourgeois parties during the 1960s. Second, the impression that the SAP was dragging its heels on constitutional reforms became—for the first time—a campaign issue in the 1966 election, such that Prime Minister Erlander pushed for a rapid conclusion of negotiations, even at the cost of making more concessions than perhaps necessary. Third, as the electoral standings of the Left and bourgeois blocs were becoming ever closer, not all members of the party elite were convinced that the electoral system and Upper House would continue to secure one-party dominance in the future. Fourth, some younger members of the party felt normative qualms about profiting from an institution as conservative and (in their eyes) undemocratic as the Upper House, and were nervous about the cost to them in votes of the Liberal constitutional reform initiative. Thus, the benefits of the old constitution seemed to be waning, there was pressure on the party not to
look like it was against reform, and it seemed prudent to enact reforms from a position of power, rather than letting the situation erode further. Nevertheless, while these considerations may seem “rational” in hindsight, there were also “irrationalities” in the constitutional process. Although the constitutional experts among the Social Democrats realized that letting go of the Upper House was against their interests, and that the combination of eliminating the Upper House and introducing an extremely proportional electoral system would weaken executive governments—which was against their constitutional principles—there was no way to express a defense of strong government in public discourse. The public became convinced of the Liberal Party’s claim that proportional representation was a fairer system, and from then on, remained staunchly convinced that proportional representation was morally superior to any electoral method that would encourage stronger parliamentary majorities and hence stronger executive governments. Confronted with these public beliefs, the SAP found no way to communicate effectively its philosophy of strong government (Immergut 2005).

In Japan, the same four factors as in Sweden were responsible for reform: a credible threat, voter interest, the waning advantages of the old system for the dominant party, and the normative qualms of the younger generation. In the Japanese case, reform proponents from within the LDP launched a credible threat by defecting from the party in 1993, and joining the opposition in forming a coalition government committed to electoral reform. Had these members of the LDP not left the party, there would not have been sufficient opposition votes for forming an opposition government or for passing the electoral reform. Second, for one of the few times in the postwar period, voters were very suddenly and very intensely interested in the issue of institutional reform, focusing in particular on the multimember electoral districts, which were blamed for a series of political scandals as well as the need for high-cost electoral campaigns. SMDs were viewed as a panacea that would clean up political campaigns, and reproduce the Westminster system with its two-party system and responsible alternation between government and opposition. Third, some LDP leaders had long been concerned about the factionalization of the LDP caused by the SNTV electoral system and were interested in converting to a plurality or SMD system. Their public arguments urged that SMDs would be needed to end “money politics” in Japan, but of course, it was apparent to all parties that as the party with most incumbents, the LDP would be best equipped to compete in SMDs. Finally, supporting the thesis of “overlapping generations,” many younger LDP politicians were concerned about the normative and political problem of remaining within what voters were increasingly coming to view as a corrupt system (Cox and Rosenbluth 1995; Kato 1998; Reed and Scheiner 2003; Soskice, Bates, and Epstein 1992).

As in Sweden, public beliefs set limits to what was politically possible. In the public discourse, reform of the electoral system became inextricably
intertwined with a party’s commitment to battle corruption. After LDP renegades made the introduction of SMDs a condition of their entry into the opposition coalition in 1993 (Sakamoto 1999), opposition reformers were squeezed between public opinion and the LDP. Thus, although the opposition’s preference for a more proportional system had blocked LDP proposals for SMDs in the past, now there was tremendous pressure to pass something quickly. Consequently, coalition leaders revived a previously rejected reform proposal, calling for a mixed system, comprised of 250 seats to be won in SMDs and 250 PR seats to be won in 11 districts (Christensen 2000; Curtis 1999; Kawato 2000; Pempel 1998; Reed 1999).

The Impact of Electoral and Constitutional Reform on One-Party Dominance

The pattern of one-party dominance changed abruptly at the same time that these electoral and constitutional reforms were introduced. Starting in 1970 in Sweden and 1993 in Japan, strong, stable, majority governments with exceedingly long tenure of one party in government were replaced with weaker, less stable, multiparty governments that oscillated in partisanship. In both cases, the hegemon was gone. To what extent did the electoral and constitutional reforms contribute to these changed political patterns? To what extent did the loss of one-party dominance lead to a crisis in governance?

As in most cases of institutional reform, changes in the context of political institutions make it difficult to evaluate the impact of institutional change. In particular, the significant loss of electoral popularity that occurred at the same time that these institutional changes were made makes it difficult to assess whether the loss of one-party dominance in these countries was a cause or a consequence of the institutional reforms. That is, starting in 1970, the SAP received on average 5% less of the vote than previously (42.8% from 1970 through 1998, compared to 47.5% from 1936 through 1968). Similarly, once the LDP defectors had left, the LDP never regained its former electoral results, averaging 36.6% of the combined Lower House vote from 1996 to 2003, compared to 49.1% from 1958 through 1990. Even in the landslide victory of 2005, the party achieved only 42.9% of the total vote.

One way to separate the effects of electoral system reform from changes in electoral popularity is to examine the advantage ratios for the various parties both before and after reform. This allows one to argue counterfactually, holding votes constant, and examine the impact of the electoral reforms alone. As Tables 1 and 2 indicate, electoral reform had a very different impact in Japan than in Sweden. In Japan, where only the electoral system was changed, the immediate impact was a decrease in the proportionality of the system, and hence an improvement in the advantage ratios of the LDP, from 1.15 to 1.36 (1.43 in 2005); for the single-member seats, the party’s advantage ratio was as high as 1.43. Our calculations
## TABLE 1
### Advantage Ratios in Japan before and after the Electoral Reform

<table>
<thead>
<tr>
<th>Party</th>
<th>Lower House</th>
<th>Upper House Both</th>
<th>Upper House PR</th>
<th>Upper House CS</th>
<th>Lower House</th>
<th>Upper House PR</th>
<th>Lower House</th>
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<th>Upper House PR</th>
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<th>Upper House PR</th>
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<td><strong>1958–1993 Elections</strong></td>
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<tr>
<td>LDP</td>
<td>1.15</td>
<td>1.236</td>
<td>1.02</td>
<td>1.38</td>
<td>1.36</td>
<td>1.10</td>
<td>1.43</td>
<td>1.304</td>
<td>1.08</td>
<td>1.43</td>
<td>1.08</td>
<td>1.43</td>
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<tr>
<td>JCP</td>
<td>.42</td>
<td>.539</td>
<td>1.08</td>
<td>.26</td>
<td>.32</td>
<td>.81</td>
<td>.01</td>
<td>.566</td>
<td>1.07</td>
<td>.28</td>
<td>1.07</td>
<td>.28</td>
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<tr>
<td>JSP</td>
<td>.70</td>
<td>1.003</td>
<td>1.09</td>
<td>.86</td>
<td>.51</td>
<td>.75</td>
<td>.33</td>
<td>.625</td>
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<td>DSP</td>
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<td>Komei (to)b</td>
<td>1.00</td>
<td>.974</td>
<td>1.2</td>
<td>.85</td>
<td>.87</td>
<td>.98</td>
<td>1.67</td>
<td>.928</td>
<td>1.07</td>
<td>.98</td>
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<td>Liberal League</td>
<td>2.536</td>
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<td>—</td>
<td>2.13</td>
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<td>Sakigakec</td>
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<td>.779</td>
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<td>1.12</td>
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<td>JNPd</td>
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<td>.787</td>
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<td>Democratic Party</td>
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<td>—</td>
<td>.89</td>
<td>1.11</td>
<td>.73</td>
<td>1.145</td>
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<td>Liberal Club</td>
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<td>New Liberal Club</td>
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<tr>
<td>Japan Renewal Party</td>
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<td>National New Party</td>
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<tr>
<td>New Party Japan</td>
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LDP, Liberal Democratic Party; JCP, Japan Communist Party; JSP, Japan Socialist Party; DSP, Democratic Socialist Party; JNP, Japan New Party; NCP, New Conservative Party; PR, Proportional Representation; CS, Constituency System; SM, Single Member.

