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MEASURING CLASS COMPROMISE: A STRUCTURAL EQUATION MODEL OF 15 ADVANCED CAPITALIST DEMOCRACIES

Abstract

Using a structural equation model, this article demonstrates a novel approach to studying the distribution of class-based political power in advanced capitalist democracies. Situated within a theoretical discussion of pluralism and class dominant theories of political power, the article begins with a critique of the literature's existing measurements of political democracy. After showing the limitations of these indices, particularly their inability to measure the distribution of class-based political power over time, the article then presents an alternative measurement of democratic governance, one that is consistent with the general thrust of class dominant perspectives in sociology. The results of a structural equations model shows that, within the advanced capitalist democracies, class compromise manifests in a country's prevailing rates of union density, voter participation, incarceration, and income inequality. Finally, applying this model to individual countries, the article ends by creating an index of class compromise for 15 advanced capitalist democracies from 1980 to 1999.

MEASURING CLASS COMPROMISE: A STRUCTURAL EQUATION MODEL OF 15 ADVANCED CAPITALIST DEMOCRACIES

Class conflict, perhaps more than any other issue, has been a central concern of political sociology. In what became the founding paradigms of the discipline, the classic works of sociology—written by scholars such as Karl Marx, Max Weber, Robert Michels, Gaetano Mosca, Vilfredo Pareto, and Joseph Schumpeter—placed class conflict and its possible resolutions at the center of their analyzes of modernity. Albeit for different reasons, classic sociologists generally saw early modern social institutions, especially industrial capitalism and bureaucracy, as being structurally incompatible with the emergence of a truly democratic social order. But, during the mid-20th century, widespread societal changes, such as an expanding middle class and the institutionalization of class politics, helped advanced capitalist democracies build the socioeconomic foundations for an enduring *class compromise*—briefly defined here as widespread political support for the existing socioeconomic order, normally achieved through state policies that mitigate inequality in the distribution of material resources and political power.

In his now classic statement on this phenomenon, Seymour Lipset (1960) described how serious class conflict had sharply declined across the advanced capitalist democracies during the mid-20th century. This occurred, he contended, because erstwhile adversarial classes and their associated political parties had eventually embraced liberal democracy and state-managed capitalism as the most desirable political economy for everyone (see also Bell 1960). As a result of this new consensus, the highly polarized and confrontational class-politics of the early industrial era abated—being replaced instead by what Lipset called a "democratic class struggle," a political system in which different classes pursue their collective interests through

the institutionalized channels of electoral politics and collective bargaining. Class struggle in this form, Lipset believed, would yield concessions, compromises, incremental reforms, and most importantly social stability, rather than the episodic outbreaks of revolutionary and reactionary fervor that many countries experienced during the early stages of industrial capitalism.

Unfortunately, scholars seeking to empirically investigate this ever-changing phenomenon face one overriding methodological obstacle. Despite its importance to the social and political stability of advanced capitalist democracies, and despite its centrality to the discipline of political sociology, the social science literature lacks any systematic measurement of class compromise. This is not the case, however, for a closely related phenomenon. Here the social science literature contains approximately 20 different measurements of the extent to which a given country is a liberal democracy.[1] While these measurements serve many important purposes, as I argue below, they nonetheless suffer from two important limitations: (1) they only indirectly measure a political system's ability to engender class compromise, and (2) they inadequately measure changes in the distribution of class-based political power across time. Combined, these limitations and the absence of a class compromise measurement significantly hamper our ability to answer many important questions about the distribution of class-base political power within advanced capitalist democracies.

Hoping to fill this gap in the literature, this article constructs an empirical measurement of class compromise for 15 advanced capitalist democracies. Situated within a theoretical discussion of pluralism and class dominant theories of political power, I begin with a critique of the literature's existing measurements of political democracy. After showing the theoretical and methodological limitations of these indices, particularly their inability to measure class

compromise, I present an alternative means of measuring democratic governance, one that is consistent with the general thrust of class dominant perspectives in sociology. Based on the results of a structural equation model, I demonstrate that class compromise manifests in an advanced capitalist democracy's prevailing rates of union density, voter participation, incarceration, and income inequality. Finally, applying this model to individual countries, I create an index of class compromise for 15 advanced capitalist democracies from 1980 to 1999.

Perspectives on the Distribution of Political Power in Capitalist Democracies

As formulated by the early Greeks, democracy describes a social system in which all citizens have more or less equal shares of power. While this concept currently has enormous popular appeal, the structure of modern societies, in at least two ways, prevent this form of democracy from becoming a reality. First, modern societies are much too populous to facilitate direct rule by the people. To circumvent this problem, modern democracies organize themselves as representative democracies, a form of government in which the citizens, every few years, elect representatives who hold and exercise political power on their behalf. This solution, however, produces a severe imbalance between the political power of elected officials and the political power of ordinary citizens. Second, even those modern societies that achieve high levels of political democracy cannot always extend such equality into the capitalist economy. Due to its organizational logic, capitalism always produces at least some degree of economic inequality, with the most pronounced division occurring between the small group of individuals who control a disproportionate amount of society's accumulated wealth and productive assets and the much larger group of individuals who work for wages or salaries. This societal arrangement, which as become more or less universal over the last decade,

generates one of political sociology's core questions: Does the economic inequality generated by capitalism necessarily undermine the political equality created by democracy? As discussed below, competing traditions within sociology have arrived at significantly different answers to this question.

The Pluralist Perspective

For much of sociology's history, the pluralist perspective has dominated Anglo-American thinking and research on the distribution of political power within modern capitalist democracies. As a starting point, the pluralist perspective maintains that modern capitalist democracies usually have highly differentiated social structures, with individuals simultaneously occupying multiple social positions, arising from their particular class, race, ethnicity, status position, gender, religion, and so on. The resulting pattern of social difference, it is believed, inevitably creates a situation in which people simultaneously belong to numerous social groups, many of which have conflicting ideals, interests, and political agendas. Furthermore, this web of social complexity supposedly fragments power, leaving no particular social category, not even class, as the dominant source of power within society.

According to Robert Dahl's (1961, 1967) classic statements on pluralism, social stratification within modern capitalist democracies usually manifests as "cross-cutting" or "non-overlapping" social cleavages, meaning that a person's position in one social category has little bearing on his or her standing in other social categories (see also Bell 1960; Lipset 1960). For example, in a society with cross-cutting social cleavages, a person in a disadvantaged class position may enjoy social power stemming from his or her membership in privileged religious, educational, or status groups. With access to these non-class sources of power, economically

disadvantaged individuals, Dahl and others argue, can exert meaningful influence on the political system. In this type of society, inequality invariably exists, but since power is fragmented, dispersed, and shifting, and since people have multiple group allegiances, no single social group can garner sufficient power to form a cohesive elite. Importantly, viewed form this perspective, the lack of economic democracy within a society has little effect on the vibrancy of its political democracy.

