Strategic Partisan Policy-Seekers

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Abstract

This dissertation begins from a desire to explain situations in which left-wing parties appear to adopt policies that are more typically associated with right-wing thinking. A standard explanation for such behaviour is that relatively weak left-wing parties are drawn to adopt those policies as a way of getting elected — commonly expressed as convergence on the median voter. The puzzle, however, is that this explanation often seems to fall foul of the empirical reality that left-wing parties adopt these policies when they are relatively strong, not weak. The explanation for this advanced here is that parties, seeking to improve outcomes for their constituencies both now and in the future, often operate in political environments which lead them to assign a high probability that today’s policy choices will not survive the predations of government by opposing parties tomorrow. Where this is the case, there is incentive to pursue policies that are less efficient, but which have in-built political defence mechanisms: with the main such mechanism focused upon here being the power of organised public sector labour. The effect of partisanship is, therefore, conditioned by expectations about the future political power of parties. Where left-wing parties expect to be weak, they will tend to adopt the highly statist, bureaucratised, nationalised policies that are traditionally associated with the Left as these will tend to embody large amounts of organised labour that will be a counter to future right-wing governments. Where left-wing parties expect to be strong, the costs associated with such policies come to outweigh the benefits, with the result that they do not need to pursue such ‘left-wing’ policies. These ideas are developed theoretically
within an institutionalist framework, yielding a synthesis between the historical and rational choice institutionalisms. Empirically, the theoretical framework is applied to the development of welfare states and to the issue of privatisation of state-owned enterprises.
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Of course, none of the people or institutions mentioned above should be implicated in any short-comings that remain in this dissertation. Whatever those short-comings, I hope that there are ideas expressed in what follows that my mum, Josie Hicks, might have approved of.
Part I

Introduction & General

Theoretical Framework
Chapter 1

Introduction: Policy Choice
Through Time

This dissertation stems from a desire to provide a more nuanced understanding of the ways in which left-wing parties choose policies when they are in government. The initial motivating puzzles revolved around instances in which left-wing parties apparently acted in ways that were at odds with the prevailing understanding of their ideological orientations — at least to this Anglo Saxon. Examples include the way in which the Swedish Social Democrats adopted a system of national health care after the Second World War that displayed a remarkable degree of user charges as compared to the system built by the British Labour Party at the same time. More recently, those same Social Democrats have embraced ‘school choice’ in the form of ‘quasi-vouchers’ as an effective method of improving the national education system — a lesson drawn directly from Adam Smith and Milton Friedman.

In a comparative context, it became clear that traditional partisanship arguments along the lines of ‘left-wing government leads to greater spending on policy X’ were insufficient for explaining the patterns of policies that we see across the ‘developed’ world. From this insight, the challenge became how to augment the standard view of partisanship in a way that provided greater theoretical understanding of the decisions
CHAPTER 1. INTRODUCTION: POLICY CHOICE THROUGH TIME

made by different parties across countries. The missing piece of the partisanship jigsaw highlighted in this dissertation relates to the idea that policy-seeking parties will act strategically, with a view to the future, in pursuit of their preferred outcomes. While this claim has been made before, there have been few attempts to leverage the insight into theoretical claims in substantive policy areas. It is in this sphere that this dissertation makes its main contributions.

Before going into much greater detail, it may be helpful to clarify some of the most basic definitions and assumptions that underly the entirety of this dissertation. As will become apparent, my main empirical focus throughout is on ‘left-wing’ parties. This is the case because I consider that, as compared to ‘right-wing’ parties, theirs is the more interesting position. The problem for left-wing parties, as I see it, is how to successfully install policies that redistribute from the relatively rich (right-wing constituency) to the relatively poor (left-wing constituency). In a sense, the difficulty that must be overcome is how to force changes to what are perceived as the inequalitarian economic outcomes that constitute the status quo. My conception of parties — especially left-wing parties — as serving the interests of core constituencies follows a venerable scholarly tradition. The literature is far too voluminous to do justice to it here, but a range of notable works across both political science and economics have built from this same premise (e.g. Hibbs, 1977; Castles, 1978; Korpi, 1983; Esping-Andersen, 1985; Alesina, 1988; Persson and Svensson, 1989; Boix, 1998; Garrett, 1998; Iversen and Soskice, 2006a; Rueda, 2007). What all of these contributions share, including my own, is a dissatisfaction with the conclusion, associated with Downs (1957a),\(^1\) that parties essentially make no difference because they are merely self-interested office-seekers that converge on the median voter. Instead, parties are held to have preferences of their own over outcomes and, by extension, policies. These are derived from the interests of the groups that they represent.

\(^1\)Notably, while Downs is the canonical citation for median voter convergence, he actually provided arguments for why party divergence should exist: including the informational value of maintaining a distinct ideological ‘brands’ and the implications of voter abstention at the tails of the distribution.
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As a definitional matter, I will use the terms ‘the Left’ and ‘the Right’ to refer to these wider agglomerations of party and groups. Thus, the Left is typically held to be constituted of one or more left-wing parties, the relatively poor sections of society, ‘downscale workers’, and their trade union representatives. The Right, on the other hand, is typically held to be composed of right-wing parties, the relatively rich sections of society, ‘upscale workers’, capitalists, and their business associations. While, perhaps, somewhat crude, such a dichotomy provides a useful building block for models of politics in the ‘developed’ world.

To the assumption that political parties are more than just vassals of the median voter, I add a second, more contentious assumption. I assume that politicians do not just care about outcomes ‘today’, but ‘tomorrow’, as well. In fact, this second assumption flows directly from the first; for if parties have substantive interests that they are seeking to advance, why would they not seek to advance them into the future? Still, this position remains far from common in the literature. My reasons for taking this position are both theoretical and empirical. Theoretically, I say again that it seems extremely difficult to adopt an assumption of parties with preferences over outcomes without assuming that they will seek to pursue their goals into the future. Empirically, it is easy to find examples of policy choices with long-term consequences that are understood as such by politicians. The large investments that are made in areas such as national defence and energy policy come to mind. Specific works in political science are also noteworthy here. For example, the theory and evidence presented by Hallerberg (2002) regarding decisions over central bank independence and foreign exchange policy are difficult to interpret in any way other than as maximising a stream of policy payoffs into the future. In a more explicitly redistributive policy realm, the fact that the Thatcher government in the UK adjusted the index-linking of state pensions from being wage-based to being inflation-based was a policy with a decades-long lead-time to fruition (c.f. Pierson, 1994). In the same sphere, Jacobs (2008) has shown how interest groups
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have shaped pension policy in the UK and the USA in ways that only make sense when viewed through the lens of long-term goals.

Taking parties to be policy-seekers that maximise the interests of their constituents through time is not the innocuous assumption that it may appear to be. At first glance, it may seem that the assumption is of little theoretical significance — merely a footnote to the standard partisanship literature that has developed over several decades.\(^2\) But such a first impression would be wrong. The maximisation of policy payoffs through time has profound political implications because parties tend both to have opposing interests and to alternate in power. In this environment, ensuring that the policy choices (and their associated payoffs) that are made today survive under future governments becomes of key importance. A large part of my argument in the rest of this dissertation revolves around the idea that there are costly ways of ‘insulating’ policies from future reversal, and that it is possible to explain when parties will pay these costs. At root, these explanations emphasise that parties act strategically in formulating the policies to further their goals.

This focus on strategic policy-making has an implication for the kind of arguments that I make and further distinguishes my contributions here from the partisan literature that precedes them. As I show in Chapter 2, the most typical argument that the effect of partisanship is conditional on some other variable has a coalitional flavour to it — left-wing parties do X when their constituency includes group Y, but not otherwise. There are numerous variations to this theme, but they all share the characteristic that left-wing party preferences change because the preferences of their constituencies change. By contrast with this approach, my line of argument lays emphasis upon elite-level opinion. The kind of strategic policy formulation needed in order to maximise policy payoffs through time require high levels of information and cognitive ability — as such, it seems implausible to expect that the electorate at large will be relevant to this process. As a long literature has argued, information costs and the likelihood of an individual voter being electorally ‘pivotal’

\(^2\)See Chapter 2 for a review of this literature.
make it rational to remain politically ignorant (Downs, 1957b; Popkin, 1995; Lupia and McCubbins, 1998; Alvarez, 1999; Martinelli, 2006; Larcinese, 2009). Elites, on the other hand, are in an excellent position to act strategically as they possess the information, cognitive ability, and, I argue, discretion to make policy in this way.

In this introductory chapter, I begin with a discussion of the theoretical issues associated with ‘time’ and ‘concern for the future’ as they relate to public policy. It is notable that much of the theory covered has arisen from the political economy literature generated by economists rather than political scientists. Indeed, this fact in itself illustrates that political scientists have been slow to acknowledge these kinds of issues. In Section 1.1, I provide a brief survey of the macroeconomics literature as it relates to strategic considerations of time. I then move on to outline a nascent political science literature that has adopted similar principles in Section 1.2. From there, in Section 1.3, I move to a discussion of how these theoretical insights can be applied to models of partisan politics. In doing so, the ease with which legislation can be passed and future electoral prospects are highlighted as being of critical importance in determining the strategic policy decisions of policy-seeking parties. As both are of crucial importance, I discuss their influence and some of their sources in some detail. Finally, I conclude with a brief outline of the main empirical components of the dissertation.

1.1 The Macroeconomics Literature

A notable aspect of nearly all of the partisanship literature is that it takes no theoretical account of time in the formation of policy preferences for the relevant parties/actors. In light of the emergence of sequential, game theoretic models in the social sciences, this is rather puzzling. Solution concepts like ‘subgame perfect equilibrium’ emphasise the forward-looking strategic calculations of players seeking to

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3For both of these sections, I draw, on early surveys by Persson (1988) and Alesina and Tabellini (1988) which cover issues surrounding credibility in macroeconomic policy and politics, on Alt’s State of the Discipline chapter (Alt, 2002), and also on the attempt by Iversen and Soskice (2006b) to embed “new macroeconomics” into political science.
maximise their payoffs, but even the ‘context-sensitive’ strands of the literature pay little attention to these sorts of considerations.\footnote{See Section 2.5.} Indeed, the absence of strategic time considerations in the partisanship literature is all the more puzzling given its prominence in much of the broader political economy literature.

Economists, particularly macroeconomists, were much quicker than political scientists to see the importance of time in terms of rational calculations of actors and the resulting commitment and inconsistency problems — which I elaborate below.\footnote{To be clear, numerous political scientists have considered issues to do with time in their explanations of events. However, I argue in Chapter 3, that these scholars have tended to neglect the importance of the strategic implications that stem from the assumption of rational actors.} This may reflect the overwhelming dominance of the rational actor model in their branch of social science. After the rational expectations revolution (e.g. Muth, 1961; Friedman, 1968; Lucas, 1976), the construction of theoretical models invoked forward-looking actors making strategic calculations in a way that had been largely absent under the more backward-looking adaptive expectations that went before. In any case, macroeconomics is an obvious source to turn to in search of theoretical innovation for the more political end of political economy. Both sub-disciplines concern themselves with the policy decisions of governments; the macro. To a large extent, the theoretical position advanced here amounts to the application of ideas common in macroeconomics to an alternative set of political actors.

The macroeconomics literature can be usefully split into that relating to monetary policy and that relating to fiscal policy. The former was the first to consider the theoretical implications of policy choice through time, so I begin the discussion there. However, scholars soon moved on to how fiscal policy decisions may be affected, as well. In what follows, I take each in turn.

1.1.1 Monetary Policy

Kydland and Prescott (1977) provide an early, and extremely influential, example of consideration of time in the economics literature. They use the idea that,
CURRENT decisions of economic agents depend in part on their expectations of future policy actions. (Kydland and Prescott, 1977, 474)

From this premise, they go on to claim that discretionary economic policy is necessarily sub-optimal. At the core of their theory is the idea of the difficulty of making credible commitments regarding future actions. They note that,

the suboptimality arises because there is no mechanism to induce future policymakers to take into consideration the effect of their policy, via the expectations mechanism, upon current decisions of agents. (Kydland and Prescott, 1977, 481)

This idea of credible commitments turns out to be key. Discretion for policy-makers means that they can adjust the policy in future periods; but rational agents in the economy will foresee this and, therefore, adjust their behaviour in the current period.

Perhaps the canonical example of this kind of logic is provided by Barro and Gordon (1983). Adopting a model of the so-called ‘Phillips Curve’ in which unemployment was held to be decreasing in the difference between actual inflation and expected inflation, they show that the introduction of rational expectations amongst economic agents results in inflation that is systematically higher than it need be, and with no benefit in terms of unemployment. The problem arises because policymakers, seeking to reduce unemployment, have the incentive to generate inflation ‘surprises’ so as to increase the difference between actual and expected inflation. However, rational agents in the economy will foresee that incentive and adjust their expectations accordingly. Still, the policy-maker has an incentive to generate an even higher inflation surprise, and still agents adjust. This iterative procedure continues until the costs of increased inflation outweigh any benefit from the ‘surprise’, with the result that the economy finds an equilibrium at a high level of inflation and unemployment no lower than it would otherwise have been as there is no deviation between actual and expected inflation.
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To escape this vicious cycle in which inflation spirals out of control, both Kydland and Prescott (1977) and Barro and Gordon (1983) propose that policy-makers commit to rule-based policy-making, thus foregoing the policy discretion that is at the root of the problem. However, the credibility of the commitment to the rule then becomes key. Following this line of thought, Rogoff (1985) suggests a solution is the appointment of a particularly inflation-averse central banker.\(^6\) However, it is achieved, though, the commitment to the ex ante optimal policy must be credible as the essence of the model is that there are strong incentives to deviate ex post.

1.1.2 Fiscal Policy

Glazer (1989) provides further theoretical insight into policy-making through time in an abstract model; but one that is particularly relevant to fiscal policy. To do so, he distinguishes between two effects. The first, which he terms the “commitment effect”, captures the idea that “the only way a person can affect next year’s outcome is to limit the future choice set” by implementing “durable” policies today. In essence, this is akin to the (credible) rule-based monetary policy discussed above. The second, which he terms the “efficiency effect”, is based on the idea that where a future policy-maker is likely to implement an expensive policy that a current taxpayer/voter will have to pay for, the marginal cost of implementing this policy now may be rather small. That is, where the policy is durable, a voter may opt to implement a policy today that is not in their material interests because doing so secures what payoffs there are for an extra period. The thrust of Glazer’s argument is “that rational voters will show a consistent bias in favor of building durable projects that they would oppose were the decision theirs alone to make” (Glazer, 1989, 1207).

In essence, his theory thus suggests a convergence of policy preferences across actors who otherwise disagree over underlying goals.

At the more specific level, there is a notable literature on the strategic use of public debt which has two major theoretical sources. Persson and Svensson (1989)\(^6\)As opposed to unemployment-averse.
propose a model in which a ‘conservative’ governing party with preferences for a small size of government (SoG) expects to be replaced by a government preferring a larger SoG. In their model, under certain conditions, the conservative government will choose to over-borrow — in the sense of its time-neutral partisan preference for borrowing — as a means to constrain the spending actions of the incoming government. By contrast, Alesina and Tabellini (1990) propose a model in which parties disagree over the composition of spending, rather than its aggregate level. In this case, a governing party, whatever its ideological character, may over-borrow to spend on its preferred policies in the knowledge that the repayments on the debt will fall on the general tax base at a later date, when they are not in power.

Empirically, the evidence in support of these theories is weak, however. Grilli, Masicandaro and Tabellini (1991) find little evidence to support either theory in data from a panel of OECD countries over the period 1950-1990. Franzese (2002b, Chapter 3) also finds negative results for a similar data set. However, analysing within-country data for Swedish local government finances — and thus removing any unmodelled cross country heterogeneity that exists in the other studies — Pettersson-Lidbom (2001) provides results that support the strategic use of debt hypothesis. More exactly, his empirical model allows him to test the two competing theories, with the results lending support to the SoG version proposed by Persson and Svensson (1989).

1.2 The Nascent Political Science Literature

It is this latter type of problem that would appear to be most relevant to the political sphere and, indeed, this is the prevalent issue in the nascent political science literature in this area.

As the discussion of economic theory surrounding the strategic use of public debt makes clear, the distinction between ‘economics’ and ‘political science’ was already rather blurred before scholars who would describe themselves as ‘political
scientists’ began to pick up on the implications of modelling policy-making through time. Both the Persson and Svensson (1989) and the Alesina and Tabellini (1990) models explicitly postulate rational political actors with policy preferences and facing electoral uncertainty. Nonetheless, it was economists who continued to forge ahead with explicitly political analyses in this realm during the 1990s.

For example, Milesi-Ferretti (1995) provided a theory which, even in the presence of a possible credible commitment mechanism, predicts policy divergence between parties with different underlying preferences. In this model, the very act of “tying [ones] hands” by credibly committing to a particular policy is seen, potentially, to have negative electoral consequences. Research has shown that different parties are trusted more by the electorate on different issues. For example, Warwick (1992) found that left-wing parties are trusted more on unemployment, while right-wing parties are trusted more on inflation. This finding remains even when each party presides over poor economic conditions in their ‘speciality’. Paradoxically, in this situation, a party with a comparative electoral advantage in, say, inflation has an interest in maintaining poor performance in this area as this should increase their chances of reelection. On the other hand, an inflation-reducing policy that is irreversible by ensuing governments is potentially very attractive to the party with a comparative disadvantage in inflation as this holds the promise of taking inflation off the political agenda, leaving only unemployment — the policy in which they hold an advantage — as the salient issue. Such a logic might be applied to the granting of independence for the Bank of England by the new Labour government in the UK in 1997.

At a broader theoretical level, Besley and Coate (1998) elaborated the notion of “political failure” — which they meant as an analog to “market failure”. To do so, they identified three causes of this failure, where “[e]ach stems from the problem that when a society makes policy decisions via representative democracy it can-

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7A strategy of this sort is akin to Rikerian heresthetics (Riker, 1986), albeit operating through direct policy salience rather than mere rhetorical strategy.
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not commit to future policy outcomes” (Besley and Coate, 1998, 140). The first is based on non-payment of future compensation that ensures a Pareto improvement. So, where policy agreement is needed today and the compensation not until tomorrow, the agreement will be contingent on the likelihood of the compensation being forthcoming. The second cause relates to cases where a policy change today will “change the identity of future policy makers in a way disadvantageous to the current incumbent” (Besley and Coate, 1998, 140 — emphasis in original), and could occur through changing the underlying distribution of preferences in the electorate — say, via some form of income or wealth redistribution. The third cause is where actions today limit those tomorrow.

While the economics literature continued to burgeon, some early work in political science had planted a similar, if slower-growing, seed. Moe (1990) described what he termed “political uncertainty” as arising when decision-makers today have reason to believe that decision-makers in the future may hold different policy preferences.8 The fundamental idea being that,

Whatever today’s authorities create [...] stands to be subverted or perhaps completely destroyed — quite legally and without any compensation whatever — by tomorrow’s authorities. (Moe, 1990, 227)

One candidate solution for overcoming this problem of “political uncertainty” revolves around the actual design of public policies. Moe (1990, 227–228) termed this the “politics of structural choice”, in which policy-makers attempt to “fashion structures to insulate their favored agencies and programs from the future exercise of public authority”. Moe’s primary means of fashioning such structures is in the specificity of the bureaucratic rules governing a policy choice. He argues that,

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8While Moe (1990) has been more highly cited, the same logic was expressed about a year prior by Horn and Shepsle (1989). Responding to the discussion by McCubbins, Noll and Weingast (1989) of “bureaucratic drift”, they wrote about the problem of “legislative drift”, which refers to the same idea underlying Moe’s “political uncertainty”. This, they argue, is “a potentially far more serious problem” than that of “bureaucratic drift”.  

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The most direct way is for today’s authorities to specify, in excruciating detail, precisely what the agency is to do and how it is to do it, leaving as little as possible to the discretionary judgment of bureaucrats — and thus as little as possible for future authorities to exercise control over, short of passing new legislation (see below). (Moe, 1990, 228)

But this line of reasoning clearly comes from an American Politics-based perspective. As Moe acknowledges himself, such a mode of insulation only makes sense when the passage of new legislation is difficult to achieve and the separation of powers and weak party cohesiveness of the US polity make this the case there. Turning his attentions to “some (blatant) speculations about parliamentary systems”, Moe (1990, 242) makes one argument that seems to be particularly important for, as I will show in much of the rest of this dissertation, it has rather wide applicability and powerful consequences. He writes that,

the new agencies can be instructed to hit the ground running — getting benefits in the hands of recipients, organizing recipients into support groups (or herding them into existing groups, which the latter would doubtless want), and otherwise building a powerful clientele that will strongly resist any attempt by the government, whether this one or those that follow it, to change anything about programs or structure. (Moe, 1990, 244)

Moe’s argument here can and should be developed further, however. His implicit suggestion seems to be that it is essentially a question of the speed with which a policy is ‘insulated’ by an agency, not the degree to which it is possible to insulate. But different policies — even when they have the same ultimate goals — can have very different political characteristics in this regard. For example, policy A may have a greater tendency to create a pattern of concentrated benefits and dispersed costs than policy B. If that is the case, then we should expect the ‘logic of collective
action’ (Olson, 1971) to lead policy A to be far better ‘insulated’ as there are low incentives to overturn the policy due to the dispersed costs, and high incentives and ability to defend the policy on the part of those who benefit.

While the distribution of costs and benefits is a fairly obvious aspect of policy design, creating in-built organisational capacity for (some of) the beneficiaries requires some explanation as I will turn to this issue again both theoretically in Chapters 3 and 4 and empirically in Chapters 5, 6, and 8. One way to achieve it is the construction of a large bureaucracy to implement a policy. Doing so embeds a highly organised collective actor with direct interests in the maintenance of the policy — for removal of the policy removes the need for the bureaucracy. In a similar vein, instead of a bureaucracy, the creation of a highly unionised (almost certainly public sector) workforce can serve the same purpose. In this latter case, the organisational capacity is constructed slightly outside of the structure of the state — unions are private bodies — but the effect is broadly the same.

Of course, this form of credible commitment comes with its own costs. They arise because the act of ‘insulation’ by a policy-maker “will not only be reducing their enemies’ opportunities for future control; [it] will be reducing their own opportunities as well” (Moe, 1990, 227–228). In effect, credible commitment is found in the form of policy lock-in. Here is path dependency (Pierson, 2000, 2004) by design.9

The imposition of policy commitments through the construction of organisational interests also has another potential inefficiency, however. Quite simply, there is no reason to expect that the insulated policy will be the most efficient policy. Acemoglu and Robinson (2001) offer a model with this logic and use it to explain the prevalence of “inefficient redistribution”. Their argument is based on the idea that a policy can have the effect of changing the size of the group which supports the policy, ex post. Where there is no credible commitment mechanism available to ensure that a promise to pay off a particular group (X) in the next period is honoured, the preferred option in the current period may be to opt for a policy that has the effect

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9See Chapter 3 for a critical discussion of Pierson’s historical institutionalist treatment of time.
of increasing the size of group $X$ so that it will be politically powerful enough to guarantee the payoff in the next period. This logic applies even when increasing the size of group $X$ is, in some sense, socially inefficient. Acemoglu and Robinson (2001) apply their model to the case of farm subsidies, labour market policies, and even trade policy.

Picking up the theoretical insights provided by Moe (1990) and Horn and Shep-ple (1989), de Figueiredo (2002) formalised the core assumptions and arguments. In doing so, he derived results which provide far more specificity regarding when each party in a two party game-theoretic framework will choose to ‘insulate’. Their decisions are based on the probability of election in the future and the costs of insu-lation. In this two-dimensional space, he shows the areas in which each party chooses to insulate on its own, where both insulate, and where neither do. Higher insulation costs decrease the likelihood of insulation, as do higher probabilities of winning future elections. The intuition behind the latter being that a higher chance of election reduces the chance of the other party achieving power and rolling back a policy, making the payment of an insulation cost less attractive. Somewhat surprisingly, de Figueiredo is rather pessimistic as to the importance of policy insulation as a source of inefficiency.

To what extent can ineffectively designed agencies be ascribed to the effects of electoral competition? Contrary to the literature, the answer offered here is: probably very little. The reason is that in separation of powers systems, groups that are electorally weak are the ones that will choose inefficient structures to insulate their policies. But by definition, these groups rarely gain office. (de Figueiredo, 2002, 321)

Without questioning the model solution, I question the substantive interpretation that de Figueiredo provides. The very logic of the model suggests that, due to their inherent durability, insulated-and-inefficient policies will survive on the politi-cal landscape. That relatively few political actors will want to create them this way
is, therefore, balanced by the fact that, once they are created, they are, to some extent, “immortal” (Kaufman, 1976). More importantly, de Figueiredo provides comparative statics (for his “insulation game”) for parameters that capture the degree of political uncertainty (his $\gamma$) and the efficiency costs of insulation ($\alpha$). It is from these that he provides his substantive interpretation of the model. However, he does not provide comparative static results for the parameter that effectively captures the degree to which the interests of political actors are opposed to each other (his $\beta$). It is easy, however, to see that policy insulation rises as interests become more opposed.\(^{10}\) This is important because, where political actors are engaged in redistributive policy-making that shifts economic benefits between groups, the game is zero sum, making the interests of the actors directly opposed. It is precisely these kinds of redistributive policies that are at the heart of partisan policy-making.

Before concluding this discussion on the emerging political science treatment of time, it is important to note that scholars in the historical institutionalist tradition (c.f. Hall and Taylor, 1996) have been great proponents of consideration of time in policy-making. The book by Pierson (2004) entitled “Politics In Time” provides a reasonably representative general statement of the position that historical institutionalists take. However, this school of thought is quite distinct from that discussed above in that it exhibits a tendency to reject the rational actor model, focusing, instead, on the ‘unintended consequences’ of policies. In doing so, it precisely misses the kind of strategic policy-making that is at the heart of the economics and rational choice political science literature. I consider this to be an extremely important issue, and devote Chapter 3 to discussing it. Consequently, I will not dwell on it further here.

Comparing the monetary policy consideration of time, on the one hand, with the fiscal policy and broader political science considerations of time, on the other, a distinction can be drawn. The issue identified for monetary policy revolved around

\(^{10}\)This can be seen by differentiating equations (9) and (10) in de Figueiredo (2002) with respect to $\beta$. 

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time-inconsistent preferences of a single policy actor. Inefficiency arises when that actor cannot credibly commit itself to pursuing a policy into the future. By contrast, the issue for fiscal policy was not that the policy preferences of the enacting policymaker may change in the future, but rather that the future policy-maker may be different from the current one, and so have different preferences. Despite this subtly different logic, credible commitments potentially remain the solution to both — although the commitment applies to different actors in the two cases. For fiscal policy, a credible commitment is required from the current opposition party that they will not reverse a policy made in the current period. To the extent that such a commitment induces the current governing party to avoid an inefficient policy choice today, the opposition party has an incentive to make such a commitment. Being out of power, however, it is not clear how the opposition could make such a credible commitment. For this reason, costly insulation may be the preferred option for the government.

1.3 Partisanship and Time

The turn to considerations of ‘power’ in the literature (Moe, 1990; Acemoglu and Robinson, 2001; Moe, 2005) regarding commitment issues in public policy provides an excellent hook from which to build arguments based on partisanship, but this avenue has yet to be pursued to any great extent. A partisanship-commitment-power connection can be drawn because the kinds of organisations that are bestowed with power through policy choices often have clear partisan allegiances — in the public sector, most notably left-wing allegiances. Indeed, there is a long line of arguments to this effect, with varying degrees of explicitness in terms of the connection between public sector organizations and left-wing parties.

Niskanen (1971) proposed the so-called ‘budget maximizer’ model of bureaucracy in which he argued that bureaucrats had the incentive (and ability) to push for greater expenditure in their bureaus. To the extent that left-wing parties wish
to increase public expenditure due to its redistributive tendency, an alignment of preferences between bureaucrats and left-wing parties seems highly plausible, in this case. Other examples of theoretical or empirical claims of the importance of public sector workers to left-wing parties in the literature include Frey and Pommerehne (1982), Blais, Blake and Dion (1990), and Pontusson (1995a). Beyond the public sector realm, the “power resources” theory associated with Korpi and Shalev (1979), Stephens (1979), Cameron (1984), and Esping-Andersen (1985) argues that union strength in general is an important source of power for left-wing parties. That governments have the power, through their policy choices, to affect union strength should be uncontroversial to anyone familiar with Margaret Thatcher’s policies in the 1980s.

Partisanship, then, is ripe for a marriage with the kind of commitment framework that becomes relevant when political actors are seeking to advance their goals beyond a simple point in time — and the power-based conception of commitment mechanisms is especially relevant in this regard. The discussion in Section 1.1.2 of theories of strategic use of public debt provides one example of the pursuit of second-best policies based on consideration of the future. But, it is clear that partisan control of government offers far more scope for strategic, future-sensitive, policy-making than just in the area of public debt. For a party that can, to any extent, be thought of as policy-seeking, and that faces opposition to its goals from another (electable) party, there will be incentive to choose policies with an eye to the future.

Following the preceding discussion, it now becomes possible to say which situations can be expected to be most susceptible to time considerations. First, and most obviously, there must be some element of partisan disagreement. Strategic policy-making with an eye to future payoffs, together with the ensuing attempts to provide policy insulation, have, at their foundation, a concern that different policy preferences will be acted upon by future governments. The classic sphere in which partisan disagreement is seen to operate is, of course, that of economic inequality
and the distribution of income and wealth, and there is, therefore, every reason to expect strategic policy-making to emerge in this area.

Second, given partisan disagreement, issues revolving around the presence or absence of credible commitments will tend to matter most for the design and composition of policies, rather than their magnitude or underlying objective. That is, attempts to solve the commitment problem are concentrated on ways of structuring policy implementation so as to build-in influential organisations and interest groups that have the capacity to defend the policy from future political attack. Extending this idea to redistributive policy in the shape of welfare policy, we should expect that commitment problems will influence what sort of organisational structures are created in the welfare state, rather than its magnitude.

If these points characterise the types of policy for which time considerations should be relevant, what are the situations in which policy insulation will be utilised by policy-makers? I turn to this next.

1.3.1 The Demand for Policy Insulation

To re-emphasise, the expectation is that employing policy insulation is a costly option in the sense that it imposes inefficiencies on the public sector. For that reason, insulation should not be expected in all cases. While de Figueiredo (2002) provided a helpful formalisation of the abstract causes of whether to insulate policies or not — i.e. ‘political uncertainty’ and ‘the cost of insulation’ — he did not go further to outline what may be the underlying determinants of those insulation causes. In the remainder of this section, I expand upon this theme. By doing so, I introduce some of the conceptual variables that play a role in conditioning partisanship effects that are rooted in the issue of policy commitments and insulation. In Chapter 2, I go on to provide more detail about these kinds of conditional partisanship arguments.
1.3.1.1 Legislative Policy Insulation

Acemoglu (2003) explained the answer to the question, “why not a political Coase theorem?”, as being the lack of commitment mechanisms in the political realm. That is, applying the Coase theorem to the issue of whether states adopt “inefficient” policies would suggest that they are not adopted because political actors should strike Pareto-superior bargains under which the inefficiencies are removed. However, such bargains are contingent on the credibility of commitments on all sides — a credibility that is supplied under the ‘economic Coase theorem’ by the state itself as an impartial third-party enforcer of contracts. As there is no superior body to enforce any political Coasian bargains that essentially constitute the state, such bargains become extremely difficult. But Acemoglu’s view is surely too pessimistic. Political arrangements have been made across large numbers of countries which allow, to varying degrees, for credible commitments. Many of these arrangements are constitutional in nature. In this area, political scientists have made contributions. For example, in the special issue of *International Organization* on the politics of central bank independence and foreign exchange management edited by Bernhard, Broz and Clark (2002), a number of contributions developed arguments based on the varying institutional foundations of commitment mechanisms across countries (Clark, 2002; Hallerberg, 2002; Keefer and Stasavage, 2002, 2003, c.f.).

As Moe (1990) noted, the ease with which laws can be passed by a legislature is of key importance. Underlying this argument is consideration of legislative checks or ‘veto players’ (Tsebelis, 2002, c.f.) — loosely, the more there are, the harder it is to pass legislation. Moe’s view of insulation coming in the form of detailed, legislatively-determined rules meant that he regarded the presence of more veto players as a *positive* determinant of the prevalence of policy insulation. That is, the more veto players there are, the less likely it is that legislatively-determined insulation will be over-turned. There is no point in paying the insulation costs if there is no payoff in terms of policy durability. For this reason, he expected high
veto player systems — i.e. those that exhibited separation of powers and weak party discipline (the USA) — would have higher tendencies to insulation than low veto player systems — i.e. majoritarian parliamentary systems (the UK). Indeed, parliamentary sovereignty of the Westminster kind actually makes it impossible for a parliament to tie the hands of a future parliament.

However, having adopted a more power-based interpretation of policy insulation, I argue that we should expect to see the opposite relationship between veto points and policy insulation to that described by Moe (1990). The reason is that, in the absence of a system of legislative checks with which to protect today’s policy choices into the future, policy-makers will seek to insulate their policies through the creation of powerful organisations and interest groups. The more veto points there are available in a legislative system, the more likely it is that the current policy-maker will expect that they will be able to veto future policy changes — making the expected benefit from paying the insulation cost correspondingly lower. In essence, the choice is between insulating legislatively or organisationally. I pursue this line of argument theoretically in Chapter 4 and empirically in Chapter 6.

1.3.1.2 Electoral Policy Insulation

As de Figueiredo (2002) made clear, policy insulation becomes less attractive for a policy-maker when they expect to be in power themselves in the future. Viewed comparatively, this logic has considerable empirical traction. Numerous scholars have noted apparently systematic influences on the relative electoral success of left- and right-wing parties. The theories that have been offered so explain both between- and within-country variations in electoral outcomes, therefore, provide very pertinent foundations for explanations of the adoption of policy insulation.

To provide but two brief examples in this area, power resource theory advocates

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11Perhaps trivially, this reasoning suggests that an alternative to the structuring of policies to insulate them from future policy-makers is to increase the probability that the current policy-maker will be the future policy-maker. However, parties are already commonly assumed to be, to some extent, office-seekers. In that light, the prediction that parties will try to adjust their institutional surroundings in order to perform better electorally is hardly novel in the abstract.
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claim that there is a causal link from union strength to left-wing electoral success that runs through the idea that stronger labour movements will provide greater financial, organisational resources, and in-kind resources to left-wing parties (Korpi and Shalev, 1979; Korpi, 1983; Cameron, 1984; Esping-Andersen, 1985; Huber and Stephens, 2001; Korpi, 2006). Iversen and Soskice (2006a) propose a theory that provides a causal link between the electoral system in a country and the relative occurrence of left-wing and right-wing governments. The essence of the theory is that commitment and informational problems under majoritarian systems cause the middle class to side electorally with the rich for fear that a left-wing government will “soak” both the rich and the middle class. They “cannot write an enforceable contract with the government” (Iversen and Soskice, 2006a, 169) and so cannot ensure that, after helping to elect a left-wing party to power, it will not tax and spend in a way that redistributes away from the middle class as well as the rich. By contrast, under a proportional system, the middle class, with its own legislative representatives, will be able to stop redistributive policies that are at their own expense. Thus, they choose to side with the poor in order to tax the rich and share the gains. The prediction, then, is that PR will be associated with relatively more left-wing governments than will majoritarian systems.

1.4 The Dissertation Outline

Building on the conceptual outline provided by this chapter, the rest of the dissertation develops theory and evidence to support the central claim as to the importance of time to our understanding of partisanship. In Chapter 2, I provide a review of the extant partisanship literature. Using a simple empirically-motivated model, I show that much of this literature has dubious value for ascertaining the size of partisanship effects — that is, whether parties make a difference to policy outputs. I also show that the empirical approach subsequently adopted in my analysis of the structure of welfare state expenditure in Chapter 6 and the decision over whether to
privatize state-owned enterprises in Chapter 8 does not suffer from this same shortcoming. In Chapter 3 I provide a critical review of two of the prominent schools of ‘new institutionalism’ — rational choice institutionalism and historical institutionalism — and find that neither has been fully successful in taking account of the importance of strategic, time-sensitive, policy-making. To resolve this mutual failing, I propose and develop a synthesis of the two that marries the strengths of both to complement each other. The essence of the argument could be summarised as a need to concentrate on rational choices to employ path dependence.

From these theoretical foundations, I move on to a more applied level with two separate empirical parts of the dissertation. In fact, there is a theoretical distinction between the lines of argument pursued in the two empirical parts. The first, on welfare state policy, is explicitly concerned with how and when left-wing parties choose to insulate their redistributive welfare policies and, so, follows the spirit of Moe (1990), albeit with the reversed hypothesis discussed above. The second, on privatization policy, is concerned with when left-wing parties will pursue inefficient policies for the purpose of protecting their own electoral prospects, rather than a policy per se.

Part II applies my general theoretical framework to the specifics of welfare state politics and policy. Chapter 4 provides a brief theoretical account that, in Chapter 5, is then applied to the development of health policy in the UK and Sweden after the Second World War with the use of an in-depth qualitative methodology. I show that, by considering the long-term incentives faced by the Labour Party in the UK and the Social Democrats (SAP) in Sweden, it is possible to explain why the SAP, who were in an inherently stronger position, pursued a policy that, at first glance, appears to be less ‘left-wing’ than their Labour cousins. In Chapter 6, I apply the same theory to the development of welfare states in the years since 1990 — what has been referred to as a period of retrenchment among welfare states. I conclude that, in contrast to the claim that there is a ‘new politics of the welfare state’ (Pierson,
1994, 1996a, 2001), the applicability of my proposed theory to both the emergence and retrenchment periods of welfare states suggests that, to some extent, we can see the same old politics of the welfare state to be operating.

In Part III, I apply the theoretical framework of considering policy-making in time to the issue of privatization of state-owned enterprises (SOEs). The first of the chapters dealing with this — Chapter 7 — provides evidence against the view that policy choices are simply driven by the median voter by showing that there is no correlation between public opinion and privatization revenues across the EU. It also shows that privatization, at the individual level, was a policy that was systematically less supported by constituencies typically associated with left-wing parties. Chapter 8 then picks up the story with the observation that, in many countries, left-wing parties have been responsible for large portions of the privatization programmes that have been undertaken. If they are not responding to median voter opinion and they are not responding to the opinion of their core constituencies, logically, this leaves elite-level policy-making as the locus of explanation. I provide a theoretical account that explains when left-wing elites will prefer to privatize and then test this with data from 1980 to 2004.
Chapter 2

Partisanship

The discussion in the previous chapter suggests that the prevailing empirical strategy for the detection of partisan effects on public policy may have been, in an important way, in error. That is, researchers may have concentrated on naïve assumptions about how policy-seekers pursue their goals, and so failed properly to consider their strategic calculations.

In this chapter, I show four things. First, I provide a survey of the partisanship literature of a largely comparative political economy (CPE) ilk and, in doing so, provide a firmer foundation for my claim that consideration of strategic, time-sensitive, partisan action has been all but absent. Indeed, beyond the strategic use of debt literature discussed in Section 1.1.2, I have only located one paper that makes an argument of this sort (Hanssen, 2004) — and its substantive focus on judicial discretion has meant that its influence in the CPE literature has been non-existent.

Second, by framing the literature review with a simple empirically-motivated model, I show how early, ‘first generation’ empirical studies of partisanship failed to identify the ‘partisanship effect’ that they implicitly or explicitly assumed they were measuring. Furthermore, in cases where such an assumption was not made, it is far from clear that the concept of partisanship that those scholars were presumably working from has much theoretical value as they could offer little in the way of
causal explanation for the correlations that they observed. That is, by taking no account of shifts in public opinion, these early findings have little to say to the question, 'Do parties make a difference?', because they cannot say whether parties were simply adopting the policies desired by the general public or not. If they were following public opinion, then parties effectively did not make a difference as the conclusion would be that a government of whatever stripe — liberal, conservative, social democrat, communist, etc — would have implemented the same policy.

Third, extending the discussion to claims regarding conditional partisanship — the idea that the size of partisanship effects vary with some other variable(s) — I show that empirical studies of this sort that employ the typical ‘first generation’ methodology do not suffer from the same weakness as their unconditional partisanship cousins.

Fourth, by distinguishing between core-constituency partisanship and elite-level partisanship, the analytical framework I elaborate makes it clearer how strategic, time-sensitive, partisan action is likely to enter models. That is, I argue that, given the high informational and cognitive requirements of such strategising, elite-level partisanship is the most likely to exhibit this kind of conditioning. In reviewing the literature, I also show that this kind of argument is rather uncommon.

2.1 The Partisanship Hypothesis

Before embarking on a review of the literature, it is worth clarifying exactly what ‘the partisanship hypothesis’ is and what it implies. It is surprisingly common for the empirical literature to be lax in its treatment of partisanship variables, as well as the resulting inferences drawn from them.

First, what it is not. When writing about ‘partisanship’ and the ‘partisanship hypothesis’, I do not refer to the micro-level idea common in the political behaviour literature in which people are seen to have inherent partisan preferences. Such a view is often operationalised as a ‘control’ in empirical models of voting intention
that captures ‘left-right self-placement’ (e.g. Duch and Stevenson, 2008).

Instead of that micro-level concept, the partisanship to which I refer is an explicitly macro-level concept. Fundamentally, the partisanship hypothesis predicts that policy will deviate from the median voter’s preferred policy as a result of the actions of the party or parties in government (Iversen, 2001, 57). Thus, with changes in the party complexion of government, policy changes are expected to ensue, even if median voter preferences remain constant. As Kwon and Pontusson (2008, 2) are keen to emphasise, the substantive importance of these partisan-influenced shifts in policy is dependent on the relative position of all parties — that is, the sizes of the gaps between them. Of course, it is also likely to be dependent on the relative extent to which parties are policy-seekers and office-seekers as more of the latter will tend to draw policy proposals towards the median voter’s position for electoral reasons.

2.2 Measuring Ideology

As it will pervade much of the ensuing discussion, it is also helpful to take a slight methodological detour before turning to the literature review. The (successful) measurement of ideology has been a persistent issue in the partisanship literature. If we are to ascribe a causal effect on policy from the relative power of particular parties in government, then it is obviously necessary to have some sense about exactly what it is that those parties want. In this sense, the measurement of ideology is really the measurement of partisan preferences. But accurately determining those preferences is rather a difficult task. Several approaches have been taken, and I discuss each below.

In the simplest case, researchers introduce a dummy variable equal to 1 when a government is held to be left-of-centre and 0 when right-of-centre, or vice versa (e.g. Hibbs, 1977). An extension of this approach uses separate dummy variables for the presence of Christian Democratic and Conservative parties in government in an attempt to detect differences between these two rather different right-of-centre
variants. Some studies use a dummy for ‘centre’ parties, as well (e.g. Hicks and Swank, 1992). Estimates of coefficients on these dummies are then held to indicate the partisan effect on the dependent variable.

A second approach utilises the percentage of seats held by each partisan complexion in the cabinet or the legislature. That is, the percentage of seats held by leftist parties, centrist parties, and rightist parties. In this way, the same underlying simplistic distinction between each of the categories that is implied by the dummy variable approach can be seen here. The aim for studies of this sort is better to capture the relative strengths of parties, and thus their relative abilities to push through their preferred policies. Paying attention to this issue of relative power of executive and legislature becomes especially important for (the many) countries that tend to operate with coalition governments. When seat percentages are used as explanatory variables, empirical models are estimated and the coefficients on those variables are typically interpreted as size of the partisanship effect on the dependent variable per percentage point increase in seat percentage for the relevant party.

In a third approach, analysts seek to capture both the legislative/executive strength of a party and the ideological position it occupies. The logic being that partisanship effects will be muted if, say, the left-wing party in a country is only weakly left-leaning. To this end, Cusack (1997) developed “center of gravity” (CoG) measures for parties and cabinets. The former is simply taken from the expert survey conducted by Castles and Mair (1984). The latter is constructed as an average of party COG weighted by cabinet seat shares for each party in the cabinet.

At least two objections can be made to measures of this sort. First, is the use of expert surveys a valid way of measuring ideology across countries? As Budge puts it,

[w]e do not really know what they are judgements of. Are they about party leaders or party voters? the present moment, or past history? Above all, do they reflect party intentions or behaviour? (Budge, 2000,
Questions also arise over the extent to which ‘left’ and ‘right’ means that same thing to different experts in different countries. Indeed, Huber and Inglehart (1995) find that they probably do not.

The second problem with Cusack’s CoG measures is that they are based on a time-invariant measure of party ideology. As Cusack (1997, 382) notes himself, this requires us to believe that party positions did not move over the length of the sample. Despite these drawbacks, CoG measures have been used quite extensively in the literature.

Picking up on these problems, Kim and Fording (1998, 2002, 2003) have constructed a time-varying measure of party ideological position on a left-right scale that they claim is comparable across countries and through time. To do so, they use the data from the Comparative Manifesto Project (CMP). Examining the manifestos of parties, they produce a weighted measure of leftist and rightist policy commitments and statements. This is a continuous, rather than a categorical measure and as manifestos vary through time, so too does the measure.¹

While the time-varying and continuous properties of ideology measures based on manifesto data is attractive, there are some underlying problems. First, the construction of ‘median voter’ opinion under this method is awkward. The measure is dependent upon the positions of the parties on either side of the party for which the median voter is inferred to have voted. For this reason, the measure will vary as the position of those parties vary — which we expect to happen when public opinion at the relative extremes of the distribution changes. As a result, one of the central properties of the median — invariance to spread — is lost.

Second, one may doubt the substantive importance of the contents of manifestos — that they are simply ‘cheap talk’. However, Royed (1996) found that during the Reagan and Thatcher periods in the USA and UK, a large proportion of man-

¹Data for years between elections are imputed linearly.
ifesto pledges were actually carried out. Notwithstanding findings of this sort, it is possible to question the extent to which those parts of policy programmes that are substantively most important to a party actually find their way into a manifesto. Rather, it seems likely that those statements that are most electorally beneficial will be used, and there is little reason to think that these two items will overlap to any great extent.

Even setting this second issue aside, there exists a third problem. The identification of left- and right-wing positions is performed by a two-stage factor analysis on the scores for 56 policy areas obtained from content analysis of ‘quasi-sentences’ in each party’s manifesto for each election (Budge, Robertson and Hearl, 1987; Budge and Klingemann, 2001; Klingemann et al., 2006). The first stage of factor analysis identifies those broad policy areas that appear to be of importance. The second stage uses those factors from the first to derive a dimension (or two) that constitutes the left-right division. Implicit in this approach through the pooling of data from manifestos through time is that what it means to be left- and right-wing is both time and country invariant (Benoit and Laver, 2007, 94). It is this assumption that allows researchers in this area to claim that parties have become more or less left- or right-wing through time. Another possibility presents itself, though. While the underlying meaning of left and right may indeed be constant through time — say, a commitment to income equality — the expression that this finds in policy may vary widely both through time and across countries. Indeed, voluminous literatures on, for example, ‘institutions’, the domestic effects of international political economy, and ‘ideas’ and intellectual developments provide reasons to suspect that the mapping of the preference for income equality onto policy choices will also vary widely.²

So, while apparently left-wing parties may have been committed to, say, Keynesian demand management in the 1960s, they may have determined that these policies are not actually the best way of pursuing their true goals in the 1990s. For this reason,

²See Chapters and for extensive references to the institutional and ideas literatures. See Alvarez, Garrett and Lange (1991), Garrett and Lange (1995), and Garrett (1998) for examples international political economy arguments regarding partisanship.
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taking the expression of ‘leftness’ through policy to be constant through time — as
the CMP approach does — is likely to lead to inappropriate conclusions. Taking
an average of factor loadings across time is, for example, likely to place Keynesian
demand management as a left-wing policy and so imply that leftist parties have
moved to the right in later years as they moved to de-emphasise or outright reject
such policies. Clearly, if the underlying party preferences remain unchanged, such
an interpretation would be of dubious value.

Despite the difficulties inherent in any measure of ideology, empirical work re-
quires that one approach or another be employed. Below, I discuss the findings
from a number of studies that seek to determine the effect of partisanship on policy
outputs.

2.3 First Generation Empirics: Partisan Correlation

Building on the seminal work by Hibbs (1977), the broad political science literature
is replete with quantitative empirical studies analysing the impact that partisanship
has on policy outputs. A common approach for studying the effects of partisanship is
to model the size of various forms of government expenditure. As Goldscheid (1958)
first expressed and Schumpeter, more famously, endorsed, “the budget is the skeleton
of the state, stripped of all misleading ideologies”. Thus, it is held that actual
spending levels and their changes are an accurate way of measuring the relative
priorities of governments, and will therefore offer a good test of the partisanship
hypothesis. There is another obvious advantage to the choice of expenditure as the
dependent variable — it offers the easiest way of obtaining accurate and comparable
data across units. This is especially the case for cross country analyses, in which it is
considerably more difficult to construct data sets that capture more detailed features
of welfare state entitlements as widely varying rules, regulations, and funding models
make comparisons very difficult.

Following this logic, what can be termed first generation partisanship research
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sought to model various types of public expenditure as a linear function of a simple partisanship variable (\textit{Left}) capturing the degree of ‘leftness’ of the prevailing government. In discussing this empirical literature, I divide the research by the type of dependent variable it uses. Starting with ‘size of government’ (\textit{SoG}) studies at the most macro level, I then discuss those that specifically analyse welfare expenditure, before concluding with those that are focused on other aspects of government spending. In doing so, I progressively move from the literature that offers the most difficult test for the partisanship hypothesis to that which should find it easiest.\(^3\)

2.3.1 Size of Government

There is a relatively long history for the empirical analysis of determinants of \textit{SoG} — i.e. government expenditure (or, equally, revenues) as a percentage of GDP. Clearly, this amounts to government expenditure at its most aggregated, which may lead us to suspect that the \textit{SoG} literature should be the least conducive for discerning partisanship effects. This is so for two reasons. First, to the extent that there is a Downsian logic in play that leads parties to tend to converge towards the preferences of the median voter, this is contingent upon the median voter having preferences — not being rationally ignorant. Knowledge of the level of taxes being paid — the flip-side of \textit{SoG} — is plausibly a more realistic expectation than knowledge of the specifics of spending on various disaggregated measures of expenditure. Consequently, we may expect more convergence at aggregated than disaggregated levels. Second, the theoretical outlines of Chapter 1 also suggest that parties will attempt to lock in their policy choices, and thus that changes will be rather difficult to affect subsequently. If individual policy changes are difficult, then aggregation will tend to

\(^3\)Of course, non-expenditure studies exist as well. There is a literature on the effects of partisanship on inequality (e.g. Rueda and Pontusson, 2000; Pontusson, Rueda and Way, 2002; Rueda, 2008). Taking a more legislative angle, Jacobs and Dixon (2006) analyse whether partisanship is an important determinant for the adoption of particular union-friendly laws in the US states. Similarly, several scholars have investigated whether partisanship is important in the adoption of various school choice laws across the states (Mintrom, 1997; Wong and Shen, 2002; Renzulli and Roscigno, 2005). Despite the existence of these other studies, I concentrate on the expenditure-oriented work that is more prominent in the CPE literature.
mask those that do occur (True, Jones and Baumgartner, 1999; John and Margetts, 2003). With these provisos in mind, I now discuss some of the empirical findings in this area.

Cameron (1978) was an early contributor to partisanship literature on SoG. Using data from 18 OECD countries for the period 1960-1975, he estimates the influences on changes to the size of government. His finding was that partisanship was, along with openness of the economy, one of the two most important explanatory variables. While, by current standards, the methodology is rather simplistic, the article has been extremely influential. Estimating separate models of government growth for each of 12 West European countries for the period 1950–1980, Rice (1986) found only limited support for the partisanship hypothesis in only a few of the countries — Italy, the UK, Norway, Austria, Denmark, and Ireland. The partisanship effects that he did estimate also appeared to operate through different variables in different countries — legislative seats held by left-wing parties, the change in legislative seats held by left-wing parties from one election to another, or left-wing “control of the executive branch” (Rice, 1986, 245). Swank (1988) estimated models of SoG growth across 18 “affluent democracies” for two distinct periods: 1960–1973 and 1973–1980. He also distinguishes between ‘right’, ‘left’, ‘center’, and ‘christian democratic’ control of government. His findings are more supportive of the partisanship hypothesis than those of Rice, mainly in the earlier period.