1From 1960 to 1993.
2Since 1967; not in the elections of 1996.
3From 1993 to 1996.
4In the elections of 1993.
5In the elections in 1996.
6Only in the elections of 1996.
7In the elections of 1996.
8In the elections of 1996.
9In the elections of 1996.
10In the elections of 1996.
11In the elections of 2003.
12In the elections of 2005.
13In the elections of 2005.
show, for example, that the LDP’s Lower House electoral result of 1996, which netted the LDP 47.8% of the seats, would have resulted in approximately 41.1% of the seats under the old rules.\(^2\) For 2005, the difference is 61.7% (new rules) versus 49.4% (old rules). Thus, the new electoral system is responsible for the LDP’s absolute majority in 2005. In addition, if one compares the electoral results in the single-member districts to those in the PR districts, one sees evidence of a strategic effect of the electoral reform: on average, the LDP polled 41.2% of the votes in the single-member districts, but only 32% in the PR districts. For 2005, the difference is 47.8% versus 38%.

The Japanese electoral reform thus had mixed effects on Japan’s prospects for policy reform. The new electoral system, it had been hoped, was to move Japan toward a two-party system with high party discipline and eliminate the role of party factions—and hence dependence on campaign finance from special interests. And indeed, after several elections with a large number of parties running for office and some unstable coalition governments, the party system does seem to be moving in the direction of a two-party system. Further, Gary Cox, Frances Rosenbluth, and Michael Thies (1990) find that the factional membership has dramatically decreased after the reform.

On the other hand, however, the the SMD system benefits the LDP and has helped the party hold on to power. In addition, the SMDs and the large increase in the number of electoral districts (from 47 to 300), and hence, the large reduction in the territorial size of the constituencies increases the possibilities for strategic placement of candidates, as well as

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<th>TABLE 2</th>
<th>Advantage Ratios in Sweden before and after the Electoral Reform</th>
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SAP, Social Democratic; M, Conservative/Moderates; C, Agrarian/Center; F, Liberal/Folk; VPK, Communist/Left; KdS, Christian Democrats; NyD, New Democracy.
their responsiveness to local interests. In the 2005 campaign, these various tendencies came to a head: LDP renegades opposed to the postbank reform for reasons of local patronage were confronted by Prime Minister Junichiro Koizumi’s efforts to centralize LDP party leadership in order to follow a reform course. In the event, Koizumi was able to marshal high levels of voter support, but also used the weapon of strategic placement of “assassin” candidates (as they have been referred to in the media) in the electoral districts of recalcitrant LDP defectors. Although the SMDs made this latest strategy possible, their general tendency is not to promote party discipline (as we observe in the United States). To the extent that LDP centralization and party discipline in Japan have increased, this is owing to the actions and personal charisma of Prime Minister Koizumi, and not to the change in electoral system. It is thus an open question of how these trends will develop if Koizumi steps down in a year, as planned, or even if he can maintain the political pressure on legislators to vote with the government.

In sum, the Japanese electoral reform—by reducing the proportionality of the system, the incentives for party discipline, and the size of the electoral districts—did not eliminate the candidate centeredness of Japanese politics, and may even have increased ties between candidates and their local constituents. While it was hoped that the SMDs would reduce the dependence of politicians on campaign financing, SMDs are perfectly compatible with the personal vote or expensive campaigns. In fact, while SMDs are thought to favor two-party systems, it is the PR systems that should favor party discipline and programmatic politics, while SMDs create incentives for distributive politics and patronage (Persson and Tabellini 2003; Shefter 1977). And indeed, in Japan, it is the local and not the national branches of the LDP that are most involved in allocating candidates to the new districts, and these decisions are based on local popularity. Consequently, the need for expensive campaigns and koenkai (candidate support organizations) has not necessarily been reduced, and as a local constituency protects candidates against party discipline, party coherence need not increase. Thus, while the SMDs were associated in Japanese public discourse with clean government and the Westminster system, the final result may resemble the United States more than Britain. At the same time, these trends have been counterbalanced by the strong leadership and personal charisma of Prime Minister Koizumi.

The Swedish reform was more radical than the Japanese, as it eliminated the Upper House of parliament and made the electoral system nearly fully proportional. The immediate result of the new system was a large reduction in government majorities, and greater swings in parliamentary majorities. Increased proportionality made it harder for the largest party to obtain a majority of seats; the loss of the Upper House made it easier to effect a change in government. The overall advantage ratio of the SAP was reduced from 1.08 to 1.03; the loss of the Upper House entailed a loss from 1.13 to 1.03. As the Upper House seats were based on past electoral results, it is possible to calculate the Upper House distribu-
tion of seats with high reliability for the early 1970s. This calculation shows an absolute majority for the SAP in the Upper House through 1976 and beyond (Immergut 2002). Thus, under the old constitution, the SAP’s relatively poor electoral showing in 1976 would not have affected the party’s absolute majority in the Upper House—implying full control of all legislation and budgets. Under the new constitution, however, the SAP lost control of the government for the first time since 1936, and as in Japan, was replaced by a weak coalition government. Now, in contrast to the past, small shifts in electoral support for the parties were translated into immediate changes in government. As in Japan, government duration decreased significantly after the electoral reform, while partisan oscillation increased radically.

