

EUI — Series C — 5.3
Rudolf Wildenmann (Gen. Ed.)
The Future of Party Government
Vol. 3: Castles/Lehner/Schmidt (Eds.), Managing
Mixed Economies

European University Institute
Institut Universitaire Européen
Europäisches Hochschulinstitut
Istituto Universitario Europeo

Series C
Political and Social Sciences
Sciences Politiques et Sociales
Politik- und Sozialwissenschaften
Scienze Politiche e Sociali

5.3



Badia Fiesolana — Firenze

The Future of Party Government

A Series under the General Editorship of
Rudolf Wildenmann

Volume 3

Managing Mixed Economies

edited by

Francis G. Castles Franz Lehner
Manfred G. Schmidt



1988

Walter de Gruyter · Berlin · New York

Library of Congress Cataloging-in-Publication Data

(Revised for vol. 3)

The Future of party government.

(Series C—Political and social sciences = Sciences politiques et sociales; 5)

"A series under the general editorship of Rudolf Wildenmann."

Includes bibliographies and indexes.

Contents: v. 1. Visions and realities of party government / edited by Francis G. Castles and Rudolf Wildenmann — v. 2. Party governments, European and American experiences / edited by Richard S. Katz — v. 3. Managing mixed economies / edited by Francis G. Castles, Franz Lehner, Manfred G. Schmidt.

1. Political parties—Europe. 2. Industry and state—Europe. 3. Europe—Politics and government—1945—. I. Wildenmann, Rudolf. II. Series: Series C—Political and social sciences; 5.

JN94.A979F88 1986 324.24 86-2030

ISBN 0-89925-162-5 (v. 1)

ISBN 3-11010-94

CIP-Kurztitelaufnahme der Deutschen Bibliothek

The future of party government: a ser. / under the general editorship of Rudolf Wildenmann. — Berlin; New York: de Gruyter

(European University Institute: Ser. C, Political and social sciences; 5)

NE: Wildenmann, Rudolf [Hrsg.]; Istituto Universitario Europeo (Fiesole): European University Institute/C

Vol. 3. Managing mixed economies. — 1987

Managing mixed economies / ed. by Francis G. Castles ... — Berlin; New York: de Gruyter, 1987.

(The future of party government; 3) (European University Institute: Ser. C, Political and social sciences; 5)

ISBN 3-11-010941-7

NE: Castles, Francis G. [Hrsg.]

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Dust Cover Design: Rudolf Hübler, Berlin. — Setting and Printing: H. Heenemann GmbH & Co, Berlin. — Binding: Verlagsbuchbinderei Dieter Mikolai, Berlin.

Printed in Germany.

Preface

The impact of the institutions of party government on the determination of public policy is an area of research which must be regarded as a crucial component of democratic political analysis. Its significance is immediately apparent if we pose questions linking the key institutional structure of western democratic societies with the major policy issues confronting those societies: Are party government regimes more or less successful than others in dealing with issues such as inflation, unemployment, welfare, the security of the realm and environmental pollution? Yet, despite its significance, the nexus between institutions and policy outcomes has, until recently, been largely ignored by academic political science. Policy determination has been analysed without reference to the institutional matrix within which it occurs, and government institutions have been discussed without reference to their ability to formulate policies. In this way, a most important problem of political analysis has been largely overlooked. To understand the fundamental nature of modern societies and the role of government within them, we need to ask how diverse governmental institutions differ in their ability to cope with "problems" and what determines their capacity to resolve those problems.

These questions are inherently comparative in character and, hence, require research inputs with an explicitly comparative focus. Valid conclusions can only derive from a wide-ranging survey of diversity in both institutional forms and policy outcomes, rather than from a narrow emphasis on the singularities of the institutional-policy linkage in particular national contexts. This truth is the common starting-point of the studies contained in the volume, *Managing Mixed Economies*, which takes the recent efflorescence of scholarly analysis of comparative public policy and political economy one step further by its detailed consideration of such issues as conflicts of policy goals and the diversity of institutionalised policy formulation procedures within the general rubric of democratic party government. As in the other volumes in this series, the willingness to delve behind apparently simple linkages in the functioning of democratic government suggests a pattern of much greater diversity and complexity than revealed by previous analysis.

A starting point which recognises both the diversity and complexity of the phenomena under study does not make for simple conclusions or a short-term research perspective. All the authors who have contributed to this volume would agree that much further research is necessary before it is possible to set out a theoretically elegant picture of the linkage between institutional

Preface

arrangements and policy outcomes. Nevertheless, quite apart from the intrinsic value of each individual contribution, the intellectual development of each reflects the synergetic power generated through the work of this sub-group of the Party Government project.

As with previous volumes, the support of the European University Institute was crucial to success. We are, therefore, once more pleased to record our gratitude to the EUI President, Werner Maihofer, and the Research Council for their sympathetic encouragement for the project. The procedures involved in taking a book from intellectual genesis to final publication can sometimes be rather slow, and for this reason the original versions completed in 1983 had to be modified and updated several times. The Publications Committee of the EUI and especially its chairman, Professor Gunther Teubner, together with the Publications Officer, Brigitte Schwab, deserve our special gratitude for facilitating the production process in the way they did.

Without the help of the staff in Mannheim, especially Sabine Lessmann, and the secretaries Bettina Alff and Waltraud Leininger, the publication of this volume would also have been far more difficult.

Finally, we hope, that with the publication of this third volume in the series, the overall scope of the Party Government project is emerging in clearer perspective.

Rudolf Wildenmann

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Introduction

FRANCIS G. CASTLES, FRANZ LEHNER and MANFRED G. SCHMIDT

The contributions to the third volume of the European University Institute's *The Future of Party Government* series focus on the comparative analysis of public policy in Western nations. The subjects covered range from the economic functions of government, such as fiscal policy, monetary policy and labour market policy, to areas of social policy, and to the traditional functions of the state, such as defence policy. However, the primary emphasis is on policies that are designed to manage the mixed economies of the industrialised democratic nations.

The topics that are addressed in this volume include the following questions: Which countries have been relatively successful in weathering periods of economic recession? Why is it that some nations have managed to cope with economic challenges, while others have failed to do so? Why is it that some industrialised Western nations maintained full employment, or at least, low rates of unemployment over an extended period of the 1970's and the early 1980's, while others were confronted with high and increasing levels of unemployment? To what extent has public spending in Western countries been characterised by trade-offs or, alternatively, pay-offs between spending on social purposes and on defence? To what extent do policies mirror the impact of a wide variety of political configurations such as political institutions, modes of conflict resolution and interest intermediation, political ideology and collective political actors, and to what extent do they reflect the impact of structural, non-political factors?

The contributions to this volume are essentially of a comparative nature. The focus of analysis is on democratic and economically developed member nations of the OECD (Organisation for Economic Co-operation and Development). Thus, for the most part, analysis centres on public policy-making in countries which are governed by democratic party government regimes.

Within the context of party government, parties take on a central role in the processes of interest articulation, interest aggregation and recruitment of political personnel. Moreover, parties influence the process of policy formation, albeit to a degree which differs from country to country, from period to period and from one policy area to the other. Lastly, party competition is of

considerable importance in the process of adjusting public policy to citizens' preferences. However, this is not to say that parties necessarily represent the most important, or ultimately decisive, determinant of public policy-making in a regime of party government. The contributions to this volume demonstrate that rival organisations of party government, such as interest groups, bureaucracies and powerful institutions, such as central banks or constitutional courts, are often more directly involved in the management of policy than are parties. If we look at it this way, party government is a concept that is related to the control of political power rather than one of the management of public policy. Within this frame of reference, the role that is played by political parties is by no means a minor one. Bureaucracies and interest groups may strongly determine the content of public policy, but in the end, governing parties are, to a considerable extent, at least, politically responsible for the substance of policy.

The existence of party government as a mechanism of political control does not necessarily involve any strong impact of parties on the daily management of public policy. It is sufficient that party competition functions as a mechanism of last resort in the control of policy-making and government activity.

In the past, much of policy-analysis was directly concerned with the impact of parties on public policy. According to the findings of these studies, the impact of parties has often been rather limited. This is not surprising if we understand the way party competition works. As party competition often merely imposes a limited degree of guidance and constraint on policy-making, we should not expect that parties will strongly influence all major aspects of policy-making. Rather, we might expect a strong direct impact of parties only on policies concerning issues that are vital to party competition.

If we accept that party competition is basically a last resort imposed on those structures and processes that are involved in the daily management of public policy, we do not need to assume that under conditions of party government parties determine policy. On the contrary, we may accept the parties' limited role and the often competitive influence of rival organisations. This is precisely one of the assumptions that is common to all chapters in this volume.

It is partly for this reason that the contributions to this volume are not primarily concerned with the older debate on the "do parties matter?" question. Rather, they aim to analyse the relationships that exist between public policy on the one hand and structural, non-political determinants and a wide range of genuinely political determinants on the other. In a general sense, the contributions to this volume are concerned with the impact that structures, processes and conscious choices have on policy, and with the outcomes of these policies, defined in terms of criteria of economic and social performance.

The chapters composing this volume can thus be regarded as contributions to the study of politics and policy within the context of the regime of party

government, although they are not primarily concerned with the impact of parties as such. The authors of the papers in this volume investigate important aspects of political decision-making structures of which party government is one important part. They do so from different perspectives and with a wide variety of methodological and theoretical approaches.

Methodologically, the contributions of Keman and Lehner represent cross-national studies based on highly aggregated quantitative indicators, while the chapters of Schubert on the one hand, and Dorff and Steiner on the other, rest on a qualitative analysis of disaggregated data. In contrast to these approaches, the research design that is utilised in Schmidt's contribution emphasises a comparative historiographic perspective, which focuses attention on broad cross-national generalisations and country-specific characteristics.

Theoretically, Lehner and Schubert premise their respective contributions on modern political economy and on a public choice approach, while Schmidt and Keman follow the traditions of a political-institutionalist approach to the comparative study of public policy. Steiner and Dorff deviate from both approaches and basically opt for an analysis of decision processes at a highly disaggregated level.

The contributions to this volume are concerned with quite diverse questions. Schmidt focuses on an explanation of differences in the capacities of nations effectively to cope with unemployment. Lehner concentrates attention on the management of distributive conflicts and its impact on economic performance. Keman analyses choices between social policy and defence policy. Steiner and Dorff's essay explores the impacts that are associated with variations in the mode of decision-making, and Schubert investigates the problems of political regulation in mixed economies. Finally, Castles' contribution focuses on a number of the methodological problems which have beset comparative public policy research and suggests a variety of strategies by which such research might more fruitfully proceed in future.

Altogether, the contributions to the third volume of *The Future of Party Government* series represent a variety of approaches to the study of public policy. Nevertheless, an interest in the understanding of complex policy-making structures is common to each.

The Politics of Labour Market Policy Structural and Political Determinants of Rates of Unemployment in Industrial Nations

MANFRED G. SCHMIDT

1. Introduction

Governments in Western nations were confronted with an unprecedented challenge in the 1970's and early 1980's. The setback to economic growth, the strong momentum of inflationary expectations, balance of payments difficulties, cost-push factors and deflationary tendencies produced serious problems for the reconciliation of a resilient managed market economy, the maintenance of price stability, employment security and a high level of welfare provision. The pursuit of policy without pain has become a task that is much more difficult to achieve than it was in the 1960's and early 1970's.

A variety of causes have contributed to the accumulation of economic problems in the early seventies (Boltho, 1982). Accelerating rates of inflation were to a considerable extent due to a wage explosion in the major West European countries in the late 1960's. However, they also mirrored the inflationary consequences of the United States' current account deficit, dramatic increases in job and income security in the post-war period and the commitment on the part of the governments of the OECD-countries to provide full employment, or at least, to hold unemployment at a level much lower than would be necessary to break inflationary expectations.

In addition to inflationary pressure, a number of other factors influenced economic policy, in particular the trend towards a decline of profitability in the OECD-nations (partly due to the wage explosion and full employment policy of the 1960's), the increasing internationalisation of the world economy and various exogenous shocks, such as the huge oil price increases, to which the OECD-countries were subject through the 1970's. The dilemma that was thus posed for economic policy could hardly have been more acute. Economic policy was confronted with the coexistence of inflationary momentum, a dramatic increase in production costs, a profit squeeze, rapid increase in labour supply figures and the presence of an oil shock that was at

one and the same time inflationary, deflationary and a drain on the balance of payments (Boltho, 1982).

For reasons that were discussed more thoroughly in recent politico-economic contributions to the study of unemployment (see in particular Scharpf, 1984 a, 1985 b), the existence of demand-pull and cost-push inflation and the emergence of unemployment, that was demand-constrained and capacity-constrained in character, and the persistent growth in labour supply confronted policy makers with a fundamental problem.¹ Fiscal and monetary policy alone were no longer sufficiently powerful instruments to secure full employment and high levels of price stability. In the absence of further policy instruments that could effectively be employed for controlling demand and supply—such as non-inflationary selective labour market policy, the tolerance of prolonged wage-cuts on the part of the trade unions, or control of labour supply—economic policy makers were faced with the difficult choice between inflation and unemployment. Moreover, in the worst case, expansive fiscal policy and expansive monetary policy were also likely to generate a stagflationary situation.

How did the governments of the OECD-nations respond to the new challenge and what impact did the policies that were adopted have on the twin problems of inflation and unemployment? The policy stances that were adopted varied from country to country. In one group of nations, consisting mainly of the larger OECD-economies (with the exception of Japan) and Switzerland, the general tendency of the late 1960's had been for fiscal and monetary policies to be mutually reinforcing. Thereafter, in contrast, and as a reaction to the growing economic problems of the early 1970's, monetary conditions were generally tightened in 1973 and became more restrictive in response to the first oil price shocks (see, for the following paragraphs, Boltho, 1982; Maddison, 1982; Price and Muller, 1984; Llewellyn, 1984; Chou-raqui and Price, 1984). Budgetary policy also became more restrictive until 1974 and then more expansionist in 1974/75. In this period, the authorities of all OECD-countries accepted the need to finance the oil-related external demand deficits of the public sector. However, while the OECD-economy

¹ Depending on whether inflationary pressure originates from the demand side or the supply side of the economy, one may distinguish between demand-pull inflation and cost-push inflation. Following macro-economic models of employment in the private sector, it can be argued that involuntary unemployment may occur under two different conditions: "if effective demand falls below the available productive capacity which could be profitably utilized at prevailing costs and prices, as well as below the available supply of labour: $D < C \geq L$ (demand-constrained or 'Keynesian' unemployment), or . . . if the supply of labour, at prevailing wages, is greater than the available capacity which could be profitably utilized at prevailing costs and prices: $D \geq C < L$ (capacity-constrained or 'Marxian' or 'classical' unemployment)" (Scharpf, 1984 a: 269).

D refers to the aggregate demand for goods and services, C to the existing capacity for producing goods and services and L to the available supply of labour.

started to recover in 1975, in the majority of the countries the rate of recovery was not sufficient to reduce unemployment significantly. Nor were the OECD-nations successful in dealing with other economic problems: the large current account of the OECD-economy as a whole quickly became more unevenly distributed across the OECD-area, large public sector deficits emerged in many countries and the rate of inflation continued to remain at a high level.

The fiscal-monetary policy mix that was chosen in the major OECD-nations in the period following the first oil price shock resulted in a moderately expansionary monetary policy combined with budgetary restraint, except in 1978, when concerted action by the major seven OECD-nations on fiscal policy issues contributed to a moderately expansionist demand-push. In 1979/80, however, the second oil price shock struck before the national economies of the OECD-area had fully recovered from the first. This new price shock coincided with re-accelerating inflation rates, increasing current account and public sector deficits and a steep rise in the rate of unemployment.

The policy response that was taken to be sufficient to cope with these four major problems was dramatically different from the one in 1973/75:

Rather than seeking to support demand in the short run, the over-riding concern, felt by virtually all OECD governments, was to contain the inflationary impulse and to prevent, through a rapid adjustment of real wages, the price shock becoming built into the domestic wage/price spiral. Part of the concern was over inflation *per se*. But perhaps the more important part of the concern was to prevent wages rising at the expense of profits . . . There was also considerable concern over budget deficits, partly because of their perceived large and growing structural elements, partly because of a fear that their financing might crowd out productive investment, and partly because the composition of public expenditure, and the growing share of the public sector in general, were all considered to be obstacles to future growth. In the light of these concerns, OECD governments shifted the stance of fiscal policy significantly towards restrictions. Taking the three years to 1982 together, the cumulative swing towards fiscal restriction of the major 7 economies as a whole amounted to about 1 1/2 per cent of their combined GNP. . . Thus to the deflationary impact of the oil price itself was added extra deflation by the fiscal action of OECD governments. But in addition, and in contrast to the post 1973 period, monetary policy was also to play an important restrictive role (Llewellyn, 1983: 204).

In contrast to the majority of the large OECD-countries and Switzerland, economic policy in another group of countries was premised on a somewhat more expansionist stance in economic policy until the early 1980's. In the early 1980's, growing concern over huge budget deficits, higher interest rates in the United States and declining competitiveness, also contributed to a tightening of economic policy in these countries. Representative countries include Japan, and some smaller nations, in particular countries that have been characterised by a long tradition of a developed welfare state and strong or

moderately strong labour movements (such as Belgium, Denmark, Austria and Sweden).

In overall terms, the performance of economic policy in the OECD-countries, as measured by macro-economic outcomes indicators, was unsatisfactory. In the majority of the OECD-nations, overriding concern was focused on containing inflationary pressure, but it took more than ten years effectively to moderate the pace of price increase. However, the cost that the deceleration in inflation rates involved was high. Partly due to restrictive policy stances, economic growth rates were lower², and this meant rising levels of unemployment, although it needs to be stressed that there is no one-to-one relationship between economic growth and labour market performance.³ Furthermore, it can be argued that economic policy in the 1970's tended to remain too restrictive and too costly, insofar as it undermined confidence in demand management on the part of private economic agents (Bispham and Boltho, 1982: 318-19; Maddison, 1982, chp. 6). Moreover, low productivity growth and, above all, extremely high levels of unemployment continue to be the major problems in the majority of the OECD-nations (OECD, 1984 b).

Unsatisfactory as overall economic performance has been, and labour market performance in particular, it needs to be stressed that some nations have been more successful than others in weathering the economic crisis. Thus, for example, Japan ranks at the top of standard macro-economic indicators, such as economic growth, productivity increase, export strength and strength of the national currency, followed by Austria, Norway, West Germany, and also—depending on the exact choice of indicators—the United States and Switzerland (Euromoney, 1981; OECD, 1984 c and 1984 d). It should be emphasised that some of the OECD-nations managed to maintain full employment in the 1970's and also, albeit to a lesser extent, in the early 1980's. Thus, the average rates of unemployment between 1974 and 1982 remained low in one group of nations, consisting of Austria, Japan, Norway, Sweden and Switzerland. In contrast to this, all other OECD-countries were plagued by mass unemployment, albeit to a degree which varied from country to country (see Figure 1).

² Studies conducted by the OECD have pointed to positive associations between economic growth and growth in real money supply (M2), but there is also evidence in support of the view that greater stability in monetary conditions is associated with better economic performance (see for example Chouraqui and Price, 1983: 14-15).

³ The exact nature of the association between economic growth and labour market indicators varies widely from country to country, but the general tendency is this: there exists a positive correlation between economic growth and total employment growth ($r = +.54$ for 18 OECD-countries and 9 years of observation in the period from 1974 to 1982). Thus, it has not universally been the case that labour market performance has been decoupled from economic growth, but it needs to be stressed that other factors, such as labour supply trends, intervene in the complex relationship between economic growth and rates of unemployment.

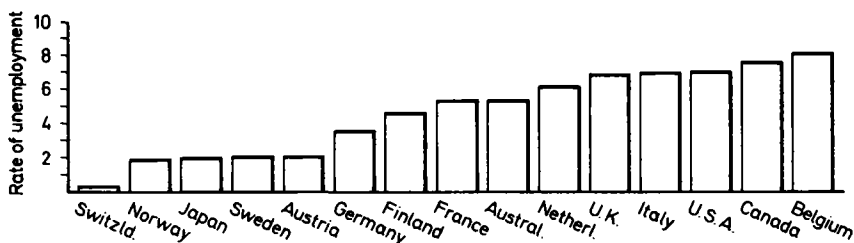


Figure 1. *Rates of Unemployment in OECD-Countries, 1974—1982*

Source: OECD 1984 d; Schmidt 1985

Although inflationary pressure posed difficult problems for economic policy in all OECD-nations, it also should be pointed out that the level of inflation, and the acceleration of inflation rates in the full-employment countries was, on average, *lower* than the level of inflation and the pace of price increase in mass unemployment countries. Thus, it has not universally been the case that full employment was traded-off with particularly high rates of inflation. In reality, the relationship between average rates of unemployment (or changes in unemployment) and average rates of inflation (or changes in the rate of inflation), as reflected by cross-national comparative data, varied from country to country. In overall terms, the data for 1974-82 demonstrate the existence of four different combinations of inflation and unemployment (OECD 1984 d).

One group of nations, comprising Austria, Japan and Switzerland, was characterised by full employment and low inflation rates or, at worst, moderate rates of inflation. In a second and third group of countries, the data demonstrate the existence of a strong trade-off between inflation and unemployment. In West Germany and in the Netherlands relative success in the control of inflationary pressure involved accelerating rates of unemployment. In contrast to this, the Swedish and the Norwegian experience indicates a different outcome. In both countries, the level of and the change in inflation rates were both moderately high, while rates of unemployment remained at a very low level.

Finally, in a fourth group of countries, mass unemployment and moderately strong or strong inflationary pressure tended to create a stagflationary situation. The data provoke a host of questions. How can we account for the wide range of variation in the exact nature of the unemployment-inflation dilemma with which all OECD-nations were confronted? Why is it, in particular, that some countries have managed to maintain full employment or near full employment and low or moderate inflation rates, whereas others were fully caught up in the inflation-unemployment dilemma, or, alternatively, faced with a stagflationary situation?

A complete answer to these questions would be beyond the scope of this chapter. In what follows, the thrust of the investigation will be towards an explanation of cross-national differences in unemployment rates.⁴ We will not focus on the links that exist between unemployment and inflation. It needs to be stressed, however, that the analysis presented here must be complemented by a comparative study of inflation rates. Moreover, it should be emphasised that the analysis presented in this chapter focuses on averaged rates of unemployment in the period from 1973 to 1982 in 15 OECD-nations.⁵ It follows from this that the analysis presented here does not presume to provide an explanation of why rates of unemployment have varied in individual countries by sub-periods, by regions or by social groups.

2. Structural and Political-Institutionalist Determinants of Cross-National Rates of Unemployment

In seeking to contribute to an understanding of unemployment we take a lead from recent politico-economic studies of Western nations⁶ and premise our argument on a combination of a political-institutionalist view and an approach that focuses attention on structural variables. In the context of a poli-

⁴ Rates of unemployment measure levels of open unemployment. Thus they do not fully take account of a number of other important aspects of labour market performance, such as the labour force participation rate, the level and the change in total employment, the proportion of the population of working age, the number of actual hours worked and the extent to which the number of discouraged workers biases unemployment figures. A comprehensive review of the labour market in OECD-nations would have to take these dimensions into account. In that case, it would become apparent that Switzerland would rank lower and some of the Anglo-American democracies, in particular the United States and Canada, would rank higher than is the case if one looks at the level of open unemployment. In the following analysis, we will discuss these cases more fully, but it needs to be stressed that the major emphasis in this study is on rates of unemployment. Unemployment is a salient issue and rates of unemployment rank uppermost of the problems which are of concern to the mass public and politicians. Thus rates of unemployment represent the politically most important aspect of the imbalance between the supply of, and the demand for, labour. This is why it makes sense to study more fully the determinants of rates of unemployment.

⁵ In this study the focus will be on 15 OECD-nations for which standardised rates of unemployment are available from OECD-countries and on Switzerland, whose labour market performance has been studied in detail by the author of this chapter. The sample consists of Australia, Austria, Belgium, Canada, Finland, France, Federal Republic of Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom and the U.S.

⁶ See, for example, Hibbs, 1977; Andrain, 1980; Lindberg, 1982 a, 1982 b, 1984; Cameron, 1978 and 1984; Schmidt, 1982, 1984 a; Scharpf, 1984 a, 1985; Czada, 1983 and 1984.

tical-institutionalist view of macro-economic outcomes, such as rates of unemployment, we focus on how and to what degree the complex relationships that exist between structural-economic "inputs" and "outcomes" are influenced and intermediated by political structures and choices on the part of collective political actors, such as producer group organisations, political parties, government and the electorate.

Within a political-institutionalist paradigm, the thrust of the investigation also focuses on the policy repertoire which is available to government, the willingness to use public power, the degree to which policies are co-ordinated across policy areas and the effectiveness of policy implementation. A political-institutionalist view proceeds on the assumption that the autonomy of the political system *vis-à-vis* the economy is considerable. This is a reasonable assumption with respect to the study of mixed economies in Western nations in the post World War II period. In a mixed economy, economic behaviour and economic outcomes are shaped by economic cost-benefit-oriented decisions, but they are also to a large extent influenced by political struggles, political ideologies and the course of action adopted by policy makers.

The assumption of a considerable degree of autonomy of the political systems does not preclude the possibility that structural factors influence labour market processes and the nature of political choices. According to a wide variety of studies of labour market developments in OECD-nations, structural factors have been of major importance in amplifying or, conversely, mitigating the imbalance between supply of and demand for labour in the 1970's and early 1980's (see for example Boltho, 1982; Grubb *et al.* 1983; OECD 1984 b; Therborn 1984 b; OECD Secretariat 1985). For example, the following constellation of structural factors poses difficult problems for the maintenance of full employment:

- low growth rates of real GDP, and, in particular, the presence of a GDP-productivity gap;
- heavy external dependence of the national economy, and hence a greater vulnerability to external shocks;
- strong growth rates in labour supply, and hence, other things being equal, a larger imbalance between the supply of and the demand for labour;
- concentration of employment in the industrial sector, and hence a higher vulnerability to cyclical and technological unemployment;
- low levels of wage flexibility and wage differentiation, and hence, a somewhat more muted response of employment to economic growth; and
- the presence of industries with heavy adjustment problems.

While it can be argued that full-employment oriented policy is impeded by structural circumstances, such as weak economic growth and large increases in labour supply, it should be emphasised that structures do not dictate a particular solution. It remains an empirical question whether, and to what extent, structural problems generate mass unemployment. The exact nature of

the relationship between structures and labour market outcomes depends on the presence or absence of intervening political variables. Empirical analysis of the data that was collected for the present paper serves to illustrate this point. One of the most intriguing findings of the data analysis is the weakness of the statistical association between rates of unemployment and a composite measure of structural-economic obstacles to full employment policy (see Table 1 and Figure 2).

Table 1. *Rates of Unemployment and Economic-Structural Obstacles to Full Employment Policy in 15 OECD-Nations*

Country	Index of economic-structural obstacles to full employment ¹	Type of obstacle ²	Average rate of unemployment 1974—1982		Change in average rate of unemployment ⁴	
			Actual value	Residual ³	Actual value	Residual ⁵
Australia	3	LS, W, CI	5.4 %	1.1	3.4	1.3
Austria	4	D, GAP, I, CI	2.1 %	-2.6	0.6	-1.6
Belgium	4	D, GAP, I, CI	8.2 %	3.5	5.7	3.5
Canada	4	D, LS, U, CI	7.7 %	3.0	2.3	0.1
Finland	3	GAP, W, CI	4.7 %	0.3	2.1	0.0
France	4	GAP, W, CI, I	5.4 %	0.7	2.9	0.7
Germany	5	D, G, GAP, I, CI	3.6 %	-1.4	2.6	0.1
Italy	6	D, I, LS, U, W, CI	7.2 %	1.6	1.5	-0.9
Japan	2	I, CI	2.0 %	-1.7	0.8	-1.2
Netherlands	4	D, G, LS, CI	6.2 %	1.5	4.7	2.5
Norway	3	LS, W, CI	2.1 %	-2.2	0.4	-1.6
Sweden	4	D, G, W, CI	2.1 %	-2.6	-0.1	-2.3
Switzerland	6	D, G, GAP, I, W, CI	0.4 %	-5.0	0.3	-2.1
Un. Kingdom	7	D, G, GAP, I, U, W, CI	6.9 %	1.1	3.4	0.9
USA	4	G, LS, U, CI	7.1 %	2.4	2.5	0.3

Sources: OECD, *OECD Economic Outlook-Historical Statistics*, 1960—1982 (Paris: OECD, 1984)

OECD, *OECD Economic Outlook* (Paris: OECD, bi-annually, various issues)

OECD, *Labour Force Statistics 1962—1982* (Paris: OECD, 1984)

¹ Additive index of the total number of economic-structural obstacles to full employment (see, for details, the list of indicators in footnote 2 to table 1). The borderline between cases that were classified as "obstacles" or "else" was empirically defined via the arithmetic mean of the 15 OECD nations for which comparable labour market indicators were available. Thus, for example, GDP growth rates below the average growth rate (2.1 %) were counted as an obstacle to full employment. The critical thresholds of the other indicators are as follows: export dependence > 20

per cent; GDP-productivity-gap ≤ 0.6 ; employment share of industrial sector ≥ 38 per cent; growth of labour supply > 1.1 ; unemployment 1968–73 > 2.6 per cent; wage differentiation < 1.7 . Moreover, the existence of crisis industries was regarded as an “obstacle” to full employment.

- ² CI = existence of crisis industries; D = export dependence (exports as a percentage of GDP in 1977); G = average annual growth rates of real GDP, 1974–82; GAP = GDP-productivity-gap (average annual growth rates in real GDP, 1974–82, minus average annual growth rates in GDP per persons employed, 1974–82); I = employment in industrial sector as a percentage of total employment, 1973; LS = labour supply (average annual growth rates on total labour force, 1974–82); U = average rate of unemployment, 1968–73; W = wage differentiation in manufacturing sector (ratio of wages paid in highest wage and lowest wage-branches in manufacturing industries, 1978 (ISIC Major Division 3, at 3-digit-level) (data was taken from ILO).
- ³ Computed from the regression equation $Y = 3.18 + .372 (X)$, $R^2 = .038$. Y = Average rate of unemployment, 1974–82; X = number of obstacles to full employment. Negative signs indicate levels of unemployment which are “too low” relative to the number of obstacles to full employment.
- ⁴ Average rate of unemployment, 1974–82 minus average rate of unemployment, 1968–73.
- ⁵ Computed from the regression equation $y = 1.81 + .093 (X)$, $R^2 = .005$. Y = Average rate of unemployment, 1974–82 minus average rate of unemployment, 1968–73; X = number of obstacles to full employment. Negative signs indicate that changes in the rate of unemployment are “too low” relative to the number of obstacles to full employment.

Figure 2. *Rates of Unemployment and Economic-Structural Obstacles to Full Employment Policy*



$$Y = 3.18 + 0.372 (X)$$

$$R^2 = 0.038$$

2.1. Average rates of unemployment, 1974–1982



$$Y = 1.81 + 0.093 (X)$$

$$R^2 = 0.005$$

2.2. Change in average rates of unemployment, 1974—82 to 1968—73

Source: Table 1.

Our index of structural obstacles to full employment policy accounts for only 7 per cent of the total variation in average levels of unemployment and 5 per cent of the variation in the changes in the rates of unemployment. Moreover, the residuals that are to be derived from the linear regression equation point to the existence of a fairly consistent borderline between mass unemployment countries and full employment countries. In contrast to the majority of the OECD-nations, Austria, Norway, Sweden, Switzerland and Japan managed to maintain low levels of open unemployment, despite the existence of a wide variety of structural obstacles to full employment. In other words: Austria, Norway, Sweden, Switzerland and, albeit to a lesser extent, Japan successfully managed to maintain "too low levels of unemployment" relative to the pressure on the labour market that was generated by structural-economic circumstances. Conversely, the rates of unemployment in the majority of mass unemployment countries were higher than one would expect on the basis of the economic-structural problems that characterised these nations (see Table 1). It is this differential responsiveness of rates of unemployment to structural-economic problems which requires explanation. Our contention will be that the residual variation in rates of unemployment, allowing for economic-structural circumstances, can, to a fairly large extent, be explained by reference to the political determinants of labour markets. It is to the impact of politics and policy on unemployment that we now turn. In particular, we will focus on more detailed studies of the full employment nations and also on the United States and West Germany.

3. Two Roads to Full Employment and Two Roads to Mass Unemployment

In an excellent international overview of the development of labour market policy since the world economic crisis of 1974–75, Bernard Casey and Gert Bruche (1985) have distinguished certain broad trends of labour market policy over the past decade:

Anticipating that the recession induced by the first oil crisis would be of only short duration, the first reaction of many European governments (if not that of the U.S.) was to encourage the maintenance of existing jobs, often via short-time work, in some cases even via the subsidy of production itself. Alongside traditional short-time working programs were schemes promoting a more productive use of idle time by subsidizing in-plant training and provisions for temporary support of production itself. At the same time, governments used job creation and labor market training programs to provide "temporary parking places" for those finding themselves without work. A subsequent recognition that the oil crisis marked a fundamental break with the past that required restructuring of production meant that the appropriateness of job retention strategies increasingly came into question. In addition, as the economic situation stabilized or improved, the construction of many programs meant that the level of their utilization in any case declined. A gradual reorientation of labor market policy then ensued; concern was increasingly directed to those out of work rather than those threatened by unemployment and to improving the position of certain problem groups in the labor market—women and especially young persons. . . . Alongside the increasing efforts to mitigate youth unemployment was the emergence and development of measures to encourage the exclusion of older workers from the labor market. . . . Furthermore, particularly the German-speaking countries made use of the opportunity to reduce the size of their substantial foreign labor forces to limit the burden of unemployment facing their own citizens. More recently in Europe, a new component of supply-reducing policy has come to the fore, that of cutting weekly working time (1985: 54–55).

The authors go on to argue that changes in the emphasis within labour market policy over time have been matched by changes in the intensity with which it has been pursued:

In the first years after the recession, active labour market policy was seen by some as providing a "third way" (between fiscal and monetary policy) or non-inflationary means of restoring full employment. . . . Subsequently, its limitations, too, were realized and its potential was viewed more cautiously, if also more realistically (1985: 55).

However, it should be emphasised that the broad trends in labour market policy over the past decade went hand in hand with considerable cross-national differences in respect of context, orientation and intensity. There is a wide range of variation in the relative importance that was accorded to the active labour market. Similarly, the overall economic policy context in which labour market policy was pursued varied greatly from country to country (Bruche and Casey, 1982; Schmid, 1982; Richardson and Henning, 1984; Casey and Bruche, 1985). It is to these cross-national differences and to the

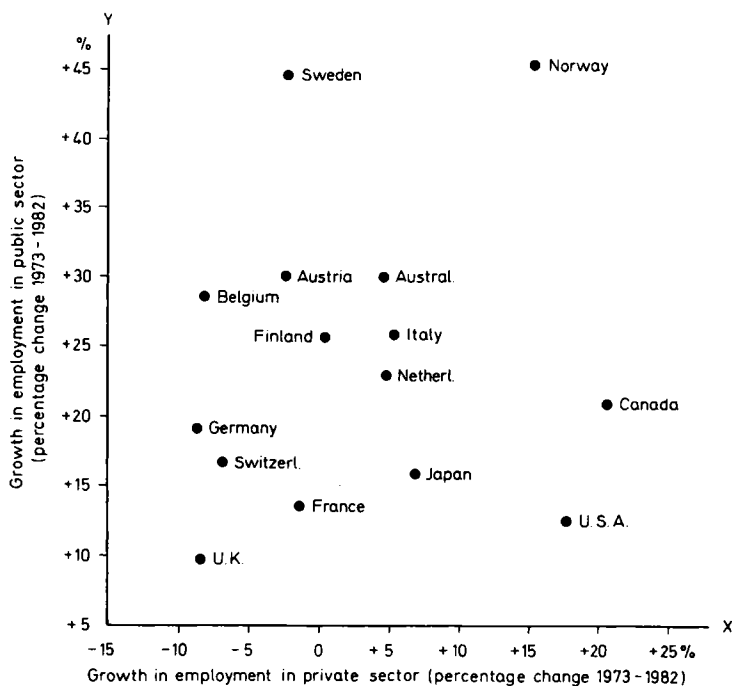
structural and political determinants of rates of unemployment that we now turn our attention.

We will argue that there have been two roads to full employment and two roads to mass unemployment in the 1970's.⁷ In political terms, full employment is first and foremost the outcome of a "labour dominated" policy process of the kind found in Austria, Norway and Sweden, but it can also result from a policy process which is dominated by conservative-reformist tendencies, such as in Japan and Switzerland. As far as the division of labour between the public sector and the private sector with respect to full employment is concerned, the labour dominated road to full employment rests on a rapid expansion in the number of jobs offered in the public sector, whereas the conservative-reformist road to full employment rests on total employment growth in the market sector or the rapid adjustment of labour supply to the demand for labour (see Figure 3).

We will distinguish between two roads to mass unemployment in countries that are plagued by high levels of unemployment. In overall terms, it can be argued that mass unemployment has been the product of two very different processes of policy formation: a pluralist-sectoralist mode of policy coordination across policy areas which is softened by extensive welfare state provision on the one hand, and a purely pluralist mode of policy coordination coexist-

⁷ For excellent reviews of selective labour market policy measures in OECD-nations see for example Bruche and Casey, 1982; Casey and Bruche, 1985; Günther Schmid's contributions to the study of labour markets (Schmid, 1982, 1985); Gerlach *et al.* (1984) and Richardson and Henning (1984).

It should be stressed that the approach that is adopted in our study differs to a considerable extent from the political explanations of cross-national unemployment rates that have been published so far. In contrast to Casey and Bruche (1985), we will focus attention on structural and political determinants of the policy stances that were adopted. In contrast to the majority of comparative studies on labour market policy or manpower policy, and also in contrast to my earlier work in this field, the focus in this study is on the impact that political factors in conjunction with structural factors have on the labour market performance of the OECD-nations. Moreover, and in contrast to the seminal studies which Fritz Scharpf (1984 a; 1984 c) has contributed to the analysis of full employment and mass unemployment, I will argue that the cross-national rates of unemployment are amenable to a quasi-universalistic cross-national view. However, it needs to be stressed that the explanation offered here is presumed to be a model which is only valid for the universe of democratic OECD-nations. Furthermore, and in contrast to the cross-national studies of the political economy of developed Western nations, I will argue that there have been two different "logics" of full employment policy and two "logics" of mass unemployment (while the majority of the studies in this field implicitly argue that there is one single "logic" of full employment or, conversely, one single "logic" of mass unemployment).

Figure 3. *Employment in the Private and in the Public Sector*

Country	Change in employment (percentage change 1973—1982)	
	Private sector	Public sector
Australia	+ 5 %	+ 31 %
Austria	— 3 %	+ 30 %
Belgium	— 9 %	+ 29 %
Canada	+ 21 %	+ 22 %
Finland	+ 1 %	+ 25 %
France	— 1 %	+ 13 %
Fed. Republic of Germany	— 8 %	+ 19 %
Italy	+ 5 %	+ 23 %
Japan	+ 7 %	+ 16 %
Netherlands	+ 4 %	+ 22 %
Norway	+ 15 %	+ 46 %
Sweden	— 3 %	+ 45 %
Switzerland	— 7 %	+ 16 %
United Kingdom	— 8 %	+ 9 %
USA	+ 17 %	+ 13 %

Sources: Data was calculated from OECD 1984 d and 1984 g.

ing with a more limited degree of welfare statism on the other.⁸ Whereas the latter road to mass unemployment rests upon a political structure which is dominated by non-socialist tendencies (such as in the United States), the pluralist-sectoralist road to mass unemployment is associated with a wider range of variation in the distribution of power between labour and capital and between Conservative, Christian Democratic and Social Democratic parties, ranging from countries that are governed by centre-left coalitions to nations governed by centre-right coalitions. It should be added that a wide variety of structural-economic factors have impeded or facilitated full employment-oriented policy in the OECD-nations, but the bulk of the cross-national differences in rates of unemployment can be explained by the nature of political structures, political choices and policy (see Table 2). It is to a more detailed study of countries that may be regarded as being representative examples of the diverse roads to full employment and mass unemployment that we now turn our attention.

4. "Labour Dominated" Roads to Full Employment: Austria, Norway and Sweden

According to a widely shared view, unemployment is caused by institutional rigidities, such as trade unions, wage policy, minimum wage legislation and legal protection of job security, which prevent the labour market from clearing. The weakness or absence of institutional rigidities is considered conducive to high employment growth and ultimately to full employment of all economic resources.

⁸ Following recent studies by Czada (1983 and 1984), we isolate three types of policy co-ordination: a corporatist mode of policy co-ordination characterises nations, in which trade unions, employers' associations and the state are committed to a social partnership ideology, and collaborate in a tri-partite network of policy formation in single policy areas and across policy areas (for example, by means of co-ordinating labour market policy, incomes policy and industrial policy).

Secondly, there is a pluralist-sectoralist mode of policy co-ordination which involves a low degree of policy co-ordination across policy areas, but does not preclude tri-partite networks within certain policy areas. Finally, pluralist modes of policy co-ordination are characteristic of countries in which integrated policy networks and an underlying consensus between labour, employers and the state are largely absent. Empirically, modes of policy co-ordination vary with the structure of long-term power distributions between labour and capital and between political tendencies. Thus, for example, a corporatist type of policy co-ordination tends to rest on a "balance of class forces" between labour, capital and the state, while the purely pluralist type of policy co-ordination rests upon a politico-economic fabric of society in which the non-socialist tendency commands a dominant position in the economy and in political affairs. The classification of the countries into the categories above is mainly based on Schmidt, 1982 a; Czada, 1983 and 1984 and Lehmbruch's contribution (1977, 1983, 1984 a, 1984 b) to the debate on corporatism.

However, neither argument stands up to empirical examination. While the institutional rigidity hypothesis explains the considerable growth in total employment in the United States in the 1970's and 1980's, there is nothing in this hypothesis which could explain why full employment or near full employment has prevailed in countries which are characterised by a wide variety of powerful institutional rigidities, such as Austria, Norway and Sweden, whereas other countries, in which institutional rigidities carried less weight, were plagued by mass unemployment.

In yet another respect, the full employment or near full employment record in Austria, Norway and Sweden is at variance with the predictions to be derived from conventional wisdom. Thus, for example, even when we take into account the problems brought about by structural-economic circumstances, such as heavy external dependence, presence of crisis industries and other factors, these three countries were not dramatically better off than the countries in which unemployment levels dramatically increased (see Table 1 and Table 2). However, the Austrian, Norwegian and Swedish rates of unemployment remained at a low level. Why? The full employment experience of these countries may partly be attributable to higher output growth, (in particular in Norway where income from North-Sea oil further improved economic conditions, and in Austria) and the absence of a GDP-productivity-gap.

However, these factors mirror to a large extent the economic impact of public policies that were consciously designed to improve economic conditions. An understanding of full employment in Austria, Norway and Sweden must, therefore, be largely premised on a political explanation. Austria, Norway and Sweden may be regarded as representing the major examples of a "labour dominated" full employment policy process.

In these nations trade unions are highly organised, politically united and ideologically moderate. Moreover, they have participated in tripartite corporatist arrangements over a long period and have consequently been successful in institutionalising their power. Measured by indicators of working class mobilisation and political control of government, the Austrian, Norwegian and Swedish labour movements are exceptionally strong (Korpi and Shalev, 1980; Cameron 1984). In these countries, a "balance of class forces" has been characteristic of the structure of industrial relations, power relationships in parliament and the prevailing ideological hegemony.⁹ Ideologically, "solidaristic" values are strongly emphasised by both the electorate and the majority of political elites (see, for example, Lafferty and Knutsen, 1984). Relationships between trade unions, employers and the state tend to be based on the principles of compromise and equal exchange (or at least on an institutionalised stalemate between collective bargaining organisations too powerful to be coerced into acquiescence). These principles also influence the timing and

⁹ Of course, this does not preclude the possibility of open industrial conflicts, as the Swedish case in the 1980's demonstrates.

Table 2. *Economic Structures, Politics, Policy and Rates of Unemployment (1974-1982)*

	"Labour-dominated" road to full employment				"Conservative-reformist" road to full employment		Two roads to mass unemployment	
	Country	Austria	Norway	Sweden	Japan	Switzerland	Type 1 Germany	Type 2 U.S.
Major instruments used to combat unemployment		Economic policy; foreign labour	Economic policy	Labour market policy	Economic & Industrial policy	Control of labour supply	Labour market policy & control of labour supply	Economic policy
Overall division of labour between state and economy with respect to unemployment		Primacy of public sector	Primacy of public sector	Primacy of public sector	Primacy of private sector	Primacy of public sector	Primacy of public sector	Primacy of private sector
Degree of co-ordination across policy areas ³		Strong	Moderately strong	Moderately strong	Moderately strong	Moderately weak	Moderately weak	Weak
Fiscal policy stance ⁴		Expansionary	Expansionary	Moderately expansionary	Expansionary	Restrictive	Moderately restrictive	Expansionary
Importance attached to control of inflation ⁵		High	Moderately high	Moderately high	High	Very high	Very high	High
Status of central bank ⁶		Less autonomous	Less autonomous	Less autonomous	High autonomy	High autonomy	High autonomy	High autonomy
Distribution of power between capital and labour/power of trade unions ⁷		Very strong	Very strong	Very strong	Weak	Weak	Moderately strong	Weak

(to be continued next page)

	"Labour-dominated" road to full employment				"Conservative-reformist" road to full employment		Two roads to mass unemployment	
	Country	Austria	Norway	Sweden	Japan	Switzerland	Type 1 Germany	Type 2 U.S.
Politics	Dominant political complexion of government ⁸	Left	Left-centre	Left-centre	Right	Centre-right	Centre-right	Right
	Dominant mode of class conflict regulation ⁹	Corporatist	Corporatist	Corporatist	Capital-dominated social partnership	National social partnership	Bilateral social partnership	Unstructured confrontation
	Political reactions to mass unemployment ¹⁰	Strong	Strong	Strong	Strong	Strong	Weak	Moderately strong
Resources	Average rate of economic growth ¹¹	2.4 %	3.7 %	1.4 %	3.8 %	0.3 %	1.7 %	1.8 %
	Productivity growth ¹²	2.2 %	1.8 %	0.4 %	3.0 %	0.8 %	2.2 %	0.1 %
	Productivity-GDP-gap ¹³	+0.2	+1.9	+1.0	+0.8	-0.5	-0.5	+1.7
Structures	Existence of industrial reserve army prior to 1973 ¹⁴	1.5 %	1.7 %	2.2 %	1.2 %	0.1 %	1.0 %	4.6 %
	External dependence of national economy ¹⁵	High (21 %)	High (25 %)	High (24 %)	Low (12 %)	High (29 %)	High (23 %)	Low (6 %)
	Presence of major industries with adjustment problems ¹⁶	Yes	Yes	Yes	Yes	Yes	Yes	Yes

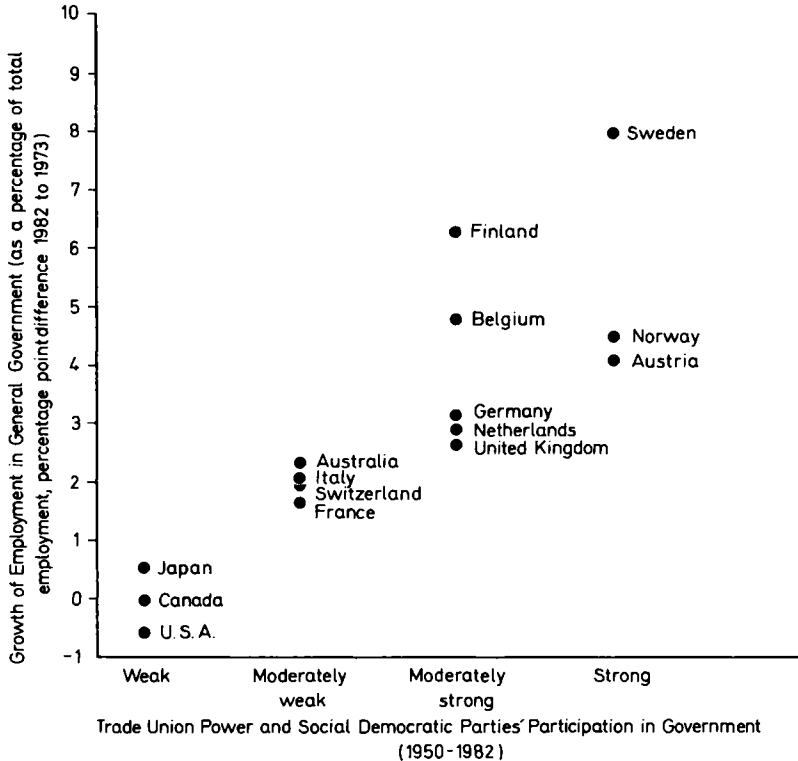
content of economic and labour market policy. To a large extent, full employment in these countries is an aspect of the prevailing political orthodoxy. Thus, the political strategy of whatever party is in office aims at maintaining high levels of employment.

Institutional conditions, such as a low degree of autonomy on the part of the central bank, have facilitated the implementation of employment-oriented and expansionary fiscal monetary policy-mixes. Moreover, mechanisms which have been responsible for the emergence of a full employment orthodoxy—a balance of class forces which is institutionalised in corporatist arrangements—have ensured the government's willingness to adopt and its capability to implement full employment policy. A variety of instruments and channels have been used in each of the full employment countries, such as demand management (in particular in Norway and Austria), direct or indirect concertation between fiscal, monetary and incomes policy (particularly in Austria), selective labour market policy measures in the private sector, re-training programmes, early retirement schemes, working-time reduction and a strong expansion in the number of part-time jobs (especially in Sweden).

As far as the division of responsibility for the maintenance of full employment was concerned, the public sector carried a major part of the burden that the economic problems of the 1970's generated. Compared to other countries, the growth of employment in the public sector in Austria, Norway and Sweden has been very strong and it has more than offset the employment losses in the private sector. In contrast to Austria and Sweden, Norway experienced a strong growth in total employment in the public sector and in the market economy, largely due to employment growth in the service sector and in the sheltered sectors of the economy (see Figure 4).

The instruments that were adopted for the purpose of maintaining high levels of employment varied from country to country. In Sweden, a wide range of selective or active labour policy measures were used to combat unemployment, while concertation between fiscal, monetary and wage policy was relatively weak. Labour market policy measures were estimated to have reduced the potential rate of unemployment by some 4 percentage points (Schmid, 1982). It should be noted that the non-socialist coalitions which were in power from 1976 to 1982 attached as high a priority to the continuity of labour market and full employment policy as did earlier Social-Democratic governments (Henning, 1984). Indeed, the non-socialist coalition partners went even further than their Social Democratic predecessors; expenditure on labour market measures after 1976 increased more rapidly than before. In addition, the new government also changed the style and quality of intervention by focusing more determinedly on safeguarding both security of employment and location of employment for the labour force (Henning, 1984). Among the real full employment countries, Sweden is also unique insofar as the extraordinarily large increase in employment in the public sector more than offset the employment losses in the private sector, whereas the

Figure 4. *Growth of Employment in General Government, Trade Union Power, and Political Complexion of National Governments*



Source: Employment data was taken from OECD (1984 f) *Economic Outlook. Historical Statistics, 1960—1982*. OECD: Paris, p. 38. Political data are based on union density figures and the duration and strength of the Social Democratic party's (and left-wing allies) participation in government in the post World War II period (see Korpi and Shalev, 1980; Schmidt, 1982 b). "Weak" means low union density and exclusion of Social Democratic parties from government. "Moderately weak" means weak or moderately strong trade unions and a lower degree of participation in government on the part of Social Democratic parties. "Moderately strong" means moderately strong trade unions and more frequent participation in government on the part of Social Democratic parties. "Strong" refers to strong trade unions and governments which have been dominated over a longer period by Social Democratic parties.

growth of public sector employment in Norway and Austria was somewhat more muted (see Figure 3).

In contrast to Sweden, the employment policy approach that the Austrian authorities, supported by the trade unions, chose emphasised the importance of a capitalist growth policy based on a highly developed concertation of expansionary fiscal policy, moderately expansionary monetary policy, incomes policy and wage restraint, complemented by short-time work measures, bans on overtime work and labour hoarding practices in the private sector and, in particular, the nationalised industries (Scharpf, 1984 a; Christl and Potmesil, 1984). In Austria, selective labour market policy was much less important than it was in Sweden, whereas economic policy as a whole was of major importance in the effort to maintain low levels of unemployment (Schmid, 1982; Butschek, 1982). In yet another respect Austria is unique among these countries, insofar as its restrictive foreign labour policy carried a larger part of the burden involved in the management of the economic crisis. In the late 1970's the control of foreign labour supply reduced the potential rate of unemployment by some 2 percentage points (Butschek, 1982; Mißlbeck, 1983), and the data on the early 1980's support the view that the impact of Austrian foreign labour policy was even larger. With full support from the Austrian unions, the foreign labour force was reduced from 8.7 per cent to 5.3 per cent (measured as a percentage of total employment) (Christl and Potmesil, 1984; Bauböck and Wimmer, 1984; Frey, 1984).