The institutions of representative democracy, according to the pluralist perspective, play an important role in promoting economic equality and social stability within modern capitalist democracies. As an institutionalized arena for political contestation, representative democracy helps channel society's inevitable inter-group "conflicts" into political "compromises," something that ultimately helps foster a widespread "consent" for the government's public policy choices (Dahl 1967; Lipset 1960). In particular, Dahl (1971) suggests that, in order to achieve high levels of economic equality and social stability in pluralistic societies, a political system need not be truly democratic in the classic sense—meaning direct rule by the people. Rather, he contends, it must merely have mechanisms that ensure *political inclusion* (such as the right to participate in elections and hold public office) and *public contestation* (such as the right to form opposition parties and criticize the government). Importantly, this notion of democracy—called "polyarchy" by Dahl and "liberal democracy" by most social scientists— provides the theoretical underpinnings for the social science literature's existing measurements of political democracy.

The Classic Marxian Perspective

Compared to the pluralist tradition, the classic Marxian perspective advances a much more pessimistic view of liberal democracy's capacity to equitably distribute political power within capitalist societies. According to this perspective, political power in capitalist societies is not derived from constitutional guarantees that promote widespread political inclusion and public contestation, as the pluralist tradition intimates, but rather from society's prevailing distribution of economic resources. In particular, the classic Marxian perspective maintains that wealthy capitalists possess unrivaled political power, stemming from their disproportionate control over society's economic resources, and strong class cohesion, stemming from their shared material interest in preserving the *status quo*. Furthermore, this purported overlap between political and economic power, it is believed, creates a situation in which individuals controlling society's economic resources, rather than being just another social group vying for power within a pluralist society, constitute a *de facto* ruling class.

In his own writings, Karl Marx portrayed liberal democracy as offering the working class few opportunities to advance their class interests.[2] This occurs, he argued, because liberal society's two principal sub-systems—democracy and capitalism—are structurally incompatible. As Kevin Neuhouser (1993:100) points out, this conclusion rests on three postulates. (1) Due to market competition, the size of the capitalist class should diminish over time, as business failures force erstwhile capitalists into the labor market. (2) Within liberal democracies, the class with the largest population, the working class, should enjoy a sizeable numeric advantage in the electoral process. And (3) the inverse relationship between wages and profits should produce an ongoing antagonism between workers and capitalists over the distribution of society's wealth. Given these social forces, Marx believed that class conflict

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was an inevitable characteristic of capitalist societies, that eventually the working class would

seeks to fundamentally reorganize the capitalist political economy around their class interests,

and that in response to these actions, the capitalist class would seek to curtail the scope of

democracy, seeing this as a necessary step in defending their class interests.[3]

The Class Compromise Perspective

In contrast to the classic Marxian perspective, with its emphasis on the intractable

nature of class conflict under capitalism, the notion of class compromise suggests something

very different—namely that, despite the prevalence of significant economic inequalities,

capitalist societies can produce cooperative and amicable class relations. Erik Olin Wright

(2000:964-5) traces this idea back to Antonio Gramsci (1932) and his concept of "cultural

hegemony." In a highly influential work, Gramsci argued that elites within capitalist societies

largely maintain their privileged class position through a cultural hegemony, which he defined

as an ideological leadership over allied and subordinate classes. In particular, the major

institutions of civil society, Gramsci believed, promote ideas and cultural norms that help

legitimate the socioeconomic inequalities produced by capitalism. But, in an important

qualification to this argument, he acknowledged that the dominant class cannot rule by cultural

hegemony alone. Rather, he suggested, they must supplement their ideological leadership with

other means of creating compliance for the existing social order, such as making limited but

meaningful concessions to the economic and political interests of subordinate classes. This

argument represents an important theoretical shift within Marxian thought, because unlike

classic Marxian social theory, with its overriding emphasis on class conflict, Gramsci's notion

of cultural hegemony suggests that capitalist societies can have consensual rather than openly antagonistic class relations.

In the mid-20th century, several German sociologists moved closer to creating a coherent theory of class compromise. Using Weberian notions of power to reformulate Marx's theory of capitalist class relations, Ralf Dahrendorf (1959) and Theodor Geiger (1949) argued that class tensions, while certainly present in modern capitalist democracies, most often remain latent. Among several factors, they emphasized two features of these societies that help diffuse class conflict. One feature was the ascendancy of the so-called "new middle class"—an intermediate stratum of society, comprised mainly of professionals and managers, that fragmented the highly polarized class structure of early industrial capitalism (see also Wright 1985). Since the middle class, more than the working class, can achieve substantial affluence in a capitalist economy, their growing numbers increase the likelihood that class tensions will yield incremental reforms to the status quo rather than the revolutionary social change anticipated by Marx and his colleagues.

Another feature was what Geiger called the "institutionalization of class conflict." By the mid-20th century, the modern capitalist democracies had successfully channeled class conflict through their legal and political institutions (see also Lipset 1960). This profoundly altered the way class tensions manifest. Instead of openly hostile and at times violent clashes between workers and business owners—a situation that occurred regularly in early industrial capitalism—class tensions, Geiger noted, began taking the form of official strike activity, collective bargaining, multi-class alliances, and legislative disputes between opposing political parties. Manifesting in these ways, class tensions can be resolved through democratic deliberations, negotiations, and political compromises. While never explicitly described as

"class compromise," the ideas formulated by Dahrendorf and Geiger clearly demonstrated that such an outcome is not only possible within capitalist societies, but that by the mid-20th century, a democratically mediated compromise between the interests of workers and the interests of corporations had become the normative expression of class conflict in nearly all modern capitalist democracies (see also Giddens 1975).

Building on this line of thinking, more recent scholarship have sought to identify the specific societal mechanisms that help achieve stable and amicable class relations within advanced capitalist democracies. In analyzing this phenomenon, German social theorists (Habermas 1973; Offe and Runge 1975; Offe 1983), American sociologists (O'Connor 1973; Block 1977), and American political scientists (Lindblom 1977; Przeworski and Wallerstein 1982; Przeworski 1985:171-200; Masters and Robertson 1988) all reach similar conclusions. As a group, they stress the state's capacity to manage the social and economic problems previously associated with capitalist production. More specifically, they find that the state can (1) stabilize and enhance the performance of the capitalist economy by implementing appropriate market regulations and (2) mollify class tensions by redistributing income through social welfare programs and the provision of public goods. Since the welfare state performs many of these tasks, some scholars suggest that a country's social welfare policies are primarily determined by a "political class struggle" between workers and left-leaning political parties on one hand and corporations and right-leaning political parties on the other hand (see, e.g., Korpi 1983; Esping-Andersen 1990; Garrett 1998; Huber and Stephens 2001). While not its primary intent, the aforementioned literature yields two useful insights into the possibilities and limitations for a genuine class compromise in advanced capitalist democracies.