This counterfactual analysis has shown that the seismic shifts in the political framework for negotiated capitalism in Japan and Sweden have different sources. In Japan, the main shift has been a drastic drop in electoral popularity for the LDP caused by the defection of LDP politicians to new parties, which has been complicated by changes in the electoral system. Even though factionalism has decreased, SMDs continue to provide incentives for “pork barrel” politics, and thus provide a countervailing pressure to (urban) voter pressure for innovation and reform. In Sweden, on the other hand, a small fall in electoral popularity has been dramatically magnified by constitutional and electoral change. As the Upper House no longer exists and the seats allocated to the smaller parties such as the Left and Green parties have more than doubled, the potential for SAP dominance despite the lack of a Lower House majority has disappeared. It is no longer the inevitable party of government, and its ability to override Lower House vetoes by Upper House countervetoes has been eliminated. Moreover, intense electoral competition provides strong incentives for policy innovation. Thus, through different routes, in both Japan and Sweden, the LDP and the SAP have lost their position as the inevitable parties of government, and have declined to the largest of a group of competitive parties. But the structure of political incentives differs between the two cases, affecting the ability of party elites to manage their rank and file and their strategies to outcompete as well as to negotiate with the opposition parties.

As we will argue, these changes in the political frame affect patterns of policymaking and reactions to crisis. In both countries, executive governments are no longer supported by stable parliamentary majorities in the hands of a dominant party. The LDP and the SAP are still the largest parties, and have entered into government more frequently than their competitors, but as electoral and parliamentary majorities have narrowed, they have become reliant on the support of other parties for building governments and passing legislation. Consequently, the parliament in both nations is now a veto point, and we should expect a shift in political power from the executive government to the Lower House. In moving from executive dominance to a parliamentary veto point, the pattern
of interest-group influence should change from cooperative to more conflictual as it becomes more possible for groups to pressure individual members of parliament (MPs) or parliamentary groups. Furthermore, with the loss of the long time frame provided for by one-party dominance, governance strategies based on complex package deals should become much more difficult if not impossible. As in the case of institutional reform, however, the impact of a change in the political framework on patterns of governance is difficult to assess, as the problems that executive governments must address change over time. Therefore, to provide evidence for the impact of these changes in the political frame on patterns of government, we look to the past for clues regarding the role of “strong governments” in policymaking, and then speculate about the meaning of political and institutional change for current crises of governance.

Executive Dominance and the Postwar Settlement

The Logic of the “Golden Age” Swedish Model

Discussions of the rise and possible fall of the “Swedish model” have been made difficult by the fact that there are several different meanings of the term—although all are related. The concept has been alternatively applied to mean policy outcomes (a generous welfare state, a big public sector), a type of economy (Child’s much cited “middle way”), and a mode of policy decision making and implementation—that is, a mode of governance. Here, we focus on the latter. As Sven Jochem (2003) has pointed out elsewhere, “governance” in the Swedish case actually refers to four different types and levels of social and political negotiations. First, the term connotes the well-institutionalized system of interest-group consultation used to prepare political decisions (political corporatism), which includes the formal request to interest groups to comment on government proposals known as remiss, as well as the more informal and exclusive meetings of the top levels of the trade union confederation and the employers’ confederation with representatives of the executive, which were a tradition of the 1950s and 1960s. Second, the term refers to a system of public administration achieved by staffing public boards—such as the occupational health and safety administration, or the labor market board—with representatives of the trade union confederation and employers’ confederation, and in many cases delegating policy decisions to these boards (administrative corporatism). Third, the term Swedish model was applied more narrowly to the procedures and results of bipartite negotiations between trade unions and employers, ranging from the labor peace introduced by the pact at Saltsjöbaden in 1938 and culminating in the highly centralized wage negotiations of the solidaristic wage policy in place from 1956 to the 1980s (Elvander 1988), which was embedded in the overall framework of the so called Rehn-Meidner model (Erixon 2001). And fourth, at the heart of the Swedish model was a consensus approach
to political decision making that combined strong governments with compromises between government and opposition.

Although a leitmotiv of these aspects of the Swedish governance pattern is compromise and conciliation, none of these practices came “naturally,” nor was Swedish political culture or Swedish society conflict free. Instead, from historical origins in the late nineteenth and early twentieth century, procedures and institutions for conciliation were constructed using state power. A major milestone in Sweden was the parliamentary collaboration between the SAP and the Agrarian Party in 1933, which converted the system of rule from “minority” to “majority parliamentarism,” as Olle Nyman (1944) put it, as the party system realigned and consolidated in the wake of this coalition into a stable five-party system. The five-party system lasted until the 1980s; the farmer–labor coalition until the end of the 1950s (Esping-Andersen 1985, 87). The Red–Green crisis policy in 1933 satisfied mutual interests for the Agrarian Party (subsidies to farmers), the trade union confederation (LO)—deficit-financed job creation programs, and the employers’ association (SAF)—depreciation of the Swedish currency (Notermans 1993). The direct impact of the crisis policy was rather marginal, as the upturn of the economy and the decline of open unemployment was more influenced by the increase of demand for Swedish coal and steel from Nazi Germany. Its main value, however, was symbolic, that is, to demonstrate that the government had the (Keynesian) instruments and the political will to counteract the economic crisis, as Junko Kato and Bo Rothstein argue in this special issue.

This political watershed affected not just political parties and governments, but interest groups as well. Particularly, in the area of industrial relations, the emergence of strong government with a commitment to intervention changed the outlook of both the trade union confederation and the employers’ association. Previously, widespread tensions, some very intensive conflicts, and even violence had characterized Swedish labor relations. As early as the “December Compromise” of 1906, the labor market partners had attempted to agree on the ground rules for labor relations, calling for a pragmatic approach and freedom from government interference. But SAF, in alliance with conservative governments, nevertheless tried to combat trade unions and reduce the wage level after this compromise. This conflict escalated in the great labor market strike and lockout of 1909. In the course of this event, both main federations were weakened, and the route to centralized agreements between the SAF and LO was blocked for the time being. During the 1920s, changing minority governments could not provide the stable political frame necessary to overcome labor market conflicts—a situation that was in part aggravated by the temporary split of the Liberal Party and the difficulties of the fragmented bourgeois parties to agree on common policy goals. It was only when the SAP established majority government by entering into an alliance with the Agrarian Party in the 1930s that there was sufficient
pressure on labor market partners to enforce cooperation. The powerful position of the SAP, its alliance with the Agrarian Party after 1933, and the open threat of the government to intervene in labor relations by law changed the costs and benefits of confrontation versus compromise. Now, bipartite negotiations without government intervention were seen as the “best” solution for Swedish employers, and the Saltsjöbad agreement of 1938 marked the beginning of a lasting labor peace (Kjellberg 2000, 172–175; Steinmo 1993, 85-89).