Two characteristics of the Norwegian full employment policy deserve to be mentioned separately. One of them concerns the long tradition of, and the expertise in, global demand management and fine-tuning the economy. The Norwegian authorities have continued to attach the highest priority to the maintenance of full employment and have been more or less successful in offsetting recessionary tendencies emanating from abroad by sharply raising levels of domestic demand, expanding employment opportunities in the public sector and introducing or extending flexible industrial policy measures. Furthermore, high priority was also attached to regional policy in general and, in particular, to the maintenance of a protectionist shelter for rural areas and regions with a stronger primary sector. Norwegian regional policy and the subsidies that were given to the primary sector have contributed to the maintenance of high levels of employment in this sector, relative to the very high level of wealth of the Norwegian economy as a whole. Agriculture absorbs more than 8 per cent of the civilian labour force. The relatively high proportion of workers in agriculture means that a large segment of the labour force is practically immune to unemployment. In this respect, Norway resembles Switzerland. Both countries thus dispose of a safety-valve in periods of economic recession. This safety-valve is largely absent in many other OECD-nations, such as West Germany, the Benelux states, and the US, where employment in agriculture has dramatically declined during the post World War II period.

5. The "Conservative-Reformist" Road to Full Employment

5.1. The Japanese Case

When the Japanese economy entered the recessions of the 1970's, the effort to maintain high levels of employment were facilitated by a number of structural characteristics of the economy, such as less heavy external dependence and high levels of wage differentiation and wage flexibility. In addition, the distribution of the labour force by sectors proved conducive to the maintenance of high employment levels, insofar as a relatively large proportion of the labour force was employed in the primary sector¹⁰ and in the service sector, while the proportion of employment in industrial sectors was at about the average level of OECD economies. However, three other factors clearly impeded the effort to control unemployment: the existence of crisis industries (such as shipbuilding), heavy dependence on oil-imports and relatively high rates of growth in labour supply throughout the 1970's and early 1980's. However, the essential point is that relative to other full employment countries, the structural characteristics of the Japanese economy have been somewhat more conducive to the control of unemployment (see Table 1).

An explanation in terms of economic growth rates contributes to an understanding of low unemployment rates in Japan. Growth in real GDP continued to be higher in Japan than elsewhere in the OECD area, and this facilitated growth in total employment. However, higher rates of economic growth do not fully account for high employment levels in Japan. Relative to the extraordinarily high levels of growth in the 1950's and 1960's, "a striking feature of Japanese labour market performance in the last ten years has been its apparent relative immunity to weaker growth of the economy" (OECD [1983] *Economic Survey: Japan*: 36).

It is my contention that an explanation of the relative immunity of the labour market to weaker growth must largely be premised on a hypothesis which focuses attention on the political process in Japan. While full employment in Austria, Norway and Sweden is based on the ideological and political power of the labour movement and its corporatist and state interventionist correlates, full employment in Japan rests on a different configuration of political forces. In contrast to the "liberal corporatism" (Lehmbruch, 1977) of Austrian and Swedish origin, Japan's capitalism involves a weak, and strongly decentralised trade union movement and a strong bilateral relationship between the state bureaucracy and the business community (Pempel, 1982; Bergmann, 1983). As far as employment is concerned, we are confronted with a dual economy and, in the modern sector of the economy, with the impact of semi- and pre-capitalist rules of conduct for political and economic

¹⁰ Although it needs to be added that the total employment in the Japanese primary sector has decreased during the last decade. Nevertheless, the degree of employment in this sector remains quite considerable.

leadership, which have been transmitted from the past and have been successfully amalgamated with a "creative conservatism" (Pempel, 1982) in policy-making. Determined efforts to promote economic growth at all costs, including the devaluation of the Yen in the mid-1970's, and incentives given to reconversion of structurally depressed industries coincide with the commitment to maintain high levels of employment on the part of government and business community. In the 1970's, Japanese authorities were willing to go along with the most advanced European practice in maintaining high levels of employment by means of expansionary fiscal policy, increases in public indebtedness, selective aid to industry and individual firms and selective labour market policy, but drew the line at expanding public sector employment and assistance to depressed areas and industries.

High levels of employment in Japan have also been due to a variety of other factors (see the OECD *Economic Surveys* on Japan from 1979 to 1983 and OECD, 1984 c). First, the buoyant recruitment in the private service sector contributed to the increase in total employment. Second, labour hoarding practices, lifetime employment systems, cuts in overtime work and extensive reallocation of workers within broad internal labour markets of larger companies, tended to stabilise employment, at least in the short-run. Thus, for example, the Japanese economy was estimated to retain a surprising amount of excess labour (some 6 per cent of the total labour force) at the expense of productivity (Taira, 1983). Third, flexible adjustments of income to productivity levels, the acceptance of mobility requirements and the willingness of wage earners to forego wage increases or even take wage cuts have greatly facilitated the rapid adjustment of the Japanese economy. So too has the existence of a substantial sector of non-regular workers (part-time, temporary and seasonal workers—mostly women and retired older workers) who tend not to be considered as unemployed (Taira, 1983). It is here that we are confronted with a fourth cluster of factors which has contributed to the relatively good labour market performance of the Japanese economy. The positive adjustment of the economy (OECD, 1984 c), itself largely due to the combination of active demand management and supply-oriented policies on the part of the government and also to dynamic market forces, took place through five main channels: excess capacity in structurally depressed industries was eliminated, whereas support was given to energy-efficient industries with advanced technological equipment and to small and medium-sized firms which were prepared for, and capable of, modernisation and rationalisation; production costs were reduced and efforts to develop alternative energy sources were strongly and successfully encouraged in order to reduce oil vulnerability under which the Japanese economy had suffered badly during the first oil price shock (OECD (1981) *Economic Survey: Japan*: 44–53; OECD, 1984 c).

Last, but not least, it should be emphasised that the Japanese unemployment statistics tend to underestimate the underlying weakness in the Japanese

labour market. Thus, for example, unemployment statistics do not fully indicate the existence of a large army of discouraged workers. Moreover, they also do not sufficiently mirror the high cyclical sensitivity of labour supply (OECD (1953) *Economic Survey: Japan*: 37; Taira, 1983; Sorrentino, 1984). According to estimates, the rates of unemployment among female workers are not at some 2 per cent as officially stated, but really almost twice as high (Taira, 1983; Sorrentino, 1984).

The Japanese policy of full employment (or near full employment) differs from the "labour-dominated" road to full employment of Scandinavian or Austrian origins in three respects. First, there is a wide range of difference in the underlying political substructure of full employment policy. Second, in contrast to the "labour dominated" road to full employment, which rests largely on a rapid expansion of employment in the public sector, the Japanese full employment miracle is based almost exclusively on the rapid expansion of employment in the market sector. Buoyant recruitment of labour in the market sector is partly attributable to "private labour market policy" on the part of large firms, but it mainly reflects the considerable support which the market economy received from public policy. Third, the low open unemployment figures tend to hide the underlying relative weakness of the Japanese labour market. The Japanese labour market performance, defined in terms of conventional labour market indicators, is somewhat weaker than the performance of the Austrian, Norwegian and Swedish labour markets. Thus, for example, the growth in total employment and the growth in labour force participation ratios in Japan were less strong than in Sweden and Norway. In overall terms, the Japanese case of full employment, or low open unemployment, would thus seem to be characterised by features which partly resemble the "Swiss Road to Full Employment" (Schmidt, 1985).

5.2. The Swiss Road to Full Employment¹¹

Measured by levels of open unemployment, the Swiss labour market record is exceptionally good. There is no other country in the Western world where the rate of unemployment is as low as in Switzerland. Since the end of the 1930's, rates of unemployment have been virtually close to zero (BIGA 1972). It was not until 1984 that the rate of unemployment reached an all-time high of 1.0 per cent. The Swiss full employment record does not readily lend itself to the explanations and generalisations that have been prevalent in the literature on political and economic determinants of unemployment or full employment to date. The trade unions and the Social Democratic Party are weak, but wages are high. Although wages are high, the rate of inflation is low. Although price increases are exceptionally moderate, and monetary policy is restrictive (Jaeger, 1983), and despite the absence of fully developed de-

¹¹ The following section rests upon a full-length study by the author (Schmidt, 1985).

mand management, full employment is among the most conspicuous characteristics of the Swiss labour market. Moreover, full employment in Switzerland is not amenable to a structural explanation. Although a number of factors, such as the absence of large-scale basic industries with heavy adjustment problems, proved themselves to be a major asset in Swiss economic policy, efforts to maintain full employment were confronted with major structural problems, such as the heavy external dependence of the Swiss economy, concentration of employment in the industrial sector, high wage levels and major adjustment problems for the clock and jewellery industry and the construction and building industries. All these factors exerted considerable pressure on the labour market. In addition, the dramatic decrease in GDP volume in the mid-1970's, which was largely due to an extremely tough stabilisation policy (Prader, 1981), contributed to the economic *malaise*. However, the rate of unemployment remained at an exceptionally low level.

Why is there full employment in Switzerland? According to a widely shared view, the major reason for the Swiss full employment miracle is that there is a strong, viable and vigorous market economy and a low degree of state intervention, insofar as the Keynesian and welfare functions of the state are more muted than in many other developed nations. According to another view, there is full employment in Switzerland because the foreign labour force acts as a reserve army of the labour market. Neither view is incompatible with the facts. However, the explanations they seek to offer are not sufficient to account for the "Swiss Road to Full Employment" (Schmidt, 1985).

In Switzerland the meaning of full employment varies according to the economic climate. In periods of economic recession, full employment depends on a fine balance between the rapid decline in the demand for labour and a rapid downward adjustment in the supply of labour. This contrasts sharply with the labour market experience of other full employment countries. For example, in Sweden, Norway and Austria low rates of unemployment have coexisted with an increase in the total number of jobs. In periods of economic recession, the Swiss full employment policy explicitly focuses on the maintenance of job security for nationals. The *prioritäre Schutz für einheimische Arbeitskräfte* is the major guideline for policy makers (BIGA, 1980). *Einheimische Arbeitskräfte* (nationals) consist of the Swiss male labour force and, albeit to a somewhat lesser extent, female employees of Swiss nationality. The concept of nationals also includes foreign workers with a permanent residence permit (*Niedergelassene*) and it must be emphasised that the total number of foreign workers with a permanent residence permit has greatly increased during the recession of the 1970's. The strategy of giving priority to the job security of nationals is thus conducted mainly at the expense of jobs that are held by foreign workers without a permanent residence permit. It is to the jobs that are held by workers with a limited residence and work permit (*Jahresaufenthalter*), frontier crossers (*Grenzgänger*) and seasonal workers (*Saisonniers*) that the major burdens of economic recession are shifted,

mainly via the control of immigration (Tuchtfeldt, 1978; BIGA, 1982; Lewin, 1983).

The Swiss authorities and Swiss entrepreneurs have made full use of their discretionary power in foreign labour policy. In the economic recession from 1974 to 1976, some two thirds of the total number of jobs that were lost had been held by foreign workers. The distribution of the costs that were involved in the recession of the early 1980's was somewhat different. It continued to place the foreign labour force at a disadvantage, but the distribution of the costs involved was less unequal. In the recession of the early 1980's, some 40 per cent of the jobs lost were held by foreign workers, whereas some 60 per cent were held by Swiss workers (although the recession of the early 1980's was much less severe than the crisis of the mid-1970's). This partly reflects more limited room for manoeuvre in respect of foreign labour policy, which was in turn mainly due to unintended side-effects of the compulsory unemployment insurance scheme which was introduced in 1977. Among the unintended effects of the latter reform project, the most important was the protection given to unemployed foreign workers and the possibility for firms to shed Swiss labour more easily than previously (when unemployment insurance was largely absent). Nevertheless, it is fair to conclude that the control of foreign labour supply is among the most important instruments of a full employment policy for nationals. For example, according to conservative estimates, foreign labour policy reduced the potential rate of unemployment by at least 4.2 percentage points.

Another factor that is significant for the rapid downward adjustment of labour supply is the behaviour of politically and economically weak labour market groups of Swiss nationality. Some thirty five per cent of the jobs that were lost in the mid-1970's had been held by Swiss female workers and older workers. Both groups were among the first to be either dismissed or, alternatively, given early retirement. As far as the dismissal of workers is concerned, Swiss entrepreneurs have considerable room for manoeuvre. This is basically due to the weak legal protection of job security, and it also mirrors the fact that the retreat of female workers to the hidden reserve army of the labour market is regarded as politically, socially and culturally acceptable.

The key to an understanding of Swiss full employment policy thus rests on the rapid downward adjustment of labour supply (Lewin, 1983). The control of foreign labour supply, the high cyclical sensitivity of female employment and the dismissal of older workers account for some two thirds of the full employment record in the recession of the mid-1970's and it helps to explain some 50 per cent of the maintenance of full employment in the recession of the early 1980's. In the 1970's unemployment statistics did not mirror the rapid and major decrease in total employment. This was mainly due to the absence of a compulsory unemployment insurance fund. Thus, for example, when the Swiss economy was struck by the recession of the mid-1970's, no more than 22 per cent of the labour force were members of voluntary unem-

ployment insurance schemes. In this respect, the introduction of a compulsory unemployment insurance scheme in 1977 resulted in a dramatic change in the position of wage-earners in Switzerland.

As far as the variation which is not explained by the rapid adjustment of labour supply is concerned, it is necessary to explore the impact of labour market and employment policy. In contrast to conventional wisdom, according to which the Swiss policy process responds rather slowly to new demands and threats that are posed by changes in the economy and in the society as a whole, Swiss politicians were quick and innovatory in their response to the economic *malaise* of the 1970's. One of the major instruments that was utilised to combat unemployment was short-time work allowances. For example, in 1975 short-time work reduced the potential rate of unemployment by some 0.5 to 0.7 percentage points. The Swiss labour market politicians also attempted to expand further education. Support was also given to measures that were meant to facilitate geographical mobility and, above all, occupational mobility. However, the data that are available would seem to indicate that this area of labour market policy has not been fully utilised. Its impact on the reduction of the potential rate of unemployment seems to have been small, with the exception of measures that were to assist young workers. Young workers are among the major target groups of labour market policy measures by both government and employers. A wider range of measures that were taken by private and public actors, such as reforms of the apprenticeship systems, the application of temporary settling-in allowances and the establishment of training or retraining courses for various groups of apprentices were extensively used. These factors, and also the responsibility that Swiss entrepreneurs feel *vis-à-vis* the issue of youth employment, are among the major reasons for the exceptionally low level of youth unemployment in Switzerland. A third class of labour market policy measures was targeted to economically weak regions, such as the mountain areas and economically mono-structural regions, in particular regions with clock and jewellery industries. According to recent evaluations of regional policy measures (see for example *Bundesrat*, 1983 and Burkhalter, 1984), the various programmes had significant effects on employment. Moreover, the protectionist umbrella that is placed over the agricultural sector and the impact on employment of traditional regional policies, which are geared to shelter the rural areas, proved themselves to be of importance in the effort to maintain job security for nationals.

In contrast to the emphasis that is placed on labour supply oriented labour market policy, the role of demand-oriented measures is relatively weak. This is due to a variety of economic and political factors. Firstly, Swiss economic policy makers are committed to a pro-market ideology. Keynesian demand management is not at all to their liking. This policy stance is broadly in accordance with the distribution of power in Switzerland, where the non-socialist, liberal bourgeois tendency is dominant (Katzenstein, 1980; Kriesi,

1980). Secondly, the high degree of openness that characterises the Swiss economy, and the important role that the Swiss banks and the Swiss currency play on the world market, require a policy that attaches the highest priority to control of inflationary pressure. Consequently, monetary policy is, in general, very restrictive in character (Jaeger, 1983). Priority is given to maintaining a high level of relative price stability. Under these circumstances, and in conjunction with the predominance of a liberal and market-oriented economic philosophy, the room for manoeuvre in respect of fiscal policy is extremely confined. Fiscal policy thus tends to adopt a stance that is either neutral or moderately restrictive. A third characteristic deserves to be mentioned in this context. The Swiss public frequently votes against fiscal policy proposals which the Federal Council puts on the political agenda by means of referenda designed to widen its freedom of manoeuvre in economic policy making. Under these circumstances, the role that is given to fiscal policy is that of a "parsimonious housekeeper" (Wittmann, 1979).

In an emergency, the role of the parsimonious housekeeper does not preclude the adoption of cautious demand management measures. Demand management programmes were delivered in 1975/76 and in the early 1980's. Evaluations of the 1975/76 programmes found that they had significant effects on employment. Thus, the economic advisory group has argued that demand management reduced the potential rate of unemployment by about 2 percentage points. Moreover, muted as the expansion of the public sector was, the slow growth in public sector employment contributed to the reduction of potential unemployment levels by one percentage point. Ironically, Swiss economic policy makers also unintentionally introduced what amounted to a fully-fledged Keynesian demand management policy in the late 1970's and early 1980's. What happened was as follows. Collective bargaining in Switzerland in the 1970's and 1980's was in general geared towards maintaining the level of real wages. Its major guideline consisted of the consumer price index which is computed by the Federal Ministry of Industry, Trade and Labour. A mistake in the method of computation resulted in a biased estimate of the rate of inflation. In the early 1980's the true rate of inflation was 2 percentage points lower than the inflation rate as estimated by the official figures. Consequently, wages that were paid in the period between 1978 and 1981 were too high, relative to the true change in price levels. The result was that of an extra payment of some 5 to 10 billion Swiss Franks. This is equal to some 1 to 2 per cent of the wage bill. This extra payment effected a demand push which was stronger than the one that had been associated with the official demand management programmes. The irony of this story is that, although unintentionally delivered, the demand push came at the right time and at about the right place.

As far as the international comparative study of unemployment is concerned, the Swiss case does not readily lend itself to the generalisations that have governed the literature so far. It clearly contradicts the view that full

employment is first and foremost an outcome of a Social Democratic government. Furthermore, it is also at variance with a power resource model according to which full employment depends upon the presence of strong trade unions, corporatist arrangements and weak and divided bourgeois political tendencies. Moreover, the Swiss case cannot be explained by the structure of decision-making processes, as *Fritz Scharpf* has claimed (1984 a and 1984 c). According to this view, full employment is more likely to be achieved in nations in which the decision-making structure is integrated and in which moderate incomes policy, expansive fiscal policy and monetary policy are strongly co-ordinated.

As far as the politics of full employment is concerned, Switzerland is a deviant case. In a sense, the Swiss case of full employment resembles the full employment strategy chosen by the Japanese authorities. Furthermore, the priority which the Swiss authorities attach to the job security of nationals finds its historical parallel in the strategy of "protecting national labour" (*Schutz der nationalen Arbeit*) which was adopted in the German Empire.

Despite the existence of parallels with other countries, the Swiss road to full employment is unique. It is a way of achieving employment which is based on a national liberal policy and a quasi-corporatist, conservative-reformist pattern of social partnership. Its base consists of five different pillars. The first pillar, but not necessarily the most important one, is a strong market economy and a limited role of the state, insofar as welfare state and the Keynesian demand management functions of the state are more muted than elsewhere. The second pillar consists of an active, *dirigiste* and interventionist role of the state in sectors that are of strategic importance in the effort to maintain job security for nationals. Foreign labour policy and the protectionist umbrella sheltering rural areas are among the major examples of this. The third pillar of Swiss full employment is the rapid retreat of female Swiss workers from the labour market in periods of recession. The fourth pillar is constituted by the pattern of social partnership that characterises the relationship between Swiss labour and capital. Finally, the fifth pillar consists of the norms and the style of conflict resolution that guide the decision-making process. The elites attempt to maintain the high level of consensus that has emerged in Switzerland (Deutsch, 1976); they make considerable efforts to integrate a labour movement which is politically rather weak; they employ consociational techniques of compromise building and as soon as a consensus on pending problems and issues has emerged they respond relatively quickly, efficiently and effectively, given the constraints that the institutional characteristics of the Swiss political systems impose on policy-making (Kriesi, 1980; Lehner, 1984).

Although the Swiss public authorities have restricted full employment in periods of economic recession to nationals, the policy stance that was adopted in Switzerland differs from the course of action that was chosen in many other OECD-countries. The conscious effort to maintain full employ-

ment (or near full employment) on the national labour market sharply separates Switzerland from a large number of other OECD-countries where the economic crisis of the 1970's and 1980's had a fairly direct and strong impact on the rate of unemployment.

6. Two Roads to Mass Unemployment

A wide variety of structural-economic, social and political factors have been conducive to the emergence of the mass unemployment which characterises, albeit in different degrees, the majority of OECD-nations in the 1970's and early 1980's. In general it can be argued that mass unemployment has depended upon two very different processes of policy formation: on the one hand, a pluralist-sectoralist mode of regulating the economy softened by extensive welfare state provision, and on the other, a pluralist mode of regulation coexisting with a more limited degree of welfare statism. Whereas the latter road to mass unemployment rests upon a politico-economic fabric of society which is dominated by bourgeois tendencies, the pluralist-sectoralist road to mass unemployment is associated with a wider range of variation in power distribution between capital and labour and between political parties, ranging from countries which are governed by centre-left coalitions to countries in which centre-right coalitions are in power. Although mass unemployment has prevailed in both groups of nations, the job creating capacities of the public sector and the private market economy have differed to a considerable extent. In the first group of nations, characterised by centre, centre-right or centre-left coalition governments, the public sector tends to be the major job creator, while employment growth in the market sector tends to be weak.¹² However, in these nations the expansion of employment in the public sector remains moderate, mainly due to effective political opposition to a more active role of the state, and is not sufficiently strong to absorb excess labour.

In contrast to this, the private market economy is the major job creator in the pluralist countries, while the growth in public sector employment in these countries remains very weak. On balance, within this latter group of countries, buoyant recruitment of labour occurs in the private sector, and in particular in the private service sector, but growth in total employment is not sufficiently strong to absorb total labour supply. In both groups of nations, the overall outcome, as reflected by rates of unemployment, is similar: the level of unemployment is high.

A focus on the Federal Republic of Germany and the United States of America offers the opportunity to discuss each of the roads to mass unemployment in greater detail.

¹² With the exception of Italy, see Figure 3.

6.1. Mass Unemployment in West Germany

When the German economy entered the period of economic crisis in the 1970's, a variety of structural factors amplified the recession-related pressures on the labour market. These factors include the heavy external dependence of the German economy; the presence of major industries with heavy adjustment problems (in particular in the steel and coal industries and in the shipyards); a relatively high proportion of employment in the industrial sector and, conversely, a smaller primary sector and a smaller service sector, and last, but not least, relatively low levels of wage differentiation and wage flexibility.

These factors contributed to the emergence of what must be regarded as representing one of the most unsatisfactory labour market performances in the OECD area: rates of unemployment increased up to a level of some 4 to 5 per cent in the 1970's and to 9 to 10 per cent in the early 1980's, and total employment decreased between 1973/74 and 1982 by 4 per cent (whereas total employment figures have in fact increased in the majority of the OECD-countries).

To some extent, this unsatisfactory labour market performance can be explained in economic-structural terms. However, a few caveats need to be added. First, labour supply has grown less rapidly in Germany than in many other nations, mainly due to a wide variety of measures that were effectively employed to control labour supply. Second, structures present a problem to the labour market, but they do not determine a particular solution. Thus, for example, a comparison between Germany and the full employment nations, such as Sweden, Norway and Austria, reveals that policy responses to similar structural problems, such as external dependency and crisis-industries, have varied considerably and so have the labour market outcomes that were adopted. Third, it needs to be emphasised that high levels of unemployment in Germany are at least partly attributable to the restrictive stance adopted in respect of monetary policy. Economic policy in Germany continued to attach the highest priority to the control of inflationary pressure. Assuming that the trade unions' wage policy would get out of hand under conditions of full employment and higher growth in money supply, and premising its activity on a monetarist philosophy, the German *Bundesbank* adopted a restrictive monetary policy stance (Scharpf, 1984a and 1984c). While monetary policy proved successful in maintaining low levels of inflation, it had adverse effects on the demand for labour.

Thus, in addition to structural factors, an understanding of unemployment in Germany requires an explanation in terms of policy and politics. The high priority that was accorded to the maintenance of price stability mirrors concerns about distributive struggles, competitiveness and profitability, but it is also attributable to the general public's aversion to inflation, which is largely due to the traumatic experience of hyperinflation in the 1920's and in

the 1940's. Thus, the maintenance of high levels of price stability proved itself to be a politico-economic constant which circumscribed the room for manoeuvre available to whatever government has been in office.

In addition, further institutional characteristics of the policy process played a major role. The costs and benefits of mass unemployment or, alternatively, full employment-oriented policies, are unequally distributed among the three tiers of government, the Federal Employment Institute and the Social Security Funds. In consequence, policy-makers tended to pursue "egoistic" decisions, resulting in a half-hearted policy response to the labour market crisis. Furthermore, and unlike Austria, to take just one example, the degree of concertation between fiscal, monetary and incomes policy was low, while monetary policy shifted the responsibility for maintaining employment and regaining full employment almost entirely to the trade unions' wage policy. Finally, a potential move towards a full employment-oriented policy was a matter of controversial debate in the Social Democratic-Liberal coalition in power until 1982, and was ultimately blocked by it. This reflected deep-seated conflicts of basic economic philosophy between the coalition partners. The FDP had always regarded itself as the guarantor of the social market economy and was thus strongly opposed to any plan which involved an increase in the level of state intervention. The new coalition government, composed of the Christian Democrats and the Liberals, which came into power in 1982, attached even higher priority to the consolidation of public finances and, in consequence, pursued a restrictive fiscal policy, with adverse effects on unemployment.

Furthermore, two other potential avenues for enhancing employment tended to be blocked, largely on political grounds. Thus the growth in employment in the public sector tended to be low compared to other nations that were governed by centre-left or left governments, partly due to the confining restrictions that were imposed by economic policy, but also due to the political parties' aversion to a more active role of the state in employment policy.

Moreover, measures to reduce and redistribute working time were met by strong opposition mainly from employers, but also from the trade unions, at least insofar as job-sharing models and a greater flexibility in working time arrangements were concerned.

Thus the freedom of action to pursue a full employment oriented policy was severely restricted. Consequently, the major impact that selective labour market policy measures and efforts to control labour supply had on the labour market was the reduction of the potential rate of unemployment, while the maintenance of full employment was clearly beyond the capacity of labour market policy. With respect to reduction of the potential rate of unemployment, labour market policy was not unsuccessful. Thus, for example, a wide variety of active labour market policy measures partly compensated for the increase in unemployment figures. Short-time work arrangements, re-

training programmes and special measures in favour of hard-to-place job seekers and economically weak regions are estimated to have reduced the level of potential unemployment by some 1 to 1.5 percentage points (Schmid, 1982; Schmid, 1985; Webber and Nass, 1984). In addition, the reduction in total employment of foreign workers from 2.6 million in 1973 to 1.68 million in 1983 has substantially improved the statistics of open unemployment (*Die Zeit*, January 13th, 1984, p. 8; Frey, 1984). Early retirement schemes, which were introduced on social policy grounds under the first SPD/FDP government in 1972, also proved themselves to be one of the major, and highly welcome, instruments for combatting unemployment (Casey and Bruche, 1983). Finally, the expansion of the educational sector and, in particular, the increase in the total number of university students, tended to protect a larger proportion of younger people from unemployment.

West German economic policy succeeded in maintaining a relatively high level of price stability, and was not unsuccessful in the promotion of sound economic development. However, the labour market and employment policy record has remained unsatisfactory. To a large extent, the costs that were associated with employment losses and increasing levels of open and hidden unemployment were softened by means of welfare state provision, such as unemployment insurance benefits and welfare assistance programmes. It must, however, be emphasised that broad cuts in the social wage—a policy which was introduced by the SPD/FDP government and was carried further by the CDU/CSU/FDP coalition—lowered the level of protection that was given to economically and socially weak groups in general, and to the unemployed and welfare recipients (*Sozialhilfeempfänger*) in particular (Zacher, 1984; Hickel, 1984; Michalsky, 1985). By international and historical comparison, it is nevertheless fair to conclude that the West German case of mass unemployment (like the Dutch one) is indicative of a policy of mass unemployment which is softened by welfare state provision. One might thus argue that, in countries of this kind, the moderate strength of organised labour and social Democratic parties, and their opposition to mass unemployment, was partly bought-off by public income maintenance expenditures (see, for example Czada, 1983, and the case studies in Esser, 1982, and Esser *et al.*, 1983).

In political terms, the West German road to mass unemployment may thus be regarded as representing a peculiar distribution of power between the major political tendencies. In overall terms, the distribution of power is somewhat biased against labour and the Social Democratic party. However, trade unions and Social Democracy have been strong enough successfully to demand a higher social wage, and it should be added that Christian Democratic governments have been willing to go along with advanced welfare state efforts, so long as the whole economy was in equilibrium. However, on political grounds, the line was drawn at a rapid expansion of public sector employment along Swedish lines and also at the effort radically to reduce and redistribute working time. Trade unions and the Social Democratic party are too

strong to allow employment practices along Japanese and North American lines, which would entail a far higher level of wage flexibility and mobility than is politically and culturally acceptable in Germany. However, trade unions and the Social Democratic party have not been strong enough to establish a real "balance of class forces" in the economy and in the policy process. Thus there was a lack of policy networks capable of absorbing the employment losses that were generated in the private sector. In political terms, mass unemployment in Germany is thus largely accounted for by a balance of political power which comprises both the achievements and the relative weakness of the labour movement.

6.2. The United States

Whereas high levels of open unemployment and high welfare spending characterised one group of mass unemployment countries, a deep labour market crisis, significantly lower levels of welfare statism, and a policy process dominated by non-socialist tendencies have been characteristic of another group, with the United States and Canada to be counted among the major examples. In these countries, rates of unemployment were high and the level of welfare state provision moderate or low in comparative terms.

Why there has been more unemployment in the United States than in most West European countries has long been debated (Myers and Chandler, 1962; U. S. Department of Labor, 1978; Kaufmann, 1978; Norwood, 1983). Many of the explanations offered have pointed to a variety of factors, such as the rapid increase in the labour force, the absence of significant cyclical movements in foreign labour supply, a higher degree of mobility and fragility of job attachment and, consequently, a higher degree of search unemployment, and "a tolerance of unemployment that verges on the morbid" (Myers, 1975, 1251). There are major differences between the labour market in the United States and in Western Europe and Japan concerning job security and job continuity. The threat of lay offs in Europe and Japan is considerably diminished by powerful legal and social deterrents. In contrast to this, the relative absence of job security and job continuity arrangements in the United States may raise the unemployment rate (Kaufmann, 1978).

This, to a large extent, reflects different cultural patterns and different political-institutional structures. The labour movements of the United States and Canada are relatively weak, while the non-socialist tendency virtually occupies an economically and politically hegemonic position. A highly fragmented and decentralised political process, the lack of nationwide co-operative relationships between employers, trade unions and the state, and the dominance of the market-oriented ideology are factors that are conducive to the preponderance of a mode of regulating the economy that is weakly co-ordinated and pluralist in character (Lindberg, 1982 a, 1984; Forster, 1985). Thus the combination of weak conflict-resolution mechanisms, a low degree

of welfare statism, a lack of policy co-ordination across policy areas, and the dominance of a non-solidaristic ideology creates a situation in which there is considerable room to shift the burden of the economic process over to labour. Under these circumstances, rates of unemployment tend to be high, even if economic growth is satisfactory. In periods of economic crisis the rate of unemployment tends to respond quickly and strongly to reduced growth rates and, other things being equal, will be pushed upwards. In the post-1973 period there were further factors which encouraged the upward trend in levels of unemployment. Among these factors, the strong increase in labour supply deserves first mention, but weaknesses in economic structure, such as the presence of industries with heavy adjustment problems (such as the steel and automobile industries), have also played a major role.

However, it should be stressed that structural factors alone do not explain rates of unemployment. With the exception of high growth rates in labour supply and economic decline in some of the industrial sectors, the United States' economy entered the recessions of the 1970's and 1980's with structural characteristics which made it to a certain extent less vulnerable to employment losses than some West European full employment countries.

By any standards, the US economy is less dependent on external factors than any other OECD-nation, and is less vulnerable to shocks than nations in which export-dependency as a percentage of GDP is at a level of 25 to 30 per cent. Second, total employment in the U. S. has been concentrated in the service sector, while the "employment content" of the industrial sector has been relatively small. Consequently, the distribution of employment by sector was less vulnerable to employment losses that were generated by labour-substituting capital investment. Third, the weakness of the labour movement and the relative absence of job security and job attachment have coexisted with high levels of wage differentiation and high levels of wage flexibility. The latter factors, in combination with low productivity growth, were to play a major role in what is now commonly regarded as the "employment miracle" of the United States.

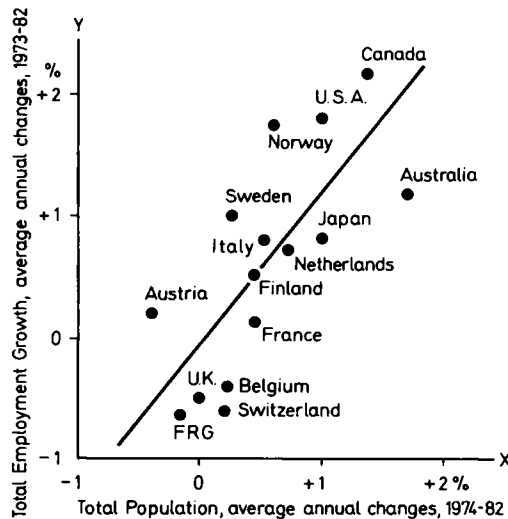
The U. S. (and also Australia, Canada and Italy) have been among the OECD-countries in which an increase in open unemployment ran parallel to a vigorous growth of total employment. Whereas total employment growth in the full employment countries is basically accounted for by active labour market policy and full employment policies on the part of the government, the strong increase in total employment in the United States merits a different explanation, albeit not incompatible with the political hypothesis advanced above.

Total employment growth in the United States has largely been concentrated in the service sector, in particular in services to producers, certain welfare services such as health, some distribution services (hotels and catering) and in retail trading. Part of the explanation of high total employment growth is to be found in differences in population growth. Statistically, the

most important single explanatory variable of cross-national differences in employment growth consists of demographic change. The change in total population co-varies strongly with the change in total employment in the OECD countries between 1973 and 1982. Total employment growth was stronger (weaker) the higher (lower) was the growth rate of the total population. There is a strong correlation between the two indicators, ($r = 0.69$ for the period between 1973 and 1979, and $r = 0.55$ for 1979–1982). There are substantive arguments to explain this close statistical relationship. Within the universe of the rich capitalist nations a higher growth in the total population in general tends to generate additional demand for goods and services (and employment in the process of producing these goods and services) and, at least as far as the service sector is concerned, it contributes to the emergence of a virtuous circle of demand, growth and employment. This is one of the reasons why the United States (and also Canada) rightly pride themselves on having higher rates of growth in total employment (see Figure 5).

Changes in total population of course do not fully account for differential rates of growth in employment. The case of the United States can be taken as

Figure 5. *Changes in Total Employment and in Total Population, 1974–1982*



$$r = .75$$

$$Y' = -.1 + 1.316 (X)$$

Source: Data was calculated from OECD 1984 d

an example. Throughout the whole period under investigation changes in total population were high. Total employment figures were strongly on the increase between 1976 and 1979, and it is probably more than mere coincidence that fiscal policy was expansionary in this period. In contrast to this, and despite continuous population growth, the percentage changes in total employment in 1980 and 1981 were relatively low. Moreover, in 1982 total employment declined by 0.8 per cent. This is indicative of the extent to which a purely demographic explanation of employment changes fails to specify the exact nature of the links between demographic changes, economic behaviour, policy and growth rates in total employment. A more fully developed explanation would require the construction of an integrated model, comprising demographic, economic and political factors, the presentation of which is beyond the scope of this paper. However, a few preliminary hypotheses on the U. S. case would seem to be in order (see Norwood, 1983; OECD, 1984 b; DIW, 1984 b and 1984 c; Sengenberger, 1984; Winkler-Büttner, 1984).

As far as the importance of political background factors is concerned, it needs to be stressed that a number of features of the political configuration in the U. S. are conducive to higher rates of growth in total employment. Among the political background factors the political and economic hegemony of the non-socialist tendency, the lack of a powerful and centralised socialist party and trade union movement, and the absence of a fully developed welfare state are the most important. Under these conditions the level of employment is more likely to increase rapidly. This is basically due to the effects that weak welfare state institutions and weak and decentralised unions have on wages. Thus, for example, non-wage-labour costs in the U. S. are significantly lower than in most European countries and real wage flexibility and the degree of wage differentiation are, in general, higher. At the same time, the absence of job security and job continuity, plus the willingness on the part of the labour force in general and on the part of the illegal immigrants in particular to accept mobility requirements are among the factors that favour the rapid absorption of low-skilled and/or low paid labour, the supply of which has been rising faster than in Europe. Furthermore, the very consequences that the labour movement's weakness and the relative absence of a developed welfare state have had on wages also tend to slow down the process of substitution of capital for labour and to promote employment growth in labour intensive sectors, such as the service sector.

The U. S. "employment miracle" is also influenced by the stronger support that subsidies and depreciation allowances have given to investment in general and to the establishment of a larger number of new firms in particular. Moreover, it was pointed out above that the sheer momentum of the rapid increase in total population has strengthened the demand for services and thus contributed to the establishment of a virtuous circle of growth and employment, at least as far as the service sector is concerned. Finally, it should be emphasised that fiscal policy has frequently strengthened the volume of de-

mand, although the restrictive stance of monetary policy since the late 1970's undoubtedly tended to counteract the expansionary tendencies that were manifested in fiscal policy. Fiscal policy in the U. S. had created a strong demand and employment push in the period between 1975 and 1979, albeit at the expense of higher rates of inflation. In addition, the huge deficits that were associated with massive tax cuts, the strong armaments drive under the Reagan administration and the tax cuts in themselves had a major impact both on economic growth and employment growth (DIW, 1984 b and 1984 c).

Rapid employment growth in the U. S. can thus largely be accounted for by an explanation which rests on the interaction of a variety of demographic, politico-economic and, most importantly, genuinely political factors. Thus, for example, it was not the strong growth in total population *per se* which accounted for the rapid growth of employment in the U. S. The impact of total population growth was so strong because the political characteristics of the American labour market, such as weak working class organisation, strong non-socialist tendencies, and the overall stance of the economic policy allowed it to be so. It is in this interaction between non-political variables and factors that are genuinely political in character that an explanation must be sought of why total employment growth rates differed as much as they did.

However it needs to be emphasised that the rapid increase in the number of jobs in the United States (and also in Canada and Italy) has not been sufficiently large to absorb the increase in the total number of job seekers. Thus rates of unemployment continue to be high, and are, in fact, significantly higher than they were in the period before the world wide economic recession of the 1970's and 1980's began. At least as far as the North American countries are concerned, it would seem plausible to argue that the dominant position that has been held by the non-socialist tendency in both the economy and in the political system is responsible for the existence of an upper ceiling in employment. Full employment would not be at all to the liking of the dominant ideological coalition. Therefore economic policy is geared towards the achievement of different goals to those in most other OECD-countries. High priority is attached to the maintenance or generation of higher growth in output and employment (and a level of relative price stability) and high priority is also given to maintenance of a sufficiently high rate of unemployment.

7. Policy-Making in Periods of Economic Crisis: The Recessions of the 1970's and 1980's in Comparative Perspective

Unsatisfactory as has been economic performance in general and labour market performance in particular over the last decade, it should be emphasised that the economic policy stance that was adopted in the OECD-countries in the 1970's and 1980's differed considerably from the course of action that

governments had followed in the depression of the 1930's. When the world-wide depression of the 1930's first became apparent, the economic policy makers in diverse national economies responded with the same economic policy, namely, orthodox deflationary measures. Defence of the currency, spending cuts and attempts to cut back wages were among the major policies that were applied in the United Kingdom and Sweden until 1931, in Germany until 1933 and in France until 1937. After a few years of failure, the majority of the governments in the Western world broke with orthodoxy and adopted a neo-orthodox policy approach. Devaluation, use of tariffs and support given to official or private cartels were among the major characteristics of this policy implementation in the United Kingdom post-1931, Sweden from 1931 to 1932, the United States from 1933 to 1935/37 and in post-1937 France. In these countries, the policy of cheap money and favourable changes in the terms of trade proved themselves to be major determinants of the economic recovery. However, the economic recovery was not sufficiently strong to absorb the large number of unemployed job seekers (Gourevitch, 1984).

Some countries broke more drastically and more rapidly with economic orthodoxy. The first nations to use fully-fledged demand and investment stimuli for the purpose of economic recovery and full employment were the new military regimes in Japan (1931) and Nazi Germany (1933) (Hentschel, 1984; Overly, 1982). In the liberal constitutionalist regimes in Western Europe and North America this course of action was adopted later on. Demand and investment stimuli, based on deficit spending, the establishment and extension of transfer payments and counter-cyclical demand management practices were implemented in Sweden, France and the U.S. only in the mid-to-late thirties. In the latter group of countries, the break with economic orthodoxy of the early thirties was cautious and moderate in character (Gourevitch, 1984).

In contrast to this, the economic policy responses of the new authoritarian regimes in Japan and Germany were more successful, although it should be added that the social and political costs involved were extremely high. The Japanese military regime succeeded in promoting rapid economic recovery, mainly, though by no means exclusively, via a Keynesian policy (Kindleberger, 1973: 14). Of the major instruments that were used in Japan in the early 1930's, the consistency with which an active and steady policy of deficit-spending was practised is the most significant. In addition, the authorities resorted to a major devaluation of the Yen by some 40 per cent, a measure which had an enormous impact on export growth in the subsequent period. Furthermore, and like Switzerland in the 1930's (Rutz, 1970), the Japanese case is also indicative of the extent to which the combined effects of devaluation and a policy of cheap money proved to be of crucial importance in the promotion of economic recovery. In addition, investment was strongly supported by the impact of the extensive rearmament policy. And last, but not least, real wages were not raised and, in fact, were frequently on the decline,

while profits and above all investment were strongly supported (Hentschel, 1984).

In the Nazi economic recovery (Overy, 1982), the dramatic growth in total employment was mainly due to a virtually revolutionary break with orthodox economic policy doctrines. The extraordinarily strong expansion of the public sector, demand management, a variety of industrial policy measures (in particular in favour of the construction industry, with the construction of the *Autobahn* among the most famous examples) and strict control of foreign trade, money, prices and wages were among the major instruments. Up until 1936, the main emphasis was on the promotion of civilian industries and civilian employment, whereas rearmament and war preparation became the overriding concerns of policy in the following years. Needless to add, both the Japanese and the Nazi economy rested on the prior establishment of an authoritarian or totalitarian regime. Thus economic recovery and full employment were purchased at a price which was intolerably high in political terms.

Overall, the difference in policy response to the economic crisis of the 1970's and 1980's and that of the 1930's is striking. In the 1970's and 1980's none of the governments of the developed industrial democracies responded with a really deflationary or wholly orthodox policy. Although the control of inflationary pressure gained importance as one of the major goals of economic policy, a wider range of measures that were meant to strengthen demand, investment, employment and industrial restructuring were applied. Furthermore, even the most conservative governments made efforts to expand labour market policy and employment policy, at least in favour of particular target groups, such as unemployed youth in France under the Barre government, in the United Kingdom under the rule of the Thatcher governments, and in West Germany under the rule of the CDU/CSU/FDP-coalition. Moreover, restrictive as the stance in social policy tended to be, there was no country in which the government actually divested the welfare state of its core functions (Therborn, 1984; OECD, 1985 a).

In the 1970's and 1980's, the policy response to the recession was superimposed on a large public sector, the size of which had grown considerably during the entire post-World War II period. In contrast to this, the economic policies that were chosen in the 1930's rested on a relatively small public sector, in which automatic built-in-stabilisers were largely absent. Although particular features of the public sector may prove themselves to be a burden on investment and growth, the public sector and the policy instruments that were accumulated since the 1930's have been of major help in preventing the recession from generating a vicious circle. Thus in the 1970's and 1980's, the OECD economies have benefited from one of the most important silent revolutions that took place during the post-World War II period: the growth of government.

However, the extent to which the authorities were willing and able fully to explore and to make full use of the room for manoeuvre that was available to

them varied considerably. With respect to the unemployment-inflation dilemma to which all OECD-nations have been exposed, the most conspicuous success of economic policy consisted of the maintenance of full employment or near full employment and low or moderately high rates of inflation in some of the OECD-countries. In contrast to the 1930's, when authoritarian regimes were the major examples of full employment policy (Pollock, 1941), the experience of the 1970's and 1980's suggests that full employment or near-full employment can be maintained within the context of a capitalist order and a democratic political system, even under economically adverse circumstances. As our analysis has shown, the ability and the willingness to adopt policies to control unemployment is partly due to the nature of structural problems with which the policy makers were faced, but it mainly mirrors differences in the politics of economic and labour market policy.

In yet another respect, the 1970's and early 1980's dramatically differed from the 1930's. In the 1970's and 1980's there was no country in the West in which the economic *malaise* contributed to fundamental regime changes such as in Japan in 1931 and in Germany in 1933. Furthermore, in the 1970's the electorate's reactions to the economic crisis were less strong and less disruptive than they were in the 1930's. The rise of the German National Socialist Party in the 1930's and the muted reactions to unemployment in the 1970's and 1980's are the most extreme examples of this.

Undoubtedly, the muted reactions to rising unemployment are partly due to higher levels of income protection, which largely reflect the high levels of welfare state provision that were generated in the post-World War 2 period. Muted reactions to mass unemployment may also mirror the fact that many of the unemployed find a new job after a shorter period of unemployment, whereas long-term unemployment is affecting weak and unorganised groups in the labour market to a larger extent (OECD, 1983 e). It may also be the case that, to some extent, attitudes toward work, leisure and employment are changing so that less employment security in the formal economy is accepted in return for greater leisure, or alternatively, in return for work in the informal sector, which seems to have grown rapidly in recent years (Weck, 1982; Frey and Weck, 1983; Tanzi, 1982).

Thus, a variety of political factors and social trends have contributed to mitigating the political reactions to unemployment. It is here that we find a further answer to the question of why the OECD nations have varied so much in their economic and labour market performance. The governments in countries such as Austria, Norway and Sweden were forced, on political grounds, to pursue a policy of full employment. In terms of power distributions, the Japanese authorities had a larger margin of choice as far as the unemployment issue was concerned. However, due to the rules of conduct of political and economic leadership, they decided to adopt a policy stance that was geared to maintain higher levels of job security.

In contrast to the full employment countries, the governments in some of

the mass unemployment countries were confronted with a political constellation of a different character. They made major efforts to maintain or regain successful economic performance. Some of them succeeded, while others were much less successful. However, on political grounds, in particular due to the distribution of power that has prevailed in these countries and also due to the absence of sharp political reactions to unemployment, they were under weaker pressure to pursue a policy of full employment. Thus, for example, many governing parties in Western Europe in the 1970's and early 1980's managed political survival in national elections and remained in office more or less regardless of whether they had solved the unemployment problem or not (see, for example, Schmidt, 1983 b, 1984 a). Thus, the key to an understanding of why levels of unemployment have varied as much as they have is to be sought only partly in the structural factors that have been conducive to low rates of unemployment or high rates of unemployment. The bulk of the difference can be explained by policy differences, the distribution of power between organised political groups and in reactions to unemployment on the part of the electorate.

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The Political Economy of Distributive Conflict*

FRANZ LEHNER

Introduction

Until the mid 1970's, the post-war period in the democratic industrial countries was one of prosperity and affluence. The economy was growing, incomes increased and so did employment. This period was also one of rising public expenditure and of a growing welfare state. In more recent years this situation has changed in most countries: economic crisis, stationary or decreasing real income and rising unemployment are now the realities of the advanced societies' economies. In the government sector we find high public debts, decreasing government income and a drive to reduce public expenditure — the welfare state is in a fiscal crisis. Although there is some prospect for economic growth in the near future, many of the economic problems (high unemployment especially) and the welfare state's fiscal crisis may prevail throughout this decade.

Many of these problems may be associated with temporary or lasting changes in the economic, technological and social conditions of the industrial world. A world-wide recession, imbalances in the monetary system, changing demands for goods and services, problems in the population structure and similar factors may account for a large part of slow growth or stagnation, high unemployment and fiscal stress. Although these factors are of great importance, they do not explain all the current economic and fiscal problems of advanced democratic societies. Rather, these problems are further symptoms of fundamental deficiencies in the political economy of these societies.

The modern capitalist state is not only a welfare state which provides its citizens and groups with a large variety of public goods and services, it is also

* I wish to acknowledge the valuable assistance of Peter Borgmann, Dagmar Diedenhofen, Birgit Geile, Angelika Kriehn-Höner, Jürgen Nordhause-Janz and, last but not least, Klaus Schubert. I also wish to acknowledge that this paper benefits much from discussions with Uwe Andersen, Francis Castles, James Dean, Hans Keman, Heikki Paloheimo, Manfred G. Schmidt and Ulrich Widmaier. Financial assistance from the "Gesellschaft der Freunde der Ruhr-Universität Bochum" has supported my co-operation with these colleagues.

an interventionist state heavily involved in the regulation and direction of a large number of socio-economic structures and processes. The economic activities of the state extend over a wide range of different activities, including the maintenance of stability and employment, the provision of various infrastructures, the education of qualified manpower, the financing of technological innovation, the "insurance" of risk, the securing of the economy's resource and energy base, as well as the protection of the environment and the compensation of various externalities of industrial production. Moreover, government attempts to secure the social peace of the capitalist society by means of distributive policy and social regulation.

The current economic and fiscal crisis, and the failure to cope successfully with it by public policy, reveal that the state's capacity to manage its various economic activities effectively and efficiently is severely limited and often insufficient. While the scope of government in the democratic capitalist states has grown strongly in the post-war period, government's informational, organisational and financial capacities, as well as its power, often did not keep pace with this development. As a result, the growth of government produced considerable government overload and related deficiencies in the effectiveness and efficiency of public policy.

The understanding of the often low effectiveness and efficiency of public policy — especially of economic and social policy — provokes questions concerning the role of the state in capitalist society, the economic and social functions of government and the desirable size of the public sector. Although these questions are of great importance, they will not be discussed here. My concern is a more modest one, namely a contribution to a better understanding of the capacities and limits of public policy *vis-à-vis* the economy. In spite of our considerable knowledge of public policy-making processes, we are still largely unable to explain why and when governments are more or less capable of managing their economic activities effectively and efficiently.

An interesting and stimulating approach to this question is offered by Mancur Olson. In his recent book, *The Rise and Decline of Nations* (1982), he argues that much of the ineffectiveness and inefficiency of government intervention is associated with the pluralist pattern of interest intermediation in the advanced democracies. Contrary to the assumptions of the traditional pluralist theory of democracy, Olson argues that interest intermediation in modern democracies is characterised by high differentiation, unequal organisational capacities and political power of socio-economic interests, as well as by low — if any — competition among interest groups. This results in strong political influence on the part of special interests, while the political representation of general interests is usually rather weak. According to Olson, the dominant influence of special interests leads to protective regulation and intervention inhibiting growth in the private sector. Moreover, it reduces a society's capacity to adopt new technologies and to reallocate resources in response to changing conditions. Consequently, government intervention based

on large-scale influence by special interests reduces the overall efficiency of the economy and the rate of economic growth and is likely to create a condition of stagflation with high unemployment.

Olson's argument is consistent with an increasing number of studies which point to the crucial importance of the structure of interest intermediation for the political and economic development of advanced capitalist societies (e. g. Dean, 1984; Ionescou, 1975; Keman, 1984; Keman and Braun, 1984; Lehmbruch, 1984; Lehner and Widmaier, 1983; Offe, 1972; Paloheimo, 1984 b, c; Scharpf, 1974, 1983, 1984; Schmitter, 1981; Streissler, 1973). These and other studies show that the pluralist interest structures and a segmentation of public policy-making as well as a lack of encompassing political control are a major source of ineffective and inefficient policy (see also Lehner, 1979).

These arguments point to a major deficiency of public policy-making in the democratic capitalist state; namely, an often low capacity for encompassing interest aggregation and comprehensive decision-making. Both encompassing interest aggregation and comprehensive decision-making are necessary preconditions of effective and efficient policy-making. In a capitalist society, the state's economic functions are of two kinds: first, the state has to secure the economic order which is necessary for the effective working of the market mechanism. It also has to provide those goods and services which are not or cannot efficiently be provided through the market. In other words, the state has to concern itself with those problems of allocation and distribution which are not or cannot be solved efficiently within the scope of spontaneous, decentralised co-ordination and, thus, require centralised co-ordination (cf. Buchanan, 1975; Dahl and Lindblom, 1953; Tullock, 1967). In contradistinction to the spontaneous co-ordination through the market, the authoritative and centralised co-ordination by the state requires a high degree of consensus in order to be effective and efficient. Thus, a shift from market co-ordination to governmental steering involves an increasing need for societal consensus — the more we use political rather than market mechanisms, the more consensus is required for effective and efficient intervention in the economy. (Widmaier, 1978; see also Buchanan, 1975; Scharpf, 1974; Rose, 1979).

This requirement is difficult to meet within the pluralist interest structures of the advanced capitalist societies because these structures have a high potential for distributive conflict concerning government activity, which tends to increase as the scope of government increases. (Lehner, 1979, 1983 a; Lehner and Widmaier, 1983). The capacity of government to intervene effectively and efficiently in the economy thus depends upon its capacity to provide for encompassing interest aggregation and comprehensive decision-making in respect of economic policy. Imbalanced and particularistic interest intermediation, segmented and fragmented structures and procedures of policy-making, and a lack of political control of state activity severely limit this capability.

As I have demonstrated elsewhere (Lehner, 1983c), there are good reasons to assume that governments' capabilities to solve distributive conflict are considerably influenced by the institutional structures within which distributive conflicts are politically intermediated and within which they have to be resolved or accommodated. (See also Lehner and Keman, 1984; Scharpf, 1977). In order to understand better why and when governments are more or less capable of managing their economic activities effectively and efficiently, we have to investigate further the impact of different institutional structures on interest intermediation and policy-making. Much of this article is concerned with this topic. In the following sections, I shall start by offering a theoretical elaboration of the argument presented so far. Then I shall present an empirical account of the relationship between institutional structures and policy-outcomes. Finally, I shall return to a theoretical analysis of the structural determinants of the effectiveness and efficiency of economic policy.