Class Compromise Is Possible. The first insight, one that Marx and his colleagues evidently underestimated, is that capitalist societies can have cooperative and amicable class relations. Several factors make this, rather than ongoing class conflict, the most likely outcome of class tensions in advanced capitalist democracies. First, the size of the middle class can affect the likelihood that class compromise will prevail. As a large segment of the population in most advanced capitalist democracies, the middle class occupies what Wright (1985) calls a "contradictory class location," meaning that in the classic Marxian sense they are neither workers nor capitalists, although they share common political interests with both. For instance, like the working class, the middle class lacks control over the means of production, which gives them an affinity with the working class. But their levels of education and incomes are typically much higher than those of ordinary workers, which gives them an affinity with the capitalist class. Importantly, according to Wright, since few people occupied contradictory class locations under early industrial capitalism, disputes between workers and capitalists dominated politics during this era. But now, due to the significant enlargement of the middle class, most people find themselves in contradictory class locations—something that he believes largely accounts for declining popularity of working class political movements.

Second, although the classic Marxian perspective suggests otherwise, capitalism does not always produce a zero-sum distribution of wealth between workers and capitalists. At times, market forces can produce "positive-sum" class relations, a situation in which both workers and capitals can enhance their material well-being through cooperation rather than conflict (Przeworski and Wallerstein 1982; Przeworski 1985; Wright 2000). For instance, by enlarging the amount of wealth society has available for distribution, prolonged economic growth typically mitigates class conflict. Under these economic conditions, if workers and

capitalists resolve their differences through mutually acceptable agreements, and thereby limit disruptions to the economy, the resulting continuation of economic growth will most likely raise everyone's living standards. This, for example, is the primary objective of corporatism—a capitalist system in which centralized negotiations among government, corporations, and organized labor largely set a country's macroeconomic policy (see, e.g., Korpi 1983; Esping Andersen 1990; Hall and Soskice 2001).

Finally, in a similar way, temporal factors can affect the probability that class compromise will prevail. As Adam Przeworski (1985:172-200) points out, over the long-term, many workers could benefit from a socialist economy brought about by sustained class conflict. But, over the short-term, this is definitely not the case, because any disruption to the economy would inevitably produce immediate and negative consequences for nearly all members of society. This fact, he argues, creates strong incentives for all classes to seek mutually acceptable solutions to economic policy disputes (see also Wright 2000).

Class Compromise Is Necessarily Partial. Another insight generated by this literature is that, due to several constraints imposed by the structure of capitalist societies, a democratically mediated class compromise can never eliminate inequality. One of these constraints arises from the structure of the state's relationship to the capitalist economy. The political economy of advanced capitalist democracies ultimately creates a situation in which the state, workers, and citizens all depend upon the success of the capitalist economy for the resources they need.[4] For example, besides providing investors with returns on their investments, the capitalist economy provides workers with jobs and the state with the tax revenue needed to sustain itself and provide the citizenry with public goods and social welfare benefits. Given this situation, the performance of the capitalist economy, despite being controlled by a small stratum of

society, is a paramount public concern. When its performance wanes, the well-being of the state and society suffer. Therefore, according this line of thinking, the state cannot be indifferent to the needs of the capitalist economy.

More specifically, this means that the state, regardless of the desire of the electorate, must never pursue public policy choices that hamper the overall success of capitalist economy. Since rising labor costs and rising tax burdens necessarily affect profits, material benefits granted to workers and the public can become problematic for the owners of capital. At a certain point, egalitarian reforms, although they can clearly coexist with a prosperous capitalist economy, will begin to significantly lower the profits of private employers. If this happens, current levels of profitability may become insufficiently large to induce future production and investment, something that would clearly cause major economic problems for the entire society. In sum, this line of thinking suggests that, on one hand, the possibilities for genuine class compromise are real, but on the other hand, they are necessarily constrained by several structural features of capitalism.

Measuring the Distribution of Political Power in Advanced Capitalist Democracies

Researchers hoping to measure the distribution of political power in advanced capitalist democracies face several obstacles. Although the social science literature contains numerous cross-national measurements of liberal democracy, these measurements have at least two limitations that restrict their usefulness. One, these measurements seemingly presuppose a pluralist power structure more than they measure it, because the presence of liberal democratic political institutions cannot by themselves guarantee pluralism. And two, by focusing on political structures rather than political outcomes, these measurements cannot detect shifts in

power occurring across time, unless these shifts in power create constitutional change, something that rarely happens. In the following section, I more thoroughly describe and critique the existing measurements of liberal democracy, and then I demonstrate a new procedure for measuring power-sharing in advanced capitalist democracies.

Existing Measurements of Liberal Democracy

Drawing heavily upon the pluralist perspective, Kenneth Bollen (1980) published what has become a classic measurement of liberal democracy. Noting that competing definitions of democracy exist, Bollen claims that, above all other criteria, liberal democracy should minimize the power differences between elites and non-elites (372). While consistent with most theories of democracy, this conceptualization is methodologically problematic, because it can neither be observed directly nor measured easily. To overcome this problem, Bollen measures liberal democracy with a confirmatory factor analysis, a statistical technique that enables researchers to measure unobservable social phenomena by analyzing covariances among a set of observable proxy variables. Using this technique, Bollen measures the presence of liberal democracy through six observable variables, which he separates into two conceptual categories: (1) *political liberties*, measured by freedom of the press, freedom of group opposition, and freedom of political activities and (2) *popular sovereignty*, measured by the fairness of elections, the method of selecting the chief executive, and the method of selecting legislators. After demonstrating a sufficient fit between his hypothesized model and cross-national data, Bollen then uses his six-variable model to measure the presence of liberal democracy, on a high-low continuum, in over 100 countries.

This measurement of liberal democracy has been highly influential. Over the last twenty years, numerous scholars have used Bollen's work to facilitate their own cross-national research on a variety of subjects within macro-sociology and political science. For example, Edward Muller (1988), using Bollen's index as an independent variable, examines the manner in which liberal democracy influences a country's level of income inequality. And in another study, Muller (1995) uses Bollen's index—this times as the dependent variable—to analyze the macroeconomic determinants of liberal democracy. Due to the importance of the subject, and due to the success of Bollen's work, other scholars have created at least eleven similar indices, primarily by adding to and deleting from Bollen's six-variable model (see review article by Munck and Verkuilen 2002).