After the World War II, SAP cemented its dominant position in Swedish politics by implementing the labor movement’s postwar program “The Twenty-Seven Points,” which established the main pillars of the Swedish welfare state. As in the case of labor legislation, many of the policy ideas were not new. National health insurance legislation had been proposed in the 1920s, when the SAP enjoyed a relative majority in the Lower House, but Conservatives had used their majority in the Upper House to set limits on the welfare state. Similar conflicts over unemployment insurance had created a governmental crisis in 1923, when the first Branting government resigned in response to the veto of the Upper House. After the 1941 election, the SAP held an absolute majority in the Lower House, and previous social democratic electoral victories had finally worked their way into the Upper House, giving the SAP an absolute majority in that chamber that held unbroken until the implementation of the constitutional reform in 1970. Now the SAP government used its majorities in both chambers to pass national health and pension insurance, family and housing allowances, and worker safety legislation. Although the party had the parliamentary seats to pass these programs for social provision unilaterally, all of these laws were prepared by thorough expert committee investigations and debate in the parliamentary standing committees, in which the opposition was equally represented. Indeed, important compromises were made—for example, when the initial expert committee report for a salaried medical practice provoked vociferous resistance from the medical profession, it was laid on ice. Nevertheless, even when the opposition joined the SAP in passing these new social rights, there was a feeling that they had no choice but to agree. Nils Stjernquist (1966, 141) points out that the opposition parties were placed in a position of “permanent opposition,” which left them trying to fulfill two contradictory roles, by “trying to criticize the government in order to replace it and at the same time collaborate with it in order to participate in the decision-making process.”

Consequently, it was at this time that the Liberals began to promote constitutional reform, arguing that if the possibilities for popular referenda were increased, it would be easier to mobilize opposition to specific social democratic policies. When the SAP began to turn to more invasive economic planning, the opposition mounted an aggressive ideological campaign in the 1948 election. Business groups were very eager to see the bourgeois opposition topple the Red–Green coalition, and mobilized both
economic experts and groups such as the Taxpayers’ Alliance against SAP policies. Although this campaign allowed the Liberal Party to double its voter share, the reward in terms of seats was very sparse owing to the braking effect of the Upper House as well as the disproportionalities in the electoral rules. Consequently, the Liberals made constitutional reform a central plank in their program, and they worked for the next 20 years to make the electoral system more proportional and to eliminate the Upper House entirely. At the same time, as Social Democratic rule began to be seen as permanent, business groups—like the parliamentary opposition—took on a more conciliatory stance.

Disputes over the introduction of an earnings-related supplementary pension pillar (ATP) ended the cooperation between SAP and the Agrarian Party in 1959. Since the introduction of the universal pension scheme, an upgrade in pension provision was frequently debated in parliament. At the time, SAF and the bourgeois parties were against the introduction of a compulsory superannuated pension scheme. The Agrarian Party preferred an expansion of the universal pension scheme. This, however, was rejected by LO and SAP. The conflicts over the ATP reform illustrate the role of the Upper House in maintaining one-party dominance. Although the SAP did not hold a majority of the votes in the Lower House, through its Upper House majority—which would be maintained into the foreseeable future through the specific electoral method—the SAP had the power to veto any reforms put forward by the nonsocialist parties in the Lower House for years to come. Hence, after a referendum on the pension issue (that could not decide the issue) and new elections (that did not change significantly the power relations in the Lower House, and did not affect the Upper House in any way), a single member of the Liberal Party backed the reform proposal of the SAP in the Lower House, explicitly stating that he preferred a reform under the auspices of the SAP to no reform at all (Heclo 1974, 426; Jochem 2003).

This reform can be seen as the starting signal for the further expansion of the Swedish model. As the bourgeois parties had to recognize, the SAP had successfully changed its programmatic profile and transformed itself into a catch-all party that attracted even the white-collar electorate (Svensson 1994). Partly as a reaction to the bourgeois defeat on the ATP issue, the parties in the middle of the Swedish party system tried to enhance their social policy profile. The Center Party (the former Agrarian Party) and the Liberal Party accepted the Social Democratic dominance in social security issues and transformed themselves gradually to parties in favor of encompassing social security. Only the Conservative Party (Moderaterna) opposed the social democratic “image of society,” as Francis Castles (1978) calls it, which in turn led to its programmatic and political isolation in Swedish politics until the late 1970s.

Despite the historic compromise in Saltsjöbaden, the move toward centralized negotiations between labor and capital under the conditions of unchallenged social democratic hegemony was not self-evident. With
the abolition of the wartime regulations for wage bargaining, pay talks were conducted again on a sectoral level. Especially the wage round 1950–1951 resulted in significant wage increases and provided an inflationary stimulus. The government tried to convince both partners to contain wage increases and inflation, or otherwise the government would be forced “to take drastic action” (DeGeer 1992, 95). In response, the LO prepared its “Full Employment Program” of 1951, which opened up the way for the Rehn–Meidner model of economic policy, which combined wage moderation, active labor-market policy and the regulation of profits (Erixon 2001). But nevertheless, the SAF and the Social Democratic government had to push the trade unions toward centralized bargaining after 1956 (Swenson 1991). Crucial for this renewed centralized cooperation between labor and capital was the implicit accord between both wings of the labor movement—and the trust on both sides—that moderate wage bargaining patterns would be complemented by active labor-market policies, generous social policies, and the regulation of profits. Under the auspices of stable Social Democratic governments and the powerful (negative) veto point the SAP occupied in the Upper House, LO could trust in the long-term fulfillment of this implicit political exchange, while the SAF accepted the dominant position of the SAP in party politics as virtually inevitable.

During the 1960s, new challenges undermined centralized wage bargaining and the collaboration between the centralized organizations of labor and capital in Sweden. First, white-collar trade union associations (TCO, SACO) expanded and reduced the importance of the blue-collar trade union federation (LO). Second, with the expansion of social public sector services, the state as employer became more and more important, and the divide between private and public wage bargaining created new tensions. Nevertheless, until the end of the 1960s, when wild cat strikes began to signal the “end of the Swedish model,” wage bargaining was quite successful in moderating wage increases and containing inflation (Steinmo 2000).

The Logic of the “Golden Age” Japanese Model

From the perspective of the Swedish model, several similarities and differences to the Japanese “Golden Age” stand out. By introducing many policies that favored labor, the Swedish Social Democratic “hegemon” had forged a climate of cooperation. Employers were induced to cooperate, because under conditions of Social Democratic hegemony, high taxes and generous social policies were unavoidable, but compensated for by wage restraint and plentiful investment capital, as well as low corporate taxes. Unions, securing that *pacta sunt servanda*, reduced their strike rates, moderated wages in the highly profitable export sector, and agreed to high levels of managerial autonomy within firms, as well as various microconcessions at the firm level, such as agreeing to introduce “engi-
neered” solutions to occupational health and safety problems first when new machinery was purchased and to rely in the interim on protective equipment to be worn by workers (Kelman 1981). In addition, unions trusted that the high benefits of unemployment insurance and the active labor market policy would protect their members sufficiently in times of unemployment such that relatively liberal employment protections could be accepted. Thus, under the aegis of the Social Democratic “hegemon,” that is, in the “shadow of hierarchy” (Scharpf 1997), voluntary agreements produced many positive sum gains for business and labor—or more, accurately, for specific sectors of business and labor—in the “Golden Age.”