Blais, Blake and Dion (1993a, 1996) pick up the trail and employ a dataset based on 15 ‘developed’ liberal democracies over a 28 year period (1960-1987). A pooled time-series cross-section (TSCS) analysis is used and they employ a partisan variable constructed as the difference between the proportion of cabinet seats held by left-wing and right-wing parties. Their latter, improved results support the partisanship hypothesis and they state that the small effect they find actually “means a big difference over the long haul” — with 10 years of left-wing government being worth

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4They also allow for parties to be coded as ‘center’, although their effect on the explanatory variable is only through their exclusion.
5 percentage points of spending increase (Blais, Blake and Dion, 1996, 517).

Schmidt (1996) provides a reasonable survey of the prevailing literature at his time of writing, before adding an empirical contribution. Estimating pooled models for OECD nations from 1960-1994, he finds that “leftist” and “centre” parties tend to increase the size of government, while “conservative” parties decrease it (compared to the “liberal” party base line). Institutional constraints (i.e. the prevalence of veto points) are also shown to be relevant in reducing the changes in the dependent variable.

Tavits (2004) provides evidence in favour of the partisanship hypothesis. Estimating a simple model to explain SoG for OECD countries, she finds that the Left’s share of cabinet seats, together with the majoritarian versus consensus nature of the prevailing political institutions, are the most important explanatory variables. Indeed, she also finds evidence that these factors influence SoG in multiplicative form, with more consensus-oriented institutions enhancing the impact of the Left. However, despite these apparently positive results, caution is in order. Tavits does not account for the likely autocorrelation that is introduced by the division of her data for each country into just two time-period points. Further, the number of controls utilised is notably smaller than in other studies.

2.3.2 Welfare Expenditure

For the same reasons that SoG is a tough test for the partisanship hypothesis, welfare expenditure is a somewhat easier test. Concentration on a subset of public spending should increase the chance of finding partisan effects on policy simply by virtue of the disaggregation. However, simple tests of the determinants of welfare expenditure — either levels or differences — should still face difficulty in discerning partisanship effects. This is because the welfare state is the obvious policy arena in which political disagreement between Left and Right should be at its highest. It is the area in which the state operates its major redistributive policies. As such, it should be expected
that attempts to pursue strategies of policy insulation and lock-in will be at their
most potent in this area. The result should be an in-built restriction on the degree
to which (left-wing) welfare policies can be rolled back by right-wing parties, and
thus an in-built bias against finding partisan effects on aggregate welfare spending
levels.

Hicks and Swank (1992) use a TSCS design to estimate the determinants of ‘wel-
fare effort’\(^5\) for a panel of 18 “industrialized democracies” over the period 1960-1982.
As well as introducing variables to capture what they call “left contagion”,\(^6\) they
additionally distinguish between ‘center’ parties as well as left and right (and “inde-
derminate”) and control for institutional constraints. Taken broadly, their findings
lend support for the partisanship hypothesis, with left-wing governments appearing
to increase welfare effort compared to others. However, the methodological correc-
tion of those same results offered by Beck and Katz (1995) partly overturns the
initial results.

Huber and Stephens (2000) provide evidence in support of the partisanship hy-
pothesis — which they frame more broadly within the “power resources” theory
(Stephens, 1979; Korpi and Shalev, 1979; Korpi, 1983; Esping-Andersen, 1985).
They find statistically significant coefficients on leftist cabinet seat share for public
expenditure on welfare services. In their book, Huber and Stephens (2001) provide
further support for partisanship, with similar results for various forms of welfare
service and transfer expenditure, as well as SoG.

Analysing cash transfer expenditures, Franzese (2002b, Chapter 2) derives a de-
tailed theoretical model and tests it with data from 21 developed democracies over
the period 1955-1997. Using Cusack’s CoG variable to capture partisanship, he finds
no statistical support for the partisanship hypothesis as it relates to transfer expen-
diture. As this is actually a more disaggregated level of expenditure than many
other studies, this result is actually rather damaging to the partisanship hypothe-

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\(^5\) The ratio of welfare spending to GDP.

\(^6\) When the power of the left in opposition influences the policies implemented by a right-wing
government.
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sis. Both the disaggregation and the type of spending concerned here suggest that partisanship should be more readily discernible in the Franzese study.

Allan and Scruggs (2004, 497-498) critique the empirical tendency to concentrate on welfare expenditure. Instead, they use the “replacement rate” for unemployment and sickness benefits as the dependent variable, predicting “that left parties will be positively associated with growing replacement rates, particularly during periods of welfare expansion [. . . and . . .] parties of the right will be associated with welfare retrenchment, particularly in periods of retrenchment” (Allan and Scruggs, 2004, 504 — emphasis in original). Broadly, their results are supportive of this, although it is notable that their models appear to provide only limited explanatory power.7

2.3.3 Other Expenditure

Beyond SoG and that core of redistributive politics, welfare expenditure, some studies have sought to explain variation in other components of public spending.

Blais, Blake and Dion (1993b) model public sector pay settlements in the Canadian provinces between 1967 and 1984. Controlling for economic influences, they find that provincial governments controlled by the (left-wing) New Democratic Party were associated with wage agreements that were 10% higher than those controlled by other (non-leftist) parties.8 In a cross country study, Huber and Stephens (2000) also find similar evidence that left-wing government is associated with higher public sector employment levels.

Although studies of particular aspects of public policy are valuable — such as the public employment outcomes modeled by Blais, Blake and Dion (1993b) and Huber and Stephens (2000) — the limited perspective that they have ignores the fact that spending in one area will be influenced by that in another area by virtue of the budget constraint. That is, modeling only a small part of public expenditure

7This is especially the case when they exclude country dummies, when $R^2$ values from their models drop to around 0.08 (Allan and Scruggs, 2004, Tables 2 & 3).
8Interestingly for the “strategic public debt” hypotheses from Alesina and Tabellini (1990) and Persson and Svensson (1989), (Blais, Blake and Dion, 1993b) also find that higher public debt constrained these larger wage increases.
can potentially produce biased results as budgetary priorities and shocks from other areas of spending spill over into the spending decisions in the particular area(s) directly of interest to the analyst.

Bräuninger (2005) uses disaggregated spending data from 19 OECD countries for the period 1971–1999 to assess partisan influences. He finds that there are partisanship effects, although they do not apply uniformly across policy areas. Potrafke (2006) applies the ‘seemingly unrelated regression’ technique (Zellner, 1962) to analyse German public expenditure for the period 1950-2003/4, both at federal and state (Länd) levels of government. Again, data is disaggregated into specific policy areas, and models including partisanship variables are estimated. In line with theory, at the federal level, he finds that left-wing government is associated with increases in expenditure on, amongst other categories, schooling and health care. However, his results at the Länd level provide less support for the partisanship hypothesis as statistical significance is reduced.

2.4 Second Generation Empirics: Partisanship or Public Opinion?

The partisanship hypothesis, in general terms, concerns the effect of particular types of party incumbency in government on policy outputs over and above the effect of public opinion. In its various forms, the hypothesis is that, as a result of partisan control of government, public policy systematically diverges from public opinion. More loosely: do parties make a difference? Before reviewing the literature that has sought to answer this question, I present a simple framework that captures the essence of the issue underlying the partisanship hypothesis: the relationship between public opinion and public policy. I extend this framework beyond the simple case so that it performs two additional functions. At the theoretical level, it allows for an elaboration of the conception of elite-level political agency that forms...
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a core thread running through the rest of this dissertation. At the more practical level, it serves to highlight the empirical issues that arise from attempts to test the partisanship hypothesis and, therefore, shows the major shortcoming of the first generation literature presented in Section 2.3.

To begin, consider a model in which a generic policy, $P$, is expressed as a simple linear function of a standard partisanship variable, $Left$, together with a random component:

$$ P = \beta_0 + \beta_1 Left + \epsilon . \quad (2.1) $$

Now, as discussed in Section 2.2, a typical empirical operationalisation of $Left$ is as a measure of the partisan complexion of cabinet. As such, we can conceive of it as a combination of the public opinion that elected the cabinet, denoted $\Omega$, and the deviation in preferences from $\Omega$ that the cabinet exhibits, $\Psi$. Specifically, we may write,

$$ Left = \Omega + \Psi . \quad (2.2) $$

In this setup, $\Psi$ is the component that captures the true ‘partisanship’ effect in the sense of ‘parties making a difference’. Now, substituting (2.2) into (2.1) yields,

$$ P = \beta_0 + \beta_1 (\Omega + \Psi) + \epsilon , \quad (2.3) $$

which makes it clear that a failure to provide separate measures of $\Omega$ and $\Psi$ constrains the responsiveness of policy output $P$ to public opinion and to partisan deviation from public opinion to be the same ($\beta_1$). Given this, it also makes clear the dubious value of denoting $\beta_1$ as a measure of the size of the partisanship effect unless we have strong theoretical reasons to believe that it will be equal to the opinion effect. I know of no such theory, but even were one to exist, it is surely appropriate to test it rather than assume it.
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Essentially, two empirical strategies have been employed to overcome this issue. The first uses a quasi-experimental technique known as regression discontinuity (RD) to construct tests in which it can be claimed that partisan complexion of government/cabinet is not correlated with public opinion. This is done by comparing the policy outputs from governments that won ‘close’ elections — with the aim, in a two party system, being to discern a difference between the policy choices of either party when they are in power. The closeness of the elections is key because between 49% and 51% of votes, a party goes from 0% to 100% of cabinet seats while public opinion has, moved only very little. This discontinuity in the translation of votes to cabinet control is exploited by arguing that such close elections essentially amount to holding public opinion constant, with partisan control of government, therefore, essentially randomly assigned. This random assignment allows for identification of the true partisanship effect. Effectively, by constraining the sample to close elections, the idea is that (2.2) becomes,

\[ \text{Left} = \Psi, \]

which, when substituted into (2.1), obviously leads to correct identification of the partisanship effect on \( P \).

A few scholars have employed this RD approach recently. Pettersson-Lidbom (2008) attempted to identify the partisanship effect in spending data for Swedish local government for the period 1974–1994. His results suggested that left-wing governments lead to higher public spending, lower unemployment rates, and higher public employment. However, testing for partisanship effects within the USA, the evidence has been largely negative. Leigh (2008) found only minimal evidence of partisanship effects from state governors. Studying legislative (rather than executive) partisanship, Warren (2008) found evidence of partisanship effects on tax burdens and minimum wage levels across the various US states for the period 1970–2000, but the effect is weak. Ferreira and Gyourko (2009) studied municipal government
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and found that mayoral partisanship “does not affect the size of city government, the allocation of local public spending, or crime rates” (Ferreira and Gyourko, 2009, 400). By contrast with these studies of subnational government in the USA, Lee, Moretti and Butler (2004) showed that there appears to be a partisanship effect in elections to the House of Representatives. That is, for a given district, electing a Democrat or a Republican congressman does appear to lead to different subsequent voting patterns for that representative.

As the previous paragraph suggests, the literature employing regression discontinuity to identify partisanship effects is rather recent and, consequently, relatively small — especially compared to the ‘first generation’ partisanship studies discussed above. There findings are rather mixed, but they have the merit of clean identification and, therefore, should provide a firm basis from which to explain the mixed results. Another notable characteristic of this literature, however, is that it is focused exclusively within countries rather than between countries. One reason for this is probably that the RD design tends to require more data than traditional regression models. As identification occurs only for observations ‘close’ to the discontinuity, observations that do not meet this criterion are essentially removed. This is a fairly low price to pay in terms of sample size when the starting number of observations is fairly large — as is the case with fifty or so US states over 30 (Warren, 2008) or 60 years (Leigh, 2008) or at the municipal government level within countries (Pettersson-Lidbom, 2008; Ferreira and Gyourko, 2009). In this situation, the restricted sample is still likely to allow for meaningful inference. However, for the typical comparative political economy study of 10–20 OECD countries over 10–20 years, this is a significant limitation.

There is another emerging branch of the literature that takes a rather different approach to identifying partisanship effects — different enough that I only footnote it, here. Using data from electoral ‘prediction markets’, Fowler (2006) and Snowberg, Wolfers and Zitzewitz (2007) assess the extent to which changes in the probability of Democrat electoral success are associated with changes in financial futures markets. The logic here is that when ‘the markets’ observe a higher probability of Democrat success, they will price this into futures for indices and commodities such as the S&P 500, the Nasdaq 100, oil prices, and interest rates (implying inflation). Both studies find positive effects of this sort, which suggests that markets anticipate a partisanship effect, at least.

See Imbens and Lemieux (2007) for a detailed outline of the regression discontinuity methodology.
years, the sample restriction may come to weigh rather heavily.

The second approach to correctly identifying the partisanship effect is to explicitly estimate the public opinion effect and the partisanship effect separately. This is done by constructing measures of each and then estimating the size of their impact on a particular policy. Thus, under this kind of approach, the following sort of model is estimated:

\[ P = \beta_0 + \beta_1 \Omega + \beta_2 \Psi + \epsilon, \]  

where \( \beta_2 \) is now the true partisanship effect.

In this realm, accurate measurement of public opinion over a policy is crucial, but can be rather difficult to accomplish. Stimson, Mackuen and Erikson (1995) estimated models of “dynamic representation” in which they showed that policy appears to respond to public opinion (as estimated from survey data) in the USA. While their focus is on this representational aspect, their models also showed that partisan control of the various political institutions (i.e. the Presidency, the House, the Senate, and the Supreme Court) were consequential after controlling for public opinion. Wlezien (1995) derived time series for government expenditure preferences across several different policy domains among the US public from survey responses and showed that there is a “thermostatic” relationship between opinion and spending: when opinion is for ‘more’ spending, spending is increased which, crucially, leads to opinion to be less in favour of further increases. The public appear to observe that their preferences have been satisfied. Wlezien (2004) extended the model to include a partisanship measure and found that party control of the Presidency and Congress had impacts in some policy domains (‘defense’, ‘welfare’, and ‘education’) but not in others. For the UK, Hakhverdian (2010) measured opinion as left–right self-placement from Eurobarometer surveys and estimates government policy on (what he interprets as) the same scale using a Wordscores textual analysis of Budget speeches. He shows that shifts in public opinion on a left–right scale result
in both anticipatory responses from incumbent governments and a tendency to elect the party favoured by the opinion shift at the next election. He also presents evidence that the anticipatory shift is conditional on electoral vulnerability, suggesting that a partisanship effect is present when parties feel safe enough to pursue their preferences. Work in this vein is most interesting, but the single-country focus is a little limiting. Hobolt and Klemmensen (2008) extended the research agenda to a more comparative context by studying policy responsiveness to public opinion in the USA, the UK, and Denmark. Their models included partisanship dummies — the coefficients for some of which indicate the presence of partisanship effects — but their theoretical focus is very much on the degree to which ‘political competition’ mediates policy responsiveness, not partisanship.

At the broader cross-national level, the main example of attempting to introduce a measure for $\Omega$ is Cusack (1997). Modelling government spending as a percentage of GDP, he employs what he terms “the electorate’s political center of gravity” (EPCG) as his measure of $\Omega$. EPCG is constructed as an average of party ‘left–right’ scores weighted by the vote share of each party. That this provides an accurate measure of public opinion regarding the level of public spending depends upon the validity of using ‘left–right’ indices as proxies for preferences over size-of-government. This may or may not be defensible, but is surely riddled with measurement error.

Cusack’s approach also highlights another issue when attempting to measure public opinion: whose opinion should be measured? Setting aside the problem of how to correctly construct the measure, Cusack’s answer is, effectively, ‘the portion of the electorate that voted’. On the face of it, this may seem sensible, but he does not provide any justification for this particular choice. Indeed, further consideration suggests that this may not be the most appropriate measure. Following Downs (1957), it is more common in the political science literature to assume that it is the preferences of ‘the median voter’ that dominates in policy terms — not the ‘mean voter’, as Cusack uses. That is, many of the most influential models in political
science either directly assume or show theoretically that there is policy convergence to the median voter’s position, implying that the views of the rest of the electorate are essentially irrelevant (beyond determining who is the median).\footnote{Downs (1957a) is the classic citation on this, but the influence of Meltzer and Richard (1981) stems from its median voter foundation. More recently, formal treatment of the importance of swing voters can be seen as an extension of this median voter idea (e.g. Dixit and Londregan, 1998).} Thus, according to this view, Cusack’s use of the mean voter introduces unwarranted consideration of the views of more extreme voters.

A related issue also arises from this discussion. If we believe that any (true) partisanship effect arises because each party in government gives stronger weight to the opinions of its core constituency than would other parties, then it would seem logical to attempt to model the partisanship effect as a function of the opinion of core constituencies. That is, we can define,

\[ \Psi = \Omega_c - \Omega \, , \]  

(2.6)

where \( \Omega_c \) denotes the policy opinion of the core constituency of the governing party. We might term this the ‘delegate’ form of partisanship as it does not really directly accord the governing party (or parties) agency. Rather, it assumes that they simply directly express the wishes of the constituency that elected them. In a sense, this is what Cusack does when specifying his empirical model, but with an important difference: empirically, he uses party position as a measure of public opinion, rather than the other way around. The consequence of this decision — which is certainly understandable on data grounds — is that, as party policy positions are held static by the reliance on a single wave of expert coding, public opinion can only vary based on changes in vote shares. For this reason, if parties do adjust their positions in response to public opinion, the Cusack approach would probably be incapable of capturing secular opinion trends as we would expect all parties to move equally and, thus, to maintain the same vote shares.

Under this interpretation, Cusack’s approach becomes even more troublesome
as he effectively includes the views of core constituencies in the public opinion component of the model when it should only be in the partisanship component of the model. Extending the model allows us to see this. Consider, that there are three constituencies of voters, indexed by \( x \in G \), that correspond to the core constituency of the governing party, the median voter(s), and the core constituency of the opposition party. Thus, we denote \( G = \{c, m, c'\} \), where the elements of \( G \) correspond to the respective constituencies just described. Each constituency may have its own policy opinion, denoted as \( \Omega_x \). Now, we can define the mean opinion of the groups as,

\[
\Omega \equiv \sum_{x \in G} \pi_x \Omega_x ,
\]

where \( \pi_x \) captures the size of each constituency as a proportion of the total population. We now write \( \Omega \equiv \Omega \) and then substitute (2.7) into (2.3), yielding,

\[
P = \beta_0 + \beta_1 \Omega + \beta_2 (\Omega_c - \Omega) + \epsilon .
\]

This, in effect, is the Cusack model. With this specification, it is tempting to interpret \( \beta_2 \) as the partisanship effect, which is what Cusack effectively does. However, to recover the ‘true’ partisanship effect, it is necessary to differentiate (2.8) with respect to \( \Omega_c \) taking account of (2.7) to see how policy varies with a change in the opinion of the core constituency. This gives,

\[
\frac{\partial P}{\partial \Omega_c} = \pi_c (\beta_1 - \beta_2) + \beta_2 .
\]

It is clear from (2.9) that taking \( \beta_2 \) as the partisanship estimate is, in general, incorrect. If \( \beta_1 = \beta_2 \), meaning that partisanship and general opinion responsiveness are identical, then the first term collapses to zero and, unsurprisingly, inferences based upon \( \beta_2 \) are valid. However, as the difference between \( \beta_1 \) and \( \beta_2 \) gets larger, reading the partisanship effect as \( \beta_2 \) will come with growing bias. In fact, prior
beliefs of a Downsian sort may lead us to expect that $\beta_1 > \beta_2$ — that politicians respond more to median voter opinion compared to their core constituency — which would imply that the partisanship effect is overestimated in this setup.\footnote{Overestimated", that is, in the interpretive sense rather than the econometric sense. As (2.9) makes clear, it \textit{is} possible to recover the correct partisanship effect from this specification.} This can be compared with the case where the median rather than the mean opinion is used. That is, where we take $\Omega \equiv \Omega_m$, the derivative is given by,

$$\frac{\partial P}{\partial \Omega_c} = \beta_2 .$$  \hspace{1cm} (2.10)

Thus, adopting the median voter operationalisation of $\Omega$ appears to be a better approach than taking the electorate mean.

Beyond what I have termed the ‘delegate’ form of partisanship, an alternative is possible: what could be termed the ‘representative’ form of partisanship. In this model, parties are free to diverge from the opinion of their constituencies. In fact, it is plausible to suggest that, in many cases, parties do not so much diverge from constituency opinion as make decisions in the \textit{absence} of constituency opinion. Indeed, given informational costs to voters, the absence of opinion may well be rational (Downs, 1957\textit{b}; Popkin, 1995; Lupia and McCubbins, 1998; Alvarez, 1999; Martinelli, 2006; Larcinese, 2009). This can be expressed as,

$$\Psi = (\Omega_c - \Omega) + \Psi_e = \Psi_c + \Psi_e ,$$  \hspace{1cm} (2.11)

where $\Psi_c \equiv (\Omega_c - \Omega)$ denotes the core constituency partisanship variable and $\Psi_e$ is the the elite level partisanship variable — the divergence of the governing party elite from their own core constituency. To analyse the empirical implications of this model, we can first substitute (2.11) into the standard empirical partisanship model comprising (2.3), which yields,
\[ P = \beta_0 + \beta_1 (\Omega + \Psi_c + \Psi_e) + \epsilon \]
\[ = \beta_0 + \beta_1 (\Omega + (\Omega_c - \Omega) + \Psi_e) + \epsilon \]
\[ = \beta_0 + \beta_1 (\Omega_c + \Psi_e) + \epsilon . \] 
(2.12)

In this specification — indeed, in (2.3), as well — general (median) public opinion (\(\Omega\)) cancels away leaving \(\beta_1\), apparently, as an estimate of the combined responsiveness of policy to the government’s core constituency opinion and its elite-level opinion.

As should be clear from the discussion above, this specification should be considered adequate. \(\Omega\) only cancels away due to the (almost always) implicit assumption that the influence of public opinion and true partisanship are of equal magnitude. Instead, the full specification given below should be preferred:

\[ P = \beta_0 + \beta_1 \Omega + \beta_2 \Psi_c + \beta_3 \Psi_e + \epsilon . \] 
(2.13)

Of course, this introduces even greater data requirements — requirements that are unlikely to be met in much empirical work, where even measures of \(\Omega\) are rare. Nonetheless, it is valuable to express the model in this way to achieve some degree of conceptual clarity.

## 2.5 Conditional Partisanship

From the discussion above, it is clear that simply employing a \textit{Left} variable in the hope of estimating partisanship effects has little merit beyond data availability. Does the same critique apply to empirical studies in which partisanship is held to be conditional upon some other variable? This is important for my purposes here as the arguments that I develop in \textit{Parts II} (regarding welfare states) and \textit{III} (regarding
privatisation) require tests of conditional partisanship. As I will show below, the logic underlying the conditioning variables in these arguments is rather different to those typically found in the partisanship literature as they explicitly build from time-sensitive strategising by political elites. Nonetheless, an understanding of the inferences that can be drawn from a shared empirical methodology is important.

Below, I show that, while the waters are muddied by using $Left$ instead of $\Psi$ as the partisanship variable, the consequence is that we are more likely to infer incorrectly that a conditional partisanship effect is absent, rather than incorrectly infer that a conditional partisanship is present: Type II errors should be more common than Type I errors. While this is undoubtedly a problem, the implication of this is that we should actually be more confident about those conditional partisanship effects that have been uncovered in the literature.

Empirical tests of conditional partisanship claims are typically modelled with an interaction term between some form of the standard partisanship variable, $Left$, and the conditioning variable. Thus, the following sort of model is estimated:

$$P = \beta_0 + \beta_1 Left + \beta_2 X + \beta_3 Left \cdot X + \epsilon .$$  \hspace{1cm} (2.14)

However, applying the same decompositions as above, we can conceive of various versions of the conditional partisanship hypothesis where each corresponds to a different component of the partisanship variable having a conditional effect. So, the effect of median public opinion ($\Omega_m$), core constituency partisanship ($\Psi_c$), and elite-level partisanship ($\Psi_e$) may all vary with $X$. A fully and correctly specified model would, therefore, separate out the $\Psi_c$ and $\Psi_e$ partisanship components and then apply the interaction effect only to the component(s) for which there is a theoretical underpinning.

Decisions regarding which of the two components warrants an interaction effect are obviously completely dependent on the underlying theoretical claims. One thing that is interesting to note, however, is that nearly all claims of conditional partisan-
ship leading to the specification of interaction effects have, methodologically, been of a rather non-standard kind. To see this, consider an interaction effect of the form, \( Y = \beta \cdot X \cdot Z \). This would traditionally be interpreted as ‘the magnitude of the effect of \( Z \) varies with \( X \)’. That is, we measure \( Z \) and the response to it varies with the measured level of \( X \).\(^{14}\) When conditional partisanship is involved, the specification becomes, \( Y = \beta \cdot X \cdot \text{Left} \). Now, as \( \text{Left} \) typically captures some kind of measure of left-wing executive strength, it is not a measure of left-wing preferences over the level of \( Y \) — indeed, typically, we have no such measure available. The interaction effect cannot, therefore, be interpreted in the same way. Instead, the conditional partisanship specification should usually be interpreted as ‘the preferred level of \( Y \) for a left-wing party varies with \( X \)’. Some examples from the literature should make this clearer.\(^{15}\)

Garrett (1998, Chapter 4) investigates how and why left-wing and right-wing parties react differently to the onset of globalisation. Across several government expenditure dependent variables, he finds positive interactions between “left-labor power” and both capital mobility and trade. This is accounted for theoretically by the idea that globalisation increases “market-generated inequalities and risk” (Garrett, 1998, 46) which induce the left-wing parties to counter these effects through higher government expenditure. Where cross-border flows of goods and capital are lower, those inequalities and risks are correspondingly lower, implying a less sharp difference in the policy goals between left- and right-wing parties. Clearly, Garrett’s argument is that left-wing preferences are conditional on globalisation.

Pontusson and Rueda (2010) make a similar claim regarding the effects of ‘market-generated inequalities and risk’, albeit with a more coalitional underlying logic. In arguing that left-wing parties will shift leftwards in response to increased inequal-

\(^{14}\)Of course, \( X \) and \( Z \) could be exchanged for each other in these statements without any affecting the analysis here.

\(^{15}\)Franzese (2002a, 407–412) provides a slightly longer survey of conditional partisan effects on policy. Touching on a range of comparative political economy literature, he distinguishes between context-dependent “motive”, “ability”, and “effectiveness” for the purposes of analysing the partisan effect on policy outcomes. Concluding his review, he is upbeat about the prospects for advancing research in this direction of “context-conditional” effects.
partisanship conditioned by the labour market. Huber and Stephens (2001, 47) also employ a coalitional approach in arguing that greater female labour-force participation should lead left-wing parties to expand welfare provisions due to the resulting increased level of female organisation through unions and other social movements. In effect, they argue that the left-wing coalition is transformed by the inclusion of working women, with the result that partisanship is conditioned by the degree of female political participation.

Beyond these kinds of economic and coalitional effects, Clark, Golder and Golder (2002) turn to institutional conditioning variables. They pick up the theory proposed by Cox (1990) stating that smaller electoral district magnitudes should be associated with lower dispersion of politicians on a unidimensional policy space. Far from substantive reasoning for this, Cox relies on game theoretic analysis of vote maximisation and strategic candidate entry to derive these results. From this foundation,

\[ \Psi_c \] varies with turnout.\(^{\text{16}}\) If turnout is low, Pontusson and Rueda argue that this proxies for the lowest income portions of the electorate essentially opting out of the core constituency of left-wing parties. Their political disengagement leads the parties to ignore their views, with the result that partisanship is conditioned by turnout. This coalitional approach to the development of partisans preferences builds on the ‘insider–outsider’ model developed by Rueda (2005, 2006, 2007). He argues that the division between ‘insider’ and ‘outsider’ labour can have important consequences for the kinds of policies pursued by left-wing parties, which, in turn, can have important consequences for inequality. This ‘insider–outsider’ distinction can lead to differing political incentives depending on the nature of the labour market within which each group operates. So, with respect to labour market policies, Rueda argues that left-wing parties have changed the policies that they favour as ‘insiders’ have come to feel less secure in their employment, and so to share policy preferences with ‘outsiders’ partisanship conditioned by the labour market. Huber and Stephens (2001, 47) also employ a coalitional approach in arguing that greater female labour-force participation should lead left-wing parties to expand welfare provisions due to the resulting increased level of female organisation through unions and other social movements. In effect, they argue that the left-wing coalition is transformed by the inclusion of working women, with the result that partisanship is conditioned by the degree of female political participation.

\(^{\text{16}}\)It also seems logical that higher turnout would change \( \Omega_m \), as well, although this remains implicit in the analysis.
Clark, Golder and Golder argue that, if a partisanship effect exists, it should (appear to) be of smaller magnitude with fewer members per district as, based on Cox’s logic, each member will be closer to the others. They take this prediction to data on changes in government debt. Surprisingly, the results are directly opposed to those hypothesised regarding the direction of partisan effects — although they do appear to show that the institutional context provided by the electoral system is an important mediating factor for partisanship. Beramendi and Rueda (2007) also take up institutional context as an intervening factor. Their model seeks to explain the, apparently, paradoxical fact that the more generous welfare states seem to be disproportionately funded by regressive indirect/consumption taxes. Why would systems give with one hand only to take away with the other? They claim that left-wing parties operating in a “high corporatist” environment have commitments both to welfare expenditure (on the union side) and non-taxation of profits (on the business side). This leaves indirect taxes as the only way to finance the welfare state. By contrast, “low corporatist” environments do not engender these constraining agreements, leaving left-wing governments free not to use regressive taxation measures to finance their preferred expenditure.\(^{17}\) Their empirical evidence suggests that parties do indeed adjust their policies in this way.

Each of the conditional partisanship studies cited above shares something in common: their theoretical foundations imply that partisanship runs through the core constituency ($\Psi_c$) rather than the elite level ($\Psi_e$). Such theoretical arguments are by far the more common in the literature, and part of the contribution of this dissertation is to correct this imbalance somewhat by providing theoretical and empirical analysis that focuses more on elite-level partisanship. However, there are some relevant studies that exhibit an elite-level logic.

One such example is Schultz (1995), who provides a correction to the long-running literature on political business cycles that can be traced back to Nordhaus

\(^{17}\)There is a puzzling implied irrationality to this argument. Why would unions hold left-wing parties to a commitment to spend redistributively through a welfare state when they know that this will be funded in a regressive manner?
He claims that previous failures to find convincing evidence of manipulation of the economy prior to elections resulted from not accounting for the fact that incumbent governments will only have incentive to do so when forthcoming elections are expected to be close. Where this is not the case, the government will eschew intervention as it imposes economic and reputational costs, to little end. The claim finds support in post-war transfer spending in the UK. This is clearly an elite-level argument, although it is not one that accords any role for partisanship.

A second paper applies elite-level logic and is especially noteworthy because the conditioning variable is explicitly concerned with the likelihood of future unwanted policy changes. Hanssen (2004) proposes and tests a model of “a politically optimal level of judicial independence” in which parties are seen as acting strategically based on the likelihood of future electoral success. His model is based on the idea of a trade-off between, on the one hand, the benefits from an independent judiciary insulating policies from reform by a future government, and on the other, the costs from increased possibility of judges ‘legislating from the bench’. In the terms of McCubbins, Noll and Weingast (1989) and Horn and Shepsle (1989), we might term this cost ‘judicial drift’. Where a party expects to win more often than not, the costs of judicial drift will outweigh the benefits of insuring against legislative drift, while the reverse will be true where it expects to lose. Hanssen presents empirical evidence in support of his theory. Strikingly, other than the empirical literature on the strategic use of debt discussed in Section 1.1.2, this is the only study I have found that applies the idea of unified partisan actors behaving strategically with respect to future electoral prospects. Despite being relatively recent, it has received a fair number of citations, but its substantive focus on judicial discretion has meant that these have been nearly entirely from the sphere of judicial studies and its influence in the CPE literature has been essentially non-existent.\cite{18}

As this brief literature review shows, there is no shortage of arguments for the
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presence of conditional partisanship — and, indeed, no shortage of apparently significant interaction effects. But, what can we say about quantitative empirical work that tends to estimate models of the form given by (2.14)? After all, the analysis above showed that estimates of unconditional partisanship effects are likely to be biased upwards (in terms of absolute magnitude) when researchers employ a simple \textit{Left} variable. If conditional partisanship hypotheses are estimated with the same variable, what are the implications for the resulting inferences? Rewriting (2.14) with the separate partisanship components yields,

$$P = \alpha_0 + \alpha_1 \Omega_m + \alpha_2 \Psi_c + \alpha_2 \Psi_e + \alpha_3 X + \alpha_4 \Omega_m X + \alpha_5 \Psi_c X + \alpha_6 \Psi_e X + \epsilon.$$ \hspace{1cm} (2.15)

Now, just employing the \textit{Left} variable, as in (2.14), can be seen as estimating (2.15) with the following constraints: \(\hat{\alpha}_1 = \hat{\alpha}_2 = \hat{\alpha}_3 = \hat{\beta}_1\) and \(\hat{\alpha}_4 = \hat{\alpha}_5 = \hat{\alpha}_6 = \hat{\beta}_3\), where ‘hats’ denote estimated parameters.

A number of things can be said at this point.

1. In none of the literature reviewed above is there an attempt to provide a theoretical justification for why any of these constraints should hold.
2. The discovery of significance for \(\hat{\alpha}_4\) does \textit{not} provide evidence of a conditional partisanship effect.\(^{19}\) Rather, it implies that the responsiveness of policy to median voter opinion varies with \(X\). This is a plausible, if somewhat unconventional finding, but there is no reason that it must be the result of partisan action.
3. \(\alpha_5\) and \(\alpha_6\) constitute the true parameters of conditional partisanship — at the core constituency and elite level, respectively.

What do these statements mean for empirical studies that use \textit{Left} and estimate

\(^{19}\)To be clear, I am not implying a naïve evaluation of the statistical significance of interaction effects in which account is only taken of the confidence interval around \(\hat{\alpha}_4\) (c.f. Brambor, Clark and Golder, 2006).
something like (2.14)? These studies employ an interaction effect because they have a theoretical reason to suspect that ‘partisanship will be conditional’ on some other variable. However, as point 2 makes clear, a theoretical claim of this sort does not give us any reason to believe that $\alpha_4 \neq 0$. Furthermore, as the literature cited above makes clear, it is most typical that the theoretical reasoning to imply that the conditional partisanship runs through only one of the partisanship components ($\Psi_c$ and $\Psi_e$). This suggests that, absent other theory, the expectation should be that the conditional partisanship coefficient on the ‘untheorised’ component is 0. Given these considerations, implicitly adopting the constraint that $\alpha_4 = \alpha_5 = \alpha_6 = \beta_3$ entails averaging the interaction effect across 3 variables, 2 of which are expected to be 0. Thus, interpreting $\beta_3$ as the interaction effect for a theoretical claim that, say, $\alpha_5 \neq 0$ provides a stiffer test for the hypothesis than should be administered as $\beta_3$ is dragged towards 0 due to $\alpha_4 = \alpha_6 = 0$.

### 2.6 Conclusion

What lessons can we draw from the preceding analysis and review of the partisanship literature? On balance, the first generation literature appeared to show that the partisanship hypothesis performs more reliably in the area of welfare expenditure than it does for SoG. This should be unsurprising given that the former is more clearly a case in which the beneficiaries of higher spending are likely to be supporters of a particular party (i.e. the Left). However, the findings of these early studies are drawn into question as, methodologically, they do not convincingly identify the influence of parties, as distinct from general (or median) public opinion. In this light, studies of the sort conducted by Pettersson-Lidbom (2008), Leigh (2008), Warren (2008), and Ferreira and Gyourko (2009) are particularly valuable and, thankfully, becoming more common.

More generally, my point in setting out an explicit analytical framework for empirical partisanship studies is twofold. First, and more trivially, our inferences
regarding partisanship effects would surely be improved with more detailed measures of the various components of public and elite opinion. This is the case both for unconditional and conditional partisanship claims. However, in the absence of more data, my second point is the more important. I argue that we should feel greater confidence that conditional, as compared to unconditional, partisanship studies that employ typical Left variables are really finding support for the hypothesis in the data. For interpreting the empirical findings in the literature, this finding would seem to be of some value.

The framework presented in this chapter also has the benefit of theoretical, as well as empirical clarity. By distinguishing between core-constituency ($\Psi_c$) and elite-level ($\Psi_e$) partisanship, it makes it easier to see how the kind of strategic, time-sensitive, partisan action can occur. It is not necessary for high levels of information and cognitive powers to be available to the entire left-wing constituency in order for this kind of strategising to happen. Instead, it can be effected by elite-level representatives. A glance at the existing literature shows that this kind of argument is rather rare. Those studies of conditional partisanship that exist have been overwhelmingly focused on core-constituency, often coalitional, arguments as to the source of (left-wing) partisanship. Elites seem to play little role in these analyses. Perhaps this explains why arguments of strategic agency have been so absent from the literature.
Chapter 3

A Theory of Rational Historical Institutionalism

In this chapter, I discuss how those theories that are most common in comparative politics in general, and in comparative political economy in particular, have time into consideration. Surprisingly, the theoretical school that has made most emphasis on issues of time in political science — historical institutionalism (HI) — has done so in a way that is almost entirely distinct from the extensive treatment of time taken in the economics literature surveyed in Chapter 1.

While HI is the obvious place to start in a discussion of modern political science theories concerned with issues surrounding time, another of the ‘new institutionalisms’ is notable in this context (c.f. Hall and Taylor, 1996). Methodologically, rational choice institutionalism (RCI) shares far more in common with the economics literature. In, arguably, its most effective formulation, its hallmark is the utilization of deductively-derived formal models that yield testable hypotheses.\footnote{When combined with tightly coupled statistical models, the broader rational choice approach is often associated with the National Science Foundation’s \textit{Empirical Implications of Theoretical Models} (EITM) programme.} However, despite the shared heritage with economists, rational choice institutionalists have not often paid as much attention to the issues of time as they might have done. Starting
with the seminal contributions of Shepsle (1979) and Shepsle and Weingast (1981) on ‘structure-induced equilibrium’, the focus has very often been on how (exogenously given) institutions structure political behaviour at a point in time; thus, implicitly adopting a snapshot approach compared to the more dynamic understandings which incorporate considerations of the time.

In something of a contrast with its rational choice cousin, the development of HI as an intellectual school has seen more conscious attempts to weave its various threads into a coherent body of theory. A series of influential surveys have sought to draw together what were originally slightly disparate literatures and fashion them into a more refined whole in which both empirical knowledge and theory-building could become more cumulative than may otherwise have been the case (e.g. Thelen and Steinmo, 1992; Hall and Taylor, 1996; Thelen, 1999; Pierson and Skocpol, 2002). One may suspect that this more coordinated development, as compared to the RCI approach, is a consequence of the greater eclecticism exhibited by HI studies. In lacking the unifying analytical approach of utility maximization enjoyed by RCI, historical institutionalists, initially, had less that obviously bound them together. To a very large extent, however, the contributions of leading historical institutionalism theorists, such as Kathleen Thelen, Peter Hall, and Paul Pierson, have rectified this initial disadvantage. Nonetheless, it is interesting to note that much of the theoretical development of HI has been very explicitly performed in comparison, even in competition, with RCI. Thus, successive surveys have presented a theoretical comparison between the two as a means of explicating the former (e.g. Thelen and Steinmo, 1992; Hall and Taylor, 1996; Thelen, 1999; Pierson and Skocpol, 2002).

Based on the core thesis of this dissertation regarding the importance of considerations of time in political activity, the position advanced in this chapter is that there is value in adopting more of a synthesis between the historical and rational choice institutionalisms. While the former has paid more attention to dynamics through time, it has done so in a way that is under-developed in terms of the ratio-
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...ntality ascribed to political actors. Implicit, and sometimes explicit (e.g. Mahoney, 2000; Pierson, 2004), rejections of the idea of rational actors has led historical institutionalists to throw away too much in the way of valuable theoretical building blocks. Likewise, concepts from the historical approach such as ‘path dependency’ and ‘critical junctures’ are of key importance in understanding partisan strategy, but their close association with that approach has left them under-exploited by rational choice analysts.

I argue that consideration is needed of the possibility that there are ‘rational actors’ making decisions at ‘critical junctures’. Furthermore, given that issues of ‘path dependence’ are of such importance in political science, we should also consider that those rational actors will, where suitable, seek to take advantage of path dependent processes in their decision-making. I contend that policy-makers will often have options in the way that they structure their policies. These different structures can have profound implications for the degree of ‘insulation’ accorded to the policy choice (Moe, 1990). If a structure that creates an organisation with a large body of (unionised) labour is chosen, we should expect that this will have a rather high degree of insulation and, consequently, constitute a relatively ‘path dependent’ policy choice. In effect, for the approach advanced here, the concepts of historical institutionalism provide pointers to the locus of where our theoretical explanations are appropriate. From there, the rational choice framework then makes it possible to derive hypotheses and generalisable understanding — all the while incorporating the historical institutionalist insights into the strategic decision calculus undertaken by political actors. In this way, it really is a synthesis that is proposed here. Advancing a general theoretical orientation of this sort holds the prospect of allowing us to develop more compelling accounts of the ‘critical’ decisions made by political actors.

The argument can be extended further than simply highlighting theoretical considerations that should be given to the analysis of critical junctures, though. Adopt-
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ing a softer understanding of ‘path dependency’ than is sometimes accorded by histori
tical institutionalists implies that the kinds of hypotheses that can be developed for strategic action at critical junctures may also play out in the more ‘path dependent’ eras of political processes. That is, if we consider political developments as being influenced rather than determined by earlier decisions, then there remains scope for political agency to affect those developments. In this case, political actors retain similar incentives to try to (re)structure the earlier decisions that remain influential — and there is every reason to think that the same strategic calculations that were present at the ‘critical’ juncture will remain relevant during this later pe
riod. For example, consider two political actors, A and B with opposing preferences over a policy $\tau$. Then consider interest group Z has preferences that broadly accord with A. Now, at a critical juncture in which A holds power, it is likely to be in the interests of A to endow interest group Z with lasting power such that it can move $\tau$ close to its preferred level. Equally, this choice will be opposed by B and in each subsequent period, B will search for ways of moving $\tau$ closer to its preferred level. In this pursuit, it has two tactics open to it: to directly move $\tau$ and to limit the power of Z. The second tactic indicates how the politics of critical junctures can come to pervade the subsequent path dependent process. As such, the synthesis of historical and rational choice institutionalism proposed here also offers the prospect of a unification of our theoretical understanding of the political choices made at what have often been considered rather different types of historical periods.

At root, what I argue for is a rational endogenisation of structure into our ‘institutional’ theories. If historical institutionalists have had a tendency to jettison the ‘rational’ component, the rational choice institutionalists have had a tendency to ignore endogenous structures through a failure to move beyond formal institutions or rules. In essence, my complaint with regard to the standard RCI approach is that it does not tend to consider how power can be afforded to actors in ways that go beyond the confines of ‘the rules’. Policy decisions have the capacity to increase the
size, homogeneity, and organisational capacity of existing or new policy actors, and in doing so, they have the capacity to fundamentally change the political terrain. This kind of dramatic change is, of course, possible while formal institutions are held constant. In turn, the endogenisation of these structures occurs via the consideration of rational choice on the part of political actors. It is here that I depart from the traditional HI approach for, in that school, it is typical to consider that the factors determining structures at critical junctures come from outside of the model. An exogenous event occurs that constitutes a critical juncture — for example, a war — and this creates structure that leads a particular path dependent process to unfold. My view of exogeneity is rather more limited. An exogenous event occurs that creates a critical juncture, but rational actors then choose their preferred path based on perceived costs and benefits. Thus, my focus is on how actors come to influence the structures in which they, or their successors, will operate in future.

To make this argument, I begin by outlining some of the key concepts of historical and rational choice institutionalism and engage with them in a critical way. I then sketch out a synthesis of the two that forms the basis of much of the empirical work presented in ensuing parts of this dissertation.

3.1 On Structure

The institutionalist literature has produced widely varying definitions of precisely what is meant by the term ‘institution’. Early institutional work tended to use a definition that focused on legal, often constitutional structures. Exponents of this type of work would provide a largely descriptive account of the constitutions of a number of states. Comparative politics under this sort of approach largely amounted to ‘compare and contrast’, rather than ‘compare and explain’ (c.f. Peters, 2005, 3–11). The restrictiveness of this body of work led to the ‘new institutionalists’ who subsequently emerged to make more analytical use of ‘institutions’ (c.f. Hall and Taylor, 1996).
In a sense, the rational choice institutionalism that developed in the late 1970s and early 1980s shares the formal understanding of institutions with the ‘old’ institutionalism that preceded it. Despite this definitional affinity, rational choice institutionalism is generally held to have its roots in the study of US legislative politics, rather than descriptive comparativism. Scholars such as Kenneth Shepsle, Barry Weingast, and Keith Krehbiel rejected the notion, stemming from Arrow’s ‘Impossibility Theorem’, that no firm predictions regarding voting outcomes could be made — “that in politics, there typically were no equilibria; the core was empty” (Shepsle, 1989, 138). Instead, even cursory research on US Congressional politics, they felt, revealed patterns of behaviour and outcomes that were ripe for systematic theoretical explanation. To avoid the indeterminacy of the earlier theories, Shepsle introduced the idea of ‘structure-induced equilibrium’ in which the institutional context in which actors vote and legislate is seen to lead to tighter predictions from theoretical models (Shepsle, 1979; Shepsle and Weingast, 1981). In a technical sense, the emphasis was on translating institutional context into a suitably specified extensive form game theoretic construct. In Shepsle’s words, “choosing an institution is equivalent to choosing a game form” (Shepsle, 1989, 138).

This theoretical innovation has led to a vast literature on US legislative politics with rational choice institutionalism — in the form of game theory — as its driving analytical paradigm. Building on this US legislative foundation, contributions like that from Ostrom (1986) explicitly tried to draw out the general conceptual foundations of formal ‘rules’ so as to develop “an agenda for the study of institutions”.

During the 1990s, the approach began to spread into more comparative contexts; in no small part due to the work of George Tsebelis emphasising the analytic importance and comparative tractability of the concept of ‘veto players’ (c.f. Tsebelis, 2002). Despite their rather formal mathematical underpinnings, ideas associated with this sort of research agenda became somewhat more discursive as they were

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2 Influential examples include Baron and Ferejohn (1989) and Krehbiel (1998). For a broader view, see numerous chapters from Weingast and Wittman (2006).
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translated into the realm of comparative politics. For example, while the work of Birchfield and Crepaz (1998) builds on the notion of veto players, the expression of the model is non-mathematical and the derivation of predictions more implicit. Unfortunately, this move away from precise formal modeling, whilst remaining within the rational choice tradition, is likely a missed opportunity for the comparative politics literature. It amounts to an adoption of (some of) the primitive constructs of rational choice, but without the use of its defining methodology. In doing so, the benefits of formal analysis in terms of theory development and testing are lost. Cameron and Morton (2002, 793) enumerate three specific benefits. “Clarity” is provided by a formal approach in that it forces analysts to be explicit in both assumptions and relations between variables. “Rigor” is provided by using mathematics as the mechanism for ensuring logical consistency and appropriate reasoning. “Unity” is provided by the encouragement to include “the reasoning behind multiple empirical conjectures” in the same causal model.

Comparability between units of observation is ‘messier’ for comparativists than it is for those focused on US legislative politics. Nonetheless, this discursive turn in the literature was far from inevitable. The rise of a clearly rational choice institutionalist literature among economists testifies to this. With Torsten Persson and Guido Tabellini as the leading lights in this research agenda, economists began to produce explicitly comparative formal models that sought to explain the differing patterns of expenditure across countries on the basis of various constitutional features (Persson, Roland and Tabellini, 1997, 2000; Lizzeri and Persico, 2001; Persson and Tabellini, 1999, 2002, 2005).3 In doing so, they built on work conceived of in a US context, such as the model from Weingast, Shepsle and Johnsen (1981) in which the incentives of legislators to provide benefits to different coalitions of voters are examined. This newer economics literature drew distinctions between, among others, parliamentary and presidential democracies, and between proportional and majoritarian democracies, and went on to make considerable empirical progress. For

\footnote{A textbook treatment is given in Persson and Tabellini (2000).}
all these advances, however, issues of partisanship play almost no role in this body of work. While this can probably be ascribed to the broad, macro-comparative approach adopted by Persson and Tabellini, the omission is, nonetheless, notable. There appears to be relative little well-developed work of this ilk that embeds partisan agents as explanatory variables.\footnote{In a sense, this is not strictly correct. Persson and Tabellini (2000) set out models in which parties have outcome preferences, but their focus is largely on how the Downesian mechanics of electoral systems leads the parties to have little in the way of discernible policy impact.}

What, then, are the distinguishing features of rational choice institutionalism? One is clearly the adoption of rational, utility-maximising, agents as the core actors. Another is the assumption that actor preferences are exogenously given — and often operationalised as preferences for higher incomes and/or probabilities of re-election. Thelen and Steinmo (1992, 7) claim that one core component of the approach is that, “institutions define (or at least constrain) the strategies that political actors adopt in pursuit of their interests”. As can be seen above, this tendency may be traced to the school’s intellectual roots among US legislative scholars. In developing the approach, those researchers were faced with highly formalised institutional environments in which rules were explicit and tightly adhered to. There is little in the way of ambiguity over Congressional committee membership, vote sequences, agenda-setting powers, and the like.

One consequence of this intellectual heritage, though, is that rational choice institutionalism appears to be overly focused on the kinds of formal, legalistic, institutions that tend to constitute the ‘rules of the game’. The concentration of rational choice analysis on this subset of relevant political institutions is a notable weakness of the tradition. The focus on formal institutions comes at the expense of other aspects of ‘structure’ that are highly consequential in the political realm. This is all the more problematic for RCI scholars because there are strong justifications for endogenising parts of this structure: the policies that are the outcome of RCI game theoretic models very often create new political constraints that become relevant moving forward.
The contrast between the RCI and HI conceptions of ‘institution’ and ‘structure’ is, in some ways, rather difficult to draw. While RCI scholars almost universally share a focus on institutions as the ‘rules of the game’, the concept of an ‘institution’ in the historical institutionalism that developed in parallel has been far less clear cut. Indeed, in a critical review of a milestone historical institutionalist volume edited by Steinmo, Thelen and Longstreth (1992), Pontusson wrote,

[w]hat exactly do we mean by institutions? And what variables other than institutions are there that might matter? The lack of conceptual elaboration in the historical institutionalist literature is striking [...].
(Pontusson, 1995b, 118)

Despite this apparent lack of conceptual clarity, the empirical historical institutionalist literature exhibits signs that the understanding of the term ‘institution’ goes beyond the more formal rules employed by rational choice analysts. This can be seen, for example, in Peter Hall’s influential comparative study of British and French political economy.

The concept of institutions is used here to refer to the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy. As such, they have a more formal status than cultural norms but one that does not necessarily derive from legal, as opposed to conventional, standing. (Hall, 1986, 19)

From this definition, the concept of ‘institution’ does not appear to be stretched too far from the rule-based roots. However, other historical institutionalists have borrowed from their sociological institutionalist cousins and,

[t]he works that lie at this intersection often embrace a more expansive view of institutions, not just as strategic context but as a set of shared
understandings that affect the way problems are perceived and solutions are sought. (Thelen, 1999, 371)

Far from formal rules and laws, in the sociological approach, emphasis is placed on the idea that institutions can be seen as socially constructed symbols and norms. These symbols and norms, in turn, determine preferences and the very logics by which individuals act (c.f. March and Olsen, 1984, 1996). As such, they really do provide ‘structure’ to a political phenomenon.

Knight (1992) provides a corrective to the tendency for rational choice approaches to rely on formal institutions, however. His development of a rational choice theory of institutional emergence and change is particularly concerned with informal social institutions. He argues that “social institutions [. . . ]are a product of the efforts of some to constrain the actions of others with whom they interact” (Knight, 1992, 19) and, therefore, that they constitute a “by-product of substantive conflicts over the distributions inherent in social outcomes” (Knight, 1992, 40). However, in some ways Knight goes too far (for the purposes of the analysis pursued here) in concentrating so much on ‘informal institutions’. His aim is to apply rational choice methodology to phenomena such as culture and norms and he sees ‘the state’ as merely a third-party arbitrator and enforcer, rather than as part of the politico-economic bargaining system, itself.