However, despite its prominence within the literature, the usefulness of Bollen's index of liberal democracy—as well as those derived from it—is diminished by at least two limitations. First, although Bollen explicitly defines democracy as a governing system that minimizes the power of an elite, it is not clear that his empirical model achieves this goal. The observable variables in his model—the presence or absence of constitutionally mandated laws that protect individual political liberties and popular sovereignty—can clearly coexist with significant amounts of class-based political inequality. This fact suggests that the presence of liberal political structures and practices may constitute a *necessary* condition for pluralism, but it certainly does not constitute a *sufficient* condition for pluralism. Or, stated in different terms, liberal democracy certainly promotes and encourages a pluralist distribution of power, but it cannot by itself guarantee pluralism as a political outcome. Thus, at best, Bollen's model only tangentially measures the degree to which the power of society's elite is minimized. These problems, however, can be overcome. By focusing directly on outcomes associated with class

compromise, rather than on the presence of political structures associated with liberal democracy, my proposed measurement more precisely gauges the distribution of power among classes.

Bollen's model of liberal democracy has a second methodological limitation. Due to its emphasis on the invariant constitutional structures that protect individual political liberties and popular sovereignty, Bollen's model cannot effectively measure changes in the distribution of political power occurring over time. This methodological limitation arises because, with the exception of revolutions and eras of significant political reforms, changes in the distribution of political power rarely affect constitutional law *per se*. For example, many social scientists believe that, as a result of globalization and advances in information technology, the balance of political power has shifted from workers, citizens, and governments towards executives and owners of transnational corporations.[5] Describing this shift in power, Ulrich Beck (2000) states that "without a revolution, without even any changes in laws or constitutions, an attack has been launched in the 'normal course of business,' as it were, upon the material lifelines of modern national societies" (p. 3). Purportedly this outcome affects the policy outputs of government. But, since it arises from market forces rather than constitutional amendments, existing measurements of liberal democracy cannot help researchers quantify this shift in political power. My proposed measurement of class compromise, however, overcomes this problem by focusing on the outcomes of liberal democracy rather than its legal structures, something that enables me to more accurately estimate temporal changes in the distribution of class-based power.

The Proposed Model of Class Compromise

As W. B. Gallie (1956) pointed out several decades ago, democracy is an "essentially contested concept," meaning it has numerous and variegated definitions, some of which clearly conflict with one another. For example, countries with significantly different political structures—such as China, Iran, and the United States—all claim to be democracies. In a similar manner, nearly all traditions of political philosophy, despite their significant differences on basic matters of political concern, purport to describe the idealized form of democracy. In an attempt to avoid these ongoing debates, the proposed model has a clearly delineated scope. Explicitly stated, it does not measure liberal democracy *per se*, but rather it estimates the prevail level of class compromise within advanced capitalist democracies. While similar, these two concepts—class compromise and liberal democracy—are separate phenomena, each worthy of social scientific analysis. Below, I discuss the theoretical rational for choosing four particular indicators of class compromise by showing how each reflects the underlying capacity of liberal democratic governance to achieve a robust compromise between the interests workers and the interests of corporations.

Voter Participation. Although elections are a cornerstone of democracy, scholars often disagree about the relationship between voter participation and a political system's ability to promote class compromise. Conceivably, low rate of voter participation could reflect the electorate's general satisfaction with the prevailing social order, an argument made by some scholars (Lipset 1960; Horowitz 1991). But the dominant view on this question suggests otherwise—namely that there exists a positive correlation between voter participation rates and a democratic system's ability to foster class compromise. For example, some scholars attribute widespread non-participation with a popular belief that—despite the citizenry's participation in

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the electoral process, and despite changes in the government's leadership that this may produce—electoral politics rarely challenges the interests of entrenched elites (Rueschemeyer et al. 1992:297). Similarly, other scholars find that class location affects voter participation rates, with average non-voters having relatively lower incomes, lower levels of education, and lower occupational status than average voters (Lipset 1960:80; Lijphart 1997; Piven and Cloward 2000). Overall, these patterns suggest that class compromise has a positive effect on voter participation rates. [6]

Union Density. For several reasons, there should be a positive correlation between labor union membership and class compromise in advanced capitalist democracies. Economically, unions help workers increase their share of the prosperity generated by economic growth, which in turn creates a more egalitarian class structure and stabilizes macroeconomic growth by increasing aggregate consumer demand. Politically, they help workers gain collective representation within the workplace and the institutions of democratic governance. Both of these factors, according to many scholars, provide a crucial foundation for the promotion of class compromise. For example, in a classic statement on the checks-and-balances that help stabilize the American political economy, John Galbraith (1952) described labor unions as a crucial "countervailing power" to corporate control of the economy and the political system. More recently, others have made similar claims, arguing that unions play an important role as "equalizing institutions" (Levy 1998), and that positive-sum class compromise can only arise when capitalist societies have strong labor unions (Wright 2000).

Incarceration Rates. High levels of incarceration suggest a breakdown in class compromise. The more unequal and stratified a society becomes, the more likely dominant groups, working through the state, will resort to systematic repression as a means of stabilizing

the social order (Chambliss and Seidman 1980; Garland 1990; Chambliss and Zata 1993). Recent research, which shows a positive relationship between economic inequality and the magnitude and severity of state-sponsored coercion, supports this claim (Wilkins 1991; Jacobs and Carmichael 2002). Since democratic governance should generate a social order characterized by consent and compromise, not structural inequality and coercion, high levels of incarceration suggest an underlying deficiency in the effectiveness and inclusiveness of democratic processes and its ability to engender class compromise.

Income Inequality. Almost by definition, measurements of income inequality are strong indicators of class compromise. Research shows that, over the long-term, liberal democratic governance tends to produce an egalitarian class structure (Muller 1988, 1995; Rueschemeyer et al. 1992). Edward Muller (1988), for example, finds a negative correlation between the number of years a country was governed democratically and its level of income inequality, and a positive correlation between rising levels of income inequality and the probability of an authoritarian takeover of a previously democratic regime. In relation to this analysis, these findings imply that class compromise, arising from long-term liberal democratic governance, should manifest as low levels of national income inequality.