By contrast, the policies of the Liberal Democratic “vote-gathering wonder” (Pempel 1998, 65) were more favorable to business and agriculture than to labor, and indeed, the Japanese pattern of governance has been termed “corporatism without labor” (Pempel and Tsunekawa 1979)—although the term is not without its critics (Kume 1998). Taxes were kept low, and the welfare state slim. Nevertheless, as in Sweden, although the Japanese labor movement was strike prone and ideological, labor peace was eventually achieved, as conflict proved ineffective. Moreover, whereas the “social wage” was low, the “core” labor force was rewarded with employment security, seniority pay, wage bonuses, and “occupational welfare,” as well as the containment of open unemployment. Like the SAP, the LDP overcame the erosion of its traditional base through a catch-all strategy of promoting a doubling of the national income in the 10 years between 1960 and 1970. This “income doubling” was known as a “policy with no losers” (Kume 2000; Pempel 1998, 109). Thus, as in Sweden, hegemonic power was used to create a positive sum game.

Especially in the late 1960s and during the economic turmoil of the 1970s, the LDP installed some informal consultative forums to intensify cross-class negotiations, such as the Industry–Labor Roundtable (Sanrōkon) (Schwartz 1998, 35–40). These quasi-corporatist relations between the state and some selected interest groups in the policy process were supplemented by a concerted wage-bargaining strategy called shunto or “spring offensive.” Arranged in 1955 to overcome the weaknesses of enterprise unionism, the shunto places wage struggles across industries at one time in the year. In fact, this concertation strategy enabled the pattern-setting industry, mainly the steel and metal industry in the Golden Age, to set the frame for the whole economy. As a result, wage growth was comparatively low after the introduction of the shunto. Additionally, this moderate wage growth enabled the big firms in Japan to introduce seniority wages, or the principle of lifetime employment, in order to recruit highly educated labor under the framework of tight labor markets (Thelen and Kume 2003, 2006). The shunto cooperation as a way to control wage competition could also enable flexible wage adjustments in “hard times,” for example, in the case of the shunto round of 1975, in
which wage levels were rapidly adjusted downward. This flexible (downward) wage-adjustment pattern was in Japan even more pronounced than in the United States until the early 1990s (OECD 1996, 114).

Under the industrial policy of “embedded mercantilism,” the Japanese state injected capital and government research selectively to modernize specific sectors. At the same time, side payments—in the form of protectionism, agricultural subsidies, and regional policies—shared the wealth with the potential losers of modernization. The Japanese economy has been called a “mixture of pygmies and giants” (Pempel 1991, 419). The change from a rural economy into one of the most industrialized countries of the Organisation for Economic Co-operation and Development (OECD) took off in the 1960s when, in close cooperation with business, the government initiated an encompassing restructuring of the economy. Beginning with encouragement for firms in the shipbuilding, coal, and electric power industries to merge, the government further initiated far-reaching restructuring processes in the manufacturing and information technology (IT) industries. This “merger mania” (Pempel 1998, 54) was possible because of the close relationships between the LDP, the executive bureaucracy, and big business. Channeling scarce capital into preferred industries did accomplish the modernization of the economy, and at the same time it rested on and in fact reinforced the networks between LDP and big business, or “reciprocal consent,” as Richard J. Samuels (1987) argues.

Close relationships could be fostered given the stability of the partisan identity of successive executive governments, which gave the government—and especially the executive administration—the inside information to make such investments (as stressed in the “varieties of capitalism” literature). Periodic corruption scandals indicate that at times these business–government relationships became too close, but during the “Golden Age,” the “pygmies” profited through the closure of domestic markets against international competitors, while the “giants” entered international markets for goods and services with the help of specific subsidies provided by the government (Pempel 1998, 50). At the same time, the LDP protected its electoral base using policies aimed at the less productive domestic producers—small business and agriculture (Cox and Thies 1998, 2000; Ramseyer and Rosenbluth 1993; Schwartz 1998, 34).

The Politics of Crisis

The Crisis of the 1970s

Sweden. The new Swedish constitution had a dramatic impact on the rules of the game of Swedish politics. Government strength and stability were reduced to a very great extent. With the introduction of nearly full proportionality, the intensity of political competition increased and parliamentary majorities became precarious (Steinmo 1993, 121–122). With
the loss of the Upper House, the SAP lost its negative veto point, and thus its dominance over public policies and its hold on government. Consequently, power shifted from the executive to the parliament, and the government could no longer place the same pressure for cooperation on either the opposition or interest groups. At the same time that the tools for strong-state governance and policy coordination had been severely weakened, the Swedish political economy was hit by the external shocks of the first and second oil crises.

From 1970 to 1976, the SAP retained control of the government, but with smaller majorities than previously, no Upper House veto power or control of budgets through the united parliament, and with its previously “silent” partner, the Communist Party, having now doubled in size. From 1973 to 1976, each political bloc controlled exactly 50% of the votes, leading to talk of the “Balance-of-Power Parliament” and the “Lottery Parliament,” as some political decisions had to be settled by drawing a lot in parliament. Although the Social Democratic minority government of Sven-Olof Palme attempted to overcome the political stalemate through negotiations with the Liberal and Center parties, for example in the Haga talks of 1974–1975, the main reaction of all of the parties to the increased political competition was to radicalize and reinforce the basic Left-Right ideological cleavage in Swedish politics. The highly divisive SAP proposal for wage earner funds was part of a political strategy of outcompeting the opposition by taking a decisive next step toward economic equality. Whereas in earlier periods the SAP had placed the labor unions under pressure to compromise, now the party was driven to produce policies to the left of the unions.

Other social policy and equality policy expansions of this time were the introduction of partial pensions, and legislation for worker codetermination. Later, over the course of the 1970s and 1980s, the tremendous expansion of family policy and public sector employment for women can be viewed as the result of electoral outbidding amongst the parties to court women’s votes. In contrast to the waves of social policy expansion of the 1940s and 1960s, the initiatives of the 1970s lacked fiscal backing, and brought no positive trade-offs in terms of wage restraint. To the contrary, unions and employers association were less willing to work out package deals, and even when they did, they were undermined by wage drift (Jochem 2003). In comparison to the previous period, then, interest-group attitudes had switched from cooperative to militant.