1. Distributive Conflict: The Economic Foundations of the Welfare State

Modern capitalist societies are characterised by a strong interlocking of politics and the economy. Government has grown big in these societies: "Government is big in itself, big in its claims upon society's resources and big in its impact upon society" (Rose, 1984: 1). Most of this growth is a development of the last three or four decades. Before 1900, public spending in the democratic capitalist societies amounted to some ten per cent of GNP. By 1950 public spending reached values between twenty and thirty per cent of GNP. In the 1970's and 1980's most of the OECD countries spent between forty and fifty per cent of their GNP in the public sector; some countries (e. g. Denmark, the Netherlands and Sweden) even reach levels in excess of fifty per cent, and only Switzerland and the United States spend less than third of their GNP in the public sector. (Kohl, 1984).

The overall outcome of this rapid growth of government over recent decades is usually called the welfare state. This notion refers to the assumed social policy function of the advanced capitalist state, that is to secure the stability of capitalist society by means of distributive policies. It also refers to economic activities aiming at the promotion of economic growth and widely dispersed wealth. The term welfare state is also understood as a concept making an important change in the functional development of the state's activities — an expansion of the scope of government far beyond ordering activities and the production of infrastructures (cf. Rose, 1976).¹

¹ Originally the concept of the welfare state was more narrowly defined and referred to social policy only. Since social policy and economic policy are often linked together and can often not be clearly separated, a broader definition of the concept, which includes the active economic role of the state, is appropriate. In this article I, therefore, use the term welfare state to describe a socially and economically active capitalist state.

The establishment of the welfare state has gradually but fundamentally changed the operation of both market and government. It has created a condition of strong political-economic interdependence within which the production and distribution of goods and services is largely determined by an interplay of government and the market (cf. Lehner and Keman, 1984; see also Buchanan, Tollison and Tullock, 1980; Dahl and Lindblom, 1953; Frey, 1978; Galbraith, 1973; Hibbs and Fassbender, 1981; Lehner, 1979; Shonfield, 1965).

In view of this situation, the study of governments' capacities to cope adequately with their economic activities has to take into account the structure of political-economic interdependence and its impact on social and economic policy-making. As Keman and Lehner (1984) show, political-economic interdependence can be analysed on three different levels of interaction. First of all there is the functional interaction between the (private) market economy and the (public) authority of the state. This includes the state's function in respect to securing the basis of the economic order and also state interventions functionally determined by the structure of the economy. Then there are the interactions between interest groups, parties and governments, the political link between the private and the public sector. Lastly we have the interaction between policy-making, policy outputs and policy outcomes, the real impact of public policy on the economy. In this section I discuss political-economic interdependence on the first level of analysis and examine the economic foundations of the welfare state.

The effective functioning of a market economy is dependent on certain social conditions. More specifically it depends — as Adam Smith demonstrated some two hundred years ago — on socially accepted and collectively guaranteed property rights (cf. Buchanan, 1975). Accepted and guaranteed property rights in turn secure the acceptance of the distribution of income and wealth in a society resulting from the spontaneously co-ordinated economy. In other words, effective market allocation requires a legitimate social order securing the acceptance of the distribution of property and income within which economic exchange takes place.

Neo-classical theory takes this condition for granted and assumes that individuals accept a given distribution of property and income as a restriction of their economic opportunities. It is certainly the case that the distribution of property and income is based on some legally guaranteed property rights, and to that extent constitutes a restriction of individuals' economic behaviour. However, legally guaranteed property rights are subject to political decisions and are thus in principle subject to change. A legally protected distribution of property and income is, therefore, not necessarily stable and need not necessarily constitute a restriction of individual economic opportunities. On the contrary, the history of capitalism shows us that the assumption of fixed property rights and income distribution is unrealistic or even false. The development of capitalism throughout the last hundred years has been shaped by so-

cial and political conflicts concerning the distribution of property and income. It was the existence of such conflicts that motivated Bismarck to engage in social policy and thereby to initiate a development which finally resulted in the modern welfare state.

It is an established fact that in market economies production and distribution is co-ordinated by the price mechanism. This mechanism relates production and distribution to individual preferences or desires — and to property and income. Demand for goods and services depends upon individual preferences and consumption power. The latter depends on property and income.

This simple and undisputed fact implies that in a market economy production and distribution only matches individual desires if the distribution of property and income in a society matches the distribution of individual preferences in this society. The necessary adjustment of income and property on the one hand and of desires on the other cannot be secured by the market mechanism, but has to be provided exogenously (cf. Lehner, 1983b; Lehner and Widmaier, 1983).

In traditional societies, value systems which legitimated the existing distribution of property and income were sufficient to secure this adjustment. They forced individuals to adjust desires to the existing structure of economic opportunities. In modern democratic industrial societies, however, such a legitimisation of property and income is hardly possible, for liberal values emphasise individualism rather than collective integration, economic rationality rather than tradition, and equality rather than inequality. As a result the legitimacy of the existing distribution of property and income is weak. It is not based on values generated by social tradition and, therefore, generally accepted, but has to be provided by constitutional and other types of law. In other words, while in traditional societies the legitimacy of property rights is rooted in values intrinsic to the society, in modern societies law provides a formal legitimacy only. Moreover, in capitalist societies with a rationalistic ideology, satisfaction of desires is a central criterion for the evaluation of economic conditions and social institutions (such as the market). This means that the formal legitimacy of property rights only translates into an intrinsic acceptance of the distribution of property and income to the extent that the resulting economic opportunities allow needs to be satisfied (cf. Lehner, 1983 b).

Given the importance of property rights and their weak legitimacy, we may reasonably assume that rational individuals are often more likely to engage in conflicts over property rights rather than accept an unfavourable distribution of property and income. Economic theory cannot provide a systematic argument to explain why rational economic man should not consider the distribution of property rights and related income as a part of his potential choice. On the contrary, if we assume that individuals behave perfectly rationally in the sense implied by economic theory, we cannot assume that they take property rights and income distribution for granted. Rather, we

have to assume that they evaluate social conditions affecting economic transactions in terms of expected utility, and that they act rationally on these expectations. Among other things, this implies that economically rational individuals will engage in activities to change the distribution of property rights and income as long as the costs of such activities are lower than the expected utility of the intended changes. The expected utility of change, in turn, is determined by the extent of the disparity between needs and income. The disparity between needs and income, in turn, is strongly influenced by social structure and the resulting social control of individual behaviour.

In a society with rigid and relatively undifferentiated social structures, each individual belongs to a clearly defined and demarcated societal stratum or even class. The single classes or strata are fairly homogeneous with respect to the social characteristics (including needs and income) of their membership. Social comparison processes continually reinforce this homogeneity. Consequently, the frequency of contact with superior goods and higher income is low, and so is the drive to increase consumption. There is, in other words, no "demonstration effect" (Duesenberry, 1967) which drives towards higher consumption and expectations of higher income. Such a situation is fairly stable so far as the distribution of property rights and related income and the social acceptance of the social conditions of market allocation are concerned, at least if subsistence is secure and there is no marked tendency to increasing poverty.

Typical examples of such a situation were the early capitalist societies, the social structures of which were a heritage of the pre-capitalist feudal society. This society, as well as the early capitalist one, was characterised by simple class structures with little mobility and strong boundaries between the classes. These structures protected the distribution of property rights and, hence, the legitimacy of market allocation. Contrary to the predictions of Marx, class struggle did not increase sharply and distributional conflicts were confined to problems of subsistence and impoverishment. A reasonable degree of economic growth on the basis of increasing mass consumption and increasing economies of scale plus some social policy could accommodate these conflicts fairly well.

Modern capitalism differs fundamentally from early capitalism, as far as social structures are concerned. As the division of labour is now more complex, social structures are highly differentiated. There no longer exist clearly defined and demarcated social classes which are homogenous with respect to the social characteristics of their membership. Rather, modern society is characterised by overlapping strata and considerable social mobility. The integration of individuals into the social structure is weak and is subject to various cross-pressures. Moreover, the social interactions of most individuals are likely to spread over different strata. Accordingly, the scope of social comparison of most individuals is broad, and the frequency and intensity of contact with superior goods and higher income is high. As a result, there is in

modern societies a strong "demonstration effect" which drives them towards higher consumption and income (cf. Lehner, 1983 b; see also Duesenberry, 1967, Friedman, 1957; Giddens, 1975; Janowitz, 1976).

This situation creates problematical conditions for the legitimacy and stability of market allocation. Driven by wide social comparison processes, individuals' needs always tend to exceed income and other economic opportunities. Furthermore, social comparisons impose, for most individuals, few psychological constraints on aspirations for higher income. Economic growth and related increase in absolute income brings little relief from that problem, since social comparison is primarily concerned with relative rather than absolute income. Even an increase of relative income of people in the lower social strata is unlikely to bring about an increase of stability in the social conditions of market allocation. Such an increase in the relative income of lower social strata would result in related disturbances of the middle and upper strata's social comparisons. Their assertion of their own income position by means of social comparison would decline relatively. This obviously implies a high potential for distributive conflict.

Summarising the argument presented in this section so far, we may conclude that distributional conflicts increase in intensity as social structure becomes more differentiated and less rigid. This conclusion is supported if we consider the structure and content of societal values.

In social terms, early capitalism was based on a structural heritage from pre-capitalist, feudal society. The societal values on which it was based also derive from feudal society. Feudal values stress the importance of social order and the subordination of individuals — at least of the broad mass of society. These values also protected property rights and legitimized inequality as an integral part of social order. In addition to that, the simplicity and rigidity of the social structure and the social comparison processes continually reinforced the value system. Profiting from this heritage, early capitalism was hedged around by non-economic values.

Modern capitalism lacks much of this traditional legitimation. Strongly influenced by British liberalism, its value system stresses individualism rather than collectivism, achievement rather than tradition, and political equality rather than inequality. Such a value system obviously lends little non-economic legitimacy to the social terms and conditions of market allocation. On the contrary, it is likely to impose the measuring rod of economic efficiency as the basis for the evaluation of economic institutions. This lack of social guidance and control of economic behaviour by non-economic values adds to the structural weakness of social control in modern capitalism and the related instability of property rights.

The argument presented in this section has one quite obvious implication; namely, that the functional relationship between the market and the state, which is expressed in terms of the maintainance of economic order, cannot be clearly defined. Since there are no clear, accepted and stable property rights,

the state's economic function cannot be defined as an enforcing agent of a legally defined economic order. On the contrary, since legal protection only provides formal and weak legitimacy for the economic order, while an intrinsic acceptance requires an adjustment of income and desires, the state has to engage actively in distributive policy in order to secure economic order. Putting it more strongly, this means that even a minimally defined state, namely a state whose only economic function is that of acting to protect the existing economic order, (cf. Buchanan, 1975; Hayek, 1973; Nozick, 1974), ends up as an active state. However, the activities of such a state are not clearly defined in functional terms and, therefore, are open to political interpretation. Consequently, the state's economic functions are, for the most part, not defined at the level of the functional interactions between the (private) market economy and the (public) authority of the state, but rather at the level of the interactions between interest groups, parties and governments which build the political link between the private and the public sector.

2. The Political Logic of the Welfare State

In the previous section, I have argued that the socio-economic conditions of the advanced capitalist societies contain a high potential for distributive conflict and that the accommodation of this conflict requires state interventions which aim at some adjustment of the distribution of property and income to the distribution of individual preferences. Such an adjustment is necessary in order to secure the legitimacy of the capitalist society in spite of the distributive problems inherent to its allocation system. From this perspective, the welfare state appears to be economically functional and justified. This, however, is only true to the degree that the welfare state is capable of achieving an effective adjustment of income and property on one side and desires on the other. Given the political logic of the welfare state, this cannot be taken for granted.

In democracies (and to lesser degree in other systems as well), the authoritative allocation and distribution of goods and services by government requires a high consensus among relevant individuals, groups and organisations. This is not only a normative postulate, but an empirical one as well. A lack of consensus reduces the legitimacy of political decisions and leads to various attempts to evade or undermine them. Furthermore, non-consensual political decisions involve externalities for a number of individuals and collectivities and motivate pressure for compensatory benefits. Finally, decisions without consensus always involve ongoing or even increasing societal conflicts and produce a potential destabilisation in the political system. (Buchanan, 1975; Lehner, 1983 a; Offe, 1972; Widmaier, 1978; Wildenmann, 1967).

This means that an effective and efficient redistribution by means of state intervention requires a stable and accepted collective decision as to the distribution of property and income. As Arrow (1963) demonstrates, this is virtually impossible to achieve. In differentiated societies, preferences and interests cannot be aggregated into a collective decision without either creating substantial inconsistencies or political conflicts (or often both at the same time).

Modern capitalist societies are characterised by a high degree of social differentiation. A high and even increasing division of labour divides these societies into a variety of different interest layers. Since these interests are rather small and homogeneous, they can be organised relatively easy. Consequently the traditional class structure and stratification of the capitalist societies is replaced by a much more differentiated interest structure and societal organisation. Instead of a few, but strong, cleavages, there exists a complex and variable pattern of social conflicts and consensus (cf. Dahrendorf, 1967; Giddens, 1975; Janowitz, 1976).

This pattern of social conflicts makes party competition difficult. In systems with few parties, individual parties are forced to aggregate a large number of different and often diverging interests in order to acquire a majority of votes. Usually this is at best possible in terms of a rather fragile compromise. This compromise has to be based on the reduction of manifold distinct and, in detail, often divergent, interests to a few broadly defined issues. Inevitably, this reduction is rather selective because it has to concentrate on those issues and interests which offer the best chance of maximising votes. The need to reduce large numbers of distinct interests to a few political issues often forces parties to compete homogeneously. Rather than representing different interests and, therefore, competing for different voters with a few overlaps, they represent an almost identical set of interests, solicit the same voters and compete in terms of personal and substantial competence. Differences in interest aggregation occur at the margins only (cf. Lehner, 1979).

This is not the case in multi-party systems, but the ultimate outcome is almost the same. Parties may represent different interests and provide for alternative interest aggregations. Since in such systems governments, as a rule, are coalitions, a reduction of manifold interests to a common denominator has to take place in the process of coalition formation. Although coalition formation may include quite a number of different interests, there is still a considerable need for reduction. Given the high differentiation in society, any political interest aggregation containing a strong element of reduction must create a considerable potential for political conflict which challenges political majorities and results in a process of unstable and changing majorities (cf. Lehner, 1978).

Similar but even stronger tendencies are found when we consider organised interest intermediation. Due to the high level of social differentiation and the related decomposition of society, there exist a large number of organised

interests. When it comes to numbers of distinct interests, the advanced capitalist societies are certainly pluralist in character. However, contrary to the assumptions of pluralist theory, pluralist interest intermediation is neither controlled by competition nor balanced in terms of power. Apart from an unequal organisational capacity of interests (Olson, 1965), the reason for this is that much of organised interest intermediation takes place through segmented interactions with the political-administrative system. Through these interactions particular interests often influence policy-making without being challenged by other interests. The result of this situation, where competition among organised interests is the exception rather than the rule, is that organised special interests have a great capacity to put their demands into effect, while more general but weaker interests receive much less consideration. The consequences of this are again strong pressure for public growth and an inefficient allocation of public resources (cf. Olson, 1982; see also Buchanan, 1975; Lehner and Widmaier, 1984).

Considering both party competition and organised interest intermediation (not to speak of bureaucratic behaviour), we may conclude that in the advanced capitalist societies there is a strong tendency to accommodate conflicts of interests and the distributive problem at the expense of increased public spending. Politics in the advanced capitalist societies is thus likely to generate a high and increasing demand for public goods and services. For reasons of decision costs, decisions on the supply of public goods and services have to be based on non-unanimity and forced compliance. This allows for an externalisation of costs. Any sufficiently powerful group may gain concentrated benefits from governmental activities, the costs of which are externalised either in terms of an imposition on a political minority or of a dispersion to the tax-payer at large. Government is thus under permanent pressure to provide "rents" for various groups in society in order to accommodate distributive conflicts which cannot be finally resolved (cf. Lehner and Widmaier, 1983; see also Bacon and Eltis, 1976; Buchanan, 1975; Buchanan, Tollison and Tullock, 1980; Krueger, 1974; Lehner, 1979, 1983 b; Olson, 1982; Tullock, 1967; Widmaier, 1978).

In times of prosperity and economic growth such a situation is manageable because government can satisfy increasing demand for public goods and services by distributing incremental growth. This allows for a distributive policy which provides certain groups and interests with additional public goods without reducing the provision for other groups and interests. This amounts to a distributive policy without any net redistribution. This does not solve the principal distributive problem of advanced capitalist societies, but is still capable of accommodating much of the related conflict. The price for this accommodation is an increasing production of public goods and services, and a related growth of the public sector (cf. Lehner and Widmaier, 1983).

This describes the general tendency of the development of the welfare state throughout most of the post-war period. In most of the western democ-

racies, government became heavily involved in providing transfers and subventions to a large and increasing number of individuals, groups and firms. While social policies and income policies provided benefits for lower and middle income groups, other policies — the provision of tax abatements and subsidies for various purposes, for example — provided at least equal benefits to those from more affluent social strata. As a result, the state provided one kind of “rents” or another on a large scale, but was scarcely capable of achieving any real redistributive impact in the process.

This developmental pattern, which varies considerably across countries (cf. Flora and Heidenheimer, 1981), is the expression of the specific pattern of conflict resolution in the advanced democracies. The pattern is one of accommodation rather than of competitive conflict resolution. Its basis is the high degree of social differentiation and the decomposition of society and its class structure into a large number of different interest layers and social groups with particular value structures. As we have seen in the previous section, this structural condition and the related patterns of conflict create considerable difficulties for market allocation. It creates, however, no lesser difficulties for the allocation of goods and services by the state; that is, by means of public policy.

The state is often defined as a mechanism of *authoritative* allocation. This is certainly true with respect to the formal properties of state, namely its power to enforce compliance. However, if we consider the state's effective capacity, we usually cannot speak of authoritative allocation. Factually, not normatively, an authoritative allocation by the state requires clear and broadly accepted policy goals. Otherwise policies face opposition in various forms and provoke attempts to evade or undermine them. Moreover, sufficient knowledge concerning the causal relationship between policy measures and policy outcomes is necessary, because otherwise policies do not allow for purposive control of the relevant actors and conditions (cf. Freddi, 1983; Simon, 1947, 1960; see also Lehner, Schubert and Geile, 1983).

If one of these conditions is not met, government has to engage in bargaining with the relevant socio-economic agents in order to secure the effectiveness of its policy:

- if goals are unclear and insufficiently accepted, government has to bargain on acceptable goals;
- if causal relationships are uncertain, government needs to reach a conventionally accepted definition of the relevant empirical situation and, therefore, depends upon the co-operation of the actors concerned (cf. Lehner, Schubert and Geile, 1983).

In the advanced capitalist societies these two conditions are difficult to meet. The great scope and complexity of state activities involves considerable uncertainty concerning causal relationships, and the pluralist structure of society produces an even greater uncertainty concerning political goals. Purpo-

sive steering of policy-making and an authoritative allocation of goods and services by means of public policy, thus, is rarely attainable. Rather, public policy usually has to be formulated under circumstances of weak political authority, which forces government to engage in bargaining and collusion in order to accommodate distributive conflicts.

The argument presented in this section so far implies two simple conclusions: first, state intervention is often incapable of resolving distributive conflict in terms of stable and widely accepted property rights because the state's allocative authority is too weak. Second, due to the weak authority of the state, government usually has to engage in bargaining and collusion with a large number of actors in order to be capable of formulating and carrying out policy. I will not elaborate further on the first conclusion here, although its implications for the relationship between the market and the state would deserve further discussion. In the remainder of this article I will be concerned with the second conclusion and its implications for public policy-making.

The problems of governmental authority and the resulting pressure to engage in bargaining implies that government is interlocked in highly differentiated socio-economic structures with a multiplicity of more or less strong "power centres". Although very important, government is but one of these centres and has to share policy power with various other organisations. The same holds true for any other "power centre", for example unions or big business. In other words, government is enmeshed in a political-economic network within a relatively pluralist and dispersed power structure. Within that network, socio-economic conflicts concerning the distribution of property and income and political conflict concerning the provision of public goods and services have to be accommodated by means of bargaining. The outcome of this bargaining in terms of policy choices and policy strategies is strongly influenced by the structure of interactions among the relevant actors and the institutional setting within which these interactions take place, because different structural arrangements imply different conditions for the bargaining of government and other relevant actors (cf. Lehner and Keman, 1984; Schmidt, in this volume).

For a better understanding of public policy it is, therefore, necessary to investigate the impact of different structural arrangements on economic policy and on the development of governmental activity. This is even more necessary since the argument presented in this section only describes an abstract and general political logic of the welfare state and neglects the diversity of development in different countries.

3. The Institutionalisation of Conflict: Structural Determinants

The abstract logic of the welfare state described in the previous section has taken into account some general features of distributive conflict in modern democratic capitalist societies, but has neglected the political institutionalisation of this conflict. Modern democracies, however, are characterised by a high degree of organisation of politics and government. The representation and accommodation of distributive conflict is thus shaped and channelled by institutional structures.

These structures not only vary considerably across countries, but also within countries across policy areas. In some policy areas we find weak structures and rather dispersed interactions of a large number of interest groups, parties and governmental agencies. Other policy areas may be characterised by strongly integrated structures and monopolistic interactions of a few vested interest groups and a central governmental agency. In some areas the accommodation of conflict takes place within highly formalised or even bureaucratic structures, in others rather informal bargaining may exist. In some countries, one type or another may be dominant, in others there may be considerable variation across policy areas.

The different types of policy networks within and across countries shape the bargaining of government and other relevant actors in different ways, restricting or enhancing the power of private interests to varying degrees, and allowing for more or less particularism or comprehensiveness of interest intermediation and aggregation. More generally speaking, different policy networks shape the structure of interest intermediation as well as the ways in which interest groups interact among themselves and with the political-administrative system (cf. Lehbruch, 1983; Lehner and Keman, 1984; Scharpf, 1977, 1981).

The available theoretical understanding and empirical knowledge concerning the relationship between institutional structures and public policy is still fairly limited. Most of the studies of the impact of interest intermediation on economic policy and economic performance have elaborated on the structure of interest organisations, but neglect the political institutionalisation of interest intermediation. This is, for example, true of Olson's otherwise very interesting and stimulating theory which I have briefly summarised in the introduction to this article (Olson, 1982).

Olson's basic argument, namely that political economies characterised by particularistic interest intermediation and inefficient interest aggregation tend to be low in economic performance, is theoretically well founded and appears not implausible at an empirical level. However, in reality, societies with a pluralist interest structure do not necessarily perform less well in the economic sphere, since there may be structural arrangements which provide for a comprehensive interest intermediation in spite of the existence of highly pluralist structures.

A typical example of this situation is Switzerland which has a strongly differentiated and pluralist interest structure, but where consociational decision-making provides for encompassing interest intermediation. Switzerland thus constitutes a deviant case with respect to Olson's theory, since it combines a considerable growth rate with a highly pluralist interest structure. It is also an exceptional case among the democratic capitalist states with respect to government growth. (Lehner, 1983 c; Rey, 1983). Similarly, French *étatisme* and an often collusive strategy of the bureaucracy towards interest groups provides for a considerable integration of interest intermediation. This may explain why France has a much higher growth rate than we might expect on the basis of Olson's theory. (Asselain and Morrison, 1983; Hayward, 1976, 1982; Hennart, 1983). On the other hand, the Federal Republic of Germany always had and still has a relatively centralised and integrated interest structure. In recent years, growth rates have declined considerably, although they were comparatively high until the early 1970's. Much of this may be understood as the consequence of fragmented policy-making rooted in institutional structures (Mayntz and Scharpf, 1975; Scharpf, 1974, 1981).

These examples point to the importance of institutional arrangements and demonstrate that integrative institutions may compensate for the deficiencies of pluralist interest structures, while the potential advantages of more centralised and integrated interest structures may not come into effect within fragmented governmental structures. This does not, of course, imply that Olson's theoretical argument is false. On the contrary, applying the basic logic of this theory to the effects of different institutional arrangements helps to explain cases which otherwise have to be considered as deviant cases.

Olson's theory also opens up an interesting avenue to the explanation of the structural determinants of public policy — an avenue which is also made accessible by recent developments in the theory of liberal corporatism.

In an increasing number of political science publications it is argued that these deficiencies of pluralist interest intermediation can be overcome by the establishment of highly centralised and monopolistic bargaining of government and vested interest groups. Often it is even suggested that such bargaining fundamentally changes interest intermediation — "liberal corporatism" is said to replace pluralism. It has further been conjectured that such a change is associated with an increase in policy performance, namely in higher political stability and economic efficiency (cf. Lehmbruch, 1977; Panitch, 1977; Schmitter, 1977, 1981; Wilensky, 1976; see also Czada, 1983; Keman and Braun, 1984; Lehmbruch and Schmitter, 1982; Schmitter and Lehmbruch, 1981).

The theoretical argument underlying the theory of liberal corporatism, although more implicitly than explicitly, is similar to Olson's argument. It is assumed that interest aggregation is more efficient the more comprehensive is interest intermediation. Moreover, it is assumed that the efficiency of interest aggregation relates positively to fiscal and economic efficiency as well as pol-

itical legitimacy and stability (cf. Schmitter, 1981). Unlike Olson, the theory of liberal corporatism takes account of the variety of different structural arrangements, that may serve to mediate interests. This is especially true of recent attempts to develop a cumulative scale of corporatism on which we will subsequently draw (cf. Czada, 1983; Lehmbruch, 1984).

The theory of liberal corporatism remains a set of often vague hypotheses rather than a systematically developed theory. Nevertheless, it opens interesting research perspectives concerning the relationship between structural arrangements and public policy, social and economic policy in particular. These have been taken up in a number of recent policy studies investigating the structural determinants of public policy and economic performance (e. g. Keman, 1984; Paloheimo, 1984 a, 1984 b, 1984 c; Scharpf, 1981; Schmidt, 1982 a, 1984; see also OECD, 1982). These studies have added a new dimension to the knowledge provided by earlier policy studies concerned with the impact of politics on economic policy and on political-economic interdependence (e. g. Cameron, 1978; Castles, 1982; Castles and McKinlay, 1979; Frey, 1978; Frey and Schneider, 1978; Hewitt, 1977; Hibbs, 1977; Hibbs and Fassbender, 1981; Keman and Braun, 1984; Schmidt, 1982, 1983).

Studies emerging from the theory of liberal corporatism open an interesting avenue for a deeper investigation of the relationship between organisational interest intermediation, the efficacy of pressure politics and the efficiency of public policy, because they consider the impact of different structural arrangements or modes of organised interest intermediation on the efficacy of particular interests and the balance of interest aggregation. They suggest a hypothesis which is simple in its content, but rich in its potential consequences. The hypothesis is that democratic capitalist societies tend to a more efficient interest aggregation, a better management of distributive conflict and superior performance, the more their institutional structures constrain the disproportional efficacy of special interests and the more they enhance comprehensive interest aggregation in public policy performance.

In this perspective, an efficient interest aggregation in modern pluralist democracies requires some institutionally provided checks and balances imposed on interest intermediation, because such checks and balances are not spontaneously secured by competition among interest groups. According to the theory of liberal corporatism, an increasingly applied and adequate strategy of providing institutionalised checks and balances is through the integration of organised interest intermediation through collective bargaining of government and major interest groups. This strategy attempts to establish a consensual determination of public policy. To the extent that these attempts are successful, a superior level of policy efficiency may be reached.

Following this line of argument, we may attempt to make the relationship between institutional structures, interest aggregation and public policy more precise. We may distinguish different modes of interest intermediation according to the extent to which they integrate interest intermediation through

collective bargaining of government and interest groups. If the theoretical argument which we have just discussed is true, we may expect that countries with a more integrative mode of interest intermediation would perform better with respect to the management of distributive conflict and the efficiency of public policy than those with a less integrative mode.

In order to investigate this case empirically, we need a typology which allows for an ordinal scaling of different modes of interest intermediation. Such a typology has recently been developed by Lehmbruch (1984) on the basis of Czada (1983). It includes the following modes of interest intermediation:

1. Pluralism

Characteristics: fragmented, segmented and competing interest intermediation; low degree of effective participation of labour unions in national policy-making.

Relevant countries²: United States, Canada, Australia, New Zealand

2. Weak Corporatism

Characteristics: institutionalised participation of labour unions restricted to certain areas or stages of policy-making; narrow scope of collective bargaining; little or no encompassing co-ordination of income policies.

Relevant countries: United Kingdom, Italy

3. Medium Corporatism

Characteristics: sectoral participation of labour unions; broad scope of collective bargaining; temporarily successful encompassing co-ordination of income policies.

Relevant countries: Ireland, Belgium, West Germany, Denmark, Finland and, as a borderline case, Switzerland

4. Strong Corporatism

Characteristics: comprehensive participation of labour unions and organised business in policy formation; comprehensive and durable co-ordination of income policies.

Relevant countries: Austria, Sweden, Norway and, with some limitations, the Netherlands.

These four modes of interest intermediation form a cumulative scale of corporatism. Not included in this scale is another mode:

² Reasonably enough, Lehmbruch (1984) only considers OECD-countries.

5. *Concertation without Labour*

Characteristics:	strong co-operation of government and big business in policy-making; little or no participation of labour unions.
Relevant countries:	France, Japan.

Lehmbruch's cumulative scale of corporatism is certainly an interesting instrument for an empirical investigation of the relationship between structural arrangements, interest aggregation and public policy. The exclusion of the "concertation without labour" category, however, reduces its usefulness because it excludes two major OECD-countries from the analysis. Since these countries are somewhat unusual in respect of their socio-economic development, they should be included.

In the case of France, this is not much of a problem for it is simply misplaced in the "concertation without labour" category. In an earlier publication, Lehmbruch (1982) put France in the "weak corporatism" category, because of the structural weakness of French interest organisations. Even this is an unrealistic placement. France may be characterised by a fragmented and segmented interest intermediation with little effective participation of labour unions in national policy-making, and little comprehensive bargaining between government and organised interests. It is true to say that there is considerable collaboration between government and big business in industrial policy. Similar interactions may also be observed in pluralist countries, like the United States (e.g. the military-industrial-complex or the protection of the steel industry). France, thus, may be placed in the "pluralism" category. As far as interest intermediation is concerned, in France there is little or no concertation and conflict regulation by means of collective bargaining between government and interest groups. Rather, there is strong *etatism* and considerable government intervention in the economy by means of planification, regulation, nationalisation and financial incentive programmes. The overall picture is not one of co-operative policy-making, but rather of the imposition of authoritatively decided policies on the private sector by the carrot and the stick (cf. Bonnaud, 1975; Hayward, 1976, 1982; Hennard, 1983).

Japan constitutes a more difficult case which needs more consideration. We will return to this case after a brief discussion of two other misplaced countries. These are Australia and Switzerland. Australia is placed in the "pluralism" category. However, this does not describe Australia's position adequately. There is some co-ordination of income policies by the Conciliation and Arbitration Commission, which has considerable powers. Moreover, there is some regular tri-partite consultation of government, the Australian Council of Trade Unions and the Council of Australian Industry. These are elements of corporatism, which are quite significant for the economic development of Australia (cf. OECD, 1983). According to the criteria of Lehm-

bruch's (1984) criteria, Australia should be placed in the "medium corporatism" category rather than in the "pluralism" category.³

As far as Switzerland is concerned, we should acknowledge that it does not, as Kriesi (1982) points out, fit with any established definition of corporatism. Switzerland has a rather pluralist interest structure, which is, however, strongly integrated by an encompassing consultation of interest and elite accommodation of conflict. This is usually called consociational decision making. Consociational decision making differs significantly from corporatism: first, it is not a tri-partite bargaining, but rather includes all major interest groups and parties as well as subnational governments; second, it does not concentrate solely on economic and social policy, but includes any important national policy decision; third, it does not operate through formalised bargaining institutions, but rather through extensive pre-parliamentary consultations of interest groups, parties and subnational government by the federal government and through informal interactions among the elites; and fourth, it does not aim at concerted income policies, but rather attempts to minimise opposition to federal policy (cf. Kriesi, 1982; Lehner, 1983 c, 1984; Rey, 1983; Schmidt, 1985; Steiner, 1974; see also Katzenstein, 1984; Lijphart, 1975; Obler, Steiner and Diericks, 1977; Steiner and Dorff, 1980).

Considering all this, Switzerland can hardly be placed in any of the corporatism categories in Lehmbruch's scale. This is especially the case since in Switzerland, in contrast to the corporatist countries, bargaining and concertation has no focus on the distributive struggle of labour and capital and on income policies. Rather, major attempts are made to avoid labour disputes and distributive struggle by means of legally guaranteed contracts of labour and capital including wage fixing and a renunciation of strike action (cf. Schmidt, 1985). Thus Switzerland needs to be in category by itself — a category which should be set above "strong corporatism", because consociational decision making aims at a comprehensive integration of interest intermediation beyond business and labour. It is thus more comprehensive than tri-partism.

The last case which has now to be discussed is Japan. As is the case with Switzerland, Japan does not fit established concepts of corporatism. There is a well established concertation of government and the private sector which, however, excludes organised labour. Wilensky (1976, 1981) calls this "corporatism without labour". But the exclusion of labour from the interactions of government and the private sector is not the only difference between Japan and the corporatist countries. As in the Swiss case, concertation in Japan is not focused on the distributive struggle of labour and capital. Rather, this struggle is neutralised by means of paternalistic and privatised labour and income policies of big business. In Japan concertation thus lacks the specific

³ I wish to acknowledge that Francis G. Castles informed me of the misplacement of Australia on Lehmbruch's scale.

distributive focus of corporatism and is more generally orientated to the management of technical-economic change and the promotion of economic expansion (cf. Dohse, Jürgens and Malsch, 1984; Lehmbruch, 1982; Pempel and Tsunekawa, 1979; Tokunaga, 1983). Altogether, Japan is again a case of broad concertation which cannot readily be subsumed under the concept of corporatism.

The Japanese mode of concertation differs considerably from consociational decision making in Switzerland. It is purposively orientated to the management of the economy and its expansion, while consociational decision making is a more general or less focused pattern of conflict resolution. Moreover, consociational decision making is more encompassing, for it includes organised labour. Apart from that, there are strong similarities between interest intermediation and policy-making in the two countries. In Japan, as well as in Switzerland, major efforts are made to harmonise interest intermediation and policy-making, and to promote concordant behaviour of the major actors in the private and the public sector. Moreover, concertation in both countries is, unlike corporatism, not focused on distributive struggle and income policy. Rather, in both countries attempts are made to neutralise or avoid distributive struggle. Finally, in both countries, concertation expands over a wide range of different policies. Given these similarities, it is reasonable enough to integrate the Japanese and the Swiss mode of interest intermediation in a common category which we may call "concordance". This term describes the essence of interest intermediation in both countries, namely a harmonisation of the interactions of the private and the public sector for the sake of the economy at large.

This category may be integrated into Lehmbruch's scale. "Concordance" is set above "strong corporatism" because it aims at a broader, less focused concertation covering a wide range of policies. The resulting scale which also considers the other modifications discussed here is shown in Figure 1.

In the following section I will use this scale for an empirical investigation of the relationship between structural arrangements, interest aggregation and policy performance.

4. The Institutional Control of Pressure Politics: Some Empirical Evidence

In terms of the argument presented in this paper, the major problem of the efficiency or inefficiency of social and economic policies in the advanced democratic capitalist societies is the enhancement of disproportionate power for special interest groups and a disproportionately high efficacy of the related demand for particularistic public policies by the highly differentiated and pluralist interest structures of these societies. Theoretically at least, a potentially effective solution to this problem is an institutional integration of or-

Figure 1. *A Scale of Interactions of Private and Public Sector*

1. Pluralism	fragmented and segmented interest inter-mediation	U.S.A. Canada France
2. Weak Corporatism	institutionalised participation of organised labour in certain areas; narrow scope of collective bargaining	U.K. Italy
3. Medium Corporatism	sectoral participation; but broad scope of collective bargaining	Ireland Belgium Germany Denmark Finland Australia
4. Strong Corporatism	tri-partite concertation with broad scope; comprehensive co-ordination of income policies	Austria Sweden Norway Netherlands
5. Concordance	comprehensive co-ordination of the inter-actions of the private and the public sector	Japan Switzerland

Source: Czada (1983); Lehmruch (1984), with some modification and extension.

ganised interest intermediation. This has been argued in the previous section of this paper. In this part, we will investigate this case empirically.

Basically, our concern here is with the previously elaborated hypothesis that

the more organised interest intermediation is institutionally integrated, the more constrained is the power of special interest groups, the more balanced is interest aggregation and the higher is the efficiency of public policy.

This hypothesis is, however, not directly testable, since we lack comparative data on the power of special interests, the balance of interest aggregation and the efficiency of social and economic policy. These are also theoretical concepts rather than operationally defined terms. We may, however, test the hypothesis indirectly by using available data on the distributive, economic and fiscal performance of the OECD-countries included in our scale. This requires that some testable hypotheses on the relationship between modes of interest intermediation and distributive, economic and fiscal performance are derived from our basic hypothesis. The argument presented in the previous sections of this paper suggests a number of such hypotheses.

In the first section, it was argued that government intervention based on the disproportionate power and efficacy of special interests inhibits a stable

accommodation of distributive conflict. From this perspective, the following hypothesis may be suggested:

Hypothesis 1:

The higher the institutional integration of interest intermediation in modern democratic capitalist societies, the higher is their capacity to accommodate distributive conflict, and the lower the amount of distributive struggle in these societies.

A useful indicator for the amount of distributive struggle in democratic capitalist societies is strike activity (cf. Paloheimo, 1984 a, 1984 b). The relevant data are shown in Table 1.

The data in Table 1 lend some support to Hypothesis 1. In general, those countries with a more integrative mode of interest intermediation tend to

Table 1. *Institutional Structure and Strike Activity in OECD-Countries, 1960—1979*

(Average number of days lost per year in labour disputes per 1.000 workers)

	1960—69	1970—79	rank 1960—69	rank 1970—79	rank combined (Median)
<i>Pluralism</i>					
U.S.A.	382	457	13	11	12
Canada	422	802	15	16	15.5
France	886	171	17	8	12.5
<i>Weak Corporatism</i>					
U.K.	143	526	11	13	12
Italy	728	1049	16	17	16.5
<i>Medium Corporatism</i>					
Ireland	398	544	14	15	14.5
Belgium	75	222	8	10	9
Germany	12	46	2	6	4
Denmark	135	212	10	9	9.5
Finland	119	499	9	12	10.5
Australia	186	541	12	14	13
<i>Strong Corporatism</i>					
Austria	36	7	5	2	3.5
Sweden	15	41	3	5	4
Norway	56	38	6	4	5
Netherlands	17	36	4	3	3.5
<i>Concordance</i>					
Japan	84	85	7	7	7
Switzerland	3	2	1	1	1

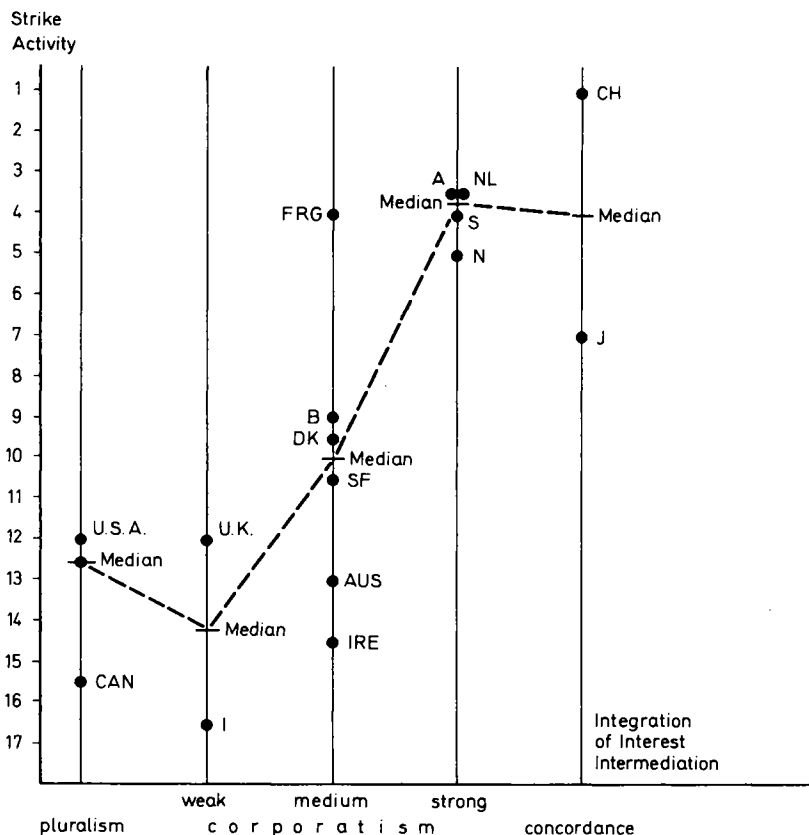
Source: Data presented in Paloheimo (1984 a, b) on the basis of OECD-statistics.

R = -0.43

excluding pluralism R = -0.54

have less strike activity than those with weak integration. The relationship is, however, not very strong. If we calculate the rank correlation between the mode of interest intermediation and the combined rank for strike activity, we obtain a value of $R = -0.43$. The sign is in the expected direction, but the value of the coefficient is rather low. One reason for this is that the "pluralism" countries perform considerably better and the "concordance" countries somewhat worse than theoretically expected. This is clearly shown in Figure 2. This figure suggests that the relationship is not as linear as described in Hypothesis 1.

Figure 2. *Strike Activity and Integration of Interest Intermediation in OECD-Countries, 1960–1979*



(rank ordering positions from table 1; strike activity: combined rank)

In the first part of this paper I argued that the major source of distributive conflict in the advanced capitalist societies is the disparity of income and needs. As I have theoretically demonstrated elsewhere (Lehner, 1983 b), the social structures of the advanced capitalist societies enhance a drive toward higher consumption and an upward adjustment of needs to social comparisons. We may, therefore, assume that needs or desires across income groups are tending to become increasingly similar. This implies that the potential for distributive conflict increases as income inequality increases. Income inequality is, therefore, an interesting indicator for the potential of distributive conflict in advanced capitalist societies. It is, however, an indicator which needs cautious interpretation because low inequality does not necessarily imply a low potential for distributive conflict. The highly differentiated social structures of advanced capitalist societies and the related social comparison processes not only create social and political pressure for equality, but simultaneously pressure for the maintenance of income differentiation and of some inequality (cf. Lehner, 1983 b; see also Hirsch, 1977; Duesenberry, 1967; Thurow, 1981).

Given that this is so, we may interpret income inequality as an indicator of the balance between competing interests in respect of income distribution. In so doing, we may postulate:

Hypothesis 2:

In democratic capitalist countries income inequality is lower, the more the dominant mode of interest intermediation enhances an encompassing concertation of income policies.

More specifically, this means that we expect that income inequality decreases as the strength of corporatism increases. However, no prediction is made as to the impact of concordance, because this mode is not focused on income policies.

Table 2 shows two different measures for income inequality, taken from Dryzek (1978). The two measures point at different aspects of income distribution: the decile ratio indicates inequality at the extremes, whereas the Gini coefficient is concerned more with the middle of the income range (Dryzek, 1978: 403 ff.). We should note that the data basis of Table 2 contains some problems of comparability, which we do not take into consideration here (cf. Sawyer, 1976, esp. pp. 22 ff.).

The data in Table 2 for both measures and the combined ranking provide some support for Hypothesis 2. The rank order correlation between mode of interest intermediation and income inequality is $R = -.678$, if we exclude concordance and $R = -.346$ if we include it.

As has been explained above, we may, with some limitations, interpret income inequality as an indicator of potential distributive conflict. Measured in this way, a high potential for distributive conflict does not mean that we also should expect a high degree of actual distributive struggle. In terms of our

Table 2. *Institutional Structure and Income Equality in OECD-Countries*
(Percentage of total income going to deciles of population)

	Gini Coefficient	Rank	Ratio of top and bottom 10 per cent	Rank	Combined Rank (Median)	Year
<i>Pluralism</i>						
U.S.A.	0.381	11	17.7	13	12	1972
Canada	0.354	8	16.7	12	10	1969
France	0.414	14	21.7	15	14.5	1970
<i>Weak Corporatism</i>						
U.K.	0.318	7	9.4	3	5	1973
Italy	0.398	13	18.2	14	13.5	1969
<i>Medium Corporatism</i>						
Ireland	0.359	10	15.3	10	10	1965/66
Belgium	0.306	2	9.2	2	2	1973/74
Germany	0.383	12	10.8	7	9.5	1973
Denmark	0.423	15	15.6*	11	13	1973
Finland	0.476	17	44.0	17	17	1969
Australia	0.312	5	11.3	8	6.5	1966/67
<i>Strong Corporatism</i>						
Austria	0.306	2	11.8	9	5.5	1970
Sweden	0.302	1	9.7	4	2.5	1972
Norway	0.307	4	9.7	4	4	1970
Netherlands	0.354	8	10.7	6	7	1967
<i>Concordance</i>						
Japan	0.316	6	9.1	1	3.5	1969
Switzerland	0.423	15	26.7*	16	15.5	1961/62

Source: Dryzek (1978) on the basis of Sawyer (1976).

Note: * Estimated by interpolation.

theoretical argument, we should rather expect that the degree to which income inequality translates into actual distributive struggle (measured by strike activity) depends on the degree of institutional integration of organised interest intermediation. The reason for this is the higher capacity of conflict management which we associate theoretically with higher integration of interest intermediation. This leads to the following hypothesis:

Hypothesis 3:

The higher the institutional integration of interest intermediation in democratic capitalist societies, the less distributive struggle (strike activity) will correspond to income equality.

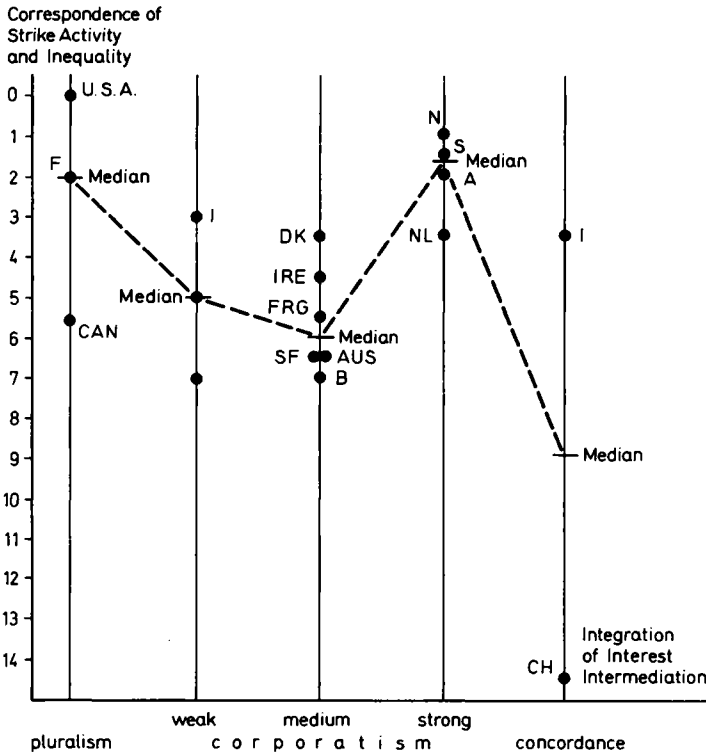
In order to test this hypothesis, we may compare the countries' rankings for strike activity and income equality. The correspondence of distributive struggle and income inequality may be measured by the absolute magnitude

of the difference between each country's ranks for strike activity and inequality. The lower this difference is, the greater the correspondence between income inequality. Using this measure, Figure 3 shows the nature of the actual relationship.

It is quite obvious that Figure 3 does not support Hypothesis 3. Contrary to this hypothesis, there is a high correspondence between strike activity and income inequality in the "strong corporatism" countries. A rather weak tendency in the expected direction can be observed for "pluralism", "weak corporatism" and "medium corporatism", whereas the situation in the "concordance" countries is quite ambivalent.

This result certainly merits further analysis, although only a brief discussion is possible here. Hypothesis 3 is based on the assumption that a higher

Figure 3. *Institutional Structures and the Correspondence of Strike Activity and Income Inequality in OECD-Countries*



(absolute magnitude of rank differences for strike activity and income inequality; combined rankings from tables 1 and 2)

institutional integration results in an increased capacity to manage distributive conflict. It enhances the control of special interests' power and efficacy, and provides for a more efficient interest aggregation. The rejection of Hypothesis 3 seems to raise doubts on the validity of this assumption. This points to an important limitation in the theoretical argument presented in the second part of this paper.

This argument only deals with the structural conditions of the integration of interest intermediation and neglects the substance of the strategies involved, as well as the relationship between structural arrangements and substantial strategies of accommodation and concertation. This is an important limitation of our argument, since the effective working of certain institutional structures is usually bound up with certain requirements as to the substantial content of integrative strategies (cf. Scharpf, 1977). Corporatism, for example, relies heavily on a tri-partite concertation of income policies and, thus, on successful attempts to reduce income inequality. This strategy is obviously very sensitive to income inequality and is therefore associated with a strong correspondence between distributive struggle and inequality. This is less true of modes of interest intermediation which have no major focus on income policy. It is certainly not the case in a country like Switzerland, where contractual regulations rule out strike activity in order to avoid a penetration of consociational decision making by distributive struggle.

These examples stress the importance of a further consideration of the relationship between institutional structures and substantial strategies of control of pressure politics. A systematic account of this relationship would, however, exceed the scope of this paper. It is, as Fritz Scharpf (1977) stresses, an important avenue for further theoretical and empirical research (see also Lehner and Keman, 1984). In the remainder of this paper, we will continue to concentrate on the structural aspects of the integration of organised interest intermediation — although we remain fully aware of the limitations of this approach.

Inflation and unemployment are important aspects of distributive conflict in modern democratic capitalist societies, as Mancur Olson (1982) points out. He argues that much of inflation, unemployment and the combination of both, as well as differences between countries may be explained in terms of distributive conflict and the related influence of economic policy (see also Frey, 1983; Streissler, 1973). This is of importance when it comes to the Phillips-curve relationship, that is the assumption that there is an inverse relationship between inflation and unemployment. Experiences of stagflation as well as considerable differences in the combination of inflation and unemployment across the OECD-countries (see below Tables 3 and 4, and Figure 4) strongly suggest that both inflation and unemployment and the Phillips-curve relationship are to a considerable extent determined by economic policy.

Referring to the determination of unemployment and inflation by public policy, we are dealing with the substance and the structural conditions of

economic policy. As far as the substance of economic policy is concerned, we are concerned with different policy priorities and different policy strategies concerning inflation, unemployment and the fiscal and economic conditions affecting them. We are also speaking of government intervention, which negatively or positively affects the operation of the market and, through that influence, unemployment and inflation. As Olson (1982) stresses, policy priorities, policy strategies and the general substance of government intervention, are, to a large extent at least, expressions of critical policy choices which in turn represent a certain accommodation of conflicts of interests. Inflation and unemployment affect the income and wealth of individuals and groups, the profit of firms and the development of sectors and regions in different and often conflicting ways. That is why policies on inflation and unemployment usually involve and reflect a high degree of distributive conflict (cf. Friedman, 1977; Hankel and Isaak, 1981; Hankel and Lehner, 1976; Hirsch and Goldthorpe, 1978; Keman, 1984; Mueller, 1983; Olson, 1982, 1983; Paloheimo, 1984 a, 1984 b; Richardson and Henning, 1984; Scharpf, 1983; Schmidt, 1982).

Considering the relevance of distributive conflict for inflation and unemployment we may conjecture that countries which manage distributive conflict will perform better in terms of unemployment and inflation than those with poorer management. The following hypothesis derives from this theoretical argument:

Hypothesis 4:

The higher the institutional integration of interest intermediation in democratic capitalist societies, the better their performance in terms of unemployment and inflation.

Concerning the Phillips-curve relationship, our theoretical argument suggests:

Hypothesis 5:

Countries with a high institutional integration of interest intermediation are likely to deviate from the Phillips-curve relationship by combining low inflation and low unemployment, whereas countries with low integration are likely to deviate by combining high inflation and high unemployment.

Table 3 shows the inflation rates for the countries concerned. The figures on top of each category of countries show the average rate for these countries. Looking at Table 3, it may be observed that our data do not provide much support for Hypothesis 4. For the periods 1960–66 and 1967–73 there is no remarkable difference at all, whereas there is a weak tendency in the predicted direction in the periods 1974–80 and 1960–80. We have, however, to acknowledge that there is much variation within each category. The control of inflation across time, indicated by the percentage difference between the periods of 1960/66 and 1974/80, makes a stronger case for Hypothesis 4. However, the impact of institutional structures on performance concerning inflation seems to be rather slight. Moreover, the “pluralism” countries perform much better than theoretically expected.