Research Design and Data

To empirically test of the proposed model of class compromise, I employ structural equation modeling (SEM), a statistical procedure that enables researchers to (1) diagram the causal relationships among variables, creating a clearer understanding of the hypothesized relations and (2) measure phenomena that cannot be observed directly. The latter characteristic makes SEM particularly well suited for research on the distribution of political power. Since

liberal democracy is a governing system based upon a loosely defined set of institutions and practices, it cannot be observed directly. But, since it has far-reaching influences on society, the outcomes of liberal democracy are both observable and measurable. In SEM, these observable variables function as "indicators" of the underlying dynamic between the latent (or unobservable) variables. Once the model is specified, a confirmatory factor analysis (CFA), a particular type of SEM, can determine the goodness-of-fit between the theoretical model and the observed data. In theory, this is accomplished by testing a null hypothesis (H_o) that the theoretical model is consistent with the population parameters. Expressed formally, the null hypothesis is written as $H_o: \Sigma = \Sigma(\theta)$, where Σ represents the population covariance matrix and $\Sigma(\theta)$ represents the theoretical model's restricted covariance matrix (Bollen 1989:263; Bryne 1998:110). To empirically test the null hypothesis, the researcher compares $\Sigma(\theta)$ to S, which represents the unrestricted sample covariance matrix that, by definition, approximates Σ. In contrast to most statistical procedures, the theoretical model gains empirical support when H_o cannot be rejected, an outcome that arises from a relatively close match between $\Sigma(\theta)$ and S (Bollen 1989:266; Bryne 1998:107).

Figure 1 illustrates the hypothesized model. Following convention for the schematic presentation of SEM, the ellipse represents the latent variable, the boxes represent the manifest variables, and the small arrows represent random measurement error. In this case, the latent variable—class compromise—has four corresponding indicators, each of which can be directly observed and measured. To generate an accurate estimate of the latent variable, the manifest indicators must meet at least two qualifications (Bryne 1998:16). First, the indicators must capture a broad range of outcomes associated the unobservable social phenomenon. Using too few indicators, or using closely related indicators, can limit the accuracy of the model. Second,

and perhaps more importantly, the indicators must be theoretically linked to the latent variable. The four indicators in the proposed model, I believe, meet these two criteria.

[Insert Figure 1 about here.]

Sample Data

Fifteen advanced capitalist democracies, observed between 1980 and 1999, comprise the sample used to test the hypothesized model. These countries were chosen because they meet three criteria.[7] First, each country in the dataset uses liberal democracy, rather than some other form of governance, as the primary means of achieving class compromise. This criterion excludes countries governed by communist or authoritarian regimes. Second, each country in the dataset has a stable history of liberal democratic governance, going back at least to the end of World War Two, and in some cases, going back much further (see Huntington 1991). This criterion excludes recently established liberal democracies, along with those countries that experienced a breakdown in liberal democratic governance during the latter half of the 20th century. And finally, due to data constraints on the income inequality variable, each country in the dataset is a participating member of the Luxembourg Income Study. Information about each variable, including definitions and data sources, can be found in Table1.

[Insert Table 1 about here.]

Missing Data. Before testing the proposed model, two data issues must be addressed. The first issue is that approximately 25 percent of the observations in the original dataset are missing, with the greatest percentage, 54 percent, occurring in the income inequality variable.[8] (This occurs because most countries wait several years between measurements of national income inequality.) When faced with this situation, researchers commonly use pairwise or

listwise deletion. But, when used in conjunction with structural equation modeling, these techniques can undermine the accuracy of the overall analysis (Little and Rubin 1987). Pairwise deletion presents a problem because each value in the covariance matrix would be derived, most likely, from a different sample size. This creates the possibility for two distinct problems: (1) it can introduce systematic bias into the dataset, especially when missing observations follow structured patterns, and (2) it can leave the researcher without a single sample size, something that must be known to estimate the structural equation model. Listwise deletion avoids the latter problem, since all the calculations in the covariance matrix are derived from the same set of observations. But when missing data occur across numerous cases, a common occurrence in this type of research, listwise deletion discards valuable data, a particularly crucial problem for small datasets, such as the one used in this analysis. To overcome the limitations of pairwise and listwise deletion, I handle the missing data problem with two imputation techniques. First, for any given variable, I use straight-line interpolation to impute missing observations that fall between two known values. Second, after this procedure, I impute the remaining missing observations with PRELIS software (Jöreskog and Sörbom 2002b, pp. 153-58).   Using a maximum-likelihood approach, PRELIS can estimate missing observations from other cases exhibiting similar patterns across a specified set of variables. If similar patterns cannot be identified within the dataset, then PRELIS eliminates those cases with listwise deletion. Using these two imputation techniques, I expand the dataset from 131 to 286 complete cases.[9]

Pooled Data. The type of data analyzed in this research creates a second issue that must be addressed. To maximize the accuracy of the statistical estimation procedures, I enlarge the sample size by using time-series cross-sectional data—specifically 15 countries over 20

years, creating the potential for 300 observations per variable. But, since standard SEM

procedures assume cross-sectional data, the use of pooled data creates the potential for

correlated measurement error within units across time. Fortunately, this problem can be

mitigated with a simple statistical procedure. Before calculating the covariance between the

observed variables, I introduce control variables for the year in which the observation occurred.

This mitigates the problem of period effects within the covariance matrix, thereby enhancing

the accuracy of the parameter estimates generated by the structural equation model.

Results from the Structural Equation Model

With the model specified and the data issues overcome, the hypothesis that a single

construct—class compromise—"drives" the four aforementioned indictors can be tested with a

confirmatory factor analysis. After generating the covariance matrix of the four observable

variables, I estimate the parameter coefficients and measure the congruence between the

proposed model and the observed data with LISREL software (Joreskog and Sorborn 2002a).

To facilitate a comparison among the four indicators of class compromise, I report the

parameter estimates as standardized coefficients with associated t-values in parentheses. To

measure the goodness-of-fit, I express the congruence between the proposed model and the

observed data with the ratio of chi-square to degrees of freedom (χ^2/df) and the goodness-of-fit

index (GFI).

[Insert Figure 2 about here.]

Measured in a variety of ways, the results of CFA shown in Figure 2.2 provide strong

support for the proposed model. First, as indictors of the overall accuracy of the model, the

goodness-of-fit statistics— χ^2/df = 2.63/2 and GFI = .97—indicate a high level of congruence

between the proposed model and the observed data. Unlike standard interpretations of chi-square, when using SEM techniques, the model gains statistical support from a close match between the chi-square value and the degrees of freedom. In this case, chi-square equals 2.62 and the degree-of- freedom equals 2.00—a close match, which suggests that the proposed model fits the observed data well. Moreover, this conclusion gains support from the goodness-of-fit indictor (GFI), a test statistic that ranges from zero to one, with larger numbers indicating a better fit than lower numbers. On this measure of goodness-of-fit, the proposed model, with a GFI of .97, also performs well.