The governance capacity of the executive declined even further when the leftward move of the SAP cost the party the 1976 election, and one-party governance was replaced with a series of nonsocialist coalition governments. The four bourgeois governments of the next six years were characterized by internal conflicts and the increased importance of the Conservative Party in Swedish politics. The issue of nuclear power plants as well as the issue of an adequate economic crisis policy to counteract the economic turmoil dominated this period. Under conditions of extreme
electoral competition, the bourgeois parties were afraid to cut social spending, instead trying to give the welfare state a bourgeois flavor through policies such as opening up private practice opportunities for doctors, thereby increasing health-care costs. They did, however, introduce a waiting day for sickness pay, which turned out to be a red flag for the unions. As Kato and Rothstein (2006) point out, the bourgeois government even intensified Keynesian deficit spending and the expansion of active labor-market measures. Subsidies to failing industries were increased substantially as well. Instead, the only significant modification of social democratic policy was the reduction of taxes. Consequently, public debt skyrocketed. Not surprisingly, government efforts to control escalating wage costs also failed miserably, and the peaceful moderation of the Saltsjöbaden accords came to an end in 1980 with the first general strike since the 1920s. As the Liberal and Center parties finally compromised with the SAP on a tax reform in 1981, the Conservative Party withdrew its support for cooperation in the bourgeois bloc.

With its victory in the election in 1982, the SAP returned to power, forming a minority government with the support of the Communist Party. It immediately reversed some bourgeois policies, such as the waiting days for sickness pay and private medical practice. However, as a result of the new electoral formula, the Communist Party now had twice as many seats as previously, and the SAP was in a much weaker position, lacking the Upper House and holding a more precarious relative majority in the Lower House. As the Communist Party tried to exploit its privileged position as the pivot for Social Democratic government, the tensions between both parties increased. Additionally, the SAP itself became more fragmented as the party was split between a traditional wing that sought to compromise with the LO and a reformist wing that was represented by the minister of finance, Kjell-Olof Feldt. Social Democratic policymaking now lost a great deal of coherence, with left-wing social policy expansions and “right-wing” promotion of tax cuts, banking deregulation, and other measures to liberalize the economy. In order to achieve the quiescence and cooperation of the LO in economic policymaking, the government implemented the highly contested wage-earner funds—despite intense criticism from within the SAP (Feldt 1991).

The emergence of partisan alternation of government changed the political costs and benefits to interest groups. Business could hope for a change in government as an alternative to compromise with Social Democratic policies, and with the radicalization of the Left, could no longer trust the Social Democrats to pursue consistent and stable pro-business policies. Labor, subject to increased interunion rivalries in any case, could not be sure that wage restraint and patience would be rewarded, given the shorter terms of governments and oscillations in partisanship. Consequently, not able to marshal the credible commitments to labor or the threatening posture to employers, the SAP turned to currency devaluation in place of its earlier, more ambitious package deals of wage restraint
coupled with social wage rewards. In the first years after the 16% devaluation of the Swedish krona in 1982, wage bargaining could indeed defend the comparative advantage of this devaluation strategy. But after the break-off of the trade unions and employers’ association in the export-oriented manufacturing industries from centralized wage bargaining in 1983, wage rivalries between different sectors spread again over the labor market and large wage increases fueled inflationary tendencies. In contrast to the contemporary bourgeois governments in the Netherlands and Denmark, the Social Democratic government in Sweden avoided open intervention into wage bargaining. The political common ground between the SAP and the Communist Party was too fragile, as was shown explicitly at the end of the 1980s. The economy was overheated (due in part to the liberalization of the domestic capital market) and, as the government tried to intervene in the highly inflationary wage-bargaining pattern with a crisis package (that contained a wage stop and even a limitation of the right to strike for trade unions), the Communist Party withdrew its support for the Social Democratic government, which in turn was forced to resign. Given the changed economic frame and the nonintervention of the government into wage bargaining, inflationary wage growth set the scene for the economic crisis of the early 1990s (Jochem 2000).

As early as 1989/1990, the Social Democratic government under Ingvar Carlsson broke with crucial pillars of the Swedish model. As national governance became ineffective, the government sought membership in the European Community and joined the Swedish currency to the ECU, as an external anchor (Notermans 1993) for the unbalanced Swedish economy. Political actors in the Swedish model thus adopted the economic goals of the institutionalized monetarism most prominently realized in the German model.

In sum, political instability and weak governments—induced by constitutional changes, the impact of intensified party competition, and precarious parliamentary majorities—made effective reforms of the Swedish model very difficult. The precarious and fragile power base of Swedish governments allowed only short-sighted and defensive reform measures in the 1970s and 1980s that actually intensified Sweden’s economic problems. In place of “hegemon-induced” conciliation and “state-led” policy coordination, one observes ideological party competition and interest-group conflict, and efforts to compensate for weak governments through ineffective devaluation policies which led, finally, to the coupling of the Swedish governance framework to the external anchor of the European Union.

Japan. In contrast to Sweden, Japan experienced the economic shocks of the 1970s while still under one-party dominance. Perhaps not surprisingly, government measures to combat the crisis of the 1970s displayed more coherence than in Sweden. The strong executive leadership neces-
sary for coordinated policymaking had not been lost, but in fact emerged from the crisis of the 1970s with new strength. In contrast to the unraveling of the solidaristic wage policy in Sweden, tripartite bargaining in Japan allowed unions to exchange wage restraint for job security and retraining programs on the part of employers. The LDP government contributed to both sides, providing financial support for training and restructuring, as well as giving firms tax breaks and imposing policies to check inflation. Pempel (1998, 186) states that

[T]his arrangement quickly stemmed wage-price inflation and enabled Japan to become the first industrial country to snap back from the economic shocks of the early 1970s with only a minor hiatus in its growth. Government resources, managerial concessions, and labor linkages to firms proved to be key ingredients in warding off what might have been a severe challenge to national and company export competitiveness.

Although the LDP faced a loss of electoral support during the 1970s as its rural basis continued to shrink to levels beyond what could be salvaged through gerrymandering, it was able to reach out to new voters by modernizing its program to take up issues of more concern to urban voters, such as better social security and environmental protection. As the unions moderated their ideological profiles, the rift between the LDP and the blue-collar voter narrowed, so that the LDP’s class basis broadened. As in Sweden, the narrower margin of electoral support for the dominant bloc resulted in fiscally loose policy expansion, and thus, rising deficits. However, as soon as the LDP majorities in both houses recovered in the 1980 double election, the government used its recovered executive dominance to return to austerity. LDP governments cut pension and health care programs; and introduced a controversial consumption tax (Kato and Rothstein 2006; Pempel 1998, 189–191). With continued one-party dominance, the LDP was thus more effective than the SAP or Sweden’s bourgeois nonsocialist coalition governments at steering the negotiated economy through a difficult period.

The Crisis of the 1990s

The great success of Japan executive governments in managing the crisis of the late 1970s and early 1980s turned to a disadvantage when the crisis of the 1990s broke. In both Japan and Sweden, the economic downturn of the 1970s and early 1980s was followed by economic boom and great inflation of real estate prices. These overheated economies covered up deficiencies in economic adjustments to increasing international and regional economic integration. High tax revenues allowed governments to put basic problems in the structure of public expenditures on the backburner. In Sweden, however, previous efforts to adjust to the changed international framework for economic competition and the changed constitutional framework for domestic political competition had introduced so many cracks in the Swedish model that, when the crisis of the 1990s
emerged, it was completely overhauled. In Japan, by contrast, the adjustment to the 1990s has been much more halting and ineffective.