Beyond these sociological constructs, HI scholars have also introduced other forms of what we might call ‘cognitive’ components to the analysis of political processes. A treatment of ‘ideas’ has a venerable tradition amongst historical institutionalists, although it is debatable whether they can or should be considered ‘institutions’. In analysing how Keynesian ideas came to influence countries in different ways, the volume edited by Hall (1989b) provides a noteworthy example of this. That ‘ideas’ should probably not be considered ‘institutions’ in the sense of structuring the nature of relationships between actors can be seen throughout this body of work (c.f. Hall, 1989a; King, 1992; Weir, 1992). For example, studying the development
of employment policy in the UK and the USA, King argues that,

[i]t is necessary, however, to attend more closely to the ideas that in-
formed these policies since both their mobilization and content reflect
significantly each polity’s institutions[.] (King, 1992, 219)

Ideas, then, appear as exogenous variables mediated by institutions. In the schema
provided by Dowding and King (1995, 1), ideas would seem to influence ‘preferences’
rather than ‘institutions’, although the recent work by Lindvall (2009) suggests
that their effect on preferences does not change underlying outcome objectives but,
rather, operates through changing beliefs regarding the appropriate policies with
which to achieve those objectives.5

The debate over the definition of the term ‘institution’ would seem to be broader
than the preceding text would suggest, however. While many historical institution-
alists conceive of institutions as ‘the rules of the game’, in reality, this leads to a
fairly large degree of latitude for interpretation. So, while rational choice institu-
tionalists have tended to consider ‘rules’ to be formal laws or legislative procedures,
historical institutionalists have smuggled far more in under this heading. I would
contend that the difference partially stems from a rather different analytical focus
between the two. For RCI, institutions provide the game setup that can be used to
explain particular policy outcomes. For HI, those policy outcomes are very often
the ‘institutions’. In this way, there is a tendency in the empirical literature for RCI
scholars to use institutions as part of the explanatory toolset for other political phe-
nomena, while HI scholars study institutions directly, for their own sake. Prominent
examples of this latter tendency abound. For his Anglo-French comparison, Hall
wrote that,

[t]hroughout, the emphasis is on the relational character of institutions;
that is to say, on the way in which they structure the interactions of

5See Clark (1998) for a rational choice interpretation of this kind of argument.
individuals. In this sense it is the organizational qualities of institutions that are being emphasized; and the term ‘organization’ will be used here as a virtual synonym for ‘institution’. (Hall, 1986, 19)

The tendency to study the policy-as-the-institution can be seen more recently, as well; such as Pierson (1996b) on the development of the European Union and its social policies, Thelen (2004) on the evolution of skills policies across ‘developed’ democracies, and King (1995) on work-welfare policies in the UK and the USA. Indeed, King is explicit about his focus, noting that,

[i]n Britain mass unemployment in the 1930s made [labour] exchanges politically important institutions but labor lacked the resources or power to modify them. (King, 1995, 6)

What this kind of approach loses in conceptual clarity, it gains in analytical insight. That is, the muddying of the meaning of the term ‘institution’ comes with the benefit of a focus on deeply consequential structures that come to have implications for politics over time. With respect to terminology, my preference is for the maintenance of a distinction between the (exogenous) ‘rules of the game’ and those (endogenous) policies that may come to have similar effects to the ‘rules’.\footnote{For reasons of ‘power’ which I will discuss below, this latter category is likely to be composed to a large extent of policies that create ‘organisations’.}

Pontusson (1995b) identifies a third category of ‘variable’, such as factor endowments and the concentration of capital, that cannot be characterized as institutional variables without rendering the concept of institutions vacuous. As a shorthand, I refer to these variables as structural variables, but I am wary of this label insofar as it implies common properties that distinguish these variables (as a group) from institutional variables. (Pontusson, 1995b, 120)

Pontusson’s argument for considering these ‘structural’ variables is that they are necessary when moving “from comparative public policy to political economy” —
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if we are to explain the similarities and differences between (capitalist) societies, then a focus on what might be thought of as fundamentals is necessary. At the conceptual level, I support the added clarity that the distinction brings. However, as I will argue in subsequent chapters — most explicitly, Chapter 8 on left-wing parties privatizing when they are ‘systemically’ strong — many of these ‘structures’ can have similar effects to ‘institutions’ as they can influence expectations about the future in functionally equivalent ways. A specific example would be the apparent tendency for both the institution of proportional representation and the presence of a large-and-organised working class to increase likelihood of left-wing parties forming governments.

I shall make a final point on the issue of institutions, policies, and structure. The HI focus on the enduring, quasi-institutional, effects of policies has led them to highlight an aspect of politics that is often missed in RCI treatments: the importance of the distributions of power that result from policies. Even Knight (1992), whose view of institutions is probably the most expansive and sociological still to employ an RCI approach, ultimately sees institutions as legal rules, not public bureaucracies, service providers, or similar. The result of this theoretical position is that Knight by-passes the kinds of organisation-level institutions that constitute bodies of power that are valuable theoretical building blocks for the understanding of political decision-making. Moe (2005) has already made a broad case that RCI scholars should engage to a greater extent with the concept of power. Nonetheless, the conclusion of his critical survey that sets out a rational choice interpretation of power packaged up in the form of ‘agenda control’ seems to be potentially too limited. This can be seen because, stemming directly from policy decisions, one particularly important area in which power becomes vested is the state. It is not clear why we should consider the construction of powerful state-based actors to be relevant to ‘agenda control’. In a sense, then, RCI can be seen to have failed to heed the call to ‘bring the state back in’ (Evans, Rueschemeyer and Skocpol, 1985).
In its tendency to study those same structures as the evolutionary outcome of policy choices rather than constitutional choices, historical institutionalism has been far less liable to succumb to the same failing. At root, the HI treatment of power relations as structure has been of great value.

Part of this failure to adjust the sights of the rational choice approach may be due to the prevailing formal and contractual nature of work in the tradition; implicitly assuming away issues of the relative power differentials between those same (and often ignored potential) actors (Knight, 1992; Korpi, 2001; Katzenelson and Weingast, 2005; Moe, 2005). Korpi (2001, 239) refers to this as the “contractarian perspective” in which institutions are seen as being “to the mutual benefit of all individuals concerned” and contrasts this with the “power perspective” in which institutions are seen “as outcomes of conflicts of interest among actors differently endowed in terms of power”. The latter view clearly shares much with Knight’s understanding of institutions being the “by-product of substantive conflicts” cited above. Arguably, this predisposition to the contractarian perspective blinkered scholars of bureaucratic delegation to consideration of how legislative decisions could have important power dynamics — an aspect that I will argue below as being of great importance.

3.2 On Time

RCI, as it stands, also tends to suffer from another short-coming. The focus on mapping formal rules — often in legislative contexts — into particular game forms has led to a notable short-termism in theoretical work in this tradition. Indeed, in the words of Katzenelson and Weingast (2005, 11), “Too often, to our taste, these analyses suffer from the absence of longer time horizons, both medium and more extended”. Payoffs to political ‘players’ are seen to be instantaneous: realised at the conclusion of the bargaining process. In a sense, this is a suitable way to model even political phenomena that have long-term implications. Delayed and, perhaps, uncertain pay-offs can be given present values that become the relevant reflection
of incentives at the time decisions are made. However, while theoretically possible, RCI analysts have rarely noted the relevance of longer-term incentives and, consequently, have rarely given consideration to the types of choices that might have such characteristics. Even the example given by (Katznelson and Weingast, 2005, 11) of rational choice scholars who “have begun to work with longer periods of time” — the study of civil rights legislation in the USA by Brady, Ferejohn and Pope (2005) — is essentially an application of the traditional point-in-time analysis across consecutive points in time. While preferences are held to have changed through time — hence the success of legislative reform in 1964 as compared to 1957 and 1960 — decisions in the earlier periods are not seen as being made with a view to their subsequent effects on preferences. Strategic consideration of payoffs through time are, therefore, not really present.

In one area, rational choice scholars have paid attention to long run payoffs when modeling policy choices: that of bureaucratic delegation. Early work by the ‘McNollgast’ team highlighted how legislators took great care in the design of bureaucracies and the rules within which they operate (McCubbins, Noll and Weingast, 1987, 1989). At root, the important issue is that bureaucrats will often have different preferences to the legislators that created the administrative agencies. Given too much discretion, bureaucrats will have the ability to move policy away from the legislators’ ideal point. Without enough, they will be too rigid and inefficient to successfully implement the legislators’ wishes. Formal expressions, refinements, and extensions of the original intuition regarding the delegation problem have been provided by numerous rational choice scholars (e.g. Calvert, McCubbins and Weingast, 1989; Bawn, 1995; Franchino, 2007).

The point is that at the core of this body of rational choice literature is consideration of strategic utility maximisation through time. However, even here, scholars in this field have tended to focus on how the design and structure of formal rules can be used to minimise the costs associated with the delegation problem. Answers
are sought to questions along the lines of, ‘What is the optimal level of discretion to be afforded to bureaucrats?’ and ‘What types of legislative oversight are optimal?’.

This remained so despite the early interventions by Horn and Shepsle (1989) and Moe (1990) which extended the McNollgast insight to more general forms of what became known (due to Moe) as ‘political uncertainty’. However, these calls to consider broader implications of such a theoretical view were largely unheeded and the focus remained on formal administrative rules.

Comparing RCI with HI, the contrast between their treatments of time is stark. Hall and Taylor (1996, 938) highlight how, in HI, there is, “a view of institutional development that emphasizes path dependence and unintended consequences”. The HI predisposition towards a greater appreciation of the importance of time in politics may partly reflect a tendency for such scholars to “address big, important substantive questions” (Pierson and Skocpol, 2002, 695) relating to societies or governments as a whole rather than the more micro-level approach, concentrating on individual actors, often pursued by RCI analysts. In order to gain any empirical tractability over such large-scale issues, a willingness to address developments over a long period of time can be essential. A thorough understanding of historical processes and events — with the associated methodological techniques such as ‘process tracing’ — are, therefore, hallmarks of HI studies. Perhaps, then, a side-effect of the substantive focus adopted by HI scholars was a theoretical orientation that embraced time at its core. In Skocpol’s words,

\[ \text{rational choice scholars often seek to model one set of events and the maneuvers of actors in one institutional setting at a time. Historical institutionalists are more likely to trace sequences of outcomes over time, showing how earlier outcomes change the parameters for subsequent development. (Skocpol, 1995, 106)} \]

In terms of intellectual heritage, political scientists in the HI tradition have borrowed much from the brand of economic history pioneered by Douglass North (1981,
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1991). North’s aim was to “explain the structure and performance of economies through time” (North, 1981, 3) and he did so by focusing his theoretical lens on the birth and evolution of institutions. One of his driving puzzles is how and why different nation states have developed with such differing degrees of (economic) success. At root, his explanation is that institutions are vital in determining the pattern of incentives that ‘entrepreneurs’ and the ‘organizations’ that they found are driven by. These organisations thus become embedded within the institutional structure in which they form and, in turn, come to reinforce the initial institutional configuration. This latter reinforcement is driven by ‘learning effects’, ‘coordination effects’, and ‘adaptive expectations’ (North, 1991, 94).

From these intellectual roots, it is unsurprising that two concepts lie at the heart of the HI treatment of time in politics: path dependence and critical junctures. At the theoretical level, the former leads the analysts inexorably to the latter in seeking explanations of social phenomena.

3.2.1 Path Dependence

Path dependence is the notion that once a process is started, it develops in a way that is highly determined by that initial state. Each step in the process is seen as resulting from the state of the process in the step before. As expressed by North (1991, 98), “Path dependence is a way to narrow conceptually the choice set and link decision making through time. It is not a story of inevitability in which the past neatly predicts the future”. However, Mahoney (2000, 507) goes a stage further in defining path dependence as “event chains that have deterministic properties” — that there is no room for random variation in the development of the chain of events. Logically, then, an analyst can recurse all the way back to the starting point of the process where the fundamental causal variables for the path will be revealed. Once history has chosen a track, there is no deviation from it.\footnote{Emphasis added.}

\footnote{Page (2006) provides a detailed formalisation that distinguishes between various types of path dependence, as well as their various sources.}
Mahoney (2000, 508) highlights two types of path dependence. ‘Self-reinforcing sequences’ are those in which institutional patterns are such that incentives and mechanisms for their own reproduction are inherent. In the earlier words of North (1991, 99), this form of path dependence occurs when “the network externalities, the learning process of organizations, and the historically derived subjective modeling of the issues reinforce the course”. Once the initial pattern has been established, agents either have no incentive to change it — perhaps due to high costs of transition — or are unable to change it due to the presence of veto players within the system. Sequences that economists term as exhibiting “increasing returns” fall within this category. The most commonly cited example of this sort of process is the ‘QWERTY’ keyboard design, which is held to be inefficient given current technologies, but impossible to move away from as existing computer users would find the costs of adapting to a new layout too large (David, 1985).

‘Reactive sequences’ constitute the second type of path dependence for Mahoney (2000, 509). In contrast with ‘self-reinforcing sequences’ which exhibit high degrees of stability, this second type is characterised by punctuations in which political patterns shift repeatedly, but predictably — at least, in hindsight. Mahoney emphasises that sequences of this sort must possess “inherent sequentiality” so that each event is clearly a reaction to an event or state of the process at an earlier period.

Of Mahoney’s two types of path dependence, ‘self-reinforcing sequences’ are likely to be of greater relevance to strategic decision makers who are afforded the choice of which political path to take. That is, it seems natural to think that patterns of institutions that offer great stability will be more predictable for an actor than will those that are likely to see repeated punctuations and shifts. As such, for an actor at a critical juncture seeking to maximise her utility through time, the inherent predictability of self-reinforcing sequences should offer greater scope for strategic choices. It is surely easier to make decisions over which path to take when it is possible to foresee with greater accuracy what that path will look like. For this
reason, the kind of rational-historical institutionalist synthesis proposed below is likely to be more fruitful when applied to self-reinforcing sequences.

Offering a slightly different dichotomy to that of Mahoney (2000), Thelen (1999, 384–386) identifies two types of mechanism through which such path dependence may occur — both of which fall largely in the ‘self-reinforcing sequences’ category. The first springs from analyses of ‘technological trajectories’ in which actors become so coordinated and invested in a particular technology that it becomes almost impossible to shift to a new technology, even if it were an improvement — the QWERTY example, again. Analogs to political institutions are not difficult to conceive of. Indeed, Pierson (2004) spends much time applying just this concept to the political sphere. In his highly influential article, Pierson (2000) emphasises that path dependence in the political realm is caused by ‘increasing returns’ to particular institutional configuration. The “relative benefits of the current activity compared with other possible options increase over time” (Pierson, 2000, 252).

The second path dependence mechanism identified by Thelen is derived from sociological institutionalism (c.f. Hall and Taylor, 1996). When institutions take the form of symbols and norms that determine preferences and the logics by which individuals act, once a pattern of such norms becomes embedded, the same patterns of behaviour will be repeated as agents become locked into the same decision processes that prevailed in earlier periods. While this sociological mechanism may be amenable to a rational choice interpretation, it is less obvious how to determine which path will exhibit greater ‘dependence’. Each and every possible path would, presumably, entail an associated pattern of symbols and norms that would come to be accepted by individuals acting within the system. For this reason, it is difficult to consider how some institutional forms may become more or less deterministic as to their future development. Such a tendency to predict stability no matter what path is taken precludes consideration of much strategic decision making at the start of paths. I certainly do not preclude the possibility of theoretical development in

\footnote{Indeed, see the subsequent discussion of Korpi (2001) in Section 3.3.}
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this area; indeed, this would appear to be rather an interesting avenue of research. However, for the purposes of this discussion and the empirical features that I wish to explain here, I focus more on the ‘technological’ mechanism.

3.2.2 Critical Junctures

An acceptance of the importance of path dependence leads logically to the second of the time-related concepts in HI: critical junctures. As the discussion above makes clear, analysts are accustomed to tracing path dependent processes back to their initial states in order to explain particular political phenomena. It is these initial states that constitute the critical junctures.

While logically being of great importance, until recently, the concept of critical junctures has received relatively little theoretical development. Capoccia and Kelemen (2007) go some way to rectifying this. They,

\[
\text{define critical junctures as relatively short periods of time during which there is a substantially heightened probability that agents' choices will affect the outcome of interest. (Capoccia and Kelemen, 2007, 348)}
\]

In this formulation, critical junctures are not simply periods of great change. Rather, they are periods when “change is substantially less constrained than it is during the phases of path dependence” (Capoccia and Kelemen, 2007, 368). One consequence of this definition is that change is not a pre-requisite for the identification of a critical juncture: only the possibility is. It also explicitly brings agency into the analytical framework as actors are seen to have considerable discretion in the choices that they can make. Thus, the study of critical junctures provides strong hope of satisfying the need to produce a “clearly identified source of agency” when explaining political change (Peters, Pierre and King, 2005, 1284). In the agency-structure debate, then, it seems that critical junctures are periods when the analyst should lean more decisively on the side of agency as the explanatory construct.
This recent refocusing back onto agency was recognised as necessary far earlier in the development of the historical institutionalist school. More than 15 years ago, Thelen and Steinmo (1992) wrote that,

to the extent that we take seriously notions of human agency as crucial to understanding political outcomes, we need to come to terms not just with political behavior as the dependent variable, influenced by these macro-socioeconomic structures, but as independent variables as well. (Thelen and Steinmo, 1992, 10–11)

But this position poses a difficulty for historical institutionalists qua institutionalists.

The problem with this model is that institutions explain everything until they explain nothing. Institutions are an independent variable and explain political outcomes in periods of stability, but when they break down, they become the dependent variable, whose shape is determined by the political conflicts that such institutional breakdown unleashes. (Thelen and Steinmo, 1992, 15)

The logic leads inexorably to a focus on critical junctures as the points at which historical paths are chosen — the loci of causation. However, right at those points, the institutions that provide the foundation of the path dependence arguments become invalid. Structure is jettisoned as an explanatory variable. Ironically, historical institutionalists are led to hold a theoretical position that is inherently non-institutional. While their analytical tools are tailored for detailed accounts of long term political developments, they are curiously irrelevant at the most critical moments.

Indeed, Mahoney (2000) takes this notion of an atheoretical approach to explaining the choices made at critical junctures to its logical extreme. He asserts that the very definition of a critical juncture is a period in which,

events are contingent occurrences that cannot be explained on the basis of prior events or “initial conditions.” (Mahoney, 2000, 511)
Thus, theory can have no place in the analysis of critical junctures.

Contingency refers to the inability of theory to predict or explain, either deterministically or probabilistically, the occurrence of a specific outcome. (Mahoney, 2000, 513)

This definitional position is rather puzzling. If a critical juncture is held to be a period when randomness prevails, then what are we to make of a subsequent analysis that appears to successfully bring explanatory order to that chaos? Should we no longer consider the period to be a critical juncture? While maintaining his theoretical position, Mahoney acknowledges that empirical research often does not meet his exacting standards.

In the actual practice of research, social analysts will consider an event to be contingent when its explanation appears to fall outside of existing scientific theory. (Mahoney, 2000, 514)

Even given this concession, should the development of new theory necessarily lead to the invalidation of a claim that a period constitutes a critical juncture? Such a position seems to be of little theoretical merit and, furthermore, does not appear necessary. The definition provided by Capoccia and Kelemen (2007) — “a substantially heightened probability that agents’ choices will affect the outcome of interest” — seems quite sufficient, and comes with the benefit that it does not preclude, by definition, the development of theories that explain critical juncture decision making.

3.3 On Rationality and Structure

The preceding discussion makes clear that, in isolation, both RCI and HI have important deficiencies. The former has tended to use an overly narrow definition of structure that largely focuses on formal institutions and has been surprisingly limited in its consideration of issues relating to time. The latter faces an internal
anomaly in which its main theoretical constructs are seen to be of limited use in an explanatory sense. A synthesis of the two — one that employs the best features of both approaches — offers the prospect of alleviating these problems and rejuvenating our understanding of why institutions are formed in particular ways. As I shall argue below, it also suggests that there is value in extending the kind of strategic decision making found at critical junctures to subsequent ‘path dependent’ processes.

At root, the synthesis that I propose is that historical institutionalists accord a far greater role for rational actors. Specifically, that there is much merit to consideration of the idea that rational actors strategically utilise the very processes that historical institutionalists hold to be of paramount importance — those that are path dependent. A large part of my argument centres on the claim that it is valuable to endogenise those aspects of structure that can be manipulated by agents — most especially state-based ‘organisations’. I claim that policy-makers will have the foresight and the ability to rationally select policies that have implications for both the effectiveness and the durability of those policies. In essence, I claim that politicians can rationally employ path dependence.

On the face of it, path dependence should be a powerful tool in the hands of politicians. By definition, the processes that it refers to accord them the ability to lock in their chosen policies over a long period of time. If political scientists are able to discern the processes by which path dependence occur, then it should be reasonable to believe that politicians will be able to, as well. As I have noted above, this should be especially true of ‘self-reinforcing sequences’ which, by their stable nature, offer predictable political patterns stretching into the future. For a politician seeking to maximise their utility through time — or, more colloquially, to leave a ‘legacy’ — this predictability is surely of great value. A path dependent sequence that locks in their preferred policy choices and, therefore, their preferred pattern of beneficiaries will be desirable to a rational policy maker.

As I have discussed, HI scholars often fall back on the ‘contingent’ nature of
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events. This is especially the case during critical junctures, but it is also common for them to assert that particular political paths, while clearly ‘temporally sequential’ after the fact, are not predictable as viewed from the start of the path. Such a view can be found in North’s work.

But note that the agent — the entrepreneur — not only is constrained in alternatives by the existing institutions, but has imperfect knowledge with respect to accomplishing his or her objective. (North, 1991, 100)

At least in the political setting, I question this view. Indeed, Mahoney (2000, 521–523) provides at least one conceptual distinction between types of ‘self-reinforcing sequences’ that supports my contention. He describes a ‘power explanation’ of such sequences which,

emphasize[s] that institutions distribute costs and benefits unevenly, and [...] stress[es] that actors with different endowments of resources will typically have conflicting interests vis-à-vis institutional reproduction. (Mahoney, 2000, 521)

Furthermore, the institution, “is reinforced through predictable power dynamics” (Mahoney, 2000, 521). Predictability is the key, here. If the dynamics are predictable, rational politicians should be expected to use them. For my own approach, then, ‘power dynamics’ are of key importance. My argument is that we have given insufficient consideration to the ability of policy-makers to deliberately construct powerful organisations that survive through extended periods of time. This focus on power, as I have already noted, is largely lacking in the RCI literature, which probably explains the failure of scholars to apply the rationality assumption to issues of this sort.

Mahoney’s own understanding of power dynamics is one of progressively greater privileging of the initially powerful groups such that,
the institution initially empowers a certain group at the expense of other
groups; the advantaged group uses its additional power to expand the
institution further; the expansion of the institution increases the power of
the advantaged group; and the advantaged group encourages additional
institutional expansion. (Mahoney, 2000, 521)

While this is certainly a plausible political dynamic, it is not the only one. Another
relevant pattern would be that in which a group is effectively accorded a veto power
within a particular policy area that does not (necessarily) grow or shrink through
time. Indeed, this process forms a large part of my argument in much of Part II.

Adopting Mahoney’s ‘power explanation’ also affords a further theoretical devel-
opment. It becomes clear that the kind of strategic decision making that we should
expect at critical junctures should also be found during what I have, to this point,
referred to as the ‘path dependent’ period of a political sequence. In this understand-
ing — one which is in accordance with the view of Capoccia and Kelemen (2007) —
the relevant distinction between a critical juncture period and otherwise becomes
the degree to which political agents are constrained in their decision making. Once
again, the source of this development can be found in Mahoney’s own work.

Power-based accounts assume that institutional reproduction is a con-
flictual process in which significant groups are disadvantaged by institu-
tional persistence. The presence of this conflict means that a dynamic
of potential change is built into institutions, even as a dynamic of self-
reinforcement also characterizes institutions. (Mahoney, 2000, 523)

Thus, predictions of how political actors will seek to structure particular policies —
so as to privilege the power of particular groups — should also lead to predictions of
how those actors will behave when those policies have already been initiated. Where
power-related path dependence is in operation and detrimental to an agent’s inter-
est, we should expect to see them attempt to chip away at institutional order that
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embodies that pattern of power relations. With this understanding, the theoretical
distinction between critical junctures and path dependent periods becomes softer,
but without the cost of conceptual confusion. Instead, it suggests that there is rea-
son to pursue theoretical and empirical strategies that provide unified explanations
of political dynamics across both types of time period.

As I have touched upon above, the theoretical approach outlined in this section
goes some way towards reconciling the ‘agent/structure’ debate that has troubled
social scientists in general and new institutionalists in particular. While notionally
concerned with one discrete area of political research\(^{10}\), Mahoney and Snyder (1999)
provide some theoretical framework for how scholars may ‘integrate agency and
structure’ in a theoretically satisfying way.

The approach most relevant to that set out here is termed the ‘path dependent
strategy’. When using this strategy,

[t]he historical events [...of] interest [...] are foundational moments,
or “critical junctures,” when political action created structures that had
persistent causal effects which shaped subsequent trajectories of political
change. (Mahoney and Snyder, 1999, 16)

Thus, agency is seen to enter directly at critical junctures — and it is this agency
that goes on to create the structure that constrains future actors. However, com-
mensurate with the views regarding critical junctures expressed in Mahoney (2000),
“explanations for the genesis of structures during these junctures should rely on
choice and contingency” (Mahoney and Snyder, 1999, 17). In my view, however, if
we are to analyse political “choice”, it is neither theoretically necessary nor empir-
ically sensible to jettison structure from the explanation. The main thrust of my
argument here is that the structures that result from policy choices will have dy-
namic implications that should more often form part of our explanation these choices.

However, it is also plausible to recourse to other forms of structure. Constitutional

\(^{10}\)The study of ‘regime change’.
provisions systematically determine patterns of power held by political groups and, as such, can determine the degree to which one political actor or another may seek to design particular policies in order to change those patterns of power. For example, a left-wing party that is systematically disadvantaged by, say, the electoral system may wish to construct a welfare state that is particularly effective at increasing the power afforded to its allied left-wing interest groups — such as unions. In this way, the agent/structure conundrum is only partially resolved. Agency is returned to the political equation, but it is itself modeled as being constrained by institutions that are analytically prior to those policy-institutions that are essentially the ‘dependent variable’ for the analysis.\footnote{For a more extensive argument along these lines, see Clark (1998).}

At this point, it should be noted that the synthesis of rational choice and historical institutionalism proposed here is not entirely novel. Two examples of this kind of synthesis make this clear.

Rothstein (1992) adopts a similar line of argument in his explanation of why unionization rates vary so markedly across countries. His claim is that particular institutional forms have been especially conducive to the development of strong unions — most notably the so-called Ghent system in which unions operate unemployment insurance schemes directly. Of most direct relevance to the argument here, though, is the extension he makes to this claim. He argues that (some) politicians at the point at which unemployment insurance schemes were being adopted were aware of the effects that they would have on future union strength.

Thus [Rothstein’s] theoretical object […] is not restricted to showing that institutions are important in shaping political behavior but that at certain formative moments in history, these institutions are created with the object of giving the agent (or the interests the agent wants to further) an advantage in the future game of power. (Rothstein, 1992, 35)
Rothstein’s specific example is the way in which the Swedish Social Democrats, in the person of social policy spokesman Gustav Möller,

compromised greatly about the content of the scheme (i.e., the actual policy) in order to be able to institutionalize an insurance scheme that would greatly enhance […] the unions’] future organizational strength. (Rothstein, 1992, 48)

He shows that Möller actually persuaded the union leaders that such a scheme really was in their interests (Rothstein, 1992, 49).

Korpi (2001) makes a more self-conscious attempt to synthesise RCI and HI, as well as sociological institutionalism. Picking up on earlier debates on the nature of ‘power’, he identifies three types of ‘power costs’ that are of relevance to rational political actors: “mobilization of power resources”, “maintenance of liquidity of power resources”, and “use of power resources” (Korpi, 2001, 245). From this foundation, Korpi derives what he terms an ‘augmented rational-action approach’ in which institutions are seen as mechanisms that have the potential to affect each of the three types of power costs (Korpi, 2001, 247). For example, different welfare state structures are held to have different consequences for the ease with which citizens can be organised into groups that represent their interests — with the strength of unions being of particular relevance.

While pursuing a synthesis of all three of the ‘new institutionalisms’, Korpi’s most interesting theoretical advance is actually one that marries rational choice with sociological institutionalism. He argues that societies have numerous competing cleavage structures and that institutions have the capacity to influence the relative salience of each. In this way, “institutions come to have endogenous effects on the formation of citizens’ values, interests, and identities” (Korpi, 2001, 249). From here, the application of rationality is easy.

Thereby societal institutions can be of importance for mobilization costs
and collective action among citizens, something which reasoning holders of power resources are likely to take into account in the design of institutions. This indicates that influential actors can use the ‘logic of consequentiality’ to generate a ‘logic of appropriateness’ among other actors; ‘calculus’ can be used to generate ‘culture’. (Korpi, 2001, 250)

It is interesting to note the parallels between the specific case of union strength discussed by Rothstein (1992) and the more general theory proposed by Korpi. Rothstein’s claim could be interpreted through Korpi’s lens as the construction of an institution that changes the very preferences of particular sections of the labour force by increasing the likelihood that they are union members.

Korpi’s line of reasoning shares much with my own. There are, however, differences of emphasis between the approaches that we each advocate. This seems to be a consequence of Korpi (2001, 245) using a trichotomy of “types of power cost” as a major theoretical building block. The costs he identifies are:

1. “mobilization of power resources, that is, making resources ready and organized for use”;
2. “maintenance of liquidity of power resources, that is, keeping resources ‘on standby’ in a state of readiness for use”;
3. “use of power resources to a) reward or b) punish other actors in bargaining or conflict”.

From this typology, he goes on to discuss how ‘sociological’ factors can potentially be used by rational political actors. He argues that the structuring of policies can have different effects on “interests, identities, and mobilization costs” within a society so that the preferences and coalitional allegiances of citizens are partially endogenous to policy choices (Korpi, 2001, 249).

On the face of it, there is little for me to disagree with in the typology set out by Korpi. However, for the substantive policy choices that I analyse, his typology does
CHAPTER 3. INSTITUTIONALISM: RATIONAL-HISTORICAL SYNTHESIS

not seem to provide a helpful theoretical insight. Both theoretically and empirically, my focus is on how the construction or destruction of ‘organisations’ that employ large bodies of labour can have political benefits, as well as efficiency costs. In this way, my line of argument essentially assumes that the relevant state-based organisations will possess the characteristics of relatively low “mobilization” and “maintenance” costs of power resources and, consequently, will be able to use those power resources to “reward” or “punish”. It is for this reason that I am not drawn into the more sociological reasoning provided by Korpi to try to explain variation in the elements of his typology. Instead, the questions that I ask revolve around the circumstances under which (left-wing) parties will be willing to take advantage of the construction of power-resourced organisations and when they will prefer to opt for other policies. That is, when politicians will find the need to employ path dependent processes to secure their goals.

Before concluding, it is helpful to note that consideration of a synthesis between RCI and HI has been made before by one of the leading proponents of HI — and been resoundingly rejected by him. In his influential interventions, Pierson (2000, 2004) had the aim of encouraging political scientists — indeed, social scientists more generally — to take issues of ‘path dependence’, ‘temporal sequence’, and ‘institutional development’ more seriously. Despite noting that the concentration on issues of time in politics is essentially orthogonal to the divide between RCI and HI approaches within the discipline (Pierson, 2004, 8), much of his ensuing discussion belies that point. Equating rational choice with game theory, he claims that,

in most cases arguments about temporal sequences cannot be reduced to a sequence of “moves.” Reducing sequences to the order in which rational actors make moves misses what those interested in historical dynamics identify as most significant about the temporal order of events or processes — which is precisely that sequence is given by the way in which important social interactions unfold in time, rather than being
something that someone selects. (Pierson, 2004, 61–62)

Yet Pierson notes that reliance on the (apparently) random pattern of events in purely historical explanation is also problematic. Such narratives based on the confluence of streams of events into ‘conjunctures’ are not enough, he says. We want some kind of predictive power.

Even limited generalizations about conjunctures are unlikely to be possible unless the analyst can demonstrate why particular developments in one realm are systematically linked to those in another. Even if we do have ideas about such linkages, we still would be in search of some propositions about how different temporal orderings of these linkages (e.g., A precedes B, A follows B, A and B take place simultaneously) can be expected to influence outcomes of interest. One can find propositions of this sort in the rational choice literature on sequences […]. (Pierson, 2004, 58)

Pierson’s position on analytical issues appears to be somewhat uncomfortable. Rational choice misses much of what is most important, and yet it is the approach noted for its generation of propositions related to causal linkages — and therefore predictive theory.

While his arguments against the rational choice — specifically, the game-theoretic — approach are noted, Pierson is overly pessimistic about the possibilities in this area. He enumerates four problems with the approach (Pierson, 2004, 60–61):

1. “Game theory itself can say nothing about payoffs and preferences.”
2. “Game theory needs to focus on relatively cohesive, well-integrated ‘composite actors.’”
3. “Games need to be kept very simple: few actors, few options.”
4. “Sequences cannot be interrupted.”
However, none would seem to preclude the analysis of, to take my example, partisanship in public policy-making. Scholars studying partisanship are well used to, either implicitly or explicitly, ascribing “payoffs and preferences” to political parties. Likewise, it is standard to consider political parties as “composite actors” and, indeed, most political systems have few enough of such actors that games can be “kept very simple”. The final point on sequences not being “interrupted” may be theoretically valid but, on the face of it, holds less empirical value; as historical institutionalists have frequently shown us, political processes are very often long and path dependent.

One consequence of Pierson’s argument for a more historical institutionalist approach is that it tends to lead the analyst to concentrate on the binding aspects of the past in explaining, say, the inability to achieve a policy reform.\textsuperscript{12} But rejection of the rational actor model precludes the opportunity to seek explanations that utilise time in a forward-looking way. If, as Pierson argues, the implications of path dependence are large, then is it acceptable to assume that actors within a political system will not utilise it? More generally, once we accept that it is possible to identify political actors with policy preferences, ‘bringing time back in’ obviously leads to questions about how those actors maximise their policy pay-offs over time. In short, rejection of the rational actor model in consideration of time in politics seems unnecessarily constraining.

Another branch of literature has appeared to combine the rational choice approach with a more historical methodology: the ‘analytic narratives’ project (Bates et al., 1998). In this mode of research, scholars are urged to couple tightly-argued game theoretic models with ‘narratives’ of historical sequences of events. Sharp predictions from formal modelling are then tested with close accounts of the historical phenomena under consideration. On the face of it, such an approach would appear to provide a viable bridge between the RCI and HI accounts of politics. However, closer inspection reveals that the ‘analytic narratives’ approach offers mainly methodolog-

\textsuperscript{12}The veto player analysis associated with Tsebelis (2002) very often has the same effect.
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ical, rather than theoretical, development. The call to game theoretic modelling is suggestive of valuable theoretical advance but, of itself, is simply advice to adopt a particular tool set. Contrary to appearances, then, ‘analytic narratives’ offer little in the way of framework for synthesising the theoretical insights of the rational choice and historical institutionalisms. Scholars adopting the approach could easily do so without engaging with historical institutionalist theoretical constructs. Instead, the value of ‘analytic narratives’ for the discussion here would seem to be that it offers a particularly well-suited methodology for use after the theoretical primitives of the two institutionalisms have been combined.

3.4 Conclusion

The purpose of this chapter has been to show that two of the dominant theoretical schools of thought in modern political science provide flawed or, even, non-existent accounts of the importance of time to policy choices. The tendency for rational choice scholars to focus on instantaneous payoffs and for historical institutionalist scholars to ignore the possibility that actors may be ‘rational’ provides a logical way in which the limitations of each make them excellent complements when taken as a synthetic theoretical whole. To recapitulate, my argument is that considering actors to have a degree of rational forethought when they are making policies suggests that they will, in some cases, make decisions that consciously seek to construct highly path dependent outcomes. In those cases, the desire for path dependence is underpinned by a desire to ensure that a future government is not able to undo the policy choice made in the current period. In making this case for a synthesis institutionalisms, I have argued that importing the acceptance of the importance of ‘power’ from the HI approach to the RCI approach is of particularly great value. That is, rational actors are likely to be able to predict which of their choices will create powerful and enduring organisations.

Such arguments have not been common in the literature. This may be because
there is a perception that the circumstances in which such a logic of strategic rationality can play out are the exception rather than the rule. Indeed, one of the few scholars to pursue this kind of rationality line of thought explicitly concedes ‘rarity’, before eloquently outlining the logic.

In some, albeit probably rare, historical cases, people actually create the very institutional circumstances under which their own as well as others’ future behavior will take place. It is thus possible not only to bind oneself to the mast in order to avoid being tempted by the sirens’ song, but also to use the ropes to structure the future choices of others as well. (Rothstein, 1992, 52)

One of the main contentions advanced in this dissertation, then, is that these circumstances are far from rare. I provide empirical support of this view in several chapters that span policy areas and time periods — the latter both in terms of chronology and in terms of the distinction between critical juncture and path dependency. Studying the development of welfare states, Chapter 4 provides an example of the kind of unified rational, strategic, time-sensitive, theory of policy-making that I have argued for in this chapter. Chapter 5 then applies the theory to the development of health policy in the UK and Sweden at the critical junctures that emerged in each country after the Second World War. Chapter 6 then shows that the same logic can be applied to a broad set of welfare states during the, more path dependent, retrenchment period at the end of the 20th century.
Part II

Partisan Strategy and the Development of the Welfare State
Chapter 4

Welfare Types and Strategic Partisanship

In this chapter, I further develop the theoretical foundations set out in Part I. The notion of time-sensitivity is applied to strategic decisions regarding how to structure welfare states. Specifically, I claim that a useful distinction can be made between welfare benefits that are provided in the form of cash transfers, on the one hand, and in-kind services, on the other. I draw this distinction because provision of in-kind services has a strong tendency to lead to the creation of influential ‘producer’ interest groups that can lead welfare state development in highly path-dependent ways. Thus, (left-wing) politicians who have doubts about the commitment that future governments will show to current welfare state policies will tend to increase expenditure on welfare services relative to cash transfers.

Before setting out my core theoretical claims, it is necessary to motivate the distinction between the two types of welfare expenditure that I emphasise. The distinction that I draw is similar to that suggested (almost 30 years ago) by Korpi (1980, 305) with respect to ‘universal’ as opposed to ‘marginal’ welfare policies; a line of argument that has been noted or employed by several others (e.g. Rosenberry, 1982; Esping-Andersen, 1989; King, 1992; Rothstein, 1998). However, while
Korpi’s dichotomy is useful, part of my claim is that it misses an important political difference between two components of welfare policy that are present, to different degrees, in both of his ideal types. Thus, I argue that we should draw a distinction between cash transfers and services in the welfare state because the latter will tend to offer far greater policy insulation than the former. To support this claim, I offer two arguments: one based on the relative abundance of labour in services, and the other based on how such labour tends to be highly unionised and, therefore, highly organised.

I begin by justifying the claim of differing ‘stickiness’ for the two types of welfare expenditure. From there, I draw conclusions regarding the strategic calculations that (left-wing) politicians will make in particular electoral and institutional circumstances.

4.1 Varying ‘Stickiness’ of Welfare State Expenditure

In this section, I make two claims in support of a distinction between cash and services in the welfare state; one based on the relative abundance of labour in the latter, and the other based on how such labour tends to be highly unionised and, therefore, highly organised.

4.1.1 The ‘Stickiness’ of Welfare Spending

One of the central claims of the “new politics of the welfare state” espoused by Pierson (1994, 1996a, 2001) is that welfare state expenditure is extremely difficult to roll back. A large part of the “new politics” claim is based on the idea that welfare policies are characterised by concentrated benefits and dispersed costs. This pattern makes it far more likely that those who benefit will organise to defend the status quo than that those who pay will organise to change it.

However, there are strong reasons to think that not all welfare expenditure is created equal. That is, the politics surrounding different types of welfare expenditure
CHAPTER 4. WELFARE TYPES AND STRATEGIC PARTISANSHIP

can, in turn, be very different. Indeed, this is apparent even from Pierson’s early study (Pierson, 1994), which provided detailed comparative analysis of the differing retrenchment experiences in pensions, housing, and income-support policies under Reagan and Thatcher. He even briefly discussed the possibility of important distinctions that could be drawn between means-testing and universalism, or between in-kind services and cash transfers, but ultimately argued against such parsimonious typologies as these (Pierson, 1994, 170). His grounds for rejection are both the complexity of the causal processes involved in welfare state policy-making and a question mark over the empirical relevance of the latter dichotomy. On his first objection, my approach appears to differ largely due to a stronger desire for parsimonious explanation. Without wishing to downplay the importance of Pierson’s approach to studying political phenomena, I also see value in trying to draw out broader generalisations, where they exist. On his second objection, it has been noted by Clayton and Pontusson (1998) that Pierson’s focus was largely on cash-based welfare programmes, thus drawing into question the conclusions that can be drawn regarding in-kind services. Specifically, they argued that,

[by and large, the retrenchment literature tends to ignore the question of changes in the delivery of social services or, in other words, the question of how the public sector is organized. While Pierson does discuss health care, most of the entitlement programs that he considers are based on transfer payments. (Clayton and Pontusson, 1998, 70)

My aim here, then, is to go beyond some of the specifics of Pierson’s study. To do so, I claim that expenditure that redistributes via investment in public services will tend to have two distinctive characteristics. First, the provision of services is nearly always very labour intensive. In Baumol’s words,

[in some cases labor is primarily an instrument — an incidental requisite for the attainment of the final product, while in other fields of endeavor,
for all practical purposes the labor is itself the end product. (Baumol, 1967, 416)

Services in general, and certainly public welfare services, fall into this latter category. Health care, education, care for the elderly, pre-school, and any number of other welfare services that are provided by the state all embody large amounts of labour. This is true in a way that is not so for cash transfers. To be sure, a bureaucracy is required to process cash transfers, but an equivalent bureaucracy is needed to administer the provision of public services. Education and health ministries are hardly noted for their small size. The point is that public services require large amounts of labour over and above that for pure administration. I claim, then, that public services will embody a far larger amount of labour than will cash transfer systems.

Recent data for the UK bears out this claim when comparing government expenditure on social security and education. In 2001, social security expenditure was £106.3 billion\(^1\) and expenditure by the Department for Education & Skills (DfES) was £40.9 billion (DfES, 2001, 9). By contrast, the Department of Social Security (DSS) employed a total of 80,000 staff (Statistics, 2007, Table A) — including the Benefits, Child Support, and War Pensions agencies — while public sector education employment was estimated at 1.24 million (Hicks, 2005, Table 3). This latter figure includes non-school related employment. However, taking the figure for teachers alone, there were around 450,000 employed in the public sector (DfES, 2001, Table 2.5). The figure is more than five times the size of social security employment, which itself is constituted from expenditure at more than twice the level for education. Comparing the DfES and DSS data, expenditure on the former (service) comes with 15 times more public sector employment per pound as compared to the latter (cash transfer system). Only including teachers in the comparison is also a

\(^1\)Source: Office for National Statistics, ‘Social security benefit expenditure: by recipient group, 2001/02: Social Trends 33’. N.B. This figure is actually for Great Britain (i.e. excluding Northern Ireland), but this makes little difference to the comparisons here.

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large underestimate as there is a plethora of teaching-related and administrative employees that fall outside of the teaching profession but are directly relevant to the argument advanced here. The evidence, then, supports the view that services embody far larger amounts of labour than do cash transfer systems.

Furthermore, using Baumol’s terminology, the labour administering a cash transfer system is “an incidental requisite for the attainment of the final product”, while that involved in the provision of services “is itself the end product”. Not only does the logic underpinning Baumol’s “cost disease” suggest that productivity improvements will tend to diminish the requirement for labour of the former kind, but the political support that such a group is likely to receive from the general public is minimal. Rightly or wrongly, people campaign for more nurses, not more bureaucrats.

The first point that services embody a far larger portion of labour than do cash transfers is strengthened by a second consideration. Public sector workers are particularly likely to be unionised. Freeman (1986) passed an early commentary on how “unionism comes to the public sector”. He noted the rise of public sector unionism in the USA over the post war era to the early 1980s. Also focusing on the USA, Farber (2005) presents data suggesting that since the mid 1970s, when both public and private sector union density stood at around 25%, the two sectors have diverged dramatically. By 2004, the private sector figure had shrunk to only around 8% while the public sector figure had swollen to around 35%. Draper (2000) presents evidence that this trend is far from particular to the USA. His data shows that across 12 OECD countries, while aggregate union density figures fell in most countries between the 1970s and the 1990s, the proportion of union membership being composed of public sector workers has risen — markedly so in several cases. Taking a snapshot of public and private union density figures for a similar selection of countries at the end of the 1990s, Blanchflower (2007, 6) shows that the difference between the two figures was of the order of 30 percentage points for most countries,

\[^2\] The advent of computer technology to automate bureaucratic tasks like the distribution of cash transfers implies productivity growth in this area would have been relatively strong.
and notably more for several. The evidence suggests, then, that while private sector unionism has been on the decline across most of the OECD countries (Ebbinghaus and Visser, 1999; Visser, 2006), public sector unionism has, in both relative and absolute terms, been thriving.

The provision of public services, then, implies the presence of large bodies of highly organised labour — labour that will have a strong interest in maintaining or increasing funding for the services it provides. This is in contrast to those cases where there are bureaucracies engaged in the distribution of cash transfers. In the transfer case, not only is the amount of labour constituting the bureaucracy far less than that for the services, but it also has little to gain from forcing increases in welfare payments. The level of wages and employment within the bureaucracy are unlikely to be directly related to this aspect of the policy. Processing payments of £100 will be essentially the same as processing payments of £120.

Based on the preceding discussion, redistribution of the welfare services sort should, therefore, be protected by the pattern of concentrated and dispersed interests underlying the ‘new politics’ thesis to an even greater extent than systems of cash transfers. To clarify, the claim is not that the ‘new politics’ thesis does not apply to cash transfers. They clearly fit the standard description of concentrated benefits and dispersed costs, with taxes collected from a large portion of a population and then (re)distributed to a subset of that population in the form of cash. The claim is that there is a difference in the ‘stickiness’ of this cash and service expenditure. It is this difference that my theoretical claims rely on below.

### 4.1.2 Redistributive Effectiveness

The arguments advanced above allow for the development of a testable hypothesis regarding the ways in which left-wing parties will act strategically in pursuing their redistributive goals. I derive this hypothesis in several steps, below.

With good reason, I assume that parties care about the future. Investment in
long term projects such as missile defence, nuclear power and the like are certainly suggestive that the relevant time horizon for political parties may stretch beyond the limits, implied by a purely office-seeking logic, of the next election. The switching of state pensions from wage- to inflation-indexing by the Thatcher government in the UK (Pierson, 1994) can only be seen as a policy with payoffs of a very long-term nature. Relatedly, Jacobs (2008) provides a comparative analysis of pension reforms in the USA and the UK that strongly emphasises long-run interests, albeit with an interest group focus. Furthermore, to the extent that the partisanship literature is premised on the notion that left-wing parties are seeking better outcomes for their constituencies, it is logical to expect that this interest extends beyond the instant at which policy is made.

In choosing how to spend on the welfare state, one factor of importance for a redistribution-seeking government will be which, of cash or service, will have the larger redistributive effect. That is, which will give the bigger payoff in the current period? For two reasons, I argue that the payoff from cash redistribution will be larger than that for services.

First, basic economic theory shows that the provision of benefits in-kind should be pareto-dominated by provision of cash benefits to the same value. The reason for this is that cash benefits can be used to purchase the same bundle of services that would have been offered or, alternatively, some other consumption bundle instead. In-kind provision is only of equal utility to a consumer if the provider is able to exactly determine the consumer’s optimally desired level of service consumption. All other levels entail either an over- or an under-supply of the service. Obtaining sufficient information for a government to determine this optimal level of supply is likely to be extremely difficult. Further, while governments tend to need to supply services of a fairly uniform level, consumers are likely to be heterogeneous in their preferences. Cash benefits would allow each consumer to optimise her consumption bundle, while in-kind benefits do not. One size does not fit all.3

3See Munro (1992) for a more sophisticated theoretical treatment that comes to a similar con-
Second, empirically, it appears that public services tend to be used to a large extent by the middle classes (e.g. Le Grand, 1982; Goodin and Le Grand, 1987; Gal, 1998) — what Gal (1998, 43–44) referred to as “the Matthew Principle” in which the ‘have nots’ pay for the ‘haves’). Beyond the empirical evidence to this effect, there are prominent theoretical explanations. Stigler (1970, 1) outlined what he termed “Director’s Law”, which states that “[p]ublic expenditures are made for the primary benefit of the middle classes”, and showed that it had foundations in a model of voting over taxes and public expenditures. The swing-voter model set out by Dixit and Londregan (1998) can also be interpreted as an expression of Director’s Law. It predicts that swing voters will benefit disproportionately from redistribution as their votes are more sensitive to policy benefits. To the extent that the middle classes have a higher propensity for swing-voter status than other classes — and a one-dimensional policy space based on redistribution suggests that they would — the model predicts the middle classes should do particularly well. Explicitly dealing with a public service, Fernandez and Rogerson (1995) provide a model which predicts that public funding for higher education will be regressive in the case in which voters choose a level of public subsidy for the service. Less formally, Gal (1998) enumerated several mechanisms through which the middle classes can be privileged both by influencing policy decisions\(^4\) and extracting the maximum benefits from implemented policies.\(^5\)

For these reasons — consumption bundle rigidity and the tendency for services to be ‘consumed’ by the ‘non-poor’ — I argue that cash transfers offer a greater payoff to a redistributively-minded government.

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\(^4\)These are: a “pivotal electoral position”; organisational strength; knowledge and policy expertise; dominance of the mass media; threats to use the ‘exit option’ from welfare policies; and strong class representation amongst the policy-making bureaucracy.

\(^5\)These are: greater social and economic status “with which they are able to influence the decisions of bureaucrats and practitioners charged with distributing goods and services” (Gal, 1998, 48–49); better information about welfare systems; and “more personal contacts with middle-class members of the bureaucracy” (Gal, 1998, 49).
4.1.3 Strategic Policy-Seeking

What do these dual distinctions relating to welfare stickiness and redistributive power yield in terms of testable hypotheses? I argue that it is a left-wing party’s expectations about its future capacity to veto welfare reforms that leads it to choose redistribution via cash or services.

Veto player analysis of the sort put forward by Tsebelis (2002) highlights the important influence of institutional structure on the possibilities for reform, and Tsebelis and Chang (2004) apply the veto player model to welfare expenditure. Similarly, in analysing welfare expenditure across countries, Swank (2002) and Bonoli (2001) emphasise the ways in which institutions preclude some reforms by providing more or less actors with veto powers. However, literature of this sort tends to concentrate only on the constraints that institutional context place on the actions of government. The policy preferences of actors are either assumed or estimated, but institutions are not seen as determinants of those policy preferences.

By contrast, my claim is that a more nuanced understanding of the impact of veto points is necessary. I focus on how the presence of veto points may come to partially determine the policy preferences of actors. In this way, I share the sentiment expressed by Ganghof (2003, 10), who notes that, “exogenous shocks may also change [...] veto players’ policy preferences by changing their beliefs about the mapping of policies onto outcomes”. Given some (quasi) exogenous shock — such as rising unemployment, greater trade openness, or any other such phenomenon — the presence of more veto players may actually increase the likelihood of achieving an optimal policy response. The reason being that more veto players make it more likely that the agreed upon policy will not be subject to subsequent reform in directions unwanted by parties to the original agreement.