Table 3. *Institutional Structure and Inflation in OECD-Countries, 1960—1980*
(average annual percentage changes of consumer price indices)

	1960/66	1967/73	1974/80	1960/80	Difference between 1974/80 and 1960/66
<i>Pluralism</i>	2.4	5.1	9.9	5.8	7.4
U.S.A.	1.7	4.9	9.2	5.3	7.5
Canada	2.1	4.5	9.3	5.3	7.2
France	3.5	5.9	11.1	6.8	7.6
<i>Weak Corporatism</i>	3.9	6.0	16.5	8.8	12.6
U.K.	3.4	7.0	16.0	8.8	12.6
Italy	4.4	5.0	17.0	8.8	12.6
<i>Medium Corporatism</i>	3.8	5.9	10.6	6.8	6.9
Ireland	3.9	8.2	15.4	9.1	11.5
Belgium	2.8	4.5	8.1	5.2	5.3
Germany	2.7	4.3	4.8	3.9	2.1
Denmark	5.8	6.7	11.0	7.9	5.2
Finland	5.1	6.4	12.5	8.0	7.4
Australia	2.2	5.1	11.9	6.4	9.7
<i>Strong Corporatism</i>	3.9	5.8	8.2	5.9	4.3
Austria	3.7	4.8	6.3	4.9	2.6
Sweden	4.1	5.3	10.3	6.6	6.2
Norway	4.0	6.3	9.0	6.4	5.0
Netherlands	3.6	6.3	7.1	5.6	3.5
<i>Concordance</i>	4.7	5.9	6.9	5.8	2.2
Japan	5.7	6.7	9.7	7.4	4.0
Switzerland	3.6	5.1	4.0	4.2	0.4

Source: OECD historical statistics.

A similar situation exists with respect to unemployment. Again the data generally do not provide much support for Hypothesis 4, although there is a tendency in the predicted direction (see Table 4). As is the case with inflation, there is a considerable variation within the different categories. We should, however, note that the countries with a high institutional integration ("strong corporatism" and "concordance"), with the exception of the Netherlands, tend to perform considerably better than the rest. As far as unemployment is concerned, institutional integration seems to have a somewhat stronger impact.

Interestingly enough, the picture becomes much clearer when we consider inflation and unemployment conjointly in terms of the Phillips-curve relationship (see Figure 4). As Figure 4 shows, there are remarkable differences be

Table 4. *Institutional Structure and Unemployment in OECD-Countries, 1960–1980*

(annual average of unemployment as percentage of total labour force)

	1960/66	1967/73	1974/80	1960/80	Difference between 1974/80 and 1960/66
<i>Pluralism</i>	3.7	4.0	6.3	4.7	2.5
U.S.A.	5.1	4.5	6.8	5.5	1.7
Canada	4.9	5.1	7.2	5.8	2.3
France	1.2	2.4	4.8	2.8	3.6
<i>Weak Corporatism</i>	3.2	4.0	5.7	4.3	2.6
U.K.	1.4	2.4	4.7	2.8	3.3
Italy	4.9	5.6	6.7	5.7	1.8
<i>Medium Corporatism</i>	2.1	2.4	5.0	3.2	2.9
Ireland	4.9	5.6	6.7	5.7	1.8
Belgium	2.1	2.2	5.7	3.3	3.6
Germany	0.7	1.0	3.5	1.7	2.8
Denmark ¹	1.7	1.0	4.4	2.6	2.7
Finland	1.4	2.6	4.6	2.9	3.2
Australia	1.9	2.0	5.2	3.0	3.3
<i>Strong Corporatism</i>	1.3	1.6	2.4	1.8	1.1
Austria	2.0	1.5	1.6	1.7	–0.4
Sweden	1.5	2.2	1.9	1.9	0.4
Norway ²	1.0	1.1	1.8	1.3	0.8
Netherlands	0.6	1.6	4.1	2.1	3.5
<i>Concordance</i>	0.7	0.6	1.1	0.8	0.5
Japan	1.3	1.2	1.9	1.5	0.6
Switzerland	0.0	0.0	0.3	0.1	0.3

Source: OECD historical statistics; data for Switzerland: Schmidt (1985).

Notes: ¹ break in series 1974/75.² break in series 1971/72.

tween the different categories. Clearly, Figure 4 lends some support to Hypothesis 5.

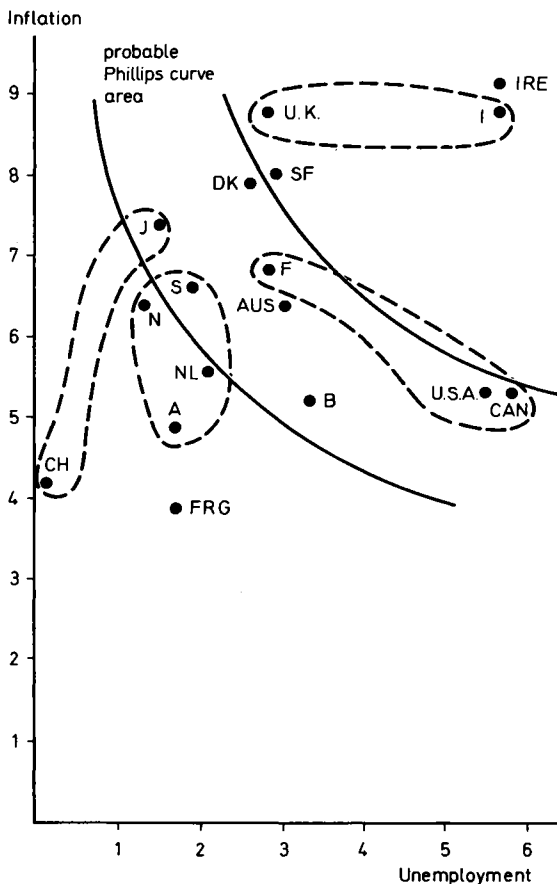
Our rather crude analysis of the relationship between the institutional integration of interest intermediation and inflation and unemployment points to a considerable ambivalence in the relationships involved. This ambivalence also exists with respect to economic performance and fiscal expansion. In this respect, our theoretical argument suggests:

Hypothesis 6:

The higher the institutional integration of interest intermediation in democratic capitalist societies, the better their economic performance and the lower their fiscal expansion.

Neither economic performance nor fiscal expansion are precisely defined in a generally accepted way. They need an operational definition. Here, economic performance is defined in terms of (1) growth of GDP, 1960–1980; (2) GDP per capita, 1980; (3) control of inflation, 1960/66 to 1974/80; and (4) control of unemployment, 1960/66–1974/80. Overall economic performance is measured as the median of each country's ranking on these four var-

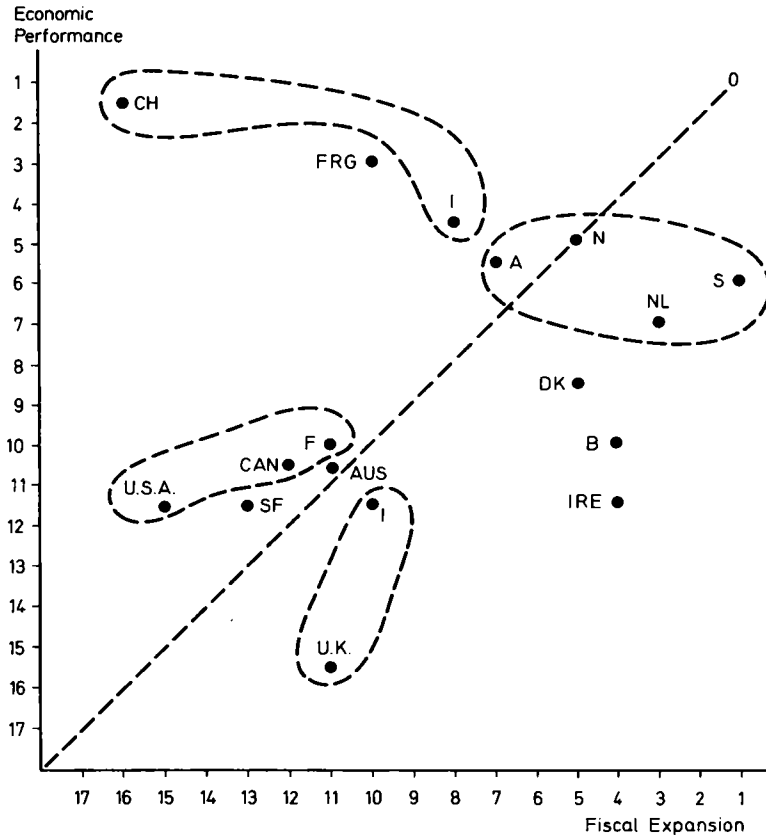
Figure 4. *Inflation and Unemployment in OECD-Countries, 1960–1980*
(average annual rates for period 1960/80 from Tables 3 and 4)



tables. Similarly, fiscal expansion is defined in terms of (1) growth of outlays, 1960–1980; (2) level of outlays as a percentage of GDP, 1980; (3) increase in taxation, 1960–80; (4) level of taxation as a percentage of GDP, 1980; and (5) public debts as a percentage of GDP, 1977–81. Again, overall expansion is measured as the median of each country's ranking on these variables. The relevant data and the rankings are shown in Tables 5 and 6. We will not discuss the content of these tables here, but only consider Figure 5 which shows the overall picture for economic performance and fiscal expansion.

As Figure 5 shows quite clearly, the more integrated countries ("strong corporatism" and "concordance") tend to perform considerably better in

Figure 5. *Institutional Structure, Economic Performance and Fiscal Expansion in OECD-Countries, 1960–1980*



(overall measures from Tables 5 and 6)

Table 5. *Institutional Structure and Economic Performance in OECD-Countries, 1960-1980*

	Growth of GDP 1960-1980		GDP per capita 1980		Combined rank for growth and level (Median)		Ranks for		Overall Economic Performance ²
	% ann. average change	rank	US-Dollar	rank			Inflation ¹	Unemploy- ment ¹	
<i>Pluralism</i>									
U.S.A.	3.5	14	11,360	9	11.5		12	6	11.5
Canada	4.1	12	10,130	11	11.5		10	9	10.5
France	4.6	4	11,730	7	5.5		13	16	10
<i>Weak Corporatism</i>									
U.K.	2.3	17	7,920	15	16		16	13	15.5
Italy	4.4	6	6,480	16	11		16	7	11.5
<i>Medium Corporatism</i>									
Ireland	4.2	8	4,880	17	12.5		15	7	11.5
Belgium	4.1	12	12,180	6	9		8	16	10
Germany	4.6	4	13,590	2	3		2	11	3
Denmark	3.4	15	12,950	4	9.5		7	10	8.5
Finland	4.2	8	9,720	14	11		11	12	11.5
Australia	4.1	8	11,470	8	8		14	13	10.5
<i>Strong Corporatism</i>									
Austria	4.2	8	10,230	10	9		3	1	5.5
Sweden	3.0	16	13,520	3	19		9	3	6
Norway	5.6	2	12,650	5	3.5		6	5	5
Netherlands	4.4	6	11,470	8	14		4	15	7
<i>Concordance</i>									
Japan	7.2	1	9,890	12	6.5		5	4	4.5
Switzerland	5.4	3	16,440	1	2		1	2	1.5

Sources: OECD historical statistics; UN Statistical Yearbook.

Notes: ¹ Ranking according to differences between 1974/80 and 1960/66 in Tables 2 and 3.² Median of rankings for growth of GDP, GDP/capita, inflation and unemployment.

Table 6. *Institutional Structure and Fiscal Expansion in OECD-Countries, 1960/62—1980*

	Growth of outlays 1960—1980		Level of outlays of GDP 1980		Combined rank (Median)	Increase in taxation 1960—1980		Level of taxation % of GDP 1980		Public debts ¹ % GDP, 1977—1981 annual average		Overall fiscal expansion ²
	%	rank	%	rank		%	rank	%	rank	%	rank	
<i>Pluralism</i>												
U.S.A.	19.4	17	33.2	16	16.5	15.0	15	31.1	15	1.32	15	15
Canada	40.8	14	40.7	12	13	33.5	10	32.9	11	3.73	9	12
France	33.5	16	46.2	9	12.5	—	—	42.2	6	1.98	13	11
<i>Weak Corporatism</i>												
U.K.	36.8	15	44.6	11	13	26.3	13	35.6	11	5.03	6	11
Italy	51.5	10	45.6	10	10	-4.4	16	32.3	14	11.71	2	10
<i>Medium Corporatism</i>												
Ireland	75	4	60.1	3	3.5	66.7	4	36.0	9	11.93	1	4
Belgium	70.6	6	51.7	4	5	71.3	3	45.3	4	7.9	4	4
Germany	46.6	12	46.9	8	10	70.8	14	37.5	8	3.46	10	10
Denmark	142.3	1	49.0	6	3.5	78.7	2	45.1	5	2.51	12	5
Finland	43.1	13	38.2	13	13	26.7	12	35.6	11	1.43	14	13
Australia	54.3	9	34.1	14	11.5	30.6	11	30.6	3	3.15	11	11
<i>Strong Corporatism</i>												
Austria	51.1	11	48.5	7	9	35.1	9	41.6	7	4.51	7	7
Sweden	111.2	2	65.7	1	1.5	82.4	1	50.3	1	7.14	5	1
Norway	65.2	7	49.4	5	6	51.0	6	47.1	2	8.16	3	5
Netherlands	85.5	3	62.5	2	2.5	52.2	5	45.4	3	4.39	8	3
<i>Concordance</i>												
Japan	60.4	8	32.7	15	11.5	42.3	8	35.9	10	—	—	9
Switzerland	72.6	5	29.7	17	11	45.3	7	30.7	16	0.14	16	14

Sources: OECD historical statistics, and national account and revenue statistics; IMF government finance statistics.

Notes: ¹ Overall general government deficit; central government for Canada, Italy, Ireland (1977—1980), Belgium, Denmark, Netherlands; Norway only 1977—1979.² Median of rankings for growth and level of outlays, increase and level of taxation, and public debts.

economic terms than the less integrated countries ("pluralism" and "weak corporatism"). No clear tendency exists with respect to the "medium corporatism" countries. As an examination of Table 5 shows, the generally better performance of the integrated countries is anything but uniform with respect to the variables involved. Only Switzerland ranks high on all four variables, whereas the relatively high overall performance of Sweden, for example, is accounted for primarily by high GDP per capita and low unemployment. Similarly, among the low performers, only the United Kingdom ranks low on all four variables, whereas Italy, for example, performs relatively well with respect to GDP growth and unemployment.

The case described in Figure 5 certainly provides considerable support for Hypothesis 6 as far as economic performance is concerned. The situation is quite different when we consider fiscal expansion. In this respect, the "strong corporatism" countries perform much worse than predicted, whereas the "pluralism" countries do much better than expected. As far as fiscal expansion is concerned, our data reject Hypothesis 6 rather than support it. This is also true when we consider economic performance and fiscal expansion together.

The relationship between the two gives us some indication of the relative economic efficiency of public policy. We may define high efficiency as a combination of high economic performance and low fiscal expansion, while high fiscal expansion and low economic performance may indicate inefficiency. Defined in this way, the efficient countries are those to the upper left of the dashed line 0 in Figure 5; the inefficient ones are those to the lower right of that line. Evidently, the situation with respect to efficiency is quite similar to that concerning fiscal expansion. As far as efficiency is concerned, the data in Figure 5 do not support Hypothesis 6.

5. Conclusions

In the previous section we have examined empirically the relationship between institutional structures and public policy performance. The underlying hypothesis was that countries with integrated interest intermediation and encompassing interest aggregation would perform better than the others. This hypothesis received considerable support with respect to the management of distributive conflict, weaker support with respect to economic performance and little or no support with respect to fiscal performance. Moreover, the empirical evidence pointed to a considerable ambivalence in the relationship.

Obviously, this requires further theoretical investigation. The purpose of further research must be to find systematic explanations for the deviant cases. By systematic explanations I mean explanations which explain deviations in terms of new and consistent hypotheses rather than of *ad hoc* arguments referring to individual cases. There are, of course, in most individual cases arguments which explain this deviation from our theoretical expectations. The Federal Republic of Germany, for example, often deviates in performance

from the other "medium corporatism" countries. An *ad hoc* explanation could refer to the existence of strong elements of societal corporatism in Germany. Such an explanation, however, does not increase the explanatory power of our theoretically derived hypothesis concerning the relationship between institutional structures and policy performance — unless it can be generalised in terms of either a systematic redefinition of the relevant features of institutional structures and/or a new or modified hypothesis stipulating the nature of the relationship.

So far, our argument has basically been concerned with institutionally determined capacities to integrate interest intermediation and to provide for an encompassing interest aggregation. We have, however, neglected the transaction costs involved in interest intermediation and aggregation. We have, in other words, neglected the fact that capacities have their price.

An interesting approach to these problems is offered by Buchanan and Tullock (1962), who argue that in collective decision making the externalities of decisions decrease as the inclusiveness of decision making increases. At the same time, transaction costs increase as well. In other words, the less inclusive participation is, the more the costs of public goods and services are externalised to the individuals and groups receiving little or no profit from these goods and services and the lower, accordingly, is the efficiency of the provision of public goods and services. In order to increase efficiency, we have to increase participation which, however, also increases transaction costs in terms of time, organisation and other efforts.

Applied to our case, this means that a more integrated interest intermediation and a more encompassing interest aggregation reduces externalities and increases the efficiency of public policy. At the same time, however, it involves higher transaction costs. Such transaction costs may include, for example, more time consuming bargaining, inflexibility of decision making or a lowered capacity for innovation.

Following this line of argument, it may be suggested that different types of structural arrangements of the interactions of government and private sector are associated with different positive *and* negative policy-making potentials. They may offer different capacities to manage distributive conflict and economic policy. They tend, however, to create different types of deficiencies. (Lehner and Keman, 1984; Lehner, Schubert and Geile, 1983).

In a simplified and abstract manner, this situation is described in Figure 6 which is taken from Lehner, Schubert and Geile (1983). In this figure, a different type of positive and negative policy-making potential is associated with each type of structural arrangement. Corporatist interactions, for example, allow on the one hand for co-operative policy-making, but may also result in much inflexibility and immobilism. By contrast, strongly fragmented interactions and a high degree of particularism may often be associated with uncontrolled interest aggregation and policy-making, but may also enhance spontaneous policy-making.

Figure 6. *Positive and Negative Policy-Making Potentials of Institutional Networks*

organised interest intermediation	political administrative decision structure	
	integrated	fragmented
integrated	Co-operative policy-making Immobilism Inflexibility	Private bargaining Sectoralisation
fragmented	Authoritative allocation Overregulation Routinisation of problem-solving	Spontaneous policy-making Uncontrolled developments Randomisation of problem-solving

The argument illustrated in Figure 6 certainly needs to be further developed and brought into a more concrete and precise format. Basically, however, it provides a means by which we may more systematically explain the ambivalence of institutional structures, which we have observed in the previous section. In order to utilise this approach, we have to dismiss the assumption of simple and direct relationships between institutional structures and policy performance. More precisely, we have to consider that institutional structures allow for different policy strategies, and that performance is the result of an interaction of institutional structures and policy strategies. We have already raised this point, originally made by Fritz W. Scharpf (1977), in the previous section.

Scharpf's approach opens up an interesting field for policy research focusing on the complex relationship between institutional structures, types of policies and policy-outcomes. Such research is necessary in order to gain a better understanding of the power structure underlying organised interest intermediation and the operation of power in modern democratic capitalist societies.

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Welfare and Warfare

Critical Options and Conscious Choice in Public Policy*

HANS KEMAN

1. Introduction

Much of budgetary research on the management of mixed economies has concentrated either on the explanation of certain overall trends in public expenditure or on the determinants of specific public policies (Tarschys, 1983; Downs, 1984; Flora and Heidenheimer, 1981; Castles, 1982). Much less attention has been paid to the analysis of the interdependence of specific public policies within the context of the public economy as a whole. It is only quite recently that public policy research has been directed towards questions such as how interdependent certain policy-related decisions are with other areas of public policy and/or total budgetary constraints. Questions of this nature are becoming even more important today as the problem of how to make ends meet in the area of public finance has become increasingly intractable (Tarschys, 1983: 205). Due to the severest economic crisis that capitalist democratic countries have experienced since the Second World War there is now a situation in which resource issues are treated more than ever in "either-or" (or even "neither-nor") terms. In a number of countries such developments have not only led to innovation in "policy styles" (cf. Richardson, 1982), but also to changes in existing *policy-mixes*. Such a change in the real world of policy-making has induced some students of public policy analysis and budgetary research to re-evaluate the "state of the art". As George W. Downs has observed:

* This paper is the result of a research-project that I have been conducting at the European University Institute (Florence) within the context of the "The Future of Party Government" project [director: Rudolf Wildenmann]. I am also grateful for the additional financial support of the University of Amsterdam and for the assistance of Tibert Van Dijk, Julia Valerio and Frans van Veen and for the useful comments of Oda van Cranenburgh and the editors.

After more than a decade of minor variations on themes introduced by Wildavsky, Crecine, Dye and others, attention has begun to shift away from a small number of fundamental questions such as "Is budgeting incremental?" and "Does politics matter?" (1984: 297).

In this chapter I shall concentrate on the following question: to what extent can a change in policy-mixes be observed between 1962 and 1982 and how can any such change be accounted for? A policy-mix is a combination of at least two independent but at the same time related public policies. The policy-mix on which I shall focus here (and which is the dependent variable of the analysis) concerns the budgetary relationship between "welfare and warfare".

I have chosen these two policy areas for the following reasons:

1. In most capitalist democracies, the interrelatedness of both public policies is recognised; it is often described as the choice between "Guns and Butter";
2. As a consequence of postwar development in respect of the growth of the welfare state and Cold War defence expenditures, these areas are both major items in the budgetary equation of the modern state, and are likely to be salient features in any process of overall budgetary decision-making;
3. There exists a body of literature on the relationship between expenditures on welfare and defence which is often conflicting and inconclusive regarding the available options and existing constraints.

In summary, in the light of the present economic situation, and the related political problem of making critical choices in public policy, it appears useful and important to investigate the interdependent relationship between welfare and warfare. Therefore, I shall first introduce the concept of "policy-mix" as applied to this relationship and discuss the way it can be operationalised in a theoretically and empirically meaningful way. To this end the existing literature on the "trade-off" between welfare and defence will be surveyed with an eye to explanations of the nature of the policy-mix and its changing character. In Section 3, I will present the pattern of allocative options that emerges from the empirical analysis from both a synchronic and diachronic viewpoint. The development of policy-mixes will be analysed across the countries under study. I will also explore the change over time by looking at specified sub-periods. This presentation and exploration of the emerging pattern is followed in Section 4 by an examination of the range of alternative explanations of the pattern of policy-mixes with a view to establishing the relative importance of political, economic and budgetary factors in determining outcomes. In the final section, I shall discuss some of the implications for the future development of the welfare/warfare trade-off suggested by the analysis as a whole.

2. Welfare and Warfare as a Policy-Mix

It is now widely acknowledged that there is an economic crisis at hand, which is not only the most serious since World War II but also of a different nature than previous crises. It appears to be more than ever before a crisis which is both political *and* economic in character.

It is political in the sense that there is a growing discrepancy between what is expected of governments and what they are able to deliver. The expectations cannot be met because of insufficient legal and financial resources. Governments are suffering from the consequences of "overload" and often the legitimacy of political parties is diminishing (Offe, 1979; Hibbs and Madsen, 1980; Coughlin, 1980; Rose, 1980; Lehner, 1979).

This development, in conjunction with a growing doubt about the manageability of the economy by the state, has led to a re-evaluation of the manner in which the public budget and specific budget items should be handled. It is no longer seen as sufficient or rational to examine budgetary items separately on their own merits and there has been a growing tendency to prioritise items and to assess claims in relation to the resource base as a whole (Cusack, 1984; Tarschys, 1985).

Until the late 1970's budgetary politics had often involved a competition within the bureaucracy with the active assistance of a variety of political and semi-political agents to maintain specific budgets or even to increase them. As long as the economy was booming this did not present many political problems, as budgetary growth remained hidden behind the "windfall effects" of economic growth. This situation has not only led to a growth of the public economy in almost all capitalist democracies, but also to the increase of welfare state related services (Flora and Heidenheimer, 1981; Castles, 1982; Alber, 1982). Of course, this development varied quite considerably across the countries under study here; in some the public economy grew less or the welfare state remained under-developed, whereas in others all increases in public spending were directed to the welfare state. However such increases were often not only paid for by the increments to the total budget, but also by reallocation of the budget. This process of *reallocation* within the budget (or public economy) and its change over time is what I shall describe as the development of certain *policy-mixes*.

In this chapter I investigate the changing relationship between expenditures on welfare related issues and on military efforts. The observed change will be interpreted in terms of trade-offs and pay-offs. A trade-off is described in much of the literature (Wilensky, 1975: Chapter 4; Caputo, 1975) as the situation in which a reallocation represents a zero-sum game: what one gains the other loses (assuming all other things are equal). A pay-off describes a situation in which the reallocation represents a positive (or negative) sum game: both policies win or lose (assuming the overall budget remains the same). These types of allocative patterns have long been neglected in the an-

alysis of "politics and policies". It is only since greater attention has been devoted to the interdependence of politics and economics that these critical choices and their outcomes as policy-mixes have come to the fore (Keman and Lehner, 1984; Scharpf, 1983). For instance, it is obvious that the deteriorating economic performance in most countries will influence in one way or another the output on welfare state related policies as well as efforts on defence. The decision to increase, to decrease, or to do nothing in respect of either or both of the policy-areas will also affect the public economy as a whole. This interdependence of different types of public policies is not only a consequence of the way in which political variables are diversely related to policy-making and policy-outputs, but is also dependent on varying economic developments in countries over a specified period. These different political and economic developments may also have consequences for the performance and outcomes of other public policies. Until now very little attention has been paid to the analysis of the interaction between different types of public policies. Yet, in contrast to the earlier period of favourable resource development (the 1960's), such an analysis would appear to be particularly important in the context of the on-going crisis in the vast majority of advanced capitalist democracies. Under conditions of crisis, reallocation within the overall budget becomes an issue of critical significance (Caputo, 1975; Keman, 1983).

Such interactive processes and their consequences will be the subject of analysis in the remainder of this chapter. An empirical analysis of the changing relationship between external security and welfare provision in seventeen capitalist democracies between 1962—1982 will serve to demonstrate the significance of this approach.¹ However, before turning to empirical analysis, it is first necessary to elaborate somewhat more fully on the concepts of *policy-*

¹ Empirical analysis here means a research design based on aggregate data, measured on ratio-interval level and analysed by means of descriptive and inferential statistics (see: Blalock, 1979; Müller and Schmidt, 1978). *The Universe of discourse* is small ($N = 17$) and I employ a "most similar" approach (cf. Przeworski and Teune, 1970) involving only advanced capitalist democracies (see for the countries involved Table 2 and Appendix). The countries excluded are Israel (because of permanent war-economy), Luxembourg (economically integrated into Belgium) and Iceland (which has no national defence of its own). Finally, New Zealand is left out because of unavailability of essential data. The period under review (1962—1982) has been chosen to emphasise the difference between prosperity and crisis in public policy-making and divided into pre-1973 (prosperity) and post-1973 (crisis) sub-periods. The dependent variables employed in this chapter are computed on the basis of final outlays of government expenditure rather than budget decisions. As there are several intervening stages in the allocation process, it is best to investigate final outlays. This is the bottom line of the budget and represents the final implementation stage. This approach has the advantage of exposing the net result of budget decisions and thus includes actions and influences at all stages in the process of public policy formation (see Domke *et al.*, 1983).

mix, *trade-off* and *pay-off* in the specific context of the interdependence of welfare and warfare.

2.1 Policy Mixes as a Result of Options and Constraints

Whether or not the state should intervene in societal processes ceased to be an issue among political scientists in the late 1960's and early 1970's. The concepts of macro-economic steering of market-economics and the development of the welfare state were widely accepted as "normal" modes of state intervention (e. g. George and Wilding, 1976; Castles, 1978; Gough, 1979). Generally speaking, both modes of intervention deal with a common set of problems; namely, providing the conditions for economic growth and creating mass loyalty by redistribution of the surplus (Offe, 1975). However, the resulting consensus has recently disappeared. The combination of Keynesian management of the economy and the welfare state is increasingly regarded as one of the main causes of the present economic crisis. This crisis is quite distinct from previous ones, not only in the extent of its gravity, but also because of its (more or less) new and peculiar origins.

Firstly, there has been a tendency towards *stagflation* reinforced by the oil crisis of 1973 (Maddison, 1982), which caused deterioration in the trade-off between inflation and unemployment, and hence in the macro-economic policy-responses described by the so-called Phillips-curve hypothesis (Schmidt, 1984). It was simultaneously conducive to increasing demands for welfare related benefits in many countries (Olson, 1982). Secondly, international political and economic relations became increasingly tense, a situation which manifested itself not only in the end of the "*detente*" between East and West, but also in conflicts within the industrialised capitalist world (Story, 1984). To some extent these tensions have produced a contradictory situation. On the one hand, Western industrialised nations are competing on the international market and at the same time protecting their own domestic market (Cameron, 1978; Katzenstein, 1977). On the other hand, they are obliged to stand together in order to oppose the perceived military threat of their supposed adversary (Dankbaar and Keman, 1979; Keman, 1983).

It will be clear that this complex situation has not only led to changes in certain policy areas, but also to a re-evaluation of the qualitative position of these policies within the overall public economy. Obviously the relative positions of both external security and welfare provision will have been affected by the above-mentioned developments. The declining level of economic growth in most capitalist democracies since the early 1970's has resulted in an increase of welfare state related expenditure, whereas the renewal of the Cold War may have prevented political authorities from finding additional resources by further trading-off guns for butter. In other words, I presume both national and international economic and political factors will have influenced the existing policy-mix, especially because of the internal need for "de-

cremental budgeting" (cf. Tarschys, 1985) and the external pressures to restore economic growth and to diminish international tension.

The relationship between welfare and warfare has been subject to much debate since 1945 and the "guns versus butter" controversy is still current in most countries under review and represents an important policy choice in domestic politics (Wilensky, 1975; Pluta, 1978; Russett, 1982; Domke *et al.*, 1983; Dabelko and McCormick, 1977). At the same time, this policy choice has both an international and domestic economic dimension. It has been shown that international tension and military co-operation have an impact on military expenditure (Keman, 1982; Hill, 1978). On the other hand, welfare expenditure has obvious domestic origins. Many studies have pointed to the dependence of welfare provision on domestic politics and economic conditions (Stephens, 1979; Wilensky, 1981; Schmidt, 1982; Keman, 1985).

In the literature exploring the relationship between military expenditure and other budgetary items, it is possible, in general terms, to discern separate economic and political approaches. As military expenditures are often considered to be economically unproductive (or, in neo-marxist terms, non-reproductive, see Schmidt, 1975; Smith, 1977; Keman, 1978), many students in this field look at the extent to which these expenditures are detrimental to economic growth or at least whether or not they reinforce certain negative tendencies in economic development (Szymanski, 1973; Benoit, 1973; Smith and Smith, 1983; Leontief and Duchin, 1983; Griffin *et al.*; 1982; Chan, 1984).

Up till now this debate has not resulted in any conclusive interpretation of the relationship between military expenditure and economic development. From a cross-national perspective it would seem that economic growth is more hindered than fostered by an increase in defence efforts (the USA being the exception). On a more disaggregated level, the effects remain more or less the same (see, for an extensive survey, Lindgren, 1984). However, only one aspect of this discussion concerns us here. We will examine the extent to which the economic concept of "opportunity costs" may play a part in the genesis and change of a policy-mix of welfare and warfare, since it can be assumed that in a situation of choice the opportunity costs refer to the benefits forgone by selecting one option at the expense of other options. Given scarcity of financial resources and a governmental preference for "guns before butter", the resulting policy-mix is likely to forgo the beneficial economic effects assumed in the Keynesian view to be inherent in welfare state related policy-outputs (Dabelko and McCormick, 1977). The opposite can also be argued. In this case the benefits of military effort are forgone in favour of disproportionate welfare provision. The opportunity costs notion is not only applicable to zero-sum situations (cf. Lyttkens and Vedovato, 1984) and, certainly, unless the size and the development of the public economy is kept constant, the relationship between welfare and warfare cannot be seen as mutually exclusive. Whilst such a relationship might broadly be expected to occur

within the private economy, this can hardly be the case where the boundary between the private economy and the public domain is itself a matter of public, political choice (Keman and Lehner, 1984).

The interdependence of private and public domains means that the decision-making agencies (bureaucracy, parliament, government) are necessarily intervening (f)actors in the relationship between welfare and warfare. Although strictly speaking the opportunity costs remain the same whatever decision is taken, their nature implies that the actual room for manoeuvre is generally much more limited, for the decisions to be made are *between* alternative budget allocations. In this sense, it follows that the effects of such an allocation process are to some extent independent of economic developments. This means that the central focus of analysis should be directed to the more political aspects of the relationship between welfare and warfare.

The political approach has been dominated by students who have taken it for granted that the trade-off between welfare and warfare involved a straightforward exchange which was the outcome of the political process of decision-making (Pryor, 1968; Kennedy, 1975; Domke *et al.*, 1983). This is especially the case since, from the 1960's onwards there is a strong inclination to step up welfare provision in most capitalist democracies.² In retrospect it could be argued that the observed priority for welfare provision rather than defence can be considered more or less as a "by-product" of the waning of the Cold War and of a favourable economic climate. However, whether this argument holds for the recent period remains to be seen (Keman, 1982, 1985). The idea that the international environmental and economic conditions are more important than domestic political ones is supported by much of the literature dealing with the specific relationship between welfare and warfare. Cusack (1984), Russett (1982) and Peroff and Podolak-Warren (1979) for instance all point to the impact of international events as the explanation for the occurrence of, or change in, a trade-off between military expenditure and welfare provision. Some authors regard this as a unintentional political choice and consider it more or less a result of "displacement" (see also Peacock and Wiseman, 1961; Pluta, 1978). In this view, the change is a semi-automatic response to external events by the budgetary authorities which results in incremental developments. Although this may be true in the long run, it is also clear that there are a number of other influences that play a part in establishing the levels of expenditure regarding defence and welfare. In fact, a number of authors make the typical error of concentrating on only one of the policies in the mix, namely, defence. For instance Wilensky (1975), who shows that there is a tendency to trade off, analyses the relationship only from the military perspective, investigating whether or not politicians are able and willing to reduce military expenditure. He does not examine those fac-

² The literature on this subject is abundant. A few recent studies are Flora and Heidenheimer (eds.), 1981; Castles (ed), 1982; Schmidt, 1982.

tors which may make the growth of the welfare state predominant over other budgetary priorities (Wilensky, 1975: 84—85). To some extent this somewhat one-sided view can also be found in Dabelko and McCormick (1977), Caputo (1975) and Russett (1970, 1982).

The relationship between welfare and warfare can never be solely explained in terms of the budget, and certainly not by focusing in just one of the two policy areas involved. The analyses of Hill (1978), Domke *et al.*, (1983), Keman (1982, 1985) and Cusack (1984) show that there is an array of political and economic factors involved, both on the national and international level. For instance, countries that are heavily involved in the Cold War and are geopolitically vulnerable will make a different choice from countries that are not; countries that have a strong welfare tradition and have a left-wing dominated political complexion may be more likely to postpone a change in these policies than would other countries. The manner in which, and the extent to which, these important features will come to the fore is dependent on several dimensions of the political and economic situation in the different countries under review. However, before discussing these, I will introduce the concept of the policy-mix and the way to measure it.

2.2 The Concepts of Trade-off and Pay-off

Political scientists have used a variety of methods to investigate policy-outputs and outcomes. In recent years considerable effort has been devoted to explaining economic, political and social changes in advanced industrial capitalist democracies.³ Less attention, however, has been paid to the comparative analysis of relationships *among* particular public policies (see Caputo, 1975; Domke *et al.*, 1983).

One of the possible research strategies for this purpose is best described as “*trade-off research*” (Russett, 1970; Dye, 1976; Pryor, 1968). Most students have investigated the relationship between types of public expenditure, especially defence and other expenditure categories, both within one nation and between nation states.⁴ Most of these studies have concentrated on the effect of military expenditure on the welfare state rather than the other way round. Furthermore, in most cases the relationship has been defined as a mere zero-sum game or as an one sided process in which one of the two policies is always dominant.

³ See for an excellent survey of the policy-related literature: Schmidt, 1982 and Lessmann, 1987; the statistics are well treated in Tufte, 1978; the cross-national approach can be found in Ashford, 1978 and in Przeworski, 1983; see also Dye, 1976.

⁴ For analyses of individual nations, see Russett, 1982; Nincic and Cusack, 1979; Perroff and Podolak-Warren, 1979; Keman, 1983. See for *comparative* analyses: Caputo, 1975; Pluta, 1978; Wilensky, 1975; Smith, 1977; Keman, 1982 and 1985; Domke *et al.*, 1983.

Both approaches are fallacious because they often assume that there is a straightforward substitution effect between two functions of the budget (i. e. welfare and warfare). They thus imply that one of the two policies will have an almost complete influence on the other (see also Hayes, 1975). These views are not correct. We are dealing here with the problem of political-economic interdependence. This does not make the pure concept of opportunity costs wholly superfluous, but it must be adjusted to the reality of the political process of decision-making and budgetary implementation. The so-called exogenous variables, which remain unaccounted for in economic analysis, must be integrated in the research design and must be considered with regard to the conceptualisation of the dependent variable in this study: i. e. the changing relationship of welfare and warfare in terms of trade-off and pay-off. I hold that a *trade-off* always implies a modified zero-sum game in which the different public policies are differently related to a *variety* of possible intervening factors. In this sense, a trade-off must be regarded as one of the *possible* outcomes of the process of decision-making, whereas the other possible outcome is not characterised by a zero-sum situation and can be labelled a *pay-off* situation. A trade-off may then be defined as the situation in which two public policies move in more or less *opposite directions*; a pay-off signifies the situation in which both public policy-outputs change in the *same direction*. This way of defining the relationship between welfare and warfare is consistent with the argument that trade-off research should proceed through an analysis which takes into account relativities between policies (i. e. their prioritisation) rather than merely absolute resource values. Furthermore, we are able to develop a yardstick to measure the process *both* over time and across nation states without the blunt qualifications of a zero-sum game (Caputo, 1975; Peroff and Podolok-Warren, 1979; Domke *et al.*, 1983; Keman, 1985).

The "yardstick" that I have developed captures the above mentioned possibilities in a comprehensive way. That is to say, both the magnitude of change in expenditure (how much) and direction (positive or negative) are combined in one measure. Apart from the efforts by Mary Dale Hayes (1975), there are (as far as I know) no other such measures. There are in terms of magnitude and direction 2×2 possible outcomes of change in expenditure and levels. The first two possible outcomes are that *both* expenditures on welfare and warfare increase or decrease (in the same direction). The second two possible outcomes are that *one* policy increases or decreases and the other does not (e. g. welfare expenditures grows, while warfare does not or the reverse situation). A positive change (i. e. an increase) and a negative one (i. e. a decrease) are in this concept value-related: *positive* always indicates an *increase in welfare*, whereas *negative* means a *decrease in welfare* expenditure. A trade-off then is simply the increase in one policy area and a simultaneous decrease in the other. A pay-off indicates the case in which both policies under review (here welfare and warfare) increase or decrease simul-

taneously. The positive (+) and negative (-) signs attached finally represent the direction. Thus:

Figure 1.

		Change in welfare	
		+	-
Change in warfare	+	positive pay-off	negative trade-off
	-	positive trade-off	negative pay-off

N.B. Change will be indicated in the subsequent analysis by first differences and yearly change of expenditure on welfare and warfare, expressed in per cent of GDP.

This interrelationship has been transformed into one quantitative measurable variable which is the result of the following computation:⁵

$$\frac{(P_1 - P_2) \times (|P_1| + |P_2|)}{2 \times ((P_1)^2 + (P_2)^2)}$$

N.B. P_1 = Change in welfare; P_2 = Change in warfare; $|P|$ = absolute values.

- ⁵ This formula could not have been developed without the help of Tibert van Dijk who supplied me with the mathematical details and computations. To give a practical illustration of how the formula actually works, the following examples will serve:

	Yearly change in welfare	Yearly change in warfare	Outcome as policy-mix
1.	+4 %	-1 %	0.73 (+TO)
2.	+6 %	+3 %	0.30 (+PO)
3.	-2 %	+2 %	-1.00 (-TO)
4.	0 %	+1 %	-0.50 (-PO)

$$\text{ad 1. } \frac{((4) - (-1)) \times (|4| + |-1|)}{2 \times ((4)^2 + (-1)^2)} =$$

$$\frac{5 \times 5}{2 \times (16 + 1)} = \frac{25}{34} = 0.73 (= \text{Positive Trade-off})$$

$$\text{ad 2. } \frac{((6) - (3)) \times (|6| + |3|)}{2 \times ((6)^2 + (3)^2)} =$$

$$\frac{3 \times 9}{2 \times (36 + 9)} = \frac{27}{90} = 0.30 (= \text{Positive Pay-off})$$

$$\text{ad 3. } \frac{((-2) - (2)) \times (|-2| + |2|)}{2 \times ((-2)^2 + (2)^2)} =$$

$$\frac{-4 \times 4}{2 \times (4 + 4)} = \frac{-16}{16} = -1.00 (= \text{Negative Trade-off})$$

The outcomes always represent a value between +1.00 and -1.00. If the values are *above* 0.50 (>0.50) this indicates a positive or a negative trade-off, if they are *between* +0.50 and -0.50 they indicate a positive or a negative pay-off. As I have operationalised the formula in a value-related sense (i. e. $|P|$ = change in welfare-expenditures; P_2 = change in defence expenditures) the outcomes can be specified in terms of the original concepts, which means:

Figure 2.

		Change in welfare	
		+	-
Change in warfare	+	between +0.00 and +0.50 (+PO)	between -0.51 and -1.00 (-TO)
	-	between +0.51 and +1.00 (+TO)	between -0.00 and -0.50 (-PO)

N.B. PO = pay-off; TO = trade-off; + = positive; - = negative.

$$\text{ad 4. } \frac{((0) - (1)) \times (|0| + |1|)}{2 \times ((0)^2 + (1)^2)} =$$

$$\frac{-1 \times 1}{2 \times (0 + 1)} = \frac{-1}{2} = -0.50 (= \text{Negative Pay-off})$$

One may discuss whether or not this measure is an artefact, since it collapses two different policy-types into one index. Apart from the fact that—especially in cross-national research—this is rather common (and, given the scarcity and poor quality of available data, often necessary) practice, I posit that this measure actually avoids a number of pitfalls:

- by its definition, it decreases the problem of differences in size between welfare and warfare, which is considerable, since it always indicates the *direction* of change and to some extent the magnitude. The advantage is that in this manner the indicator is a better proxy of decision-making *within* the budget.
- through its mathematical composition it creates a continuum rather than a discrete variable (hence representing a variable sum-game) and by using yearly changes the distribution of values is more or less “normalised” or “detrended”;
- the measure is less sensitive to changes in the environment (like GDP) than others, since it also takes into account if there is no change to be observed and is therefore more or less independent from the changes in the size of the public economy due to, for example, economic stagnation.

In this way we have developed a quantitative measure of the policy-mix between defence efforts and welfare provision that can be interpreted qualitatively for the subsequent analysis of the research question: to what extent, if indeed at all, can a change in this policy-mix be observed? The two public policies that make up the policy-mix in this chapter are measured as follows: for *warfare* I simply followed the definition of Defence expenditure used by SIPRI expressed in percentage GDP; *welfare* provision is defined in the literature in a less straightforward manner. In this study, the operationalisation of the OECD has been followed in their study of Social Expenditure (1985). In Table I the average outcomes for the periods under review as well as the sources are reported. I shall investigate the annual changes in different public policies between 1962 and 1982 across two sub-periods. The *sub-periods* are respectively 1962—1973 and 1973—1982. Each period indicates an important change in “politics” and “economics”. The period before 1973 has been seen as the era of a booming economy, democratisation and rapid development of the welfare state. The year 1973 was a watershed because of the oil-crisis and related economic effects. At the same time, the nature of the “world economy” changed dramatically as a result of an increasing movement of industrial branches to lower wage countries (Junne, 1982) on the one hand, and the deterioration of the international system of payments (Bretton Woods) on the other (Elsworth and Clark Leith, 1975). These developments have obviously influenced the pattern of public policy-mixes in both periods (see also Madison, 1982) discussed below in Section 3.

3. The Policy-Mixes between Welfare and Warfare

In this section I shall show the extent to which trade-offs and pay-offs between defence and welfare occurred during the two sub-periods. I shall also show the distribution of these various policy-mixes in more detail *across* the countries under review. Furthermore, I will disaggregate the sub-periods in order to investigate the *change* in policy-mixes. Before this, I shall first discuss the overall development for the two periods under review.

Table 1 demonstrates in broad terms that there appears to be a development from more trade-off situations before 1973 towards more pay-off situations later on. At the same time it is obvious that the size of the public economy increases, whereas economic growth is slowing down. Especially since the early seventies the waning of an economic surplus contradicts the Keynesian mode of economic crisis management. The outlays of government keep on growing for the whole period, though it should be noticed that after 1973 the rate is generally much higher than before. It is also noteworthy that the increase of the public economy has not been “eaten up” by the welfare state or by military affairs alone. The stronger growth of the public economy, in particular after 1973, suggests that trade-offs between two policies are not al-

Table 1. *Average Level and Average Growth of Public Policies (in % of GDP) and Economic Development in Advanced Capitalist Democracies (N = 17)*

	Level in		Change between			
	1962	1973	1982	62-73	73-82	62-82
1. Economic Growth	4.7	2.6	1.1	4.8	2.4	3.7
2. Total Outlays of Government	30.0	37.0	48.5	7.0	11.5	18.5
3. Defence	3.7	2.7	2.9	-1.0	0.2	-0.8
4. Welfare Provision	15.2	21.6	27.8	6.4	6.2	12.6

N.B. See for the countries involved Table 2 and Appendix.

Sources:

OECD (1983 and 1985): National Accounts (vol. I and II)

OECD (1984): Economic Outlook no. 35

SIPRI (1979 and 1983): Yearbook on World Armament & Disarmament

OECD (1985): Social Expenditure 1960-1990

Economic growth is expressed as GDP in purchasers values: level is equal to the change from the preceding year, change is the average of all the years involved per period;

Total outlays of government is according to the OECD-definition (general government or central and decentral outlays together, see OECD, 1984);

Defence is according to the definition used by the SIPRI;

All variables are expressed in % of GDP.

Welfare provision contains Total Social Expenditure as defined in OECD, 1985: 75 and includes expenditure on Education, Health, Pensions, Unemployment Compensation and Other Social Expenditure. The figures for 1982 are partly based on National Accounts Vol. II 1983 (OECD, 1985) and further estimated by exponential methods.

ways mutually exclusive, nor that opportunity costs represent direct exchanges between them. Thus the growth in welfare provision cannot be accounted for only in terms of a decrease in military expenditures. One could say therefore that the growth of the public economy has apparently benefited welfare provision rather than defence. As I have already elaborated elsewhere (Keman, 1982, 1983 and 1985), the cross-national variation in both welfare and warfare across the countries under review is considerable. The variation in growth of social expenditure is very large over time. Between 1962 and 1982 the range is 11.7 per cent.

The cross-national differences are also large. Countries like Belgium, Denmark, Sweden and the Netherlands show a change of 18 to 20 per cent of GDP in their welfare between 1962 and 1982. Australia, Austria, Canada and Japan only experienced a change of 4 to 8 per cent of GDP (see Appendix). The range of variation of military expenditure is less (3.4 per cent), but is still considerable given the size of defence efforts in relation to welfare provision in most countries. In short, there is *cross-national variation* within the different public policies as well as ample *contrasting movement* between poli-

cies in each country. The relationship between "guns and butter" can be therefore analysed in terms of trade-off and pay-off. Below I have presented the aggregated outcomes of the computation of the policy-mix measure which show the distribution of the various types before and after 1973.

Table 2. *Average Scores of Policy-Mixes as Positive and Negative Trade-Offs and Pay-Offs in 17 Capitalist Democracies, between 1962—1973 and 1973—1982*

Country	1962—1973	1973—1982
Australia	0.18 (+ PO)	0.26 (+ PO)
Austria	0.27 (+ PO)	-0.15 (- PO)
Belgium	0.62 (+ TO)	0.37 (+ PO)
Canada	0.72 (+ TO)	-0.19 (- PO)
Denmark	0.64 (+ TO)	0.17 (+ PO)
Finland	0.50 (+ PO)	-0.07 (- PO)
France	0.72 (+ TO)	0.24 (+ PO)
West Germany	0.31 (+ PO)	0.18 (+ PO)
Ireland	0.34 (+ PO)	0.19 (+ PO)
Italy	0.37 (+ PO)	0.21 (+ PO)
Japan	0.13 (+ PO)	0.26 (+ PO)
Netherlands	0.79 (+ TO)	0.22 (+ PO)
Norway	0.62 (+ TO)	0.27 (+ PO)
Sweden	0.70 (+ TO)	0.50 (+ PO)
Switzerland	0.71 (+ TO)	-0.10 (- PO)
United Kingdom	0.56 (+ TO)	0.23 (+ PO)
United States	0.59 (+ TO)	-0.16 (- PO)

Cumulated scores for each subperiod, based on the above reported scores:

1962—1973		1973—1982	
welfare		welfare	
+	-	+	-
+	7	+	12
-	10	-	5

Values of this table are computed following the formula presented in Section 2 based on the yearly change in defence and welfare related expenditures (x_t/x_{t-1}) and presented as averages for each sub-period. Yearly change is preferred to first differences, because the main purpose is to find the trend without risking being a victim of outlying scores.

The sources are:

SIPRI: 1979 and 1983.

OECD: 1978, 1983 and 1985.

It appears that only a limited range of types of policy-mixes have been used in the capitalist democracies. In either period only two of the four pos-

sible types have been used and in total three between 1962–1982. Of course this is partially the result of the fact that this table represents only cumulated outcomes. I will return to the details of those outcomes in a discussion of Tables 3 and 4.

As might be expected on the basis of Table 1, there is a development from a mixture of positive trade-offs and pay-offs before 1973 towards positive and negative pay-offs after 1973. This trend also indicates a change in the cross-national distribution of welfare (in relative terms), for during the second period there is an increase in the number of countries that are characterised by a negative pay-off situation ($N = 5$). This development could be interpreted as a development towards less options for choice. It has resulted in the disappearance of any policy-mix characterised by a trade-off in favour of welfare. It has also led to a situation in which critical policy choices are more or less evaded. Table 2 shows that policy-mixes with a trade-off character have disappeared since 1973, irrespective of whether the direction of the policy-mix is positive or negative. Apparently the latter type is a consequence of decreasing room for manoeuvre within the total budget. This development may imply that indeed in many countries macro-economic guidelines tended to overrule other, more specific policy-goals. This observation is not unimportant, for it points to the potential controlling effect of the size of the public economy as a whole on the available options. The table makes another interesting fact clear. Only 5 nations do not alter their policy-mix. Australia, the Federal Republic, Ireland, Italy and Japan remain in the same, positive pay-off category before and after 1973. In general, the change in policy-mix is gradual, for a number of countries remain positive in terms of direction, but change in terms of relative weight of the policy-mix ($N = 7$). Three countries (Canada, Switzerland and the USA) change from a positively to a negatively directed policy-mix as well as from a trade-off to a pay-off. The other two countries that belong to the negative pay-off category after 1973 change in terms of direction, but remain the same in terms of magnitude between welfare and warfare. The significance of these observations is that there appears to be cross-national and inter-temporal variation. A change of policy-mix or decremental budgeting seems to be a more viable procedure than is often thought (Dye, 1976; Scharpf, 1981). Although I do not claim that there are no features like incrementalism and inertia, (see Section 4.3), it is obvious that governments appear to be able to overcome what is often considered the “uncontrollability” of public policy budgets. Furthermore, although the inertia of bureaucracies may be important, it does not make certain policies immune from change (Downs, 1984). On the contrary, the aggregated results of Table 2 demonstrate that the opposite was possible during the last decade. This conclusion even holds if the initial levels of expenditure are considered. Some of the countries with relatively high levels of expenditure (say 16 per cent) during the early 60’s (like Austria, Finland, France and the Federal Republic) change their policy styles considerably,

whereas other countries are apparently not able to bring about such a change (e. g. Belgium, the Netherlands and Sweden). Furthermore it appears that countries with relatively lower levels find it also harder to enact decremental budgeting (as in Ireland and Italy).

To summarise our comments on Table 2, a most surprising outcome is that there is no negative trade-off in either period. In my opinion this is by and large a consequence of a booming economy, growing acceptance of "welfare-statism" and the lessening of the Cold War (Keman, 1982). At the same time, it should be noted that this finding is in need of further elaboration: For it is also obvious from Table 2 that the pattern of policy-mixes changes from an almost exclusively welfare prone one to a more mixed pattern, albeit without employing the trade-off option. It could be suggested that such a trade-off option should be considered politically more or less as a final resort in order to step up military expenditures without decreasing welfare or necessarily increasing the whole budget (Keman, 1982 and 1985). Such a situation came into being only after the second oil crisis (1979/1980), and, as will be noted subsequently, the trade-off option has been chosen in some countries in recent years (Section 3.2). In summary, a variation in policy-mixes can indeed be observed and it appears that the emerging pattern is not only diverse, but also in need of a closer disaggregated examination of the distribution of the different policy-mixes across the countries under study as well as over time. In the following section these patterns will be inspected more closely and I will discuss the "guns and butter" argument in more detail.

3.1 Patterns of Welfare and Warfare in Detail

The post-war history of advanced industrialised countries can be characterised by two more or less new features. The first aspect is the gradual but final decline of Western Europe as a dominant force in the international theatre. Since the second World War the USA and USSR have dominated geopolitical reality as "superpowers", and this has meant that "international politics has become the continuation of war by other means", as Rappoport once aptly described it. In other words, postwar history has been influenced significantly by the so-called "Cold War" (Krippendorf, 1975; Kolko and Kolko, 1972; Horowitz, 1971).