**Sweden.** When the crisis of the 1990s hit Sweden, the tensions in the political and industrial relations systems had already culminated in a breakdown of the model. Shortly before the 1991 election, the Swedish Employers’ Confederation went on the offensive, announcing its “Farewell to Corporatism,” as one pamphlet termed it (Svenska Arbetsgi-vareföreningen [Swedish Employers’ Confederation], SAF 1991). Since the experiences of the general strike of 1980, the SAF had deliberated breaking with corporatist traditions in Sweden, as it viewed corporatist representation—the *remiss* system, administrative corporatism and centralized wage bargaining—as institutions that cemented the influence of labor in Swedish politics. With the decline of Social Democratic dominance, the SAF sought to destroy labor platforms in Swedish politics. It saw itself as a hostage in Swedish corporatism because, as it argued, even under bourgeois governments, trade unions could counteract the work of the government in corporatist agencies (Johansson 2000, 120). As a consequence, in the early 1990s (with the active encouragement of the bourgeois government elected in 1991), the SAF refused to act as a negotiation partner in wage bargaining and announced unilaterally the dissolution of administrative corporatist agencies.

In the political sphere, not only had the era of Social Democratic dominance ended, but the stable five-party system broke down as well. In 1988, the Green Party had entered the parliament with 20 seats, but with the “bombshell” election of 1991, the small parties entered Swedish politics as decisive actors in government formation and policy enactment. The Christian Democrats and New Democracy received 26 and 25 seats in the unicameral parliament, respectively, enough to shift the balance between the two blocs of the traditional parties, which were divided into 144 seats for the Moderates, Center, and Folk parties, and 154 for the Social Democrats and the Communists. Under the old constitution, neither the Christian Democrats nor the New Democracy would have held any seats whatsoever in the Upper House, and a mere 18 seats in the Lower House; that is, the Social Democrats would have maintained control of the Upper House, and the bourgeois parties would have controlled 101 seats to the Social Democrats’ and Communists’ 115 in the Lower House (Immergut 2002). As it was, the 1991 election—with the worst electoral result for the Social Democrats since 1928—shattered the party’s own confidence in the Social Democratic model of society and opened the way for radical revision.

The minority government of Carl Bildt took office in 1991 based on a four-party coalition between the “old” bourgeois parties—the Moderate, Folk, and Center Parties—as well as the Christian Democratic Party, which, despite a long history, had won its first parliamentary seat in 1985 through an electoral alliance with the Center Party. Consequently, despite
its avowed goal of breaking with the Swedish model to “turn Sweden around,” as a conservative economics report termed it (Lindbeck et al. 1994), the government had to negotiate reforms with the right-wing populist New Democracy or the SAP (cooperation with the Left Party, the former Communist Party, was not an option). Although pundits had predicted that such a heterogeneous government with insufficient parliamentary support would surely fall before the end of its mandate, the four-party government managed to hold on until the next election, and introduce some portions of its platform. The liberalization of public social services was one of the most important reforms. This not only changed the dominance of the public sector in the provision of social services, but opened the way for new political actors that entered the Swedish welfare market with their new and specific interests (Statens Offentliga Utredningar [Royal Commission Reports] (SOU) 2001, 79; Svensson 2002). Furthermore, the government was able to implement a significant reduction of transfer levels across most social security programs. And finally, the government “turned around” the unemployment scheme, as the previous Ghent system in which the unemployment funds were administrated by the trade unions was changed into an obligatory insurance under public auspices. This reform, however, was reversed immediately after the Social Democratic return to power in 1994 with the consent of the former Communists, who had changed their name to the Left Party.

The more significant reforms, however, came as a response to the economic crisis, and could be enacted only with the full cooperation of the Social Democrats. As Torsten Svensson, Masaru Mabuchi, and Ryonoshin Kamikawa (2006) have described, the bank crisis, which was so extreme as to cause a run on the currency, was dealt with quickly and decisively. As they point out, previous Social Democratic decisions to make the central bank independent of the government and allow private banks more autonomy, gave politicians scope to bail out the banks for bad loans without being blamed for political corruption. Moreover, the Social Democrats’ ambitions to use capital flows for industrial policy had already been abandoned, so that the hesitations that had stood in the way of economic liberalization and decentralization of capital markets in the late 1980s no longer impeded financial policy.

Cross-bloc cooperation was also used to enact a reform of the pension system, ranked by the World Bank as one of the most radical reforms in the world. A Social Democratic government had appointed a commission to study the long-term financing of public pensions as far back as 1984. Although pension experts agreed that reform was necessary to assure the financial health of the system and the quality of pension benefits, the Social Democrats were loath to touch their “jewel in the crown,” moving only very slowly to develop policy proposals. But with the psychological shock of being ousted from office, Social Democrats reassessed their social policy stance, and cooperated with the bourgeois government to pass a pension reform that entailed a symbolic “privatization” of pensions by
introducing an *individual accounts* portion of the public pension scheme that could be invested in private mutual funds. In addition, the pension formula became more stringent, basing benefits on all years of earnings, rather than the best 15 out of the last 30. The pension law was passed in two steps: the general law in 1994, just prior to the 1994 election; a completing law to regulate various details of implementation passed four years after the 1994 election, which had seen the Social Democrats return to power. Nevertheless, the Social Democrats did not succumb to the temptation of making electoral “hay” out of the pension reform, but in fact helped the bourgeois opposition achieve one of their (rather few) accomplishments in office, and withstood both significant trade union opposition (in particular from the white-collar unions) to the reform, and calls from the party base to retract the reform rather than completing it with further legislation in 1998 (Anderson 2001, 2004; Palme 2001; Schludi 2003). In its period of government from 1994 to 1998, the SAP continued to address the problems of Swedish social policy and high government deficits, through a combination of cutting benefits and raising taxes, thus achieving a remarkable turnaround of the deficit in a short period (Kato and Rothstein 2006) and becoming the most mobile party in Europe in terms of shifting its political profile rightward (Bergman 1995, 71–76). More recently, however, the party has shifted leftward, as has the Conservative Party, a mobility, we argue, which is related to the extreme proportionality of the electoral system.

**Japan.** Whereas Swedish political actors were pushed by the crisis of the early 1990s to complete changes in their mode of governance that had begun when the constitutional changes disrupted the older pattern, in Japan, the “political class” needed to adapt to electoral reform and economic crisis at the same time—as had been the case in Sweden in the 1970s. The LDP’s fall from government and the changed terms of political competition disrupted the predictability in policy made possible by long-term one-party dominance. Like the SAP, the LDP remains the largest party and has continued to spend more time in government than out of it. Yet the conditions of LDP government have become very different, with double majorities in the Upper and Lower Houses replaced by complex coalition agreements that have had to be sweetened by the sharing of offices (even the prize plum of prime minister) with much smaller parties.