Second, the parameter estimates also support the conclusion that the proposed model fits the observed data well. As a means of assessing the accuracy of the model, the squared multiple correlation (R^2) reveals the extent to which an observable variable represents its underlying latent factor. Stated explicitly, R^2 equals the portion of variation in the observable variable that can be explained by the latent factor. According to the results of the CFA, class compromise explains a considerable amount of the variation found in the four observable variables, as R^2 equals .63 for union density, .43 for voter participation, .65 for incarceration rates, and .89 for income inequality. Moreover, each parameter estimates exhibits the expected positive or negative sign. Specifically, Figure 2 shows that an increase in class compromise generates, on one hand, a decline in incarceration rates and income inequality, and on the other hand, an increase in union density and voter participation rates. These outcomes are consistent with the theories supporting the proposed model. Finally, all the parameter estimates are statistically significant, as each has associated *t*-values well above plus or minus 1.96, which represents the threshold for .05 significance level.

Constructing a Class Compromise Index

Using structural equation modeling techniques, the previous section of this article

demonstrates the statistical congruence between the hypothesized model of class compromise

and actual data from 15 advanced capitalist democracies. Now, using the model and data, I

construct a cross-national index of class compromise for these 15 countries. This procedure

entails three steps. First, since each indicator of class compromise has its own metrics, I

standardize the unit of measurement across each indicator of class compromise. The following

equations accomplish this task:

$$Z_{ni} = (Y_{ni} - Y_n^{mean}) / Y_n^{std. dev.} \tag{1}$$

Here Z_n signifies one of the four observable variables measured in standardized metrics,

specifically with Z_1 representing union density, Z_2 representing voter participation rates, Z_3

representing incarceration rates, and Z_4 representing income inequality. The "i" represents the

ith case in the dataset, and Y_n^{mean} and $Y_n^{std. dev.}$ represent the mean and standard deviation of

Y_n, respectively. After transforming each case across the four variables with this equation, the

four indicators of class compromise share the same unit of measurement—namely standard

deviations from the mean. Second, the individual class compromise scores can be derived with

simple-sum (see equation 2) or factor-weighted techniques (see equation 3). The equations

corresponding to each technique are listed below:

$$\eta_i = [(Z_{1i} + Z_{2i} - Z_{3i} - Z_{4i}) / 4] \tag{2}$$

$$\eta_i = [(.79*Z_{1i} + .66Z_{2i} - .59 Z_{3i} - .95Z_{4i}) / 4] \tag{3}$$

Here η_i equals the measure of class compromise for the ith case in the dataset. Repeating this

calculation for each case in the dataset yields 286 observations of class compromise. Since the

correlation between the dataset derived from equation 2 and the dataset derived from equation 3 is very high—the Pearson's correlation coefficient is 0.998—I calculate η with the simple-sum technique. In doing so, I follow Bollen (1980), who constructs his index of liberal democracy with a simple-sum equation as well. Finally, to present the metrics of η in a more convenient format, I linearly transform this variable, creating a scale that ranges from zero to 100. This is accomplished with equations 4 and 5:

$$H_i = \eta_i - \eta^{min} \tag{4}$$

$$G_i = (H_i * 100) / \eta^{range} \tag{5}$$

Here η^{min} is the minimum value of η and η^{range} is the difference between the maximum and minimum value of η. Since this process situates a given value of η relative to the high and low points in the dataset, I add two dummy observations into the dataset: one to represent the high point on the scale, and another to represent the low point on the scale.[10] By doing this, other countries or other years can be added to index without affecting the scores of the existing observations. Finally, I should note that the zero to 100 scale, while convenient for a variety of reasons, is arbitrary: zero does not indicate the lowest possible level of class compromise, nor does 100 indicate a maximum possible level of class compromise. (See Table A1, located in the appendix, for the entire dataset.)

Conclusion

Despite the importance of class compromise to the social and political stability of advanced capitalist democracies, and despite its centrality to the discipline of political

sociology, our ability to measure this social phenomenon remains significantly underdeveloped. Presently, the social science literature lacks any systematic means for measuring the prevailing level of class compromise in any given country. Instead, it contains approximately 20 works that estimate the extent to which given countries are liberal democracies. This body of research, while extensive and highly developed, suffers from at least two limitations. First and foremost, although scholars using this approach generally agree that liberal democracy should minimizes the power of an elite, it is not clear that their empirical models capture this important aspect of liberal democratic governance. This occurs because the proxy variables most often used to measure liberal democracy—the presence or absence of constitutionally mandated laws that protect political liberties— can coexist with significant amounts of class-based political inequality. For this reason, it appears that these indices generated by this approach presuppose a pluralist social structure more than they measure it. Second, by emphasizing invariant political structures rather than political outcomes, this approach ineffectively gauges changes in the distribution of political power occurring over time, because temporal shifts in a country's distribution of political power rarely generate constitutional change. Given these limitations, scholars interested in more fluid aspects of political power will likely find the existing measurements of liberal democracy inadequate for their purposes.

Hoping to fill this void in the social science literature, this article advances a novel approach to measuring political power sharing within advanced capitalist democracies. Drawing on class dominant perspectives within sociology, I argue that class compromise in capitalist democracies manifests as a significant reduction in the unequal distribution of material resources and political power typically associated with capitalist economies. More specifically, I suggest

that class compromise in advanced capitalist democracies has the following characteristics: (1) it reflects a democratically negotiated solution to class conflict; (2) it manifests as an egalitarian distribution of wealth and political power, but due to the logic of capitalism, it can never eliminate inequality; and (3) as an outcome of on-going political struggles, it is continually renegotiated, and therefore a country's level of class compromise can change over time.

Using a structural equation model, this article generates a cross-national measurement of class compromise for 15 advanced capitalist democracies. The results provide considerable support for the hypothesis that class compromise manifests in the prevailing rates of union density, incarceration, income inequality, and voter participation within advanced capitalist democracies. Furthermore, these results provide the empirical basis for index of class compromise for 15 advanced capitalist democracies from 1980 to 1999. I hope that this index, while interesting in its own right, will help facilitate future research on important topics within the social sciences.

Appendix

[Insert Table A1 about here.]

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Table 1 ●   *A Structural Equation Model of Class Compromise: Variables, Symbols, and Data Sources*

Variables	Symbol	Description and Data Sources
Class Compromise	η	Latent variable.
Union Density	Y_1	Active union membership as a percentage of the employed national workforce. Data come from Ebbinghaus and Visser (2000), Australian Bureau of Statistics (various years), Statistics Bureau of Japan (various years), Statistics Canada (various years), and U.S Census Bureau (various years).
Voter Participation	Y_2	Voters as a percentage of eligible electorate. Data comes from Lopez-Pintor and Gratschew (2002).
Incarceration	Y_3	Persons in jails and prisons, at all levels of government, expressed as inmates per 100,000 citizens. Data come from Council of Europe (various years) and Home Office of the United Kingdom (2002).
Income Inequality	Y_4	Gini coefficient. Data come from the Luxembourg Income Study (2003).