The second feature concerns the acceptance of Keynesianism and hence the introduction of the welfare state, leading to a new mode of state intervention and an overall rise in standards of living, for the politics and policies of "*welfare statism*" not only correlated with economic growth but also (re)distributed the benefits by governmental action. At the same time state intervention in economic life became an ubiquitous feature of modern societies (Castles, 1978; Schmidt, 1982; Flora and Heidenheimer, 1981; Buci-Glucksmann and Therborn, 1982).

Both features have affected the relationship between welfare and warfare throughout post-war history. This development results from the change in

the policy-mixes over time and the diversification of the different types within the different countries. The diachronic variance is thus to a large extent a result of the cross-national differences in terms of policy-mixes. These result from the relationship between welfare state related policies and defence policy on the one hand, and factors such as the development of international and domestic political and economic relations on the other. But before I turn to these explanatory factors it is necessary to have a closer look at the distribution of the different policy-mixes for each country in each period.

Table 3. *Frequencies of Policy-Mixes across Countries According to Type, between 1962—1973 and 1973—1982*

Country	Positive trade-off		Positive pay-off		Negative pay-off		Negative trade-off	
	62—73	73—82	62—73	73—82	62—73	73—82	62—73	73—82
Australia	5	2	2	4	2	1	2	3
Austria	5	0	4	7	3	3	0	0
Belgium	6	2	5	6	0	2	0	0
Canada	8	1	2	6	1	2	0	1
Denmark	7	0	4	6	0	4	0	0
Finland	6	2	2	3	3	4	0	1
France	8	1	3	5	0	4	0	0
West Germany	2	0	7	7	1	3	1	0
Ireland	3	2	3	4	3	4	1	0
Italy	3	2	4	5	4	2	0	1
Japan	3	1	2	6	6	3	0	0
Netherlands	9	3	1	3	1	3	0	1
Norway	7	2	1	6	2	2	0	0
Sweden	6	3	5	6	0	1	0	0
Switzerland	6	2	4	3	1	4	0	1
United Kingdom	6	3	3	5	1	1	1	1
United States	8	2	1	4	2	3	0	1
average	5.8	1.7	3.1	5.0	1.8	2.8	0.3	0.6
distribution	52.7%	16.9%	28.1%	50.0%	16.4%	27.7%	2.8%	5.8%

The numbers represent the frequency per period per type. Based on the yearly outcomes of the formula used for Table 2: the yearly change in welfare and defence ($X_t - X_{t-1}$).

It is obvious that the main trend by and large confirms the results of Table 2. In most countries the positive trade-off and pay-off policy-mix is prevalent before 1973 and is more or less replaced by positive and negative pay-offs after that time. It is also clear that the negative trade-off option is in fact hardly employed at all (only in 2.9 per cent of the cases involved before 1973 and in 5.6 per cent after 1973). This is an interesting observation, since most of the literature takes for granted that the inverse relationship between welfare and

warfare is the only possible one, and that there are no other options available. The above table not only clearly demonstrates that there are other options, but also that these options are more prevalent than the negative trade-off option. In my view this observation means that we must reconsider much of the literature. The relationship between expenditure on welfare provision and military effort is often treated in a much too simplistic manner and is analysed in a way which is methodologically inept. The refined concept, employed here in a disaggregated fashion, shows much more clearly what happened when and where.

During the first period it should be noted that there is a rather straightforward distinction between the countries that are characterised by a positive trade-off and those that are not. All cases that are above an average (5.8) experience a much higher rate of positive trade-offs than the other countries, in which the distribution of the policy-mixes is much more even. It could be expected that the extent to which a country employed a positive trade-off represented a preference for "welfare statism". Yet it should be noticed that both acknowledged "welfare states", like Belgium, Denmark, the Netherlands, Norway and Sweden, and countries without such a reputation, like Canada, France, Switzerland, the UK and the USA, experienced a high rate of positive pay-offs. Thus it seems more plausible to suggest that this has been the result of favourable economic conditions, for after 1973 this situation changed and only a few countries continued to trade-off "butter before guns". Amongst these cases two are the acknowledged "welfare state leaders", namely the Netherlands and Sweden. Apparently the welfare state is so deeply entrenched in these nations that a change of policy-mix appears to take considerable time, or is politically not feasible.

In most other countries, the change in policy style after 1973 appears to be restricted to an effort to arrest the trend of decreasing military expenditure. In most cases, the dominant policy-mix is either a positive pay-off (50.0 per cent of all possibilities) or a negative pay-off (27.7 per cent). This means that the level of welfare provision slows down in the latter case, but the trend is not yet reversed. Only 5.8 per cent of all possibilities after 1973 involve a negative trade-off. It is noteworthy that right-wing countries are almost always involved (the exception being the Netherlands and particularly the UK). This observation supports the argument that when financial resources decline, guns may come before butter more easily in a conservative dominated political system.

The distribution of policy-mixes by country is quite clear-cut. During the first period, 80 per cent of all possibilities favoured a positive, i. e. welfare prone, policy style. After 1973 most countries opt for a pay-off policy-mix (77.7 per cent). It may also be noticed that the distribution becomes much more diverse. Only four countries, Denmark, Belgium, France and Sweden, which used two of the four available options before 1973, preserve a more or less consistent pattern after 1973. Most other countries show a tendency to

vary their policy-mix more frequently: i. e. Australia, Finland, Italy, the Netherlands, Switzerland, the UK and the USA. In these countries one may suggest that there is a higher degree of decremental budgeting than in the others.

From these observations, we may conclude that positive trade-offs and pay-offs are amongst the most frequently chosen policy-mixes. It would also appear that alternative options have indeed been used. Especially after 1973 this tendency to change the existing policy-mix increases. However it should be noticed in Table 3 that the option of a negative trade-off has not been used at all by 7 countries. This option has been used 5 times before 1973 and 10 times after it (in 8 different countries).

By breaking down the distribution of policy-mixes for each country it is possible to be more exact about the basic direction of the relationship between welfare and warfare. We can also demonstrate that in some countries the employment of different policy-mixes is more frequent than in others. Until now, in most of the literature (including Keman, 1982 and 1985), it was not possible to specify the change of policy style within one country and compare this with other, similar, countries. In those analyses only the absence of a trade-off could be observed, but not what actually happened. Although the main trend still favours "welfare statism", it is also obvious that the *negatively* directed relationship between welfare and warfare is becoming a more frequent feature; before 1973 it involved 19.2 per cent of all possibilities, whereas after 1973 it becomes 33.5 per cent.

Once again these results indicate that decremental budgeting is a much more common characteristic of contemporary policy-making than is often believed. Yet it is also noteworthy that the mode of policy change differs cross-nationally; some countries alternate between only two options, whereas others opt for almost all available policy-mixes. The reasons for these differences will be analysed in the next section. One can however already observe that the economic environment undoubtedly is of significance here, albeit indirectly. It is the structural influence of the so-called "stagflation crisis" that has upset the pattern of pay-offs and trade-offs after 1973 to a large extent. This overall change is however limited to moving from one category to the next, rather than going from one extreme to another. It is my contention that political variables modify this mode of policy change to a considerable degree.

To conclude my comments on Table 3, I would like to draw attention to the fact that we have been able to specify the use of different options regarding the relationship between welfare and warfare. Before 1973 there was a clear preference for "butter *before* guns" if we take the most frequently used option, positive trade-off, as a criterion (i. e. 52.7 per cent of all cases). After 1973 this is no longer the case and a shift takes place towards a policy-mix of "guns *and* butter" (50.0 per cent of all cases). On the whole the change between the first period to the second can best be characterised as a move from

a more *uniform* distribution of policy-mix to a more *diverse* one. This change seems also to go in the direction of a negative policy-mix, although the extreme option of "guns before butter" is still rather unusual. However, one would expect that as economic conditions worsened, and especially after the second oil crisis, this option would become more frequent. To find out whether or not this is the case, I shall now examine the distribution of policy-mixes in disaggregated periods.

Table 4. *Distribution of Policy-Mixes over Time According to Type in Sub-Periods*

Periods of time	Positive trade-off	Positive pay-off	Negative pay-off	Negative trade-off
I. 1962—1973 (n = 11)	8.9 52.4 %	4.9 28.9 %	2.7 10.0 %	0.5 2.7 % = 100 %
1. 1962—1965 (n = 4)	7.0 41.2 %	5.75 33.8 %	3.75 22.2 %	0.5 2.8 % = 100 %
2. 1966—1968 (n = 3)	9.3 54.8 %	5.4 31.4 %	2.0 11.8 %	0.3 2.0 % = 100 %
3. 1969—1972 (n = 4)	10.5 61.8 %	3.75 22.2 %	2.25 13.2 %	0.5 2.8 % = 100 %
II. 1973—1982 (n = 10)	2.8 16.5 %	8.5 50.0 %	4.7 27.7 %	1.0 5.8 % = 100 %
1. 1973—1976 (n = 4)	4.5 26.5 %	9.0 53.0 %	3.5 20.5 %	0.0 — = 100 %
2. 1977—1979 (n = 3)	1.3 7.8 %	9.0 53.0 %	4.7 27.5 %	2.0 11.7 % = 100 %
3. 1980—1982 (n = 3)	2.0 11.8 %	7.3 43.1 %	6.4 37.2 %	1.3 8.0 % = 100 %

N.B. Figures are absolute scores divided by the number of years; percentages indicate the distribution per period over the policy-mixes. Thus: between 1969—1972 a positive trade-off occurred 38 times, meaning 10.5 times on average; this policy-mix was the most often chosen, it involved namely 61.8 % of all possibilities during this period (N = 68). The calculations are based on the same sources and data as in Table 3.

Again the overall trend is obvious, the positive policy-mixes dominate the first period (1962—1973), whereas both positive and negative pay-offs prevail after 1973. The sub-periods are constructed to represent a more or less even number of years, but are also related to economic cyclical movements. During the first period the positive trade-off policy-mix emerges as the most dominant one. During the second period (after 1973), the distribution is much less clear. This observation supports my previous conclusion that the whole period between 1973—1982 is much more diverse than the first. What is most surprising during the first period is the fact that the disaggregated pe-

riods show a rising trend in the positive trade-off policy-mix and a simultaneous decrease in pay-offs, a development which is dramatically reversed after 1973, in particular since 1977. This development strengthens my view that economic change may induce a change of policy-mix. Both the rise and fall in the positive trade-off category can be understood as an economic policy response to the growing recession. Initially this response was to some extent Keynesian: stimulating public consumption by increasing welfare provision (see also Cameron, 1982; Keman, 1984). Such a policy-mix, based on either rather high levels of taxation or on deficit spending, is clearly not feasible after 1976, when the options for a positive trade-off virtually disappear (they were still 26.5 per cent of all the cases between 1973–1976, but became only 9.8 per cent on an average since then) and the number of choices for a negative trade-off grows from 0 to 11.7 per cent and 8.0 per cent after 1976. It is obvious that the fiscal scissors became too wide, and it is during these sub-periods that the opportunity costs approach may be applied, in the sense that the options available tended to determine policy choices in a more negative, even mutually exclusive, fashion.

By and large, the above conclusion reflects the cyclical movement of the capitalist economy. In particular, this may be inferred from the development of the relationship between welfare and warfare in Table 4 during the subsequent periods. Up to the mid-sixties, Keynesian management of the economy seems to have played an important but still rather limited role, and in most countries was not yet combined with a fully developed welfare state. This development only accelerated later after 1966 and after 1976 in many countries political parties and interest groups tried to brake the inherent process of incremental welfare financing, but it took until the late 1970's to reach the goal of decremental budgeting. In a way, one could argue that the pendulum of the degree of state interventionism has swung backwards in the early 1980's. It is clear that the economy intersects with policy-mixes and their change, but at the same time it is obvious from the cross-national variation that a number of non-economic factors have influenced this process. For, as can be surmised from Table 2 and 3, many of the countries that changed their policy style from a trade-off to a pay-off or from a positively to a negatively directed one often have little in common from a non-economic point of view. Apart from domestic political factors like party differences and complexion of government, which partially influence the degree of welfare statism, it appears to me that the renewal of the Cold War since 1977 may account for the observed swing back to less growth in welfare and less decline in warfare as expressed in the distribution of the policy-mixes after 1976. This is reflected in the number of negative policy-mixes, which is much higher than before (Dankbaar and Keman, 1979; Keman, 1985).

To conclude my comments on Table 4, it is clear that one can observe not only more variation in the policy-mixes chosen after 1973, but also that a change of policy style occurs more frequently than is often thought. This di-

versity in policy-mixes to some extent reflects economic fluctuations, and particularly after 1977 it appears that the policy-mixes tend to acquire a more mutually exclusive character. It is this development that needs further explanation. Such an explanation will be elaborated below in Section 4, in which I shall present and discuss a number of different factors that may explain the development and change of the various policy-mixes.

4. Alternative Explanation of the Pattern of Policy-Mixes

The considerable variation in the dependent variables is not only apparent from a cross-national point of view, but also in longitudinal terms. In this section, I will therefore examine the different factors that may account for the patterns of pay-off and trade-off regarding defence policy and welfare provision in the different periods. The available literature suggests that the possible influences may be conveniently grouped under three headings: (1) domestic politics and military stance; (2) national and international economic performance; (3) bargaining systems, institutional structures, incrementalism and inertia.

4.1 Domestic Politics and Military Stance

The assumption that political choices and political arrangements are an important factor in determining public policies is a cornerstone of conventional political wisdom. During the 1950's and 1960's many sociologists and economists challenged this point of view by suggesting that non-political factors mattered more than party differences, politico-ideological distinctions and the party political complexion of parliament and government (Pryor, 1968; Offe, 1972; Wilensky, 1975). However, these non-political explanations do not account for the cross-national variation in welfare-oriented public policies or on military expenditure and still less do they explain why the management of the national economy by the political authorities varied to such an extent during the 1970's (Keman and Braun, 1984). It is therefore not surprising that other authors have claimed that various political factors are of consequence (Castles, 1982; Schmidt, 1982; Tufte, 1978; von Beyme, 1981; Stephens, 1979). This claim has been made most particularly in respect of the development of the welfare state in capitalist democracies. A mass of literature has been published to show to what extent the cross-national differences in expenditure on welfare-related policies can be explained by domestic political factors such as the political configuration of parties and, particularly, the nature of the power distribution within parliament and government (Castles, 1982; Flora and Heidenheimer, 1981).

It is my contention that the variation in political complexion of parliament and government on the one hand, and the interaction of political parties on

the other, have a major influence on the process of selecting and setting policy priorities producing the various policy-mixes of welfare and warfare discussed above. It makes sense, for instance, to presume that in countries where defence is politically important, or where there is a developed welfare state as a result of certain political coalitions, policy-mixes will differ from those in other countries in which both defence and welfare do not have such a prominent place (e. g. the countries that maintain a positive policy-mix, but change from a trade-off to a pay-off policy style). Denmark, the Netherlands, Norway and Sweden are leading welfare states characterised by a stable political coalition. In Norway and Sweden this is achieved by a coalition based on a "social democratic image of society" (cf. Castles, 1978). In Denmark and the Netherlands it is the result of a "negative" coalition, or distributive coalition (cf. Olson, 1982). In this group, only Belgium cannot be characterised as a stable political coalition because of its linguistic cleavages (Pluta, 1978; Katzenstein, 1985). In the other four countries, it appears that a parliamentary majority is strong enough to prevent large cuts in the welfare state (see Kohl, 1981). However, four countries remain in the pay-off category. If we consider the changing composition and varying duration of their coalitions, we see that they are characterised by an unstable political complexion of parliament and government. They cannot be considered to be international actors (examples of the first are Italy and Ireland; and Australia and Japan of the second).

In order to arrive at more systematic conclusions concerning the relationship between party preference and the varying distribution of policy-mixes, we may use a simple measure of *party strength*, namely the share of seats in parliament of, respectively, the Left, Centre and the Right.⁶ In addition, we may use a composite measure of the political complexion of government and parliament (developed in Castles, 1982) as an overall indicator of the extent to which the Left, Centre and the Right exert potential *political control* of different categories of public expenditure.

Party differences will influence the way the policy-mixes develop and change. Both left and right-wing parties will prefer a process of trading-off according to their ideological points of view. This is especially likely to occur where those forces shaping party government have a strong preference for limited government expenditure, or where the size of the public economy is sufficiently extensive to create serious difficulties of economic stability. In

⁶ Although these distinctions will always remain ambiguous and thus subject to much debate, it is my contention that they have a *real* value to the electorate (see for this: Budge and Farlie, 1982 and Eick, v. d. and Niemöller, 1983: 256). The categorisation Left, Right and Centre follows that of Castles and Mair, 1984: 75–83. Japan and Switzerland were coded by the author and also based on comments of Ian Budge. The sources are Mackie and Rose, 1982 and the European Journal of Political Research (1974–1983).

countries with a more balanced complexion between Left and Right in government and parliament, or with a predominant positions. Centre parties we may expect a policy-mix that is inclined to be evasive; to put it differently, in such a situation a positive or a negative pay-off is more likely. The direction of the policy-mix will also be influenced by domestic politics. The more conservative or right-wing, the more quickly a country will seek to change its policy-mix in terms of reducing welfare and/or (even) warfare in order to relieve pressure on the budget. The fiscal crisis of the state is often recognised earlier by the Right than by the Left. It could be added that the ideological stance of the Right enables it to take decremental budgeting steps irrespective of whether these cuts in expenditure are on welfare or on defence. The direction of the policy-mix is in either case still negative (providing there is no increase in welfare), and it is only conceivable in the case of a "super power" (i. e. the USA) that this will actually mean an increase in the budget as a whole (see Junne, 1984).

Recognising certain dangers seems often to be the prerogative of the Right. This applies especially to the field of international (geo)politics. Here political sensibility is very high, and yet this does not mean that party differences play a major role in shaping the politics of external security (Keman, 1982). Only at election times do such party differences come to the fore, and probably then merely for rhetorical reasons. Thus in this instance, the impact of domestic political factors on the policy-mix will be limited to its salience during election campaigns (Budge and Farlie, 1984). Still I presume that domestic politics are to some extent influenced by a country's geopolitical position, for it is obvious that the way a nation is integrated into the Cold War structure (here membership of an alliance) and its geographic distance from the centre of gravity of the Cold War (i. e. the "European Theatre") has consequences for the options of trading-off and paying-off. These two dimensions are a measure of the *military stance* of a nation state⁷, and will condition the nature of domestic policy-mixes influencing the level of efforts on defence. It can be expected that the factors mentioned will influence the way the policy-mix of welfare and warfare is shaped. In the following table the re-

⁷ This measure is constructed as an index, in Keman, 1982: 189; it is not surprising that the outcomes are somewhat invariant because of the relatively short time-periods under review. The index runs from 3 (= superpower) via 2 (= allied with troops in Europe) and 1 (= allied without troops in Europe) to 0 (= non-aligned or imposed neutral). The index is nevertheless different for every period under review: before 1973, France formally left NATO and is subsequently scored 1; whereas after 1973 Canada finally withdrew its troops from Europe and so obtained a score of 1. However both countries originally had (in 1962) troops present in Europe. So three different variables have been constructed to cope with the differences per period.

sults of the bivariate analysis are reported⁸. The discussion focuses not only on the correlations between policy-mixes and the independent variables, but also on the separate outlays on welfare and warfare, which constitute the eventual "mix".

Table 5. *Relationship between Political and Military Factors and Change in Welfare and Warfare Types of Policy-Mix (1962—1982)*

Variable	1962—1973			1973—1982		
	Welfare	Warfare	Policy-mix	Welfare	Warfare	Policy-mix
Complexion of government and parliament	0.41	0.18	0.42	0.44	—0.26	0.41
Left-wing seats (%)	0.38	0.52	—0.17	0.37	—0.45	0.23
Centre seats (%)	0.27	—0.25	0.28	0.25	—0.10	0.10
Right-wing seats (%)	—0.50	—0.13	—0.14	—0.35	0.41	—0.17
Military stance	0.31	—0.51	0.44	0.37	—0.43	0.24

N.B. Seats meaning seats in parliament.

All coefficients are Pearson Product-Moment correlations, apart from Military stance and Complexion of government and parliament which are Spearman's Rho; the outcomes correspond to the columns indicating the period under review; see also Notes 7 and 8.

From the results in this table it appears that party differences matter to some extent, and that the part played by the complexion of parliament and party government is quite significant regarding the policy-mix. The relationship involved indicates that *positive* policy-mixes are, to a large extent, associated with balanced and left-wing party control. As military stance is also positively related to the policy-mixes in both periods, this could signify that the basic trend is less towards a trade-off and more towards a pay-off. Yet it must be noted that this relationship becomes weaker over time. Still this result is surprising to some extent, since it contradicts much of the gloomy speculation concerning the impact of politics and the idea that a trade-off situation is becoming much more common today. The other political factors (except the strength of the Centre) are all more or less related to the public economy as a

⁸ The data-analysis will be carried out by means of Spearmans' Rho. and Pearson Product-Moment correlations. This simple statistical procedure is necessary because of the nature and availability of the data (comparability) and the low number of cases. As we have only 17 cases, we do not report tests of significance; these are redundant. When a correlation is over $+/- 0.40$ we took it as a fair indication, if over $+/- 0.50$ as a firm indication for further analysis (see also: Müller and Schmidt, 1978: 100 and Blalock, 1979).

whole. In particular, the Right and the political complexion of a country appear to exert their political control *via* the public economy (the correlations are respectively - 0.44 and 0.52 between 1962 and 1982). These outcomes, and especially the negative relationship between the Right in parliament and both "welfare statism" and the growth of the public economy, seem to support the views of Castles (1978: 97–99) and of Wilensky (1981: 348 ff.) Both claim that the Left is much more dependent on the strengths and weaknesses of the Right than the other way round. Especially after 1973 the impact of the Right is obvious with respect to the separate policies, but not so in terms of the policy-mix. This outcome may explain the fact that in some of the right-wing dominated countries there was a positive trade-off before 1973 and only a change towards a positive pay-off afterwards (e. g. France and the UK). Other right-wing countries did, however, change more drastically; namely, from a positive trade-off to a negative pay-off (Canada, Switzerland and the USA). These countries support Castles' view (1985), for it appears that here the Right could in fact impede a further expansion of the welfare state in view of the gloomy economic prospects. Changing society—even step by step—is much less easy than preventing social change (Stephens, 1979; Offe, 1975: 18). The role played by the Centre is much more obscure and can better be considered as an indirect, mediating one (Wilensky, 1981; Kohl, 1981). Apart from the period before 1973, one cannot detect distinct influence of the Centre on the different types of public policy.

It is significant that the complexion of parliament and government is related to the variation in policy-mixes. In my view, this means that policy formation, and especially the ordering of the different policies within the whole budget, is indeed influenced by the way party differences work out in the relationship between parliament and government. Moreover, this positive relationship remains stable over time, which indicates that policy changes are, in terms of direction and magnitude, influenced by the degree to which there is a more or less left-oriented government and parliament. It appears that the negative impact of the Right on welfare is mediated by the relationship between the complexion of parliament and government and policy-mixes.

The influence of military stance is a relevant factor of military expenditure during every period. It confirms by and large findings of Keman (1982 and 1985) and Hill (1978) that international factors have an impact on military affairs. This influence appears to have a contradictory effect for countries that have been active in the Cold War. These nations tend to slow down their growth rate in comparison to their original high levels of military expenditure, whereas countries that are marginally involved in the Cold War, or have no part in it, do not change their pattern of military expenditure very much. In this sense the military stance of a country is related to the kind of policy-mix that is feasible in terms of trade-offs and pay-offs (Pluta, 1978; Keman, 1982). The negative correlations found for the period between 1973–1982 indicate that, unlike the preceding period, military expenditure is not boosted

by the Cold War and is not negatively related to welfare provision and the resulting policy-mix. Hence, it appears to be logical to expect a tendency towards a pay-off rather than a trade-off outcome. The extent to which such a policy-mix actually develops is largely dependent on how much the party differences come to the fore simultaneously, for it seems that, especially after 1973, both the strength of the Left in parliament and the military stance of a nation have an impeding influence on military expenditure. If the right-wing in a country does not have a veto, a pay-off situation is likely to develop. Apart from the specific influence on the policy areas under review, this hypothesis is supported by the fact that throughout the periods under review a dominant Right is related to a low(er) rate of growth of the public economy ($r = 0.46$ and 0.41).

These outcomes contribute to an explanation of the distribution of the policy-mixes which have been discussed in Section 3. There has been a general development from positive trade-offs to positive pay-offs over time, and especially in countries with a strong involvement in the Cold War and a non-right dominated political complexion. This development was different in Canada, Switzerland and the USA, which developed a negative pay-off. In the case of the USA and Canada, the existing trade-off is simply the result of a change in military effort. Canada changed its external security outlook during the 1960's and used the budgetary space to develop the welfare state (OECD, 1978). The USA slowly disengaged from its Vietnam burden and to some extent showed a so-called "displacement" effect (cf. Peacock and Wiseman, 1961). That is to say that the budget was not decreased to the pre-Vietnam level, but was reallocated. In the USA this reallocation was clearly directed towards Medicare and education during the 1970's (Peroff and Podolack-Warren, 1977). Another explanation of the situation in Canada and the USA is also relevant for the Swiss case. The situation in these three countries can be explained in terms of a hypothesis I have previously elaborated on the conservative limits of budgeting (Keman, 1982). Here it is suggested that countries with a long-standing dominance of the Right tend to negative policy-mixes, if not towards a trade-off. Because deficit spending in such countries is ideologically unacceptable, an increase on welfare spending is only feasible within the budget by forgoing, for example, defence efforts. This argument, which is closely related to the opportunity costs approach, may at the same time explain the general trend towards negative and positive pay-offs in most countries after 1973. The outliers here are Austria and Finland for obvious reasons: their military stance is neutrality, which means that their military efforts can hardly be subject to domestic political decision-making (Keman, 1982). However, Japan which also belongs to this neutral category, remains in the positive pay-off "mix" throughout the whole period under review. This feature may be explained by the fact that Japanese effort in the welfare field was rather low during the sixties and because Japan chose to keep up public spending (and also welfare) during the period of stagnation.

This policy of "creative conservatism" (cf. Pempel, 1982) may have produced the observed outcome.

On the whole, the division between countries with a positive and negative pay-off policy-mix is less obvious during the second period. Two factors could explain this pattern: first, as Kohl (1981) has argued, particularly in times of economic recession, the Centre will play a much more dominant role in determining an acceptable limit to the public economy as a whole. Hence, in countries where the Centre is stable and dominant in government, one may expect a pay-off in either direction, often depending on non-political factors. Second, the diversification of positive and negative policy-mixes may also have to do with alliance-behaviour as conditioned by increasing international tensions (Hill, 1978; Cusack, 1984). Especially after the NATO decision to step up military expenditures in 1977 (SIPRI, 1979), a policy change appeared inevitable in many countries. Although this observation does not seem to fit the policy-mixes of Canada and the USA (see Table 2), it is a fact that precisely those countries show a strong tendency after 1973 towards both a positive pay-off (6 and 4 times) or even a negative trade-off (see Table 3).

To conclude this section, the overall impression is that "politics does matter" in respect of the development of policy-mixes. Domestic political variables account to some extent for the cross-national differences in welfare and warfare-related expenditures, and hence also for their interrelationship. However, it is more important that the political complexion of government and parliament is positively related to the policy-mix variable. This indicates that apparently governments do not only busy themselves with the budget as a whole, but involve themselves with the allocative patterns within the budget. It is also obvious that the way a country is related to international politics, and especially whether it is involved in the Cold War, is of significance for the development of different policy-mixes. These conclusions are not surprising in some ways, for it could have been expected that there would have been a relationship between domestic and international factors and the eventual policy-mix. What is surprising is the way party differences are mediated by party governments. The complexion of government and parliament appears to be a significant feature, not so much in establishing preferences in terms of trade-off, but producing a viable mode of policy formation. One could even suggest that party differences are less significant than the way governments (and especially coalitions) make critical choices and seek to implement them. Finally, the analysis has demonstrated not only *what* preferences for certain policies are relevant, but also (and perhaps even more) how these preferences in budgetary terms are *interrelated*. The whole process is more complex in both political and budgetary terms than the existing literature on the trade-off between welfare and warfare has previously led us to believe.

4.2 National and International Economic Performance

I posit that both economic performance and the structure in which economic life is embedded have a considerable bearing on policy performance. The actual influence of the socio-economic structure and its performance will be manifest mainly in the resulting pattern of public policy allocation and less in the process of decision-making concerning policy-mixes.

The indirect influence of national economic performance is mostly due to its feed-back character. Economic growth, inflation and unemployment, generally regarded as adequate indicators of economic development in capitalism (Maddison, 1982), are constraints on both policy-making and its outcomes. They will not only influence the degree of effectiveness of the existing policy-mix, but also limit the available options for future policy choices (Scharpf, 1983). The same argument applies to the international economic performance of a country. However, the crucial difference is that the impact of international economic relations is much more structural (Katzenstein, 1977; Krasner, 1978). This means that the relationship between the world market and national economic conditions is more direct, but also harder to modify (Cameron, 1978). On the one hand, this is the result of growing interdependence, and, on the other hand, it is increasingly the outcome of a nation's sensitivity to the international economy (Junne, 1982; Keohane and Nye, 1977). Growing interdependence is characterised by the growth of international trade and finance, which makes countries more sensitive to developments in international markets and fluctuations of interest rates. If a country suffers from the international economic situation and is unable to ameliorate that situation through its own policy initiatives, it must be regarded as being "vulnerable" (Keohane and Nye, 1977: 14–15).

Given this development, I expect that national economic performance will only explain long-term change in policy-mixes, whereas the trade posture and financial vulnerability of a nation will be more significant for the way the policy-mix is chosen. The relationship between "economics" and "policies" will be analysed with an array of socio-economic indicators.

First of all, we utilise growth rates of GDP (in constant prices), operationalised precisely as by the OECD (see OECD, 1983); secondly, we used both the rate of inflation and rate of unemployment. This set of variables indicates the state of the *national* economy. In addition, I will also take into account the effects of *international* economic features: the degree to which a country is dependent on the world-market⁹. The relative degree of dependence on imports and export signifies the "openness" or "closedness" of the national economy (Cameron, 1978). I also take into consideration the (dis)equilibrium of the balance of payments, which reveals the sensitivity and vulnerability of the countries under review in terms of inflow or outflow of money and capi-

⁹ The relation to the Worldmarket is computed according to Cameron's (1978) formula: $(\text{Import} + \text{Export} / \text{GDP} \times 100)$ and is thus expressed in GDP in %.

tal and of international fluctuations in interest rates and exchange rates. Socio-economic structure and economic performance are factors which condition the size of the public economy and, hence, the capacity to employ Keynesian welfare state policies. Following Cameron's argument, it can be stated that the difference between "open" and "closed" economies is shown in a need for different policy-mixes. In other words, domestic economic performance is strongly related to the trade posture of a country and can be regarded as an influence on welfare provision and the public economy as a whole (Castles, 1981). This conditional influence also determines to some extent the level of military expenditure. As I have elaborated elsewhere (see Keman, 1982: 206—209), the rate of economic growth is not directly related to the development in military expenditure. However, this does not mean that the economic growth of a country is irrelevant to the development and change of policy-mixes, since it also appears that countries with a relatively high rate of economic growth show a downward trend in military expenditure, whereas countries lagging behind in their economic development have shown a so-called "catching-up" effect. This cross-national difference in original levels of military expenditure may lead to an alternative ordering of the policies involved. Both the economic performance of a country and its international economic position indirectly influence the patterns of public policy priorities. After 1973 in particular, these variables are bound to play a greater part in the magnitude and direction of trade-offs and pay-offs respectively.

Table 6. *Relationship between Economic Factors and Public Expenditure in Defence and Welfare and Related Policy-Mixes (1962—1973 and 1973—1982)*

Variable	1962—1973			1973—1982		
	Welfare	Warfare	Policy-mix	Welfare	Warfare	Policy-mix
Rate of economic growth	—0.17	0.28	—0.46	—0.29	0.43	—0.03
Rate of unemployment	0.11	—0.13	—0.06	0.14	0.62	—0.05
Rate of inflation	—0.08	0.45	—0.04	—0.03	0.23	0.04
Openness/closedness	0.41	0.42	0.35	0.62	0.46	0.42
Balance of payments	—0.25	—0.10	—0.03	—0.11	—0.30	—0.16

Sources: OECD (various years).

All coefficients are Pearson Product-Moment correlations; see for the definition of Openness/closedness Note 9.

It is indeed obvious that national economic performance is less distinctly related to the process of formation of policy-mixes than are international

economic indicators. An examination of each period also shows us that "economics" in general becomes more relevant during the recession. Although not closely related, a number of the national economic indicators show a positive relationship with military expenditure. This result contradicts much of the literature on the relationship between economy and military expenditure (Lindgren, 1984) in general, but it supports the idea that there are indeed some counter-cyclical effects of increasing (or sometimes not decreasing) defence outlays. Yet one should be suspicious of such a view. For instance Griffin *et al.*, (1982) base their argument solely on developments in the USA. Moreover, as Junne (1984) demonstrates, military policy-making is often used in the USA as an economic policy. This seems especially to be the case under the Reagan presidency. However, the relation between domestic economic development and options for policy-mixes appear to point more to a pay-off structure than to a trade-off one. This could indicate that there is a tendency towards "guns and butter" during the recession period.

In fact, this development can be derived from Tables 3 and 4. In most cases the policy-mixes fall within the category of the pay-off policy-mix (i. e. 77.7 per cent of all possibilities between 1973—1982; see Table 3). Over time it can also be observed that, in spite of worsening economic conditions, the frequency of pay-offs increases from 73.5 per cent of all cases between 1973—1976 to 80.3 per cent between 1980—1982, whereas the average was 44.9 per cent before 1973 (see Table 4).

International economic factors, however, appear to exert a stronger influence on the choice of policy-mixes. In particular, the relative openness or closedness of the economy appears to be important throughout the period. This positive relationship indicates a tendency towards a positive policy-mix. This finding is not too surprising, since the economic interdependence of smaller advanced capitalist democracies is a structural characteristic of their economic development (Katzenstein, 1985). Furthermore, it should be noted that this structural feature is more often than not intermediated by the way domestic political relations are structured (Castles, 1981: 127) The depth of the crisis (indicated by the rate of unemployment and to a lesser extent by the rate of inflation; see also Paloheimo, 1984) has a much more differential bearing on the changes in the policy-mixes during each period. The (dis)equilibrium of the balance of payments apparently has little significance for the choice of policy-mixes in terms of pay-off and trade-off. Although there is little statistical significance, it may very well be that the sensitivity of many countries to international factors will turn into vulnerability, since it appears that domestic macro-economic policies, be they Keynesian or monetarist, can no longer sufficiently modify international economic relations (Schmidt, 1984; van Dijk and Keman, 1985). In fact, dependence on the world market remains the most consistent of all economic factors and, being consistently positively related, means that "open economies" will prefer a positive pay-off (or even a trade-off) as a policy-mix. This assertion supports the view of

Cameron (1978), who claims that the change in policy-mixes is limited because of the fact that governments wish to establish stable domestic socio-economic relations. Such a situation is more likely to occur in countries with a tradition of political consensus and socio-economic co-operation and less in countries dominated by the Right (Keman, 1984; Paloheimo, 1984). The exception to this "rule" is Austria. This may be the result of its unusual military stance on the one hand, and its reliance on its international competitiveness rather than on redistribution to achieve consensus and co-operation on the other (see also Katzenstein, 1985; Scharpf, 1983).

In conclusion, I would argue that economic factors do account for the cross-national variation in terms of the *levels* of welfare and warfare, if taken separately; economic growth is negatively related to levels of military expenditure in 1973 and 1982 ($r = -0.48$ and $r = -0.49$), whereas the openness of the economy is positively related to welfare provision in 1973 and 1982 ($r = 0.59$ and $r = 0.65$). These outcomes indicate that the actual course of economic development *pre-forms* the results of different public policies as an indirect rather than an intervening variable in respect of the development of policy-mixes (Keman, 1982; Pluta, 1978). However, factors other than political and economic ones must be considered in order to explain the remaining variation in terms of trade-off and pay-off.

4.3 Institutional Bargaining Centralisation, Incrementalism and Inertia

Most capitalist democracies developed their formal and institutional framework between 1848 and the Second World War. Their constitutions embodied the ideals of the bourgeois-liberal revolution and the developing standard of rational bureaucracy. This inheritance is to a large extent still the formal structure of modern capitalist democracies. Increasingly this has engendered problems for the actual working of the political systems, both in the realm of decision-making and in the sphere of policy implementation (see Freddi, 1982; Lehner and Schubert, 1984; Therborn, 1978; Keman, 1979; Todd, 1982; Weir and Skocpol, 1983).

The historical consequence is that the structure no longer matches the agencies and *vice versa*. Hence state structures and institutions of the capitalist democracies are increasingly paralleled by more or less formalised bargaining systems, such as tripartite consultation, semi-formal bodies and other forms of mutual co-operation between political authorities and interest groups. This development has generated a fresh discussion about the relations between organised interest and the political system: viz. the debate on "*Neo-corporatism*" (see Offe, 1979; von Alemann, 1981; Panitch, 1981; Keman and Braun, 1981; Schmitter, 1983; Armingeon, 1983; Czada, 1983). Neo-corporatist bargaining is a mixture of formal and informal negotiation and consensus building between political and societal actors; the former are represented through the political parties, particularly those in government, and the latter

are most typically the agents of capital and labour. This and other forms of state intervention together form a dense network which may possibly influence the distribution of policy-mixes. However, this does not mean—as some authors surmise—that the formal institutions of political decision-making will be eliminated together with political parties¹⁰. What may happen is that party government will have less room to manoeuvre as a result of neo-corporatist arrangements, which often imply welfare-related claims.

Another reason for the reduced room to manoeuvre is due to the way states have structured their executive agencies. For various reasons most countries under review chose to create an unitary state-structure. Other states deliberately preferred a federal structure, mainly for reasons connected in some way with the fear of a strong state or simply as a result of political compromises between regions during the process of nation building (Tilly, 1975; Smith, 1976).

Although it is often assumed that a federal structure of the nation state is more directly democratic, the system of “checks and balances” often simultaneously leads to a certain degree of inertia. This effect appears to apply especially to welfare-related policies. If this is correct, it may mean that the degree of centralisation of the state structure is related to positive policy-mixes between welfare and defence (Lehner, 1979; Scharpf, 1981; Smith, 1976; Cameron and Hofferbert, 1974).

Both “neo-corporatism” and “centralisation” may have an impact on the policy-mixes under review. As “neo-corporatism” is often defined as an institutionalised form of socio-economic conflict regulation, it follows that the outcomes of this bargaining process will be in terms of a pay-off. Neo-corporatist arrangements should be understood as aiming at a policy-mix that often reflects certain forms of sub-optimal political exchange. An exchange, albeit never completely symmetrical, more often than not tends to effect a compromise that avoids a zero-sum outcome. On the other hand, it may very well be that the distinction between federal and unitary countries may have consequences for the development of welfare-related public policies, since it appears unlikely that changes in military expenditure will be affected by the nature of the state structure (Wilensky, 1975).

At the same time it should be noted that both types of policy-mixes are also to a large extent the result of previous policy changes. The welfare state in itself is to some extent a cause of neo-corporatist arrangements, and the degree of bureaucratic centralisation will often produce certain unintended policy-mixes. These feed-back processes are thus to a large extent dependent on prior policy-outputs and their interrelationship. Inflexibility, on the one

¹⁰ As parliament still has to make the formal decision on most government proposals and initiatives, it is still potentially capable of imposing restrictions or even a veto on the outcomes of a neo-corporatist arrangement. See for this: Lehner and Schuber, 1984 and Keman and Braun, 1981.

hand, and lagged change on the other, may very well reduce the effectiveness of neo-corporatism and conceal the difference between centralised and federal states. The problem of incrementalism and inertia is basically a matter of time and prior commitments, which lead to a process of "muddling through" as a result of bureaucratic inflexibility and passivity (Wildavsky, 1975; Lessmann, 1987). Both "muddling through" and slow and often inflexible implementation may hinder any policy change in the short-run. If this is true then it may be expected that in countries which have strong policy commitments or high original levels of spending on welfare and warfare, there will be less change in policy-mixes. The influence of neo-corporatist arrangements and of the state structure will be investigated by using indices which are derived from the literature on these subjects¹¹. The impact of incrementalism and of inertia will be analysed by correlating the original levels of spending with subsequent change in welfare and warfare and by inspecting the yearly change in policy-mixes per country respectively.

Table 7. *Relationship between Bargaining Structure, Centralism and Incrementalism and Inertia and Welfare, Defence and Related Policy-Mixes (1962—1982)*

Variable	1962—1973			1973—1982		
	Welfare	Warfare	Policy-mix	Welfare	Warfare	Policy-mix
Degree of neo-corporatism (rho)	0.43	0.55	0.23	0.42	0.36	0.37
Degree of centralism (rho)	0.23	0.57	0.14	0.32	-0.71	0.25
Level of welfare in 1962 and in 1973	0.20	—	0.24	0.33	—	0.19
Level of warfare in 1962 and in 1973	—	-0.32	—	—	-0.08	—
Level of public expenditure in 1962 and 1973	0.56	-0.12	0.36	0.65	-0.05	0.46

See for definition of the variables the previous tables. The changes in welfare, warfare and policy-mix between 1962—1973 are related to the levels of 1962, whereas the levels of 1973 are related to the subsequent change between 1973—1982.

¹¹ Neo-corporatism is an index constructed by relating the existing ideology of social partnership underlying the bargaining system (1) with the active and formal (or not) part played by the political authorities in the bargaining process (2); the sources are: Armington, 1983; Keman and Braun, 1981. Centralisation is indicated by the distinction between unitary and federal states. I devised an index allowing for a medium-category of those countries that have neither a full-fledged unitary system nor a wholly federalist one. The countries are: Austria, Belgium and Italy; the remaining countries are scored as either unitary (= 1) or federalist (= 0) according to Smith, 1976.

The findings reported in the above table show that welfare-related public policies are positively related to the operating bargaining system and also to the existing state structure of a country, albeit to a moderate degree. More surprising however is the relationship with defence efforts, which is not only positive but also above the 0.40 level before 1973. Later on this relationship dwindles or becomes reversed. The findings for the first period support the positive pattern of policy-mixes up to 1973, whereas the other findings confirm the plausibility of a development towards more diversity, a development that is strengthened by the fact that most federal states to some extent lag behind in welfare provision. It is noteworthy, however, that it is precisely those countries that have been described as semi-federal (i. e. Belgium and Italy) which do not appear to have followed such a course before and after 1973 and remain within the category of a positive pay-off policy-mix.

Generally speaking, the analysis suggests that after 1973, in countries that are both neo-corporatist and centralised, the change in welfare provision was less affected by the consequences of the economic crisis than in other countries. At the same time, it should be noted that the relationship between pay-offs and trade-offs and neo-corporatism is always weaker than could be expected from the relationship with the separate policies. This could indicate a weakening of the existing compromise and, thus, of the disappearance of positive pay-off policy-mixes. In fact, one may observe that the number of negative pay-offs and even negative trade-offs increases after 1973; on average, the number of negative trade-offs and pay offs increased after 1973, with 11.7 per cent and 3.0 per cent respectively (see Table 4; in absolute numbers the growth has been 11 (—PO) and 5 (—TO) according to Table 3). The relationship between the degree of centralism and warfare is also interesting. Before 1973 it was positive and thereafter it becomes negative. This finding indicates that the more unitary states appear to be more able to change their levels of military expenditure. After 1973 this is a significant feature, since it means that a centralised polity can apparently adjust its policy-mix, particularly by changing the output on defence. It indicates that the tendency towards diversification is influenced by several factors, amongst which is the structuring of the state organisation.

The degree of incremental budgeting is notable in the development of welfare related expenditure, but much less so for military expenditure. I still hold the view (already expressed in section 3), that the degree of flexible and decremental budgeting is greater than many students of public policy-making believe. The significant fact is the extent to which the *policy-mix* changes, rather than welfare alone. In particular after 1977, when economic conditions deteriorate everywhere, a change of policy-mix in which the number of negative policy-mixes equals the positive ones can be observed. This situation is completely different from the previous period and involves all countries. The positive relationship between the public economy as a whole and policy-mixes should also be noted. It may indicate that in countries with large public

economies there was a tendency to favour policy-mixes of a positive kind, whether trade-offs or pay-offs. Viewed in this way, one can argue that there was an element of inertia, in particular among the "big spenders", which was mainly due to existing levels of welfare provision. Yet, especially if one adopts a more disaggregated focus, it may also be observed that the "big spenders" change their policy-mix in terms of decremental budgeting (Tarschys, 1983 and 1985). What these countries have in common is that they tend to stay within the pay-off category rather than resort to a negative trade-off (except the Netherlands). Especially after 1980, changes of policy-mix of the above kind tend to increase (see table 4).

In sum, the data suggest that incremental tendencies existed in combination with inertia or "immobilism" even after the recession turned out to be a crisis. At the same time, it is also clear that these tendencies are not wholly irreversible. The reaction time needed to arrive at new policy-mixes is to some extent dependent on the size of the public economy and, of course, also on the political will and institutional skill in the different countries under review (Scharpf, 1983; Shonfield, 1967; Keman, 1984). Such a conclusion is not unimportant, since it is obvious that neo-corporatist arrangements, just like party differences, do not manifest themselves directly in the eventual policy-mixes, but are mitigated by the complexion of government (to which neo-corporatism is positively related $r = 0.58$ before 1973 and $r = 0.54$ after 1973), and by the state structure ($r = 0.56$). It is obvious that the political choices leading to the eventual policy-mixes are by and large influenced both by the structural features of, and the operating agencies in, the capitalist democracies under review here.

5. Critical Options in Public Policy-Mixes: Conscious Decision or Inevitable Choice?

The previous analysis has demonstrated that there is both change in policy-mix over time and a synchronic contrast between capitalist democracies. It is my contention that the two policies central to this study, welfare and warfare, are by and large interdependent, if viewed from a budgetary perspective in which the relationship is not considered as mutually exclusive, but rather as an inclusive relationship. This latter aspect is important, since it avoids the all too common fault of comparing certain sets of independent variables with separate policy styles. Such an analysis all too often leads to the conclusion that there is a trade-off between welfare and warfare. It is merely *assumed* that the differentiation of influencing factors can explain the presence or absence of such a trade-off (e. g. Caputo, 1975; Wilensky, 1975; Pluta, 1978; Keman, 1982; Domke *et al.*, 1983). Most of these studies only produce evidence concerning the statistical co-variance between the two policies involved and the separate explanatory factors, whereas I have attempted to show the

extent to which the assumed relationship in itself is variable and how such variation may be explained. For this reason, I conceptualised the relationship between "guns and butter" as a variable sum-game, and developed a variable that could not only capture this interdependence, but also turn it into a comparative measure. By means of this concept not only may much of the existing literature on "trade-off research" be reconsidered, but also many of the conclusions drawn can be specified and perhaps modified. First of all, it is of great significance that we are able to analyse the change in policy-mixes in much more detail both in temporal and cross-national terms. In this way we can avoid the pitfall of the ecological fallacy. The results of the analysis, which are based on information specified at a more disaggregated level (in terms of time *and* comparability), show that it is, by and large, wrong to conceive of policy-mixes only in terms of a trade-off. On the contrary, it is obvious that—especially after 1973—the pay-off policy-mix is a more widespread phenomenon. In short, the approach to this kind of research question must be more refined and specified to gain results in terms of budgetary politics. Second, the outcomes in Section 3 demonstrate that the change of policy-mixes is much greater than is generally believed. I have been able to show that there has been a trend away from *positive* oriented policy-mixes in most countries to a more *mixed* pay-off situation. Broadly speaking, the development of policy-mixes has been from a more or less *uniform* and positively oriented pattern to a more *diverse* pattern, both in terms of pay-off or trade-off and of their positive or negative direction. Yet, it should also be observed that the basic trend over time is still in favour of "butter". What the analysis shows in addition is that there remains considerable variation in the policy-mixes of the countries under review, and that welfare is no longer an "unbound Prometheus" and, indeed, that warfare may eventually become an "awaking Mars". This emerging pattern could not have been discovered or explained except in terms of the new dependent variable constructed in the course of this analysis.

Cross-national variation in the pattern of policy-mixes has been analysed by seeking for relevant political, economic and systemic explanations. These explanations, although not as coherent as I would have liked, are still sufficient to speculate on, or to "predict", the future developments in these policy areas given their interdependent nature. First of all, it is obvious that both the deterioration in economic conditions and various policy responses account for the increasing diversity in cross-national variation and the tendency towards the negative types of policy-mix over time as the economic recession turns out to be a real crisis. The diversity is furthermore enhanced by the manner and the extent to which either welfare or warfare is traditionally important in a country. This relationship correlates with the original levels of both budget items and their influence on the emerging pattern. Before 1973 a high level of defence produced a positive trade-off, whereas after 1973 a high level of welfare more often induced a negative policy-mix. As it is most un-

likely that economic conditions will alter soon, this implies that the room for manoeuvre in budgetary politics will decline.

One of the main findings of Section 4 has been that party differences (i. e. votes) may influence the preference for the separate policies under review, but hardly exerts an impact on the policy-mix as such. For the present this means that, regardless of Left-Right distinctions, the tendency towards a negative policy-mix will be possible politically. Much more important is the way party differences express themselves via governmental actions. Together with the trade posture of a country, this factor appeared to be significant in producing positive policy-mixes. The movement towards a more negative pattern after 1977 only reflects the apparent veto-power of the Right and, hence, the decreasing will to maintain an extended public economy. In addition to this, the geo-political position of a country and the renewal of the Cold War may push this development in the direction of more diversity in policy-mixes.

Having discussed the various influences on the emergent pattern of policy-mixes and their potential development in the future, it remains to speculate on the extent to which the economic constraints and political options can and will influence the present and future pattern. We found that the impact of politics and economics was mainly apparent within the separate policies before 1973 and in the overall pattern after 1973. This indicates, among other things, that the role of politics is, by and large, influenced by neo-corporatist arrangements and facilitated by a centralised structure. It qualifies the impact of these features, and implies that if these factors are not present, political decisions can less easily be modified under circumstances of economic constraints. Selecting options is in this case hardly any longer a conscious decision, but rather a choice which appears as inevitable. This would be the same if most decision-making were incremental and inert. However this is less the case than is often thought. Although policy responses obviously take some time to work out, one can hardly defend the incrementalist view that there is no flexibility in policy-formation once the (dis-)aggregated data has been examined. "Decremental budgeting" is not only feasible, but can be considered to be a conscious consequence of politics, which in turn is the result also of national and international economic development. Such developments turn certain choices into inevitable consequences because of the renewed Cold War and ongoing economic crisis, but at the same time these circumstances do not mean that the cross-national and inter-temporal variation will disappear. On the contrary, I have demonstrated that the various relevant factors in this analysis bring about a certain general change in the relationship between welfare and warfare in the direction of a less positive policy-mix and perhaps even of a less distinctive preference for welfare in the near future. Yet, the actual policy-mixes will continue to differ cross-nationally. In particular, this is due to the extent to which governments shape policy-mixes rather than influence the separate public policies. Furthermore international military and economic relations appear also to contribute to the observed

cross-national and inter-temporal variation. Finally, the way the linkages between state and society are structured seems to be significant for the explanation of cross-national differences in actual policy-mixes. However, although these factors may contribute a lot to our understanding, there still remains a considerable degree of unexplained variance. Therefore our best route forward to understanding the development of policy-mixes lies in country-specific studies, focusing, as does this chapter, on the emerging pattern of trade-offs and pay-offs.

Appendix

A. Defence Expenditures

Country	Levels			First differences		
	1962	1973	1982	62-73	73-82	62-82
Australia	2.51	2.50	2.80	-0.01	0.30	0.29
Austria	1.08	0.93	1.20	-0.15	0.27	0.12
Belgium	3.33	2.79	3.40	-0.54	0.61	0.07
Canada	4.17	1.93	2.10	-2.24	0.17	-2.07
Denmark	3.05	2.04	2.50	-1.01	0.46	-0.55
Finland	2.37	1.31	1.60	-1.06	0.29	-0.77
France	6.14	3.61	4.20	-2.53	0.59	-1.94
West Germany	4.77	3.48	3.40	-1.29	-0.08	-1.37
Ireland	1.40	1.30	2.00	-0.10	0.70	0.60
Italy	2.97	2.67	2.60	-0.30	-0.07	-0.37
Japan	0.98	0.81	1.00	-0.17	0.19	0.02
Netherlands	4.37	3.09	3.30	-1.28	0.21	-1.07
Norway	3.53	3.13	3.00	-0.40	-0.13	-0.53
Sweden	4.11	3.28	3.30	-0.83	0.02	-0.81
Switzerland	2.61	1.92	2.00	-0.69	0.08	-0.61
United Kingdom	6.36	4.81	5.10	-1.55	0.29	-1.26
United States	9.30	5.97	6.50	-3.33	0.53	-2.80
Average	3.71	2.68	2.94	-1.03	0.26	-0.77

B. Welfare Provision

Country	Levels			First differences		
	1962	1973	1982	62—73	73—82	62—82
Australia	10.9	13.7	19.4	2.8	5.7	8.5
Austria	19.0	21.7	27.8	2.7	6.1	8.8
Belgium	19.3	27.8	39.5	8.5	11.7	20.2
Canada	13.1	19.5	21.5	6.4	2.0	8.4
Denmark	15.0	27.4	34.7	12.4	7.3	19.7
Finland	16.2	21.3	27.1	5.1	5.8	10.9
France	19.4	23.3	31.1	3.9	7.8	11.7
West Germany	20.7	26.4	32.1	5.7	5.7	11.4
Ireland	12.4	18.8	29.5	6.4	10.7	17.1
Italy	17.6	24.2	30.0	6.6	5.8	12.3
Japan	10.3	10.7	14.5	0.4	3.8	4.2
Netherlands	18.6	31.8	36.7	13.2	4.9	18.1
Norway	13.7	25.7	28.5	12.0	2.8	14.8
Sweden	16.0	24.2	34.6	8.2	10.4	18.6
Switzerland	8.8	15.9	19.4	7.1	3.5	10.6
United Kingdom	14.8	19.3	24.1	4.5	4.8	9.2
United States	11.8	17.3	21.3	5.5	4.0	9.5
Average	15.2	21.7	27.9	6.6	6.1	12.7

Sources: See Table I.