The Japanese electoral reform aimed to clean up Japanese politics and thereby improve public policy by reducing the need for campaign spending and hence “pork barrel” politics. The result has been uncertainty regarding the direction of government policy through the elimination of one-party dominance, but significant motivation for “pork barrel” spending nonetheless. In the area of industrial policy, efforts to restructure the Japanese economy through radical deregulation have been accompanied by so many subsidies to traditional industries as to hamper an effective adaptation to the current international economy (Hiwatari 2001).
relationship between the political executive, the executive bureaucracy (in this case the Ministry of Finance), large firms, and the banking industry has been disrupted by partisan oscillation and economic crisis, such that political and administrative leaders long failed to come to terms with the bank crisis (Svensson, Mabuchi, and Kamikawa 2006).

Political conflicts over measures to reduce the government deficit have prevented both fiscal discipline and economic stimulation. As Kato and Rothstein (2006) show, efforts to reduce the deficit through the expansion of the consumption tax have been stopped by the anti-LDP coalition, at the same time that efforts to stimulate the economy through spending have been channeled through traditional public works vehicles that do not bring the desired economic effect. Social services and family policy expansion—which might bring a larger bonus in terms of employment—have been neglected, while social policies aimed at core constituencies like pensions, have been only marginally cut and far from radically restructured. In the area of corporatist consultation of interest groups, old patterns have been disrupted without a readjustment to a newer mode of interest intermediation (Estévez-Abe 2002). Similarly, Kathleen Thelen and Ikuo Kume (2006) indicate that many features of the collective bargaining system and occupational welfare have been called into question, without a new equilibrium having emerged.

The end of one-party dominance has not caused these changes. That is, the political system has not made it less attractive for firms to offer lifetime benefits, for example. But the end of one-party dominance together with the new incentive structure of political competition has made it more difficult for executive governments to manage these changes. The hegemonic governments of the periods of rapid economic growth and industrial restructuring, as well as the economic crisis of the 1970s, could support adjustment to economic change with interventionist policies meant to encourage particular lines of development (such as mergers, various cartel arrangements, and measures to develop technological innovation) as well as “environmental” policies aimed at creating a favorable climate for economic growth (low deficits, low social expenditures, selective payoffs to nonproductive sectors). By contrast, the weak and unstable governments of the postreform era have been unable to follow a set of coherent policies for helping citizens and firms adjust to a more liberal world economy. The 2005 election may mark a turning point in these developments, but this remains to be seen.

Conclusions

In this article, we have argued that one-party dominance or hegemony goes a step beyond electoral popularity: Political-institutional configurations in Japan and Sweden allowed the largest party in each system to achieve a position of near inevitability. For a number of conjunctural and contingent reasons, it became almost impossible to dislodge these parties from
office, and, consequently, these parties were able to play the role of “hege-
mon” in both interparty and interest-group bargaining. Such bargaining
“in the shadow of the state” produced some positive sum gains, even for
social groups that were not constituents of the dominant party. To be sure,
these powerful executive governments may have taken credit for
economic growth that may not have been entirely (or even mainly) caused
by their policies. Yet even if the “strong state” or “state-led policy” may
have been to an extent a public “myth” as Kato and Rothstein (2006) as
well as Svensson, Mabuchi, and Kaikawa (2006) claim, it was a credible
myth, because strong and stable governments of long tenure allowed for
long-term policy commitments and complex reciprocity in dividing
the costs and benefits of both government policies and economic
developments.

This stable pattern was interrupted by political and institutional
change in both countries. Although the popularity of these dominant
parties had slowly eroded over time, one-party dominance ended with
sudden death and not gradual decline. In Japan, LDP defectors broke up
the party and then pushed for reforms that cemented the scission of
the party, but also the constituency centeredness of Japanese politics. In Swe-
den, Social Democrats bowed to opposition demands, eliminating one of
their most important political weapons, the Upper House. In both cases,
policy visions did not adapt automatically to these changed political
constellations. Instead, trial and error brought about (or are bringing
about) a reequilibration of political and administrative strategies that
better fit the new realities of executive power.

In Sweden, constitutional reform ended the conditions for hegemony
in 1970, thus interfering with adjustments to the economic crisis. Political
parties across the board continued to propose policies based on a vision
of a strong state—or the strong society, “starka samhället”—even though
the political basis for these policies no longer existed. Without cooperation
among parties and interest groups, the result was simply budgetary
expansion, ineffective policies, and an end to trust. In Japan, by contrast,
the 1970s crisis was mastered under continued hegemony, and one
observes effective coordinated policymaking—including the ability of the
government to effect radical changes.

By the 1990s, however, Swedish political actors had adjusted to the new
political parameters for policymaking. Both the loss of office and the
newer, more competitive electoral system encouraged party leaders to
abandon previously fixed policy stances. In Japan, by contrast, the eco-
nomic crisis of the 1990s coincided with political adjustment after the
electoral reform. As in Sweden, the reform undermined a condition of
one-party hegemony—namely the centripetal effects of the old electoral
system. But unlike Sweden, and counter to the hopes of Japanese reform-
ers, the reform failed to eliminate incentives for distributive politics, and
hence decreased rather than increased their personal motivation to pay
for the costs of reform by cutting benefits to favored constituencies.
It is always tempting to look for monocausal explanations for political phenomena. But such attempts are doomed to failure in the world of politics because politics depends as much on the ways in which human beings interpret their world as on objective reality. In this article, we have tried to show how politicians’ reactions to economic crisis depend upon both their interpretations of crisis and the tools available to manage crisis. Constitutional frameworks affect the ability of executive governments to manage crisis by affecting the strength and longevity of executive government. Inducements to interest groups to cooperate and policies meant to improve the climate for business investments will be effective only to the extent that they are viewed as credible and stable. The particular sets of social, economic, and political institutions that made up the Swedish and Japanese variants of “negotiated capitalism” emerged from within stable political frameworks with strong majority governments of unusual stability and tenure. Today, citizens, politicians, and policymakers are grappling with international economic change at a time when this political framework too has undergone radical change. The rules for converting votes to seats and for setting the limits to executive power create incentives structures that affect the behavior of individual politicians. The impact of these rules is thus generally predictable. But the exact political patterns and policies that will emerge is just as much a matter of political strategy and human ingenuity as incentives, and thus properly a matter of future historical research.

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Notes

1. These results are supported also by Gallagher (1998).
2. This is merely a rough approximation based on average advantage ratios in the two periods. For a more detailed and exact statistical simulation, see Immergut (2002).
3. Some, and perhaps a significant portion, of this drop in electoral share may be caused by electoral redistricting, but this is beyond the scope of this analysis.
4. As a consequence, the number of seats was reduced in 1976 from 350 to 349.

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