It is now possible to derive the hypothesis for when a left-wing government will prefer to spend on cash transfers or services. Given their (assumed) concern for the future, what is their optimum policy choice and what will influence this choice?
an environment in which left-wing parties think it unlikely that they will be able
to block reforms in the future, I claim that they will use their current incumbency
to lock in redistribution for the future. Despite the lower immediate payoff, that
means investing in services as these will be relatively immune from the predations
of anticipated future right-wing governments. By contrast, where left-wing parties
expect to be able to block unwanted reforms in the future, they have less to fear
from right-wing policy reversals. Consequently, they choose to redistribute more
through cash transfers as the payoff is larger — both in the current period (which
is known) and in the future (which is expected).

Another way to think of this is that the decision over whether to spend on cash
or services is effectively a decision over which mechanism of checks one wishes to rely
upon. Choosing cash expenditure implies a relatively greater reliance on the checks
institutionalised by the legislative process. Choosing service expenditure implies the
creation of new checks in the form of organised public sector labour. Where a left-
wing party is satisfied that the future level of legislative checks will be high enough
to allow them to protect their preferred welfare policies, cash expenditure becomes
more attractive due to its higher payoff. Where legislative checks are expected to
be insufficient in the face of future right-wing governments, then recourse to union
checks via service expenditure becomes more attractive.

Looked at from the reverse angle, to the extent that left-wing parties actually
pursue services in favour of cash transfers, there is notionally a Pareto gain available
if both parties could credibly commit to the policy. That is, for a given level of
service expenditure, the right-wing party would be better off if the same level of
redistributive effect were achieved via cash transfers. Of course, in that case, the
left-wing party would be indifferent.\(^6\) My claim here is that the presence of more
institutional checks and balances — veto players in the Tsebelis jargon — increases
the likelihood of attaining these Pareto gains. It is worth noting that this claim is in

\(^6\)This point about the possibility for Pareto improvements in public policy has been made by
marked contrast to the traditional veto players literature associated with Tsebelis (Tsebelis, 2002). In that body of work, the more veto players and the further apart their preferences are, the less likely is a policy reform.

4.2 A Formal Exposition

To clarify the logic of the preceding section, I turn to an extremely simple formal model that captures my argument. It serves to highlight the distinction between the different two types of veto mechanisms that I have distinguished — union-/interest-based and legislative — and then, through analysis of comparative statics, formally derives the hypothesis that left-wing policy choice can be seen as conditional on the prevalence of the latter of these mechanisms.

Consider a model with two periods, indexed by \( t \in \{1, 2\} \), and two parties, indexed by \( i \in \{L, R\} \). Party \( L \) starts in power and has the goal of maximising its payoffs from policy choices over the two periods. This is the explicit inclusion of the idea that parties care about the future. For simplicity, I ignore the issue of time-discounting, although this could easily be introduced without changing the essence of the model predictions. Party \( L \) can derive utility from two policies: a cash transfer \( f \) and expenditure on a public service \( s \). Utility from \( f \) is linear, implying no diminishing marginal returns to the cash transfer. By contrast, utility from \( s \) does exhibit diminishing marginal returns and so is modelled as \( H(s) \). \( H(\cdot) \) is assumed to be twice differentiable and concave, such that \( H'(\cdot) > 0 \) and \( H''(\cdot) < 0 \). Following the argument set out above, we may justify these assumptions on the grounds that there are limits to the amount of a particular service individuals will wish to consume, while cash allows for the recipient to switch into alternative consumption.

The utility function of party \( L \) can now be written as,

\[
u(f_1, s_1, f_2, s_2) = f_1 + H(s_1) + E[f_2] + E[H(s_2)], \tag{4.1}
\]
where the expectation operator has been applied over the second period payoffs as there is uncertainty over their realisation due to an intervening election. We assume that $H'(\cdot) < 1$ so that, absent strategic concern for the future, it would always be preferable for party $L$ to spend its tax resources completely on $f$ rather than $s$. This involves no loss of generality to the model. It simply implicitly restricts the analysis to the sphere of spending decisions where the choice between cash and services has real bite. It is completely compatible with my argument that public service provision exists across all countries as their may be higher marginal payoffs to those services compared to cash transfers at lower levels of expenditure. This may be due to public good characteristics of the service or inherent efficiencies in public provision. Nonetheless, by assuming diminishing marginal returns to services, at some point cash should become the better option. This model examines the incentives for party $L$ to ignore this and continue with service expenditure.

Second period policy uncertainty needs to be modelled, and I do so by making it a function of two variables. The first is the probability of left-wing success in the election, denoted $p$. The second is the proportion of the cash transfer ($f$) that party $L$ would be able to save if party $R$ were to win the election, denoted $v$. Thus, if party $R$ wins the election, they will implement $f_2 = f_1 \cdot v$. Following the discussion of the preceding section, we may consider $v$ to capture the veto power of party $L$ when it is in opposition. Finally, as service provision is backed by powerful organised labour, it follows that it will be harder to cut for party $R$. This justifies the assumption that expenditure on $s$ is not reduceable in the second period: $s_1 = s_2$.

We can now write,

$$u(f_1, s_1, f_2, s_2) = f_1 + H(s_1) + pf_1 + (1 - p)vf_1 + H(s_1).$$

(4.2)

In each period, the government faces a budget constraint such that taxes raised equal expenditure:
\[ T_t = f_t + s_t. \] (4.3)

\( T_t \) is fixed exogenously from the model. This is partially a device to maintain the analytical tractability of what is intended as a simple heuristic model.\(^7\) However, there are positive reasons for this decision, as well. Exogenising \( T_t \) is in accordance with my argument regarding the importance in terms of partisanship for drawing a distinction between the ‘size’ of broad policy areas and their particular composition. \( T_t \) can be taken to represent the maximum level of public expenditure for which party \( L \) will not be electorally punished. It could be thought of as a manifesto promise not to exceed \( T_t \) that would be extremely costly to break. Believing that citizens vote on their perceptions of broad size-of-government considerations such as the tax take requires fairly weak (and realistic) assumptions about their political information and analytical capacity. It is this aggregation of voter opinion that constitutes the exogenous constraint on government spending in my model. Within this broad level of expenditure, my argument is that policy-makers have discretion on the particular composition of the spending that are largely inconsequential for subsequent electoral purposes. It is for this reason that I maintain that the probability of left-wing electoral success at the election between period 1 and 2 \( (p) \) is also exogenously determined, rather than being a function of \( f_1 \) and \( s_1 \).

What is the optimal policy choice for party \( L \) in period 1? Imposing that there is no inter-temporal saving or borrowing by governments and, thus, that increases in \( s_t \) are at a one-for-one cost to \( f_t \), we can differentiate \( u(\cdot) \) with respect to either policy variable and determine the optimal policies.

\(^7\)The obvious alternative to this modelling choice is to employ probabilistic voting models with two policy dimensions. In general, this approach fails to deliver closed-form solutions. Numerical solutions that lack generalisability are required instead. As Roemer (2001) has shown, they sometimes even require refinements to the typical Nash Equilibrium solution concept; with Roemer’s own Party Unanimous Nash Equilibrium (PUNE) being the prominent example of this.
\[
\frac{\partial u}{\partial f_1} = 1 - 2H'(s_1) + p + (1 - p)v
\]
\[
\downarrow
\]
\[
s_1^* = H^{-1}\left(\frac{1 + p + (1 - p)v}{2}\right) \quad (4.4)
\]

Given the budget constraint, the policy decision is essentially one-dimensional as \(s_1^*\) defines \(f_1^*\). From (4.4), we may investigate the comparative statics of how the optimal policy choice varies with \(p\) and \(v\). Thus,

\[
\frac{\partial s_1^*}{\partial v} = H^{-1}'\left(\frac{1 + p + (1 - p)v}{2}\right) \left(\frac{1 - p}{2}\right) \quad (4.5)
\]
\[
\frac{\partial s_1^*}{\partial p} = H^{-1}'\left(\frac{1 + p + (1 - p)v}{2}\right) \left(\frac{1 - v}{2}\right) \quad (4.6)
\]

The similarities between (4.5) and (4.6) highlight the similarities of the effects of \(v\) and \(p\). What can we say about how \(s^*\) varies with the two variables? From the assumptions that \(H''(\cdot) < 0\), \(v \in [0, 1]\), and \(p \in [0, 1]\), both (4.5) and (4.6) are unambiguously negative.\(^8\) Thus, as the probability of left-wing electoral success increases, the optimal level of expenditure on \(s\) decreases. Indeed, when \(p = 1\), \(s^* = 0\), which is what we would expect from our assumption that cash transfers are the superior policy choice. The same analysis applies for the proportion of cash transfers that party \(L\) expects to be able to retain when they are in opposition. The higher this proportion, the lower the optimal \(s\), to the point that \(v = 1\) leads to \(s^* = 0\).

\(^8\)See Section 4.A for a proof.
4.3 Conclusion

In this chapter, I have set out the theoretical justifications for an as yet under-appreciated distinction between two types of welfare state expenditure. Indeed, evidence as to the relative degrees of organised labour embodied in these two types of expenditure in the UK provides considerable *prima facie* support for the validity of the distinction. A simple decision-theoretic model was then used to capture the essence of the argument made more discursively in the opening section of the chapter. The comparative statics from this model given in (4.5) and (4.6) make clear that, while much of the causal logic of my argument stems from the influence of public sector unions, the key empirical predictions that flow from the argument are concerned with the likelihood of a left-wing party having their policy choices rolled back in the future. This likelihood is determined by the probability of left-wing parties winning future elections ($p$) and the ability that they have to block reforms even when they are in opposition ($v$).

In the two ensuing chapters in this part, I apply the theoretical insights developed here. *Chapter 5* provides a comparison of the development of national health policies in the UK and Sweden after the Second World War. In it, I argue that the strategic logic relating to cash and services, and through those, relating to $p$ and $v$, was operative at critical junctures for health policy in the two countries. *Chapter 6* goes on and applies the same argument to the ‘retrenchment’ period from 1990 to 2004 across a number of OECD countries. The empirical test in this chapter is specifically on the $v$ variable, and the evidence supports the argument set out here that higher legislative checks lead left-wing parties to be relatively more favourable to cash transfers. In applying the same logic at both ‘critical junctures’ and ‘path dependent’ periods, taken together, this *Part* also shows that similar political motivations can be discerned at both points. In this light, it is tempting, in some respects, to see the retrenchment period as the ‘same old politics of the welfare state’.
CHAPTER 4. WELFARE TYPES AND STRATEGIC PARTISANSHIP

4.A Comparative Static Proof

The requirement is to show that $H^{-1'}(\cdot)$ is negative. Taking a generic function, $g(\cdot)$, we start with the definition of inverse functions and then proceed as follows:

\[
x = g\left(g^{-1}(x)\right)
\]

\[
\downarrow
\]

\[
1 = g'(\cdot)g^{-1'}(x)
\]

\[
\downarrow
\]

\[
g^{-1'}(x) = \frac{1}{g'(\cdot)} \quad (4.7)
\]

As (4.7) shows, the sign of $g'(\cdot)$ and $g^{-1'}(\cdot)$ are the same. Now, defining $g \equiv H'$, we can rewrite (4.7) as,

\[
H'^{-1'}(x) = \frac{1}{H''(\cdot)} \quad (4.8)
\]

By assumption, $H''(\cdot) < 0$, which implies $H'^{-1'}(x) < 0$.  

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Chapter 5

Partisan Strategy at the
Post-War Emergence of the
British and Swedish Health Systems

[Britain’s National Health Service] was the first health system in any Western society to offer free medical care to the entire population. It was, furthermore, the first comprehensive system to be based not on the insurance principle, with entitlement following contributions, but on the national provision of services available to everyone. It thus offered free and universal entitlement to State-provided medical care. At the time of its creation it was a unique example of the collectivist provision of health care in a market society. It was destined to remain so for almost two decades after its birth when Sweden, a country usually considered as a pioneer in the provision of welfare, caught up. (Klein, 1989, 1)

The typical view of ‘leftist’ involves ideas of larger state control, bureaucratisation, and socialisation. For this reason, a simplistic analysis of Swedish and British
politics in the aftermath of the Second World War could lead to a belief that the Swedish welfare state would develop in a more statist, bureaucratised, way than its British counterpart. Such a view would be based on the observation that Social Democratic hegemony in Sweden can be contrasted with regular periods in office for the British Conservative Party. That is, while the Left dominated in Sweden and was able to build a welfare state upon this political foundation, in the UK the electoral fortunes of the Left were markedly worse. Labour endured repeated and long periods in opposition, which afforded them very little influence over policy due to the prevailing majoritarian parliamentary system. In this view, the greater (Swedish) left-wing strength should be associated with more ‘leftist’ health policies than were implemented in the UK.

The ensuing text challenges such a view and shows that it is misleading. Following strategic calculations as to the likely durability of the redistributive aspects of the welfare state in each country, the Swedish Social Democrats (SAP) were able to pursue a welfare state programme of a far less rigidly statist nature. By contrast, the British Labour Party, fearing future Conservative rule, were constrained to pursue more traditional ‘nationalised’ welfare state structures. I argue that two specific incentives drove Nye Bevan, the Labour minister who founded the NHS. First, he strove to construct a health service that was profoundly redistributive in terms of its funding mechanisms and its access. This was in contrast to the SAP, who were perfectly comfortable designing a health system that was based on cash transactions — they knew that they could ensure all citizens would have the cash to pay the fees through solidaristic wages and unemployment benefits. Second, Bevan expressed concern when making his policy choices for their susceptibility to manipulation by future Conservative governments. This can be seen in terms of his commitment to the principle of no charges within the NHS that he considered would make it more difficult for the Tories to reduce the redistributive effect of the system. It can also be seen in the specific structures that he sought to create in building the NHS.
My approach in this chapter is to compare cases which are broadly similar, with the exception of the strategic position of the relevant left-wing parties. The aim being to infer that the differing outcomes on the dependent variable — here, health policy choice — were (at least partially) caused by these differing strategic positions. In essence, I use Mill’s ‘method of difference’ (Mill, 1843, 455) through detailed and theoretically-informed histories of the policy processes in the two cases so as to get closer to the causal mechanisms. Methodologically, the research design is akin to an ‘analytic narrative’ (Bates et al., 1998) in that a deductively generated theoretical model is used to make sense of a pattern of divergent historical outcomes. In pursuing this approach, I am very conscious of both the benefits and limitations of “modeling history” with “the use of narratives as evidence” discussed by Büthe (2002). The clear advantage is the ability to perform the hypothesis tests using historical, case-oriented, data. Philosophically, I am in agreement with two important limitations of this kind of research that Büthe outlined. First, that,

it is more meaningful to endorse good narrative work as “plausible,” “persuasive,” or “compelling” — as seems to be the practice among historians — rather than “true” or “right.”[...]. (Büthe, 2002, 488)

In essence, I make no claim that the evidence presented below constitutes ‘proof’ that the proposed model is correct. Rather, I claim that the evidence accords with the theoretical predictions of a model that provides a useful heuristic for interpreting the historical events. Second, that,

[as Morris Fiorina notes, meaningful alternative explanations are much more likely to be advanced by others whose “perspectives and commitments” allow them to argue as strongly as possible in support of those alternatives. All such explanations must then be subjected to the collective assessment of the scholarly community at large (Fiorina, 1995, 92). (Büthe, 2002, 489)
Thus, in accordance with not claiming ‘proof’, I recognise that it follows logically that a degree of uncertainty remains as to the validity of the argument presented here. The communal (social) scientific endeavour is the best way to reduce this uncertainty.

In Section 5.1, I begin with a justification of the selection of the UK and Swedish health systems as the two cases under study, while Section 5.2 provides some more detailed theoretical outlines. Sections 5.3 and 5.4 then provide historical analyses of the development of the UK and Swedish health systems, respectively. Finally, Section 5.5 draws the discussion together and provides a concluding overview.

5.1 Case Selection

5.1.1 Countries

The selection of Sweden and the UK as the two comparative case studies is made for a number of reasons. First, and most obviously, my theoretical claim concerns how left-wing parties will choose to structure the welfare state when they are in power. My historical focus is on the build-up of welfare states that occurred after the Second World War. While there were important developments in welfare states before this point, the post-war period is conventionally recognised as being a crucial time that saw radical advances in state-sponsored welfare provision across many ‘developed democracies’. The selection of this period also has the advantage that, in the aftermath of the War, the political environment in most countries potentially relevant to this study was fairly settled — and unconditionally democratic. Heclo (1974, 15) saw similar reasons for his own comparison of Swedish and UK social policy — as well as the fact that both countries were seen as early leaders in this field.\footnote{Unfortunately, Heclo did not include health care in his study.}

Given the theoretical position taken here, one requirement is that the two selected

\footnote{1See, for example, Bunbury (1957) on the British National Insurance Act of 1911 or Baldwin (1990) for a broader comparative view, as well as the references in Sections 5.3.1 and 5.4.1, below.}
cases experienced left-wing government at this point. The transition from broad-based war-time coalition government to left-wing rule in both countries fulfills this requirement — and also excludes several other prominent candidate cases, such as France, West Germany, and Italy.

The influence of the Second World War provides a further reason to compare Sweden and the UK: neither experienced all-out war on their own territory. The consequence of this being that both emerged relatively better off in terms of housing and industrial capacity, as compared to other continental European countries. That Sweden remained neutral during the war and Britain emerged as a victor also removes any complicating factor associated with political vacuums following shifts to democratic post-war regimes.

There is, of course, a positive reason to choose to compare these two countries, as well. While they offer the similarities described above, they also differ in respects that are most relevant to the theoretical claims that I am seeking to test. The Labour Party in the UK and the Swedish Social Democrats (SAP) were faced with fundamentally different institutional and electoral prospects; differences which, I will argue, led them to pursue rather different structures for their health systems.

First, the electoral system in Sweden amounted to proportional representation (PR) while that in the UK was the archetypal first-past-the-post (FPTP) majoritarian system. Recent theory has suggested that PR systematically favours left-wing parties while FPTP favours right-wing parties (Iversen and Soskice, 2006a; Ticchi and Vindigni, 2005). Even if we assume that the benefits of hindsight were not available so that they were not aware of the theoretical bases for such a bias, the distinction between PR and FPTP remains relevant. The essence of majoritarian systems is that they give an extra boost to the largest party (or parties) in the translation of votes to seats so as to yield stronger, more cohesive, very often single-party, governments. For this reason, if nothing else, a left-wing party operating in a FPTP environment would have had good reason to expect future governments to
be formed by right-wing parties with fairly high probability. The regular swing of
the electoral pendulum is enough to give fairly unconstrained power to the Right.
By contrast, PR systems do not have this inherent tendency to boost the power of
the largest party, with the result being the promotion of a more consensual politics
as single-party majorities are less likely (Lijphart, 1999).

Second, and related to the differing electoral systems in operation, the SAP faced
a right-wing bloc divided between the Liberals, the Conservatives, and the Agrarians
while the Labour Party faced a united right-wing party in the British Conservatives.
This made the SAP easily the largest political party in Sweden, gaining around twice
as many votes as its nearest competitor in elections of the period. As such, if the need
were to arise in the future for coalition government in Sweden, there would be more
opportunities for the SAP to forge a parliamentary alliance, and thus attain power,
than for other parties.³ Indeed, the SAP took advantage of these circumstances in
allying with the Agrarians in 1933 — which led to a formal coalition agreement in
1936 (Lewin, 1988, 143).

Third, following the much-remarked Saltsjöbaden agreement of 1938 between
organised capital and labour, the Left had an accepted, institutionalised, extra-
parliamentary arena through which they could pursue their interests (Lewin, 1994).
That is, even were the SAP to lose power in parliament, the strength of the labour
movement and its position of accord with the major business organisations was
such that they could have reasonable beliefs about being able to defend their core
interests against right-wing governmental attack.⁴ By contrast, no such corporatist
agreement and unified labour movement was available to the Labour Party.

My claim, then, is that when the SAP and Labour Party found themselves in
power in 1945 they faced fundamentally different strategic positions. The Labour

³Ruin (1988, 313–314) describes how Tage Erlander, the long-time Swedish Social Democrat
Prime Minister, was well aware of how the operation of the electoral and party systems built in this
advantage for the SAP.

⁴Of course, the equivalent argument with respect to capital and the right-wing parties can also
be made. The point is that the institution made consensual policy more likely by limiting the large
swings of policy-making influence from ideological poles that is often associated with Westminster
parliamentary systems.
CHAPTER 5. POST-WAR HEALTH POLICY

Party could look forward to the prospect of unconstrained Conservative rule in the not-too-distant future. The SAP, on the other hand, could reasonably expect to form more governments than its right-wing opposition and anyway had far less to fear from an incumbent right-wing government, should it come to pass.

One further factor also suggests Sweden as a particularly appropriate case study. The constitutional reforms it underwent around 1970 changed the strategic position in which the SAP found itself. The reform actually moved the SAPs electoral and legislative positions somewhat closer to those of the Labour Party. As such, it offers an extra opportunity — taken up in Section 5.4.3 — to observe whether differing strategic positions of the sort discussed above lead to differing policy choices on the part of left-wing parties.

5.1.2 Policy Area

With the motivation for the case selection set out, a further question remains: which aspect of the nascent welfare states to focus on? Some of the more prominent components of what is generally accepted as the welfare state provide little scope for analysis as there is little possibility for them to be supplied as publicly provided services rather than cash transfers. Unemployment benefits and pensions fall into this category.

Health care offers a far more promising area of policy to analyse. Expenditure on health care forms a very large portion of public expenditure both in the immediate post-war period and, even more so, in the present day. As such, it is clearly of high political significance because of its sheer size — as Table 5.1 makes clear. In contrast to education expenditure, it is clear that results from investment in health care are likely to be felt fairly instantaneously as people will immediately reap the benefits of greater access to medical staff, medicines, equipment, and the like. It is also clear that health care has the capacity to be highly redistributive. Finally, the realities of various existing health systems around the world make it obvious
that the provision and funding of health care can take very different forms — with
government-provided free-at-the-point-of-use services at one end of the spectrum,
and fee-for-service cash-based systems (often coupled with forms of insurance) at
the other.\footnote{See Robinson, Jakubowski and Figueras (2005) for an overview of current health policy structures in Europe.} Thus, the analysis of the structure of national health care systems fits
the requirement that left-wing parties had choices to make in the design of the
systems that they helped to build.

## 5.2 Theoretical Detail

Before studying the history of post-war health policy in the UK and Sweden, it
is helpful to extend the theoretical argument set out in Chapter 4 to the more
specific sphere of health policy. My argument before was a broad one regarding the
importance of distinguishing between cash-based and service-based welfare policies
based on the differing political dynamics that they create going forward — notably
the ease with which they can be retrenched in the future. In constructing health
systems, there were a number of decisions that policy-makers had to make and which
had large impacts on both the relative size of the cash- and service-based components
of the resulting system, as well as its overall redistributive character. I outline four
such choices that were particularly salient to policy-makers in Sweden and the UK,
and that can be seen to have strong roots in the theoretical distinction that I have
drawn.

The first is the presence or absence of fees for individual consumers of health
services. Where visits to doctors and other specialists require a patient to make
payments directly to the service provider on a per-visit or per-procedure basis, the
system clearly has a strong cash element to it. By contrast, policy-makers may opt
for a system in which access to such services are ‘free at the point of use’ such that
the patient makes no direct payments on a per-usage basis; the costs being borne by
a broader pool of financial contributions. In a sense, this distinction between fee-
## Chapter 5. Post-War Health Policy

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<td>2.9</td>
<td>4.4</td>
<td>7.0</td>
<td>7.6</td>
<td>8.4</td>
<td>8.7</td>
</tr>
<tr>
<td></td>
<td>(77.8)</td>
<td>(91.6)</td>
<td>(85.1)</td>
<td>(82.8)</td>
<td>(82.5)</td>
<td>(83.6)</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.8</td>
<td>8.9</td>
<td>8.2</td>
<td>8.2</td>
<td>9.2</td>
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<tr>
<td></td>
<td>(86.0)</td>
<td>(92.5)</td>
<td>(89.9)</td>
<td>(84.9)</td>
<td>(81.7)</td>
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</tr>
<tr>
<td>Switzerland</td>
<td>4.9</td>
<td>5.4</td>
<td>7.3</td>
<td>8.2</td>
<td>10.3</td>
<td>11.3</td>
</tr>
<tr>
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<td>3.9</td>
<td>4.5</td>
<td>5.6</td>
<td>6.0</td>
<td>7.2</td>
<td>8.4</td>
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<td>13.2</td>
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<tr>
<td></td>
<td>(23.3)</td>
<td>(36.3)</td>
<td>(41.2)</td>
<td>(39.4)</td>
<td>(43.7)</td>
<td>(45.8)</td>
</tr>
</tbody>
</table>

Table 5.1: Cross-national health expenditure as a percentage of GDP, with the public sector percentage of this expenditure in parentheses. Source: OECD.
for-service and free service is somewhat different from the cash versus service one of the previous chapter, but there is a fundamental connection between the two. In order to enable the poorer sections of society to gain access to health services under a fee-for-service system, it is imperative that they have the financial resources with which to pay for them. As such, from the point of view of redistributively-minded policy-makers, the viability of fee-for-service systems must be contingent upon their continued ability to ensure that the poor have sufficient cash with which to pay the fees. It is in this way that the individual payment system is tied into my broader theoretical construct.

The second specific policy choice available to designers of health systems relates to the nature of state-mandated financial contributions at the macro level. At one end of the spectrum are (often mandatory and socialised) contributory systems in which the state determines the size and arranges the collection of what are effectively health insurance premiums. Contributions to the scheme give entitlement to health service benefits, with the result that non-contribution, obviously, does not. State-organised funding of this sort is effectively a hypothecated poll tax to support the provision of a ‘national’ health system. By contrast, at the other end of the spectrum are systems which are funded out of general taxation revenues. To the extent that the general tax system is more progressive than a poll tax, such a system is inherently more redistributive as health insurance is effectively purchased on an ability-to-pay basis through the lower (or zero) taxes paid by the less well-off.

The nature of medical staff employment is the third policy choice in health. Doctors, nurses, scientists, cleaners, and the like are all required to provide health services, but what should their financial and employment relationship be with the state? At one extreme, they (individually or in corporate groups) can be independent contractors paid on the basis of the number of patients they serve and/or the number of treatments and tests that they administer. Such a system makes it much easier for doctors to reduce their dependence upon the state-financed system by maintaining
and expanding their provision of private care to those able to pay. In essence, it provides a graded way in which doctors can withdraw their labour from the state system when this is in their interests. By contrast, the opposite extreme is where all medical staff are directly employed by the state as civil servants. Under this design, public sector managers directly control the work patterns of their employees and are able to restrict slippage towards a more privatised system. Indeed, restrictions can be such that doctors are blocked from engaging in any private practice as long as they remain employed by the state — thus leading doctors to need to take the risk of resignation before attempting to act entrepreneurially.

The differing nature of these two types of systems has a further consequence, though. Once the medical staff are employed in a system as civil servants, it is in their collective interest to lobby government to maintain or increase state health expenditure as a means of maintaining or increasing their wages. To the extent that state-arranged expenditure is redistributive, this lobbying comes to have an inherently redistributive nature. In this situation, higher resources for health care, even when in the form of higher wages, should raise the quality and or the quantity of health care that is available to those who would otherwise struggle to access it. On the other hand, when medical staff operate as private contractors with outside options, it is far less clear that any successes that they have in raising public expenditure should have positive redistributive consequences as the spending is channeled through an inherently less egalitarian system.

The fourth policy choice is similar to the issue of medical staff employment, but revolves around ownership of the capital assets required to provide health care — most prominently, hospitals. Decentralised and perhaps even privatised ownership of such assets limits the control that the state has over their use, and consequently limits the control that the state has over the extent to which they are made available on the basis of need or the basis of ability to pay. Where hospitals are nationalised and directly controlled by the central state, fears of redistributive roll-back are also
### Table 5.2: Health policy options by type

<table>
<thead>
<tr>
<th>Cash oriented</th>
<th>Public-service oriented</th>
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</thead>
<tbody>
<tr>
<td>Individual payments</td>
<td>Fee for service</td>
</tr>
<tr>
<td>State funding</td>
<td>Insurance/contributory</td>
</tr>
<tr>
<td>Staff employment</td>
<td>Self-employed</td>
</tr>
<tr>
<td>Capital ownership</td>
<td>Decentralised</td>
</tr>
<tr>
<td></td>
<td>Free at the point of use</td>
</tr>
<tr>
<td></td>
<td>General taxation</td>
</tr>
<tr>
<td></td>
<td>Civil servants</td>
</tr>
<tr>
<td></td>
<td>Nationalised</td>
</tr>
</tbody>
</table>

likely to be much reduced. The issue revolves around the nature and structure of organised interests that are formed under decentralised versus nationalised systems. In the former case, a centralised bureaucracy is created with a vested interest in maintenance and expansion of its empire (c.f. Nordhaus, 1975). In the latter case, a distributed and less organised group of hospital owners would develop, and their interests are likely to be more disparate as a result of the differing economic, social, and health environments in their localities.

The preceding discussion is summarised in Table 5.2 and, as we shall see, they prove to be important aspects of the health policy-making process in both the UK and Sweden.

### 5.3 The Founding of the British National Health Service

Although the National Health Service is sometimes portrayed as if it sprang fully armed from the forehead of Aneurin Bevan, its form owed a great deal to the nature of health care before 1939. But there was nothing predetermined about the form it took. Many possible models were under discussion in the pre-war period. (Glennerster, 1995, 45)

The founding of the National Health Service (NHS) in Britain is a seminal moment in British politics. While health care had been developing for many years, Day and Klein (1992) term the years around 1945 as a period of “constitutional

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6 Abel-Smith (1964) provides a history of ‘The Hospitals’ from 1800 and Bunbury (1957) sets out the passage of the National Insurance Act of 1911 in great detail.
politics” in health policy as compared to a more normal consensual climate at other times. Similarly, in discussing health policy, Hacker (1998, 93) writes that, “If any moment in modern British politics deserves to be called a critical juncture, it is the Labour landslide of 1945”.

In the aftermath of the Second World War, health policy reached a point from which any of a number of courses could have been pursued. The question here is why a particular course was chosen. In order to answer that, it is necessary to provide a little historical context. The next two sections provide this. From that base, I analyse the final adoption of the reforms that constructed the NHS.

Fundamentally, my claim is that the Labour Party, and Aneurin Bevan in particular, acted strategically by constructing a system that would come to be extremely difficult to dismantle or adjust for any subsequent Conservative governments. Nationalisation of the hospitals, a strong commitment to care being free at the point of use, and a (partially thwarted) move towards a medical profession that would come to be largely dependent on the decisions of government for their financial security led to a pattern of popular and particular interests that made the NHS the enduring national institution that it became.

The argument advanced below is somewhat unconventional in that it rejects the notion of cross-party ‘consensus’ over the adoption of the NHS and instead sets out an explicitly partisan analysis of the process of health reform. I claim that the perception of war-time consensus is mistaken, showing that this view is an artifact of the pressures of coalition government and public support for the Beveridge Report. In essence, the Conservatives were forced to accept development of a new health system by the pressure of the median voter, while Labour were out in front leading the charge. Furthermore, while the popular view was that something must be done, there was, nonetheless, considerable discretion over the structure of the health system that would be built. Bevan’s bold departure from the war-time plans

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7 Day and Klein (1992) also see constitutional restructuring in 1911 and 1989, but these are not directly relevant to our discussion here.
is evidence, in itself, of this fact. Thus, had the Conservatives won the election of 1945, it is reasonable to expect that they would have designed rather a different institution.

To make my argument, this section is divided into a number of subsections that deal, chronologically, with various aspects of health politics and policy in the UK around the time the NHS was created. So as to provide some historical context, Section 5.3.1 sets out the defining features of the health system in the UK in the period before the Second World War. Section 5.3.2 then discusses some of the wartime planning that occurred in the sphere of health policy. It is in this section that I argue that the view of a cross-party consensus on health policy at the time is misguided. In doing so, I take the first step to show that partisanship really was at play in the formulation of health policy during that period. Section 5.3.3 then extends the argument in favour of a partisan interpretation of events by outlining some of the key political struggles that ensued as the new Labour government began to construct the NHS in the aftermath of the war. I claim that the nationalisation of the hospitals and the conflict with doctors over their employment status within the system were the result of Bevan’s desire to build a health service that would survive future Tory government. Section 5.3.4 then discusses how, having created the NHS, the Labour government confronted budgetary constraints that raised the issue of whether to introduce limited patient charges for some of its services. Again, I argue that the record of the internal discord within the Labour Party signifies the importance that several of the leading party actors ascribed to the protection of the NHS under a future Conservative government. Finally, Section 5.3.5 provides an assessment of how Conservative policy on the NHS developed after they were returned to power in 1951. I show that, as the theoretical argument would predict, they found themselves locked-in to a rather path dependent organisational form of health service provision — indeed, one that appeared to compel them to continue to raise expenditure on the scheme. As such, the efforts of the Labour architect of
the NHS, Nye Bevan, appear to have been rather successful.

5.3.1 The Pre-Second World War Legacy

In the UK, the pre-war pattern of health care had been shaped to a large degree by the National Health Insurance Act of 1911. As noted by Eckstein (1959, 19),

> at the end of the Second World War, some 24,000,000 people — roughly half the British population — were covered by compulsory health insurance.

A feature of the system, and one much noted by Eckstein (1959, 22), was that its administration was split in two. Medical benefits were administered by local Insurance Committees composed of doctors, pharmacists, and representatives of local government. Cash benefits were administered by Approved Societies, which were essentially private, albeit notionally non-profit, health insurers.

While obviously a step in the direction of ensuring universal health care coverage, the 1911 Act fell far short of that mark. The system, enacted by the Liberal government under the auspices of Lloyd George at the Treasury, provided for compulsory health insurance for only the working sections of the ‘working class’. The self-employed (e.g. small traders) and the unemployed dependents of workers did not benefit from the scheme, with the consequence that large sections of society were excluded from health coverage (Eckstein, 1959, 20; Lindsey, 1962, 8).

Even those insured under the scheme only had access to general practitioners (GPs), rather than hospital specialists. Indeed, Lindsey (1962, 13) considered this to be “[c]ertainly the most deplorable aspect of the Health Insurance”. With the growing complexity of medicine and the high workloads of GPs, it became increasingly difficult for them to keep pace with medical advances. Thus, the benefits of new specialist health care were an even more remote possibility for those without the income or wealth to purchase it.

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\*I.e. ‘sickness benefits’, more of which, below.
CHAPTER 5. POST-WAR HEALTH POLICY

On top of exclusion of half the population, from an egalitarian point of view, the National Health Insurance scheme suffered from another fatal problem — at least as perceived from the political realities of the 1940s. Effectively, it provided what, in modern parlance, might be termed a ‘two tier’ service. While there was a set of “basic” services guaranteed to all insured under the scheme, the more extensive raft of services provided for by the Act were made optional, dependent upon the financial position of the individual Approved Societies (Lindsey, 1962, 12). Such arrangements may have been justifiable on budgetary principles and the political realities facing Lloyd George when passing the Act in 1911, but it had noted distributive effects due to a related provision of the Act. Each Approved Society was free to turn away those that they considered to be “bad risks” — those likely to impose heavy costs in the future (Eckstein, 1959, 28). Of course, such bad risks were highly correlated with the kinds of industrial employment that large portions of the burgeoning working class were engaged in. The effect, then, was to allow the better off — both financially and in health terms — to self-select into separate insurance pools. As insurance premiums were fixed by the Act but the risk pool associated with different Approved Societies varied dramatically, the financial position of the Societies also varied accordingly. Consequently, so did the provision of the optional extended portions of health insurance. In Aneurin Bevan’s words,

> [t]he result was that these Approved Societies were compelled to curtail benefits to their members, while other societies with a different industrial composition were able to distribute the full benefits. That situation consequently helped the strong and hurt the weak. (Bevan, 1952, 78)

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9 To be clear, this comment is not intended to detract from the achievements of the National Health Insurance Act 1911, which was, in many respects, a remarkable and early expansion of welfare provision.

10 Including “exceedingly low cash payments during illness” (Eckstein, 1959, 20).

11 See Bunbury (1957) for a detailed, insider’s, view of the formulation and passage of the 1911 Act. It provides a rare view of the nitty gritty of public policy making — one that is sorely missed for the period under study here.
Overlaid above the system of (sometimes insured) GP care was a rather decentralised, uncoordinated, hospital system. This was split into two sectors, the ‘voluntary hospitals’ and the ‘municipal hospitals’. These latter institutions were owned and run by local governments and many of them had emerged out of the old Poor Law workhouses; local governments taking-over these Victorian vestiges that housed the elderly and infirm, often in Dickensian conditions. Despite having somewhat more beds than the voluntary hospitals,

[a] large proportion of public beds were occupied by the aged, infirm, and chronically ill — especially by mental patients — so that a bare count of beds is scarcely indicative of the relative importance of the two systems.

(Eckstein, 1959, 35)

The voluntary hospitals, then, formed the basis for the provision of the truly specialist care available in Britain at the time (Eckstein, 1959, 35). These were charitable institutions, but of widely differing characters. The most prominent were the ‘great teaching hospitals’, preponderantly found in London, but the spread of all voluntary hospitals, if not leading specialists, was rather more even across the country.

Municipal hospitals were legally obliged to treat (to the extent that they could) any patient that presented themselves, while voluntary hospitals were not. However, as Eckstein (1959, Chapter 2) is at pains to emphasise, access to the services of voluntary hospitals was far from out of reach of the poor — assuming that they actually lived near such an institution. The finances of voluntary hospitals were such that relatively high fees for the wealthy were used to subsidise services to the poor. However, with the passage of time, their financial status became more and more precarious. The percentage of revenues derived from patient fees and “insurance sources grew steadily larger during the later history of the voluntary system, [and] the hospitals continued to be heavily dependent on gifts and donations to make ends meet” (Eckstein, 1959, 36). Nonetheless,
by the late 1930s many of the voluntary hospitals, which accounted for about one-third of the beds, were in deep financial trouble. Even the great teaching hospitals endlessly teetered on the edge of bankruptcy. (Timmins, 2001, 104)

One final aspect of the pre-reform hospital services is relevant. The outbreak of the Second World War brought into sharp focus the perilous financial position of the hospitals as their services were suddenly in huge demand. A large infusion of state funding was provided to plug the holes in a move that Lindsey (1962, 19) terms ‘temporary nationalisation’. This was the Emergency Hospital Scheme. The new funds bought extra beds and extensions of specialist services. On the shaky foundations of the pre-war system, a temporary wartime service was constructed. It was not, by design, built to last. Nor did it.

5.3.2 Wartime Planning

The aim of this section is to show that the perception of cross-party consensus regarding health reform during the war is, in fact, mistaken. To that end, I present evidence that the Conservatives were, to a large extent, not in agreement with their Labour coalition partners on the appropriate way forward. Instead, they sought to hold off and water down reform plans. Contrary to those who argue that the broader period was noteworthy for its consensus, the analysis here shows that partisanship did play a role in the politics of the NHS.

Perhaps surprisingly, given the size of the challenge facing the country in fighting a ‘total war’, the wartime period was one of major governmental planning initiatives in the social policy realm. Of course, the most prominent example of this process is the much-heralded Beveridge Report of 1942 (Beveridge, 1942).\(^\text{12}\) ‘Assumption B’ of the Beveridge Report was that the system of social security would be built upon the foundation of “a national health service for prevention and for cure of disease

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\(^\text{12}\)See, for example, Baldwin (1990) for more detail on the Beveridge Report.
and disability by medical treatment” (Beveridge, 1942, 158). Further,

a health service providing full preventive and curative treatment of every kind to every citizen without exceptions, without remuneration limit and without economic barrier at any point to delay recourse to it, is the ideal plan. It is proposed accordingly that, in the contributions suggested as part of the Plan for Social Security, there shall be included a payment in virtue of which every citizen will be able to obtain whatever treatment his case requires, at home or in an institution, medical, dental or subsidiary, without treatment charge. (Beveridge, 1942, 162)

So it was that William Beveridge placed a health service, free-at-the-point-of-use, firmly on the political agenda. While he deemed the actual structure of the service to implement his prescribed principles to “fall outside the scope of the Report” (Beveridge, 1942, 159), his outline, owing to its ensuing public support, partially constrained the options available to policy-makers.

The Ministry of Health had been internally discussing possible structures for a future national health service. Numerous options had been presented, including extension of the prevailing insurance system, enhancement of the municipal hospital system, and outright nationalisation of the hospital sector (Timmins, 2001, 109). Spurred into action by the Beveridge Report — and it’s rapturous reception — the ‘irresistible pressure’ in favour of implementation of the Beveridge recommendations led Churchill to sanction a more detailed process of planning for a new health system in 1943.

The incumbent Health Minister at the time was the National Liberal, Ernest Brown. He was, however, replaced within a few months by, the Conservative, Henry Willink. It was Willink who produced the white paper entitled ‘A National Health Service’ in February 1944.

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13 To paraphrase Timmins (2001, 110).
14 This was, of course, during the period of wartime coalition government.
Its opening statements were both noble and crystal clear: that everybody ‘irrespective of means, age, sex, or occupation shall have equal opportunity to benefit from the best and most up-to-date medical and allied services available’; that the service should be ‘comprehensive’ for all who wanted it; that it should be ‘free of charge’, and that it should promote good health ‘rather than only the treatment of bad’. (Timmins, 2001, 111)

On the face of it, Timmins’ conclusion of the situation following publication of the White Paper was reasonable.\textsuperscript{15}

It was now certain that a National Health Service, largely tax-financed, free at the point of use, and comprehensive, covering family doctors, dentists, hospital services and more, would arrive. Its precise form, however, remained far from clear. (Timmins, 2001, 111)

This implied view of consensus is, though, a little too neat (c.f. Jefferys, 1987; Powell, 1994).\textsuperscript{16} While Willink’s White Paper appears to share much with the subsequent reform enacted under a Labour government — see below — there were numerous differences between the two, mostly revolving around what, from a left-wing perspective, would be seen as deficiencies with the White Paper proposals.\textsuperscript{17} The result was a proposed system that would surely have failed to fulfill the expansive goals set for it. While apparently similar to the subsequently constructed NHS, the system proposed in February 1944 was in fact rather a different beast.

An important question must be answered at this point, however. If the Conservatives published a health system proposal that represented an egalitarian advance compared to what went before, does that not undercut the argument that the subsequent design of the NHS by the Labour Government was a profoundly partisan

\textsuperscript{15}Hacker (1998, 68) subscribes to a similar view in dismissing the relevance of partisanship in the subsequent passage of the NHS Act (see Section 5.3.3).

\textsuperscript{16}See also Hickson (2004) for a critique of the view that a broader ‘postwar consensus’ emerged.

\textsuperscript{17}See Webster (1988, 50–57) for a discussion of the Cabinet deliberations over the White Paper.
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The answer is ‘no’ for four reasons.

First, the war-time government was a coalition government, which makes it somewhat more difficult to ascribe agency to the Conservatives for the plans that were published. Despite the presence of a Conservative Minister of Health, there was a large amount of policy bargaining going on within the government, with both the Conservatives and Labour being forced to concede ground. During cabinet deliberations over the White Paper,

Churchill tried to re-open discussions on private medical practice, that status of voluntary hospitals, and the terms of employment of consultants. In response, Attlee reminded Churchill that Labour members of the Reconstruction Committee had accepted so much that was unpalatable in the White Paper that they risked censure within their own Party. He warned that any resumption of discussions would force Labour Ministers to renew their demands for full-time salaried service and for other policies ‘far more repugnant to Conservative feeling’. (Webster, 1988, 54)

Meanwhile, Lord Woolton, chairing the Reconstruction Committee, made Tory compromises explicit in a Cabinet Paper.

In order to carry the Labour part of the Coalition, we put into that White Paper certain proposals envisaging that there might be salaried practice in Health Centres and that doctors practising in the Centres would be in contract with the local authority as well as with a Central Medical Board. (Cabinet Papers, 1945)

Moreover, Klein (1989) finds that,

the White Paper was an attempt to reconcile the views of the principal coalition partners: the Conservative and Labour parties. When the
Prime Minister, Winston Churchill, had last-minute qualms about publishing the White Paper, he got a sharp reminder about the political realities from Lord Woolton, the Minister for Reconstruction. (Klein, 1989, 11)

Second, and this speaks to some of the “political realities” stressed by Lord Woolton, public opinion was now emphatically on the side of the proposals contained in the Beveridge Report — especially those relating to health care. A contemporary opinion poll by the British Institute of Public Opinion found that 88 percent of the population thought that “it is a good plan to include doctors’ and hospital services for the entire family” in the post-war social policy settlement (Durant, 1942, 13). Furthermore, the poll revealed that “[t]he astonishing figure of 95 per cent […] showed some knowledge of the Report two weeks after publication” (Durant, 1942, 5). This figure accords with the number of copies of the Report sold by Her Majesty’s Stationery Office exceeding 600,000 (Timmins, 2001, 23). Truly a remarkable amount given the length, complexity, and dryness of the publication. Interestingly, Addison (1993, 71–72) asserts that it was the very reticence of Churchill to engage with post-war social policy issues that made it possible for Beveridge to fill the resulting “policy vacuum”. Hardly an account of Conservative agency.

Third, having opened a Pandora’s box by allowing Beveridge to publish his report, the Conservative response seems to have been one of procrastination. Their hope was that the wave of popular support for the more radical aspects of social reform would wane in time for the coming election.

Churchill felt that there was little need for a declaration on domestic reform. The Tory party, he reflected, was ‘the strength of the country: few things needed to be changed quickly and drastically’ (Addison, 1993, 71)

When this tactic appeared to be failing — in the face of persistent public support for reform backed up by growing agitation from the Labour Party, both inside and
outside the government — grudging acceptance of compromise became the fallback position. Powell studied the Parliamentary debate on the White Paper and found “that for many Labour Members it represented a minimum on which to build for the future, while for many Conservatives it represented the limit to which they were prepared to go.” (Powell, 1994, 337). That the Willink White Paper was riddled with compromises unwanted by the Conservatives became clear as soon as the coalition dissolved. In the brief spell of the caretaker government before the general election, Willink quickly dropped several aspects of ‘his’ previous proposal, including: the Central Medical Board to employ all doctors; the removal of Insurance Committees as the organising unit for GPs; government power over the geographic distribution of GPs; the removal of local authority control of hospitals (Klein, 1989, 15–16); and any “salaried element” for doctors’ pay (Klein, 1989, 23).18 On the eve of an election — one in which the Labour Party was making great play of their social policies — it would be surprising if Willink and the Conservatives did not feel constrained from going any further than this. Indeed, in a Cabinet memorandum during the Conservative caretaker government period, it was noted that that full revelation of the Tory’s legislative intentions prior to the election would not be wise (Cabinet Papers, 1945e).

Fourth, as we shall see, when the Conservatives actually had the chance to vote for a version of the National Health Service that was rather similar to that proposed in the Willink White Paper, they repeatedly voted against it. Indeed, they did so both at Second and Third Readings — the former being a parliamentary convention implying that the party was against the bill in principle, not just on grounds of implementation detail (House of Commons Information Office, 2008).

The consensus on consensus, as it were, does not seem well-founded, then. Klein (1989) claims that,

18Even while defending the notion of ‘consensus’ during the period, Lowe (1990, 164) writes that the White Paper “proved to be little more than a discussion paper which the Conservatives […] soon sought to modify”.

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[n]othing is more remarkable than the shared assumption that the health service should be both free and comprehensive [...]. (Klein, 1989, 26)

The evidence suggests, however, that the ‘consensus’ was, at best, one of passive and reluctant acceptance on the part of the Conservatives. Furthermore, even if one accepts this best case of Conservative support, Klein’s warning is pertinent.

Accepting a general notion is, of course, one thing. Devising and implementing a specific plan is, however, a very different matter. (Klein, 1989, 7)

The subsequent passage of the National Health Service Act makes this even more plain.

5.3.3 The National Health Service Act 1946

The NHS came into existence in an atmosphere of conflict. This conflict was generated by the strong ideological commitment of the post-Second World War Labour Government, and the opposition of the Conservative Party and some sections of the medical profession, to what was perceived as a thoroughly socialist aspiration; a health service, universally available, comprehensive, centrally-planned and free at the time of need. (Carrier and Kendall, 1998, 82)

On 26 July 1945, the Labour Party came to power with a landslide parliamentary majority. Defeat was a shock to the Conservatives, who had assumed that Winston Churchill, the war hero, would lead them back to government. As it was, Clement Attlee, the new Prime Minister, appointed the first cabinet to be backed by a Labour parliamentary majority. Furthermore, the scale of Labour’s victory coupled with their strong campaigning on welfare issues gave the incoming government a strong mandate to construct what would become the modern British welfare state.
In a bold move, Attlee’s choice as Minister of Health was the “maverick” left-winger, Aneurin (‘Nye’) Bevan (Webster, 1991, 4). Bevan’s ideology had been forged in the mining industry of the South Wales valleys and his political career built in the union movement. He had earned a reputation for outspoken dissent, even within his own party. In that light, making Bevan his youngest cabinet minister and charging him with both construction of a national health system and resolution of the chronic housing shortage\textsuperscript{19} was a notable appointment by Attlee (Webster, 1991, 3).\textsuperscript{20} Of course, the appointment of Bevan was not a complete surprise. Bevan had already made a name for himself as a notable left-wing parliamentary critic of some of the health care reforms under discussion by the wartime coalition government (Webster, 1988, 79). Furthermore, Webster (1988, 76) expresses the view that the appointment was “shrewd” as a “leader of backbench revolt was removed and submitted to Cabinet discipline”.

Bevan came to office under no illusions that the prevailing system of health care was sufficient for the needs of the nation — and least of all for the needs of the Labour constituency. His background also imbued him with ideological and strategic dispositions regarding how to reconstruct the national health system, such as it was.

From South Wales, the new Minister inherited a broad synoptic diagnosis of the interrelated character of employment, health, welfare, and the other components of a civilized society. They left him with a deep scepticism of the vested interests of middle-class pressure groups such as the medical profession. Above all, he had a zest for power. He sought to translate the socialist faith into practical and enduring reality. (Morgan, 1985, 152)

In short order, Bevan set about constructing a new and ‘enduring’ system that

\textsuperscript{19}The Ministry of Health had responsibility for Housing, as well.

\textsuperscript{20}That Bevan was a controversial figure is not in doubt. Churchill had referred to him as a “squalid nuisance” (Webster, 1991, 3) while, on his own benches, “Bevan had, at one time or another, fought bitter, rasping, near-mortal duels” with Attlee, Bevin and Morrison (Foot, 1973, 25).
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would sit “in place of fear” for all British people (Bevan, 1952). Two aspects of the process of health reform in the immediate post-war period have been much noted by historians of the process. First, Bevan’s decision to ‘nationalise’ the voluntary hospitals. Second, the “battle” between Bevan and the British Medical Association (BMA) over the degree of autonomy that individual doctors would have under the scheme. Both are notable in the context of the theoretical position taken here.

5.3.3.1 Hospital Nationalisation

The nationalisation of voluntary hospitals was remarkable on two counts: the size of the programme and the relative ease with which it was achieved. While the nationalisation was a large break with previous health policy in the UK,21 Bevan’s desire to pursue it is hardly surprising.

Timmins (2001, 104) emphasises the perilous state of hospital finances and notes that at least one voluntary hospital leader had predicted nationalisation as far back as 1930.22 He also quotes a discussion between Bevan and Lord Moran,23 then President of the Royal College of Physicians, in which Moran is seen to lead Bevan to the conclusion that nationalisation is the only way to achieve a more equal geographic distribution of the benefits of specialist medical care. The problem, as Bevan saw it, being that the extant provision was overly centered around the large urban areas — most especially London and its teaching hospitals. In fact, the distribution of general practitioners was also far from ideal.24 Nevertheless, Webster (1991, 6) is more reticent in assigning the reasons for Bevan’s nationalisation drive, writing that, “The source of Bevan’s inspiration on hospital nationalisation is not entirely clear”.