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Analysis of Decision Cases*

JÜRGEN STEINER and ROBERT H. DORFF

1. Introduction

In terms of policy outcomes, does it make a difference whether political parties play a strong or a weak role in the decision process? This is the question which we shall address in this chapter. In accordance with one of the themes of the volume, we will try to answer the question in a way which addresses the issue of changing conditions from affluence to scarcity. Besides political parties, many other actors may be dominant in the decision process such as interest groups, subnational units, the courts, the bureaucracy, etc. We assume that politicians have some leeway in how to organise the decision process. Let us illustrate this assumption with the decision process about the social security crisis in the United States in the spring of 1983.

When the issue was blocked in Congress, President Ronald Reagan, Senate Majority Leader Howard Baker and House Speaker Thomas P. "Tip" O'Neill came together and appointed an extra-parliamentary commission headed by the noted economist Alan Greenspan. As a consequence of this shift in the emphasis of the decision process to the Greenspan commission, the subsequent policy outcome was quite different from what it would have been had Congress remained the main decision arena. We do not wish to argue that the three political leaders were under no structural constraints and that they could have organised the decision process in whatever way they wished. There are, of course, always structural constraints. But we should also acknowledge that politicians, in particular leaders, always have some leeway to manoeuvre. Does the manner in which they use this leeway influence the policy outcomes? For the American social security issue this seems indeed to be the case. In this chapter, we wish to explore the relationship between decision process and policy outcome in a more systematic way. Given the theme of the volume, the emphasis will be on political parties, but we can draw on a more general theory of decision making which we have developed elsewhere (Steiner and Dorff, 1984).

* We acknowledge support by the Swiss National Science Foundation.

In the second part of the chapter we will show how decision cases regarding particular issues can be used as units of analysis. In the third section we present two British illustrations of decision cases. Section 4 introduces what we mean by decision cases with regard to the notion of party government. In Section 5 we show how we conceptualise policy outcomes. In Section 6 we present hypotheses about the causal relations between party government and the policy outcome. In Section 7 we will discuss how, under conditions of scarcity, moves away from decision processes characterised by party government may occur. In the last section, we will address the normative question of whether political parties *should* play a strong role in the decision process.

The other chapters in this volume examine the intricacies of day-to-day decision making in much less detail. They focus more on variables that are structural in the sense that they remain relatively constant in the hurly-burly of daily politics. Our own contribution is not meant to replace these structural explanations with a process explanation. Our goal is rather to supplement those structural explanations. We do not deny that structural constraints explain a great deal about policy outcomes, and that they also limit room for manoeuvre in the decision process. The degree of leeway may perhaps explain as little as 10 per cent of the outcome; 90 per cent may be better explained by structural features. Then why bother with this meagre 10 per cent? The incentive for adopting such a research orientation is the potential relevance of the results for giving advice to political leaders. Structural conditions can be changed only in the long run, if at all. But under present crisis conditions of scarcity, politicians often do not have the time to wait for such long-term changes. They need advice in the short term, and one area in which they certainly need help is the extent to which they should rely on political parties in the organisation of the decision process. We hope to throw some light on this aspect, although this chapter is merely a progress report on a project which is still in a relatively early stage of development.

2. Decision Cases as Units of Analysis

At what level of aggregation do we characterise the decision process? In other words, what are the units of analysis, and hence, the cases that we shall compare? In comparative politics comparisons are typically made between entire countries. If a variable deals with the decision process, attempts are made to identify the prevailing decision mode of a country. For such classifications broad categories are used. In the present volume Franz Lehner and Manfred Schmidt distinguish, for example, between corporatist and pluralist modes of decision making and apply these categories to entire countries. Such broad systemic characterisations of countries have been fruitful in the past for the development of many intriguing hypotheses. But it is now clear

that our main task is to test these hypotheses in a rigorous way. Unfortunately, little progress has been made with this testing because it turns out to be very difficult, if not impossible, to measure the predominant decision mode in a country in a reliable and valid way. As a consequence, there are ultimately fruitless debates about the classification of particular countries. The United States, for example, has been at the centre of a long-standing, unresolved debate about whether the concept of pluralism appropriately describes the prevailing decision mode of the country.

The root of this measurement problem is that there is much more intra-country variation than commonly assumed. Decision processes vary not only between but also within countries. In a single country, health issues may be handled with quite a different decision process than defence issues. There may also be great variation within each of these fields. The procurement of a fighter plane may be decided in quite a different way from a wage increase for military personnel. Such intra-country variation has been neatly documented by Wilson (1983) for France. He shows that a corporatist pattern of decision making is used in some contexts, but not at all in many others. We have recently shown how in Switzerland the pattern of decision making varies greatly from one situation to another (Germann and Steiner, 1985).

Such intra-country variation does not, of course, mean that in principle one could not aggregate the decision modes for a country as a whole. However, the common practice of impressionistic judgements based on plausibility and illustrations is hardly sufficient. One could study decision making in the various issue areas and then aggregate the results for a country as a whole. But how do we define the issue areas? Do we consider broad areas such as energy policy or narrower areas such as nuclear policy? How do we delimit against each other such intertwined areas as energy policy, environmental policy, health policy, and economic policy? Having defined the issue areas, what weight do we then attach to the individual areas? Is decision making in the defence area more or less important than, say, in education? It is certainly possible to find some answers to these questions. But these answers will probably differ so much from scholar to scholar that the controversies about the classification of particular countries will continue unabated. In addition, the task of data collection is so enormous that nobody is likely to have the resources necessary to classify a large number of countries.

In our own on-going research, we have chosen another strategy which explicitly acknowledges that decision modes may vary as much within as between countries. Rather than neglecting intra-country variation, this research strategy tries to profit from such variation. The units of analysis are no longer entire countries but decision cases about specific issues. At this disaggregated level it is relatively easy to collect data about individual cases, which can then be compared both within and across countries. If an issue comes up several times in the history of a country, comparisons can also be made over time.

In a cross-national study concerning energy decision making (Steiner, 1983), we quickly found out that it is not an easy task to define issues as units of analysis. We used the issues as defined by the decision makers themselves. In drawing up their agendas and in structuring their debates, decision makers generally break up the decision process of an entire country into a large number of specific issues. These issues are usually defined at different levels of aggregation. We decided to look at a relatively low level of aggregation where decision making takes place on a very concrete level. We then identified, for example, the lowering of speed limits on highways as an issue in the United States following the Arab oil embargo of 1973. It was at this level that the actual policy decisions were made. At a higher level of aggregation, the issue was defined as the reduction of oil consumption, and at an even higher level, as the pursuit of energy independence. But in the actual process of decision making these broader issues were broken down into a number of more specific aspects, such as the lowering of speed limits. Within this particular issue, even more specific cases appeared, such as speed limits for trucks, limits for cars, limits during the night, etc. Because all of these specific questions were discussed by the decision makers essentially in the same context, they were really defined as a single issue. To determine how decision makers defined the issues, we relied on such indicators as the formulation of the parliamentary agenda or the wording of newspaper headlines.

Defining issues, such as the lowering of speed limits, did not, however, fully resolve the question of the units of analysis. Once confronted with the data, we discovered that a series of decisions may be made on the same issue. Thus, we had to tackle the problem of whether all of these individual decisions would have to be treated as separate cases. In Great Britain, the Cabinet actually made four different decisions on the question of speed limits:

- December 7, 1973: uniform 50 mph [miles per hour]
- March 29, 1974: 70 mph on motorways, 50 mph on all other roads
- December 9, 1974: 70 mph on motorways, 60 mph on dual carriageways, 50 mph on single carriageways
- June 1, 1977: 70 mph on motorways and dual carriageways, 60 mph on single carriageways.

On the one hand, these four decisions belong to the same continuous decision process. Yet on the other hand, each decision has its own specific characteristics and can thus be treated as a separate case. Conceptually, we try to incorporate both of these features in our theoretical framework. At a first level of analysis, we treat each decision as a separate case. At this level we treat each case as a new one whenever the formal authorities make a new, legally binding decision. At the second level of analysis, the individual decisions are linked to one another. Thus, we can build chains of interrelated issues which should add some depth to our analysis.

In the British speed limit case it was easy to identify the four separate decisions of the Cabinet. A more complicated situation arose with the French nuclear expansion programme of the 1970s, where it was quite difficult to identify the various decisions on which the expansion programme was based. After much in-depth research we came up with the following decisions:

- March 27, 1973: decree of the Council of Ministers on the process of implementation of the nuclear program
- March 4, 1974: decision of the Council of Ministers to accelerate the nuclear program
- February 2, 1975: authorisation of the Council of Planification for the nuclear programme 1976/77
- November 8, 1976: decision of the Council of State on the public utility of the nuclear plant at Creys-Malville
- February 6, 1979: decision of an Inter-ministerial Council to accelerate the nuclear programme.

Again, these decisions can be treated at one level as five different cases. However, at another level we can look at the entire sequence of decisions and analyse how each decision has been influenced by those preceding it.

In defining the units of analysis, we encountered not only the problem that several decisions may closely follow each other, but also the opposite problem that there may be no decision made at all. An issue may not even be put on the formal agenda, a phenomenon vividly described in the literature by Bachrach and Baratz (1962). Just such a situation occurred in the United States concerning the nationalisation of the oil companies, where the issue was raised by the trade unions but was never discussed in any formal arena. This was in sharp contrast to Great Britain where the nationalisation of the oil companies was a hotly debated issue. We included not only the British but also the US case in our units of analysis.

We have to examine how the nationalisation of oil companies was kept off the formal agenda in the US. In other words, what were the steps which led to this non-decision? Generally speaking, our operational definition encompasses issues which lead to formal decisions as well as issues where no formal decision is ever made.

3. Two British Illustrations of Decision Cases

Both examples deal with taxes on petroleum products, one case with an increase in the gasoline tax, the other with a petroleum revenue tax imposed on oil companies. In addition to Britain, we have studied decision making about these two issues in several other countries. As might be expected, we found substantial cross-national variation in the decision process. This result, however, is less interesting in the present context than the strong intra-country

variation. Instead of Great Britain, we could easily use other countries to demonstrate such intra-country variation. The two issues are also by no means extreme cases of variation in the decision process within the same country.

We will use the two British cases not only to illustrate intra-country variation in the decision process, but also to show that broad categories such as corporatist and pluralist are insufficient for classifying decision processes. In order to present our arguments, we must first discuss the two cases in some detail. For a fuller description of the data we refer to Kirstein (1984), another project collaborator.

The attempt to increase the taxes on petrol in Britain occurred in Spring 1977. The Labour party was in power, but lost its majority in parliament through defections and defeats in by-elections during the decision process under discussion here. It then made arrangements with the Liberal party in the form of the "Lib-Lab pact" in order to restore a parliamentary majority.

On March 29, 1977 the Labour finance minister, Denis Healey, Chancellor of the Exchequer, proposed to the House of Commons that duties be increased on road fuels, heavy oils and derv (a diesel fuel). Margaret Thatcher, at that time leader of the Conservative Opposition, attacked the proposed increases, saying: "We are all shaken by the extent to which Mr. Healey has loaded extra taxes on motorists." The position adopted by the Liberal Party was of crucial importance. According to the "Lib-Lab pact," the Liberals agreed to be "with the Government but not of it." This meant that the petrol tax proposal was submitted to Parliament without prior consultations with the Liberals. When the proposals by the Chancellor of the Exchequer were announced publicly, the Liberals' attitude was rather different from the rest: they rejected the increased taxes on road fuels, but accepted those for heavy oil and derivatives. Criticism of the tax increases also came from the ranks of the Labour Party itself, where one backbencher went so far as to call the proposals "scandalous".

In addition to the political parties, many interest groups also voiced their opinions. Their reaction was generally an angry one. The Road Haulage Association denounced the new tax levels as inflationary, and argued that the added costs would be largely borne by the consumer. The Freight Transport Association made similar predictions. The Motor Agents' Association, representing the garage owners, complained that the tax increases would reduce profit margins because local price wars would prevent owners from raising their prices correspondingly. The position taken by the motorists' associations was also unfavourable. The Automobile Association described the new taxes as "bad news" for motorists, and the Royal Automobile Club took a similar view. A more favourable response came from the automobile industry, in particular the producers of economy cars who saw the taxes as a bonus argument in favour of their small, fuel-efficient vehicles.

The crucial decision making took place in confidential negotiations between the Labour Party and the Liberal Party. These negotiations were influ-

enced by the poor showing of the Liberals in a by-election. One of the main reasons behind the electoral disappointment was the unpopularity of the petrol tax increases and the public expectation that the Liberals would ultimately support the increases because of the "Lib-Lab pact". The Liberals were in a particularly difficult situation because many of their supporters lived in rural areas and would therefore be especially hurt by the tax increases. This situation made it very risky for the Liberals to abandon their opposition to the increased taxes on road fuels. At the same time, they could not precipitate the defeat of the Cabinet, because a general election at this time might well spell disaster for their party.

In the negotiations with Labour, the Liberals proposed that rural areas be exempt from the increased taxes on road fuels. Although the Labour representatives were not in principle opposed to such a two-tier system, they emphasised the difficulty of defining "rural areas" for tax purposes. Finally, a compromise was reached whereby the proposed tax increases for road fuels were dropped completely, but those for heavy oil and derv were retained. With this deal between the two parties, the Liberals were willing to abstain in the House of Commons, thereby allowing the measure to pass 290 to 281.

The decision in the *second* case study, concerning the petroleum revenue tax, was made in 1974/75, a time when Labour had a majority in the House of Commons. In November 1974, the Labour Cabinet made its tax proposal public. The new tax would be levied on all oil and natural gas revenues from the North Sea, and it would be charged on a field-by-field basis at a flat rate. In the initial proposal by the Labour government this rate was not yet specified. Before the debate in the House of Commons the government wished to consult with the oil companies to determine the proper and appropriate rate based on actual cost and profit levels. Negotiations between the government and the oil companies began on November 19, 1974, with Edmund Dell, Paymaster General, leading the government delegation.

As might be expected, the oil companies were not enthusiastic about the new taxes. Some companies, such as the Gulf Corporation, questioned the very need for such a tax, and warned that it would curtail further efforts to explore and develop North Sea petroleum reserves. Such criticism notwithstanding, the oil companies were still willing to negotiate about details of the tax. The major issue was the determination of the tax rate, and on this the oil companies were severely split. The large companies, in particular Shell, Esso and British Petroleum, supported the initial concept of the government of a single, flat rate tax. Smaller companies, on the other hand, argued that they should be allowed a lower rate because they would otherwise be forced out of their North Sea operations. Some of the smaller companies expressed resentment over the larger companies' claims to represent the position of the entire industry.

On February 25, 1975, Mr. Dell announced to the House of Commons that the petroleum revenue tax would be set at a rate of 45 per cent of the

profits. To prevent curtailment of exploration in smaller fields, a discretionary provision was included to refund all or part of the royalties from the "marginal" fields. The oil industry was generally satisfied with the outcome. Shell called it "realistic", and praised the Labour government for finding a way to fulfil political objectives while keeping North Sea operations viable. The fixed rate satisfied the large companies, and the small companies were reassured by the additional provisions of the Bill. Major industrial and oil stocks rose after the government statement was made, suggesting that exploration and development would continue.

After the relatively successful negotiations between the government and the oil industry, the petroleum revenue tax was passed easily in the House of Commons in March, 1975. The spokesman for the Conservative Opposition still maintained that a fixed rate at any level was "inappropriate", and some leftist members of the Labour party accused their own government of "selling out" to the international oil industry.

A comparison of the two British cases shows that the petrol tax increase was handled more competitively, and the windfall profits tax on oil companies more consensually. In the petrol tax case, there was a classic confrontation between the party in government and the party in opposition. The situation was unusual, however, because the governing Labour Party had just lost its majority through defections and losses in by-elections, yet managed to retain majority status with the help of the pact with the Liberals. In the case of the windfall profits tax, the crucial decision making took place between the Labour government and the oil industry. Initially the interests of the two sides were very far apart, and there was also a split between large and small oil companies. But through mutual bargaining and accommodation a solution was worked out and a compromise reached. In a formal sense, the decision was still made in the House of Commons with the Conservatives voting against the government Bill. But more important than this competitive aspect in parliament was the consensual pattern in the extra-parliamentary negotiations between the government and the oil industry.

This variation in the decision process must be considered if one wishes to explain the policy outcomes in the two cases. It would be foolish to assume that there is a single prevailing decision pattern for both issues. This, however, is precisely what happens in those macro-level analyses which go so far as to assume that there is a single predominant decision pattern for a country as a whole. For Britain this assumed pattern is usually one of pluralism. In our two examples, the decision process about the petrol tax seems rather pluralist, the one about the windfall profit tax rather corporatist (we will return in a moment to the problematic nature of such broad classifications). Given this variation, if we assume a pluralist pattern for the entire country we could only explain the outcome of the petrol tax, but not of the windfall profit tax. Defenders of the macro-level approach would argue that the decision pattern for the windfall profit tax is so rare that its occurrence has only a negligible

impact on the overall policy outcome of the country. But who has ever demonstrated that the decision process used for the windfall profit tax is really rare? And what is the definition of rare anyway? What is meant if it is assumed in macro-level analyses that the prevailing decision pattern in Britain is pluralist? Should other decision patterns occur in not more than 10 per cent of the cases? Or 5 per cent? Or perhaps 20 per cent? And how are these percentages determined? How do we get a representative sample of all decision cases? For what time period should the sample be valid? Since not all decision cases are of equal importance, how is the weighting problem to be resolved? As we have already argued in Section 2, these are all extremely difficult measurement problems. As far as we can see, the predominant mode of macro-level research does not even begin to address these problems. The classifications are impressionistic and therefore rather unreliable.

Let us illustrate our critique with a typical topic of macro-level research, the overall tax level in a country. For Britain, one might attempt to explain this level by assuming pluralism to be the prevailing decision mode of the country. Yet the windfall profit tax was decided in a rather corporatist way. Other taxes may have been decided in a similar manner, but no one knows in how many cases. Given such uncertainty, it seems at least risky to assume that pluralism is the prevailing decision pattern for tax policy in general. Perhaps pluralism is predominant for some other policy areas, but not for tax policies.

When such variation is possible it seems odd to assume a single prevailing decision mode for the entire country. If one wishes to explain tax policies, the appropriate explanatory variable should be decision making about taxes. If one wishes to explain defence expenditures, one should look at decision making in this particular area. If one tries to explain levels of unemployment, one should study the decision processes involved in such measures as public work programmes, immigration policies, etc. By linking specific policy outcomes with the corresponding decision process, it should be possible to make our theoretical work match reality to a greater extent.

In our own research we disaggregate so much that we link the outcome for specific issues, such as the petrol tax and the windfall profit tax, to the corresponding decision processes. After we have studied a sufficient number of tax cases, we can aggregate again, and explain tax policies in their entirety in terms of decision making style in this entire area. It seems rather unlikely that a further aggregation at the national level will be feasible. It is one thing to aggregate all tax cases for the area of tax policy as a whole. But it would be quite a different matter to aggregate decision making in all policy areas at the national level. For the time being, the most fruitful research strategy seems to be a comparison of decision processes about specific issues and possibly a subsequent aggregation of the results at the level of some broad issue areas such as taxes, welfare, defence, etc.

Up to this point we have assumed that it makes sense to classify decision processes in terms of such broad categories as pluralism and corporatism. The

two British case studies also serve to raise serious questions about this assumption. In a tentative way, we have classified the petrol tax case as pluralist, and the case of the windfall profits tax as corporatist. We now ask whether these classifications are sufficiently unambiguous. Our answer is "no", and we will argue that the concepts of corporatism and pluralism are not clear enough definitions. In his contribution to this volume Schmidt defines corporatism in a standard way: "A corporatist mode of regulating class conflicts and the economy characterises nations in which trade unions, employers' associations and the state are committed to a social partnership ideology, and collaborate in a tripartite network of policy formation in single policy areas and across policy areas" (*Infra* p. 17).

We saw that there was mutual bargaining and accommodation between the Labour government and the oil industry in the decision about the windfall profits tax. The trade unions, however, were not involved to any significant extent. Is it still possible under these circumstances to characterise the decision process as corporatist? In the literature the term "incomplete corporatism" is used to describe such situations. In this context Schmidt talks about corporatism without Labour and cites Japan as the major example. The fact that the state plays a role in corporatist decision-making makes the situation even more unclear. In the case of the windfall profit tax, the state delegation in the negotiations with the oil industry was led by a Cabinet minister. He was clearly a party politician representing the Labour Party. Yet in some of the literature it is a definitional criterion of corporatism that political parties should not be involved in the decision making. Rather the state should be represented by career civil servants. Other definitions of corporatism allow the participation of political parties; Katzenstein (1984), for example, defines corporatism as "continuous political bargaining among interest groups, state bureaucracies, and political parties". A third ambiguity concerns the close vote in the House of Commons. It is true that the main aspects of the final outcome were hammered out in the negotiations between the Labour government and the oil industry. But the Conservative Opposition party was not involved in the bargaining and it took the liberty of rejecting the deal in the parliamentary vote. Proceeding from the available definitions of corporatism, it remains unclear whether the close vote in the House of Commons should be considered as purely symbolic and thus having no influence on the classification of the entire decision case. But the parliamentary vote could easily have acquired real meaning if some leftist Labour members had defected because they considered the entire deal a sell-out to the oil industry. What would the classification of the decision process have been in this case? Perhaps we could describe it as "aborted corporatism" because the original deal was rejected by Parliament?

There is a similar ambiguity in the classification of the petrol tax case as pluralist. Wilson (1983) defines pluralism in a standard way when he writes that interest groups "act from outside the institutional framework of govern-

ment to influence policy through political pressure rather than become directly involved in the decision-making process itself." In accordance with this definition, the Labour government did not enter into any formal negotiations with the interest groups that were opposed to an increase in the petrol tax. The Road Haulage Association, the Freight Transport Association, the Royal Automobile Club and similar interest groups instead lobbied from the outside to influence the government decision. So far, so good. But there was practically no competition among interest groups as is commonly assumed in definitions of pluralism. Broad public interests which might have favoured an increase in the petrol tax, for example for environmental reasons, were simply not organised. Only groups with a narrow economic interest made any attempt to lobby. All of these efforts had the same end in mind, namely to prevent an increase in the petrol tax. They were also successful to a large extent, since the final decision retained merely the tax increases for heavy oil and derv, but dropped completely the proposed increases for road fuels. We may conclude that there was not much pluralism of interests represented in the decision process. Should the decision making still be classified as pluralist? If we take corporatism as the alternative classification, pluralism still seems the most appropriate term. However, it is not completely satisfactory either.

If it is so difficult to classify specific decision processes as either corporatist or pluralist, how is it possible to use the two categories at the much more complex level of entire countries? The answer is that the data collection of most macro-level research is so remote from the nuances of specific decisions that the fact that the two categories do not match the reality they describe is hardly noticed. Whether a country belongs to the pluralist or corporatist category is asserted or assumed merely on the basis of the existence or non-existence of particular institutions. It is taken as an indicator of corporatism if a permanent institution such as an Economic and Social Council exists, where the representatives of the state and the major economic interest groups meet on a regular basis. It may be noted, however, that such institutions are sometimes merely symbolic shells. In such cases, the original classification is modified from corporatist to pluralist. In the case of France, for example, it is often argued that the Economic and Social Council has little importance, and that the French decision style should thus be considered as pluralist. In the case of Switzerland, the argument is sometimes reversed in the sense that decision-making in Switzerland is classified as corporatist despite the absence of a permanent corporatist institution. Katzenstein (1984), for example, detects in Switzerland a spirit of co-operation among the representatives of the state and major economic interest groups. Although this co-operation is not institutionalised in a permanent Economic and Social Council, it manifests itself in a variety of ways; for example, in the numerous pre-parliamentary expert committees. In the case of the Netherlands, the classification has shifted over time. The Dutch have a Social and Economic Council. However since the 1950's this Council seems to have lost much of its importance. As a conse-

quence, some authors describe the Netherlands as having shifted from a strong to a medium mode of corporatist decision making.

The examples of France, Switzerland, and the Netherlands show the *ad hoc* nature of the classifications at the macro level. The validity of the classifications is not improved by frequent repetition. There is a tendency in the literature to base classifications on the classifications of other authors. In their contributions to this volume, Lehner and Schmidt refer, for example, to Lehbruch for their classifications. But if one has doubts about Lehbruch's classifications, this reference is not of much help. What we need are classifications which stand on their own merits. For this task we need categories which fulfil the criteria of being mutually exclusive and jointly exhaustive. The categories of corporatism and pluralism are much too crude to satisfy these criteria. In the next section, we will try to show how a more refined classificatory scheme could be constructed.

4. Party Government Decision Cases

The main purpose of this section is to demonstrate what we mean by saying that decision cases fit within the criteria of party government. But first we must give some picture of the overall typology of which party government is a specific type. We fully acknowledge that a decision process is a multivariate phenomenon. Logically, we must therefore begin with the variables of which the decision process is composed. The typology will then result from the combination of these variables. One can easily think of many characteristics of the decision process which may be conceptualised as variables. For our current work we distinguish the following six aspects:

- (1) Agenda-setting: who initiates the decision process by placing the issue on the agenda?
- (2) Cleavage Structure: what conflicts develop around the issue?
- (3) Public Participation: how much and in what form do rank-and-file citizens participate in the decision process?
- (4) Decision-making Arena: what are the main arenas of decision making?
- (5) Decision Mode: what decision modes are used to arrive at a decision?
- (6) Implementation: who is in control of the implementation of the decision?

The above variables, as one can readily see, are drawn from prominent themes in the existing literature. For example, agenda-setting is of long-standing interest to political scientists both at the macro- and micro-levels. Cleavage structure is used as an explanatory variable in models such as pluralism and consociationalism, as is the level and form of public participation. In its simplest guise the decision-making arena as an explanatory variable has been around at least as long as we have distinguished between parliamentary and presidential political systems, but it has gained particular attention recently in the literature on corporatism. The mechanism by which a decision is

made (decision mode) has also been with political science for many years. Some of our own previous work has also been in this field. Lastly students of the policy process have argued at length that such studies are not complete unless one also examines the implementation phase.

There are certainly many ways in which our six variables can be combined to form a typology of decision processes. We have chosen the criterion of what actors are at the centre of the decision process. This may vary from one aspect of the decision process to another. A political party may launch a decision process but it may have no say in the phase of implementation. We thought that it would be particularly interesting to look at "pure" situations where one set of actors dominates all aspects of the decision process. By looking at it in this way, we arrive at a logically consistent definition of party government. The criterion is that political parties play the predominant role in each of the six aspects of the decision process. Issues are put on the agenda by a party and the main divisions are drawn along party lines. Citizen participation takes place within the parties as organisations. The main decision-making arena is parliament, the forum within which parties historically developed. The decision mode used to resolve the conflict is the traditional majoritarian one, with party discipline serving to structure the outcome. The responsibility for implementing the decision outcome also rests with the parties.

Based on the same logical principle, we have constructed an entire typology of decision processes. For each type a different set of actors is dominant. For the moment we work with the following eight types which will be expanded later:

- (1) Party government
- (2) Federalist government
- (3) Executive government
- (4) Bureaucratic government
- (5) Judicial government
- (6) Interest group government
- (7) Street government
- (8) Corporatist government

In another paper, we have defined all eight types (Steiner and Dorff, 1984). In the context of this volume it is sufficient to present one other illustration in addition to party government in order to convey a feeling for the possible variation among the types. Federalist government differs greatly from party government and may thus serve as a useful illustration. In federalist government, issues are set on the agenda by subnational units. Such units would include States, Länder, Cantons, and so on. The main divisions that arise are between subnational units, and citizen participation takes the form of membership of one of these subnational units. So, for example, we can think of one State versus another State, with the citizens of each State mobilised in pursuit of their State's policy preferences. The institutions of the subnational

units once again form the main decision-making arena. An example of this in West Germany would be the "Kultusministerkonferenz" and in Switzerland the "Finanzdirektorenkonferenz." In a pure federalist government each subnational unit has an effective veto power, which leads to high levels of compromise and bargaining. Finally, the power to implement the decision outcome also rests with the subnational unit, such as the staffs of the conferences noted above. In sum, federalist government is government by subnational units and occurs when policy issues essentially pit one unit (or group of units) against another, and where the power to resolve the conflict largely rests with those subnational units.

In order to classify decision cases according to the eight types and possible mixtures of the types, we must code the six variables of the decision process. What is the data base for this coding? For each issue we first establish a detailed chronological description. To do this we basically employ the classical methods of historians. First we try to get a broad overview of the events by screening one of the leading newspapers (*Le Monde*, for example, for France). This information is then supplemented with reports from other newspapers, governmental documents, annual reports of political parties and interest groups, minutes of parliamentary debates, etc. In addition to primary and secondary written sources, we interview some of the key participants in the decision process and close observers such as journalists. The purpose of these interviews is to obtain the additional data necessary for the development of the case studies. Having established the chronological description of a case, the next step is to organise the data in a systematic way according to the six variables of the decision process. The material for each variable is then read by three coders who make their own independent judgments. At the moment we have data for about 100 energy decision cases covering energy issues in the following Western democracies: the United States, Great Britain, France, the Federal Republic of Germany, Italy, Austria, and Switzerland. The time framework is from 1973 to the present. An important initial task of our ongoing research programme is to use these first 100 cases to evaluate the usefulness of our typology. With the help of a discriminant analysis, we will examine whether our logically constructed types occur with a certain frequency in empirical reality. If one of the types emerges only very rarely or never at all from the data, we would not pursue it further, at least not for the time being. On the other hand, the discriminant analysis may reveal that there are additional, empirically important types of decision processes. Some types may be based on the same logic that we used above, in the sense that still other sets of actors may be at the centre of the decision process. It is also possible that types will emerge based on different logical principles. The analysis of the first 100 cases will not only serve to refine and supplement our typology of decision processes, it will also allow a first test of how variation in the type of decision process may influence the policy outcome. This leads us then to this question: what aspects of the policy outcome are we interested in?

5. Conceptualisation of Policy-Outcome

For each of our cases the dependent variable is the policy outcome, and here we can distinguish two dimensions. As justified in an earlier paper (Steiner, 1983), we are primarily interested in the dimension of demand fulfilment. We wish to establish to what extent the demands of various groups are fulfilled. The relevant question, then, is the extent of the distance between winners and losers in demand fulfilment. At one extreme, the winners get everything, the losers nothing. At the other, winners and losers are so close together that they are practically indistinguishable.

The second dimension of the policy outcome concerns the extent to which this outcome is accepted or challenged by the relevant groups. There are many different ways in which a group may challenge an outcome with which it is dissatisfied. The options range from lobbying in Parliament to the organisation of violent protest demonstrations. We constructed an ordinal scale which allows us to locate the various groups according to the strength with which they challenge a particular policy outcome. The lowest quartile of the dimension is reserved for groups which limit their challenge to the verbal expression of dissatisfaction. Groups located in the second quartile go beyond mere talk in the sense that they take actual steps to change the outcome. But these steps are still conventional in the sense that they are limited to actions within the institutional framework, as in the introduction of an amendment in Parliament for example. In the third quartile the challenge of an outcome takes unconventional forms (legal strikes, peaceful demonstrations, fasting, etc.), but is still within the legal rules. In the top quartile legality is finally broken. Illegal means, such as violent demonstrations or organised non-compliance, are used to challenge the outcome of a decision.

Broadly speaking, our study allows us to see to what extent the policy outcomes of the individual cases correspond to a conflict or a harmony model of society. In a conflict model, relations among societal groups always remain antagonistic and no issue is ever fully resolved. In a harmony model, on the other hand, tranquillity can be achieved by virtue of policy outcomes which sufficiently fulfil the demands of all societal groups. Traditionally, these models have been applied to entire societies. The problem has been that such a macro-level classification of individual countries is essentially confused, and the manner in which entire countries are classified remains rather vague. Our lower level of aggregation allows us to differentiate not only between but also within countries. Thus, our theoretical framework allows for the possibility that a single country might be characterised by a complex mixture of conflict and harmony models in the policy-making outcome.

At this point it may be helpful to use a concrete case as an illustration of how we code the policy outcome. The illustration deals with the lowering of speed limits on highways in the United States following the Arab oil embargo of 1973. One position, represented by the Nixon Administration, was to

lower the limits from 65 to 50 mph. However, the trucking industry and many representatives of the Western region maintained that the limits should be kept at 65 mph. The outcome was a new speed limit of 55 mph.

We coded the Nixon Administration as having the greatest degree of success. In numerical terms, two-thirds of its demands were fulfilled given the distance between 55, 50 and 65. But simply looking at the "numbers" in this way can be misleading, and at times such convenient numbers do not exist. In this particular case, it seemed important that the Nixon Administration was less interested in a precise number than in the principle that speed limits were an instrument for saving gasoline. And on this question of principle the Administration was a clear winner. Given this victory it mattered relatively little to the Administration that the new speed limit was 55 mph instead of the originally proposed 50 mph. We coded the Nixon Administration as having about 80 per cent of its demands fulfilled.

We do not try to be so precise as to argue that the Administration had, say, 79 or 82 per cent of its demand fulfilled. We merely claim that the extent of its demand fulfilment lies somewhere in this more general range. At the moment, more precision is also unnecessary because of the nature of the hypotheses to be tested. As we will see in section 6, a hypothesis may predict that an outcome will fulfil not all but most of the demands of a particular group. To test such hypotheses the precision claimed for our coding will be sufficient.

According to our coding, the Independent Truckers were the biggest losers with only about 20 per cent of their demands fulfilled. Their only gain was that the new speed limit was not as low as the originally proposed 50 mph. But the Independent Truckers lost on the question of principle, that is that speed limits should not be used as an instrument for saving gasoline. They were very adamant on this point. The Teamsters, the representatives of the West, and especially the American Trucking Association were less adamant about the principle, so that to these groups the new limits appeared more as a compromise (about 30 per cent demand fulfilment).

With regard to the second dimension (challenge of the decision), we coded the Nixon Administration at the lowest end of the scale. Although its original demand of 50 mph was not fulfilled, the Nixon Administration fully accepted the outcome of 55 mph. The story was different for the Western region. Its representatives in Congress proposed several amendments to increase the speed limits again, but they did not go beyond such conventional parliamentary actions. Consequently, we locate the West in the second quartile. For the trucking industry, a differentiation has to be made between the Independent Truckers, the Teamsters, and the American Trucking Association. The Independent Truckers challenged the policy outcome with blockades of some major interstate highways. Such blockades are one of the mildest forms of violent protests, which justifies the location of the Independent Truckers at the lower end of the top quartile. The Teamsters asked the

Nixon Administration to reconsider the decision and, at a minimum, to raise the limits for night driving. This action places the Teamsters in the second quartile. The American Trucking Association, which expressed some misgivings with the policy outcome but undertook no action to challenge it, is placed in the lowest quartile.

This case is just one possible configuration of the policy outcome. The 100 cases for which data collection is complete indicate a substantial variation in the policy outcome. In some of the French nuclear cases, for example, the groups are extremely far apart on both dimensions: Winners and losers are located at the extreme ends of the dimension of demand fulfilment. Whereas some groups accept the outcome fully, others challenge it in vehement ways. On the other hand, we also have cases where all groups win and lose to about the same extent and where no challenge of the outcome occurs.

How is the policy outcome causally related to characteristics of the decision process? It is to this theoretical question that we turn in the next section, looking specifically at the decision type of party government.

6. Party Government and Policy-Outcome

In order to make the theoretical linkage between decision process and policy-outcome, we assume that actors are rational in the sense that they try to maximise their interests. We have already discussed this assumption in an earlier paper (Steiner and Dorff, 1984), where we also argued that it is too simplistic to assume that political actors are interested only in gaining and maintaining political office. This may, indeed, be the only motivation which really counts at times. But at other times politicians may be genuinely interested in pursuing substantive policy goals. They may also be guided by considerations of system maintenance. Overall, we assume that office-seeking, policy goals, and system maintenance are the three main motives of decision makers, and that the relative importance of these motives may change from one actor to another; it may also change for individual actors over time, even during a particular decision process. Thus, when a decision process begins, an actor may be mainly concerned with pursuing his or her policy goals, but the occurrence of violence during the process may bring considerations of system maintenance to the forefront. In our hypotheses we will try to predict which motives are associated with a particular decision process and how these motives influence the policy-outcome. When we speak of an association between decision process and motives, the causality can go both ways. The motives may be influenced by characteristics of the decision process, but they may also be the prior reason why a particular decision process has been chosen. The question of why a particular decision process is chosen is not of immediate concern in the present paper. We have explored it in our earlier work and we plan to come back to it. For the moment we treat the decision process as

an independent variable, and we are interested in how variation in this variable influences the policy-outcome.

In the present context, our main interest is how a decision process organised according to the model of party government influences the policy-outcome. First, we will formulate the hypotheses in a general way without taking account of the parameters of affluence and scarcity. These parameters will be introduced later in the discussion. The hypotheses begin with an examination of the motives of the actors in a decision process of party government. Then, we will hypothesise how these motives affect the two dimensions of the policy outcome.

Motives in Party Government

The primary motivation of political parties is office seeking. Although policy goals may be important, they are generally subordinate to the goal of remaining in office. After all, policy goals cannot be attained if one fails to be re-elected. Consequently, the selection of policy goals themselves should reflect an overriding concern with enhancing the chances of electoral success, and certainly the parties try to avoid the issues that might result in electoral defeat. Participants will not be particularly concerned with system maintenance since citizen action is highly institutionalised within the party framework.

Demand Fulfilment in Party Government

The distribution of demand fulfilment under conditions of party government is determined by the party or coalition of parties that controls a majority of votes in Parliament. This determination, as noted above, reflects the basic motivation of office seeking. How this motivation is translated into the policy-outcome will depend on the length of time from the last and to the next election.

If it is not long since the last election, the majority party(ies) will want to reward primarily its core supporters and reinforce their support. Therefore we would expect an outcome with the majority party(ies) taking nearly all the benefits. If, on the other hand, the next round of elections is rapidly approaching, the majority party(ies) will seek to attract potential swing voters in order to maximise electoral chances. To do this requires a broadening of the party's appeal. Consequently, the majority party will seek to share a larger part of the benefits with the opposition party(ies).

Challenge to the Decision in Party Government

The way in which the opposition challenges the decision outcome depends on its perceived chances of becoming the majority coalition in the foreseeable future. If these perceived chances are good, the opposition will challenge the outcome within the conventional institutional framework, both because it will

want to present itself as a reliable, responsible alternative government and also because, if it wins, that same framework will then serve its interests.

If, however, the opposition has virtually no chance of winning control of the government in the foreseeable future, we would expect the challenge to go beyond the conventional institutional framework. Having little to gain from the use of conventional institutions, and especially because that framework is perceived as detrimental to its basic interests, the opposition will probably try to encourage extra-institutional challenges such as protests and demonstrations.

These theoretical arguments will take quite a different form for the seven decision types other than party government. We again use the illustration of federalist government to show this variation. Having defined what we mean by federalist government in section 4, we can immediately proceed with the hypotheses.

Motives in Federalist Government

In federalist government participants will be the relevant subnational units. Obviously, elected officials in these subnational units will be concerned with remaining in office. However, since the conflict occurs between such units, we actually have not a shared but a divided market in which the competition for office occurs not across units but within each unit. For example, governors in the US are not in direct competition with one another for office-holding. Consequently, as a motivation in the policy process, office seeking is not very important in federalist government.

The primary motivation should be policy goals. Indirectly, of course, this motivation will reflect electoral concerns within the subnational unit in that the decision makers will want to satisfy the policy needs of their constituents. But the conflict will be framed largely in terms of the subnational unit wanting to achieve its policy goals *vis-a-vis* the other subnational units involved in the conflict. Consequently, it appears that the policy goals themselves will be the primary motivation for participants.

System maintenance, our third possible motive, should also be important in federalist government. Since the conflict concerns subnational units, there is always some danger that the participants could press their demands too strongly and threaten the federalist fabric that holds the various units together. In other words, a certain minimal level of satisfaction for each subunit is required for overall system maintenance. Policy demands will be limited to some extent by the desire to maintain harmonious relations among the subnational units.

Demand Fulfilment in Federalist Government

Turning now to the dimensions of the policy-outcome, we first examine the expected level of demand fulfilment. Because each subnational unit has an ef-

fective veto power, each one should be able to block decisions that entail high costs. This should lead to outcomes with clear benefits to the participants only when such benefits are possible without incurring substantial costs for any participants.

Challenge to the Decision in Federalist Government

For the second dimension of the policy-outcome, challenge to the decision outcome, we have to introduce a parameter: namely, the level of inequality among the subnational units. If the level of inequality is low, there should be no significant challenge to the outcome. This results from the relative balance of power among the various units. In essence, the compromise reflected in the level of demand fulfilment cannot be improved upon if all the subnational units can effectively check and balance one another; in this sense it is a pareto-optimal outcome, and small, incremental changes are satisfactory. If, however, there is inequality in power among these units, we might expect a further challenge to the outcome by weaker units which might try to pursue the challenge in a different institutional framework. For example, a State might suddenly seek to raise the issue within the national party system, attempting to polarise it along party lines. If no other institutional framework is available, or if the weaker State is unable to shift the issue to such a framework, the conflict might shift to challenges outside conventional, institutional frameworks (public protests, demonstrations, threats of secession, etc.).

The example of federalist government should have shown that the theoretical expectations for policy-outcome are quite different than for party government. Having demonstrated this, we will concentrate on party government for the remainder of the paper. We will examine whether our hypotheses for party government need any modification, if we introduce the issues of affluence and scarcity, which are the key parameters of any public policy analysis that focuses on the changes which have taken place in contemporary Western democracies in the past two decades. In his contribution Franz Lehner gives a theoretical explanation of why the Western democracies moved from fiscal affluence to fiscal scarcity from the 1960's to the 1980's. Following Lehner, we use the terms affluence and scarcity in this fiscal sense. We must now ask whether it makes a difference to the policy-outcome if there is a situation of fiscal affluence or scarcity in a decision process which meets the criteria of party government. We do not detect any influence on the motives of the actors. Office seeking should be the prime motive under both conditions of affluence and scarcity. But how these motives affect the dimension of demand fulfilment will probably depend on how available or scarce the fiscal means are. The main difference will be that under the two conditions "benefits" and "costs" are defined in different ways.

If the state has plenty of revenues, winning in a decision process means receiving increased public goods and services, and losing means staying at the

old level. But if the state is short of cash, the losers will suffer cut-backs, whereas the winners remain at the old level or receive relatively smaller cuts. If we apply these different definitions of benefits and costs to our theory of party government, we come to the following conclusions with regard to the dimension of demand fulfilment: under conditions of fiscal affluence, the winning party (or coalition of parties) will reward its supporters in the period after an election with increased public goods and services. The supporters of the losing party(ies), on the other hand, will have goods and services at the old level. For the definition of the outcome only the increased goods and services are taken into account. Of these increases the winners get almost everything, the losers nearly nothing. With the approach of new elections, the majority party(ies) extend(s) some of the increases beyond its own supporters in order to attract potential swing voters and thus to maximise re-election chances.

Under conditions of fiscal scarcity, benefits and costs take on an entirely different meaning. After an election victory, the majority party(ies) can reward its own supporters only by exempting them from cut-backs in public goods and services. The burden of the cut-backs is put entirely on the losers in the election. This time the issue is defined in terms of who suffers from the cut-backs. As another election approaches the majority party(ies) imposes some of the cut-backs on its own supporters, thus alleviating somewhat the burden on potential swing voters.

Introducing the parameters of fiscal affluence and scarcity for party government does not change our basic theoretical argument with regard to the dimension of demand fulfilment, but it specifies what is meant by benefits and costs. We will now discuss the effect of the two parameters on the second dimension of the policy-outcome, the acceptability of the outcome. Here again our main theoretical argument seems to remain intact, but the introduction of the parameters helps to specify the time span within which the opposition takes into consideration its chances to become the majority party(ies). Under conditions of fiscal affluence, this time span is probably longer than under conditions of fiscal scarcity. This hypothesis can be justified as follows: as we have seen above, under conditions of affluence the opposition party(ies) loses only to the extent that its supporters do not get additional public goods and services. Compared with the winners in the election, this is certainly a loss, but in absolute terms there is no reduction in public goods and services. Consequently, the situation of the losers is quite bearable. They can tolerate remaining in opposition until the next election. As the election approaches, they may even get some increases in public goods and services because the governing party(ies) tries to attract potential swing voters. Even losing one or two more elections will not be perceived as a catastrophe. The opposition party(ies) will therefore limit its challenge of the policy-outcomes to the institutional framework of party government (i. e., motions of non-confidence in Parliament). Only if its opposition status continues for perhaps an entire gen-

eration or even longer will despair set in. After such a long time the opposition will begin to doubt whether the institutional framework of party government serves its purposes. It will begin to challenge the policy-outcomes outside of this framework.

Under conditions of fiscal scarcity, the opposition party(ies) will step out of the framework of party government much earlier to challenge policy outcomes. After the election defeat, the cut-backs imposed by the majority will begin to hurt severely. Now the losses are not only relative to the winners but also absolute. Even if, with the approach of the next election, some of the cut-backs are reinstated as a result of electoral considerations, the situation seems less and less bearable for the opposition. If the next election is also lost, despair with the system of party government may set in very rapidly and the policy outcomes will be increasingly challenged outside of the institutional framework of party government. This framework also receives little support from the voters of the majority party(ies) because they have to content themselves with the benefit that their public goods and services are not reduced. The combination of challenges to the policy-outcomes by the minority party(ies) outside the institutional framework of party government and the lukewarm support of this framework by the majority party(ies) may easily lead to moves away from party government. It is to such moves that we turn in the next section.

7. Moves Away from Party Government

We pick up now a suggestion which we have already made in section 2, namely that a dynamic aspect should be added to our theory in the sense that the decision cases are linked across time. In the present context we have to ask what happens next if party government is challenged. What other decision process is likely to follow? We said earlier that in addition to party government, we defined seven other "pure" decision types. We do not expect, however, that the move away from party government will be towards any of these other types (cf. G. Smith (1986) pp. 205—235). It seems more probable that the next decision process will be of a mixed nature. The parties may lose their predominant role only for some aspects of the decision process but not for others. We will now discuss what party functions are most likely to be lost. We focus this discussion on conditions of fiscal scarcity under which—as we have seen in the last section—moves away from party government should be particularly frequent.

A first such a move may be a change in the decision mode in Parliament. Instead of the competitive majoritarian mode, a consociational mode of accommodation may be used. Because the main task of governing under conditions of scarcity is to reduce public goods and services, political parties may find it more rational to share the blame for such cuts. This rationality could be based on the common interest of all parties in maintaining the institutional

framework of party government. As we have seen in the last section, policy-outcomes may be easily challenged by the opposition outside the framework of party government, which may in turn endanger the entire framework. This danger can be reduced if decisions are made in a consociational way with the necessary cuts being evenly distributed among all parties. A second move away from party government may be to remove decisions altogether from the parliamentary arena. An increasingly popular alternative is the creation of extra-parliamentary blue ribbon commissions. We already mentioned the example of the Greenspan Commission in the United States, which had the task of proposing necessary cuts in the social security system. Instead of sharing the blame for the cuts, political parties can deflect this blame with such a method of decision making.

A third departure from party government may occur when parties give up the function of agenda-setting. Fearing the negative consequences of reducing public goods and services, the parties may find it in their best interest to keep the explosive issues off the agenda entirely. In this case we assume that political parties tend to define their interests primarily on the basis of short-term factors, notably electoral considerations. To maximise re-election chances, the governing party(ies) may find it rational to avoid dealing with issues where cuts have to be made. Because the next election is never too far away, issues where big cuts have to be made may never be put on the agenda by political parties. At best, short-term "quick fixes" will be favoured over long-range solutions to long-term problems. Allowing for a certain time lag, the function of agenda-setting may then be taken over by other institutions, for example, by the bureaucracy or in some countries by the courts.

A fourth move away from party government is likely to occur at the mass level. At the elite level, the cleavage for a particular issue may still be defined in party terms, but not at the mass level. Participation of the ordinary citizens no longer takes place in the institutional framework of the party system but in groups that form outside this framework. Under conditions of fiscal scarcity, such a development may occur because citizens cease to be loyal to the parties who can offer only cuts, not increases, in public goods and services. The citizens are basically in a different situation from the party leaders. The latter are still linked with their career goals to the party system and therefore continue to define issues along party lines. Such career goals do not exist for ordinary citizens. Their loyalty to the parties was primarily based on increases in public goods and services which they received from these parties. Now the only thing that citizens can expect from their parties are exemptions from cut-backs. For many citizens this may not be good enough and they may hope that they will fare better if they participate in groups outside the party system. Of course, they may also be disappointed in these new groups, and they may eventually retreat into apathy. The main point here is that under conditions of scarcity developments may occur in such a way that issues are still defined in party terms at the elite level but not at the mass level.

8. Normative Evaluation

Are moves away from party government as described in the last section necessarily undesirable? In other words, is it the best possible way to organise decision processes according to the model of party government? It is perhaps helpful if we state once again at the beginning of this concluding section what we mean by party government. We categorise a decision process as party government if the issue is placed on the agenda by a party and the main cleavages are drawn along party lines. Citizen participation takes place within the institutional framework of political parties. The main decision making arena is Parliament and the decision mode is majoritarian, with party discipline serving to structure the outcome. Parties are also in control in implementing the decision.

Party government is distinct from other models of decision making such as federalist government, bureaucratic government, judicial government, street government, etc. Why should party government be preferable to all other models? It is perhaps premature for us to address such a question at this point because the results of our study are by no means complete. It still remains to be seen whether the model of party government has the hypothesised consequences on the policy-outcome. But we may begin to speculate in a tentative way about the normative implications if it turns out that our hypotheses are basically correct.

So once again, why should it be best to handle decision processes according to the model of party government? Why should political parties be at the centre of the decision-making process? Why not, for example, interest groups or the bureaucracy? We wish to address this question in terms of three possible normative goals: democratic legitimacy, civil order, and fiscal responsibility. Is party government the best means of achieving these three goals?

For the value of democratic legitimacy the answer seems to be affirmative. If decision cases are managed according to the model of party government, the major gains of the policy outcome go to the majority party(ies). This is particularly true if an issue is decided immediately after a general election. In the immediate run-up to a new election, however, the distinction between winners and losers is somewhat more ambiguous. Despite this, it is generally relatively easy for the voters to link policy-outcomes to election results. In this way electoral competition becomes meaningful for the voters. They realise that participation in elections gives them the means with which to influence policy outcomes. If they are among the winners in the election, they can expect that many issues will be decided in their favour. This linkage between policy-outcomes and the expressed will of the majority of the voters should increase the democratic legitimacy of the entire political system. Therefore we may hypothesise that democratic legitimacy is greater, the higher the number of decision cases handled according to the model of party government. For other decision models the linkage between policy-outcomes and

the will of the voters is much less clear. If bureaucrats, for example, are at the centre of the decision process, it is much more difficult to see how the resulting policy outcomes are related to the will of the voters. One could argue, of course, that bureaucrats are appointed by elected officials, but this linkage is rather tenuous as a basis for democratic legitimacy.

For civil order as a normative goal the impact of party government seems positive under conditions of affluence, but negative if conditions change from affluence to scarcity. Under circumstances of affluence, losing means for the most part merely that public goods and services for the losers are not increased further, but remain instead at the old level. Challenges to the outcome will be restricted to actions within the conventional institutional framework. As a consequence, disruptions of civil order will occur very rarely, if at all. Under conditions of scarcity the situation is quite different. Losing means suffering cuts in public goods and services. Such cuts may be perceived as so severe that they may be challenged with actions outside the institutional framework. But why would losers go so far if the policy outcome is arrived at according to the model of party government which, as we said a moment ago, contributes to democratic legitimacy? Why would the losers resort to unconventional, even violent actions if they realise that the policy outcome is clearly linked with the outcome of the last election? The losers will probably have no difficulty seeing this connection, and therefore they may not contest the fact that the outcome is legitimate from a democratic perspective. But this argument may weigh less than the immediate hurt caused by the cuts. Thus they may take unconventional actions against policy outcomes whose democratic legitimacy they do not challenge. In such cases the detrimental substance of the policy-outcome counts more than the form by which it was decided. Under conditions of scarcity are other models of decision process more conducive to generally acceptable policy outcomes? We think so. Judicial government, for example, may be better able than party government to protect minorities so that they do not have to suffer most of the cuts in the programmes. The same may be true of other decision making models such as federalist and bureaucratic government.

What is the impact of party government on fiscal responsibility as a third possible normative goal? The customary hypothesis is that political parties compete with each other to increase public goods and services as much as possible for their own supporters. If conditions change from affluence to scarcity, this strategy of the political parties leads to a fiscal crisis because more programmes are enacted than there is money to fund them. If many decisions continue to be made according to the model of party government, the fiscal crisis may accelerate. But it is also possible that political parties will compete with each other to propose cuts rather than increases in public goods and services. Such a re-orientation in party competition could occur if voters would realise that the escalation of rising expectations has led state and society to a dead end. Instead of demanding new public goods and services, the

voters would ask for cut-backs, and the main competition among parties would be on whom to impose these cuts. The successful electoral strategy of the Republicans in the United States could be interpreted in this sense. This strategy is based on the assumption that many voters have become aware of the negative consequences of the fiscal crisis (e. g., high interest rates), and demand primarily that governmental programmes be cut. The Democrats are obviously unsure whether they should enter into competition with the Republicans to cut programmes. If party competition did indeed go in this direction, one might arrive at the unorthodox supposition that party government could help to alleviate the fiscal crisis. One might then have to ask whether other models of decision making could be even more successful in resolving the fiscal problems.