Note: Data sources were selected to maximize the cross-national comparability of the data. For example, at times, cross-national data on union membership can be hampered by variations in the definition of the term "membership," as some countries include retirees as active members and other countries do not. The data compiled by Lopez-Pintor and Gratschew reflects a standardized definition of union density: non-retired union members, in both the public and private sectors, as a percentage of the total national workforce, defined as both employed and unemployed workers. Likewise, the Luxembourg Income Study uses a standardized definition of income inequality.

Figure 1 ● *Structural Equation Model of Class Compromise in Advanced Capitalist Democracies*
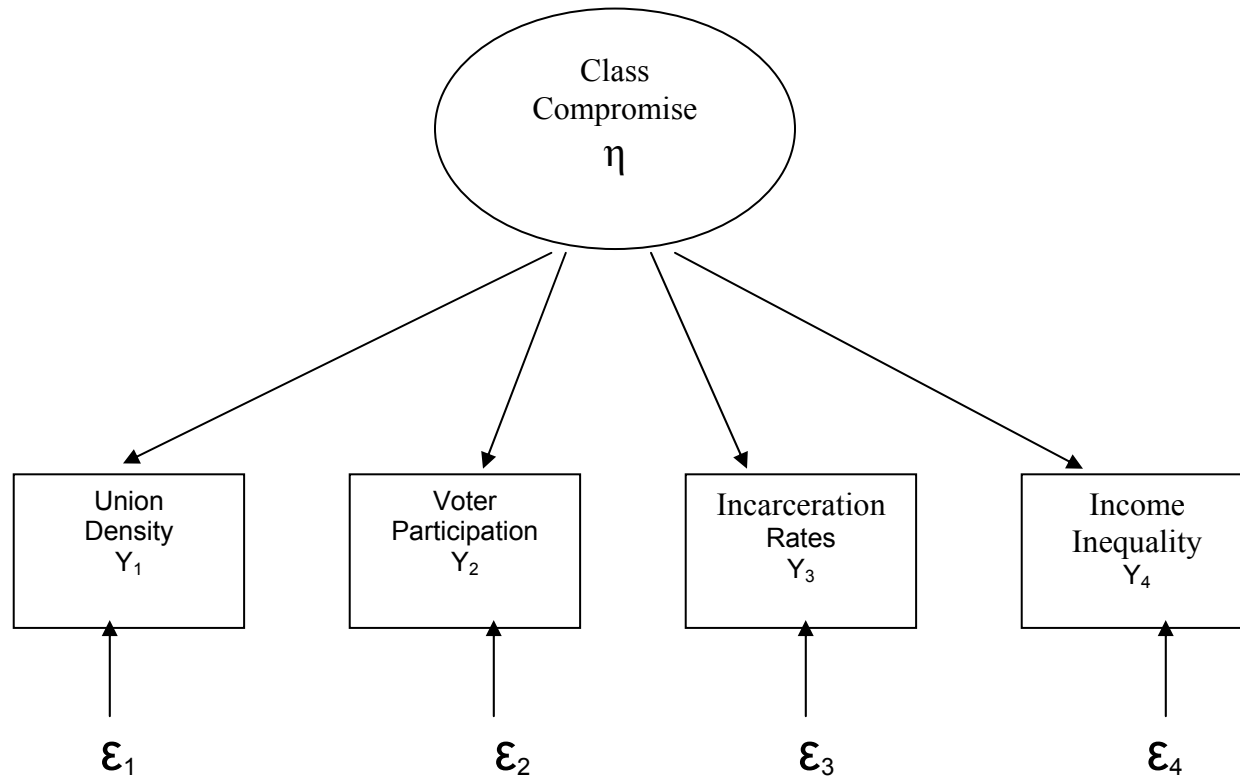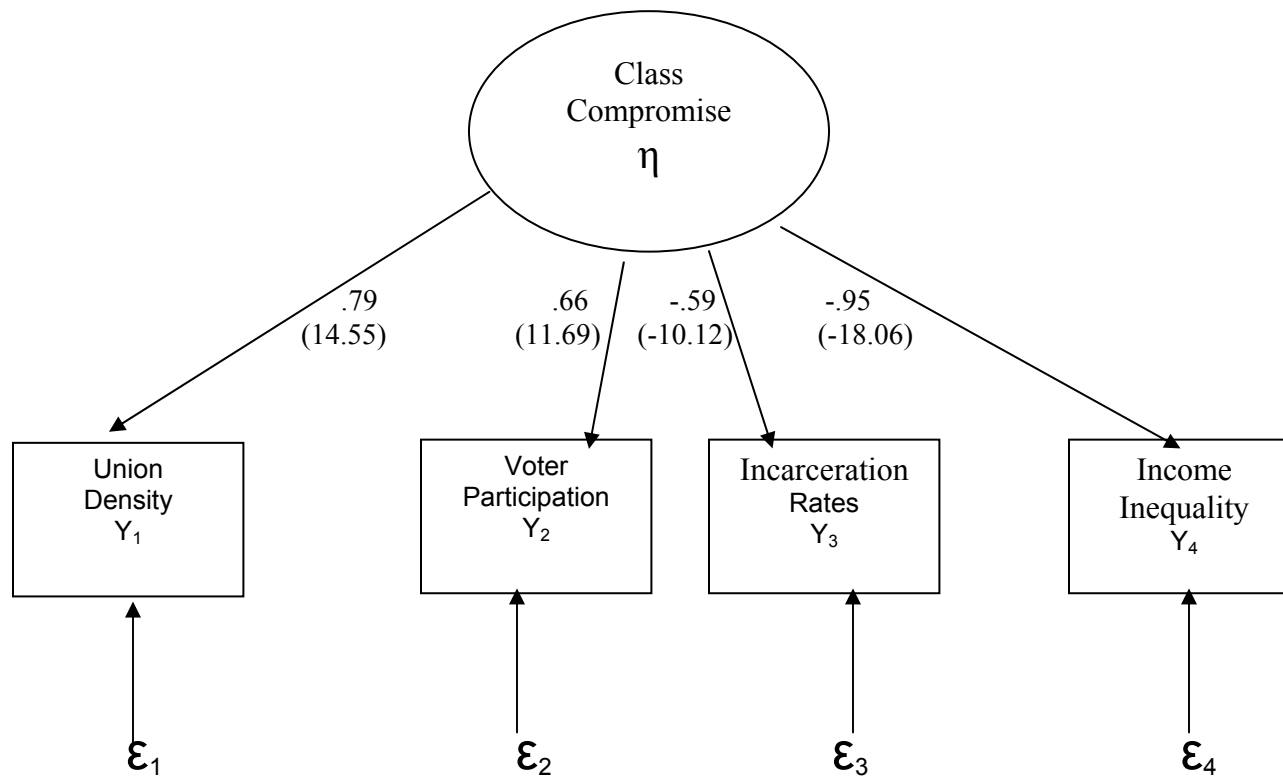
Figure 2 ● *Parameter Estimates for Structural Equation Model of Class Compromise*