21 Indeed, Timmins (2001, 113), perhaps over-stating the case, asserts it was “the biggest break with all that had gone before”.
22 Lindsey (1962, 14–15) reports that voluntary hospital finances were found to be precarious as early as 1921, when Parliament voted to distribute funds with which to keep them afloat. Again, in 1925, a call for funds was made, with the Parliamentary response being to pass a law enabling local government to subsidise the voluntary hospitals, at their discretion.
23 Related by Lord Moran to Michael Foot (Timmins, 2001, 104).
24 Lindsey (1962, 7) found that by “the late 1930’s there were […] one-half as many doctors per capita in South Wales as in London, and only one-fourth as many per capita in the industrial midlands as in the coastal resort city of Bournemouth”. This gives the lie to the claim made by Eckstein (1959, Chapter 2) that the pre-war health system was notably pro-poor.
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Notwithstanding the claim by Eckstein (1959, Chapter 2) of a bias in favour of the working class in the voluntary hospital system, there seems little doubt that the dual problems of impending insolvency and an unequal distribution of specialist resources confronted Bevan in 1945. Nonetheless, such difficulties, by themselves, need not necessarily have led to nationalisation as the logical response. An insurance-based system, subsidised by the state, could have solved both issues, as well as satisfying the BMA. Indeed, Klein (1989, 5) notes that the insurance-based system was “the road followed by nearly all other Western societies in the post-war period, and advocated by the BMA not only in the 1930s but also subsequently”. As we shall see, this was also the option chosen by the Social Democrats in Sweden. With such a policy, the financial issue would have been resolved via an infusion of public funds that would ultimately, if indirectly, have flowed to the cash-strapped hospitals. The geographic issue would have been resolved via the effective provision of medical purchasing power across the full breadth of the country. Why, then, with various political groups arrayed against it and with a widely accepted alternative system available, is it “evident that this opportunity [for nationalisation] was grasped with alacrity” with Bevan making “this radical policy initiative the central feature of Labour’s NHS legislation” (Webster, 1991, 6)?

I argue that, in nationalisation, Bevan saw the opportunity to create a more highly redistributive service and to embed his reforms in a far more permanent way. On redistribution, he was explicit, writing “any scheme which leaves responsibility for the hospital service with local authorities must be unequal in its operation” (Cabinet Papers, 1945c). Strategic thinking regarding future dynamics of policy choices was also certainly on his mind. He dismissed insurance- and employment-based alternatives for national health care as the political dynamic inherent to each would create interests that were antithetical to the kind of egalitarian system that he sought. Of those two alternatives, he wrote that,

[a] whole network of strong points emerge, each with a vested interest in
preventing a rational national scheme from being created. Thus to the property Lobby is added the Lobby of those who stand to lose under the national project. In the end they may have to be bought out at great cost in time, effort and money (Bevan, 1952, 78–79).

Tellingly, under the nationalised system that he proposed, a centralised bureaucracy with a direct interest in the protection and expansion of the hospital system was created. Indeed, Bevan’s plan deliberately bypassed the existing local government infrastructure; at some political cost to him within Cabinet where he faced opposition from Deputy Prime Minister Herbert Morrison, who was strongly pro-local government.\(^{25}\) The more independent and decentralised nature of such organisations were deemed inadequate for Bevan’s aims of central control, resilience, and universalism. Beyond the health bureaucracy, hospital nationalisation also linked the interests of hospital staff with the size of the government’s financial contribution.\(^{26}\) Morrison, at least, foresaw the implication of the structure Bevan had chosen as Cabinet minutes show that he felt the new bureaucracy “would be tempted to press for more and more lavish expenditure at the expense of the Exchequer” (Cabinet Papers, 1945\(^{b}\)). With nationalisation by central government there also came an in-built redistributive mechanism of finance being drawn from the proceeds of general taxation, rather than local government tax revenues, fee-based revenues or separate insurance funds.\(^{27}\)

5.3.3.2 Conflict with the Doctors

The second noted aspect of the process of health reform pursued by Bevan is the conflict that he had with the doctors over their terms of employment and pay. In the sense of its impact on both the public and more private aspects of policy-making

\(^{25}\)See Cabinet Papers (1945\(^{c}\)), Cabinet Papers (1945\(^{a}\)), and Cabinet Papers (1945\(^{b}\)) for a view of the nature of this disagreement.

\(^{26}\)As we shall see in the next section, this did not necessarily include doctors, but other portions of health sector labour were nationalised with their workplaces.

\(^{27}\)The latter of which would inevitably have been financed in less progressive ways.
at the time, this was a politically significant event. However, it is also significant for the theoretical argument that I advance here. The conflict revealed that Bevan had a preference for a salaried medical profession of an essentially civil service character. That is, his preference was for the construction of a body of organised medical labour that had a direct interest in maximising state funding to the redistributive health service he was building. Such a move accords with the theoretical position developed previously regarding the potential importance of constructing powerful organisations as a way of embedding policy choices.

The position of the doctors had always been of major importance in the development of health policies — especially through the war period. With the passing of the National Health Service Act 1946, in terms of political discourse at least, this would become even more true. Indeed, Glennerster (1995, 51) terms this period of conflict between Bevan and the British Medical Association (BMA) as the “battle for the NHS”.

Others have written extensively on this aspect of the politics surrounding the formation of the NHS and there is little need to recapitulate the intricacies of the saga. Instead, the aim here is to show that the conflict with Bevan did force a concession out of him: a commitment not to create a nationwide salaried civil service of doctors, but rather to leave them, effectively, as independent contractors. That this was concession is precisely the point as it reveals Bevan’s true preference for the employment relationship between the doctors and the state.

While the BMA certainly had specific policy disagreements with the Government, the first sign of trouble was Bevan’s decision to eschew the consensus-building process of professional consultation throughout the policy-making process. Instead, he chose to write the Bill first, noting that, “I do not propose, nor would time allow, to embark upon any long series of negotiations before the Bill is settled” (Webster, 1991, 43). The quote is from a Cabinet Memorandum written by Bevan.

28 The interested reader is directed towards Webster (1988, 107–120), Timmins (2001, Chapter 6), and (Lindsey, 1962, Chapter 3).

29 The interested reader is directed towards Webster (1988, 107–120), Timmins (2001, Chapter 6), and (Lindsey, 1962, Chapter 3).
leadership, in the form of Guy Dain and Charles Hill — the latter of which would find himself as a Conservative Cabinet minister in the 1950s — was emphatic in its response to the Bill and subsequent Act. While the Government finally sought negotiations on implementation details, the BMA remained intent on fighting previous battles, with the ultimate goal being the passage of amending legislation. In the face of Bevan’s perceived intransigence, the BMA position “rapidly escalated into fanatical opposition” with the Minister denounced as, among other things, a “medical Führer” (Webster, 1991, 8).

At root, the BMA’s main objection was the prospect of the medical profession becoming subsumed within the general civil service, with all the limitations on their freedom that that implied. In fact, they had good reason to fear such an outcome. In the planning phase for the NHS Bill, Bevan had,

circulated [Cabinet] memoranda [that] were vague about the method of remuneration of general practitioners, but […] he confided to colleagues that he wanted to move ‘eventually to a full-time salaried service’ (Webster, 1991, 7).

Whether Bevan’s Cabinet confidences were breached or not, his ultimate aims were certainly exposed by the BMA and their Conservative parliamentary allies. On this point, it is worth quoting Webster’s account of the Second Reading of the NHS Bill extensively.

The debate followed predictable lines. Conservatives complained most about the nationalisation of voluntary hospitals, which was regarded as a gratuitous assault on charitable institutions. Willink made capital out of Labour Ministers’ statements in favour of voluntary hospitals during their previous incarnation in the Coalition Government. Conservatives were also suspicious of Labour’s intention to relegate the issue of doctors’ salaries to regulations, which they exposed as a subterfuge for introducing a full-time salaried service. On the Labour side, Bevan came under
criticism for not committing himself to full-time salaried service and for permitting pay beds in state hospitals. (Webster, 1988, 98)

Bevan, then, took flak from both sides on the issue of a salaried medical profession. In that light, his decision to kick the issue into the long grass of (negotiated) regulations rather than come to a firm decision in primary legislation was probably the best course open to him. The Bill had provision for some basic salaried component, with the remainder being made up of payments based on the number of patients registered with each doctor — capitation. An attempted Lords amendment to remove the salaried component was rejected by Bevan (Cabinet Papers, 1946). However, it appears that Bevan had largely reconciled himself to defeat on this point even at the Second Reading stage.

Some of my hon. Friends on this side of the House are in favour of a full salaried service. I am not. I do not believe that the medical profession is ripe for it, and I cannot dispense with the principle that the payment of a doctor must in some degree be a reward for zeal, and there must be some degree of punishment for lack of it. (Webster, 1991, 72)

Despite this apparent dismissal of the notion of a salaried profession, the reference to the doctors not being “ripe for it” reveals his true preference. As Webster (1991, 72) makes clear in a footnote to the passage quoted above, Bevan subsequently and controversially qualified his Commons statement by saying, “There is all the difference in the world between plucking a fruit when it is ripe and plucking it when it is green”. Bevan’s true preference seems in little doubt, then. Rather, he recognised the need for compromise in the face of overwhelming professional opposition and hoped to be able to pursue his goal at a later date.

The obvious question is: why did Bevan (and much of the rest of the Labour Party) have a preference for a salaried medical profession employed on similar terms

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30 The quote is from Bevan’s speech during the Second Reading debate.
to the existing civil service? Again, my answer is that such a system would have dramatically reduced the likelihood of doctors, under a future Conservative government, successfully agitating to reduce the redistributive effects of the NHS. While an outright prohibition of private practice by NHS-affiliated doctors would have been the strongest move, the imposition of a salaried employment relationship between doctors and the State would have reduced the prevalence of for-pay medical services. That was an outcome that was deemed highly desirable by Labour due to fears that fee-for-service medicine would be detrimental to the health of the poor. Following as similar logic to that for hospital nationalisation, instigating a civil service medical profession would, therefore, have been an extra step towards the goal of locking-in free-at-the-point-of-use medical services that were in no way restricted based on ability to pay. Salaried doctors would be placed in a position in which their interests would largely be aligned with those of the poorer NHS users. Attempts to cut NHS resources in the form of doctors’ salaries — and thus attempts to reduce this aspect of the level of service — would be defended vigorously by the powerful, organised, doctors.\(^{31}\) This logic was not expressed openly by Bevan, but that is not surprising. Amidst a “battle” with the most powerful interest group he had to contend with — an interest group closely aligned with the Conservative Party — Bevan had to be careful. To declare that his reason for wishing to recast the members of this respected and independent profession as supplicants of the State was that it would help stop future reforms by the Conservatives could not have been an attractive proposition.

In this light, it is little wonder that Webster (1988, 97) termed “acceptance that the time was not ripe for introduction of full-time salaried service” as “Bevan’s major

\(^{31}\) It may be contended that state-subsidised fee-for-service schemes have a similar characteristic. There is truth to this, but I would argue that a salaried profession is bound together as one in terms of their lobbying incentives in a way that a ‘privatised’, fee-for-service, profession is not. In the former case, salary and, therefore, spending increases are the uniform goal of all. In the latter case, there would exist variation in the source of income amongst doctors, with those earning a greater share of their income from private practice being less enthusiastic regarding increased state funding. Indeed, if state funding is tied to greater regulation — as it surely would be — then some doctors are likely to be positively opposed to an increase.
concession to the profession”. With the ‘Appointed Day’ for the commencement of the new health service rapidly approaching and the doctors threatening non-cooperation with the new scheme that would effectively have wrecked it, Bevan agreed to the passage of amending legislation that explicitly ruled out imposition of a salaried profession.

5.3.4 The Fight Over Charges

With passage of the NHS Act secured and compromise with the doctors allowing Bevan to move to the implementation phase of his health service reforms, a new issue arose. The parlous state of the economy in the post-war years, coupled with large debts from the financing of the war effort, meant that the Labour government faced a budgetary crisis. The need to rectify the government’s financial situation led to huge pressure on spending departments from the Treasury — and the Ministry of Health was far from exempt from this pressure. A notable suggestion that was discussed repeatedly at Cabinet level was for the imposition of user charges in the NHS as a means of reducing costs to the Exchequer. It was argued that this would both raise revenues and reduce some of the demand for the service. In what may appear counterintuitive at first glance, in this section, I show that the fight over the introduction of NHS charges that played out within the Labour Cabinet actually provides evidence as to their partisan importance. While Bevan was pressed by several of his own colleagues to accept charges, this was in a context of dire economic circumstances and was resisted with all the power that he had. Furthermore, when charges were finally introduced by Labour, they were very small compared to those employed both by subsequent Conservative governments and, particularly, left-wing governments in Sweden.

My argument for why Bevan opposed charges so vociferously is based directly on his own expressed view. He feared that the introduction of charges would constitute the thin end of the wedge if a Conservative government were to be elected. Implicit
in his statement is a kind of rational sociological institutionalist logic of the sort set out by Korpi (2001). He appeared to believe that Labour was uniquely able to adjust the ‘norm of appropriateness’ with respect to charging in the NHS. That is, for Labour to introduce the charges would imply that they were normatively acceptable. Once that ground was conceded, a future Tory government would be able to extend them in even more inegalitarian ways. On the other hand, were Labour to hold their ground and reject charges, the norm would remain intact and the Tories would be unable to pursue such a policy reform.

As has already been noted, the NHS was constructed with the principle of free-at-the-point-of-use at its foundation. However, it did not take long for this tenet to come under strain, even with the stewardship of the NHS still under Labour and Bevan. After a year of operation, it became clear that the cost of the service was considerably higher than initial estimates had suggested. With budgetary pressures mounting amidst a prevailing national economic context that remained seriously weakened by the recent war, the Government began to seek ways of containing costs across the board. The NHS was not immune to the budgetary pressure. Indeed, its spiraling costs well above initial estimates suggested that cuts were possible in health as spending appeared to be rather out of control. For the first nine months of operation from July 1948, gross spending ran at around 140 percent of its projected level. The pattern was similar for the full year 1949/50.

Despite heavy pressure from Stafford Cripps, the Chancellor of the Exchequer, Bevan largely resisted attempts to limit health expenditure by the Exchequer. Most relevantly to the discussion here, Webster writes:

[f]irmly precluding the introduction of charges [. . . Bevan] declared ‘I just say at once that I am entirely opposed to any idea of obtaining additional appropriations in aid by requiring payments from the beneficiaries under the service’. Bevan defended this conclusion at length, pointing out that

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32 See Webster (1988, Chapter 5) for a more detailed discussion of this period.
33 Figures taken from Webster (1988, Table I, 135).
the yield from charges would be insignificant compared with the extent of administrative inconvenience. Furthermore, charges would involve a premature and fundamental reversal of policy, raising the spectre of the means test and harking back to the discredited Poor Law. (Webster, 1988, 138)

Webster continues,

[coming at the outset of the long argument over the imposition of charges in the NHS, this letter provides a useful reminder of Bevan’s depth of feeling on this issue, and an indication of his grounds for attaching great symbolic importance to the principle of a service free from direct charges. Webster (1988, 139)

Bevan’s objection to the introduction of charges seems to have been at least two-fold. First, he considered it a retrograde step in his attempt to build a health system that would redistribute from rich to poor. However, the weight of this argument is undercut by his own claim that the proposed charges would amount to a small fraction of overall health expenditure. This suggests that the second objection was the more telling. The “symbolic importance” to which Webster alluded was based on the view that a free service was a precondition for a socialist service and that concession of this principle held the potential to open the flood gates to charges under the Conservatives. Cabinet minutes report that he,

said that he had always been opposed to the introduction of charges for dentures and spectacles. In his view it would be undesirable in principle, and politically dangerous, for the Labour Party thus to abandon the conception of a free Health Service. (Cabinet Papers, 1951)

Ultimately, Bevan’s defense against Cripps partially failed, however; budgetary imperatives came to outweigh the Welshman’s political and rhetorical manoeuvers.
Cripps' continuing pressure forced Bevan into compromise. He was offered a choice of charges for in-patients, dentures, or spectacles, or an increase in the rate of National Insurance (NI) contributions that would be siphoned to the NHS (Webster, 1988, 143). With the use of NI contributions deemed to be “a form of poll tax with all its disagreeable features” (Bevan, 1952, 79), Bevan faced a dilemma. Interestingly, his initial reaction was to propose, as an alternative, a reduction in the level of NI benefits — that is, a reduction of cash transfers in favour of health services. This was not accepted. With his back to the wall, he finally relented; agreeing to the imposition of a charge for all prescriptions below the level of one shilling. The estimated saving was £10 million, out of a total NHS budget of around £450 million — i.e. approximately 2 percent of total health expenditure. Webster (1988, 143) describes this as Bevan’s “momentary capitulation”.

The capitulation really would prove to be momentary. Although Parliamentary approval was obtained,\textsuperscript{34} no progress was actually made with the implementation of prescription charges. Difficulties over which, if any, categories of people should be entitled to exemption from the charges, over how to physically collect the cash, and a shrewd game played by Bevan saw deferral of the scheme. By the time it was even near to being ready for adoption, Bevan successfully argued that to do so at a time so close to the impending general election was politically unwise (Webster, 1988, 147). The issue of NHS expenditure and, therefore, of charges, would not disappear, though.

The election of 1950 returned Labour to power, but this time with a dramatically reduced majority of six. This new political reality meant no possible respite for Bevan and the NHS. Cripps quickly retired, only to be replaced by the equally implacable Hugh Gaitskell as Chancellor. With NHS spending continuing to rise, a Cabinet committee was convened to oversee the issue — a committee which increasingly forced Bevan onto the defensive. Still, he held out against the imposition of charges to the health system. By February 1951, Attlee moved him to the Ministry

\textsuperscript{34}Via the National Health Service (Amendment) Act 1949.
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of Labour. The switch, however, would not dim his passion for defence of the health service he had constructed.

Matters came to a head at a Cabinet meeting on April 9th 1951. Gaitskell had managed to wring the concession of ophthalmic and dental charges from the new Minister of Health, Hilary Marquand. It was felt that these were more politically expedient due to the public perception of "abuses" in these areas (Webster, 1988, 173). Nonetheless, Bevan remained resolutely against the move, making it clear that he would resign if his Cabinet colleagues agreed to force through the measure. In this threat, he was joined by the then President of the Board of Trade and future Prime Minister, Harold Wilson. Gaitskell had made the issue one of confidence in his tenure as Chancellor and it appears that Attlee felt compelled to support him (Webster, 1988, 172 and 177). Notwithstanding several grave misgivings as to the wisdom of forcing resignations, the rest of the Cabinet fell in with the two senior members. Bevan and Wilson resigned.

Bevan’s resignation speech to the House of Commons is instructive as to his thought processes. With the principle of charges conceded, he clearly felt that the threat posed by Conservative extension of charges was magnified.

I have been accused of having agreed to a charge on prescriptions. That shows the danger of compromise. Because if it is pleaded against me that I agreed to the modification of the Health Service, then what will be pleaded against my right hon. Friends next year, and indeed what answer will they have if the vandals opposite come in? What answer? The Health Service will be like Lavinia — all the limbs cut off and eventually her tongue cut out, too. (Webster, 1991, 192)

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35 With a promise “to protect the social services from further cuts” from Attlee, according to Webster (1988, 166).

36 Dentists and opticians were in a role of prescribing the use of ‘appliances’ and then directly profiting from their manufacture and/or sale — a fairly clear conflict of interest.
5.3.5 The Conservative NHS

The election of October 1951 saw the Conservative “vandals” returned to power.\footnote{The election was called at Attlee’s discretion, in search of a larger majority.} The swing was small — indeed Labour actually obtained a plurality of votes — but Churchill won a majority of 17 in the Commons. Perhaps signifying relative priorities, the Ministry of Health “became very much a second-tier department” (Timmins, 2001, 203), with its Minister no longer being entitled to attend Cabinet. However, after a short initial spell, a rising star in the form of Iain Macleod was appointed to steer the NHS.

It is worth highlighting just what the theoretical account offered here would lead us to expect as to the development of the health system under the Conservatives. As the representatives of the higher-earning sections of society — those effectively subsidising the health care of the poorer through their taxes — we would expect them to be relatively more concerned to limit the financial input to the Service by the Exchequer. As Labour had shown — albeit to a limited extent — charges were one way of doing this. The use of National Insurance contributions — which had more of the character of flat rate payments for each individual — to fund the NHS would also reduce the redistributive effect. However, the theory also suggests that the Conservatives would have notable difficulty in making many large cuts, particularly in the realm of medical wages. So it came to pass.

Faced with similar budgetary constraints as those confronted by the previous Labour government, the new Conservative Chancellor, Rab Butler, immediately set about searching for savings from the Ministry of Health. Numerous charges and cuts in service were proposed, although political realities stymied all but the introduction of prescription charges. An examination was made of the possibility to introduce ‘hotel charges’ for hospital beds, but it was felt that the “political price would have been high” (Timmins, 2001, 204). The Conservatives had only a small majority, and that was contingent on support from the National Liberals. While Timmins
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(2001, 204) writes that the “charges raised little”, at their peak of 5.6 percent of the NHS budget, they were still notably above that proposed under Labour. The enduring public support for the NHS, however, provided limited room for manoeuvre for the Conservatives in the area of charges — at least initially. By 1960, nine years into continuous Conservative rule, the now infamous Enoch Powell had managed to raise the proportion of NHS funds stemming from NI contributions and charges to 22 percent, with the consequent reduction in redistributive effect (Timmins, 2001, 209).

Meanwhile, the NHS wage bill grew hugely in the mid 1950s. A pay arbitration process entered into by the previous Labour government and the GPs went dramatically in favour of the latter. The arbitrator, Mr Justice Danckwerts, sided fully with the BMA and awarded the GPs an increase five times the size offered by the Government — together with back-pay. Similar claims from hospital doctors and others ensued (Timmins, 2001, 205). The power of organised labour, albeit of a largely middle class ilk, played its first role in ensuring public expenditure to the health service continued to increase.

In the light of all these events, it is surely right to qualify the extent to which a bipartisan consensus existed regarding the NHS. Broad support was indeed in place for a national service supported by the State. However, ultimately, there was no such consensus as to the imposition of charges — with Labour supporting them only grudgingly, at great political cost, and in a time-limited fashion. There was also notable partisan disagreement over nationalisation of the hospitals and the nature of the employment relationship between doctors and the State. Another factor also seems clear. The structure of the NHS constructed by Bevan almost certainly served as a great political constraint on the desires of the subsequent Conservative government. Popular support for their newly-acquired benefits prevented much in the way of charges. Organised labour, amongst other things, ensured that spending

38Infamous, that is, for his so-called ‘rivers of blood’ speech on the perceived perils of immigration, not for his transmutation of the NHS.
would go on rising.

Nonetheless, at the end of 13 years of Conservative rule, the redistributive capacity of the system had been chipped away to a noticeable extent. Borrowing the assessment of (the Conservative) Lord Fraser, Raison (1990, 15) seems apposite in describing Labour and Conservative policy as being on “parallel lines but always heading for very different destinations”. One of Bevan’s great achievements was to keep those lines parallel a little longer than might otherwise have been the case.

5.3.6 On the Partisanship of the NHS Act

As already indicated in Section 5.3.2, while there has been some dissent (Jefferys, 1987; Powell, 1994), the prevailing view in the literature is that a cross-party consensus existed as to the necessity of reforming health care in Britain and that this found expression in the 1944 White Paper that bears a striking resemblance to the subsequent NHS Act of 1946. In that light, the claim of partisan agency may appear unwarranted. However, a closer look at what this ‘consensus’ actually amounted to helps to reinforce the case for partisanship.

At root, the consensus had two broad components: that the pre-war system “was both inadequate and irrational” (Klein, 1989, 2–3). From this, scholars have gone on to argue that there was a kind of inevitability to the adoption of a reform like the NHS. Klein (1989, 5) argues that there were two possible responses to the inadequacy and irrationality of the prevailing system: universal health insurance and local public provision of services. Further as,

> [l]ocal government was already in the business of providing health care
> [...] [t]o have adopted an insurance scheme would therefore have meant
> actively repudiating the service-based legacy of the past. (Klein, 1989, 6)

The problem with this line of argument is that Bevan did actively repudiate large features of the previous system — not least local government control of hospitals.

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Instead, he created centrally-controlled layers of regional administration that were specific to the health sector and expropriated large portions of the health care infrastructure owned and operated by local government. Thus, an argument of path dependence from local government control to the resulting NHS appears difficult to justify.

Hacker (1998) makes a similar claim as to the historical contingency of the NHS Act. His argument is that the previous reforms — most notably the 1911 National Insurance reform — created a pattern of vested interests that inexorably led to the adoption of the NHS structure of health care in Britain (Hacker, 1998, 93). This leads him to conclude that,

[i]n retrospect, what appears most striking about the events leading up to the establishment of the British National Health Service is their seeming inevitability. (Hacker, 1998, 84)

Again, though, this conclusion is rather puzzling. As already noted, there were a variety of possible reform schemes discussed inside and outside of government during the pre-war and wartime period. All faced problems — be they administrative or political — and the reform finally adopted was no exception. Furthermore, the electoral landslide won by Labour in 1945 provides telling evidence that the British people saw marked differences between Labour and the Conservatives. If they were ‘all the same’, why did so many voters reject their war hero, Winston Churchill?

In fact, Labour campaigned heavily on social policy while the Conservatives down-played the issue. Indeed, they began engaging in a tactical retreat on the issue of health reform even before the election was held. During the wartime coalition, the Conservatives had been consistently reticent in pursuing post-war social policy objectives and it was Churchill’s view that nothing should be done until after the first post-war election. Issues of cost — i.e. the level of taxation on their constituency — loomed large for the Conservatives (Addison, 1992, 358). All this makes Hacker’s

\footnote{As well as health care reform attempts in Canada and the USA.}
conclusion as to the importance of the 1945 election all the more puzzling. He writes that,

[t]he main impact of Labour’s stunning victory did not, therefore, lie in the final structure of the NHS, but rather in the momentous political opportunity that Labour’s triumph created. In those months after 1945, the Labour Government operated with the ruthless efficiency and dispatch for which party government parliamentary systems are both praised and feared. (Hacker, 1998, 94)

In Hacker’s view, the salient point was the (large) parliamentary majority enjoyed by the government — which could really have been any government. But if that were the case, one may wonder why, if there was consensus between the parties stemming from a path dependent process that began long before the Second World War, the size or presence of a government majority should have made any difference at all.

My claim is that the “momentous political opportunity” afforded to the Labour Party was of critical importance. Had Churchill’s Conservatives been returned to government in 1945, the passage of reform would have been both slower and of a different nature. The kind of system proposed in the 1944 White Paper would have been trimmed and rationalised. The drop in public support for the welfare state as taxes (inevitably) rose would have been used as an excuse to rein in the earlier plans. Nationalisation of the voluntary hospitals would almost certainly not have occurred.

In short, the NHS is a very different institution as a result of being founded by a Labour Minister of Health rather than a Conservative. It is this different structure that has greatly contributed to the NHS being such an enduring welfare policy. For this, Aneurin Bevan must be held responsible. How might things have been different had Bevan been operating in a more favourable political environment for the Left? To answer that, I turn to the Swedish case.
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5.4 The Evolution of the Swedish National Health System

The story of Swedish health care is one of evolution. In several respects, it can be contrasted with the more radical reforms undertaken in the UK in the period 1946–1948. The question is why this should be so. In order to answer that, I begin with a brief outline of the system that came to be in place at the end of the Second World War. The subsequent story of reforms, failed and realised, provides a telling contrast to contemporaneous developments in the UK.

5.4.1 The Pre-Second World War Legacy

The early foundations of the Swedish health system were laid in the late 19th century under the influence of welfare developments in Germany (Ito, 1980, 44). In 1891, voluntary health insurance legislation was adopted with minimal state funding support. Indeed, until 1910, state funding would constitute less than 10 percent of funding (Ito, 1980, 59). These two features — voluntarism and low state funding — combined to produce relatively low levels of insurance coverage across the population well into the post First World War period. Ito (1980, 48) shows a fairly stable upward trend from 0 percent of the population covered in 1895 to only around 15 percent covered in 1930.

During this early period, the sickness funds that administered the health system actually had a strong tendency to employ cash payments rather than in-kind services as their mode of operation (Immergut, 1992, 195). Indeed,

[t]he series of Swedish sickness funds laws between 1891 and 1931 can be characterised more accurately as income maintenance insurance in case of illness than as health insurance, since few medical benefits in kind were provided. (Ito, 1980, 53)

This pattern began to change with the passage of the Sickness Funds Law in
1931.\textsuperscript{40} As Lewin (1988, Chapter 5) describes, the law came at the end of a rather unstable parliamentary period in Sweden during which minority government was the norm.\textsuperscript{41} Consequently, it is somewhat difficult to ascribe particular partisan motives to the law, despite the presence of a liberal Prime Minister, Carl Gustaf Ekman.

More clear is the effect of the law. One of the fundamental changes it created was a requirement for the sickness funds to place a greater emphasis on benefits in kind. Slow implementation of its provisions impeded developments but the proportion of cash benefits, as opposed to in-kind benefits, dropped from 80 percent in 1931 to 64.9 percent in 1938 (Ito, 1980, 54). The other notable aspect of the 1931 reforms was that it heralded a far larger state contribution to the finances of the sickness funds. In the decade following adoption of the law, the state’s contribution doubled, from 15 percent to 30 percent (Ito, 1980, 62).

Voluntarism, however, remained. The organisation of the system was also rather “haphazard”, leaving some areas without coverage from a local fund (Immergut, 1992, 195). So, while the proportion of the population with health insurance began to rise more quickly,\textsuperscript{42} inevitably, a huge majority of the population remained outside the organised insurance system.\textsuperscript{43}

At the end of the war, this was essentially the prevailing pattern of health care coverage in Sweden.

5.4.2 The Immediate Post-War Period

The immediate post-war period saw the solidifying of political dominance by the Social Democrats. The 1944 election gave them a majority in the First Chamber and an effective majority in the Second Chamber when the Communists were ac-

\textsuperscript{40}Immergut (1992, 197–202) provides a more detailed description of the adoption of this law.
\textsuperscript{41}See Janson (1928) for a fairly detailed description of the coalitional dynamics of the period.
\textsuperscript{42}As a result of the more attractive terms created by the greater state contribution.
\textsuperscript{43}Immergut provides slightly different figures to those of Ito (1980, 48), on which I base my ‘huge majority’ statement. Immergut (1992, 201) states that from 1930 to 1940 there was “a shift from 20 percent of the adult population (persons over 15 years of age) to 48 percent”. It is not clear if Ito’s figures include those under the age of 16, but that seems likely to explain the discrepancy. Still, the fact remains that a huge proportion of the population fell outside the health insurance system.
CHAPTER 5. POST-WAR HEALTH POLICY

counted for (Lewin, 1988, 180). The party system remained in their favour, with the
Agrarians potentially available as coalition partners should the need arise (as they
had been since the election of 1932) and the rest of the non-socialist bloc still split
between Liberals and Conservatives (Rustow, 1955, 104–109). They had held power
from 1932 until the outbreak of war — a period of in which Sweden experienced
considerable economic difficulty — and then as the lead faction of the war-time
coalition government.44 While broad differences remained between the socialist and
non-socialist blocs in parliament as to the degree to which the state should intervene
in the economy, the 1948 election was to prove that this skirmishing would not be to
the detriment of the Social Democrats (Lewin, 1988, 187). Political hegemony was
theirs and, accordingly, they started to plan for the long term (Lewin, 1988, 168).
Indeed, King and Rothstein (1993, 161) assert that this long term planning began
as early as 1936 when they found they “could expect to dominate government for
several years”.

With the Saltsjöbaden corporatist agreement in place, the purely economic
realm appeared to be largely settled (Swenson, 1991a,b; Lewin, 1994). The So-
cial Democrats turned their attention to construction of what would become the
archetypal welfare state. Interestingly, Baldwin (1990, 135) suggests that, in the
ensuing “triumph of egalitarian universalism […] [h]ealth insurance played an im-
portant role […], but pensions came foremost”. In itself, this is indicative evidence
regarding relative preferences over cash and in-kind redistribution. The details of
developments in health care reinforce the point.

5.4.2.1 The Höjer Non-Reforms

As Section 5.4.1 made clear, health care in Sweden was far from universal and the
Social Democrats were not slow to attempt to reform the system so as to expand
coverage. The first attempt to do so was to find patronage in the form of J. Axel

44Strictly, there was a gap of three months in 1936 in which the Agrarians formed the “Vacation
Government”, before elections returned the SAP to power (Rustow, 1955, 108).
Höjer, Director of the National Board of Health. In the ‘strong state’ tradition highlighted by Lindvall and Rothstein (2006), the Government had appointed him in 1943 to chair a commission to investigate how best to pursue a reorganisation and expansion of the health system. After extensive research, including analysis of the British NHS developments, he presented his report in 1948.45

In sum, the Höjer report was a proposal for a national health service, a national health service whose ambitions surpassed those of the NHS. Not only would hospital inpatient care be delivered at virtually no cost, but all forms of outpatient care — whether taking place in doctors’ private offices, in the government offices of public doctors, or in the hospital outpatient clinics — were to be integrated into this service. Private patients and private fees — something that all Swedish doctors, both hospital and office-based, private or public, depended on — would be eliminated; all doctors would eventually be paid a government salary. (Immergut, 1992, 205–206)

The doctors did not have to wait for publication of the report to know of its contents — several members of the committee were their own. As early as 1946, Dag Knutson, the incoming chairman of the Swedish Medical Association (SMA), had clashed in a public debate with Höjer over “whether doctors should continue to be members of a free profession or should become health care civil servants” (Ito, 1980, 63). However, upon publication, the report provoked a huge controversy.46 The bitterness between the man who would turn doctors into ‘mere’ civil servants, Höjer, and the SMA was extraordinary. In a remarkable, but reversed, parallel with the the rhetoric employed in the clash between Bevan and the BMA, Höjer denounced Knutson as “pro-Nazi” (Heidenheimer, 1980, 206).

45See Serner (1980, 101–102) for more details of the proposed reforms.
46Immergut (1992, 207) comments that “Svenska Dagbladet’s yearbook notes that no other legislative proposal received as much nor as critical press coverage in 1948”.

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The Conservative Party, the Swedish Employers’ Association, and even Landsorganisationen (LO) — the main trade union federation — were deeply concerned about the proposed health reforms. The latter’s unease was primarily on grounds of cost, although there was also a desire that expenditure across the social services be correctly balanced (Immergut, 1992, 206–207). As if that opposition were not sufficient, the Federation of County Councils, headed by a Social Democrat, was strongly opposed.\textsuperscript{47} As owners of the existing hospitals, the councils feared that Höjer’s reforms, by ousting private practice, would lead to staffing shortages as doctors fled the system (Immergut, 1992, 207).

In the face of this opposition, the Höjer reforms were axed. One interpretation of this result is that the SMA scored a victory against the governing Social Democrats. It seems incontrovertible that the SMA was victorious against Höjer, but there are notable problems with calling the outcome a defeat for the Government.

There is a consensus that the SMA, both relative to its international cousins and in domestic terms, was a weak organisation. Both Ito (1980, 58) and Immergut (1992, 207) note that the number of doctors, per capita, in Sweden was remarkably low making the profession’s economic and organisational capacity for applying political pressure correspondingly low. How could such a weak grouping come to defeat a government with a firm legislative majority?

Ito’s partial answer is that, faced with a reform that it found to be particularly threatening, the profession coalesced to an even greater extent and became stronger. From the election of Knutson as its leader,

\[\text{t}\text{henceforth, the SMA continued to become stronger, but never strong enough to defeat the public authorities. In some cases, it succeeded in postponement, but in the end it lost, and the state had almost full control of health insurance. (Ito, 1980, 63)\]

\textsuperscript{47}Interestingly, local government opposition to the NHS Act did not lead to rejection of similar legislation in the UK.
Even in Ito’s terms, then, it is not possible to explain any putative SMA defeat of the government in terms of its own power. While the SMA became stronger, it never became “strong enough”. Immergut implicitly acknowledges this difficulty, as well, writing that, “Whether the failure of the Höjer reform should be credited entirely to the lobbying campaign of the medical profession, however, is debatable” (Immergut, 1992, 208). Her preferred explanation is that popular support for the welfare state in Sweden had eroded as the Social Democrats began to levy the taxes needed to pay for it. “Reactions to the Höjer reform fit very neatly into this general backlash against the welfare state” (Immergut, 1992, 208). But this interpretation is an awkward one for Immergut to make given her own theoretical stance on Sweden. Her claim is that the Swedish case amounts to an example of “executive dominance”, whereby the executive was relatively unencumbered by political institutions that accorded interest groups the opportunity to exploit veto points. Her view is neatly summarised in the following passage.

For most of the period studied, the executive could count on stable parliamentary majorities bound by party discipline to ratify its proposals. Moreover, even at times when the majorities were unstable, institutional mechanisms developed to isolate policy-making procedures from both the executive and parliament allowed for continuous policy preparation despite fluctuations in the governing coalition. Paradoxically, institutional features introduced to preserve the power of the monarch and the Conservative Party during the transition to democracy ended up working to the benefit of the Social Democrats once they assumed control of the executive. Consequently, although these institutions were intended to ensure stability — that is, the status quo — they facilitated radical political change. This process was based on conciliation rather than conflict, however. (Immergut, 1992, 179)
Furthermore, while the Höjer reforms were not passed, there remained a consensus that health care needed to be expanded to a greater proportion of the population. In this light, Immergut’s recourse to public opinion around the 1948 election turning against the growing welfare state seems less credible — not least because that election saw the Social Democrats lose only 0.6 percent of their vote share and retain a majority in both legislative chambers (Immergut, 1992, 209).

A more natural interpretation, and one commensurate with the core of Immergut’s understanding of the Swedish case, is that the Social Democrats — indeed, the Left more broadly, as seen by LO’s response to the proposal — saw no need to pursue the Höjer reforms. Imposing salaried civil service status on the medical profession was not necessary. There was no need to co-opt the doctors into the defence of the health system under any future non-socialist government. Arranging finance such that health care became free-at-the-point-of-use — the over-riding principle that became a resignation issue for Bevan and Wilson in the UK — was also unnecessary. Maintaining the fee-for-use system kept the doctors contented whilst offering little downside to the Social Democrats as they were able to ensure that all of their citizens would have sufficient resources with which to pay for care. Indeed, Tilton (1990, 118) asserts that Gustav Möller, the extremely influential SAP minister in charge of social policy, got precisely the system that he wanted through the reforms that were subsequently implemented instead of the Höjer proposals.

The most appropriate conclusion, then, would seem to be that Höjer’s reforms were ultimately rejected because nobody particularly wanted them. In taking inspiration from the nascent British NHS, he had failed to take account of the political realities in Sweden. Despite this rejection, there remained a consensus within Sweden that reforms of some sort were needed so as to ensure that all sections of society had sufficient access to care. The prevailing voluntary system left too many on the outside.
5.4.2.2 The National Health Insurance Act 1953

By the time that the Swedish system took shape, it differed significantly from the British National Health Service that had been adopted a few years previously. The British program is primarily a medical scheme, while the Swedish system is primarily a form of social insurance designed to offset the consequences to living conditions of disease, disablement, or unemployment for medical reasons. (Board, 1970, 233)

Concurrent with the debate over the Höjer reforms, the Government had actually pressed on with legislative action to introduce provisions for compulsory health insurance. Indeed, the issue having been debated during the war, an Act to this effect was passed by Parliament in 1946. With the Act essentially an extension of the prevailing voluntary insurance system, and with doctors having been extensively consulted during the formation of its provisions, it passed without controversy (Blanpain, Delesie and Nys, 1978, 173). For financial and staffing reasons, operation of the Act was delayed until 1955 (Serner, 1980, 103) — a notable contrast with the urgency with which reform was pursued in Britain, which itself faced extreme financial difficulties following the war.  

In terms of characteristics, the compulsory insurance system finally implemented in 1955 was, unsurprisingly, rather different from the Höjer proposals; and, indeed, rather different from the British NHS. Compulsion was only applied to employees (Blanpain, Delesie and Nys, 1978, 172). A salaried medical profession was no part of the new system and fees-for-service remained at its core. Patients would consult with the same private doctors as before, only their new state-provided insurance policy would reimburse them for a proportion of the cost of doing so. The legislation did not impose a fixed tariff for consultations.

They were, however, regulated in the sense that the insurance provided

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48See Foot (1973, 50–59) for a discussion of the British financial predicament, together with Bevan’s views on the matter.
reimbursement for 75 per cent of fees below a fixed level. The level served as a guideline, but physicians were not obliged to keep below it. (Serner, 1980, 103–104)

Even with doctors, of their own volition, holding their fees below the ‘fixed level’, the system was designed to pay a maximum of 75 percent of costs. How stark a contrast this is with the tooth-and-nail fight in Britain over the introduction of fees amounting to only 2 percent of health expenditure.

There were some similarities between the Swedish and British systems, however. Doctors were permitted to retain the use of private beds in the hospitals (that remained publicly-owned). Somewhat in accord with the use of base-line salaries for doctors in the NHS, a low salary was provided to provincial doctors as a way of ensuring their financial viability. The quid pro quo being that they agree to treat low income patients. Even these consultations were on a fee-for-service basis, though, and the salaried doctors were free to undertake private practice, as well (Immergut, 1992, 210).

On top of the contrast between Britain and Sweden on the issue of fees-for-service, a further major differentiation can be drawn.

The important item was sickness compensation to cover loss of income [...] [T]he reader should keep this emphasis on sickness and disability compensation in mind. These items claim by far the greatest sums of money in the Swedish national health insurance system. (Serner, 1980, 103)

The quote from Board (1970) at the start of this section makes this clear in a comparative sense, as well. Figures from Kangas (2004, 196) provide some support for this comparative view, although the intervals at which data is available are not ideal for our purposes. In 1950, post-implementation of the Beveridge reforms and

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49This aspect was subsequently abolished in 1959 (Serner, 1980, 104).
the NHS in Britain, but pre-implementation of the Swedish reforms of 1955, Britain and Sweden had approximately equal coverage and replacement rates for their sickness benefits. By 1970, the British coverage rate had actually dropped slightly while replacement rates had risen from around 50 percent to around 60 percent. In contrast, the Swedish coverage had remained at 100 percent and replacement rates had grown to nearly 90 percent.

5.4.3 The Late 1960s and Early 1970s

For 15 years, the reforms implemented in 1955 provided the core of Swedish health care. Some further tweaks were made but the major features of the system remained in place until the so-called ‘Seven Crown Reforms’ in 1970. For the argument advanced here, the reforms are significant. The main empirical point is that a health system reform that moved Sweden closer to the British NHS model was enacted precisely at the point when the governing Social Democrats had agreed to a batch of constitutional reforms that would leave them in a weaker position electorally, and with a body of institutions that offered less scope for them to veto changes to which they were averse when in opposition. My claim — and on this, I follow Immergut (1992, 222) — is that the Social Democrats responded to this change in their systematic strength by further embedding the Swedish health system in a structure that would allow it to weather any ensuing non-socialist government.

To make this case, I begin with an outline of the constitutional reforms that were enacted, together with a description of their subsequent effects. In the light of that discussion, I then move on to describe the pertinent details of the Seven Crown Reforms.

5.4.3.1 The Constitutional Reforms

Ruin (1988) describes the main features of the constitutional reform. The electoral system (for the Second Chamber) was adjusted to make it more proportional, thus
reducing some of the majoritarian bonus that was reaped by the largest parties — i.e. predominantly the Social Democrats.\textsuperscript{50}

The First Chamber, which was indirectly elected by county council politicians was also abolished. As Immergut (1992, 238–242) stresses, this step was notably detrimental to the Social Democrats. The double disproportionality entailed by the indirect electoral system meant that the Social Democrats had been able to secure a consistent absolute majority in the First Chamber from 1942 onwards.\textsuperscript{51} Furthermore, the eight year terms, as compared to three years in the Second Chamber, meant that there was a good degree of stability and the Social Democrats could rely on their strength for a fairly long period. That strength in the First Chamber was of real significance. While governments were notionally formed by majorities in the Second Chamber, the annual budget could only be passed by a joint sitting of both chambers and the Social Democrat strength in the First Chamber meant that they nearly always had that joint majority, even during their weaker periods in the Second Chamber. As such, they could nearly always veto budgets. Removal of the First Chamber, then, removed an in-built and stable mechanism of ensuring Social Democratic legislative strength. It also removed a veto point as all legislation previously had to be passed by both chambers. According to the veto player analysis of the sort advocated by Tsebelis (2002), this should tend to increase policy instability, and thus to increase the uncertainty of the Social Democrats over their ability to block future unwanted reforms.

Taking these reforms together, the simulation results presented by Immergut (2002) suggesting that the Social Democrats would have performed better electorally in the post-1970 period under the old constitution appear unsurprising. At the very least, the shift to unicameralism unarguably removed a veto point — one that had

\textsuperscript{50}Part of this reform also expanded membership of the Second Chamber. It now has 349 members representing 29 multi-member constituencies, with 39 top-up members used to ensure greater proportionality (Bergman, 2004, 205).

\textsuperscript{51}‘Double disproportionality’ in the sense of an electoral bonus for the Social Democrats at the county level and then that bonus magnified by a further bonus in the actual election to the First Chamber.
been solidly Social Democratic — and thus increased the likelihood of future reforms being enacted by the non-socialist bloc.

In this light, it is interesting to ask why the SAP would have presided over a constitutional reform that was to their detriment. As Ruin (1988, 312) notes, many Social Democrats tended to see little reason to change a constitution that had served them so well over the previous decades. However, this began to change in the mid-1960s. A constitutional commission had been created in the early 1950s, but it had little impact in its first 15 years or so. Then, the slow rumbling of opposition party advocacy was coupled with a surprise local election defeat for the SAP in 1966. Constitutional reform became a live issue and the Social Democrats felt they did not want to contest another election without having settled the issue — not least because they feared delay could mean the reform taking place under right-wing government if the 1966 result were repeated (Ruin, 1988, 318). It was in this environment that constitutional reform was agreed.

In health policy terms, how did the Social Democrats respond to this change? They instigated the ‘Seven Crowns Reform’.

5.4.3.2 The ‘Seven Crowns Reform’

The ‘Seven Crowns Reform’ earned its name from the principal change that lay at the heart of the package. Doctors would no longer be able to charge arbitrary fees for service. Instead, a fixed tariff of seven crowns (kronor) would be charged for all visits, regardless of the services that were performed. This level of fee was decided upon after the government conducted a survey to find out the average cost of a visit to the doctor. The answer was found to be 70 crowns and the fee was set to 10 percent of this level (Blanpain, Delesie and Nys, 1978, 175). Thus, the cash component of this major area of health care was reduced by about 15 percentage points.52

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52 This is likely to be a low-side estimate as doctors were previously able to charge more than the notional tariffs for which reimbursement at the 75 percent rate was payable.
CHAPTER 5. POST-WAR HEALTH POLICY

The other main aspect of the reform, and one that clearly followed directly from the limitation on fees, was the move to a salaried medical profession. As Serner (1980, 104) notes, the change in the law “actually comprised a provision in the hospital law that forbade employees to accept any payment from patients”. No legal requirement was enacted to move doctors onto salaries, but in subsequent negotiations between the County Council Federation and the SMA, it was agreed that this was the most appropriate way forward. In the face of parliamentary resolve, the SMA had little option but to acquiesce (Immergut, 1992, 216). This parliamentary resolve was built upon the SAP having won an absolute majority in the 1968 election, as well as interesting dynamics amongst the non-socialist bloc. The Centre Party, which had a strong presence in local government, supported the reform — apparently as a result of the strengthening of the County Councils (Immergut, 1992, 219). The Liberal Party, reeling from losing “nearly one-half of its voters as a result of its negative stance on [...] pensions” during the previous electoral period, were in no position to be seen to obstruct social policy reform, again (Immergut, 1992, 213). This left the Conservatives as the right-wing standard-bearers on the issue; voting, as they did, against the reform.

It is interesting to note that “the Seven Crowns reform and the related negotiations introduced several of the more controversial points of the Höjer reform”. It was only the failure to find agreement on extension of the reform to private practitioners (outside of hospitals) that stopped the full Höjer package from being adopted in 1969 (Immergut, 1992, 214). Despite exclusion of the private doctors, “[o]vernight, 90 percent of Sweden’s doctors became full-time salaried employees of the state” (Blanpain, Delesie and Nys, 1978, 175). In essence, then, the Seven Crowns Reform was a notable move in the direction of the British NHS model. Fees for service remained, but at markedly lower rates. The medical profession was finally a salaried civil service corps, with the resultant benefits from their bargaining strength as a way of maintaining wage levels in the public service. Indeed, Immergut notes this
point, albeit in reverse.

There were advantages for the leadership [of the SMA] in accepting a salary form of payment. With an increased number of physicians, which not only weakened the market position of doctors but also brought in a large cohort of younger doctors, the leadership could improve the situation of its members more effectively by pursuing a hard line in salary negotiations than by clinging to private practice privileges. (Immergut, 1992, 215)

Doctors, then, had considerable capacity (and desire) to protect the health service in its new form. This fact would not have been lost on the Social Democrats.

In light of the evidence, Immergut’s summary of the political motivations underlying the Seven Crowns Reform seems apt.

The reform was part of a package of policies — in the areas of health care, taxation, and economic policy — that aimed to solidify the party’s electoral standing at a time when it was at the peak of its power, but when its future control of the government was in jeopardy. (Immergut, 1992, 212)

5.5 Conclusion

Using my theoretical framework, we can explain the course of events in both Swedish and British health policy. To make the case, a number of steps are required. First, that the British Labour Party and the Swedish Social Democrats faced very different strategic positions at the end of the Second World War with respect to their expectations over future right-wing policy influence. Second, that they recognised their strategic situations. Third, that they were able to and did act upon the incentives provided by these different situations.\footnote{Although not necessarily how they differed from each other.}
A fourth, but not necessary step in the causal chain is recognition on the part of the actors that there were efficiency costs to structuring the NHS in its particular way. That being the case would provide further evidence that Bevan, the primary actor, was engaged in the construction of a second-best system, and so provide further indirect evidence that he was acting strategically. In the event, it is surely uncontentious to say that Bevan was aware of the efficiency costs of his scheme. The Treasury considered that charges would be useful in providing an “education of the public who use the service” (Webster, 1988, 143). Economic theory suggests that providing services at zero marginal cost should lead to over-demand. Bevan’s own acceptance of this kind of logic has already been noted in the discussion above.\footnote{See footnote 36.}

A logical question to ask in the face of Bevan’s strategic policy-making is: did it work? That is, did he manage to construct a system that was relatively immune to the cost-cutting proclivities of ensuing Conservative governments? As shown in Section 5.3.5, the answer is again, ‘yes’. A large part of this flowed from the public support which the system had inspired, but also from the co-opting of medical professionals by placing them in a position that encouraged them to pursue an expansion of expenditure on the nationalised scheme.

Created amidst controversy, the NHS was soon cocooned in consensus. Over the following decades, the NHS not only established itself as Britain’s most popular institution next to the monarchy — invariably receiving top ratings in all public opinion surveys — but increasingly came to be strongly supported by those who had fought its creation: the medical profession. (Day and Klein, 1992, 468)

So, not only did public opinion come to reinforce the system, but the doctors, who had fought bitterly against the scheme, came to be some of its most staunch defenders. Precisely as the theoretical account offered here would predict: path dependence that largely overwhelmed subsequent Tory partisanship was rationally
chosen. Meanwhile, in Sweden, no such path dependent organisational structures were required by the SAP. Secure in government, they had little to fear from right-wing parties and so had no need to follow Bevan’s policy lead — indeed, in the form of the Höjer reforms, they explicitly rejected it.

Based on the first three causal steps in the argument, empirically, we should witness a rather different structure to and set of principles guiding the construction of the two respective health systems. This is unarguably the case. The fundamental characteristics of the NHS, as constructed by the Labour Party, were: free-at-the-point-of-use, redistributive financing via general taxation, universal entitlement, and relatively small cash sickness benefits. By contrast, the fundamental characteristics of the Swedish system, as constructed by the SAP, were: compulsory insurance-based, fee-for-service, cash payments with circa 75% reimbursement of fees, and relatively generous cash sickness benefits. Furthermore, at the point at which the SAP came to face a political system that was notably less favourable to them, they reformed the health system in ways that reduced the fee-for-service component and further embedded the medical profession into a position that aligned their interests with those of the (poorer) service users.

