7 Wage Setting Institutions and Economic Performance

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7.1 Introduction

In a comment written as an introduction to a work by Ezio Tarantelli published posthumously in 1986, two of his colleagues and friends, Lloyd Ulman and David Soskice, wrote: ‘Further work, which must be left to others, will doubtless modify Tarantelli’s approach, but it will also build on his pioneering effort in the analytical and quantitative assessment of what has been referred to as neocorporatist arrangements and policies’ (Tarantelli, 1986, p. 1). The aim of this note is to develop this comment. Especial reference will be made to the ‘further work’ which has been carried out during the last twenty years, and to Ezio’s ‘pioneering effort’, which still survives today.

7.2 First question: what is the relation between industrial relations and macroeconomic performance?

The article by Ezio Tarantelli (ET) was entitled ‘The Regulation of Inflation and Unemployment’ and contained the central nucleus of his neo-corporatist ideas. He tested empirically these ideas by estimating an univariate relationship, for 15 developed countries, between the well-known Okun’s index (or ‘misery index’, i.e. the sum of the inflation rate and the unemployment rate) and the corresponding value, for each country, of a neo-corporatism index which measured some fundamental aspects of the industrial relations system. These aspects were: the ‘cooption’ of trade unions (roughly the degree of ideological and political consensus between unions and government), the centralisation of collective bargaining and the regulation of industrial conflict.

ET found a very high negative correlation between the misery index and the degree of ‘neo-corporatism’, for the periods he considered, 1968–73, 1974–79 and 1980–83 (see Fig. 7.1), and this brought him to conclude that, ‘in the presence of a high degree of neo-corporatism … unemployment would be a less necessary tool of stabilisation policy’ (p. 14). The article was published in the winter 1986 volume of *Industrial Relations*, the journal of the Department of Industrial Relations of the University of California at Berkeley. Thirteen years later, in a review article, published in the *Journal of Economic Literature*, another of ET’s colleagues
and friends, Robert Flanagan, wrote of the theoretical contribution of neo-
corporatists in the following way: ‘Corporatism is an inherently multidimensional
concept, for which precise definition is elusive’ (p. 1155). As well as Ezio,
Flanagan cites political scientists as Lehmburch, Schmitter and Crouch, who pro-
vided definitions which were partially complementary, but partially different of
the concept of ‘neo-corporatism’ and who, moreover, according to Flanagan, did
not formally develop a coherent theory of this concept. The constituent elements
of corporatism were identified by the political scientists as some features of both
the industrial relations system and the system of political representation. Indica-
tors of these features were later borrowed by social scientists who tried to test the
neo-corporatist hypothesis by estimating relations similar to that estimated by ET.

**Fig. 7.1.** Neo-corporatism and Misery Index (1980–1983)

*Source:* Tarantelli (1986, p. 13)