Note: The *t*-value for the .05 significance level equals plus or minus 1.96. $\chi^2 = 2.63$, df $= 2$; GFI $= .97$

Table A1 ● *Class Compromise Index: 15 Advanced Capitalist Democracies from 1980 to 1999*

Country	Year									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Australia		76.4	76.1	75.8	75.7	75.5	75.0	74.8	74.5	74.2
Austria	80.7	80.4	80.1	80.0	79.9	79.7	79.5	80.3	80.0	79.5
Belgium	83.2	83.1	82.8	82.8	82.6	82.4	82.2	82.0	81.8	81.9
Canada	70.3	70.5	70.7	70.9	71.2	71.2	71.2	71.3	71.3	71.1
Denmark	81.3	81.2	81.8	82.1	82.6	82.4	81.7	82.2	82.1	82.3
Finland	81.6	82.1	82.6	81.6	81.6	81.6	81.7	81.5	83.1	83.3
France	70.9	70.1	69.5	69.3	69.3	69.3	69.5	69.6	68.4	67.3
Germany	77.5	77.5	77.2	76.9	76.7	76.6	76.5	76.3	75.8	75.4
Italy	76.2	76.0	75.9	75.6	75.5	75.4	74.0	74.7	75.0	75.5
Netherlands	77.5	77.3	75.7	75.8	75.8	76.0	76.3	75.7	74.9	74.4
Norway	80.9	80.9	81.0	81.0	81.2	81.1	81.1	80.9	80.9	81.0
Sweden	87.9	88.0	87.7	87.6	87.6	87.6	87.4	86.9	86.3	86.1
Switzerland			65.4	65.4	65.1	65.0	64.7	64.6	64.4	64.3
United Kingdom	75.1	74.1	73.3	72.6	72.2	71.6	71.2	70.8	70.3	69.9
United States	61.7	59.4	56.9	57.6	58.2	55.4	52.5	53.6	54.5	51.4

Table A1 ● *Class Compromise Index: (Continued)*

Country	Year									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Australia	73.8	73.6	70.9	70.4	69.9					
Austria	78.7	78.1	77.5	76.9	75.5	76.0	75.5	75.2	72.7	73.7
Belgium	82.2	82.5	82.6	82.1	81.8	81.1	80.7	80.3		
Canada	71.4	71.3	71.2	69.8	69.6	69.3	69.0	68.3	67.3	67.2
Denmark	82.5	82.8	83.1	82.7	82.3	81.7	82.1	82.0	82.4	82.4
Finland	83.3	82.5	82.8	82.9	82.7	82.1	81.6	81.3	80.7	79.7
France	67.2	67.1	67.1	67.6	67.5	67.5	67.5	67.3	66.9	66.9
Germany	74.9	75.1	74.6	74.2	74.1	73.9	73.6	73.5	74.0	73.8
Italy	75.8	75.9	74.4	73.2	71.8	71.1				
Netherlands	74.2	74.0	74.5	74.5	74.4	74.0	73.7	73.6	70.3	70.3
Norway	81.1	80.9	80.8	79.2	79.1	78.9	78.9	79.3	79.3	79.3
Sweden	85.7	85.7	85.7	86.2	86.4	86.3	86.0	85.9	84.8	84.7
Switzerland	64.5	63.7	63.7	63.6	63.6	62.9	62.9	62.9	62.8	62.9
United Kingdom	69.3	68.7	68.8	68.6	68.2	67.7	67.5	65.9	65.8	65.8
United States	49.4	48.8	50.1	50.8	46.0	45.4	46.6	45.6	42.0	41.6

NOTES

[1] For a review of 11 indices of liberal democracy developed between 1980 and 2000, see Munck and Verkuilen (2002). For a review of nine indices developed prior to this period, which have currently fallen into disuse, see Bollen (1980), especially pages 373-375 and pages 379-384.

[2] On this subject, some classic Marxists, such Engels (1895) and Kautsky (1919), argued that electoral politics, rather than revolutionary class struggle, represented the best way for the working class to advance its material interests.

[3] For instance, in his account of 1850 coup orchestrated by Napoleon III, Marx (1852) detailed how these conflicting social forces contributed to the collapse of liberal democracy in France during the mid-19th century.

[4] Not all neo-Marxian scholars would agree with this line of reasoning. According to the "state in capitalist society" perspective, the modern state is structurally independent of the capitalist economy, and as such, it only favors the interests of capital to the extent that individuals sympathetic to these interests occupy powerful positions in government. See Jessop (2001) for an overview of the Marxist literature on state-society relations under capitalism.

[5] For summations of this literature, see Guillén (2001) and Kollmeyer (2003).

[6] Bollen (1993; 1980) argues that voter participation should not be used an indicator of democracy, in part because some countries with high voter participation rates, such as Iraq,

clearly are not governed democratically. While this argument is sound, it does not apply to this analysis, because the sample does not contain countries in which this phenomenon is a factor.

[7] The 15 countries in the sample are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, UK, and the USA.

[8] The full dataset, if it were not missing observations, would contain 1,200 observations, derived from 15 countries across 20 years across 4 variables. The actual dataset, however, contains 898 observations, or 74.8 percent of the full dataset. Out of the 300 possible observations per variable, there are 223 observations for union density, 265 for voter participation, 279 for incarceration rates, and 131 for income inequality.

[9] I impute approximately 24 percent of the total observations in the dataset. But since most of the incomplete cases were missing only one of the four observations, the imputation techniques increased the number of complete cases in the dataset by 125 percent.

[10] A dummy observation representing the absolute high point on the class compromise scale was given the following values for the four observed variable: union density (100), voter participation rate (100), incarceration rate (20), and income inequality (.1). Similarly, a dummy observation representing the absolute low point on class compromise scale was given the following values for the four observed variable: union density (0), incarceration rate (2,500), voter participation rate (0), and income inequality (.6).