As to the second step of the causal chain, it seems uncontroversial to suggest that the Social Democrats recognised the enduring strength of their political position. This has most clearly been expressed with respect to the system of economic planning that they instituted, but it is hardly a stretch to think that this would have spilled over into other areas of policy. As Lewin (1988, 168) notes, “above all, the postwar program contained long-term plans”. On the British side, Bevan’s references to “vandals” and “vermin” (Webster, 1991, 123) with respect to the Conservatives and his expressed fear of what they would do if they came to power lend credence to the claim that he acted strategically, with a view to the future, in his construction of the NHS.

Underlying the claim regarding differing preferences over the structure of national
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health systems is one of redistributive battles being fought between Left and Right. One objection to the position advanced here, then, could be that health care is of little consequence in what has been termed the ‘strategy of equality’ (c.f. Le Grand, 1982). In his analysis, Eckstein (1959, Chapter 2) implicitly seems to subscribe to this view. Whether empirically accurate or not — and my position is certainly the latter — the relevant point is whether the principal policy actors saw the issue as one of redistributive consequence. In that light, Bevan’s statement to the House of Commons is instructive. “The redistributive aspect of the scheme was one which attracted me almost as much as the therapeutical” (Webster, 1991, 209).\footnote{Speech in the House of Commons in 1958.}
Chapter 6

Welfare State Retrenchment, Redistribution Strategies, and Credible Commitments

Applying the framework developed in Chapter 4, in this chapter I test the theoretical predictions regarding left-wing relative preferences for means-tested cash transfers and in-kind services during the ‘retrenchment’ era. Analysing the development of the welfare state across OECD countries from 1990 to 2003, I seek to rectify the relative absence of broad comparative analysis regarding the effects of ‘political uncertainty’ — particularly among studies of welfare states. In doing so, I provide a more nuanced understanding of the effect of partisanship by escaping the more simplistic ‘left means more, right means less’ hypotheses.

That such a simplistic hypothesis is commonplace amongst political scientists can be seen from the voluminous quantitative literature on the development of welfare states across countries. Earlier researchers have implicitly assumed that left-wing parties seek the same policies in any political environment. This assumption is exhibited in the plethora of time-series cross-section (TSCS) studies, pooling across OECD countries, that model welfare expenditure (e.g. Pampel and Williamson,
Each of these studies searches for the effect of partisanship, but little account is given to the idea that different types of welfare expenditure can have different redistributive effects.\footnote{Perhaps this lack of differentiation between spending stems from the influence of models like that put forth by Meltzer and Richard (1981), which leads the researcher to concentrate on the politics surrounding tax-and-spend only in the abstract. Implicit in work of this kind is an assumption that all government expenditure is created equal; that cash transfers are equivalent to the provision of (redistributive) services.} As I have shown in previous theoretical and empirical chapters, this omission becomes all the more telling when the dynamic and strategic effects of policy choice are taken seriously.

As discussed in Chapter 2, some scholars have emphasised the importance of context in conditioning partisan policy choices. However, none have employed concepts relating to strategic considerations of time. Furthermore, it is rare for such studies to make theoretical claims of conditional partisanship relating to the welfare state.\footnote{Kwon and Pontusson (2008) is a partial exception.}

This chapter follows the lead offered by those authors who emphasise the importance of political context on partisanship. However, in contrast to those authors who have emphasised policy constraints based on economics (Garrett, 1998), institutions in a direct sense (Golder, 2004), and interest groups (Beramendi and Rueda, 2007), the emphasis here is more explicitly party-political. In this way, I draw on the insights of the more recent political economy literature regarding institutions — especially in the area of commitment mechanisms.

### 6.1 Theory

While the theory tested below has been developed in previous chapters, it is worth recapitulating in order to make the hypothesis under consideration clear. In doing so, I also describe how and why I use a narrower measure of cash transfer generosity in this chapter than was the case when developing the theory in Chapter 4.
CHAPTER 6. WELFARE SPENDING & CREDIBLE COMMITMENTS

The basic intuition is that welfare services will be more difficult for a government to roll back than equivalent cash transfer programmes because the former tend to embody large amounts of highly-organised labour while the latter have small and disadvantaged constituencies.\(^4\) Welfare service providers have a direct interest in defending against programme cuts because their incomes and jobs depend directly on the maintenance of expenditure levels. Thus, the ultimate beneficiaries of welfare expenditures have influential allies in the defence against cuts when they receive their benefits as in-kind services. The result is that service-centric welfare states should be more path dependent than their cash-centric cousins.

If this were the only side of the story, then there would be no (interesting) decision for parties seeking to construct welfare states to make: they would simply concentrate expenditure on services. The second part of my claim is that services have a strong tendency to be less efficient forms of redistribution than cash transfers. In terms of simple economic theory, the receipt of cash is clearly superior to the receipt of specific services as the former allows for the tailoring of the recipients’ consumption bundle according to his or her preferences.\(^5\) Redistribution through services also suffers from the limitations that it tends to be more difficult to vary in the short-term due to the necessity for recruitment and capital investment in order to increase capacity. Finally, it suffers from the problem — from a redistributive perspective — that the middle classes are often major beneficiaries of such programmes (Le Grand, 1982; Goodin and Le Grand, 1987).

Thus, redistributively-minded parties face a trade-off between the effectiveness of cash transfers and the ‘stickiness’ of welfare services. The final piece of the theoretical jigsaw concerns how this dilemma of how to redistribute is resolved. I argue that the key determinant of which type of expenditure a party will choose is the (perceived) probability that a future government or legislature will have the

\(^4\)See King (1995, 3) on the latter, where he argues that organisational weakness and a lack of market power are at the root of the problem.

\(^5\)There is an implicit assumption here that, with the cash transfer, the recipient would be able to purchase the welfare service that would have been made available in the absence of the cash payment.
power to push through cuts in expenditure. One way of interpreting this is as the probability that left-wing parties will lose future elections, and thus face right-wing governments who are assumed to be less keen on redistribution. Another way of interpreting this is as the probability that left-wing parties will be in a position to block any proposed (right-wing) changes to welfare expenditure. This latter interpretation is rather more appropriate for the theoretical position set out here as it accords more precisely with the notion of the decision being taken based on whether a policy is expected to need defending in the future. It also has the merit of being easier to take to data as measures of the number of ‘veto players’ and the like are more credibly exogenous from welfare spending decisions than are the electoral performances of left-wing parties — either in terms of vote shares or cabinet seat shares.

At this point, I narrow the focus of my theoretical claim for this chapter. While the argument as described above is expressed in quite general terms with respect to cash transfers, there are theoretical and empirical reasons to limit the scope of inquiry in the ensuing analysis. Clearly, there are different types of cash ‘transfer’ that can be made to individuals. These might be broadly divided into: universal payments, contribution-based payments, and means-tested payments. Furthermore, there are reasons to suspect that the political costs (and benefits) of reforms to each of these types of cash outlay will be rather different. It is a common argument that universalism binds in the middle classes and thus solidifies support for such policies as influential, perhaps median, voters come to benefit from them (e.g. Esping-Andersen, 1985; Korpi and Palme, 1998; Rothstein, 1998). If this argument holds, then the distinction drawn between cash and services would be of less relevance for universal payments.

A similar argument holds for social insurance cash payments that are based on previous contributions — albeit for a slightly different reason. Here, where individuals have explicitly contributed to insurance schemes they are likely to have a sense
of entitlement to benefits as and when they qualify for them. That is, there is some-
thing of a contractual nature to the arrangement which it seems plausible to suggest
would make it difficult for governments to renege on the ‘contract’ — especially if
large swathes of the population are, themselves, relying on this insurance contract.

From this analysis, I argue that the logic of cash transfers being easier to cut
applies most strongly to means-tested payments. These policies can be said to have
a small, disadvantaged, and often disaffected constituency that benefits from them,
coupled with a more discretionary role for government in setting their generosity as
they are not of a contractual nature. It is for these reasons that means-tested cash
transfers should be among the most precarious of welfare policies. Furthermore, they
are surely among the most redistributive as expenditure is directly channeled from
the relatively well-off to the poor. As such, means-tested cash transfers accord most
closely with the argument developed in Chapter 4: high precariousness coupled
with high redistributive efficiency makes the trade-off between means-tested cash
transfers and welfare services sharpest for left-wing parties. It is for this reason that
I focus on the comparison between means-tested transfers and in-kind services in
this chapter. While cash payments of the other sorts are clearly of huge importance
across many countries, I do not explore their political dynamics here. At this stage,
my aim is to show that my argument does have empirical value, not to seek the
limits of its applicability.

The hypothesis under test here, then, is that left-wing parties will prefer means-
tested cash transfers to in-kind services in contexts in which they expect to be able
to block reforms in the future. By contrast, where they do not expect to have
that power in the future, they will prefer redistribution through welfare services.
The next section tests this hypothesis using data for a selection of OECD countries
6.2 Empirical Analysis

In this section, I test the theoretical prediction that the effect of partisanship on the two types of welfare expenditure will be conditional on the prevailing level of checks within political systems.

6.2.1 The Dependent Variables

The decision about how to approach the testing of the theory set out above is not a simple one. On the face of it, the theoretical position taken in here is one that makes claims about the relative amount of cash and in-kind welfare expenditure. No explicit predictions about the magnitude of either expenditure are made, only about the way in which they will covary with the political process. As such, the relevant dependent variable to test the theoretical claim would appear to be the ratio of cash to in-kind expenditure.

However, such a measure is actually rather problematic: an example is the easiest way to show why. Consider a case where a left-wing party has been out of power for a long period. If this period has coincided with a low prevalence of checks/veto-players, then my model suggests that means-tested cash transfers, which are more easily rolled-back, would be at a relatively low level. In this situation, we might expect the incoming left-wing party to, at least initially, invest in those cash transfers in order to get them up to a reasonable level. However, as set out above, my theoretical claim is that an incoming left-wing party, seeking to secure future redistribution, will choose to invest in services rather than cash transfers. Thus, the logic underlying my theory generates ambiguous predictions when the dependent variable is taken as a ratio of spending.

The same issue is present even when modelling the two expenditure types separately, but there is reason to think it will be more muted. This is because modelling them separately makes it possible to estimate the strategic expenditure shift in one

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6There is an implicit assumption here that the cash transfers and services are not perfect substitutes.
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measure — services in the example above — without it being swamped by an expenditure shift in the other. Thus, while the estimated strategic partisan expenditure effect will be biased downwards for one category (cash), it will be correctly estimated for the other (services). The direction of the bias is less clear where a ratio is employed — especially where one of the components of the ratio is expected to exhibit higher variance than the other component. Finally, it should be noted that this issue induces bias against the theory I seek to test, making any support found from the estimates all the more credible.

A further problem with using a ratio of the two dependent variables arises. As discussed below — in Section 6.2.5.1 — it is natural to expect the lag structures of the explanatory variables to be different when modelling cash and service expenditure. The latter will almost certainly require a longer lead time between shifts in explanatory variables and shifts in service expenditure as it is a relatively slow process to negotiate wage changes, employment reductions, and also to hire more employees. Collapsing both the cash and service dependent variables into one would yield a requirement for a complicated lag structure — one that would very likely dramatically reduce the available degrees of freedom as each explanatory variable would require multiple lags.

Given these difficulties, it is apparent that it is necessary to model each expenditure category in levels. Thus, I estimate separate models for each of my proxies for cash and service expenditure: employing the two dependent variables, $ExpCash_{i,t}$ and $ExpServ_{i,t}$. The two dependent variables are sourced separately. The data used to construct a measure of cash spending effort is taken from Nelson (2007), which provides data on means-tested benefits for different types of individual earning an ‘average production worker’s wage’. It covers old-age pensions, unemployment insurance, and sickness insurance. Data is available for representative lone parents, families, and singles, but for reasons of space, I focus on that for families, here.

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7Specifically, these types are a single person, a lone parent, and a two-parent two-child family.

8Results for the other measures are broadly in line with those presented below, and are available from the author upon request.
I use data covering 21 countries for the period 1990–2005, although there is some missing data for Portugal. The actual variable employed is the level of means-tested benefits available to the ‘family’ category of recipient(s) as a percentage of average national income ($ExpCash^{Fa}$). In this way, the relative generosity of each means-tested benefit system can easily be compared across countries. Low ratios indicate instances where means-tested benefits fail to raise the income of recipients to somewhere close to the mean level of income in the country. Such a situation is taken to indicate that those benefits are doing less to counter inequality than if the ratio were higher.

Data for $ExpServ$ is taken from the OECD Detailed General Government Accounts. Specifically, I add together three variables capturing the level of expenditure on welfare wages in different sectors: ‘social protection’, ‘housing’, and ‘health’. This sum is then divided by GDP, thus giving ‘social wages’ as a percentage of GDP as my proxy for service expenditure, $ExpServ$. This variable is used because, by focusing specifically on wages, it stays closer to the underlying theoretical stance advanced here regarding the importance of large bodies of public sector labour to the strategic decisions of parties.

At this point, it should be noted that the two proxies for cash and service expenditure are, at one level, not commensurate. The proxy for $ExpCash$ effectively captures welfare effort for a given need, while the proxy for $ExpServ$ captures welfare effort on a more aggregated, less restricted, measure. Despite these differences, each does provide a reasonable proxy for the underlying theoretical concepts at issue.

---

9The data set includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States, Spain, Portugal, Greece, and the Czech Republic. I exclude the Czech Republic due to other data constraints and a desire to stay with the more standard sample associated with research into ‘developed democracies’.

10The average income data is gross national income per capita, taken from the World Development Indicators (WDI) produced by The World Bank. I use the purchasing power parity (PPP) measures from Nelson (2007) and the WDI.

11To be precise: “Total compensation of employees paid by the government: Social protection”, “Total compensation of employees paid by the government: Housing”, and “Total compensation of employees paid by the government: Health”. Missing data for education expenditure and wages means that I am unable to include this component of the welfare state in the measure.
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The means-tested benefits data provides exceptionally detailed and precise measures of a variable that maps very closely onto the logic expressed above regarding cash expenditure. The appropriateness of the measure stems from the fact that it reflects individual level income — where the individual is a prime example of the type of person that left-wing parties are assumed to want to redistribute to. That there is no equivalent measure for service expenditure actually accords with the theoretical position set forth here. I claim that service expenditure, by its nature, tends to benefit very large sections of society so it is unsurprising that data on the value of individual-level consumption of these services is not available.

Table 6.1 provides a summary of the dependent variables. In particular, Table 6.1 shows that there are differing trends and differing levels in both of the variables across countries. Commensurate with the data being for the retrenchment period, cash transfers show signs of decline in several countries — most notably in Canada, Finland, Ireland, and Sweden. The very difference in these cash-retrenching countries suggests that the explanation for such changes must go beyond the ‘liberalisation’ of ‘social democratic welfare states’. Meanwhile, other countries hold cash payments broadly steady. The data for $ExpServ$ make plain that the Nordic countries operate notably higher levels of welfare services than do the other countries in the sample. Several countries exhibit increases in $ExpServ$ across the period (e.g. Denmark, Greece, and Portugal), while others maintain a fairly consistent level (e.g. France, Germany, and the Netherlands). The data for Austria suggest that service retrenchment there was the deepest in the sample. Notably, this did not appear to coincide with such deep cuts in cash transfers.

6.2.2 Core Explanatory Variables

As a partisanship variable, I use the proportion of cabinet seats held by a left-wing party for a given country-year, $Left_{i,t}$. This is interacted with a proxy for expectations regarding the future level of veto power in the political system. I denote
<table>
<thead>
<tr>
<th>Country</th>
<th>$ExpCash^{Fa}$</th>
<th>$ExpServ$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>61.1</td>
<td>61.7</td>
</tr>
<tr>
<td>Austria</td>
<td>50.9</td>
<td>50.8</td>
</tr>
<tr>
<td>Belgium</td>
<td>57.1</td>
<td>52.3</td>
</tr>
<tr>
<td>Canada</td>
<td>81.4</td>
<td>77.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>87.9</td>
<td>85.6</td>
</tr>
<tr>
<td>Finland</td>
<td>88.2</td>
<td>94.3</td>
</tr>
<tr>
<td>France</td>
<td>47.6</td>
<td>46.9</td>
</tr>
<tr>
<td>Germany</td>
<td>76.7</td>
<td>78.2</td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td>2.20</td>
</tr>
<tr>
<td>Ireland</td>
<td>109.8</td>
<td>92.1</td>
</tr>
<tr>
<td>Italy</td>
<td>66.0</td>
<td>62.8</td>
</tr>
<tr>
<td>Japan</td>
<td>66.2</td>
<td>66.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>62.3</td>
<td>59.8</td>
</tr>
<tr>
<td>New Zealand</td>
<td>81.3</td>
<td>77.6</td>
</tr>
<tr>
<td>Norway</td>
<td>60.5</td>
<td>63.8</td>
</tr>
<tr>
<td>Portugal</td>
<td></td>
<td>42.1</td>
</tr>
<tr>
<td>Spain</td>
<td>52.6</td>
<td>39.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>85.3</td>
<td>90.6</td>
</tr>
<tr>
<td>Switzerland</td>
<td>70.5</td>
<td>80.8</td>
</tr>
<tr>
<td>UK</td>
<td>65.3</td>
<td>67.4</td>
</tr>
<tr>
<td>USA</td>
<td>43.3</td>
<td>39.1</td>
</tr>
</tbody>
</table>

Table 6.1: Summary of dependent variables for cash transfer ($ExpCash^{Fa}$) and welfare services ($ExpServ$) for each country in 1990, 1995, and 2000.
this variable $EChecks_{i,t}$ — where the $t$ subscript denotes the expectation about the future held at time $t$. If the theoretical claim here is correct, we should expect to see this interaction effect work in opposite directions for the two different dependent variables. In the cash transfer models, the expectation is that the interaction effect is positive, indicating that a higher level of $EChecks_{i,t}$ leads left-wing governments to invest more in cash transfers. By contrast, the expectation is of a negative interaction effect in the welfare service models, thus providing evidence that the presence of more checks in a system leads left-wing governments to feel less need to embed their redistributive welfare policies within a structure of organised labour.

Clearly, this setup makes it necessary to derive a proxy for that estimation of future checks ($EChecks_{i,t}$). I construct this variable from the Checks variable provided by Keefer and Stasavage (2002). This is a composite index capturing the number of checks on government in a political system, and varies by country-year. The variable takes into account institutional factors, such as bicameralism and presidentialism, as well as partisan factors, such as the distance of governing coalition members from each other (and non-coalition members) in left-right policy terms.

As a test of reliability, I also construct an alternative to $EChecks$ using the veto player data set provided by Tsebelis. This yields a variable I denote $EVPs$. However, shorter time series and missing data for some countries reduce the sample size when using this variable by about half, which leads me to place far more weight on the results obtained with the $EChecks$ variable. Results from estimating models with $EVPs$ are presented at the end in Section 6.A.

With the underlying variables established, the next step is to use them to generate a proxy for $EChecks$. To do so, I use an ‘adaptive expectations’ approach.

\[\text{12 The } EVPs \text{ variable is constructed in an exactly analogous way to that for } EChecks.\]
6.2.2.1 Adaptive Expectations

The adaptive expectations approach is taken from the work of Cagan (1956) and Friedman (1957, 143). The idea is simply that current expectations are a weighted average of expectations in the previous period and the current observed value of the variable in question. Thus, adaptive expectations for the level of checks within a political system \( (\text{Checks}_{i,t}) \) are formed in the following way:

\[
E\text{Checks}_{i,t}^{A,\gamma} = \gamma \cdot \text{Checks}_{i,t} + (1 - \gamma) \cdot E\text{Checks}_{i,t-1}^{A,\gamma}. \tag{6.1}
\]

Such an expectations mechanism has been largely discredited in the realms of economics from which it springs. The ‘rational expectations’ revolution initiated by Muth (1961) held that the simple adaptive expectations process assumes that actors are entirely backward-looking when thinking about what will happen in the future. The insight of Muth (1961, 315) was that,

In order to explain fairly simply how expectations are formed, we advance the hypothesis that they are essentially the same as the predictions of the relevant economic theory.

This is very well, but in the political realm, it is far from clear that we have robust enough theories to operate in the rational expectations paradigm. While there are reasonably established accounts of differences across countries, largely stemming from electoral system differences,\(^{13}\) there is little theoretical consensus regarding how countries may develop through time. The prevalence of checks within a system is undoubtedly related to various institutional features, but these change relatively little through time. When we move to consider what Tsebelis terms “partisan veto players”, the situation becomes even more disputed as there are numerous theoretical accounts for why different parties perform better or worse electorally.\(^{14}\)

Even if we, as political scientists, did have strong theories regarding the relative

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\(^{13}\) e.g. The ‘consensus’ and ‘majoritarian’ distinction associated with Lijphart (1999).

\(^{14}\) Although see Chapter 8 for a first attempt at modelling this.
electoral strength of Left and Right, it would be necessary to confirm that they were indeed shared by political actors in order for them to be valid expectations-forming processes. In the absence of consensus within the academy, then, ‘rational expectations’ (in Muth’s sense) over future electoral strength and, by extension, future checks within a political system, would seem to hold little empirical validity.

I use adaptive expectations because they provide for actors to update their beliefs in a fairly simple way based on new information that they receive in each period. The parameter, $\gamma$, provides a way of varying the relative weight given to the new information. If my aim is effectively to construct a smoothed measure of Checks, a sceptical reader may wonder why I do not employ a simple moving average process instead of adaptive expectations. The answer is that the two approaches are very similar in that they both average over past values of the underlying variable. However, using adaptive expectations has the advantage that it weights older observations to a lower degree by allowing their influence to fade (geometrically) over time rather than dropping suddenly from the moving average window. This feature is, perhaps, one reason why adaptive expectations has the stronger theoretical heritage in the (economics) literature.

In standard economic adaptive expectations models, it is often possible to estimate $\gamma$ directly within empirical models. Unfortunately, in models with a lagged dependent variable (as all of mine have), it is not possible to distinguish between the ‘partial adjustment’ process captured by the lagged dependent variable and the adaptive expectations mechanism (Waud, 1966). For this reason, I adopt the less elegant empirical strategy of generating adaptive expectation series of the level of Checks in a country — denoted as $EChecks_{i,t}^{A,\gamma}$.\(^{15}\)

Of course, the issue then is what is the appropriate value of $\gamma$ to use.\(^{16}\) As

\(^{15}\)As can be seen from (6.1), a starting value is needed to begin the series. I use the sample mean value of checks for each country ($\text{Checks}_i$). Of course, this may not be a valid starting point for the value of $EChecks_{i,t}^{A,\gamma}$. However, my data for $\text{Checks}_{i,t}$ starts in the mid-1970s, while that for my dependent variables start after 1990, so there are 15-20 years for the series to settle down.

\(^{16}\)To be clear, this is analogous to the decision of how many lags to use in a moving average process and, therefore, does not entail a practice that is uncommon in the political economy literature.
my theoretical position is that politicians are making strategic decisions with an eye several periods into the future, I contend that relatively low values are most appropriate for testing the theory. That is, expectations about future levels of checks adjust fairly slowly to new observations and are not overly sensitive to relatively short periods of fluctuation, perhaps as a result of cabinet or coalition instability around elections. For that reason, the results presented below are for models estimated with $\gamma = 0.1$. Unreported results from estimating alternative specifications with $\gamma = 0.2$ and $\gamma = 0.05$ confirm that the findings are robust to plausible alternative levels of $\gamma$.

*Table 6.2* presents a summary of the $EChecks^{4.0.1}$ variable for each country at three points in time. It shows that, while the variable is fairly stable in several countries (e.g. Australia, Canada, and Greece), it exhibits a fair degree of variation in others. Austria, Denmark, France, Ireland, Italy, Japan, and Portugal all have high values around 10% above their low values. To be sure, this variation is not dramatically large, but the presence of country fixed effects in the models estimated below biases against the finding of substantive effects from such a variable — implying that we do not suffer from the problem of being over-confident when drawing inferences from the results.

### 6.2.3 ‘Control’ Variables

In addition to those explanatory variables used to test the theory proposed here, a number of control variables are employed across both cash and services models.

Unemployment ($Unemp_{i,t}$) is an obvious control variable as it has a direct bearing on cash transfers through unemployment benefits. It has also been suggested that governments respond to unemployment by increasing public sector employment, making it directly relevant to the services models, as well.

Following the standard Wagner hypothesis regarding greater public expenditure becoming more desirable at higher levels of GDP, I include (the natural log of) GDP
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<table>
<thead>
<tr>
<th>Country</th>
<th>$EChecks^{A,0.1}$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
</tr>
<tr>
<td>Australia</td>
<td>4.20</td>
</tr>
<tr>
<td>Austria</td>
<td>4.34</td>
</tr>
<tr>
<td>Belgium</td>
<td>5.27</td>
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<tr>
<td>Canada</td>
<td>4.04</td>
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<td>Denmark</td>
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<td>Finland</td>
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<tr>
<td>France</td>
<td>7.56</td>
</tr>
<tr>
<td>Germany</td>
<td>4.92</td>
</tr>
<tr>
<td>Greece</td>
<td>3.01</td>
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<tr>
<td>Ireland</td>
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<td>Italy</td>
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<td>3.32</td>
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<tr>
<td>UK</td>
<td>4.05</td>
</tr>
<tr>
<td>USA</td>
<td>4.80</td>
</tr>
</tbody>
</table>

Table 6.2: Summary of the key ‘expected checks’ measure ($EChecks^{A,0.1}$) for each country in 1990, 1995, and 2000.
per capita ($\text{LogGDPPC}_{i,t}$).

Public debt, measured as a percentage of GDP, is included as it represents a possible measure of budgetary constraint ($\text{PublicDebt}_{i,t}$). Higher levels of debt are likely to be met with more austere spending patterns. For the same reason, I also include a measure of the prevailing government budget deficit ($\text{PublicDeficit}_{i,t}$).

The ‘openness’ of the economy, defined as the sum of the value of imports and exports, divided by GDP, is also included ($\text{Openness}_{i,t}$). This is in light of the theory and evidence from the likes of Rodrik (1998), and Garrett (1998) regarding the use of the welfare state as a ‘compensation’ mechanism for the higher risks stemming from globalization.

Following Iversen and Cusack (2000), ‘deindustrialization’ is controlled for ($\text{Deind}_{i,t}$). It is measured as the ratio of agricultural and industrial employment to the total labour force. The logic for its inclusion is that the process of deindustrialization witnessed by most ‘developed democracies’ is a source of risk for those who have been required to find alternative employment in new sectors of the economy. As they experience higher employment risk, we should expect their demand for social insurance to rise.

Union density is controlled for as it offers a measure of the strength of the union movement ($\text{UnionDensity}_{i,t}$). A stronger union movement is likely to be able to lobby for increases in its preferred welfare provisions.

For the cash models, I include a control variable for ‘unexpected GDP growth’ (Roubini and Sachs, 1989), defined as the difference between growth in a year and average growth over its three previous years ($\text{UnexpGrowth}_{i,t}$). The logic being that any unexpected growth will lead cash transfers to fail to grow at the same rate as GDP (per capita), thus reducing $\text{ExpCash}_{i,t}$.

For the services models, I include the so-called ‘dependency ratio’, measured as the ratio of under 16s and over 65s to the working age population ($\text{DepRatio}_{i,t}$). The expectation is that both of the former groups are likely to require higher levels
of public services via health and social care.

Based on data availability, the samples that result from these specifications are 273 observations (for 20 countries) for the cash models and 221 (for 20 countries) for the services models. As noted above, the use of Tsebelis’ veto player data severely constrains the sample size. When using EVPs, the sample drops to 139 (for 16 countries) for cash models and 121 (for 16 countries) for services. As such, the results for the VPs models are intended only as indicative robustness tests, rather than fully competing models.

6.2.4 The Samples

While the Checks-derived proxies are preferred here, I do have a concern over the accuracy of the underlying Checks variable for France. Excluding France, for the period and country sample in question, the value of Checks ranges between 2 and 11, with a mean of around 4.4. While the French data for the same period falls within this range, in the 5 years immediately prior to the start of the sample (1991), France is a clear outlier with a Checks measure reaching as high as 16. While the actual period under consideration appears to be less problematic, the construction of $EChecks^{4.0.1}$ means that those older values of Checks will have an influence. Thus, for $EChecks$ models, I present results with France excluded to ensure that its inclusion is not driving results. To preempt the findings, this does not appear to be the case.

6.2.5 Modeling Strategies

In modeling the two (types of) dependent variable, I employ error correction models (ECMs). I do so as it allows for greater flexibility in the modeling of short- and long-run effects of the explanatory variables. Such an approach is increasingly common in the empirical comparative political economy literature (e.g. Iversen and Cusack, 2000; Franzese, 2002b; Kelly, 2005; Swank, 2006) and, while it was devel-
open to model cointegrated relationships, Keele and De Boef (2004) show that the specification can be fruitfully applied to TSCS data more generally.

However, due to their (effective) inclusion of a lagged dependent variable, they are subject of some criticism. Two critiques of the inclusion of lagged dependent variables in models of public expenditure are worthy of mention. Achen shows that,

In the presence of heavy trending in exogenous variables and disturbances, lagged dependent variables will dominate the regression and destroy the effect of other variables whether they have any true causal power or not. (Achen, 2000, 14)

While this may be true, Achen’s preferred modeling approach of excluding lagged dependent variables is also problematic, as he himself acknowledges, because,

budgets may be out of equilibrium for certain periods due to startup friction, unforeseen economic or political contingencies, or just routine year-to-year adjustment costs. (Achen, 2000, 11)

This last point gets to the heart of the difficulty in adopting Achen’s approach. At the core of the theoretical position set out in this paper lies the idea that budgets are, albeit with variation by type, difficult items to change. Interest groups will work hard to defend and expand their share of the budget, making the previous year’s outlay strongly correlated with the current year’s outlay. Consequently, to drop the lagged dependent variable from empirical models is tantamount to jettisoning a core aspect of my theoretical claim. Without an alternative solution to the problem highlighted by Achen, I note that his work implies that models including a lagged dependent variable will be biased against finding significant effects from explanatory variables. Thus, if the models that I estimate do appear to show confirmatory results for those explanatory variables of relevance, this is despite, not because of problems in the estimation procedure in this respect.
Plümper, Troeger and Manow (2005) offer similar objections to Achen (2000). Their specific objection is that,

inclusion of the lagged dependent variable and/or time dummies leaves very little variance for the explanatory variables. (Plümper, Troeger and Manow, 2005, 338)

One obvious response to this is that it is far from obvious that a “lack of variance for the explanatory variables” is a bad thing. If the underlying data generating process really is one of partial adjustment and incremental budgeting, then there should not be much variance left to explain. While Plümper, Troeger and Manow (2005), like Achen, recognise that budgets may exhibit a considerable degree of persistence from one period to the next, they go on to assert that,

the interpretation of the lagged dependent variable as a measure of time persistency is misleading. [...] The lagged dependent variable not only evaluates the level of persistency. It also models the dynamics of the independent variables [...]. In this regard, the lagged dependent variable implicitly assumes that the dynamics of all independent variables are identical. Needless to say, this assumption is not very convincing and almost certainly wrong. (Plümper, Troeger and Manow, 2005, 335)

They go on to note that the coefficient on the lagged dependent variable will be biased upwards if a researcher fails to correctly model persistent effects from an explanatory variable (Plümper, Troeger and Manow, 2005, 339).

For all these reasons, their recommendation is to exclude lagged dependent variables and instead model the serially correlated error process in the error term directly — i.e. to employ a Prais-Winsten estimation procedure, or the like. However, notwithstanding the point that the coefficient on the lagged dependent variable is not just a measure for the persistence of budgets from year to year, the fact remains that it will capture some of that effect, and thus would still appear to be a
better option for an applied researcher testing a theory that explicitly posits such a persistence.

For this reason, I opt for the approach of modeling dynamics through the lagged dependent variable, contra Achen (2000) and Plümper, Troeger and Manow (2005), but following Beck and Katz (1996) and Beck (2001). Again, this approach biases the research against finding significant effects from my explanatory variables. An important issue is whether to treat the two dependent variables as endogenous to each other — as mutually determining in some way. At root, such a model is implied by the theory set out above in that the two types of expenditure are held, partially at least, to be substitutes for each other: a given expenditure is decided upon and then a choice of how to allocate it between the two categories is made. For this reason, it makes theoretical sense to model the two types of expenditure with a system of simultaneous equations.

However, for practical reasons, this is rather difficult. First, estimating a system of equations requires that observations on the two dependent variables coincide: missing values from one variable for a given country-year precludes the use of the other dependent variable for the same case. Unfortunately, the two dependent variable samples do not coincide as much as would be desirable. Estimating the models simultaneously cuts the cash sample by around 100 observations and the service sample by around 30, which is rather a high price to pay given the limited initial sample size. A second practical argument against the simultaneous equation model approach is that it precludes use of ‘panel-corrected standard errors’ which Beck and Katz (1995) show to be an important corrective to traditional estimates. For these reasons, I estimate the two types of models independently of each other.

6.2.5.1 Lag Structures

Following Tsebelis and Chang (2004, 457), I make the assumption that the effects of any agents on the level of $ExpCash_{i,t}$ will be felt without a lag. That is, when
a political party is in power in a given year, they are able to determine the level of means-tested cash benefits in that same year. Any difficulties with this assumption are ameliorated by the fact that the $Left_{i,t}$ variable that I employ from Armingeon et al. (2007) is weighted by the proportion of the year each party is in office.\textsuperscript{17}

While I assume agency effects to be contemporaneous, I employ an extra lag for most of the control variables used in the model. The aim here is to escape the biases induced by endogeneity. Specifically, it would be reasonable to claim that increases in the level of means-tested cash benefits could have a positive and causal effect on any or all of unemployment levels, the public budget deficit, deindustrialization, and even the openness of the economy as benefits become relatively more attractive to potential recipients. In that way, higher benefits may reduce employment and/or work effort. To avoid this reverse causality, I therefore lag those variable by one period.

For the services models, I make the assumption that political agency effects are manifested with a one period lag. Spending on wages is a function of two factors: the number of employees and the level of pay for those employees. Certainly, it seems plausible to assert that decisions as to changes in employment levels are likely to take some time to work through for reasons of employment law and notice periods. As to the level of wages for employees, this tends to be bargained between unions and governments in advance, and so again warrants a lagged effect.\textsuperscript{18}

That there are reasons to believe that cash and service expenditure levels should be modeled with differing lag structures is of no surprise given the premises of this paper. Tsebelis and Chang (2004) do not account for this as they do not identify different expenditure types. In that light, the finding by Plümper, Troeger and Manow (2005) of varying lag structures across countries may be partially explained by the differing structure of welfare states (in terms of cash and services) across

\textsuperscript{17}Unreported results confirm that the conditional partisan effects presented below survive in a model with partisanship lagged by one period, albeit with lower statistical significance.

\textsuperscript{18}Again, unreported results confirm that the conditional partisan effects presented below survive in a model with partisanship entering the models contemporaneously (as with the cash models), but again, the findings have lower statistical significance.
6.2.6 Estimation Issues

In estimating empirical models below, I employ country fixed effects (FE) so as to account for time-invariant differences across countries. This is a standard approach in the comparative political economy literature, but it does introduce a potential problem when combined with the use of a lagged dependent variable (LDV). The so-called ‘Nickell bias’ stems from correlation between the LDV and the error term in the presence of fixed effects. Nickell (1981) showed that the bias associated with this problem is of the order $1/T$ and thus of diminishing significance as the number of time periods increases. The data I employ has a maximum $T$ of 14, with many panels dropping to far smaller numbers of periods. The bias, then, is potentially a significant problem.

Following Wawro (2002), I estimate a series of models utilising the Generalised Method of Moments (GMM) procedure set out by Arellano and Bond (1991). The combination of first-differencing and instrumenting entailed in this method yields unbiased parameter estimates. However, in Monte Carlo work, Beck and Katz (2004) provide some evidence that the benefits from this more complicated estimation technique may be out-weighed by their efficiency costs. Thus, following Bawn and Rosenbluth (2006), I present the results of estimating both GMM and the more usual ordinary least squares (OLS) models with fixed effects and LDV and the panel corrected standard errors (PCSEs) advocated by Beck and Katz (1995).

6.2.7 Results

The results of estimating the models described above are presented below. A series of OLS/PCSE and GMM models are shown, to together with estimates that substitute
Tsebelis’ veto player variable for DPI’s *Checks* as the main explanatory variable of interest. Unreported results of Lagrange Multiplier tests for residual autocorrelation indicate that the estimated models do not suffer from this problem once the lagged dependent variables are included.\(^{20}\)

### 6.2.7.1 Cash Models

*Table 6.3* presents the results from estimating a series of models for family cash benefits. *Models 1* and *2* are estimated by OLS/PCSE and GMM, respectively.\(^{21}\) *Model (3)* re-estimates by OLS/PCSE, but with all ‘control’ variables except *Unemp* removed: the aim being to show that the core findings of conditional partisanship are robust to the exclusion of controls.\(^{22}\)

I do not dwell on the control variable results as they are not the primary interest, here. In brief, unemployment appears to lead to lower cash transfers in the long run and there is some evidence that the state of public finances and the level of GDP also provide a drag on the level of cash transfers. By contrast, trade openness, deindustrialisation, and union density all appear to be poor predictors of the dependent variable.

On the core findings relating to the hypothesised partisanship effect, conditional on the level of *EChecks*, the results are very encouraging. The first two models that employ a full battery of controls appear to show a statistically significant positive long-run interaction effect. The third model shows that this interaction appears to survive in even the most sparse of models, implying it is not a mere statistical artifact.

\(^{20}\)The tests were carried out as described by Podestà (2006, Endnote 4) and the results are available from the author.

\(^{21}\)Model (2) is estimated using instruments beginning at the fourth (rather than the second) lag as Arellano/Bond tests for serial correlation in the estimated models suggests that this is appropriate. This is something of a surprise given the rejection of serial correlation for the OLS/PCSE models. Despite these conflicting results, I consider the most appropriate course of action to be to follow the directions of the pertinent tests for each type of model.

\(^{22}\)What might be called the ‘garbage-can regression’ critique (Achen, 2003, 2005).
### CHAPTER 6. WELFARE SPENDING & CREDIBLE COMMITMENTS

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<td>-0.532***</td>
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<td>PublicDeficit_{i,t-2}</td>
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<td>-0.771</td>
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<td>∆(Left · EChecks_{A,1,i,t})</td>
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<td>0.30</td>
<td>0.00679</td>
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<td>(Left · EChecks_{A,1,i-1})</td>
<td>0.0155***</td>
<td>4.28</td>
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</table>

Notes: Z-statistics in parallel columns. *, **, and *** denote p-values of 0.1, 0.05, and 0.01, respectively.

Table 6.3: Determinants of means-tested income support (as a percentage of GDP per capita).
6.2.7.2 Services Models

Table 6.4 presents the results from estimating a series of models with ExpServ as the dependent variable. Models (4) and (5) are OLS/PCSE and GMM estimations, respectively. Model (6) re-estimates by OLS/PCSE with only Unemp as a control; again, to assess robustness.

Model (5) is estimated using instruments at the fourth and fifth lags. While Arellano/Bond tests for serial correlation suggest the (more standard) second lag would be appropriate, the Sargan/Hansen-J test rejects inclusion of these earlier lags as instruments. Lags are constrained to the fourth and fifth to avoid the problems associated with ‘too many instruments’, which is more of a problem for the ExpServ models than the ExpCash models due to the smaller sample size (c.f. Roodman, 2007).
Again, I do not dwell on analysis of control variables. The results suggest that higher unemployment and public debt are negatively related to ExpServ, while deindustrialisation appears to have the opposite effect. The latter indicates that as jobs are lost in the industrial (and agricultural) sectors, they are replaced with public sector service jobs. Meanwhile, GDP, the dependency ratio, and union density fail to find any statistical significance as predictors of social wages.

With respect to the primary explanatory variables of interest here, the partisanship interaction shows a negative effect. Left-wing parties appear to give greater priority to social wages, but this effect diminishes as the level of expected checks in the system gets larger — as the theoretical account provided above would suggest. However, it does seem that the GMM results are somewhat weaker than those from the OLS/PCSE estimation. Again, re-estimation minimal controls shows that the interaction effect appears to survive, adding confidence to inferences that can be drawn from the other models.

6.2.8 Discussion

While the statistical significance on the partisan interaction terms for the various cash and service models are very encouraging in terms of support of the theoretical position advanced here, it is necessary to determine the true statistical significance of partisanship conditional on the level of EChecks. Figure 6.1 depict this long-run conditional effect as estimated by OLS/PCSE in Model (1). Similarly, Figure 6.2 plots the long-run conditional effect estimated by the same technique for the ExpServ in Model (4). The plots are provided with 95% confidence intervals.\footnote{For an ECM of the form $\Delta Y_{i,t} = \alpha_0 + \alpha_1 \cdot Y_{i,t-1} + \sum \beta^J \cdot X_{i,t}^J - 1 + \sum \beta^A \cdot \Delta X_{i,t}^J$, the long-run effects are calculated as $\frac{\partial Y^*}{\partial X^*} = \frac{-\alpha_1}{\sum \beta^A}$. Standard errors can then be calculated accordingly. Keele and De Boef (2004), amongst numerous others, provide more detail.}

The figures are useful to highlight the very different effect that the level of expected checks has in a political system. As expected checks increase, left-wing parties are seen to have an increasing preference for cash transfers and a decreasing
Figure 6.1: Long-run partisanship effect on $\text{ExpCash}^{Fa}$, conditional on $E\text{Checks}^{A,0,1}$, estimated from Model (1). 95% confidence intervals shown.
Figure 6.2: Long-run partisanship effect on $ExpServ$, conditional on $ECchecks^{A,0.1}$, estimated from Model (4). 95% confidence intervals shown.
preference for redistributive public services.

With the level of $EChecks^{A,1}$ varying between 2.5 (Portugal, 1997) and 6.6 (Denmark, 2002) within the sample, the confidence bounds indicate that the partisanship effect at each extreme of $EChecks^{A,1}$ are different from each other at the 95\% confidence level. Thus, the figure provides further support for the theory set out above. Higher levels of expected checks in a political system lead to an increase in the generosity of means-tested cash transfers. This is in sharp contradiction to the predictions from the standard Tsebelis veto player model as applied to the welfare state.

Substantively, the estimated partisanship effects are large in a cross-national sense, but more muted within countries — which is a natural reflection of the greater variance in $EChecks$ across rather than within countries. On the latter, for example, the estimates for cash transfers from Model (1) suggest that the evolution of $EChecks^{A,1}$ in the Netherlands led to a moderation of the left-wing partisanship coefficient from $-5.7$ to $-5.2$. Unsurprisingly, given the institutional foundations of the $EChecks$ variable, this is not a dramatically large effect: indeed, it would be worrying if it were. Nonetheless, it is meaningful. At the cross-country level, the effects are larger. For example, the presence of a 100\% left-wing government in an environment with a low level of expected checks like Sweden (with a value of around 3.5) leads to a reduction in the level of cash benefits to families of about 23 percentage points. The same left-wing government coming to power with expected checks at a relatively high level like Ireland (with a value of around 7) would increase cash benefits to families by about 18 percentage points. The findings for the service models can be calculated equivalently. A 100\% left-wing government with approximately Swedish levels of expected checks would raise the proportion of government expenditure on social wages by around 1.8 percentage points. The same government with Irish levels would lower social wages by about 1.8 percentage points.

\footnote{See Figure 6.1: 100 $\times$ (−0.23) = −23.}

\footnote{See Figure 6.1: 100 $\times$ 0.18 = 18.}
points. It should be stressed that these differential effects are large, but derived from point estimates around which there remains uncertainty. They are also drawn from models estimating the determinants of within-country variation, rather than between-country variation. Nonetheless the theoretical account set out above provides no grounds to believe that this kind of extrapolation should not be attempted. Furthermore, robustness tests show that the results survive the exclusion of country fixed effects.27

One feature that emerges from the figures plotting conditional partisanship effects is that a low level of expected checks actually leads to a negative partisanship effect on cash transfers, while the reverse is true for services, which see a positive partisanship effect in this case. On the face of it, this may appear surprising. However, it is actually broadly in accordance with the theoretical argument advanced here. Taking the estimated conditional partisanship effects for both cash and services together, it becomes clear that the negative effects for one dependent variable correspond with positive effects for the other. Effectively, then, the conditional effects plots support the contention that the two types of expenditure are (at least partially) substitutes and that governments face a budget constraint when choosing what to spend on. Higher service expenditure will often come at the cost of lower cash transfers, and vice versa.

6.3 Conclusion

The theory presented here has suggested that it is necessary to split welfare effort into two distinct components: cash transfers and in-kind services. The two have differing redistributive effects and differing political consequences. Furthermore, it has been argued that left-wing parties are rational actors and choose an optimal bundle of cash and service redistribution so as to maximise their expected utility into future periods. Expectations of being able to veto changes in policy in the future make

27See Tables 6.5 and 6.6, below.
it less likely that right-wing parties will be able to (further) retrench means-tested cash transfers. Consequently, left-wing parties will prefer this more efficient form of redistribution where there is a high number of checks in the system. By contrast, a low likelihood of future left-wing blocking power will lead to a preference for service-based redistribution which is inherently more difficult to roll back. Left-wing parties effectively opt for insurance at the cost of reduced efficiency.

The empirical evidence presented above provides support for this theory. Results are robust across different estimation techniques and alternative measures of expected checks in a political system. Further, the estimated effects are found to be substantively meaningful.

The findings here extend the logic of the prevailing ‘new politics’ view both by establishing the theoretical value of drawing a distinction between means-tested cash transfers and public services, and by showing that expectations regarding the future political context strategically shapes policy choices by left-wing parties. Given these findings, one fruitful line of future research would be to analyse the political dynamics of the other types of cash transfer policies: universal and contribution-based payments. As discussed above, there are good reasons to suspect that they may differ in character from those for means-tested payments. A focus on these other types of policies would also offer an obvious opportunity to study if and how the presence of Christian Democratic parties in right-wing blocs leads to different incentives to left-wing parties. Their tendency to be associated with the ‘conservative’ welfare states outlined by Esping-Andersen (1989), which are characterised by heavier reliance on contributory schemes that pay income-related benefits, points to a potentially different calculus for the Left in this area.

The results should also lead us to be sceptical of some of the recent theoretical work in the historical institutionalism school which argues that ‘history’ and ‘time’ are of great importance in explaining policy change, but that there is an inherent randomness to this process that means explanation by political scientists can only,
at best, be post hoc (c.f. Pierson, 2004). In the alternative view presented here, time is again taken to be of crucial importance, but it is shown that we can posit rational, strategic, actors as operating within the sorts of processes outlined by the historical institutionalists. Those rational actors are political parties in the argument advanced here. In recent work by Jacobs (2008), they are interest groups. It would appear likely that there are other such actors that we could usefully apply rational foresight to, as well as other policy areas.

6.A Empirical Robustness with Alternative Variables and Specifications

In this appendix, I briefly present re-estimates of the models for $ExpCash^Fa$ and $ExpServ$ that probe the robustness of the findings shown above. I show that the results are basically robust to the use of an alternative proxy for expected legislative checks derived from Tsebelis’ veto player data ($EVPs$). I also show that results survive the exclusion of country fixed effects which, given the large degree of between-country relative to within-country variation in the $EChecks$ variable, suggests that the extrapolation of the within-country estimates to between countries performed in Section 6.2.8 has solid empirical foundations. I draw this conclusion because, while I have shown a within-country effect, the greater between-country variation in $EChecks$ would be expected to swamp this when fixed effects are excluded. That the interaction effect between $Left$ and $EChecks$ remains in this latter specification suggests that it is operative between countries.

As noted in the main text, the use of Tsebelis’ veto player data severely constrains the sample size. Simply substituting the $VPs$ data for the $Checks$ data reduces the number of observations. For $ExpCash$ models, observations fall from 248 (for 19 countries) to 139 (for 16 countries). For $ExpServ$ models, the sample drops from 181 (for 17 countries) to 105 (for 14 countries). As such, the results for the $VPs$ models are intended only as indicative robustness tests, rather than fully competing
Table 6.5: Determinants of means-tested income support (as a percentage of GDP per capita): Robustness tests.

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<td>ExpCash$_{i,t-1}$</td>
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<td>-0.44</td>
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<td>-7.00</td>
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Notes: Z-statistics in parallel columns. *, **, and *** denote p-values of 0.1, 0.05, and 0.01, respectively.

Table 6.5 presents the re-estimates of the ExpCash models. Models (7) and (8) substitute $\text{EVPS}_{i,t-1}$ for $\text{EChecks}_{i,t-1}$ and they show results that are broadly commensurate with those using $\text{EChecks}_{i,t-1}$. The positive partisanship interaction with $\text{VPs}$ largely remains, although the results are now stronger for the short-run than the long-run effect. Still, given that this model is estimated with a sample

---

28 All models presented in this section are estimated by OLS/PCSE, rather than GMM, for two reasons. First, the reduced sample size associated with the use of the $\text{VPs}$ data coupled with the greater lag requirements of GMM reduces the effective sample size down to an unmanageably low level. Second, those models that use $\text{EChecks}$ without country fixed effects have no need for GMM as the absence of the country dummies removes the ‘Nickell bias’.
almost half the size, wider confidence intervals around parameter estimates for the long-run interaction are unsurprising. The non-garbage-can regression in Model (8) shows that the findings, again, are not contingent on a battery of controls. Model (9) re-estimates with $EChecks^{A,0.1}$, but excludes country fixed effects, and shows that the key interaction effect remains when between-country variation is modelled.

Table 6.6 presents the re-estimates of the $ExpServ$ models. Models (10) and (11) substitute $EVPs^{A,0.1}$ for $EChecks^{A,0.1}$. The former is in line with those using $EChecks$, while the latter suggests that the $Left \cdot EChecks$ interaction effect is still robust to the exclusion of many controls — albeit fewer than was the case for the $EChecks$ model in Table 6.3. Model (12) re-estimates with $EChecks^{A,0.1}$, but excludes country fixed effects, and shows that the key interaction effect remains when between-country variation is modelled.
### Table 6.6: Determinants of expenditure on wages for the provision of social welfare (as a percentage of government expenditure): Robustness tests.

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<td><strong>z</strong></td>
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Notes: Z-statistics in parallel columns. *, **, and *** denote p-values of 0.1, 0.05, and 0.01, respectively.
Part III

Partisan Strategy and Ownership of the Means of Production
Chapter 7

Partisanship, Public Opinion, and Privatisation

Privatization, “broadly defined as the deliberate sale by a government of state-owned enterprises (SOEs) or assets to private economic agents” (Megginson and Netter, 2001, 321) is a phenomenon that has swept much of the world in the past 30 years. The process has been particularly striking across the so-called ‘developed democracies’, which have seen a post-war consensus regarding the benefits of state ownership erode sharply (Boix, 1997). Between 1977 and 2004, privatisation revenues across 11 West European countries totalled around $380 billion\(^1\). Beyond this, Zohlnhöfer and Obinger (2006, 30) cite OECD data suggesting that “total privatization proceeds in more than 150 countries amounted to $937 billion”. To reiterate, the term privatisation is used here exclusively to refer to the sale of SOEs, not the out-sourcing, private-finance, and other related activities which have grown in recent years. I make this distinction both because it seems plausible to think that the political implications of these different types of privatizing activity may be different and for the pragmatic reason that the data I have available corresponds to

\(^{1}\)Author’s calculation based on data provided by Privatization Barometer. Included countries are: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Sweden, and the UK.
CHAPTER 7. PRIVATISATION OPINION

the tighter, SOE, conception.

The process of privatisation has led to major economic and societal changes across countries and, consequently, is worthy of study in its own right. However, such a study also offers the prospect of a more general insight into political phenomena. Coupling analysis of the micro-level politics surrounding privatisation with analysis of elite-level policy choices in this sphere provides an opportunity to gain greater clarity regarding the extent to which political leaders have and exercise discretion when making policy choices. As such, the combination of micro and macro approaches offers the opportunity to illuminate in rare detail the extent to which partisanship, as distinct from strict public opinion, can be seen to be a determinant of policy outcomes. In this chapter, I take the first steps in this analysis by mapping some of the micro- and macro-level empirical regularities in the realm of privatisation politics. The evidence presented here provides the motivation for the development of a theory of when left-wing parties will choose to privatise which follows in Chapter 8.