Our normative speculations end here. It does not make sense to proceed much further until we have completed the empirical testing of the hypotheses on which our normative speculations are based. Once we have results of these tests, we can then carefully compare the policy consequences of the various models of decision making. Then we will be able to say more about the strengths and weaknesses of the models. The conclusion will probably be that no single model is optimal for all decision situations. Country specific characteristics will most certainly have to be taken into account. Particular decision models may perhaps have beneficial effects in small but not in large countries. In addition, the nature of the issue must be considered. A decision model which is appropriate for the construction of a nuclear plant may not be at all appropriate for the abortion issue, for example. Such differentiated conclusions will only be possible if we work at the disaggregated level of singular decision cases.

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Politics and Economic Regulation*

KLAUS SCHUBERT

Introduction

Since World War II, the democratic capitalist societies have, for the most part, experienced quite considerable economic growth, but growth rates have been substantially different in different countries. While some of the OECD-countries, like Japan, had very high growth rates, and most, like the Federal Republic, have grown considerably, a few, the United Kingdom especially, have experienced considerable growth problems. In Mancur Olson's view (1982), many of these differences can be explained in terms of interest organisations. He argues that democratic capitalist societies will have greater growth problems the longer they have experienced a period of political liberty and stability, and the more special interest organisations have developed and influenced policy-making.

Olson's theory, which goes far beyond conventional theories of economic growth, points to the importance of public policy-making and its determination by various organised interest groups. He demonstrates, theoretically at least, that specialised interest groups acting in a condition of pluralist interest intermediation tend to enhance public policies, which negatively affect an efficient operation of the market and a flexible adjustment of the economy to changing conditions. More specifically, they tend to promote protectionist policies restricting competition as well as innovation. As a result, societies in which policy-making is strongly influenced by a large number of special interest groups tend to experience slow growth or even stagflation.

The tendency outlined above is, according to Olson, deeply rooted in the behaviour of organised interest groups. Promoting the interests of their members, they usually press for policies which do not necessarily fit macro-economic conditions. Although we may assume that economic growth is a com-

* I am indebted to Franz Lehner, Ruhr University Bochum, for his cooperation and assistance. The ideas presented in this chapter emerge from discussions with him and joint efforts to understand government regulation. This article benefits also from the helpful comments of Manfred Schmidt and Hans Keman.

mon interest to almost all interest groups acting in a capitalist society, we nevertheless cannot assume that most of these interest groups effectively act to promote growth. On the contrary, the more specialised interest groups are, the more they press for particularist and protective policies, neglecting the general interest in growth. The specialisation of such groups offers strong incentives to act as free riders with respect to economic growth and to maximise their special interests even at the expense of economic growth. The reason for this is simple: small and specialised interest groups can hardly maximise the utility which they provide to their members by acting in terms of a general interest in growth, but rather provide most utility to their members by concentrating on their special interests. By the same token, only large interest groups tend to act in terms of the general interest in economic growth.

A long period of political liberty and stability enhances, according to Olson, the formation of a large number of small and specialised interest groups in a society. A large number of small and specialised interest groups, in turn, is likely to lead to distributive coalitions which attempt to control prices and entry to the market and to protect the different groups against socio-economic change as well as other risks accruing from an effective operation of the market. In other words, distributive coalitions formed by small and specialised interest groups strongly promote protective government intervention into and government regulation of the economy.

Olson's theory offers an interesting potential explanation of much of the low performance or even failure of economic policy which the democratic capitalist societies have experienced over recent years or even decades. Although Olson formulates his explanation in historical terms, it points to a systematic relationship between a society's interest structure and its economic performance.

Put into general terms, Olson's argument assumes that the efficiency of economic policy and economic performance in a society is lower, the more pluralist its organised interest structure and the less the political system is capable of integrating interest intermediation. This argument fits well with a large body of literature referring to systematic deficits in interest aggregation in the modern pluralist democracies. According to Olson, government regulation of and intervention in the economy is bound to be inefficient, because government, strongly influenced by a pluralism of specialised interest groups, fails to provide for comprehensive interest aggregation. (Alemann and Forndran, 1983; Czada, 1983; Lehmbruch, 1977; Lehner, 1979; Schmitter, 1977).

There is certainly some truth in this argument which, indeed, points to a crucial problem of modern pluralism. Nevertheless, the conclusions generally derived from the argument do not necessarily hold, since no account is taken of the institutional structures within which pluralist interest intermediation occurs. In what follows we will argue that, given the pluralism of interests generally characterising the advanced capitalist societies, government capac-

ity to regulate the economy efficiently largely depends upon the structural arrangements of interest intermediation and aggregation. We shall first develop this argument in theoretical terms, and then discuss it with reference to the examples of banking regulation and consumer protection in the United States and the Federal Republic. Finally, we shall return to the conjectured relationship between institutional structures and the performance of government regulation of the economy. In this context, we will also be concerned with the role of parties in regulatory policy. In conclusion we shall argue that Olson's theoretical argument only fits in political arenas in which organised interests interact more or less directly with the political administration. In political arenas in which intermediation by political parties is common and politicising strategies are frequently adopted pluralist interest intermediation from a general interest perspective is much more effective and efficient.

I. Political Structure and Economic Regulation: A Theoretical Explanation

Olson's theory and its neglect of structural arrangements is implicitly based on a model of the policy process which contains a strong analogy to the market. It is the model which is basically postulated by the pluralist theory of democracy, and which assumes that policies are the direct output of the interactions among interest groups. Government as a functional and processual institutional structure does not exist. Rather, government is considered to be effectively a process of log-rolling among organised interests. Given such a view, it is important to analyse, as does Olson, the structure of organised interests in order to understand policy output and policy outcome. In other words, this view relates policy-making directly to the structure of distributive conflict and distributive coalitions because it is based on a political market model of government; the type of model on which an economic theory of politics usually rests.

In modern democratic capitalist societies, distributive conflict is not only strongly organised in terms of a large number of pressure groups, but also strongly institutionalised within elaborate political structures including a well developed governmental organisation. This implies that distributive conflict also takes place within institutional structures that shape the interactions among organised interest groups. We may, therefore, reasonably assume that policy and policy performance is strongly influenced by the structure of government; that is by the political-administrative system, and the interplay between it and the organised interest groups.

This in effect is Franz Lehner's argument (1983). He demonstrates, using the example of Switzerland, the importance of institutional structures. He shows that in Switzerland consociational decision-making overarches a highly differentiated and pluralist interest structure and provides for a highly en-

compassing policy-making process. Switzerland's policy performance is, therefore, much better than Olson's theory would lead us to expect. However, the truly encompassing policy-making process in Switzerland does not produce the same effects as Olson postulates. Growth rates in Switzerland are considerably higher than a pluralist interest structure should permit in this view, but at the same time considerably lower than they ought to be in a condition of encompassing interest intermediation. The Swiss case, thus, hardly fits Olson's theory. The reason is basically the impact of the specific institutional structure of Swiss politics which on one hand restricts the effectiveness of special interest groups, and, on the other, is associated with high transaction costs which account for a considerable degree of inertia.

Lehner's argument, stated in more general terms, points to a number of structural features which may be of relevance here: namely structural elements integrating or disintegrating interest intermediation and aggregation. In different governmental systems, different structural arrangements shape organised interest intermediation and control to a greater or lesser extent. They also influence the power of particular interest groups and the possibilities for the formation of distributive coalitions. In *étatist* systems, like France, for example, effective distributive coalitions are more difficult to achieve than in systems, such as the United Kingdom, with much less central bureaucratic control of policy-making. Similarly, unitary and centralised government certainly provides different conditions for interest intermediation and aggregation than federalist government. Finally, interest intermediation and aggregation is subject to different degrees of political control in systems with relatively strong party government, such as the Federal Republic, compared with systems with weaker party government, such as the United States. (Hayward, 1976; Jordan, 1981; Lehner and Schubert, 1984; Rose, 1974).

If we analyse the relationship between institutional structures and economic policy, we should not, of course, confine ourselves to basic constitutional structures alone, but need to consider the organisational and relational structures of the governmental apparatus as well. A major, often dominant element of modern governmental machinery is the bureaucracy. As is well-known, bureaucracies in the modern capitalist state have strong control over public policy. The administrative structure of government, thus, is of crucial importance in our analysis.

There are a large number of studies that demonstrate that the considerable scope and complexity of governmental activity in the modern capitalist state tends to produce a highly fragmented bureaucracy, which is paralleled by a similar fragmentation in the organisation of parties and parliament. Together, this accounts for the considerable fragmentation of political-administrative decision-making. This fragmentation is a major source of inefficient government intervention in the economy, because it encourages particularist and inconsistent policy-making. Policies determined within specialised fragments of the political-administrative system are, obviously, hard to control in

terms of overall economic effects. Moreover, they tend to have uncontrolled effects on other policies and are thus likely to produce inconsistencies, which reduce both the effectiveness and the efficiency of these particular policies as well as overall policy. Finally, within fragmented political-administrative structures, particularist special interests are often able to carry their policies into effect rather easily. (Aberbach, Putnam and Rockman, 1981; Freddi, 1983; Lehner and Schubert, 1984; Mayntz, 1979; Scharpf, 1974; Schmid and Treiber, 1975).

The hierarchical structure of the bureaucracy does not overcome the problems discussed so far, since the effective capacity of hierarchical control is, for reasons of information and power, often low. Moreover, hierarchical structures with their long lines of communication and control, impede flexible control of public policy. (Irle, 1971).

This type of problem is common to all political-administrative systems. There are, however, important variations in the degree of fragmentation or integration of the political-administrative systems. The French bureaucracy, for example, is much more centralised and integrated than the British. Similarly, the United States has highly differentiated administrative structures with a large number of independent agencies, while the German bureaucracy, although still quite fragmented, is more coherent. (Hayward, 1976; Mayntz and Scharpf, 1975; Peters, 1978; Schmid and Treiber, 1975).

These differences may be of considerable significance with respect to a political-administrative system's capacity to integrate and to co-ordinate policy. As is the case with organised interest intermediation, structural conditions in the political-administrative system may considerably influence a government's capacity to intervene effectively and efficiently in the economy and, thus, may be an important determinant of public policy performance. Moreover, the structure of the relevant political-administrative system, together with the structure of organised interests, determines much of the interaction of the private and the public sector. This becomes more clear if we consider that the advanced capitalist societies are characterised by considerable political interdependence, which not only influences economic transactions and the working of the market, but also the operation of government.

The historical conditions under which the political institutions of modern democracies, parties, parliaments, cabinet and state administration developed differed greatly from those of today. The scope of government in the development phase of western democracies was very limited in comparison to present conditions. The tasks of the state were limited above all to matters of political order, essentially of a legal type, foreign and defence policy, production or support of certain infrastructural services and a few matters of social policy. Accordingly, the bureaucracy's function was limited to execution of the law, as described so aptly in Max Weber's concept of rational-legal bureaucracy.

Since the thirties, but especially since the Second World War, the role of the state has increased dramatically. In most of the highly industrialised societies, the modern welfare state spends more than forty per cent of the gross national product and, moreover, the modern welfare state is inherently regulative in character. Strong interconnections and interdependencies between politics and the economy, state and private business are a characteristic of modern democracies. For large areas of modern state administration, the traditional picture of an administrative bureaucracy no longer applies. Awareness of political problems, long and middle range planning and the implementation and control of political programmes are often similar in character to the management of modern big business. The development from the traditional *Ordnungsstaat* to the modern welfare state did indeed follow an evolutionary course, but it has caused a fundamental shift in respect of the form, content and character of political processes. However, even today many political scientists assume that politics can be described as the "authoritative allocation of values". In reality, it might rather be said that, to the extent to which the scope of politics and the role of the state has increased, the authority and autonomy of the state has decreased. Due to high degrees of uncertainty, and the consequent substantial interdependence of politics and the economy, the state's capacity to decide autonomously and to steer authoritatively is severely limited. In other words, while the state is supposed to regulate, steer and control a large number of socio-economic processes and transactions, its capacity to do so is limited, because the necessary resources and knowledge are not at its direct disposal. The state, and in particular, the modern state administration, is therefore dependent on external advice and support. (Anderson, 1981; Dean, 1984; Freddi, 1983; Lehner and Widmaier, 1983; Mayntz *et al.*, 1982; Mitnick, 1980; Schubert, 1982; Wilson, 1980).

These and other forms of interaction of government, private business and organised interests more often than not form a dense but segmented network, which strongly influences or even determines most government activity. Within this network, organised interest groups play an important role. Moreover, bargaining within this network usually excludes parties and parliaments, but strongly involves the bureaucracy. (Freddi, 1986; Hood, 1976; Jordan, 1981; Müller and Vogelsang, 1979; Offe, 1972, 1974).

The deep involvement of bureaucracy in politico-economic bargaining results, as Offe (1974) demonstrates, in an increasing dependence upon organised interests. As a result, political decisions are to a large extent determined by bureaucracies and organised interests rather than by parties and parliaments and the political top executives (the cabinet for example). This development can be explained as a result of a high degree of uncertainty concerning the aims and operational conditions of regulatory law, which results from the political and substantial complexity of regulation. Aims are often uncertain because of conflicting demands, heterogeneous interests or a lack of operational definitions. Operational conditions are uncertain because of a lack

of knowledge about the relevant facts and a lack of consensus as to the distribution of costs. This uncertainty strongly affects the ways in which regulative economic policy can operate. This is described in more general terms in the following typology:

Types of Regulative Policy

		Aims	
		clear	not clear
Operational Conditions	clear	1. <i>Codification</i> authoritative provision of norms	2. <i>Conflict Regulation</i> bargaining regarding aims
	not clear	3. <i>Information Processing</i> bargaining regarding solutions to problems	4. <i>Accommodation of Conflicts on Aims and Information</i> bargaining regarding aims and solutions to problems

Source: Lehner, Schubert and Geile, 1983.

Type 1. The aim is fundamentally to transform socially recognised or desired values into a clear and precise legal regulation on the basis of sufficient knowledge about operational conditions. The system's most valuable contribution is a codification. i. e., the provision of a legal and as perfect as possible formulation of norms. The characteristic way of operating is to provide authoritative norms, a political decision in the narrow sense.

Type 2 corresponds to a situation in which, due to its operational conditions, obvious and extensive problems must be overcome. However, there are no clear-cut plans for doing this. Therefore, the way the system essentially works is by regulating conflicts of interests, and bargaining regarding aims.

Type 3 illustrates the situation in which the aims are indeed clearly recognisable, but uncertainty exists regarding the operational conditions. The essential function of the system is the processing of information or, more specifically, the creation of consensual and applicable knowledge. In reality this means bargaining about solutions to concrete problems between the state (administration) and the relevant interests.

Type 4 illustrates the situation typically encountered in situations of complex regulation of the economy. There are indeed abstract aims, such as the reduction of environmental pollution, but the concrete ways and means by which they are to be achieved are essentially unclear or politically controversial. For example one controversial issue is whether reductions in environmental pollution should be regulated only within stipulated economic constraints, or independently of them, and with or without state finance. Equally vague and controversial is the question of which producers of pollution are

damaging the environment to what extent (i. e. air: power stations or vehicles) and whether regulation should be effected by means of laws or prohibitions, or through positive or negative incentives.

Most of regulative economic policy fits into types 2, 3, and, most particularly 4. This means it is characterised by high degrees of uncertainty and related high degrees of bargaining among bureaucracies, organised interests and other actors. Each of these actors behaves in terms of its own specific rational calculus. Regulative economic policy is, therefore, shaped by a mixed rationality which can be described in the following way:

- The functional aim of regulative economic policy results from macro-economic criteria, such as the (re-) establishment of a situation in which market allocation can function or the maintenance of particular (market) relationships (property rights).
- The instruments of regulative economic policy are, however, subject to legal criteria of rationality, e. g. confidence in the law, generality and consistency of the law. These can be quite disfunctional in macro-economic terms, in that, for example, the principle of confidence in the law hinders a flexible handling of regulative provisions.
- Political-administrative criteria of rationality reflect problems of coalition-building and party competition on the one hand, and, on the other, problems of the prerequisites of bureaucratic careerism and departmental or budget egoism.
- Ultimately, the transformation and effect of regulative economic policy is determined by *conglomerate administrative and micro-economic criteria of rationality*. (Hilton, 1972; Kohlmeier, 1969; Lehner and Widmaier, 1983; Mayntz *et al.*, 1982; Mitnick, 1980; Owen and Braeutigam, 1978; Stanbury, 1980; Trebilock *et al.*, 1979; Voigt, 1980, 1983).

These varying "forms of logic" are important since regulative economic policy is to such a large extent characterised by an interconnection and interlocking of regulating agencies; that is, primarily, the state administration, regulated business branches and enterprises and other organised interests, which is again a consequence of the extreme complexity and uncertainty of regulative economic policy.

In the first part of this paper we have argued that, under circumstances of strong politico-economic interdependence, regulative measures can mostly only be decided and executed in the form of a difficult compromise between varying and partly opposing economic and political interests. Furthermore, we have examined the structural conditions of modern regulatory policy-making. For a more systematic analysis we must, therefore, consider both the structure of the political-administrative system and the structure of organised interest intermediation. These structures determine, in our view, the interaction between the two as well as much of the related policy-making capacity.

The interrelations are shown in the diagram next page:

Structures of Pluralistic-Bureaucratic Interaction and Steering Capacities

		Political Administrative Problem Processing	
		integrated	fragmented
Organised Interest Intermediation	integrated	<p><i>A. Corporative Steering</i></p> <p>corporative formulation of policies</p> <p>rigidification of problem solutions</p> <p>Immobilism concerning interest representation</p>	<p><i>B. Self Steering</i></p> <p>bargaining among interest groups</p> <p>privatisation of problem solutions</p> <p>particularism</p>
	fragmented	<p><i>C. Étatistic Steering</i></p> <p>conflict resolution by the state</p> <p>routinisation of problem solutions</p> <p>increasing legal regulation</p>	<p><i>D. Incremental Steering</i></p> <p>spontaneous and accidental co-ordination</p> <p>accidental problem solutions</p> <p>self-sufficient development</p>

Source: Lehner, Schubert and Geile, 1983.

The diagram identifies four ideal typical configurations of policy steering capacity determined by the nature of the diverse interaction between state administration and organised interests.

In *cell A*, owing to the integrated structure of the political-administrative system and the integrated structure of organised interest intermediation, political problems can be co-operatively solved. Thus, the potential for working out problems is relatively great both for the state and the associations. The highly integrated structure of both also encourages a rigidification, a standardisation of problem solutions by the actors involved but, at the same time, leads to other non-organised and non-established interests being neglected, i. e. to an almost complete inability to represent interests equally.

Given the circumstance of a fragmented political-administrative structure of problem-processing and a simultaneously high integration of organised interests (*cell B*), the resolution of political aspects of policy problems is, as a rule, carried out through the interaction of interest groups themselves. The relevant organised interests bargain about the respective solutions among themselves within customary legal bounds and according to their concern and political weight. These solutions certainly do not systematically fit into a general or encompassing political context. The privatisation of problem solving, thus, tends to particularism.

When the organised interests are fragmented and the political-administrative system is, on the other hand, integrated (*cell C*), political problem solu-

tion follows *étatistic* lines, i. e. through state, essentially bureaucratic, regulation of conflicts. Any new problem will tend to be solved analogously to problems already solved. Such a bureaucratic routinisation of problem solving tends to an increase in legal regulation.

The constellation in *cell D* does not in any way allow an integrated handling of problems. The organised interest intermediation as well as the political-administrative system are fragmented; disaggregated incremental problem solutions result more or less coincidentally by a process of spontaneous coordination.

This typology describes ideal types of steering capacity, dependent on particular forms of interaction of the political-administrative system and the system of organised interest intermediation. It is intended to illustrate clearly the alternative possibilities in the field of interaction through which regulative economic policy is formulated and negotiated. In this field of interaction, law as a means of state management undergoes a fundamental change. Whereas traditionally law is a set framework for the state bureaucracy, in regulative economic policy it must, because of the system within which it is operating, often be employed flexibly and for appropriate purposes by the ruling bureaucracy as a disposable resource.

Under the conditions of the modern welfare state no economic actor, and no social interest stands outside the range of state regulations. Thus, economic actors have incentive enough to attempt to influence these regulations in their own interests. The wide scope and density of state regulations, together with the high degree of uncertainty regarding regulative aims and operational conditions, bring about as a countervailing consequence the necessity for the political-administrative system to acquire information and support from outside the bureaucracy in order for the intended regulation to work effectively and efficiently. This mutual dependence of the regulating agencies and regulated interests does not necessarily imply an identity of interests. Rather, there still exists in principal a conflict of interests between the government, responsible for the economy or society as whole, and pressure groups, advocating special or particular interests. Due to their strong interdependence, however, this conflict of interests can only be resolved by means of bargaining and accommodation. As far as law is concerned, this means that it no longer mainly represents authoritatively decided norms for the whole society or economy, but rather compromises which are accepted and valid for parts or segments of society or economy. In other words, law is less an instrument for the authoritative allocation of values, but rather a disposable resource for the temporary solution of particular socio-economic problems. Consequently, bureaucracies and organised interests must attempt to gain as much control as possible over this resource. Bureaucracy, thus, has to attempt to create the law it needs for the fulfilment of its functions, rather than to fulfil its functions within the constraints of externally defined law.

In terms of governmental steering capacities, the use of law as a disposable resource may be functional. However, if we consider the question of the political control of state activity, it creates a fundamental problem. To the extent that this regulating bureaucracy itself determines law, it tends to evade political control, and this is likely to create severe problems of legitimacy in the context of what is, supposedly, a system of party government. This problem is taken up in part 3 of this article.

II. Government Structures and Regulatory Capacities: Some Empirical Evidence

So far, we have presented a purely theoretical argument which needs empirical examination. This is, however, a difficult task, for we are concerned with regulation and its content, rather than with fiscally measurable activities and economic performance. While there are many data on fiscal activities and economic performance, there are almost no data on regulative activities. To count the number of laws and decrees, for which some data are available, involves much effort and produces little evidence, because laws and decrees vary greatly across countries in terms of style, structure and content. Data on the number of laws, thus, do not describe the relevant features of regulatory policies or of their intensity. In order to produce reasonable empirical evidence a case study approach is, therefore, the only realistic alternative. In what follows, we shall compare banking regulation and consumer protection in the Federal Republic of Germany and the United States of America.

Banking regulation and consumer protection are very interesting cases for our purpose. Banking regulation is of interest because it is a well-developed regulatory system with established institutional structures. By contrast, consumer protection is characterised by a much less elaborate regulatory structure and a much lesser degree of institutionalisation. In both areas the regulatory systems vary considerably as between the two countries which were selected on the basis of their different political-administrative structures. Therefore, banking regulation and consumer protection in the United States and the Federal Republic provide us with four different cases along our theoretically postulated dimensions. They do not, of course, fully fit our four-fold scheme but offer a reasonable approximation to it.

In the Federal Republic banks are regulated within a unitary and centralised regulatory structure with a comparatively low degree of institutional differentiation. With few exceptions it is based on one single law (*Kreditwesengesetz*, the federal law on financial institutions) containing all-encompassing and quite detailed regulations. By contrast, banking regulation in the United States operates within a complex and considerably differentiated structure. Banking regulation is a concurrent power of both the federal government and the individual States both of which have the capacity to act inde-

pendently. On the federal level a number of different laws exist which often concern only partial aspects of financing business and which usually contain rather general rules.

In the Federal Republic, one ministry, namely the Federal Ministry of Finance, is in charge of banking legislation and one agency, the Federal Bank Supervision Office (*Bundesaufsichtsamt für das Kreditwesen*) controls all banks. It works through the Federal Bank and the banks of the *Länder*. By contrast, in the United States a larger number of ministries and agencies share responsibility for banking regulation. Among these are the Comptroller of the Currency in the Department of Finance and the Attorney General, as well as a number of independent agencies set up by Congress, such as the Federal Reserve System, the Home Loan and Savings Boards, the Federal Deposit Insurance Corporation and the Security and Exchange Commission. These agencies have different, but partially overlapping, responsibilities for different parts of the banking industry. Note in this context that, as opposed to the Federal Republic, the United States has no general-purpose banking institutions, but divides banks quite strictly into different functional categories, such as commercial banks, investment banks, thrift institutions and finance companies. Much of the regulation is concerned with the nature of the activity permitted to the different types of banks. The latter are subject to regulation enacted differently by different regulatory institutions.

For example, permissions for commercial banks acting under a federal statute fall into the power of the Comptroller of the Currency, who has, however, no regulatory powers concerning the same type of banks with the same scope of activity operating on the basis of a State permission. In addition to the Comptroller of the Currency, both the Federal Reserve Board and the Federal Deposit Insurance Corporation have powers to regulate and to supervise commercial banks under federal statute. To make matters even more complicated, the Federal Reserve Board and the Federal Deposit Insurance Corporation have some conditional powers concerning some commercial banks under State permission. To cut a long story short, we should note that banking regulation in the United States is characterised by high institutional and structural complexity, which has grown over a long period. Part of this complexity is the product of fragmented and disintegrated federal legislation—new, but partial, legislation creates new regulation enacted by newly created agencies. (Büschgen, 1976; Moesch and Simmert, 1976; Möschel, 1978).

While banking regulation in the Federal Republic is highly integrated, this cannot be said of consumer protection. Several ministries both on the federal and the *Länder* level are in charge of consumer protection. Regulative power varies greatly depending on the nature of the areas regulated. As a rule responsibilities cannot be determined in a general manner, but depend upon the specific problem involved. Similarly, legal instruments are highly differentiated, but only minimally integrated and often rather eclectic. There are

three core laws in consumer protection: first, a law of contract, determining the legal conditions of sales and related matters of business-customer relations (*Gesetz über Allgemeine Geschäftsbedingungen*); second, a law against unfair competition, regulating matters such as dumping, advertising and improper business behaviour (*Gesetz gegen den unlauteren Wettbewerb*); and, third, an antitrust law (*Gesetz gegen Wettbewerbsbeschränkungen*). In addition to these there are a large number of different laws and decrees which regulate the quality and safety of products, liability, consumer information and legal advice. Finally, there is a considerable standardisation of products by means of para-state administration. The prime example of this is the German Industrial Norms (*Deutsche Industrie Norm*) register, defining standards for a large range of different products and issued by a non-governmental board.

A similar situation exists in the United States. There we can observe fragmented institutions and dispersed consumer protection legislation. Basically, consumer protection is a concurrent power of federal government and the individual States. Using the "commerce clause" extensively, the federal government has, however, concentrated much of the responsibility for consumer protection at the higher level. Still there is much regulation at the State and even at the local level. As a result of this considerable degree of fragmentation and segmentation, consumer protection regulation is rather inconsistent and eclectic and there is considerable overlapping between various elements of the regulations. On the federal level, there is a large number of different laws and decrees, three of which are of special relevance, because they establish independent regulatory agencies with considerable power.

The Food and Drug Act of 1906 has established the Food and Drug Administration which acts as a partially independent commission in the public health service division of the Department of Health, Education and Welfare. This commission regulates production of and trade in food, drugs, cosmetics and poisons. Its powers also includes the regulation of labelling and storage.

Another act, namely the Federal Trade Commission Act of 1914, established the Federal Trade Commission as an independent regulatory agency. The main task of this agency, which was given enhanced powers in 1975 by the FTG Improvement Act and which may be considered as the major consumer protection agency, is to prevent the free enterprise system from being stifled and fettered by monopoly or corrupted by unfair and deceptive trade practices. A number of later laws, such as the "Fair Packaging and Labelling Act", the "Fair Credit Billing Act" and the "Hobby Protection Act" have enlarged the powers of the Federal Trade Commission. Following the usual patterns of administration in the United States, the Federal Trade Commission also maintains offices at State and local level.

In 1972 the Consumer Product Safety Act established the Consumer Product Safety Commission as an independent regulatory agency. This agency has encompassing powers concerning the protection of consumers against unreasonable injuries and health risks. The agency is entitled to determine

safety standards, to ban certain products or to restrict trading, to control plants and to regulate information. Again additional acts expand the powers of the Consumer Product Safety Commission.

In addition to these agencies, other bureaus, such as the Department of Agriculture or the Department of Housing and Urban Development, possess similar although more narrowly defined powers. In the field of consumer protection regulatory agencies at State level participate in a regulatory game, the limits of which are not clearly defined.

It would thus appear that consumer protection in the United States suffers from its structural complexity. Different agencies regulate with more or less different intentions the same type of products in an often rather inconsistent fashion. There is, in other words, a considerable degree of over-regulation in this policy area. (Biervert *et al.*, 1977, 1978; Eisenstein, 1982; Hippel, 1979; Reich and Micklitz, 1981; U. S. Consumer Product Safety Commission, 1979; U. S. Department of Health and Services, 1979; U. S. Federal Trade Commission, 1979).

If we compare the Federal Republic and the United States, we may observe that the institutional and legal structure of consumer protection does not differ that greatly. Considerable differences exist, however, with respect to the scope of regulation. In the United States consumer protection, covers a much larger area in greater depth than in Germany. Indeed, in the United States, despite all the problems of complexity, there is an elaborate and extensively developed level of consumer protection, while in the Federal Republic consumer protection is more narrow in scope and less intensive, especially with respect to product safety and liability. As we shall demonstrate subsequently, these differences relate to the structure of interest intermeditation.

As a summary, the diagram overleaf shows the regulatory structures concerned.

In the banking sector, the differences in the structure of regulation correspond to differences in the financial systems. In the consumer protection area there are no analogous differences. There are, however, differences in terms of underlying normative principles which are more individualistic in the United States and more holistic in the Federal Republic.

The major intention of regulation in the United States is to protect individuals, while in the Federal Republic the major concern is economic order.

Many of the differences between the two countries in banking regulation as well as consumer protection are more the result of historical development than of interest structures and related policies. Considering the differences in the banking systems and in banking regulation in the Federal Republic and the United States, we might expect considerable differences in interest structures as well. This is not, however, the case; in both countries we find similar structures of organisation among different types of banks. There are only very minor differences.

	Federal Republic of Germany	United States of America
Banking Regulation	<ul style="list-style-type: none"> — centralised regulation — unitary legislation — precise and detailed law — centralised and integrated supervision 	<ul style="list-style-type: none"> — concurrent regulation with a differentiated and fragmented institutional structure including also a local level — non-unitary, segmented and overlapping legislation — general and rather abstract law delegating much regulatory power on the basis of rather specific rules to independent agencies — fragmented but overlapping supervision
Consumer Protection	<ul style="list-style-type: none"> — dualistic system with a strong federal component — differentiated and segmented legislation — precise and detailed regulation with usually narrow scope — fragmented supervision 	<ul style="list-style-type: none"> — concurrent regulation within a differentiated and fragmented institutional structure — non-unitary, segmented and overlapping legislation — general and rather abstract law delegating much regulatory power on the basis of rather specific rules to independent agencies — fragmented but overlapping supervision

In the Federal Republic the "Federation of German Banks" (*Bundesverband Deutscher Banken*) organises the private banks, while the public banks are members of an "Association of saving and loan banks" (*Deutscher Sparkassen- und Giroverband*). The third type of bank, the communal bank, has an organisation called "*Bundesverband deutscher Volks- und Raiffeisenbanken*". The three associations share some general interests, but vary considerably with respect to particular substantive matters.

A somewhat more pluralistic situation exists in the United States. There are two associations for the commercial banks, namely the "American Bankers' Association" and the "Independent Bankers' Association of America". The first is concerned primarily with the interests of the big banks and the bank holding companies, while the latter largely represents the smaller banks. In addition to these, some special interest associations exist, such as the "Association of Bank Holding Companies", the "Consumer Bankers' Association" and the "National Bankers' Association". Moreover, there are associations for other types of banks, such as the home loan and savings banks and the trust companies. The interests of these many associations are often at variance and the associations tend to be rather competitive. This is especially

true of the two associations of commercial banks, which often advocate conflicting policies. (Kaufman, 1980; Kreider, 1975; Morschbach, 1981; Ronge, 1979).

As far as consumer protection is concerned, interest structures vary greatly between the two countries. In the Federal Republic, an Association of Consumers (*Arbeitsgemeinschaft der Verbraucher e. V.*), founded in 1953, represents consumers' interests quite exclusively. The association integrates 21 private organisations of diverse social, political and religious orientation and the 11 consumer bureaus in the German *Länder*. Individual membership does not exist. Interestingly enough, the federal government finances about 50 per cent of the budget of the organisation, whose Board consists of two representatives, one from each of the major parties (CDU/SPD). The member organisations usually have private memberships, while the consumer bureaus of the *Länder* are public or quasi-public institutions financed for the most part by the *Länder*. In addition to the Association of Consumers there are some more or less independent smaller consumer associations and a public foundation for product testing and consumer information (*Stiftung Warentest*).

In contrast to the Federal Republic, in the United States there are a large number of smaller or larger consumer organisations. Some of them, such as the "Consumer Research Association", the "Consumer Union of the United States", the "Consumer Federation of America" and the "American Council of Consumer Interests" operate on a national scale, while most others are local or at best State-wide. There is little integration between the different groups, which, however, do occasionally form coalitions. Most of the groups have weak organisations managed for the most part by volunteers. They are usually financed by individual membership fees and publications.

Altogether consumer protection in the United States is a good example of an extremely pluralist interest structure. In the Federal Republic, the situation is somewhat more complex. There is on one hand, a rather monopolistic representation of consumer interests with much government financing. On the other hand, consumer policy is to a large extent determined by those major economic interests, which are part of a general corporatist network of interest intermediation. As far as banking interests are concerned, we find in the Federal Republic a rather integrated structure and in the United States a moderate degree of pluralism. (Biervert *et al.*, 1977, 1978; Eisenstein, 1982; Feldman, 1978; Hippel, 1979; Katz, 1976; Wicken, 1976).

The structures described so far in this section considerably influence the interactions between organised interests and regulating agencies. In both countries, as indeed in most other western democracies, regulatory programmes are, to a considerable extent, the result of bargaining between government and organised interests. In some countries, Switzerland for example, this bargaining is highly institutionalised. In the Federal Republic, however, bargaining between government and organised interests usually takes the form of more or less formal consultation of organised interests by the rele-

vant bureaucracies. In addition, there are often parliamentary hearings. Most of the influence of organised interest groups operates through consultation, which is strongly influenced by structural features.

In the case of banking regulation in the Federal Republic, there are only a few fairly corporative interest organisations which interact quite closely with the relevant department in the Ministry of Finance. Although there are considerable differences in the views of the ministry and the different bank associations, there is usually an attempt to reach consensual agreement. The interaction between the associations and the ministry is, hence, rather corporative and orientated to the accommodation of conflict at a pre-parliamentary stage. This accommodation is facilitated by the common interest in the smooth functioning of the financial market. The banks' interests have a powerful influence within such corporative structures, the more so as banking regulation usually receives little political attention. It is, therefore, difficult or even impossible to make banking regulation policy against strong opposition from the banks' associations. Unusual exceptions in the aftermath of the occasional bank crisis confirm this rule. The powerful influence of the associations, however, does not result in protectionistic and particularistic regulation, because the three associations cover most interest representation and, therefore, usually act to secure the safety of banks and the efficiency of the banking industry. Moreover, they also tend to be concerned with macro-economic policy implications, because they are heavily involved in the financing and control of industry and business.

Banking politics in the United States is different, and represents a much more particularist and pluralist interaction of pressure groups and government. Much of the pressure politics of banking interests, as of most other interests, is directed towards Congress, which plays an important role in regulation. In Congress, interest intermediation usually takes the form of "log-rolling". In the case of banking, this enhances the influence of parochial interests. Indeed, banking regulation in the United States contains strong restrictions on nation-wide banking and strongly protects locally and regionally based smaller banks. Economic tendencies, however, tend to favour nation-wide banking interests and make it easier for the large banks and bank holdings to attempt or evade restrictive regulation. As a result, banking regulation tends to be unstable. There is no clear and consistent accommodation of the conflicts concerned by means of encompassing and widely accepted legislation. Rather, the conflict is partially resolved by means of partial, discontinuous and weakly coordinated changes in legislation of rather limited scope. A typical example is the "Edge Act" which allows for some interstate branching in relation to foreign business. Although this Act does not abandon the principle of State-restricted branching, it opens some doors to interstate banking. Similar tendencies exist with respect to the "Bank Holding Act" and the "International Banking Act". As a result, banking regulation in the United States tends not to be very consistent.

Problems exist not only in respect of consistency, but also with regard to scope and density of regulation. Fragmented regulation and the existence of a number of different regulatory agencies with concurrent and overlapping powers strongly favour an escalation of regulation in terms of volume, scope and density. This also results in high and increasing costs of regulation. Consequently banking regulation is often considered as excessive and increasing demands for deregulation are voiced. (Bähre, 1978; Davis, 1966; Erdland, 1977; Kreider, 1975; Morschbach, 1981; Müller, 1981; Redford, 1966; Ronge, 1979; Schmidt, 1976).

Consumer interests in the Federal Republic are, as is demonstrated above, quite well organised and integrated. The Association of Consumer Interests is, therefore, the "natural" consultant of the bureaucracy and parliament. It is represented in the consumer board of the Ministry of Food, Agriculture and Forestry. Apart from that, interactions of the associations take place at lower levels of the political-administrative system. Demands on the part of the associations to establish a general representation of consumer interests at cabinet level have not been maintained. Nevertheless, the association has well established connections with the political-administrative system. Its power, however, is rather limited because of the fragmentation of the relevant political-administrative system and frequent competition with the interests of industry and business. In this context, we should note that although well organised, the association has not much of a substantial power base, but rather is more or less dependent upon the existence of political "good-will". This is particularly the case since consumer interests usually do not gain strong and lasting public attention. This puts a major constraint on the associations, which are strongly interlocked into routinised interactions with the political-administrative system but cannot, as a rule, mobilise much political support. Consequently the association always has a reasonable chance of bringing consumer interests into the policy-making and legislative arena, but is hardly in a position to achieve more than a partial fulfilment of its aims. Moreover, it has most chance of success when its claims relate to general aspects of the economic order rather than to more detailed and specific regulation of production and trade. This is well expressed in the existing legislation on consumer protection which has been described earlier in this section.

The situation in the United States is very different. The fragmentation of both consumer interests and the relevant political-administrative structure hardly allows any continuous and significant influence on regulation. The relatively high level of consumer protection compared to the Federal Republic is, for the most part, the result of a reaction to politicised problems. Usually consumer interests are intermediated in the context of particular events which allows for sufficient politicisation of issues concerning consumer protection. In this case, the political-administrative system tends to react with legislation or limited regulation, concentrating on the particular issue in question. In this way, consumer protection has, nevertheless, grown

considerably over time. Using chances for politicisation and picking-up actual issues, the consumer interests organisations have been quite effective, although they are not capable of maintaining a steady influence and an encompassing interest intermediation.¹ The resulting regulation is, however, characterised by a low degree of consistency, considerable overregulation and, at the same time, by deficits in regulation concerning many important areas. (Biervert *et al.*, 1977, 1978, 1984; Feldman, 1978; Hippel, 1979; Katz, 1976; Morganstern, 1978; Wieken, 1976).

In summary the following diagram shows the structures of interest intermediation described above:

	Federal Republic of Germany	United States of America
Banking Regulation	<ul style="list-style-type: none"> — few, rather corporative interest organisations — quite close interaction with — one single department in the Federal Ministry of Finance — macro-economic orientation encompassing regulation 	<ul style="list-style-type: none"> — several competitive interest organisations — pluralist interaction with — State and federal government, regulation agencies and especially Congress — particularistic orientation, unstable regulation, limited in scope
Consumer Protection	<ul style="list-style-type: none"> — one interest organisation — routinised interaction with — fragmented political-administrative system mainly at federal level — orientation toward economic order; detailed regulation, narrow in scope 	<ul style="list-style-type: none"> — fragmented interest organisation — non-continuous politicised — interaction with fragmented political-administrative system at all levels — issue orientation concurrent and overlapping regulation

Comparing consumer protection in the Federal Republic of Germany and the United States of America, we may observe an interesting contrast. Although consumer interests in the United States are more fragmented and much less connected to the political-administrative system than in the Federal Republic, they have generally been more rather than less successful in putting their interests into effect. This is considerably different from what we might have expected on the basis of our theoretical argument and, therefore, needs further explanation.

¹ Characteristic of this situation is that in the busy years of consumerism the Consumer *Product Safety* Commission was established, but a simultaneously claimed general Consumer *Protection Agency* several times failed to obtain a majority in Congress.

In our view, the explanation for this is that consumer interests in both countries are general interests with weak organisational capacity and little potential to exercise power through pressure group tactics. Such interests usually depend upon the mobilisation of political support. The American consumer associations operate along these lines by using occasional politicisation of consumer interests and opportunities to create issues which are relevant for parties and Congress. In contrast, the German consumer association is locked into permanent routinised interactions with administrative levels and does not usually engage in politicisation strategies. In other words, the German consumer association acts as a conventional pressure group without the necessary power base, while the American consumer associations act much more as a political movement attempting to politicise issues where they do not have sufficient conventional pressure power. The fragmentation of American consumer interests favours a strategy of politicisation because it allows for a broad and also short-term mobilisation of political support. The well organised and established German consumer organisation on the other hand is not in a good position to utilise politicisation strategies. In the area of banking regulation the situation is very different, because both in the United States and the Federal Republic banking interests use conventional pressure politics in terms of consultation and bargaining. The relatively integrated structure of German banking interests is, thus, associated with effective power, but also encompassing interest aggregation. German banking interests, therefore, are very influential, but act for the most part in a way which enhances efficient regulation. In contrast, the fragmented structure of banking interests in the United States enhances unstable and changing power of the different interest organisations and is likely to create inconsistent and inefficient regulation.

Summarising the argument of this section, we may conclude that the four cases discussed here demonstrate the importance of structural arrangements. Some further theoretical discussion is, however, necessary, especially with respect to consumer protection.

III. Structure and Regulation: Further Theoretical Discussion

In the last section we provided some empirical evidence demonstrating the relevance of input structures for regulatory policy-output. Both the structure of interest organisations and the political-administrative decision structure have a considerable, although not determining, impact on policy-outputs, since they shape interest intermediation, the resolution of the related conflicts and the aggregation of different and diverging interests into binding regulation. Much of the evidence provided fits into our general theoretical argument.

In the first part we have, following Olson (1982), argued that regulation tends to be the more effective and efficient the more the relevant structures provide for comprehensive interest aggregation. Although much of the evidence from our case studies supports this view, there is also some evidence which is consistent with alternative interpretations. Overall, our cases make for some real ambivalence with respect to the empirical validity of this theoretical argument. Such a conclusion is perhaps hardly surprising, since our theoretical argument is a very simple one. It is concerned with only a few aspects of the more complex relationship between structural arrangements and policy-output. It does not, for example, consider alternative channels of interest intermediation, but rather deals almost exclusively with interactions among traditional pressure groups and bureaucracy. Although this channel is the dominant one in most countries, other channels are also of importance. Political parties and parliaments, for example, sometimes play an important part despite their generally passive role in the drafting of policy enactments. Unconventional political behaviour may also occasionally strongly influence public policy-making. The argument presented in the first part of this article neglects these different channels and the related differences in the conditions of interest intermediation. For example, it neglects the fact that the interests operating by a politicisation strategy via parties or unconventional behaviour are not subject to the same organisational requirements as traditional pressure groups. In order to account for such differences, we need to revisit our cases as well as our theoretical argument. (Castles, 1982; Jordan, 1981; Lehner, 1978; Lehner and Schubert, 1984, 1985; Scharpf, 1974).

The banking case quite clearly supports the theoretical argument advanced in the first section. The integrated interest organisations and the integrated political-administrative structure in Germany favours continued and rather controlled regulation. However, this involves some elements of immobilism with considerable veto power on the part of the banking organisations. Nevertheless, German banking regulation is quite effective and efficient. Compared with the Federal Republic, interest structures and political-administrative structures in banking regulation in the United States are quite fragmented. As we would expect in theoretical terms, American banking regulation is much less consistent and more particularistic.

In respect of consumer protection, the situation is quite different. Although in the Federal Republic there is a much more integrated interest intermediation than in the United States, German consumer protection does not seem to be more effective and efficient than its American counterpart. On the contrary, in some areas, such as product safety and liability, American consumer protection is more developed than the German equivalent. Moreover, American consumer protection operates much more on the basis of liability, while the German system is more based on rules and norms. There are good reasons to assume that the first strategy is more conducive to effectiveness and efficiency, because it operates more with economic incentives and needs

less bureaucratic control. All this is not in accordance with our theoretical argument, but rather appears to support an almost opposite hypothesis.

Considering the cases together, it becomes obvious that the relationships between structural arrangements and public policy are rather less simple than their presentation in the usual corporatist or pluralist type of theories would suggest. Nevertheless, a careful interpretation of our cases may show that there is much truth in corporatist types of theories as well as in pluralist ones. This seemingly contradictory conclusion makes more sense if we consider the nature of different arenas of policy-making.

The two cases analysed in the second part indeed differ with respect to the arenas of policy-making. Banking regulation, both in the Federal Republic and in the United States is strongly dominated by traditional bureaucratic-pluralistic interaction. Consumer protection in Germany also takes place in the same arena; not so, however, in the United States. On the contrary, most of American consumer interests are intermediated by a politicisation strategy directed more at political parties than at bureaucracies. This is, of course, somewhat overstated because in all cases there is a combination of both strategies. However, in American consumer protection, the politicisation strategy plays a crucial role, while in German consumer protection, and in banking regulation in both countries, this is almost never the case. We are, therefore, talking about quite different arenas when we compare the cases. Thus, we also have to consider different organisational requirements and the related impact of structural arrangements.

In the first section we have argued that, in the realm of the traditional interactions of organised interests and the political-administrative system, law is undergoing a fundamental change because it is becoming more and more a disposable resource of bureaucracies and organised interests. This change is, of course, not visible in the formal process of legislation. It is still parliament that formally decides on legislation. Law is, therefore, not freely available to bureaucracies and organised interests. Strictly speaking, it is not yet a fully disposable resource. In order to make law a disposable resource, bureaucracies and organised interests have to mobilise sufficient support in parliament. However, this changes the relationship between bureaucracies and organised interests on one hand and parties and parliaments on the other. Under traditional legal rule, parliament made the law and bureaucracies executed it. However the situation is now often reversed. Bureaucracies often determine the law they need to fulfil their functions and then attempt to acquire the support of parliament.

This is not just a theoretical assertion, but is evident in the legislative process of most of the western democracies. In Germany, Italy or Switzerland, most proposals concerning new legislation are initiated and formulated by the state administration. In France, much of the law is formulated by means of government-decrees, and only a relatively small, although important, part is determined by legislation. Even in the United States of America, the adminis-

tration makes great efforts to initiate law which is functional for purposes which they often determine themselves. Generally parliaments ratify law rather than create it, especially when it comes to the regulation of the economy. (Aberbach, Putnam and Rockman, 1981; Crozier, 1964; Freddi, 1986; Mayntz and Scharpf, 1975).

Given such circumstances, the major pre-requisite of effective pressure politics is an interest's capacity to get organised and to control scarce resources or special functions as a power base in conflicts with the political-administrative system. (Lehner and Widmaier, 1983). Groups possessing these capacities are likely to be much more powerful than others. Since organisational capacities are usually in inverse proportion to the size of an interest, small but specialised interests are usually very powerful and may press for particularistic public policy. This is the situation to which Olson and corporatist theorists refer. A quite different situation exists, however, when interests are intermediated via elections or votes, parties and parliamentary decisions. In this case, interests have to be capable of mobilising mass support, which then forces a political aggregation of interests. In this case, a larger number of weakly organised groups may be capable of mobilising sufficient mass support to create a political issue. If this is the case, parties and parliaments by their very nature have to attempt to reach an encompassing interest aggregation.

The difference between the two situations is obvious; in the first one, a smaller or larger number of interests interacts with a more or less segmented political-administrative structure. This being so, the capacity of the policy-making system to reach a comprehensive decision is basically a matter of the structures involved. The second situation is quite different because party competition may act as an integrative mechanism. That is, pluralist interest intermediation is often only effective if party competition actually provides for some broad interest aggregation leading to a parliamentary majority. Needless to say, party competition is not always effective in this respect. This is, as Lehner and Schubert (1984) point out, a major reason for the often noted lack of political control of public policy-making and the strong dominance of the bureaucracy.

This dominance of the bureaucracy in regulatory policy-making creates severe problems not only of legitimacy but of efficiency as well. As Offe (1974) points out, the need of bureaucracies to use law as a disposable resource introduces a great dependence on the support of organised interests. As a result, legislation dominated by bureaucracies is often strongly influenced by particular interests and is therefore, as Mancur Olson argues, inefficient.

Given this situation, the question has to be raised of how political control of legislation can be increased. In order to answer this question, we have to analyse the different capacities of political parties and interest groups to aggregate social and economic interests. Earlier in this paper it was argued

that the chances of incorporating socio-economic interests in legislation are greater, the more specialised and particular they are. The state administration is, as a rule, incapable of representing encompassing interests in terms of aggregating social preferences appropriately because it is bound by a segmented and more or less clientelistic interaction.

According to established political ideologies and theories of liberal democracy, it is the task of political parties to represent and aggregate socio-economic interests comprehensively. In reality, however, the capacity of parties to fulfil this task is often rather low. This has created a large number of gloomy analyses of the "decline of legislatures" or of the near end of party government. Although these views are not without realism, there is no need to add another one here. (For this discussion see: Beyme, 1981; Castles, 1982; Castles and McKinlay, 1979; Lehner, 1978; Lehner and Schubert, 1984; Rose, 1974).

In what follows, we shall attempt to identify functional demands made on parties and parliaments, taking into account the complexity and uncertainty of regulative economic policy. The demands which we assume to be imposed on parties and parliaments are as follows: firstly, in a situation where policy aims are clear and the capacity to reach substantial agreements among bureaucracies and organised interests is high, regulation is most likely to be fully pre-determined by bureaucracies and organised interests. Parties and parliaments are reduced to a pure legitimisation function; parliament simply ratifies pre-parliamentary decisions. This happens less and less because uncertainty in policy-making increases as the complexity of state functions increases and socio-economic change occurs. Therefore, policy-making often faces considerable uncertainty.

Secondly, in a situation where high uncertainty exists with respect to the aims of regulation, while the structural capacities of bureaucracies and organised interests to reach substantial agreement are still high, aims have to be defined politically. The substantial content of regulation can and will be determined at the pre-parliamentary stage. Parties and parliaments are now not confined to a pure legitimisation function, but have to give some political guidance to the legislative process. A typical example of this situation is the 1976 amendment of the Federal Law of Financial Institutions in Germany (*Kreditwesengesetz*). As a result of a bank failure, a public discussion on tougher regulation developed. The interest organisations and bureaucracies concerned could not agree on the need for and the aims of an amendment. Thus the case had to be principally decided on political grounds. Once the principal policy decision was determined by parties and parliament, the bureaucracies and organised interests concerned solved most of the substantial problems through their usual interactions. Similarly, the considerable influence of small, local or regional banks on American banking regulation can only be explained if we consider the strong parochialism of American party politics and its influence on congressional decision-making.

Thirdly, in a situation where the channels of communication between bureaucracies and organised interests are breaking down, their capacity to reach substantial agreements is low and does not allow for a solution of the disputes. In this situation there are two alternatives:

- a) Parties and parliaments define the status of a problem and the principal aims of the intended regulation. The more specific formulation of the regulatory programme concerned is delegated to a particular segment of the political-administrative system. This strategy creates some decentralisation of conflict, but at the expense of political control. Regulation is formulated within a narrow and more or less exclusive bargaining system. Consumer protection in Germany is an example of this. It also demonstrates, however, that such delegation may inhibit the power of the interests concerned if the power base of the bargaining system is not very strong and if it is thus dependent upon the co-operation of parties and parliaments.
- b) The definition of aims and the status of the problem is determined by external pressure on parties and parliament by means of mass mobilisation and issue production. In this case, interests do not depend upon the co-operation of parties and parliament, but attempt to force compliance by a successful management of mass mobilisation. Mass mobilisation, however, is often difficult to manage. The capacity of interests to succeed depends upon a number of conditions, such as the involvement of a larger part of the population or publicity. These conditions are not closely related to an interest's organisational capacity, but may also be met by a large number of small and weakly organised groups. Consumer protection in the United States is a good example of this. In order to understand this case fully, we would have to analyse more systematically the political psychology of mass mobilisation and the resulting conditions for effective interest organisation. This would considerably exceed the scope of this chapter.

Summarising the argument presented in this section, we may conclude that in different arenas the relationship between structural arrangements and policy-making may differ considerably. The type of theoretical argument presented in the first part is only applicable to the arenas of the interactions of organised interests and bureaucracies. In more politicised arenas, we may expect that pluralist interest intermediation may be both more effective and efficient, assuming the existence of strong party competition.

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Comparative Public Policy Analysis: Problems, Progress and Prospects*

FRANCIS G. CASTLES

Truth is a very complex thing, and politics is a very complex business.