This chapter has two distinct sections. In Section 7.1, I analyse cross-national data on privatisation opinion together with cross-national data on privatisation revenues. I show that there appears to be little, if any, correlation between opinion and revenues, suggesting that public opinion was not the (exclusive) driver of the large scale privatisation processes that were witnessed in Western Europe during the 25 years after 1980. To some extent, this contrasts with the case of health policy analysed in Chapter 5, where public opinion constituted a consequential demand side for the expansion of publicly-organised health care. In that case, the effect of elite partisanship was on the specific policy details that were used to meet these demands. For privatisation, however, the evidence suggests that elites were not particularly swayed by public opinion when considering whether to implement the policy at all.

Section 7.2 goes on to analyse, in detail, the nature of support for privatisation in Europe. I show that opposition to privatisation is stronger amongst those groups
CHAPTER 7. PRIVATISATION OPINION

that would traditionally be seen to be members of the core left-wing constituency. In doing so, I strengthen my claim that privatisation initiated by left-wing parties is the result of elite-level strategic considerations rather than in response to public opinion. I also present evidence that individual-level left-wing opposition to privatisation is likely to be partly the result of fears regarding the loss of generous terms of employment, or even employment itself, amongst public sector workers. This section provides support for the theory explaining elite-level left-wing privatisation choices that is developed in Chapter 8 as one of the two foundations of the theory is that privatisation is very often associated with redundancies and a resultant loss of left-wing power resources. More generally, I contend that the evidence presented here is consistent with the view that privatisation, at least in its left-wing manifestation, provides an example of elite-level discretion over policy.

7.1 Did Public Opinion Drive Privatization?

To answer the question of whether public opinion was the driver for privatisation in Western Europe, I turn to survey data. The European Values Study (EVS) programme fielded surveys with questions regarding privatisation in 1990 and 1999/2000. These years fall fairly well into the major years in which privatisations were being undertaken across countries. In 1990, the survey was fielded in 30 European countries and in 1999/2000 it reached 32 countries. In the ensuing analysis, I focus on the subset of the sample that were EU members, which reflects the limits data availability for privatisation revenues. My approach is to search for bivariate correlations between cross-national public opinion measures and privatisation revenues. The cross-national focus is necessitated by the fact that, given just two surveys, it is not possible to conduct time-series analysis of how within-country opinion is correlated with within-country privatisation revenues.

Based on the discussion in Chapter 2, my preferred measure of ‘national’ opinion

\footnote{The second foundation is that privatisation is perceived to have macroeconomic benefits by raising the efficiency/productivity of previously state-owned enterprises.}
CHAPTER 7. PRIVATISATION OPINION

on privatisation is ‘median voter’ opinion but, for added robustness, I also present results below for mean national opinion. The results are essentially the same, across measures. Calculation of the mean is clear, but determining which respondents correspond to median voters requires making some decisions. My method is: (1) to identify the dimension within each national population that approximates the primary electoral dimension; (2) to identify the median voter(s) within each national population on that dimension, and; (3) to take the mean opinion over privatisation of those identified median voters. It is this latter mean value that I take as the opinion of the ‘median voter’ over privatisation in each country. Unsurprisingly, ‘the median voter’ has become ‘the median voters’ in this approach, which simply reflects that uncertainty over who is the ‘true’ median voter faced both by myself as the analyst and politicians as policy-makers.

I use two different measures as the primary electoral dimension; yielding two measures for median voter privatisation opinion. This is to provide added robustness to the analysis. Following an economic logic of politics as a (potentially) redistributive activity (e.g Meltzer and Richard, 1981; Dixit and Londregan, 1998), the first measure I use is income. In the EVS surveys, respondents are asked to indicate which income band their household falls into. I identify the income band into which the median income falls and then take the mean level of privatisation support for those respondents with income in that band — which produces the measure Median$^{Inc}$. The second measure that I use is left–right self-placement, which is commonly used as a primary electoral dimension (Hakhverdian, 2010, c.f.). The EVS surveys ask respondents to place themselves on a 10-point scale from ‘left’ to ‘right’. Again, I identify the median response for each country and then take the mean level of privatisation support for respondents identifying themselves at that median — which produces the measure Median$^{LR}$.

In order to generate these two measures of median voter opinion, it is, obviously, necessary to have data on individual level opinion over privatisation. The
CHAPTER 7. PRIVATISATION OPINION

EVS surveys ask respondents to indicate on a 1–10 scale whether they think “Private ownership of business and industry should be increased” (1) or “Government ownership of business and industry should be increased” (10). In order to make the interpretation of correlations with privatisation revenues more natural, I have re-scaled this so that it runs in the reverse direction: lower scores indicate a preference for government ownership. Using this data, if public opinion were driving the adoption (or not) of privatisation as a policy choice, then we should expect to see a positive correlation between revenues and the median voter position — and to a lesser extent, the mean voter position.

Table 7.1 presents the data for each of the opinion measures from the 1990 survey, together with Pearson’s $\rho$ correlation coefficients with two measures of privatisation revenues: the first for the year 1990 and the second the sum of revenues for the years 1990, 1991, and 1992. The latter measure is used in case taking a single year introduces an element of randomness — revenues may be lower (or higher) in a country-year for particular economic or political reasons that restrict the responsiveness of policy to public opinion in the short-run.

Perhaps the first thing that becomes apparent from this is that public opinion in all countries was consistently fairly in favour of privatisation. In this regard, there is support for the view that public opinion was a driver of decision to pursue privatisation. However, turning to the cross-national correlations with privatisation revenues, the evidence to this effect is almost completely absent. The correlations between the public opinion and revenues are either essentially zero or negative. The interpretation is that there is either no policy response to opinion, or policy even diverges away from opinion. To get a visual understanding of this data, Figure 7.1 plots median voter opinion against privatisation revenues for 1990–1992, and shows that the absence of a positive correlation cannot be explained by influential outliers. On balance, then, in the early 1990s, the evidence does not appear to support the view that public favourability towards privatisation led to its adoption.
### CHAPTER 7. PRIVATISATION OPINION

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<th>$Median_{inc}$</th>
<th>$Median_{LR}$</th>
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Table 7.1: Cross-national privatisation opinion (1990) with Pearson’s $\rho$ correlations with privatisation revenues. Sources: European Values Study and Privatization Barometer
Figure 7.1: Scatter plot of cross-national median voter privatisation opinion (1990) and privatisation revenues (1990–1992). Median voter(s) identified by income. Sources: European Values Study and Privatization Barometer
Figure 7.2: Scatter plot of cross-national median voter privatisation opinion (1990) and privatisation revenues (1990–1992). Median voter(s) identified by left–right self-placement. Sources: European Values Study and Privatization Barometer
CHAPTER 7. PRIVATISATION OPINION

For the year 2000, the findings are quite similar. Table 7.2 presents the opinion measure data derived from the 1999/2000 survey, again with Pearson’s $\rho$ correlation coefficients with two measures of privatisation revenues. This time, the revenue data is for 2000 and for 2000, 2001, and 2002. Sadly, there is a fairly large amount of missing data for this survey. The absence of privatisation opinion data for Belgium, Denmark, Spain, and Sweden causes them to drop from the sample, while the absence of income data for Portugal leaves only mean opinion calculable.

<table>
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<td>6.7</td>
<td>7.0</td>
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<td>Italy</td>
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<td>7.0</td>
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<td>6.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Portugal</td>
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<td></td>
<td>6.6</td>
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<tr>
<td>Spain</td>
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<tr>
<td>UK</td>
<td>6.2</td>
<td>5.9</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Table 7.2: Cross-national privatisation opinion (2000) with Pearson’s $\rho$ correlations with privatisation revenues. Sources: European Values Study and Privatization Barometer

The evidence of an influence of opinion on privatisation around the year 2000 appears to be stronger than that for 1990, with a reasonably large positive correlation between median opinion and revenues for 2000–2002 using either measure ($Median^{Inc}$ or $Median^{LR}$). However, given the small number of data points, the influence of individual outlying observations is a potential cause for concern. In
order to counter this, Figures 7.3 and 7.4 present scatter plots of Median\textsuperscript{Inc} and Median\textsuperscript{LR}, respectively, against the combined data points from both 1990 and 2000 data — 1990 data depicted with hollow circles and 2000 data with ‘x’ symbols. From these plots, the conclusion must, again, be that there is no correlation between increased support for privatisation and increased privatisation revenues. The available evidence suggests, then, that the privatisation programmes carried out in Western Europe were not a response to median voter demands — or, indeed, mean voter demands. Another explanation is required.

7.2 The Left-Wing Roots of Micro-Level Anti-Privatization Opinion

In this section, I build upon the bivariate analysis presented above by providing a more detailed view of public opinion regarding privatisation across countries. My aim here is further to motivate the macro level privatisation theory and analysis in Chapter 8. To do so, I estimate models of the structural nature of the support (and opposition) for privatisation at the individual level. By doing so, I show that individual hostility to privatisation is correlated with several variables that are typically associated with left-wing party support. As such, I show that, left-wing parties that engaged in privatisation programmes are unlikely to have been following the preferences of their core constituency. Given that the evidence in the previous section was that median voter opinion does not seem to have been the driver either, I take this as evidence in support of my contention that elite level partisanship is operative when left-wing parties privatise.

As noted above, several surveys have asked questions about preferences for privatisation of ownership or control of businesses. The EVS, used in the previous section, is one, but it poses some difficulties for analysing the structural determinants of support for privatisation because it asks about increases or decreases in private ownership from a status quo, rather than about how much of a countries
CHAPTER 7. PRIVATISATION OPINION

Figure 7.3: Scatter plot of cross-national median voter privatisation opinion (1990 [o] and 2000 [x]) and privatisation revenues (1990–1992/2000–2002). Sources: European Values Study and Privatization Barometer
Figure 7.4: Scatter plot of cross-national median voter privatisation opinion (1990 [o] and 2000 [x]) and privatisation revenues (1990–1992/2000–2002). Sources: European Values Study and Privatization Barometer
enterprise sector should be publicly owned. In the absence of good data on the level of public ownership across countries and through time, it is not possible to discern whether support for more privatisation is low because an individual opposes the policy in general or because they perceive that there is little (left) to privatise. The EVS data is, in a sense, ‘first difference’ data, while what we really need is ‘level’ data.

The ‘Role of Government’ module from the International Social Survey Program (ISSP) in 1996 provides this. The ISSP asked, ‘Do you think each of the following should mainly be run by private organisations or companies, or by government?’, where the sectors at issue were:

- ‘Electricity’
- ‘Hospitals’
- ‘Banking’

The following responses were available:

- ‘Mainly run by private organisations’
- ‘Mainly run by government’
- ‘Can’t choose/Don’t know’
- (NA/Refused)

My purpose here is to show the underlying factors that lead to support for or opposition to privatisation so as to provide a foundation from which to construct a theory of elite-level left-wing privatisation preferences in Chapter 8. That theory builds from the idea that left-wing parties will face costs to their union-based ‘power resources’ from privatisation due to the redundancies that are commonly associated with the policy. This focus on ‘power resources’ points towards a focus on the electricity sector here as it is the sector most closely aligned with the kind of industrial labour that is typically held to be at the core of left-wing power resources. Table 7.3 shows that the mean levels of support for privatisation across countries are highest
CHAPTER 7. PRIVATISATION OPINION

<table>
<thead>
<tr>
<th>Sector</th>
<th>Privatization Support (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private</td>
</tr>
<tr>
<td>Hospitals</td>
<td>23</td>
</tr>
<tr>
<td>Banks</td>
<td>68</td>
</tr>
<tr>
<td>Electricity</td>
<td>50</td>
</tr>
</tbody>
</table>

Table 7.3: Cross-national support for private control of sectors by employment sector. Source: ISSP (1996)

for banks and lowest for hospitals. Meanwhile, support for electricity privatisation is fairly evenly divided — there is maximal variance to be explained.

In using the electricity question, my intention is to use it as a proxy for wider privatisation opinion. A potential difficulty with this is that there are defensible economic arguments which suggest that (at least portions of) the electricity sector are best controlled by the state as they constitute natural monopolies. This is particularly so of the transmission infrastructure where a single national electricity distribution network is the most common design across countries. In this light, survey respondents may well give answers that are based on this kind of broader economic logic rather than direct personal interest. This may indeed be a problem in terms of inferred levels of support for privatisation. However, my aim is only to show that personal traits typically implying left-wing support are associated with relatively more anti-privatisation opinion — making the precise level of privatisation support of little importance in and of itself.

In addition to cross-industry privatisation support, Table 7.3 also presents breakdowns of support based on sector of employment. Foreshadowing some of the more detailed findings presented below, it shows that support for privatisation decreases as the employment sector moves from private to government and then to SOE. This provides the first piece of evidence that those who would tend to support left-wing parties tend to be relatively more against privatisation than the rest of the population. However, we can go further than these simple descriptive statistics by
estimating statistical models to help explain the variation in privatisation opinion. Before estimating my own preferred specifications, I outline the existing literature in this field.

7.2.1 Existing Literature on Privatization Opinion

There have been some previous attempts to estimate the determinants of support for privatisation, although each suffers from short-comings in terms of method, data, or both.

Thompson and Elling (2000) use survey data from Michigan in 1996 that contains responses to questions regarding preferences over control of a number of services, ranging from prisons to schools to cleaning of government office buildings. Given the nature of many of the services on which they focus, the findings would appear to have a stronger relevance to the out-sourcing version of privatisation rather than the outright sale of SOEs, with the questions relating to transport, perhaps, coming closest to views on SOE privatisation. Nonetheless, their findings are of interest. They find evidence that income levels are positively associated with privatisation support. They also test whether public sector employees are less favourable to privatisation but, surprisingly, find a positive effect. This is all the more puzzling as, when discussing the results for ethnic minorities, they argue that,

minorities may feel more threatened by privatization since they are more likely not only to work in the public sector but also to work in job categories that will suffer employment cuts as services are privatised.

(Thompson and Elling, 2000, 343)

Fernandez and Smith (2006) study responses to a survey administered in the state of Georgia, USA. Analysing the determinants of a composite measure that they

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refer to as ‘support for privatisation’, they do find that public sector employment appears to reduce support for privatisation, but they find no evidence of income having an influence. However, as their dependent variable is constructed based on a factor analysis of responses to four separate questions — one of which is directly concerned with the preference for privatisation while the others are concerned with perceptions of the effects of privatisation — it is not clear how to interpret these findings.

Several papers study privatisation opinion at the national level. Testing what they refer to as the ‘utilitarian’ hypothesis regarding public sector employee preferences over privatisation, Durant and Legge (2001, 2002) analyse data from Great Britain and France, respectively. For Great Britain, they find that union membership is correlated with lower favourability to privatisation, while income is correlated with higher support. In France, public sector employment is found to reduce support for privatisation but there is no evidence of an impact from income. Studying data from newly unified Germany, Legge and Rainey (2003) find that employment sector is not a significant determinant of support.

From this overview, it can be seen that the prevailing body of research exhibits rather mixed findings ranging from negative all the way through to positive statistical significance for the effect of public sector employment on support for privatisation. These mixed results suggest that further analysis bringing more data to bear may be of value in resolving the confusion.

The results also suggest that there may be methodological issues with the earlier work. This is particularly so in the case of the unexpected finding by Thompson and Elling (2000) that public sector employment is positively related to support for privatisation. Part of the explanation for this strange finding may come from the fact that Thompson and Elling employ a battery of attitudinal, or ‘subjective’, ‘independent’ variables in their model predicting support for privatisation. These were party identification, ideology, and satisfaction with services. As Hamermesh (2004,
9) notes in a general way, the problem with these measures is that we may suspect that the data generating process that yields identification with the Republican or Democrat parties and self-reported liberalism/conservatism may be strongly related to that which leads to preferences over privatisation. Alternatively, we may suspect that causation is reversed such that material preferences over privatisation are a determinant of party identification and perceived ideology. Indeed, the assumptions underlying standard political economy models are that party support follows from policy preferences, not the other way around.

The critique of modelling attitudes with attitudes offered by Hamermesh applies to an even greater extent in the context of the research discussed above. His complaint is directed at what should be regarded as a relatively more defensible modelling approach: predicting a subjective response with another subjective response that is a noisy proxy for an objective measure.\footnote{One example discussed is subjective health status as a proxy for objective health status.} By contrast, the approach adopted by Thompson and Elling (2000), Durant and Legge (2001, 2002), and Legge and Rainey (2003) is to predict a subjective response with another subjective response that has no objective basis. In this realm, and without very precise theory, it is far from clear what can usefully be learned from estimating models of this sort.

7.2.2 Estimating Models of Privatization Support

Following my critique of the previous literature, I adopt what may be considered a more strictly materialist or ‘objective’ approach to modelling the determinants of support for privatisation. To this end, I exclude subjective opinions as explanatory variables for subjective opinions. Instead, the objective explanatory variables that I employ are: age ($Age$), years of education ($EducationYears$), gender ($Female$), union membership ($Union$), and within-country standardised income ($Income$).\footnote{Income is calculated as the respondent’s household income as a proportion of the maximum household income within the same country.}

I also use sector of employment as a predictor, but do so in two ways. The first simply distinguishes between public and non-public sector employment ($PublicSector$),
while the second divides the public sector between government (GovtSector) and SOE (SOESector) employment. I use the two definitions to assess whether there are differing levels of support for privatisation across the two, but also in the knowledge that the size of the SOE sample is relatively small, making inference potentially less robust for SOE workers. My expectation is that SOE workers will be less favourable to privatisation than either government or private sector employees for fear of reductions in the levels of employment and/or wages as a result of the policy. Following this logic, I also use interaction effects between employment sector(s) and income to try to assess whether those who receiving the highest level of employment rents in the public sector are more opposed to privatisation (PublicSector · Income, GovtSector · Income and SOESector · Income). I also interact employment sector with gender in an effort to disentangle correlations between female support for privatisation and female employment in the public sector (PublicSector · Female) — the latter of which has been noted as being of great importance in a number of countries (e.g. Huber and Stephens, 2001).

Finally, I also present a model which uses left-party identification as a ‘predictor’, as well (LeftID). As already noted, this is not my preferred specification, but it does serve as an extra check to see whether left-support is correlated with opposition to privatisation.

The results of estimating a series of logistic regressions of the support for private control of the electricity industry using these variables is presented in Table 7.4. The parameter estimates are displays as odds ratios, meaning that those below 1 show a ‘negative’ effect of their associated variable, those above 1 show a ‘positive’ effect, and those equal to 1 show no effect. All models employ country fixed effects to

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6As can be seen from Table 7.3.
7Of course, this specification is an approximation in that there is no reason to think that there is a 1-to-1 mapping of income levels to employment rent levels. Some higher-income employees may not be extracting rents, but simply earning their ‘efficient’ wage. Nonetheless, a positive correlation between income and rents seems plausible, if only because at low income levels, there is little scope in the total wage packet for rents to be of significance.
### Table 7.4: Determinants of support for private control of the electricity sector across countries.

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>z</td>
<td>b</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>1.330**</td>
<td>2.454</td>
<td>1.353**</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>0.756*</td>
<td>-1.773</td>
<td>0.760*</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>1.193</td>
<td>1.542</td>
<td>1.196</td>
</tr>
<tr>
<td><strong>Britain</strong></td>
<td>0.743***</td>
<td>-2.654</td>
<td>0.745***</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>1.542***</td>
<td>3.383</td>
<td>1.532***</td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
<td>0.909</td>
<td>-0.862</td>
<td>0.903</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>0.605***</td>
<td>-4.553</td>
<td>0.593***</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td>0.993***</td>
<td>-3.660</td>
<td>0.994***</td>
</tr>
<tr>
<td><strong>EducationYears</strong></td>
<td>1.020**</td>
<td>2.161</td>
<td>1.019**</td>
</tr>
<tr>
<td><strong>Union</strong></td>
<td>0.708***</td>
<td>-5.156</td>
<td>0.710***</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td>2.149***</td>
<td>5.217</td>
<td>2.205***</td>
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<td><strong>PublicSector</strong></td>
<td>0.739**</td>
<td>-2.534</td>
<td></td>
</tr>
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<td><strong>PublicSector · Income</strong></td>
<td>0.611**</td>
<td>-2.141</td>
<td></td>
</tr>
<tr>
<td><strong>Female</strong></td>
<td>0.756***</td>
<td>-4.476</td>
<td>0.768***</td>
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<td><strong>PublicSector · Female</strong></td>
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<td>3.007</td>
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<td>0.816</td>
<td>-1.570</td>
<td>0.968</td>
</tr>
<tr>
<td><strong>GovtSector · Income</strong></td>
<td>0.518***</td>
<td>-2.641</td>
<td>0.450***</td>
</tr>
<tr>
<td><strong>GovtSector · Female</strong></td>
<td>1.413***</td>
<td>2.841</td>
<td>1.192</td>
</tr>
<tr>
<td><strong>SOESector</strong></td>
<td>0.501***</td>
<td>-2.903</td>
<td>0.433***</td>
</tr>
<tr>
<td><strong>SOESector · Income</strong></td>
<td>1.384</td>
<td>0.663</td>
<td>2.324</td>
</tr>
<tr>
<td><strong>LeftID</strong></td>
<td>0.543***</td>
<td>-13.02</td>
<td></td>
</tr>
</tbody>
</table>

N 6549  6449  4895
χ² 366.5*** 371.0*** 476.3***
Log likelihood -4340.9 -4267.5 -3118.8
BIC 8822.3 8692.8 6399.0

Notes: Logistic regression estimated by maximum likelihood; odds ratio coefficients presented with Z-statistics in parallel. *, **, and *** denote p-values of 0.1, 0.05, and 0.01, respectively. Norway is the base category for country fixed effects.
CHAPTER 7. PRIVATISATION OPINION

account for cross-national differences in mean levels of support. The first thing to notice is that there do appear to be significant differences in mean levels of support across countries. For example, Sweden and Britain seem to be relatively less positive, while Germany and Italy seem to be relatively more positive, as compared to Norway.

Before turning to the selection of variables that are of particular relevance for my purpose of analysing the potential left-wing support for privatisation, I begin with what are essentially the ‘control’ variables. Age has a statistically significant effect, which shows that older citizens tend to be less favourable to privatisation. To speculate, this may be out of an inherent ‘small-c’ conservatism resulting from it being more difficult for older citizens to recover financially from economic shocks with potentially negative consequences for them — such as privatisation. Comparing, say, a 20 year-old to a 65 year-old, the estimated effect is fairly large in comparison to all of the other estimated effects. Meanwhile, the effect of EducationYears is fairly accurately estimated, but its positive effect appears to substantively rather small. Union membership is associated with significantly lower support for privatisation. However, some caution should be applied when interpreting this effect: it is not clear whether there is a causal relationship running from union membership to privatisation opinion. Indeed, the opposite may very well be the case if those who oppose and fear privatisation have a tendency to join unions in order to defend their positions better.

I now turn to the variables that are most pertinent to the issue of left-wing support. Following an economic logic, Income is one such variable as an assumption of rational income maximisation implies that the higher income groups will be less in favour of redistribution — perhaps the core part of a left-wing programme. The direct effect of Income is estimated to be rather large. Loosely, those who earn more than half the maximum income within their country are fairly strong supporters of

8The incidental parameters problem (Neyman and Scott, 1948) associated with using fixed effects in models of this sort that are estimated by maximum likelihood is insignificantly small as each country cluster has sufficient observations to estimate parameters consistently.

9I focus only on European countries, reflecting the analysis that follows in Chapter 8.
privatisation, while those below the threshold are fairly strongly against it. I count this as strong evidence that those sections of the population typically associated with left-wing parties are systematically more opposed to privatisation.

The effect of Employment sector is also of importance for assessing whether traditional left-wing voters tend to oppose privatisation. As has been studied by several scholars, public sector workers tend to be associated with left-wing parties or, at least, policies typically associated with left-wing parties (e.g. Frey and Pommerehne, 1982; Blais, Blake and Dion, 1990; Rattsø and Sørensen, 2004). From model (1), the results clearly show that public sector employees are relatively more opposed to privatisation. Furthermore, in accordance with the protection-of-rents hypothesis, this effect becomes more pronounced as income levels increase. It seems that the public sector workers who do the best out of the state are the ones most keen to protect their position in the face of a privatisation threat. There is one rather surprising result in this area, though. While women, as expected, are found to be less supportive of privatisation, in contrast to men, when they work in the public sector, they actually become more supportive of the policy. Interpreting this result is difficult, but, to speculate, it could reflect the differing ‘work-life’ balances desired by women. Perhaps an more bureaucratised public sector fails to provide women with the flexibility to manage family commitments.

In model (2), the findings are essentially the same as for model (1). However, the extra disaggregation between government and SOE workers allows for a closer assessment of the factors driving public sector opposition to privatisation. In accord with the theoretical case that public sector workers will be opposed to privatisation for fear of losing their jobs, the evidence is that the SOE employees, who are the more exposed to redundancy, are the more opposed to privatisation. Furthermore, it appears that the public sector interaction effect with income runs entirely through government employees, rather than SOE employees. Without further data, interpretation is extremely speculative, but a candidate explanation for this could be
CHAPTER 7. PRIVATISATION OPINION

‘budget maximising’ of the sort proposed by Niskanen (1971), whereby the more senior, higher-earning, government employees oppose privatisation as it limits their role in managing the state-owned sector.

Finally, model (3) adds the \textit{LeftID} variable for individuals that identify with left-wing parties. Again, I am wary in interpreting this parameter estimate. However, it does show that, controlling for numerous other left-associated individual-level characteristics, identification with left-wing parties is correlated with far lower support for privatisation. In general, it is also reassuring that the parameter estimates across all three models are very stable. The only exception to this is that the introduction of \textit{LeftID} causes some fairly large adjustments to the country fixed effect estimates — most notably for Spain and Italy. As these country ‘averages’ are not of direct substantive interest, here, this does not pose a problem. Indeed, the fact that it is only the fixed effect estimates that vary, not the main explanatory variable estimates, lends some support to the decision to pool across countries.

7.3 Conclusion

The goal of this chapter was to establish some of the important patterns of public opinion regarding privatisation across countries in Western Europe during the 1990s — the peak of the privatisation programmes in many of those countries. Section 7.1, showed that there is scant evidence that privatisation revenues are correlated with median voter opinion, suggesting that the sale of SOEs was not implemented by politicians responding to the demands of public opinion. Section 7.2 showed that the correlates of opposition to privatisation are those that are typically associated with left-wing party support — i.e. low income, union membership, and public sector employment.

If privatisation was not correlated with median voter opinion, then this would seem to suggest that there is scope for partisanship to play a role in explaining the pattern of revenues. If opposition to privatisation is correlated with left-wing
associations, then we should expect that a partisanship explanation would be a simple case of left-wing party → lower privatisation revenues. However, as I show in the next chapter, this is not the case empirically: several left-wing parties have been involved in major privatisation programmes. If they did not do this to pander to the median voter, but also in the face of opposition from their own core constituencies, why did they pursue such a policy? In the next chapter, I develop and test an account of strategic, elite-level, partisanship that is able to explain this choice.
Chapter 8

Privatization in Europe:
Left-Wing Power Resources and
Productive Efficiency

As the figures provided at the start of Chapter 7 make clear, simply by virtue of the financial magnitude of worldwide privatization revenues, the phenomenon merits scholarly research in and of itself. The major theoretical advance that I make in this chapter, however, goes beyond the confines of privatization politics. My claim, which finds empirical support, is that left-wing parties condition their policy choices on their long-run, systemic, electoral strength compared to right-wing parties. As such, the argument here goes beyond Boix’s (1997) finding of a partisanship effect with respect to privatization: the effect is conditional. Furthermore, in contrast to conventional wisdom regarding left-wing policy choices in competitive electoral systems, the theory outlined here predicts that left-wing parties are more likely to pursue apparently right-wing policies — i.e. privatization — where they are stronger. Far from left-wing privatization programmes as the result of weak left-wing parties pandering to the Right, or to a Downsian median voter, such policy choices are positive ones that become available when the future electoral threat of the Right is
low.

At root, I claim that left-wing parties face a trade-off between, on the one hand, protecting their traditional allies and sources of electoral strength (i.e. unions) and, on the other hand, enhancing macroeconomic performance. The balance of this trade-off varies based on the prevailing systemic strength of left-wing parties. When this strength is high, the marginal costs to disempowering (public sector) unions is lower, making the macroeconomic benefits of privatization more likely to outweigh them.

To show immediately why such an explanation makes sense at a cursory level, Table 8.1 presents a summary of the privatization revenue data for the EU countries for the period 1980–2004. The second column shows the cumulative total of privatization revenue per capita and in constant (2000) US dollars so as to make comparison easier. The third column gives the proportion of revenues that can be attributed to left-wing parties, where the allocation of revenue to left-wing parties is calculated by weighting the revenue for a country-year by the proportion of cabinet seats held by left-wing parties. The final column gives the proportion of cabinet seats that were held by left-wing parties through the entire period. A number of facts emerge from the table. First, while there has been a fairly large amount of variation in the extent privatization revenues across the EU, all countries have raised non-negligible revenues from this process. Second, privatization is clearly not an exclusively right-wing policy as left-wing parties have been responsible for between 13% (UK) and 89% (Greece) of privatization revenues, with all range of shares in between. Third, it does not appear to be the case that those countries where left-wing parties are stronger are the ones that have experienced less privatization (e.g. Greece and Sweden) as might be expected if right-wing parties felt constrained not to privatize in order to pander to the left. The scatter plot of privatization revenues against the left-wing share of privatization revenues provided in Figure 8.1 makes it abundantly clear that there is essentially no discernible bivariate relationship, there.

1Excluding Luxembourg.
### Table 8.1: Summary of total privatization revenues across the EU (1980–2004) in constant (2000) US$ per capita; the left-wing share of privatization revenues; the mean share of cabinet seats held by left-wing parties for the period.

<table>
<thead>
<tr>
<th>Country</th>
<th>Priv. Revenue ($pc)</th>
<th>Left Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Cabinet</td>
</tr>
<tr>
<td>Austria</td>
<td>1820</td>
<td>31</td>
</tr>
<tr>
<td>Belgium</td>
<td>756</td>
<td>53</td>
</tr>
<tr>
<td>Denmark</td>
<td>1434</td>
<td>72</td>
</tr>
<tr>
<td>Finland</td>
<td>2852</td>
<td>47</td>
</tr>
<tr>
<td>France</td>
<td>979</td>
<td>45</td>
</tr>
<tr>
<td>Germany</td>
<td>933</td>
<td>56</td>
</tr>
<tr>
<td>Greece</td>
<td>1125</td>
<td>89</td>
</tr>
<tr>
<td>Ireland</td>
<td>713</td>
<td>15</td>
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<tr>
<td>Italy</td>
<td>1465</td>
<td>33</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1075</td>
<td>29</td>
</tr>
<tr>
<td>Portugal</td>
<td>2348</td>
<td>58</td>
</tr>
<tr>
<td>Spain</td>
<td>899</td>
<td>35</td>
</tr>
<tr>
<td>Sweden</td>
<td>1858</td>
<td>89</td>
</tr>
<tr>
<td>UK</td>
<td>1795</td>
<td>13</td>
</tr>
</tbody>
</table>
Figure 8.1: Scatter plot of total privatization revenues (1980–2004) in constant (2000) US$ per capita against left-wing share of privatization revenues for the period.
Several other scholars have analysed political issues surrounding privatization, but there has been disagreement over whether left-wing parties are causally related to lower levels of privatization. Boix (1997), Zohlnhöfer and Obinger (2006), and Zohlnhöfer, Obinger and Wolf (2008) find statistically significant negative effects while Bortolotti, Fantini and Siniscalco (2003), Schneider, Fink and Tenbucken (2005), and Schneider and Häge (2008) find no effects. I argue that the empirical literature has failed to come to a firm conclusion regarding the effect of left-partisanship on privatization because it has failed to differentiate between left-wing parties in different contexts. Those scholars who have explored the effect of left-wing parties have effectively estimated parameters that are averages for the effect of parties that are both pro and anti privatization. In this light, it is unsurprising that the estimated effects are often small and/or insignificantly different from zero.

The literature also suffers from some methodological short-comings. In employing country-governments rather than country-years as the unit of observation, Boix (1997) unnecessarily throws away information. The studies by Zohlnhöfer and Obinger (2006) and Zohlnhöfer, Obinger and Wolf (2008) use only cross-sectional data and thus severely limit the conclusions that can be drawn from their results.

There has been some work, both theoretical and empirical, that studied the tactical and strategic logics underpinning privatization programmes. At the heuristic level, Feigenbaum and Henig (1994) proposed a three-state typology of the underlying reasoning for privatizations with ‘pragmatic’ privatizations essentially technocratic in nature, ‘tactical’ privatizations explicitly political, and ‘systemic’ privatization programmes “intended to reshape the entire society by fundamentally altering economic and political institutions and by transforming economic and political interests” (Feigenbaum and Henig, 1994, 192). While this typology is attractive in the abstract, it provides very little in the way of predictive theoretical traction.

Studying South American privatization programmes, Murillo (2001) provides a

\[\text{They “are advocated to achieve the short-term political goals of particular parties, politicians, or interest groups”}.

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theory to explain the resulting interactions between left-wing parties and labour unions. According to her, the critical explanatory factors in that region were the competition among left-wing parties for votes and the competition among unions for members. The theory, however, is premised on the idea that unions face great uncertainty about the effects of privatization and can come to trust left-wing parties not to hurt them unnecessarily. This uncertainty may have been the case in South America, but much of the privatization experience in Western Europe in the 1990s was informed by outcomes in earlier adopters and it is difficult to conclude that unions would not have foreseen the implications for their membership from privatization.

Other research has studied what factors determine how a privatization programme is pursued once privatization as a general policy has been agreed to. Perotti (1995) proposed a theory of “credible privatization” in which governments may be either “committed” to the policy or “populist” and therefore unable to refrain from ex post policy actions that redistribute away from privatized companies and their shareholders. In his framework, partial privatization of companies and deliberate under-pricing\(^3\) provides a way for governments to signal their commitment not to engage in subsequent redistribution. The “committed” and “populist” types can plausibly be seen to map onto right- and left-wing parties, respectively. Biais and Perotti (2002) offer a theory in which right-wing governments are seen to use privatizations as a way of co-opting an otherwise left-leaning middle class. By earmarking shares for members of that class and under-pricing — i.e. subsidising — share issue prices, middle class voters come to have their economic interests more closely aligned with the rest of the right-wing constituency. They will have more to fear from a left-wing government that is perceived to be unfriendly to private business. Jones et al. (1999) find empirical support for these theoretical accounts.

In the South American context, again, Murillo (2002) showed how the “selling conditions” adopted by privatizing governments are determined by their ideological

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\(^3\)In a purely economic sense.
predispositions to “economic nationalism and state intervention”. While all governments under consideration in her study pursued privatization programmes — perhaps due to economic imperatives and resultant pressure from international organisations — they had some discretion as to how the costs and benefits of the policy were distributed and used this discretion to build and maintain electoral coalitions. She drew an important distinction between “populist” and “right-wing military” governments, with the former using the structure of privatization to benefit some labour unions⁴ and the latter using it to benefit the military and other members of the state apparatus.

Despite this theoretical work, the extant literature has notable theoretical and empirical short-comings in its treatment of partisan influences over privatization. For these reasons, a re-analysis of the phenomenon is a desirable endeavour — one which I pursue in the following sections.

8.1 Theoretical Preliminaries

The theory presented here rests largely on two empirical supports. First, that privatization has, or at least has been seen to have, non-trivial economic benefits in terms of increased productivity. Second, these benefits are very often at the cost of dismantling portions of organized labour that are traditionally supportive of left-wing parties. Before proceeding with the details of how these two stylised facts can lead to predictions as to when (left-wing) parties will seek to privatize, I begin by briefly surveying the literature supporting these two claims.

8.1.1 Economic Benefits from Privatization

In reviewing the empirical literature, I focus mainly on those studies relating to ‘developed democracies’ as it is these countries that will form the focus of the sub-
sequent theoretical and empirical claims.\textsuperscript{5}

Papers by Boardman and Vining (1989) and Vining and Boardman (1992) provided early empirical support to the notion that ownership matters to the efficiency of firms. Analysing samples of large firms from around the world and within Canada, they find that SOEs and mixed enterprises (MEs) are both less efficient and less profitable than the privately owned firms for which they have data.

Ehrlich et al. (1994) study the performance of airlines across countries. Using panel data, they are able to estimate both short- and long-run effects from state ownership. Their findings support the view that private ownership enhances productivity, but only in the long-run. In the light of subsequent research that failed to find effects from privatization over short-run periods, this finding is telling.

D’Souza and Megginson (1999) analyse a sample of 85 companies spread across industrialised and non-industrialised countries from 1990 to 1996. Assessing profitability, output, operating efficiency, and dividend payments, they find statistically significant increases in all for post-privatization firms. This pattern is broadly supported in all sub-sample partitions representing competitive versus non-competitive firms, ‘control’ versus ‘revenue’ privatizations,\textsuperscript{6} firms from industrialised versus non-industrialised countries, and firms that did or did not experience two types of management change post-privatization.

Dewenter and Malatesta (2001) adopt empirical approaches of both the cross-sectional sort pioneered by Boardman and Vining (1989) and the time-series sort akin to Ehrlich et al. (1994). Their findings from the former approach are that privatized firms do perform better. However, when employing the time-series approach, some of those performance gains appear to have been realised in the years before the actual privatization occurred. They conclude that, while private firms appear more profitable, the evidence that the act of privatization improves performance

\textsuperscript{5}There is, however, a voluminous privatization literature outside of these countries. If anything, the findings are even more favourable to the claim that privaization improves efficiency with support found in ‘transition economies’ (Frydman et al., 1999; Harper, 2002) and ‘developing economies’ (Majumdar, 1998; Bartel and Harrison, 2005; Boubakri, Cosset and Guedhami, 2005).

\textsuperscript{6}The latter being where governments sell shares but retain control of firms.
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is far weaker. Nonetheless, there findings far from disprove that the privatization process improves performance. Given subsequent research, pre-privatization reorganization and the introduction of greater competition that often accompanied such programmes are likely to have been important causes of these efficiency improvements. Indeed, this is precisely the conclusion of González-Páramo and Cos (2005), who study a panel of Spanish manufacturing firms for the period 1983–1996. They find that both private ownership and competition have positive effects on firm performance, although the result for private ownership may be conditional on the level of competition within the market place.

In addition to the positive findings with respect to private ownership and privatization, there have also been some negative results. Studying Spanish privatizations, Cabeza García and Gómez Ansón (2007) find little evidence of effects on efficiency and the like. This appears in marked contrast to the findings in González-Páramo and Cos (2005), although the discrepancy may well be explained by the lack of control for competition. This interpretation accords with the view of Alexandre and Charreaux (2004) regarding French privatizations.

Using a novel data set of firms that were nationalised in the USA as a result of ‘enemy’ ownership during World War II, Kole and Mulherin (1997) find no effect from government ownership. Despite the plausibly exogenous nature of the nationalization decision, the authors themselves acknowledge that it is difficult to generalise their findings due to the limited number of cases that they study. Their limited degrees of freedom also prohibits them from studying the importance of market competition to the issue of ownership.

In conclusion, there appears to be fairly strong evidence that privatization yields efficiency increases in firm performance, although this likely to be conditional on the competitiveness of the market within which firms operate — a finding that Vickers and Yarrow (1991, 113) perceived from their early survey of the literature. Those studies that fail to find effects from privatization are also the ones that fail
to control for increased competition (resulting from privatization) as a source of broader benefits.

8.1.2 Labour ‘Costs’ from Privatization

With respect to the effect of privatization on labour, there are, again, theoretical and empirical reasons to believe that it will be negative for those employed in privatized firms.

A common theme in the theoretical literature is that politicians will tend to have a greater concern for employment levels than is economically efficient. Notably, several authors touch on the idea that this tendency may vary across governments. That is, partisanship should count. Pint (1991) analyses a principal–agent model in a monopolistic setup. She focuses on information asymmetry between a firm manager (agent) and either a government minister or shareholders (principals). Her model shows that the optimal design of contracts for the manager leads to a relatively lower capital-labour ratio with a government principal than with private shareholders in that role.

Boycko, Shleifer and Vishny (1996) share the view that governments care about employment. They claim that privatization increases economic efficiency as it makes it more costly for a government to induce inefficiently high employment levels in a firm. Plausibly, this claim is founded on the idea that it is politically easier for a politician to forgo potential profits from a nationalised firm than it is to raise taxes and then directly subsidise a private firm.

Finally, Robinson and Torvik (2005) and Henisz and Zelner (2006) make theoretical claims regarding the construction of ‘white elephants’ that are socially inefficient, but politically useful. The claims stem from the idea that particular constituencies will gain employment to operate these ‘white elephants’. As such, the theories can be seen as claims as to overly large employment when investment decisions are controlled by a government.
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There is a large body of empirical literature concerned with the effects of privatization on employment. Again, I focus on those studies that have analysed ‘developed’ democracies, despite numerous findings as to the negative effect of privatization on employment in other contexts.\footnote{For evidence for the post-communist transition economies, see Barberis et al. (1996) and Frydman et al. (1999). For ‘developing’ countries, see La Porta and Lopez-De-Silanes (1999) and Belser and Rama (2001).}

Based on the theoretical work discussed above, and on the body of empirical findings that private ownership and privatization increase firm efficiency, it is unsurprising that the pattern of empirical results with respect to privatization’s effect on employment is fairly consistently negative — albeit coming from a less voluminous literature.

Commensurate with their rather equivocal findings for the effect of privatization on firm efficiency in France, Alexandre and Charreaux (2004) find only tentative evidence that the process has led to labour reductions. However, the efficiency findings by Dewenter and Malatesta (2001) are not matched when they analyse the labour effect. There, they do find that privatization reduces labour input in a significant way. Likewise, D’Souza and Megginson (1999) find that labour decreases significantly, albeit only in industrialised countries. Finally, in their study of the Spanish case, González-Páramo and Cos (2005) provide evidence that employment falls post-privatization.

8.1.3 Disincentives for Left-Wing Parties to Privatize

Given the general empirical regularity of employment costs from privatization, it is a short step to see why left-wing parties would perceive a disincentive to engaging in the process of SOE sell-offs. As already noted above, the theoretical economics literature has somewhat tangentially addressed the idea that different types of government may have different preferences over employment levels (Pint, 1991; Boycko, Shleifer and Vishny, 1996). More political science oriented theories lend strength to this idea.
First, Hibbs (1977) claimed that left-wing parties tend to represent those sections of a society that earn their income disproportionately from labour. As such, unemployment is a particularly pernicious social problem, as perceived from the Left, as it cuts markedly into total income for those who have few other sources of financial support. In that light, the sort of redundancies that are part and parcel of privatization programmes are likely to exert discomfort on the sort of wage earners that form the core of left-wing support. Economic theory suggests that this should be a largely short-run effect, however, as the efficiency benefits of the economic restructuring filter back into macroeconomic gains.

Second, a line of research has suggested that the sector in which an individual is employed has consequences for the political parties that they tend to support. Blais, Blake and Dion (1990) and Knutsen (2005) present theory and evidence that public sector employment leads citizens to prefer more left-wing parties as these are perceived as more likely to provide increased financial resources (for wages). In this case, privatization should cost left-wing parties votes as it will tend to sever this wage-maximising connection with previous supporters.

Third, ‘power resource’ theory claims that left-wing parties perform better electorally when they benefit from the support of organised labour (Stephens, 1979; Korpi and Shalev, 1979; Cameron, 1984). Greater union density and coordination provides for greater financial and human resources with which to perform political campaigns. More advertisements. More street-level campaigning. Better information on the electorate. Stronger unions may also help to increase turnout, which tends to be lower amongst lower income groups, and as such shifts the median voter to the left. If the power resources of organised labour are a boon for left-wing political parties, then privatization should be even more distasteful to them. Initial redundancies from privatized firms will clearly reduce the strength of unions that represented those former employees. Even if they maintain their membership, fewer will be in work and therefore in a position to contribute to the financial viability of
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the unions.

But the down-side may be even greater than that. Union density is markedly higher in the public sector than it is in the private sector — a pattern that holds across nearly all developed democracies. As I have already noted this tendency in Section 4.1.1, I do not dwell on this beyond noting the relevant citations (Freeman, 1986; Ebbinghaus and Visser, 1999; Draper, 2000; Visser, 2006; Blanchflower, 2007).

Privatization, then, is a recipe for the reduction of left-wing power resources — certainly as a result of a reduced strength of unions as workers are made redundant and, plausibly, as a result of more challenging organising environments for unions in the private sector. In that light, it is far from surprising that the trend towards privatization that has been witnessed across the ‘developed’ world has coincided with notable falls in union density.

8.2 A Theory of Conditional Partisanship Over Privatization

Based on the preceding discussion, right-wing parties should be expected to pursue privatization for two reasons: to maximise macroeconomic efficiency (and so to receive the electoral benefits that this brings), and to minimise the power resources of the Left. The issue is more nuanced when viewed from the perspective of left-wing parties. In their case, they must trade-off the benefits of privatization against the costs to their power resources. In their case, they must trade-off the benefits of privatization against the costs to their power resources. Within this theoretical framework, then, the left-wing decision over whether to privatize becomes dependent on whether the costs or the benefits are greater. In this section, I develop a theoretical account of when each situation is more likely based on how electorally-reliant a left-wing party is on union-derived power resources.

Consider two political parties, indexed by $i \in \{L, R\}$, in electoral competition to control the government $(g)$ such that $g \in \{L, R\}$ denotes the governing party. They have utility functions that are weighted averages of the macroeconomic success of
the country (γ) and their own electoral success:

\[ U(i) = \rho \gamma + (1 - \rho) P(g_t = i) , \quad (8.1) \]

where \( P(g_t = i) \) denotes the probability of the government in period \( t \) being party \( i \). The logic of this utility function is that parties derive some direct level utility from the national economy being able to provide more consumption to its citizens. While the second component of their utility is derived from electoral success, this need not be seen as a strict claim that parties are necessarily office seekers. The assumption is compatible with the notion that they seek office for purely instrumental means — i.e. so that they can pursue a range of policies that benefit them and their constituencies.

As noted above, the power resources theory has also consistently found empirical support (e.g. Korpi and Shalev, 1979; Korpi, 1983; Cameron, 1984; Esping-Andersen, 1985; Huber and Stephens, 2001; Korpi, 2006). However, there are also other theoretical reasons to believe that left- or right-wing parties may be privileged in electoral competition. Based on these theoretical underpinnings, I take the probability of left-wing electoral success to be a function of what I term the systemic left-wing strength (Λ). Specifically,

\[ P(g_t = L) = f(\Lambda(\lambda, X)) , \quad (8.2) \]

where \( \Lambda \) is taken to be a function of \( \lambda \), which denotes left-wing power resources derived from labour union strength, and \( X \), which denotes the vector of other variables expected to influence systemic relative left-wing strength. Furthermore, \( f(\cdot) \) is defined as a twice differentiable cumulative probability distribution function, making it monotonically increasing.

Of course, given the two-party structure, it is easy to express the probability for
right-wing electoral success — making it clear that left-wing power resources are a drag on right-wing electoral prospects:

\[ P(g_t = R) = 1 - P(g_t = L) . \]  

(8.3)

Focusing on the broader utility function, again, what determines the level of \( \lambda \) and \( \gamma \), respectively? I claim that they are both functions of the size of the state-owned enterprise (SOE) sector and denote this conceptual variable by \( s \) — implying \( \lambda = \lambda(s) \) and \( \gamma = \gamma(s) \).\(^8\) Furthermore, the functions are such that,

\[ \frac{d\lambda(s)}{ds} > 0 \]  

(8.4)

\[ \frac{d\gamma(s)}{ds} < 0 . \]  

(8.5)

That is, an increase in \( s \) increases left-wing power resources, but decreases economic performance. Both of these assumptions are based on the theoretical and empirical work discussed in Section 8.1.1 and Section 8.1.2. Based on the preceding, the utility functions for left- and right-wing parties can now be written as,

\[ U(L) = \rho \gamma(s) + (1 - \rho) f \left[ \Lambda(\lambda(s), X) \right] , \]  

(8.6)

\[ U(R) = \rho \gamma(s) + (1 - \rho) \left( 1 - f \left[ \Lambda(\lambda(s), X) \right] \right) . \]  

(8.7)

The size of the SOE sector, \( s \), is a variable that the government has the power to change — by privatization or nationalization. The question is, then, whether left-wing and right-wing parties, respectively, will wish to increase, decrease, or maintain the level of \( s \). Differentiating (8.7) with respect to \( s \), the condition for right-wing parties to privatize is given by,

\(^8\)Abusing notation somewhat by converting variable names into function names.
This condition holds in all cases because, by construction: \( \frac{df(\cdot)}{d\Lambda} \) is unambiguously positive; \( \frac{d\Lambda}{d\lambda} \) is unambiguously positive, and; \( \frac{d\gamma(s)}{ds} \) is unambiguously positive. Clearly, then, right-wing parties will always prefer privatization — that is, a reduction in \( s \). It allows them to achieve greater economic performance and to reduce the power resources of the Left.

The decision for left-wing parties is rather more complicated. The relevant condition being given by,

\[
\frac{\partial U(L)}{\partial s} = \rho \frac{d\gamma(s)}{ds} + (1 - \rho) \frac{df(\cdot)}{d\Lambda} \frac{d\lambda(s)}{d\lambda} \frac{d\Lambda}{ds} < 0 .
\] (8.9)

When does (8.9) imply that a left-wing party would be more likely to favour a privatization programme? Trivially, privatization becomes more attractive as the weight placed on economic performance (\( \rho \)) gets larger. The more interesting finding is that the condition is more likely to hold at higher levels of \( X \) and \( \lambda \) because \( \frac{df(\cdot)}{d\Lambda} \) is decreasing in the argument to \( f(\cdot) \) (for values above some critical value, say \( x^* \)).

That is, because \( f(x) \) is a continuous and twice differentiable cumulative probability distribution function, it must be that \( f''(x) < 0 \mid x > x^* \).

This is the case because the marginal increase in \( P(g = L) \) for a unit increase in systemic left-wing strength (\( \Lambda \)) is greater at lower levels of \( P(g = L) \) than at higher levels. Intuitively, this is based on the idea that going from, say, no labour organization to 10% union density should be expected to increase the probability of left-wing electoral success more than going from 80% to 90% union density. Of course, the argument applies to all sources of systemic left-wing strength (\( \Lambda \)). As \( P(g = L) \) is bounded between 0 and 1, when the probability is already high for reasons other than union strength (i.e. the vector \( X \)), the importance of union strength becomes

\( \text{It is easy to think of a theoretically reasonable functional form for } f(\cdot) \text{ that would lead to } x^* = 0. \)

\( \text{Where } f''(x) \text{ denotes the second derivative of } f(x). \)
lower. Thus, it becomes clear that privatization is more likely to be preferable to left-wing parties when systemic strength is drawn more from the vector $X$. It is this prediction that I take to data.

8.3 Empirical Evidence

Moving beyond these simple descriptive statistics, in the rest of this section I set out an empirical test of the hypothesis that partisanship over the decision to privatize is conditional on the prevailing level of systemic left-wing strength ($\Lambda$). In order to do so, it is necessary to derive a measure of this conceptual variable. As no such variable is available ‘off the shelf’, my empirical strategy is first to estimate $\Lambda$ and then to utilize this estimate in models of the determinants of privatization effort where I explicitly test the conditional partisanship hypothesis.

8.3.1 Estimating Systemic Left-Wing Strength

Before setting out the approach to modelling systemic left-wing strength ($\Lambda$) that I adopt, I will briefly explain why I do not use one of the simpler approaches that can be found in the literature and, indeed, in Chapter 6.