Oscar Wilde

Introduction

Comparative public policy analysis has taken great strides forward in little more than a decade and may now, quite appropriately, be considered as a major branch of political studies. Although the assumption that political choices and arrangements are an important factor in determining the nature of societal outcomes has ancient and illustrious origins, dating back to Aristotle's account in *The Politics* of the nature and effects of the varying constitutional structures of the Greek city states, such a perspective was largely submerged in the wave of socio-economic reductionism which deluged social scientific thinking in the first three decades of the post-war era. Today we witness a proliferation of studies, such as those comprising this volume, which seek to use the comparative method to illuminate similarities and differences in policy outcomes and to explore the *joint* impact of both socio-economic and political factors in shaping those outcomes. This change in perspective has involved a re-orientation of theory and methodology, which, because of its rapidity, has in many respects been incomplete and poorly integrated. Moreover, whilst the research proceeding from the new perspective has produced an enormous quantity of empirical information concerning the range of variation of policy outcomes, there is a genuine risk that the information will not, in the absence of adequate theoretical reconceptualisation and methodological reformulation, be cumulative or fully assimilated into our knowledge of the workings of the modern state. The task of this chapter

* The final section of this chapter is a revised version of part of an article of mine which appeared in *Government and Opposition*, Volume 20, Number 3, Summer 1985. I would like to thank the editors and publisher for permission to use material from that source.

is to discuss the development of comparative public policy analysis over approximately the past decade, to comment on the strengths and weaknesses manifest in that development and to speculate on ways in which the barriers to further progress may be overcome.

Before embarking on this discussion, let me attempt to give the above contentions a degree of concreteness by offering an example of some of the analytical problems faced in public policy research. The example is drawn from the comparative study of welfare outcomes, perhaps the most frequently researched area in the literature and one which, as has been made abundantly clear by many of the contributions to this volume, is central to the political management of mixed economies. Welfare is central both because it is a proxy for human well-being, which is not only a major ethical imperative of modern societies, but also the primary legitimation of their public institutional structures, and because it is, in its broadest delineation, the most substantial component in the budgetary allocation in all modern states. About 1980 the average social security expenditure of some 18 OECD countries was 20.1 per cent of Gross National Product, slightly more than half the average government revenue of 36.9 per cent of GNP (ILO, 1985; OECD, 1982). A very large part of the variance in the extent of the state, at least as measured by tax revenues, is statistically "explained" by the degree of social security effort, with a correlation of 0.90. This is a point of both theoretical and methodological interest. However, the finding is ambiguous, because it could be used to support two supposedly antithetical paradigms. Marxists might suggest that, leaving social security aside, the relative lack of variance in the non-welfare functions of the state confirmed their view that the basic nature of the advanced capitalist state is essentially similar irrespective of historical, cultural or political diversity. Pluralist or social democratic theorists might well retort that it is the welfare state that makes any difference there is. As we shall see subsequently, the major incongruity between theory and empirical findings in comparative policy analysis is not a matter of theory not fitting the facts, but of the facts fitting too many theories.

Methodologically, the analytical problem we face is that findings concerning the extent and variation of the welfare state, its individual policy components and the relationship of both to the size and variation in total government revenue may tell us almost nothing about policy outcomes as such. This is partly a concomitant of the familiar difficulty that the majority of policy studies have focused on *outputs* measured in terms of resource expenditures (e. g. on social security or defence or transport) rather than on *outcomes* seen in terms of individual or societal consequences (e. g. well-being and equality or security from external aggression or ease of communications). Still more seriously, in analytical terms, it is a consequence of the frequently ignored fact that there is no inherent or automatic one-to-one relationship between means and ends; that, in other words, there are more ways than one to skin a cat! A vast array of seemingly disparate policies and policy-mixes may end up

with remarkably similar results, and apparently rather similar policies may lead to quite different outcomes. For instance, if our interest in the welfare state were motivated by a concern for the achievement of equality of incomes, we could be very considerably misled by social security data of the kind mentioned in the previous paragraph. Certainly, according to a 14 nation data-set on post-tax, post-transfer, income inequality (van Arnhem and Schotsman, 1982:290), Sweden and the Netherlands, the two countries with the highest social security expenditure, are also those with the most equal income distribution, but in fourth and fifth places are Australia and Japan, both right at the bottom of the OECD social security league-table. Moreover, France, which has consistently been in the top half of the distribution of social welfare spending between 1950—80, has a more unequal income distribution than any other nation in the data-set. Thus, to assume that social security expenditure necessarily leads to greater equality, or even to assume that governments which spend more on social security are somehow more welfare-minded than those which spend less involves going beyond or even against the available evidence, and yet such assumptions, implicit or explicit, are a commonplace of the welfare state literature, although there are some conspicuous exceptions (for example, Sharkansky's spending-service-cliché, see Sharkansky, 1970). The need to reformulate our methodological strategy, not merely in welfare studies, but across all areas of policy analysis, where such problems are equally apparent, so that we gain some real purchase on the linkage between policy instruments or outputs and outcomes, is one of the important themes of this essay. Whilst the character of the presentation is largely methodological, the point is substantive: we cannot offer anything like an adequate theoretical account of policy processes and outcomes unless we know what we are measuring and whether it is significant.

The Shift from Theoretical Primacy

One way of tracing the progress of comparative public policy analysis is to examine the changing nature of its theoretical underpinnings. Perhaps paradoxically, I shall argue that the potential for understanding the causes of public policy variance has expanded in direct proportion to increased theoretical diversity in the field and that further development is dependent on assimilating that diversity into our research strategies. The paradox, because I accept fully that the elaboration and testing of theory is the hallmark of progress in scientific understanding, arises from the fact that the kind of theorising which used to dominate the analysis of policy consequences, and still to a lesser extent influences its tenor of presentation, sought to simplify a complex reality to such an extent that it often became an agency of obfuscation rather than enlightenment. Moreover, simplistic theory abhors testing, as nature abhors a vacuum, and either neglects to undertake it (because the theory is self-

evidently true!), evades it (either by tautological formulation or unfalsifiable hypotheses), avoids it (by stipulations broad enough to be compatible with most kinds of evidence) or rigs its findings (by looking only for signs of confirmation in circumstances particularly propitious for finding them). By one or more of these techniques, the explanatory primacy of a given theoretical paradigm can long be defended, almost irrespective of the evidence marshalled against it. Unquestionably, one of the most significant marks of the progress of comparative public policy analysis during the past decade has been the extent to which it has moved away from assumptions of theoretical primacy. Such a development, although by no means completely assimilated, is an essential prologue to the emergence of a theory — or theories — capable of capturing the complexity of the policy process and its outcomes more fully.

A dramatic illustration of the blindness engendered by the theoretical primacy assumption is the fact that through the 1950's and much of the 1960's the vast majority of theorists of the development of the welfare state were able to adhere to views about the scope of political intervention in the mixed economy which were apparently diametrically opposed in causal terms. On the one hand, the prevailing orthodoxy of macro-economic management was the Keynesian conception of manipulating aggregate demand; a view which implied that governments had rather extensive powers of control over the economy and could, by their actions, influence levels of unemployment and inflation, economic growth and the sectors of the economy to which additional resources would be devoted. On the other hand, this political agency view of economic policy was matched by an overwhelming socio-economic determinism in sociological and political analysis of the development of the modern state, which almost wholly denied the impact of purposive political choice. Whilst much writing of the period simply ignores the potential antinomy of these views, more sophisticated analyses purported to demonstrate that supposedly independent political choice in the management of the economy was everywhere effectively constrained by similar socio-economic forces with similar policy consequences. Whether this was stated in terms of the mass electorate's preferences for full employment, price stability and economic growth, or in terms of the constraining imperatives of industrialisation and modern technology, the result remained a convergence of policy outcomes, despite the hypothetical manipulability of the macro-economic mechanism.

We might describe the antinomy of political agency and socio-economic determinism in terms of a distinction between a theory of statics (the factors involved in the establishment of diverse policy outcomes in the various advanced states), and a theory of dynamics (the developmental motion of whole societies). Within such a framework, it might have proved intellectually viable to locate a major explanatory role for both socio-economic structure and political agency and to devote theoretical attention to the links between the

two levels of analysis. As it was, however, the convergence hypothesis, often stated in the most general and non-operationalisable terms (e. g. all modern states have mixed economies or are welfare states), made it possible for the developmental theories of sociological provenance to direct attention away from what were seen to be minor residual divergences and to focus it fairly and squarely on the massive structural changes in society and economy responsible for the transition from traditional to modern societal forms. All the major theoretical paradigms of the 1950's and 1960's — structural-functional analysis, the industrialisation thesis and the prevailing economicist Marxism — have in common such a developmental sequence. They differ only in their ethical appraisal of developmental trends and in regard to the factors which are accorded explanatory primacy in the developmental sequence — institutionalisation and structural differentiation in functionalist analysis, economic growth and demographic change in the industrialisation thesis and ownership and control of the means of production in the Marxist model. Otherwise these ostensibly competing theoretical paradigms have a curiously similar character. They all effectively relegate political action to a minor and epiphenomenal role and view the activities of the modern state as being essentially similar. Their analyses are only comparative in the very crudest sense of contrasting gross differences between countries at diverse stages in a developmental sequence without bothering with finer shades of distinction among countries at a similar developmental level. In terms of such gross contrasts, advanced states are variously described as "modern", "industrialised" or "capitalist", and public policy differences between them are glossed over or labelled as irrelevant, as O'Connor, for instance, suggests is the case in respect of diverse balances between the welfare and warfare functions of the state (1973:28; cf. Keman *supra*). Finally, since primacy is the main issue, and none of the paradigms deny the empirical occurrence of the major developmental trends, only their significance and causal ordering, their amenability to evidential falsification is generally rather low.

Although the developmental theorising of this period was effectively non-empirical in focus, since the overarching contrasts between tradition and modernity scarcely required minute demonstration, it can be argued that the postulated similarity or convergence of modern states had some implicit empirical foundation in a special conjuncture of circumstances in which politically determined differences were less than at any time before or since. The pioneering research which has emerged from the Study Group on Historical Indicators of Western European Democracies (HIWED Project) shows clearly that in the pre-World War II period there were very clear national divergences in the development and coverage of European social insurance programmes. However, as Alber points out in an early summary of the project's findings, "during the general expansion of social insurance coverage in the post-war period, the marked differentiation eventually gave way to a slow convergence." (1979:5; 1982) What could be said of the development of the

welfare state also applied to macro-economic policy. The Keynesian orthodoxy of the immediate post-war era has already been remarked on and may be contrasted with the much greater variety of policy responses in the crisis of the 1930's (Schmidt, *supra*). Thus it is hardly surprising that the theorists of the early post-war decades were impressed by the convergence of policy trends and sought explanations in a decline of ideological (i. e. political) conflict, although, to compound the paradoxes of theory development already noted, the argument that political conflict had at an earlier time been more salient was not too readily assimilable with the view that socio-economic structure was the exclusive motor force of developmental change. But even by the 1960's new processes of differentiation were emerging both in respect of macro-economic policy and social policy expansion. On the one hand, it was becoming obvious that different advanced economies had rather diverse records of success in Keynesian macro-economic management and, on the other, differentiation in respect of the coverage of the welfare state was giving way to major differences in the sheer volume of social policy intervention. As the OECD was later to point out concerning this latter development, these years were not characterised by a process of convergence and the "evidence points on the contrary to a growing international dispersion in the relative size of public sectors." (OECD, 1978:13).

It was evidence of this kind which served as the experiential basis for the development and progress of comparative public policy analysis in recent years. The emerging evidence of marked diversity within the category of advanced states was not easily susceptible to explanations in terms of the working out of similar socio-economic trends, since indicators of modernity were frequently unable to discriminate between countries with substantially different outcomes in respect of welfare expenditure, unemployment or inflation. Rather the diversity of policy outcomes suggested the need to seek explanations in terms of factors peculiar to particular nations or groups of nations, and such a development required a far more detailed focus on policy, employing either the historical and/or comparative method. It also required a major reorientation of theory, which at first took the form of an internecine struggle for theoretical primacy between the proponents of a socio-economic explanatory paradigm and those who wished to demonstrate that, far from being epiphenomenal, political choice was a crucial determinant of policy outcomes.

This battle of the paradigms was frequently conducted with a minimum degree of subtlety, by demonstrating the statistical association between some factor, labelled either socio-economic or political, and some given measure of policy variance, and concluding, with few if any caveats as to specificity of time, place or policy, that the association revealed proved that politics mattered or *vice versa*. Whilst methodologically unsophisticated and often leading to conclusions which, as much as their predecessors, belied the complexity of policy determination, the battle of the paradigms did stimulate research

and did infuse the area with a range of theories which allowed of political agency as a factor in policy development. Electoral outcomes, pressure group activities, party ideologies, the intensity of class struggle, institutional forms and societal arrangements for channelling conflict now challenged institutionalisation (and its policy studies elaboration as incrementalism), economic growth, demographic change and patterns of ownership and control as rival explanations for the similarity and diversity of policy outcomes manifested in the modern state.

At a minimum, this enhanced theoretical diversity has led to a situation in which comparative public policy analysis has been invested with a much greater inventory of hypotheses for comprehending the nature of policy diversity. Moreover, the very existence of diversity has exerted a quite considerable pressure on researchers to abandon the most extreme positions in respect of theoretical primacy. The scholarly requirement of reviewing the existing literature has made recent research far more wary of offering mono-causal explanations, supported only by evidence confirming the existence of some level of statistical association between two variables. Confronted by such a broad array of hypotheses and findings in the literature, it is necessary to juxtapose evidence of policy diversity against the most frequently utilised theories. This shifts the emphasis from primacy to the degree to which the data match the hypotheses. It remains possible, of course, to manipulate one's choice of policy area, time period and universe of discourse in such a way that favoured hypotheses fit rather better than they otherwise might. Such strategies remain extremely common in that part of the literature which has a polemical slant. However, even this possibility is progressively circumscribed to the degree that the field has increasingly attracted researchers whose chief interest is the nature of policy variation itself rather than policy variation as an adjunct to theoretical polemics. Putting policy first in this way was a natural concomitant of the shift away from variants of convergence theory. To the degree that researchers came to the field with an interest in policy variation *per se* and with an open mind, they were likely to find that many of the theories mentioned in the literature appeared to have some partial relevance, and possibly one which itself varied from country to country, from time-period to time-period and from policy area to policy area. As the reader will be aware, the research findings collected in this volume are characterised by precisely this type of approach, which, while anything but atheoretical, does start from the presumption that reality is likely to be far too complex to be captured by any mono-causal theory. The shift from theoretical primacy to multi-causal models of policy determination represented in this and a number of important collaborative contributions to this field, (Flora and Heidenheimer, 1981; Castles, 1982; Goldthorpe, 1984; Vig and Schier, 1985), marks an important step in the maturity of comparative public policy analysis.

This does not, of course, mean that theoretical problems have been fully overcome. At the earlier stage when developmental theories reigned supreme,

theory testing was conspicuous by its absence, both because the differences between traditional and modern societies were seen as self-evident and because these theories were framed largely in non-falsifiable terms. None of this is true of contemporary comparative policy analysis, but to the degree that multi-causality has been embraced without any tight specification of the causal sequences linking the independent variables in policy determination, we remain in a situation in which outright falsification is difficult so long as some degree of association between independent and dependent variables can be demonstrated. Since the list of independent variables in public policy explanation is virtually coterminous with the most important basic hypotheses generated across the social sciences in the past century, it is rather unlikely that any major policy process or sector will be completely dissociated from most of these variables. This is what I meant earlier by suggesting that we are confronting a serious problem insofar as the facts fit too many theories. This is a problem which can only be overcome by moving from simple single-factor theories — in much of the literature the terms “theory” and “hypothesis” are strictly equivalent — which can be combined and rationalised *ad hoc* and *post hoc*, to multi-factor theories in which causal sequences are stipulated to the exclusion of other alternative patterns.

This is the next stage of theory development: having broken away from a monolithic socio-economic developmentalism, and thereby created a situation of immense theoretical diversity, we have to assimilate and re-combine these different explanations in order to arrive at a clearer picture of the complex processes of policy determination. Such a task is scarcely begun, although a dim perception of the need may be seen in the fact that those theories which have been most favoured in recent research are precisely those which do already contain some account of the inter-relationship between socio-economic and political independent variables. Thus they do offer, however tentatively, some potential linkage between the statics and dynamics of policy determination by presenting paradigms of analysis in which both structure and agency have an explanatory role. The three theories which most conspicuously attempt such a linkage are the social democratic model, the class politics paradigm and the neo-corporatist framework, all of which feature extensively in the analysis presented in previous chapters of this volume. Each of these theories specifies a causal sequence in which an historically conditioned social structure has an impact on policy-outcomes through the intermediation of political actors whose choices are *relatively autonomous* in the sense that whilst constrained they allow for varying degrees of freedom of manoeuvre. In the social democratic model these actors are political parties seeking partisan control of the state (Shalev, 1983). In the class politics paradigm they are class fractions and organisations mobilising and struggling to assert themselves against the imperatives of capitalist accumulation encapsulated in the structure of the bourgeois state (Gough, 1979; Schmidt, 1982). In the neo-corporatist framework they are interest organisations co-opted to a

greater or lesser degree into the decision-making structure of the modern state (Lehmbruch, 1982; Lehner, *supra*) Notionally, these theories present quite different accounts of the nature of the policy process and of the scope for political intervention in the mixed economy. In fact, as we shall see in the next section, the methodology of research employed in comparative public policy analysis often makes it rather difficult to ascertain the extent to which empirical findings support one theory more strongly than another.

Snapshots of Reality

In turning to an examination of the methodology of comparative public policy analysis, I shall make use of a somewhat curious analogy: that of an amateurish photographer who takes along his box-camera to a local football match with a view to capturing all the action on film. At first all goes well. He finds out how to point the camera not only at the pitch, but also at approximately the place in which what he is interested in is going on. But then his troubles begin. His viewfinder shows him which players are in the thick of the action, but does not give him nearly enough definition to distinguish which of them kicks the ball. The absence of a close-up lens makes it impossible for him to see the ball in any case, and his constant need to wind on the film means that he loses all continuity of the build-up of play. In this analogy, pointing the camera at the pitch stands for locating an appropriate universe of discourse for comparison. Identifying a particular centre of interest denotes a capacity to disaggregate policy into specific areas of activity. In both of these respects, the box-camera of cross-national comparison now works moderately well and we can make out the broad contours of the policy determination process far more clearly than before, when analysis was conducted in terms of the developmental paradigms. However, it is apparent that we are using a low-definition viewfinder because we are unable to distinguish adequately between some of the more important hypotheses in the field. The absence of a close-up lens makes it difficult to discern the nature of the linkage between policy outputs and outcomes, and the constant need to wind on our camera makes it difficult to follow the interaction of variables in the development of policy. This section will examine both the advantages and disadvantages of our current photographic techniques, whilst the next will suggest possible ways in which we might in future obtain a closer and clearer focus on our subject.

The box-camera analogy is not intended to be an unflattering description of current comparative public policy research, as should be readily apparent from a contrast between the detailed studies of this volume, concentrating on particular policy areas and painstakingly exploring large numbers of contending hypotheses, with the analysis and empirical research stemming from the earlier developmental theoretical frameworks. The pictures developed by

these latter only differentiated between black and white, and diverse developmental stages were contrasted rather than compared. Evidence was gathered only to support a particular hypothesis without any consideration of possible counter-indications suggested by other cases. For instance, the failure of much Marxist analysis to consider seemingly obvious counterindications is amply illustrated by the strange neglect in this tradition of any discussion of social policy development in the "socialist" countries of Eastern Europe. Marxism has, at least, the analytical advantage over both the industrialisation thesis and functionalism in that it distinguishes between two types of modern society and theoretically allows for comparison between them. The two types of society are capitalism and socialism. Yet, analysis in this tradition has attributed social policy development in capitalist states to either the needs of capital (the human equivalent of infra-structural development), or to the need to buy-off delegitimising crises. However, it fails to take into account the implications of the empirical evidence which clearly demonstrates the existence of a similar array of welfare agencies and types of provision in the socialist East and capitalist West (Alber, 1982:15—16). In both functionalist and industrialisation theorising, the common failing was the lack of any systematic resort to evidence and a mere picking out of examples favourable to the thesis advanced. In general, evidence concerning the role of the state in pre-modern times, the role of traditional mechanisms in modern times and the existence of substantial diversity was largely ignored. Moreover, once this theorising moves from developmental contrast to an attempted close-up of advanced states, it merely offers us an undifferentiated blur, an image even less distinct than a black and white photograph. Such, surely, is the impression left by the many writers who took the simple facts of higher levels of state intervention and/or the greater array of state welfare agencies as demonstration enough of the fundamental convergence of modern societies. This can also be said of a Marxism that could assert that "the coexistence of poverty and affluence" was a sufficient common denominator "of the most advanced and the most backward welfare states" (Offe, 1972:480), ignoring that such a characterisation scarcely differentiated such states from all others that have graced the stage of human history.

It is precisely this lack of differentiation which occasioned my earlier remark that, despite seemingly highly divergent conclusions as to the nature of policy determination, the pictures provided by these paradigms end up as being almost indistinguishable. This is so because they rest on vaguely defined empirical criteria. It is often quite impossible to use the method of comparative hypothesis testing to discriminate among the various explanations offered. All capitalist societies are simultaneously structurally differentiated and all are to varying degrees industrialised and, thus, no singular set of circumstances conducive to the development of the mixed economy or the welfare state can be readily isolated. Once again, it looks as if the facts fit too many theories, which is only to say that the theories are inadequately specified in

empirical terms. Admittedly, some differentiated and industrial societies are not capitalist, but, as noted above, these have generally been glossed over in Marxist analysis of the genesis of social policy. Some writers on the theory of the modern state do, of course, grasp the nettle and describe these societies as *State Capitalist*. While this solves the theoretical problem of why such states have a similar need for welfare provision as the capitalist West, it is at the cost of further reducing our capacity to discriminate between Marxist and alternative developmental explanations of modern state forms and activities.

The type of analysis described is effectively non-empirical and pre-comparative. However from about the mid-1960's, a number of comparative studies began to emerge which started from, and came to conclusions broadly consonant with, functionalist and industrialisation thesis hypotheses and which did not suffer from the more egregious failings mentioned above (see, for instance, Cutright, 1965; Aaron, 1967 and Wilensky, 1975). Most of these studies focused on aggregates of state expenditure, most frequently the social security budget as a whole, but occasionally on more sharply defined areas, such as education (Verner, 1979) or health, the latter usually a province for demographers and medical sociologists. In the deservedly best-known of these studies, Wilensky analysed data from some 64 nations and came to the conclusion that: "Over the long pull, economic level is the root cause of welfare-state development, but its effects are felt chiefly through demographic changes of the past century and the momentum of the programs themselves, once established" (1975:47). He goes on to suggest:

In response to similar problems of providing economic and career incentives and maintaining political order under conditions of the general push for equality and social justice and specific concern about the aged, all rich countries develop a similar set of conflicting values and beliefs . . . For the same reasons, there is a general convergence of social security practice toward dual systems of income maintenance (1975:49).

These findings, echoing the convergence and end of ideology themes of the theoretical literature, are supported by an impressive array of statistical evidence. However, there are real methodological difficulties in this and all similar studies which base their conclusions on a large number of cases at highly divergent levels of economic development, urbanisation and industrialisation.

The problem derives from the enormous gap in *per capita* resources between less developed and advanced nations. This gap results in a major discontinuity in the distribution of all those variables which are, in effect, proxy measures of economic modernity and, hence, to a bi-modal distribution of outcomes. Essentially, all that Wilensky and others using such a mode of comparison have demonstrated is that the level of state expenditure is higher in advanced nations and, given that difference, significant regression equations may easily be derived. This is so because the huge gap in the distribution of *per capita* resources swamps any variation that may exist within the two

groups of rich and poor nations (see Castles and McKinlay, 1979:184). To pursue our photographic analogy, this would be like the inexperienced photographer who, having double-exposed a snapshot of a football game over another of a cricket match, decided, after minute examination, that the only difference of substance was the size of the respective balls. Moreover, in studies of this kind, there is a problem of the relevance of the cases compared, since the conclusions drawn from the wide bi-modal sample are rather unlikely to apply within each group considered separately. Indeed, the attempt to derive generalisable conclusions from such a sample is likely to be as futile as the attempt to study our double-exposure and to deduce from it a single set of rules governing the conduct of both football and cricket. Thus, it comes as no surprise that, within a group of 22 richer countries in Wilensky's study, there is no significant relationship between economic level and social security spending and that it is the Western countries in this richer group which have been successfully used to demonstrate the importance of party ideology in determining public policy differences. Perhaps these comments are too critical of what was, in many ways, the most sophisticated study of its time. It is nevertheless the case that the differences in welfare expenditure between rich and poor countries should not occasion much surprise. The implication that there is a process of convergence taking place *within* the more advanced subset of countries is not supported by the evidence.

For reasons made clearly apparent in the preceding paragraph, most recent studies, as for instance those which compose this volume, which have sought to locate the determinants of variance in public policy performance have restricted themselves to an universe of discourse comprising the advanced democratic states of the West. This then is the clearly delineated pitch at which the box-camera of comparative public policy analysis points; an area circumscribed by common attributes in respect of economic advancement, a mixture of public and private control and a political structure in which parties of diverse ideological persuasion are free to flourish. This area — the mixed economy of the title of this book — encompasses diverse policy-outcomes, in terms of levels of state expenditures, levels of unemployment and inflation and decisions regarding the manifold responsibilities of the modern state, from the rate of expansion of domestic nuclear energy programmes to appropriate speed limits for motor vehicles (to use the examples provided by Steiner and Dorff, *supra*). However, by this prior stipulation of similarity, it is possible to ensure that gross economic and political differences will not swamp the more subtle variation which remains.

This is not to say that other potentially viable pitches cannot be delineated, and there would certainly appear to be great value in pursuing policy studies on a regional comparative basis (e.g. on Latin America, see Abranches, 1982). Nevertheless, given that a major objective of cross-national research is comparative hypothesis testing by reference to the widest possible samples within which significant structural regularities may be ex-

plained, the universe of advanced democratic states is clearly a highly appropriate focus for research on policy-outcomes. It is, moreover, one which becomes more intellectually fertile to the degree that we are able to focus on and disaggregate particular aspects of the public policy game as it is played in different arenas and at different times.

The tendency of contemporary policy analysis to seek to disaggregate the phenomena which generally comprise the activity of the modern state marks a major improvement in methodological sophistication and is simultaneously the basis for the much expanded role of such analysis as a branch of political studies. Where the earlier assumption of theoretical primacy and the subsequent battle of socio-economic and political paradigms made for an unwarrantable tendency to generalise from one policy context to another, greater theoretical diversity frequently combined with an interest in policy *per se* has led to the recognition that there is not a singular phenomenon of state activity to be explained, but rather a host of separate activities each requiring potentially separate explanation. As Richard Rose has concluded in summarising the findings of such disaggregated research:

(T)here is no single cause of changes in the scale of government programmes, just as there is no tendency for all programmes to change in the same direction or at the same tempo. Programmes differ fundamentally in their dynamics — contrast defence and income maintenance — and they differ too in the causes of change. No one type of influence, whether the colour of the party in office, the pattern of a country's economic growth, its constitution or its demographic structure, is sufficient to explain all the important changes that occur among the major programmes of the welfare state . . . To understand what it is that makes big government grow, we must understand what makes each major programme grow. (Rose, 1984:201)

Even if we disagree that programmes are the most appropriate basis for disaggregation and, instead, focus our box-camera on policy-mixes (like Keeman) or decision cases (like Steiner and Dorff), we are now necessarily committed to a much more detailed and finely textured account of policy determination than was until recently available. That becomes all the more true to the degree that we use the same logic and ask whether it makes sense to generalise about the nature of the policy process over time. There are no inherent reasons to suppose that the causes of policy remain invariable over time, and studies are beginning to appear which demonstrate clearly how false such an assumption is; for instance, Schmidt's analysis of *The Welfare State and the Economy in Periods of Economic Crisis* (1983) or, indeed, the majority of studies comprising this volume. The emergence of a more differentiated perspective in comparative public policy analysis is only quite recent, but, as we shall argue in the next section, it represents one of the most obviously fruitful ways forward in enhancing our understanding of the complexity of public policy determination in the modern state.

The methodological progress made in recent years is considerable, but serious problems remain. Some are are largely of our own making (we might

get better pictures if we were less amateurish in our photographic technique), but others stem from the very nature of the equipment we use to conduct research (i. e. cross-national aggregate data comparison as a means of hypothesis testing). Perhaps the most obvious defect which could be remedied, at least in part by better technique, is that of making finer discriminations between the independent variables to be utilised in the analysis. This is crucial because, unlike the earlier theoretical discussion, the analyses offered by social democratic theorists, neo-marxist protagonists of the class politics paradigm, pluralists and neo-corporatists are attempting in their causal attributions to distinguish between aspects of clearly interlinked phenomena. For instance, much of the contemporary debate between these schools of thought rests not on whether socialist parties influence processes of policy determination — they are wholly agreed that this is often the case — but rather whether that influence is a consequence of direct action by governments of the moderate Left to modify public policy, of the extra-parliamentary strength of class factions opposing the reward system of capitalism, of the Left's role as one pressure group amongst many or of the mode of integration and the arrangements through which the economic and political representatives of labour participate in the decision-making process. Hence, it is quite imperative that independent variables be operationalised in such a way that they not only serve as indicators of those aspects of the phenomena stipulated by theory, but do so simultaneously in a way which discriminates between the explanatory claims of rival theories. Moreover, if the process of hypothesis testing is to be cumulative, whether in respect of some ultimate evaluation of the diverse claims of theory or with a view to an accurate mapping of policy processes, it is important that there be some consistency in the operational definitions used as proxy indicators for each separate causal attribution.

Yet, although some writers are infinitely more sophisticated and self-conscious than others in utilising a range of independent variables with fully theorised implications (even with the same equipment, some people take better snapshots than others), the overwhelming impression of some ten years of research is of the variety and inconsistency of operational definitions. The Left has been variously described as consisting of Social Democratic parties (see Hewitt, 1977; Castles, 1978; Tufte, 1979), the "non-Communist Left" (Jackman, 1975), all parties of the Left (Dryzek, 1978; Schmidt, 1982), or aggregated into categories, the theoretical implications of which are still less clear, for instance the frequent juxtaposition of Centre-Left and Centre-Right governments (Alber, 1982). Some measure party strength in terms of votes won in elections (Fry and Winters, 1970; Peters, 1974; Castles, 1978), some in terms of seats won in the legislature (Jackman, 1975; Hewitt, 1977; Keman, *infra*), whilst others concentrate on the number of years parties have been in office (Hibbs, 1977; Tufte, 1979), or construct indices which attempt to take into account some or all of these factors (Schmidt, 1982). The lack of theoretical agreement and absence of operational consensus as to the empirical ref-

erents of corporatism/neo-corporatism has been decisively demonstrated in a number of critical exegeses (see Panitch, 1979; Jordan, 1983; Steiner and Dorff, *supra*) and, certainly, there seems to be a real danger of confusion when some definitions insist on the strength and integration of the trade union movement as an intrinsic aspect of the phenomenon (Stephens, 1979:123).

Others are capable of distinguishing *varieties* of corporatism as seemingly diverse as "liberal corporatism" (including *both* New Zealand and Sweden in the same category!), "private corporatism" (Japan) and "societal corporatism" (Switzerland) (see Schmidt, 1982:147). Given such diversity, inconsistency, and the very frequent failure to demonstrate whether alternative indicators are inferior or superior in explaining the observed variation, it is difficult to escape the conclusion that many supposedly complementary or conflicting studies are simply talking past each other. It is also difficult to consider the causal sequences adduced as being anything other than more or less convincing interpretations of a reality seen only in broad outline. Without some finer distinctions, we may be able to make out the players in the thick of the action, but never whose foot actually made contact with the ball.

But the problem here is not merely one of technique. A *modus operandi* which relies on comparative hypothesis testing on the basis of a sample, or rather of a wholly enumerated universe, of advanced capitalist states, creates certain intrinsic analytical difficulties. On the one hand, the 18–22 cases generally available for inspection do not always offer a sufficient basis to discriminate between alternative explanations, however adequately operationalised. The difficulty is partly one of the collinearity of variables; that, fortuitously or otherwise, certain clusters of attributes occur together, and the number of cases is insufficiently large to determine precisely their relative explanatory power. Irrespective of how well we operationalise such factors as socialist party strength, the degree of working class mobilisation or labour movement integration into the societal decision-making structure, we have every reason to suppose that in most cases these attributes of working class influence will hang together, and, thus, appear indistinguishable without some more sophisticated close-up lens.

The collinearity of other variables may appear less obvious — there is, for instance, a strong statistical association between the strength of the political Right and the degree of openness of the economy (Castles, 1981) — but, in a small universe of discourse, it is difficult to establish by current methods whether that is accidental or a reflection of underlying structural facets of the historical development of the political economy of advanced capitalist states. On the other hand, this situation is often exacerbated by our knowledge that even amongst the relatively small number of cases which enter into our comparative analyses, there are some which appear substantially atypical; for instance, Japan in respect of its rate of economic growth, Switzerland in respect of its constitutional structure and the USA in respect of the ideological

range of party politics. Worse still, the more detailed and comprehensive our knowledge of a given country is, the more crucial such differences appear to be, and the less commensurable the country seems. For instance, a cross-national aggregate data analysis of inequality (van Arnhem and Schotsman, 1982), suggests that Sweden has the most unequal distribution of pre-tax, pre-transfer, incomes of any of the advanced countries. To the country specialist, however, that fact might be substantially explained by the unusually high proportion of women in the labour force rather than by any of the generalised hypotheses usually adduced to explain income inequality.

The latter difficulty is, of course, the one which has always been the main stumbling block for comparative analysis of whatever degree of comprehensiveness. If countries, programmes, policies, decisions, etc., are unique, or at least invariably set in a particular context, how can they be compared? In reality, no satisfactory answer can be given by framing the issue in unsubtle either/or terms. The problem can only be resolved by a differentiation of levels of analysis and through the realisation that phenomena must be studied *both* from a comparative perspective and in their own right as individual cases (for an excellent example see Scharpf, 1984). Comparison can locate similarities and differences and, with greater or lesser precision, establish the more significant factors associated with such regularities. Historical and/or case study analysis can focus on the developmental sequences by which particular instances of such regularities come about. Most importantly, the two methods used in conjunction provide a logical framework through which we may cross-check the findings of each. Problems only really arise when we claim too much for either method, or worse still, make the findings of one inaccessible to checking by the other. If our claims for particular methodological tools are too sweeping, we simply jettison the possibility of obtaining both perspective (through cross-national or other types of comparison) and detail (through the study of individual or limited numbers of cases) in our pictures of public policy determination.

In its current aggressive phase of expansion, comparative public policy analysis has produced too many studies which have fallen into this trap and has compounded this by adopting analytical techniques quite inaccessible to cross-checking against findings derived from individual case analysis. If we seek to build our analyses on the sort of elaborate comparative statistical techniques which are generally premised on the existence of far greater samples than any we possess and in which individual cases disappear inevitably into a morass of mathematical manipulation from which they can never be recovered (quite literally so in the all too frequent studies which fail to report even the values of the dependent variables used in the analysis), we will never be able to translate from the abstraction of numbers and co-efficients to the concreteness of individual phenomena which ultimately it is our objective to explain.

It is, however, certainly possible that such studies represent a temporary efflorescence of comparative over-enthusiasm. This is especially true, given that my comments appear in the context of a volume which is so ready to move from broad cross-national comparison to detailed analysis of individual routes to policy outcomes and which devotes such attention to individual decision cases. Certainly, as I shall argue in the next section, such a willingness to move to and fro between individual and comparative levels of analysis is a prerequisite for several of the more promising strategies for the future development of research into the determinants of public policy outcomes.

Finally, we come to what I consider to be the most difficult methodological issue of all. How, given the photographic techniques at our disposal, do we spot the ball? How do we discern the significant contours of policy processes and their societal consequences? And how, if at all, can we compare them? The two fundamental problems involved have already been located in our introductory discussion of the linkage between social security expenditure and income inequality. On the one hand we are frequently forced to rely on indicators, of which the relevance to final outcomes is contingent and the implications for theory are often quite indeterminate. On the other, given outcomes may be brought about through a whole range of different policy instruments. Without any criticism intended, and, indeed, with much praise for a self-conscious analysis only too rarely found in the literature, let me illustrate these difficulties further by reference to the way in which Schmidt conceptualises the dependent variable in his analysis in this volume. In footnote 4, he points out that:

Rates of unemployment measure levels of open unemployment. Thus they do not fully take account of a number of other important aspects of labour market performance, such as the labour force participation rate, the level and the change in total employment, the proportion of the population of working age, the number of actual hours worked and the extent to which the number of discouraged workers biases unemployment figures (*Supra* p. 9).

To Schmidt's considerable credit, he does discuss many of these other aspects of labour market performance and, significantly, does so in a way which clearly demonstrates their differential impact in diverse countries. The point to be noted here is that each aspect mentioned is a facet of the inadequacy of rates of unemployment as an indicator of the strength or weakness of labour market performance. If the ultimate objective of the analysis were to assess that performance in overall terms, one might well have to, as Schmidt frankly admits, modify quite considerably conclusions derived from unemployment rates alone.

Moreover, open unemployment is not necessarily of greater theoretical relevance than these other aspects of labour market performance. Reserve armies of the unemployed need not today consist only of lines of men patiently queuing for the dole. They can also be formed by raising the school leaving age, introducing job retraining schemes, and by the retreat of women from

the workforce. An exclusive focus on rates of registered unemployment would undoubtedly lead to highly misleading conclusions concerning differential rates of labour utilisation in mixed economies. Schmidt, of course, recognises all this and, besides pinpointing diverse roads to full employment and to mass unemployment, he demonstrates admirably the variety of mechanisms through which labour supply can be controlled within the context of a capitalist economy. Obviously, this does not mean that nations do not vary in the importance they attach to maintaining overall levels of labour utilisation, any more than our previous point concerning the indeterminacy of the link between social security spending and equality of income distribution means that there is no cross-national variance in welfare outcomes. It does, however, certainly suggest that we need to be more aware of the variety of means by which outcomes may be achieved than is much of current research. That awareness should only be heightened when we consider the obvious point that the means chosen to bring about a given policy outcome in a particular area may influence others, as reducing open unemployment by increasing the school leaving age affects educational outcomes, or the retrenchment of women workers in time of recession may deleteriously influence the achievement of policies aimed at greater sexual equality.

One way out of some, but by no means all, of these difficulties involves a conscious attempt to fashion new indicators which are both more closely linked to societal outcomes and more directly theoretically relevant. In the welfare field, for example, Catherine Jones has recently suggested that, in addition to the conventionally utilised measures of aggregate social spending, we should try to develop indicators more capable of differentiating the nature of the social policy goals underlying such spending (Jones, 1985). Certainly, if this were possible, it would undoubtedly help enormously in discriminating the circumstances under which welfare expenditure contributed or failed to contribute to the achievement of great income equality. Differentiation of this kind is definitely the appropriate response in research areas in which crude output measures masquerade as indicators of final outcomes. However such an approach is of little assistance when our foremost problem is the diversity of means by which policy goals may be attained. When this is the case, it is necessary, as will be argued in the next section, to turn from cross-national analysis as a mode of testing hypotheses concerning the broad structural similarities and differences of particular groups of nations and use it instead as an instrument for locating the contextual diversity between patterns of policy evolution in specific nations.

Getting a Better Close-up

But let us be aware of a misunderstanding from which the comparative method has only too frequently suffered. Too often people have believed or affected to believe that its only aim is to search for similarities . . . On the contrary, the comparative method, rightly conceived, should involve specially lively interest in the perception of differences, whether original or resulting from divergent developments from the same starting point. Marc Bloch

The virtue of the camera is not the power it has to transform the photographer into an artist, but the impulse it gives him to keep on looking. Brooks Anderson

Given the theoretical and methodological problems which remain despite a decade of considerable expansion and progress in comparative public policy analysis, it is necessary to ask whether there exist further means of obtaining a more close-up definition to our picture of public policy outcomes and their causes. An initial step is to ask what precisely is the status of the knowledge we already possess. On the one hand, as has been argued in the first main section above, there is a set of theoretically derived propositions or hypotheses, which still derive something from the theoretical primacy assumption and are usually conceived of as answers to the question: what is *the* main cause of similarity or diversity in public policy outcomes? They might, however, more profitably be considered as the currently available sub-components of the question: to what extent do these factors, together or separately, provide some purchase on the nature of public policy variance? This latter question is, implicitly or explicitly, the one which has informed most of the more sophisticated studies in comparative public policy analysis in recent years, and its value as a guide to research is clearly displayed throughout this volume. On the other hand, there are the findings of the many individual studies of public policy outputs or outcomes, which are generally regarded as affirmations or refutations of particular hypotheses derived from theory. They assert that, for a given group of countries in a given policy area at a given time, there is some *prima facie* evidence of a degree of association between stipulated policy indicators and one or more other variables. The problem I now wish to consider is how we might proceed to build on this admittedly modest base in order to obtain some greater resolution of those parts of the picture which remain blurred, and which prevent us from fully comprehending where and what the action is in our snapshots of reality.

The concluding pages of a long volume reporting complex substantive research findings is scarcely the place for a detailed research agenda for future studies, and all that I intend to offer here is a brief sketch of three possible strategies by which a better close-up of some aspects of the policy process might be sought. The only common thread which links the strategies is that, rather than concentrating on the explanation of broad structural similarities which characterise groups of nations, they encourage a focus on the diversity of policy determination processes, whether in particular arenas or particular

nations. The comparative method is, of course, both a mode of exploration and a means of explanation. It is, however, my contention that the development of comparative public policy analysis has hitherto tended to emphasise the latter function of comparison at the expense of the former, forgetting that, in relatively uncharted territory, exploration is logically and empirically prior to explanation. Finally, I should like to stress that, although the three strategies to be outlined are quite different in many respects, and address themselves to particular methodological impasses in the literature, they are presented here as complementary rather than mutually exclusive approaches to the study of public policy. It is my view that all three might be fruitfully employed in respect of different analytical problems. Indeed, I would further argue that to use more than one of them simultaneously might very frequently be exactly the trick for getting the best out of our photography. Looking at the same phenomenon from many diverse perspectives is often the only way to discover what is really going on.

The first strategy — that of locating *patterned variation* in the determination of policy-outcomes — can be characterised by saying that we should simultaneously claim less for our studies of comparative policy-outcomes and do more of them. It is the obvious next step once we embrace the more differentiated perspective which I have suggested is emerging in recent comparative studies. The process of differentiation is valuable precisely because it allows the re-combination of now distinct elements into patterns which are more meaningful than the blurred original. In terms of our analogy, we are more likely to get a clear picture of the whole by meticulously piecing together many close-up and, preferably, time-lapsed shots of parts of the pitch than we should from a single picture taken at a distance or by a process of deduction from a snapshot of a particular slice of the action. The adoption of such a strategy was the foremost plank of the research agenda of the ECPR research project on "Party Differences and Public Policy Outcomes", the first findings of which were reported in *The Impact of Parties* under my editorship (Castles, 1982). There, as in the present chapter, it was argued that it is illegitimate to generalise beyond the bounds set by the particular manifestation of policy at a particular time. All that could be said for a particular isolated finding is that it might be suggestive of a causal relationship if, and only if, it is supported by the results of further studies conducted in other policy areas or in the same policy area at other periods. In other words, for research to be worthwhile it must be cumulative.

The more studies that are undertaken, the more it may prove possible to establish either substantive, temporal or conjunctural patterns of policy determination valid for all capitalist democratic states. A *substantive* pattern would be one where for a given area of policy the relationship of variables was more or less invariant over time. A *temporal* pattern would be one where the degree of association between policy outcomes in a given area and a range of assumed independent variables could be replicated for other policy areas in the

same period. Finally, a *conjunctural* pattern might be established by studies demonstrating that one or more policy areas were ruled by different sets of causal interrelationships, depending on the occurrence of diverse configurations of historical conditions. Obviously, the location of both substantive and conjunctural patterns necessitates that we bring a notion of time into our analysis, and, certainly, only by bringing together cross-sectional and time-series data will we ever be able to surmount the problem previously noted, but not discussed, of obtaining some perspective of the manner in which play builds-up in the public policy game. It is my impression, and one strongly reinforced by the studies which appear in this volume, that so far very little evidence of substantive patterns has been offered (which itself argues very decisively against most variants of the theoretical primacy assumption). However, it seems that there is rather more support for the assertion of at least partial temporal patterns (i. e. that cognate policy areas may respond to the same stimuli in particular periods) and, in particular, for conjunctural patterns, which suggest that the interaction of policy and political variables may be conditioned by contextual factors, such as the extent of economic growth, the degree of external vulnerability or the perception of economic crisis.

A second strategy — foreshadowed, although hardly explored in any detail, in *The Impact of Parties* — may be described as the *critical case method*. In contrast to the location of patterned variation, the objective here is not the gradual accretion of piecemeal information, but rather the identification of cases critical for theory construction and/or hypothesis testing. Critical case analysis becomes a viable research option when historical circumstances throw up cases which either appear anomalous in terms of our received knowledge or where circumstances produce what amounts to a quasi-experimental situation in which contending hypotheses may be assessed. Both can be seen as instances in which comparison as exploration assumes the predominant role, with generalisation from a given universe of discourse subordinate to efforts to test those findings by further analysis of specific instances. A detailed close-up on anomalous cases is merely an extension of the excellent practice in more sophisticated applied social research of focusing particular attention on the explanation of residuals and outliers. That is, of course, precisely the technique by which Schmidt identifies the countries which figure most prominently in his analysis of successful labour market policy; they are those which have “*too much* full employment *relative* to the strength of the pressure generated by structural-economic characteristics of these nations.” (Schmidt, *supra*, my emphasis).

Quasi-experimental situations occur when circumstances produce a case in which it appears manifestly obvious that for an hypothesis to be acceptable certain determinate events must take place. For instance, one might well assume that if the social democratic model is an adequate account to the thrust towards welfare state expansion, the fall of the Swedish Social Democratic government in 1976, after some 44 years in office, should have led to some

major changes in social policy stance. Similarly, if an hypothesis I first advanced in 1978 is correct, that a strong and united party of the Right serves as an impediment to welfare spending (Castles, 1978), the fall of the Australian Liberal-Country Party coalition in 1972, after 23 years in office, should have led to marked increases in social expenditures. Any major anomaly or reasonably dramatic change in a variable which is supposedly relevant to policy should provide a natural focus for comparative investigation. This may, like the controlled experimentation of the natural sciences, serve to falsify our hypotheses and theories, frequently rather more effectively than through the statistical manipulation of cross-national data. Or, it may at least compel us to realise that they are far more simplistic than is warranted by the available evidence.

Critical case analysis is not merely a useful additional methodological tool for discriminating the impact of the independent variables which figure in comparative policy analysis, but may also be useful in providing a means for obtaining a degree of discrimination which would be impossible using conventional statistical methods. It was argued above that one of the more ineluctable difficulties confronting researchers in comparative public policy analysis was the collinearity of variables in an inherently restricted universe of discourse. That problem may, at least to some extent, be overcome where we are able to locate and investigate particular instances where clusters of attributes normally encountered do not hang together in the usual way. To give a non-policy related example, it is extremely difficult to distinguish between the impact on party discipline of parliamentarianism as a general phenomenon and of the more specific consequences which flow from the power of parliamentary dissolution. However, that difficulty might be obviated by a critical case analysis of Norwegian parliamentarianism, since Norway has the one parliamentary system in which dissolution is constitutionally precluded.

In my own recent work (Castles, 1985) I have attempted to use such a strategy to discriminate between the impact of the partisan control of government and extra-parliamentary class politics on the development of the welfare state by focusing on social policy evolution in Australia and New Zealand. I argue that these countries should constitute critical test-cases for the main hypotheses derived from the social democratic model and the class politics paradigm. This is the case because both countries have been characterised for much of this century by an anomalous configuration in which the normally used indicators of working-class political strength, in particular trade union membership and Labour voting, are at the top of the distribution for the advanced democratic states (e.g. the average vote for the Australian Labor Party this century is higher than for any other democratic socialist party in the world), whilst both countries have only rarely had Labour governments in office. Where, in most other Western states the collinearity of measures of working-class strength and partisan control is very high, we cannot readily distinguish their separate impact; in Australia and New Zealand such a task

should be rather less difficult. According to the social democratic model, premised as it is on the ability to control the state apparatus, the outcome of this configuration should have been a weak expansion of the welfare state, whereas the strength of the working class as a whole might lead adherents of the class politics paradigm to an opposite prediction. At least, from about 1930 onwards, I would suggest that the social democratic model has the best of this argument, although I would not wish to claim too much for the critical case method on the basis of this particular example alone, since my historical and comparative study of these two countries reveals a complexity of social policy development unamenable to explanation in terms of any single hypothesis. Nevertheless, I would argue that we have much to gain, and absolutely nothing to lose, by focusing on such cases, since even the revelation of complexity where our hypotheses tell us to expect straightforward answers should provide an incentive for a reassessment of current knowledge.

The third strategy I would advocate is premised on the need for a much more conscious appreciation on the part of public policy researchers that policy objectives cannot always be readily measured by quantitative indicators which apply to the limited universe of discourse constituted by the advanced democratic states. As we have emphasised at several points in this discussion, the real substance of the difference in policy outcomes between countries is often less a question of providing more or less, but rather of achieving sometimes rather similar objectives by wholly dissimilar means. An interesting example which is frequently adduced in the social policy literature is the provision of welfare benefits by private enterprises in Japan, which not only raises a whole series of issues about the extent to which public and private mechanisms can substitute for each other within the context of economies which are identified precisely by their "mixed" character (Heidenheimer *et al.* 1983:12), but also provides one clue towards the resolution of the paradox mentioned in the introduction: that Japan, amongst the lowest social security spenders, has one of the most equal of income distributions in the Western world.

Another example from my recent research, and also with important implications for the Australian example of that paradox, concerns the use of judicial mechanisms to regulate wages in such a way as to produce social policy goals. On the surface, the low levels of social expenditure in post-war Australia and New Zealand appear to be more consonant with a social democratic than a class politics hypothesis, but that view may require reassessment in the light of the compulsory arbitration systems that have distinguished both countries for much of this century. The objective of arbitration was, in the words of the Australian Harvester Judgement of 1907, to set a level of wages which was "fair and reasonable", with that phrase being interpreted in terms of "the normal needs of the average employee, regarded as a human being living in a civilized community" (Clark, 1981:286). The social policy implications of such a formulation of the objectives of the wage fixation system are quite apparent when we contrast it with T. H. Marshall's elaboration of the

social rights of citizenship crystallised from the substance of the British Beveridge reforms of some 35 years later. These rights are postulated as consisting of "the whole range from the right to a modicum of economic welfare and security to the right to share to the full the life of a civilized being according to the standards prevailing in the society" (Marshall, 1963:74). It is at least arguable that compulsory arbitration succeeded in providing social rights of citizenship to a considerable, and politically decisive, section of the population — i. e. male wage-earners — in Australia and New Zealand at a date much earlier than in the vast majority of advanced democratic states. Moreover, to the extent that this was so, it is the less surprising to find in Australia low social security spending in conjunction with comparatively low income differentials, since the chosen mechanism of redistribution was, unlike in the European nations, not the enhancement of the social wage by reformist governments, but the control of wages through judicial action.

A strategy which is based on an appreciation of the diversity of policy instruments by which similar objectives may be realised might be labelled a *contextual* or even, simply, a historical approach. Only when we seek to obtain a closer focus on the detailed historical evolution of particular policies in particular countries can we gain a better understanding of the complex interaction of the multiple variables which jointly influence policy development. A historical approach is useful for at least two reasons. Firstly, because it encourages us to seek out when and why policy systems and outcomes begin to diverge. Thus, for instance, the development of the Australasian wage regulation systems and their impact on the development of social policy can only be understood in terms of the defensive attitudes of the strong working-class movement at the turn of the century. Because of high wage levels, (at the time these countries were in *per capita* terms the richest in the world, with probably the most egalitarian distribution of incomes of any advanced states — so a number of hypotheses of a socio-economic kind return to the policy equation as part of its contextual back-drop), the working class had a great deal more to lose than its chains. Secondly, a historical approach is important because it allows us to bring back into the policy outcomes arena a whole area of causation which is systematically ignored in much of the current, theoretically-inspired literature of comparative public policy studies; namely, the complex and evolving interaction of political actors — whether governments, parties, classes, groups or individuals — whose capacity to influence public policy development is conditioned, but by no means wholly determined, by their own understanding of the historical constraints within which they operate.

To argue for the adoption of new techniques by which we may obtain a better close-up of processes of public policy determination is not to reject the contribution made by the last decade's progress in the elaboration of theory or the sophistication of hypothesis-testing. My point is simply that such techniques are required if we are to surmount the methodological hurdles of

which the progress in comparative public policy analysis has made us increasingly aware. Still less should my emphasis on divergence and historical development in particular countries be taken as a covert attempt to bury the comparative method as a tool of inquiry. Uniqueness — whether of roads to full employment, paths to social policy development or, indeed, any other aspect of public policy — is not the antithesis of comparison in the way which is sometimes thought. It is not the case logically, for the idiographic methods of historians necessarily involve implicit or explicit comparison of the manner in which individuals, groups or classes act under particular circumstances. It is also not the case in practice, for the location of uniqueness is only made possible by reference to other experience. Indeed, to the extent that our ultimate focus remains upon the explanation of divergence once located, such an approach constitutes a prior step in the development of an infinitely more differentiated picture of the interaction of variables determining the range of policy outcomes in the modern state. It is, in other words, a necessary prologue to what could well be the next significant step in the progress of public policy analysis, the emergence of a *comparative history* of public policy development.

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