Two other related options are to define $\hat{\Lambda}$ as either a cumulative sum or a moving average of $Left$:

\begin{align}
\hat{\Lambda}_{i,t}^{CU} &= \sum_{\tau=0}^{t} Left_{i,(t-\tau)} ; \\
\hat{\Lambda}_{i,t}^{MA,\delta} &= \sum_{\tau=0}^{\delta} \frac{Left_{i,(t-\tau)}}{\delta + 1}.
\end{align}

The cumulative sum expressed in (8.10) corresponds to the partisanship measure adopted by Huber and Stephens, and their collaborators (Huber, Ragin and Stephens, 247).
1993; Huber and Stephens, 2001; Bradley et al., 2003). An alternative with similar characteristics is to use an ‘adaptive expectations’ process to model \( \Lambda \), such that,

\[
\hat{\Lambda}_{i,t}^{AE,\gamma} = \gamma \cdot Left_{i,t} + (1 - \gamma) \cdot \hat{\Lambda}_{i,t-1}^{AE,\gamma}.
\] (8.12)

However, all three formulations suffer from theoretical and practical problems. At the practical level, for \( \hat{\Lambda}_{i,t}^{MA,\delta} \), it is necessary to decide on a suitable value for \( \delta \) in order to generate the variable, but what value should this take? How many annual lags correctly capture the degree to which politicians would look back in order to calculate the expected long-run future level of left-wing cabinet strength? Theory would seem to provide little to guide the decision. A similar critique can be applied to the use of \( \hat{\Lambda}_{i,t}^{CU} \) where the decision as to when to start the cumulative summing of \( Left \) is consequential to the resulting measure but ultimately lacking in theoretical grounding. Furthermore, without weighting the cumulative measure, the presence of left-wing government in, say, 1950 is assumed to be as relevant to perceptions of current left-wing strength as the presence of left-wing government in, say, 2005. That this is a troubling assumption should be clear.

Using \( \hat{\Lambda}_{i,t}^{AE,\gamma} \) provides a better alternative as with models of this sort it is possible to estimate the appropriate value for the parameter \( \gamma \). As the model of privatization that I estimate below in Section 8.3.2 does not have a lagged dependent variable, \( \gamma \) would indeed be identified (Waud, 1966, 1968, c.f.). Despite the empirical tractability of the adaptive expectations approach, there are theoretical problems with it — as well as the moving average alternative. Both \( \hat{\Lambda}_{i,t}^{MA,\delta} \) and \( \hat{\Lambda}_{i,t}^{AE,\gamma} \) suffer from the drawback that they are likely to capture variation that should not be present in a proxy for long-run left-wing strength. Worse, it is likely to be variation that would systematically bias against support for the theoretical predictions regarding privatization set out above. The problem with (weighted) averages over past values of \( Left \) is that the derived proxy will be at its highest precisely at the point at
which left-wing parties lose power. Consider, for example, a left-wing party losing an election after 10 years of 100% cabinet control. In this case, both $\Lambda_{i,t}^{MA,\delta}$ and $\Lambda_{i,t}^{AE,\gamma}$ would be at their highest levels — perhaps even 100% — in the final year of left-wing government precisely at the point at which left-wing strength appears to be falling. An equivalent logic applies with respect to long periods of low strength followed by a rise.

A final theoretical issue is that variables constructed entirely of averages of past values imply a rather limited rationality on the part of political actors. Put another way, long-run electoral and governmental success is unlikely to be simply inferred from past experience. Instead, I contend that it is plausible to suggest that long-run success is determined in a more rational way. Politicians will understand the sources of their electoral success and failure (i.e. $\lambda$ and $X$) and, as a result, will have the ability to perceive changes in those sources and so to rationally, albeit implicitly, infer changes in the systemic strength.

In accordance with the theoretical model set out in Section 8.2, the approach I take to estimating systemic left-wing strength is to model an observable measure of left-wing strength as a function of $\lambda$ and $X$, and then recover the predicted values from those estimates as a proxy for $\Lambda$. The observable measure of left-wing strength that I employ is one that is common to much of the partisanship literature: the share of cabinet seats held by left-wing parties ($Left$). I use this measure rather than, say, share of votes or share of seats in parliament because I explicitly wish to model left-wing governmental (or executive) strength. While votes and legislative seats are instrumentally useful in the pursuit of political power, the parliamentary systems operating in Western Europe tend to accord greater power to those parties that form the government. Modeling cabinet seats held by left-wing parties therefore comes closest to modeling their political power.

At this stage, it may be argued that $Left$ could be employed directly as a proxy for $\Lambda$. This would be wrong as the short-term (observed) variability of $Left$ is very
much higher than the (unobserved) variability of \( \Lambda \). The former varies from year to year as elections occur or governing coalitions adjust, often with shifts from 0 to 100. These short-run dynamics dominate the measure and make it unsuitable as a proxy for \( \Lambda \).

Another characteristic of the \( \text{Left} \) variable is that it is constrained to be in the range 0 to 100 — parties cannot hold more than all cabinet seats or less than none. But the conceptual variable that I seek to recover need not be so constrained. That is, a left-wing party may hold 0 cabinet seats because its systemic strength accords directly with this level of seats or because the systemic strength is so low that it accords with an even lower number of cabinet seats — a state of the world that we obviously cannot observe. Analogous examples apply at the level of complete control of cabinet seats by left-wing parties: they could be just strong enough to win the seats or so overwhelmingly strong that they would have one many more if it were possible. Consideration of these outcomes leads to the adoption of a tobit model in which there is a latent variable of interest (\( \text{Left}^* \)) and \( \text{Left} \) is its censored-but-observed realisation. Thus,

\[
\text{Left} = \begin{cases} 
0 & \text{if } \text{Left}^* < 0; \\
100 & \text{if } \text{Left}^* > 100; \\
\text{Left}^* & \text{otherwise}.
\end{cases} \tag{8.13}
\]

Now, defining \( \text{Left}^* = \lambda \omega + X \Omega' + \epsilon \),\(^{11}\) this leads to a familiar tobit regression of the form:

\[
\text{Left} = \begin{cases} 
0 & \text{if } \lambda \omega + X \Omega' + \epsilon < 0; \\
100 & \text{if } \lambda \omega + X \Omega' + \epsilon > 100; \\
\lambda \omega + X \Omega' + \epsilon & \text{otherwise},
\end{cases} \tag{8.14}
\]

where \( \omega \) is the coefficient on \( \lambda \), \( \Omega' \) is the vector of coefficients on the other variables, \( X \), and \( \epsilon \sim N(0, \sigma^2) \) is an error term. Estimates of \( \Lambda \) are now naturally generated

\(^{11}\)Where \( \Lambda(\lambda(s), X) \) is taken to be a linear combination of its arguments.
as,

\[
\hat{\Lambda} = \lambda \hat{\omega} + X \hat{\Omega}'.
\] (8.15)

As a practical matter, estimation of (8.14) is somewhat problematic as the annual nature of \textit{Left} will almost certainly induce autocorrelation in the error term, \(\epsilon\). In this situation, parameter estimates (\(\hat{\omega}\) and \(\hat{\Omega}\)) from a tobit model will be consistent (Robinson, 1982), but standard errors will be too small. While it is the point estimates that are used to generate \(\hat{\Lambda}\), the overly-optimistic standard errors pose a concern as I will go on to take account of the uncertainty in this estimated value when I model privatization revenues.

It may be contended that this problem could be resolved by employing a lagged dependent variable (LDV) as a means of soaking up the autocorrelation. However, as Achen (2000) has shown in the context of a standard linear model, doing so purely for the reason of preventing the estimation nuisance and where there are no theoretical reasons for the LDV can lead to a far greater problem.\(^{12}\) That is, where both errors and explanatory variables are autocorrelated, inclusion of the LDV biases parameter estimates of the main explanatory variables down, leading to incorrect inferences as to their importance. Being slow-moving structural variables, the degree of autocorrelation in \(X\) is extremely high, implying that the issue Achen identifies would be particularly damaging. Thus, I reject that LDV approach and, noting the absence of a tobit model implementation that can handle an AR1 process, use a standard tobit model.\(^{13}\)

\(^{12}\)One objection here may be that there are theoretical reasons to think that holding power in the last period does imply control over whether a party will be in power in the current period. Discretion over policies — which in turn have an effect on popularity — may be one mechanism. Discretion over the timing of an election may be another. This objection is valid on one level. However, I argue that the ‘cure’ of employing the LDV is far worse than the disease as it swamps all variation in the dependent variable and leaves almost nothing to be explained by the underlying systemic determinants of left-wing strength.

\(^{13}\)I make the opposite decision in \textit{Chapter 6}, but there my theoretical claim is explicitly that, by design, the lagged dependent variable will often be a key determinant of the current realisation of the variable as politicians structure spending so as to insulate policies. The empirical implication of this insulation is the presence of a lagged dependent variable, making it not a nuisance but a theoretically necessary part of the specification. This is not the case when modelling \textit{Left}, where
Finally, I follow the suggestion of Bartels (2008) in employing both the country mean (e.g. $\text{EmpInd}_i$) and the within-country deviation from the mean (e.g. $\text{EmpInd}_{i,t}^W = \text{EmpInd}_{i,t} - \text{EmpInd}_i$) of each explanatory variable, where $i$ indexes countries and $t$ indexes time, together with country-level random effects. This is to allow for the estimation of separate effects of each variable between and across countries and so should improve model fit.

8.3.1.1 Determinants of Systemic Left-Wing Strength

In modeling systemic left-wing strength, the theory above distinguishes between two types of variables: left-wing power resources ($\lambda$) and those others that were grouped together in the $X$ vector. To capture $\lambda$, I employ union density ($\text{UDen}$) in my empirical model. However, this is a contentious measure of union strength as it fails to capture the degree to which the labour movement is internally organised. More hierarchical union movements may be expected to be better at efficiently directing their political influence, rather than fighting internal battles amongst themselves.

To capture this aspect of union strength, I also employ a proxy for union centralization ($\text{UCentralization}$) which captures the degree to which the primary union confederation can block wage bargaining agreements to which it is opposed.\(^\text{14}\)

With respect to the variables that fall within the $X$ vector, a number of candidates can be discerned in the literature. Iversen and Soskice (2006a) argue that majoritarian electoral systems have an inherent bias against left-wing parties as the middle class fear giving unconstrained power to a left-wing party that may turn out to be dominated by those sections of the Left that wish to ‘soak’ both the rich and the middle classes. By contrast, under proportional electoral systems, the middle class will tend to have their own party representation and thus not face such a risk as their party can always withdraw support from a centre-left coalition government if necessary. From this theory, we should expect that as electoral proportionality

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\(^\text{14}\)The data is taken from Golden, Wallerstein and Lange (2007), and augmented by Duane Swank.
(PR) rises,\textsuperscript{15} then so does left-wing electoral strength.

Taking a more class-based approach, there is a long (generally Marxist) tradition of treating left-wing electoral success as being determined by the size and strength of the ‘working class’ (e.g. Korpi, 1983; Esping-Andersen, 1985). Such scholars treat industrial workers as being of particular importance due to their perceived position of economic oppression. Pontusson (1995\textsuperscript{a}, 499) identifies three possible “microfoundations” for such an argument: “worker consciousness”, “relative costs of collective organization”, and “relative homogeneity of worker interests”.\textsuperscript{16} The former of these is at the core of much Marxist theory, but the latter two seem to provide more tangible mechanisms through which left-wing strength may prosper. It seems highly plausible to suggest that the kind of large-scale, ‘Fordist’, manufacturing that is at the core of modern industry allows for lower costs per union-recruit/left-wing-vote both for organisational and interest-based reasons. From this line of work, we should expect that a larger percentage of the workforce engaged in industrial production (\textit{EmpInd}) would be of benefit to left-wing parties.

There are alternative interpretations of the relationship between industrial employment and left-wing success, though; both of which suggest that the relationship is non-linear and possibly even ‘U-shaped’. Przeworski (1985, 106–111) posits that “socialist” parties face an “electoral trade-off” when operating in a democratic system. Specifically,

\[ \text{there exists a trade-off between the recruitment of middle classes and of workers: when socialist parties direct their efforts to mobilizing the support of allies they find it increasingly difficult to recruit and maintain the support of workers. (Przeworski, 1985, 106)} \]

\textsuperscript{15}Measured as electoral \textit{disproportionality} using the Gallagher (1991) index.

\textsuperscript{16}Pontusson (1995\textsuperscript{a}) extends these theoretical foundations to argue that left-wing strength is dependent upon the size of units of industrial production (with the smaller being the less conducive to the Left) and the growth of non-industrial employment. I partially account for the latter, below, by using a measure of service sector employment, but data limitations mean that I am unable to include a measure capturing public sector employment or the size of units of industrial production, here.
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If this is the case, left-wing parties seeking, as Przeworski reasonably assumes, majority electoral support face the possibility of an awkward middle ground. At low levels of industrial employment, the natural proletariat is small and opportunities for a left-wing majority are correspondingly minimal meaning that there is little sense in “diluting[ing] the general ideological salience of class” (Przeworski, 1985, 105) in order to appeal to the middle classes. At high levels of industrial employment, the natural proletariat is large and a majority may be possible directly, or through very minimal concessions to a small section of the middle classes. At medium levels of industrial employment, however, left-wing parties face the temptation to build a broader coalition in order to attain power, but face the risk of the “electoral trade-off” most acutely. In this way, a ‘U-shaped’ hypothesis can be derived. Alternatively, it is possible to view the situation more from the right-wing perspective. In this interpretation, right-leaning constituencies may come to fear the strength of industrial labour to an extent that leads them either to tack leftwards in a policy sense or to form a more cohesive right-wing electoral coalition, themselves.\footnote{Pontusson (1995a, 510) sees this former kind of logic in Korpi (1983).} Under this theory, medium levels of industrial employment may be the worst case for the Left in that they are strong enough to scare the Right, but not strong enough to overcome them. Low levels of industrial employment creates less right-wing fear, but necessarily implies lower levels of electoral benefit for left-wing parties. Only at high levels of industrial employment would the Left be strong enough to benefit from such class-based advantages. Thus, following either a Przeworski-based or Korpi-based logic, there are grounds to include a quadratic term in the model explaining left-wing strength ($\text{EmpInd}^2$).

The logic of the importance of employment sector has also been applied to agricultural employment. In Scandinavia, initial Social Democratic success was built upon the foundation of coalition with agricultural workers (Esping-Andersen, 1985; Lewin, 1988). While this (loose) coalition was formed as early as the mid-1930s, its importance was felt during subsequent decades when Social Democrats faced peri-
ods of minority government that were supported by vote-by-vote agreements with Agrarians. More recently, Iversen and Cusack (2000) have also argued that the interests of agricultural workers and industrial workers are aligned with respect to the welfare state as both face risks from the decline of their sectors that they would like to see insured by the state. It is plausible, then, to think that these demands may come to be expressed as greater support for left-wing parties. In this light, we may expect to see the proportion of employment in agriculture ($Emp_{Agr}$) have a positive impact on left-wing strength.\footnote{It is worth noting that some have suggested that the potential for an agricultural-working-class coalition varies across countries. However, prominent scholars of this sort do not provide strong theoretical foundations to explain this variation. Thus, it is not clear how to model it, here (e.g. Esping-Andersen, 1985, Chapter 3; Castles, 1978, 113–118).}

Extending the line of argument based on labour-market demographics, Pontusson (1995a, 503) has suggested that, “social democratic strength is inversely related to the proportion of the total labor force in private nonindustrial employment”. This argument is based on a number of propositions. First, following the same logic of industrial workers as particularly supportive of left-wing parties discussed above, that service sector employment will be less conducive to the creation of a wage-earner link with left-wing parties. Second, that public sector employees will hold a similar affection for left-wing parties because they, “benefit directly from social democratic priorities in terms of employment security, promotional opportunities, and income” (Pontusson, 1995a, 504).\footnote{Part of Pontusson’s argument also runs through increased unionisation rates in the private industrial and public sectors, but, as I have discussed this above and explicitly include $UDen$ in the model, it is of less importance, here.} To capture part of this logic, I include the proportion of the workforce employed in the service sector ($Emp_{Srv}$) in the model. This does not totally capture the argument made by Pontusson, but data limitations make it a necessary proxy.\footnote{Pontusson (1995a, 497) explicitly states that, “The growth of private nonindustrial employment (as a percentage of the total labor force) provides a better predictor of social democratic decline than the growth of service employment or the decline of industrial employment” as service employment increases are likely to be correlated with public sector employment increases.}

Demographic factors of a different nature may also contribute to left-wing electoral success. As consumers of the type of welfare and public services that left-wing
parties are traditionally associated with, higher proportions of a population who are children ($PC_{15}$) may be beneficial to left-wing parties. That is, more children in a society may lead to greater demands for social investments such as education, family income support, maternity- and child-oriented health services, and the like. If left-wing parties are seen to be particularly effective advocates of such policies, then they should benefit electorally from these demands.

What all of these theoretical approaches have in common is that they constitute claims regarding the systemic relative strength of left- and right-wing parties, as opposed to more transient or policy-related effects. The distinction is important as the claim that I will make below rests on the idea that parties make policy choices based on long-run strategic considerations, not just ephemeral and contingent events.

8.3.1.2 Results

The results for estimating the model of systemic determinants of left-wing strength described above are presented in Table 8.2. While they are potentially of substantive interest in their own right, I do not dwell on them here as the primary objective of the paper is to test a theory of partisan policy-making with respect to privatization. I shall simply note that the hypotheses regarding the influences of electoral disproportionality (within countries), union density (across countries), and the various employment sector demographics all find support in the data.

To provide a clearer overview of how the estimates displayed in Table 8.2 translate into estimates of $\Lambda_{i,t}$, Figure 8.2 plots the observed values of $Left_{i,t}$ and the derived values of $\hat{\Lambda}_{i,t}$ for the 13 countries for which data is available for the privatization models. Broadly, the values of $\hat{\Lambda}_{i,t}$ appear reasonable. It starts low in France, when the Left struggled against the strength of the Gaullist Right, and then rises just before and during the 1980s, when the Left had their first presidential breakthrough. It is very high in Sweden, where the SAP is renowned as one of the strongest left-wing parties in the world. It is very low in Ireland, where neither of
### Table 8.2: Tobit estimation of the systemic determinants of left-wing cabinet seats \((Left_{i,t})\) across countries.

<table>
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<tr>
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<th>(b)</th>
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<tr>
<td>(PR_i)</td>
<td>1.465</td>
<td>0.774</td>
</tr>
<tr>
<td>(PR_{i,t}^W)</td>
<td>-4.109***</td>
<td>-2.997</td>
</tr>
<tr>
<td>(PC_{15_i})</td>
<td>-866.7</td>
<td>-1.614</td>
</tr>
<tr>
<td>(PC_{15_{i,t}}^W)</td>
<td>617.3**</td>
<td>2.520</td>
</tr>
<tr>
<td>(ImpExp_i)</td>
<td>-0.776**</td>
<td>-2.433</td>
</tr>
<tr>
<td>(ImpExp_{i,t}^W)</td>
<td>0.647</td>
<td>1.566</td>
</tr>
<tr>
<td>(UDen_i)</td>
<td>0.381</td>
<td>0.614</td>
</tr>
<tr>
<td>(UDen_{i,t-1}^W)</td>
<td>-1.155**</td>
<td>-2.047</td>
</tr>
<tr>
<td>(UnionCentralization_{i,t})</td>
<td>58.49**</td>
<td>2.022</td>
</tr>
<tr>
<td>(UnionCentralization_{i,t}^W)</td>
<td>-60.39**</td>
<td>-2.333</td>
</tr>
<tr>
<td>(EmpAgr_i)</td>
<td>-127.5</td>
<td>-0.209</td>
</tr>
<tr>
<td>(EmpAgr_{i,t-1}^W)</td>
<td>-465.2**</td>
<td>-2.234</td>
</tr>
<tr>
<td>(EmpInd_i)</td>
<td>-9509.2**</td>
<td>-2.120</td>
</tr>
<tr>
<td>(EmpInd_{i,t}^W)</td>
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<td>-2.693</td>
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<td>(EmpInd_{i,t}^2)</td>
<td>13427.2**</td>
<td>2.017</td>
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<td>(EmpInd_{i,t}^2,W)</td>
<td>1966.3**</td>
<td>2.285</td>
</tr>
<tr>
<td>(EmpServ_i)</td>
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<td>-0.512</td>
</tr>
<tr>
<td>(EmpServ_{i,t}^W)</td>
<td>-235.5</td>
<td>-1.251</td>
</tr>
</tbody>
</table>

Notes: Maximum likelihood estimates with Z-statistics in parallel column. *, **, and *** denote p-values of 0.1, 0.05, and 0.01, respectively.
the two main parties that have dominated governments is considered to be left-wing.

8.3.2 Modelling Privatization Revenues

8.3.2.1 The Dependent Variable

My dependent variable in all estimated models is the annual per capita privatization revenues for a country \( (\text{PrivRevPC}_{i,t}) \). This measure should be considered one of ‘privatization effort’ in that it directly controls for country size, thus avoiding the problem of large privatizations in large countries dominating the analysis. The data is drawn from the Privatization Barometer database\(^{21}\) and includes all sales of SOEs during the sample period. These sales may take the form of public offerings on stock exchanges or direct sales to existing private enterprises. The data includes partial sales where only a fraction of the equity in an SOE is privatized. In these instances of partial sales, the year in which the revenue is raised is the year for which it is recorded. Privatization revenues are denominated in (constant) $US for all countries.

8.3.2.2 Explanatory Variables

Core Explanatory Variable The theory advanced above implies the inclusion of two variables, together with their interaction. Being a story about partisanship, I include the share of cabinet seats held by left-wing parties \( (\text{Left}_{i,t}) \) using data from Armingeon et al. (2007). As set out in Section 8.3.1, I then employ the estimated measure of system left-wing strength \( (\hat{\Lambda}_{i,t}) \), together with the partisanship interaction \( (\text{Left}_{i,t} \cdot \hat{\Lambda}_{i,t}) \). To be clear, the expectation is of a positive and statistically significant interaction effect.

Some justification of this model is in order as interacting \text{Left} with a component of itself \( (\hat{\Lambda}) \) may lead to questions as to what each variable is picking up in the model. Thus, a reasonable question would be, ‘After \( \hat{\Lambda} \) has been controlled for, what does \text{Left} capture?’ This can be shown algebraically with the following example model,

\(^{21}\)http://www.privatizationbarometer.com/
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Figure 8.2: \( L_{i,t} \) and \( \hat{L}_{i,t} \) for the period 1960–2005.
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\[ y = \beta_0 + \beta_1 \text{Left}_{i,t} + \beta_2 \hat{\Lambda}_{i,t} + \beta_3 \text{Left}_{i,t} \hat{\Lambda}_{i,t} + u_{i,t}. \]  

(8.16)

Now, substituting \( \text{Left}_{i,t} = \hat{\Lambda}_{i,t} + \delta_{i,t} \) — where \( \delta_{i,t} \) captures the short-run fluctuations of partisanship around the long-run strength — into (8.16) yields,

\[ y = \beta_0 + \beta_1 (\hat{\Lambda}_{i,t} + \delta_{i,t}) + \beta_2 \hat{\Lambda}_{i,t} + \beta_3 (\hat{\Lambda}_{i,t} + \delta_{i,t}) \hat{\Lambda}_{i,t} + u_{i,t}. \]  

(8.17)

Now, the conditional influence of partisanship (i.e. \( \text{Left} \)) on \( y \) can be calculated by differentiating \( y \) with respect to the partisanship measure. But which partisanship measure is appropriate — \( \hat{\Lambda}_{i,t} + \delta_{i,t} \) or \( \delta_{i,t} \)? In fact, they are equivalent in this respect as:

\[ \frac{\partial y}{\partial \delta} = \frac{\partial y}{\partial (\hat{\Lambda} + \delta)} = \beta_1 + \beta_3 \hat{\Lambda}_{i,t}. \]  

(8.18)

From this analysis, we can see that \( \text{Left} \) captures the short-term fluctuations of left-wing strength around its long-run, systemic, value. So, while \( \hat{\Lambda} \) may be low, a left-wing party may, nonetheless, come to hold many cabinet seats for (probably) a short period due to particular circumstances in a country or political system. In essence, \( \text{Left} \) remains the true variable capturing partisanship as it remains the measure of left-wing power at a given point in time. While correlated with \( \text{Left} \) (by construction), \( \hat{\Lambda} \) explicitly excludes these short-run fluctuations.

**Non-Core Explanatory Variables** Of course, there is reason to believe that a number of other factors will have played an important role in determining how privatization has developed across countries. Most of those indicated below are drawn from the previous work in this area, although the use of others are innovations to this paper. The controls can be usefully divided into three broad categories:
Taking the economic factors first, unemployment is an obvious variable to control for, albeit one ignored by the literature so far. From the theoretical stance of this paper, there are reasons to suspect both positive and negative effects on privatization effort. On the one hand, higher unemployment indicates a worse performing economy, and thus one, perhaps, more in need of the productivity increases associated with privatization. On the other hand, higher unemployment may make privatization less politically desirable as the process may well lead to even higher unemployment levels as public-sector labour is shed. Thus, I employ the control, $Unemployment_{i,t-1}$, without firm predictions as to the sign of its coefficient.

Public finances have been held to be relevant to privatization decisions. A poor financial situation, in the form of high public debt (Bortolotti, Fantini and Siniscalco, 2003) levels and/or high budget deficits (Zohlnhöfer and Obinger, 2006), can potentially be rectified by the revenues of a privatization programme. Thus, I employ the $PublicDebt_{i,t-1}$ and $PublicDeficit_{i,t-1}$ variables.

Economic controls are lagged by one period so as to avoid picking up any potential effect that privatization may have had on them.

In addition to these economic controls, there are also plausible non-economic contextual variables that have been considered to impinge upon a government’s desire and/or ability to engage in privatization. Zohlnhöfer, Obinger and Wolf (2008, 116) present data suggesting that there have been shifts in party positions when comparing the 1980s to the 1990s. That is, some kind of secular trend in favour of privatization across countries and parties. In order to capture this possible development, I employ a count variable simply equal to the year of each observation ($Year_t$).

Clifton, Comin and Diaz Fuentes (2006) argue that the European Union has had a significant impact; leading member countries to privatize in order to comply with ‘single market’ provisions and increased cross-border competition. In this light,

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22 Full details of sources are given below in Table 8.3.
they place great weight on the ratification of the Maastricht Treaty. To assess the importance of this, I include a dummy variable ($Maastricht_{i,t}$) equal to 1 after 1993, and 0 before.\footnote{While signed in December 1991, the treaty entered into force in November 1993.}

In terms of a government’s ability to privatize, Bortolotti, Fantini and Siniscalco (2003) suggest that a “deep and liquid stock market” is an important consideration. As large portions of privatization programmes across many countries have been pursued by public offerings on stock markets, the capacity of those markets to provide the required capital is likely to have been an important constraining consideration for governments. To control for this, I employ a variable corresponding to the total stock market capitalization within a country, per capita ($\text{StockMktCapPC}_{t-1}$). The measure is per capita so as to avoid the issue of larger countries having larger stock market capitalizations, but correspondingly larger capital requirements for their privatization programmes. As with the economic controls, the variable is lagged do avoid it being spuriously correlated with the dependent variable.

Finally, Boix (1997) suggests that legislatively weaker governments will be less able to pursue privatization programmes as the chance of them being blocked from doing so would be higher. In order to control for this, I employ the $\text{Checks}_{i,t}$ variable constructed by Keefer and Stasavage (2002). This is a composite index capturing the number of checks on government in a political system, and varies by country-year. It takes into account institutional factors, such as bicameralism and presidentialism, as well as partisan factors, such as the distance of governing coalition members from each other (and non-coalition members) in left-right policy terms.

8.3.2.3 Modeling Techniques and Issues

One innovation for this paper is to employ a different estimation technique to the existing privatization literature. There are several reasons for this, mostly relating to differences in data structure and resultant units of observation. Zohlnhöfer and Obinger (2006) and Zohlnhöfer, Obinger and Wolf (2008) are purely cross-sectional...
### Variable Description Suggested By Source

#### Dependent Variable
- **PrivRevPC\textsubscript{i,t}** Privatization revenues per capita (in $ US). Privatization Barometer

#### Economic Variables
- **Unemployment\textsubscript{i,t−1}** Unemployment rate in the previous year. Armingeon et al. (2007)
- **PublicDebt\textsubscript{i,t−1}** Public debt as a percentage of GDP in the previous year. Bortolotti, Fantini and Siniscalco (2003)
- **PublicDeficit\textsubscript{i,t−1}** Public budget deficit as a percentage of GDP in the previous year. Zohlnhöfer and Obinger (2006)

#### Contextual Variables
- **Maastricht** A dummy variable equal to 1 after 1993. Clifton, Comin and Diaz Fuentes (2006)
- **StockMktCapPC\textsubscript{i,t−1}** Total stock market capitalization per capita in the previous year. Bortolotti, Fantini and Siniscalco (2003)

#### Political Variables
- **Left\textsubscript{i,t}** Percentage of cabinet seats held by a left-wing party. Boix (1997)
- **Checks\textsubscript{i,t}** A composite index capturing the number of checks on government in a political system. Keefer and Stasavage (2002)

| Table 8.3: Summary of variables for models of privatization revenues. |
studies, pooling data for each country across a period of around 10 years, and thus constraining the size of their sample to around 20. Based on this data, models were estimated with OLS.

Employing more data, Boix (1997) uses country-governments as his unit of analysis as opposed to just countries. This leaves him with around 50 observations. He then estimates two types of model: one for the volume of privatization revenues (by OLS) and one for a more subjective measure of what he terms “policies towards state-owned companies”, which amounts to an ordered variable capturing essentially the same information as the interval variable.\textsuperscript{24} With an ordered dependent variable, Boix then estimates these latter models as ordered probits.

The data employed by Bortolotti, Fantini and Siniscalco (2003) is commensurate with that in this paper — i.e. taking country-years as the unit of observation. Their approach is to utilize a two-stage empirical analysis by first estimating the probability of privatization occurring in a given country-year (using a probit model), and then estimating the determinants of the level of privatization revenues in those country-years that did experience privatization (by OLS). This approach is problematic, however, as by estimating a simple probit model in the first stage, Bortolotti, Fantini and Siniscalco (2003) effectively throw out data by treating small and large privatizations as identical.

To avoid this problem, I estimate a tobit model which accounts for the censored nature of the dependent variable in a single model. Doing so takes account of the fact that a value of 0 for the $PrivRevPC_{i,t}$ variable can correspond to a government being only very marginally against privatization and one being overwhelmingly against it — i.e. the censored nature of the variable.

 Nonetheless, there are some difficulties with this estimation approach. It would be highly desirable to employ a variable capturing the size of the SOE sector available for privatization as low privatization levels are hardly news if there is nothing to

\textsuperscript{24}In addition to privatization revenues, some information on nationalizations is also included in this latter approach.
privatize. Thus, the preferred equation to be estimated would be,

\[ PrivRev_{i,t} = \beta_0 + \beta_1 SOE_{i,t-1} + \beta Z + \epsilon_{i,t} , \]  

(8.19)

where \( SOE_{i,t-1} \) is the lagged size of the SOE sector for each country and \( \beta Z \) denotes vectors of other parameters and variables. The problem is that there is no reliable TSCS data for variable \( SOE_{i,t-1} \). Noting that the current size of the SOE sector in a country depends on the ‘initial’ size of it and the amount that has been privatized already:

\[ SOE_{i,t} \approx SOE_{i,0} - \sum_{\tau=0}^{t} PrivRev_{i,\tau} , \]  

(8.20)

and denoting \( \sum_{\tau=0}^{t} PrivRev_{i,\tau} \) as \( CumPrivRev_{i,t-1} \), this can then be substituted into (8.19) to yield,

\[ PrivRev_{i,t} = \beta_0 + \beta_1 (SOE_0 - CumPrivRev_{i,t-1}) + \beta Z + \epsilon_{i,t} . \]  

(8.21)

This form has lower data requirements but not quite low enough as there is, again, no reliable data on the size of the SOE sector, even for an early point in time, that is commensurate with \( PrivRev \). To avoid this problem, I estimate a model of the form:

\[ PrivRev_{i,t} = \beta_0 + \alpha_i - \beta_1 CumPrivRev_{i,t-1} + \beta Z + \epsilon_{i,t} , \]  

(8.22)

---

25 The relationship expressed in (8.20) is only approximate as \( PrivRev \) is only an approximation of the ‘true’ size of the SOE sector that is privatized in a given year. There is some variability on the valuation placed on privatized enterprises based on market conditions and other stochastic factors.

26 Lagging (8.20).
where $\alpha_i$ denotes country-specific intercepts, which have replaced the initial SOE levels. This model is not perfect as these intercepts are likely to pick up other time invariant factors that affect privatization revenues. Given the data constraints, such a compromise is necessary.

However, the tobit model, being estimated by maximum likelihood, suffers from the ‘incidental parameters problem’ first highlighted by Neyman and Scott (1948). The result is that the use of fixed effects in tobit models yields inconsistent parameter estimates. Random effects specifications do not suffer from this problem and accords with the modeling approach advocated by Bartels (2008). Thus, again, I employ the Bartels specification giving within and between estimation of variable effects and estimate the intercepts as random effects.

### 8.3.2.4 Accounting for Uncertainty

An important concern when estimating this model of how privatization revenues vary with the prevailing level of systemic left-wing strength ($\Lambda$) is that the variable that is actually employed ($\hat{\Lambda}$) inherently contains error as a result of the process by which it was estimated. So, while the point estimate for $\hat{\Lambda}$ is valuable, the actual value of the underlying variable that it proxies will fall somewhere within the sampling distribution of $\hat{\Lambda}$, and this should be accounted for when attempting to draw inferences about how partisanship regarding privatization varies with $\Lambda$.

I handle this issue in a way outlined by Armstrong, Duch and Bakker (2007). The approach essentially treats the estimated distribution of $\hat{\Lambda}$ similar to a Bayesian posterior by repeatedly sampling from $\hat{\Lambda} \sim N(\hat{\Lambda}^m, \sigma^2_{\Lambda})$, where $\hat{\Lambda}^m$ is the mean (point estimate) of $\hat{\Lambda}$ and $\sigma^2_{\Lambda}$ is the estimated standard error. The privatization model is then re-estimated for each draw of $\hat{\Lambda}^m$, yielding a distribution of parameter estimates for the second stage model that includes the uncertainty surrounding $\hat{\Lambda}$.

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27 For a recent discussion of the issue, see Greene (2004b) and Greene (2004a).

28 I am also grateful to Andrew Martin for suggesting an approach like this to me.
8.3.2.5 Results

The results for estimating the model of privatization effort are presented in Table 8.4.

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Notes: Estimates based on resampled maximum likelihood estimates (see text) with Z-statistics in parallel column. *, **, and *** denote p-values of 0.1, 0.05, and 0.01, respectively.

Table 8.4: Tobit estimation of the determinants of privatization (PrivRevPC<sub>i,t</sub>) across countries.

First, the parameter estimate for CumPrivRevPC is negative, as expected. In the light of the discussion above regarding the theoretical reason for including the
variable, this is reassuring. There is support for the claim that higher levels of privatization in the past reduce privatization in any given period. It appears that the variable is indeed controlling for the remaining size of the SOE sector. If it were to pick up some kind of serial correlation in which more privatization-prone countries were to consistently privatize more, the parameter would be expected to be positive.

Taking the economic control variables first, Unemployment appears to have little effect on privatization effort between countries, and the evidence is weak within countries, too. Given the ambiguous theoretical predictions, this is unsurprising. A similar finding is present for PublicDebt, where there is only weak support for the view that governments used privatization revenues as a way to pay down accumulated debts. Furthermore, there is no evidence that PublicDeficit has any effect, which may be unsurprising given the unsustainability of a strategy of funding budget deficits through asset sales.

The model provides strong evidence that higher levels of StockMktCapPC lead to higher levels of privatization effort — albeit, this effect is only estimated as being present within, not between, countries. This general tendency is in accordance with the findings of Bortolotti, Fantini and Siniscalco (2003). However, it is not possible to distinguish between two possible interpretations of the positive coefficient. Bortolotti, Fantini and Siniscalco (2003) emphasise the enabling nature of “deep and liquid stock markets” in that they allow governments to tap into capital markets more readily, especially when related to extremely large enterprises such as utility monopolies. An alternative (but not mutually exclusive) hypothesis would be that the presence of “deep and liquid stock markets” implies the presence of powerful financial actors capable of lobbying governments for more privatization business. It would be interesting to attempt to disentangle these two channels of causality.

Moving on to the contextual controls, the estimate for Year suggests that there was a secular trend in favour of privatization through the period. To even the lay
observer, this is hardly likely to be surprising. More interesting is that, in the presence of Year, the Maastricht dummy is statistically insignificant. This may not be conclusive evidence against the impact of the EU on privatization policies across member states, but it surely casts some doubt on the thesis.

Interestingly, the estimated effects of Checks between and within countries are strongly statistically significant, but oppositely signed. The model suggests that, between country increases in Checks are associated with lower privatization effort — which accords with the argument made by Boix (1997) — but that within country increases are associated with increases in privatization effort. This result warrants more investigation.

On the evidence relevant to the theoretical claim of this paper, the findings are supportive within countries, but note between countries. Figure 8.3 plots the estimated interaction effects between Left and the \( \hat{\Lambda} \), together with the 95% confidence interval, for the within effect. As expected, the sign of this effect is positive, indicating that more left-wing governments privatize more readily where their systemic strength is higher. It should be noted that the uncertainty surrounding the point estimate of the interaction effect is relatively large, meaning that conventional statistical significance is only reached near the sample extremes for \( \hat{\Lambda} \). That the confidence interval is wide is unsurprising, though. Uncertainty from the estimate of \( \hat{\Lambda} \), which is fairly large, is incorporated directly into the estimate of the interaction effect. As such, the lack of observational data for one of the key explanatory variables, \( \Lambda \), should be considered the root cause of larger confidence interval. An alternative interpretation of the results, then, is that the interaction effect appears to be strong given that it survives the estimated nature of \( \hat{\Lambda} \).

The conditional effects also reveal another aspect of the politics of privatization. While left-wing governments with low levels of systemic strength are significantly less likely to privatize to the same degree as a right-wing government in the same context, a left-wing government at high levels of systemic strength is estimated to
be *more* likely to privatize than a right-wing government — albeit not quite to a statistically significant level. This may appear to be puzzling at first glance, but one resolution to this finding is that left-wing governments are better able to navigate and/or suppress the largely left-of-centre interest group pressure that is likely to come out against privatization. For example, a left-wing government advocating privatization may be able to claim more credibly that the policy is in the ‘national interest’ and not simply an attempt to destroy a component of left-wing power resources — what some have termed a ‘Nixon goes to China’ effect (Cukierman and Tommasi, 1998; Cowen and Sutter, 1998).

![Figure 8.3: Partisanship effect on privatization, conditional on $\hat{\Lambda}$, estimated from Model (2); 95% confidence intervals shown.](image)
8.4 Discussion

How do the findings in this paper sit with earlier, more country-specific studies? Rather well.

In Austria — a country with historically strong left-wing parliamentary presence — the mid-1980s saw both the Socialist Party (SPÖ) and the conservative People’s Party (ÖVP) embrace privatization, as well as broader deregulatory policies. Indeed, Meth-Cohn and Müller (1994) describe the shift by the SPÖ finance minister, Franz Vranitzky as a “quantum leap into supply-side economic policies”, and one for which “criticism within his party was relatively moderate” (Meth-Cohn and Müller, 1994, 166). Furthermore, they argue that (Meth-Cohn and Müller, 1994, 166),

the SPÖ accepted that the state is not an optimal owner. A minister cannot run a firm in the same way as a private owner; under such a situation the enterprise belongs de facto to the management and the workers’ council, and beyond that to local and regional politicians and the unions.

In the UK, the flip side of the argument regarding left-wing preferences for strong unions where the political parties themselves are weaker can be seen. The Thatcherite revolution of the 1980s has been explicitly associated with attempts by the Conservatives to reduce the power of public sector unions. Having witnessed the militant miners bring down Edward Heath’s government in the early 1970s, the Tories were eager to ensure that such a situation in which a union could hold the country by the “jugular vein” could not reoccur (Steel and Heald, 1982, 341). That view became all the more prescient towards the latter end of the 1980s, after a raft of trade union legislation had also been passed and Thatcher had won her famous battle with the National Union of Mineworkers (Mitchell, 1987; Gamble, 1988).

In Sweden, the aspect of the theory emphasising left-wing incentives for state ownership becomes all the more stark. Pontusson (1989, 129) notes that,
Sweden represents something of a paradox. In no other West European country has a reformist working-class party (or any other type of left party) held government office for so long; yet public ownership of industrial/commercial enterprise is quite limited by comparative standards.

This is suggestive that the logic associating the need for public ownership with the acquisition of left-wing power resources may have relevance for the earlier period, before privatization. Lane (1994, 181) writes that, on nationalization, the “Social Democrats took an early pragmatic stand-point to this basic problem of Marxist ideology”. On this basis, a fruitful line of future research would be to investigate the reasons for this earlier rejection of standard left-wing thought. Based on the theory and evidence presented in this paper, the strength of the Social Democrats, even in the absence of a large state-owned enterprise sector, is a plausible explanation.

8.5 Conclusion

Several conclusions can be drawn from this, the first of which must be that the traditional understanding of privatization as an inherently right-wing policy is rather wide of the mark. Left-wing parties have engaged in privatization programmes as large as or larger than those of the right-wing oppositions in several European countries. To dismiss such activities as capitulation to the Right would be quite wrong. On the basis of the evidence presented here, when left-wing parties embrace privatization, it is a result of caving-in to right-wing pressure — quite the opposite. Where left-wing parties are strongest, they appear to feel most comfortable selling SOEs. Privatization is an economic policy that has the capacity to ‘raise all boats’ — at least in the medium term — but the political costs of it are felt differentially by left-wing parties across countries. It is for this reason that the degree of partisan conflict on the issue varies.

The theory and evidence advanced here also suggests a reassessment of which actors are the relevant agents within ‘developed’ political economies. Prominent
schools of thought ascribe agency to interest groups on the one hand or ‘the median voter’ on the other. In response to these traditions, I argue for a more careful theorisation of the incentives faced by political party elites and go on to find evidence to support the view that they are important agents in their own right. They appear to be more than simple vehicles for the interests of either interest groups or the median voter. Instead, they mediate influences from such quarters, and do so in a strategic way.

In addition to this contribution to our understanding of political agency, the results here lead to some obvious questions regarding the nature of the SOE sectors across different countries in the pre-privatization era. An obvious line for further research is to understand why countries that are traditionally thought of as being bastions of left-wing political strength appear to have pursued notably different industrial strategies during the twentieth century than their more right-wing cousins. Why did the Nordic and Benelux countries, as well as Germany, reject nationalization as a tool of industrial policy while their Anglo-Saxon and Mediterranean neighbours developed large-scale state-owned enterprise sectors? Why, where it was strongest, did the Left reject what many see as one of the core tenets of left-wing ideological thought? The kernel of an explanation for this has already been outlined above, but more detailed research to assess the applicability of the argument to this early period would be extremely valuable.

Turning attention to the pre-sample period also highlights an interesting feature of the theory and data. In a sense, the model outlined above is one of ‘disequilibrium’. Those countries in which the theory predicts that both left-wing and right-wing parties will be willing privatizers are, logically, the countries in which we should expect there to be nothing to privatize. If neither side wants SOEs, then why would anything have been nationalized in the first place? The presence (and significance) of the Year variable in model (2) partially suggests a resolution to this problem. In asking this question, there is an assumption of left-wing strength being essentially stable through time, which is not the case in several countries. A shift in this strength, therefore, potentially explains some of the puzzle.
problem. It seems that there was a secular trend in favour of privatization over the period which, extrapolating backwards, would imply greater favourability to nationalization in the pre-1980 period. Quite why this is the case is beyond the scope of this study. The evolution of ‘ideas’ to and from Keynesianism would seem to be relevant, though (Hall, 1989b, c.f.).

Another explanation for some of this apparent off-equilibrium pattern in the data is possible, however. The outbreak of economic shocks in the past — specifically, the 1970s — led some governments to respond with greater economic intervention in order to shore up what were deemed to be important industries and enterprises. That this was often an exogenously imposed economic imperative rather than partisan opportunism can be seen for the case of Sweden following the 1976 election which resulted in the first non-Socialist government in almost half a century. Battling economic crisis,

the bourgeois parties nationalized more industry in their first three years in power than the Social Democrats had done in the previous forty-four years! (Pontusson, 1991, 173–174)

The 1970s, then, may provide a partial answer to the question of how the parts of the ‘developed’ world could have been in an off-equilibrium state at the start of the 1980s. Intriguingly, the 1970s also point attention at the potentially renewed relevance of the issue of privatization. The onset of the so-called ‘credit crunch’ and its attendant financial crisis in the period since 2007 has been met with a spate of emergency nationalizations across a number of countries. Where, only a couple of years ago, we appeared to be in a world in which privatization candidates were becoming few and far between following the large-scale sell-offs during the previous 25 years, the supply of nationalized SOEs has recently, and dramatically, been replenished. Privatization, it would seem, will be back on the agenda in the coming months and years.
8.A Empirical Robustness with Alternative Explanatory Variable

In this appendix, I provide a brief validity test of the argument outlined in the main body, above. It has been suggested that the finding that I have presented in Section 8.3.2 may be simply an artifact of corporatism. The operation of corporatist institutions, so the argument goes, means that there are encompassing union organisations that will be able to perceive the macroeconomic benefits of privatization and also be able to stifle protest of those portions of organised labour that are set to lose out from the policy. Left-wing parties tend to be stronger in corporatist countries, so the finding of a privatization partisanship being conditional on systemic left-wing strength may, in reality, be driven by the operation of corporatist interest intermediation.

This theoretical position is quite different from my own and, as it stands, does not really fit well with the results already presented. The reason is that the corporatism theory is not a party-political theory. If union encompassment is the key factor, then why should partisanship have any role to play? If encompassing labour organisations perceive macroeconomic benefits from privatization and are able to block protests from those SOE workers who are harmed by it, then this should apply no matter which party is in power. As such, the presence of an interaction effect between Left and $\Lambda$ does not support the corporatism theory. Nonetheless, to be sure that there really is a party-political aspect present in the data, I re-estimate model (2) with $\Lambda$ replaced with the index of wage bargaining level taken from Golden, Wallerstein and Lange (2007). The results are presented in Table 8.5 and the conditional effects are plotted in Figure 8.4.

It is clear from this model that there remains a conditional partisanship effect on privatization. When collective bargaining operates at low levels, left-wing parties are significantly less likely to privatize. This accords precisely with the theory advanced in Section 8.2 as lower levels of BargainingLevel imply lower levels of $\Lambda$, but the
### CHAPTER 8. PRIVATIZATION IN EUROPE

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Notes: Maximum likelihood estimates with Z-statistics in parentheses. *, **, and *** denote p-values of 0.1, 0.05, and 0.01, respectively.

Table 8.5: Tobit estimation of the determinants of privatization ($PrivRevPC_{i,t}$) across countries with alternative measure of left-wing strength.

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Figure 8.4: Partisanship effect on privatization, conditional on *BargainingLevel*, estimated from Model (3); 95% confidence intervals shown.
corporatism theory is unable to explain the finding.

As a final note, comparing Figure 8.4 with Figure 8.3 would appear to suggest that the result for *BargainingLevel* is stronger than that for $\hat{\Lambda}$ — leading to the obvious question of, “Why go to the trouble of estimating $\hat{\Lambda}$ if it is a poorer explanatory variable?” This would not be the correct interpretation as the estimates for $\hat{\Lambda}$ take account of measurement error, while those for *BargainingLevel* do not. In fact, the comparison only serves to highlight the importance of measurement error in quantitative analysis in comparative political economy.
Part IV

Conclusions
Chapter 9

Conclusions

What have we learned from the preceding chapters? What are the identifiable contributions to our understanding of political phenomena and what are their implications? To my mind, they are numerous and various. In these concluding remarks, I divide them between empirical specifics and theoretical generalities, before going on to consider the avenues for further research that have been opened up.

9.1 Empirical Specifics

I shall take the empirical contributions in reverse order from their chapter-based presentation. Studying the experience of privatisation of state-owned enterprises in Western Europe since 1980, Chapter 7 showed that the common view that policy outputs are a direct result of governmental responses to public opinion is wide of the mark. It also showed that the typical notion that privatisation is a ‘right-wing’ policy has considerable truth to it at the micro level. That is, individuals typically associated with left-wing parties appear to be systematically more opposed to privatisation. From this foundation, however, Chapter 8 began by noting that, contrary to what may have been expected based on the public opinion findings, left-wing parties often are associated with major privatisation programmes. It then went on to show that, contrary to any unsated suspicion that this occurred because those
left-wing parties pandered to a (more right-wing) median voter, privatisation was undertaken by left-wing parties when they were strong, not weak. The traditional view of privatisation as a right-wing policy needs, then, to be modified. There are positive reasons for left-wing parties to privatise that are distinct from the pursuit of egalitarian societal outcomes. When the long-run costs of the policy do not outweigh the benefits — that is, where left-wing parties feel more electorally secure — they will make a more socially optimal choice in the form of the sale of state-owned enterprises.

In the sphere of welfare policy, this dissertation has advanced two empirical contributions. In *Chapter 6*, it was shown that left-wing parties appear to face a trade-off between expenditure on welfare services and means-tested cash transfers. Furthermore, their relative preference for each varies predictably with the degree to which they expect to be able to block future reforms of the welfare state. Where this expectation is high, they are relatively more comfortable opting for cash transfers. Where the expectation is low, they tend to prefer service expenditure as it comes with its own in-built political protection mechanism in the form of organised public sector labour. Quantitatively, this set of relationships holds across around 20 OECD countries during the retrenchment years of the 1990s and early 2000s.

Finally, *Chapter 5* showed that a similar logic to that underpinning *Chapter 6* was in operation during the period in which national health systems were founded in Sweden and the UK after the Second World War. The case studies in this chapter start from the observation that the health systems that were introduced in the two countries were notably different and, furthermore, that their differences were of the opposite form to that which might be expected. It was the weaker of the two left-wing parties, the British Labour Party, that constructed the more traditionally left-wing health system: nationalised, centralised, bureaucratised, and free at the point of use. The Swedish Social Democrats, on the other hand, opted for a system that maintained the private practice position of doctors, together with a fee-for-
CHAPTER 9. CONCLUSIONS

service system for which health insurance provided only partial cover. Analysing the historical record in these two countries with the help of the structure provided by the theoretical model of when left-wing parties will wish to entrench their policy choices in the form of powerful organisations, the chapter makes sense of these different choices. It was precisely because the Labour Party was weaker that it felt compelled to construct the NHS in the organisational form that it did. Meanwhile, the strength of the Social Democrats meant that they were not so constrained. This story of conditional partisanship, especially as applied to the formation of the NHS, is an important contribution to the literature.

9.2 Theoretical Generalities

At the level of theoretical generalities, the dissertation makes a number of contributions. First, and forming the core theoretical thread running throughout the work, the argument is advanced that political scientists should take much greater notice of time in their models. As Chapter 1 discussed, there has been some work in this area, but altogether far too little. This critique applies, not least, to the study of partisanship. Indeed, I contend that if one takes seriously the view that political parties have outcome-seeking, as opposed to office-seeking goals that they wish to advance, then it is difficult to understand why these would not be pursued with an eye to future ‘payoffs’. For example, if a left-wing party cares about making the income distribution more equal today directly because they desire a more equal society, not for electoral reasons, surely they should care about what the income distribution will be tomorrow, the next day, and after the next election. The partisanship hypothesis, then, implies partisanship through time. But if parties are maximising their policy payoffs through time, then they inevitably face the issue that they may not be in power in the future. In this case, it follows that they will act strategically so as to protect today’s decisions from the predations of future hostile governments. Thus, not only does the partisanship hypothesis imply partisanship through time, it
also implies strategic partisanship through time: it implies strategic partisan policy-seekers. It is this theoretical logic that underpins the empirical work on the welfare state in Part II. That this is a contribution to the literature can easily be seen from a review of the extant partisanship studies, which have given no account of strategic policy choice of this sort.

That partisan decision-making can be strategic also leads to another contribution from this dissertation: a highlighting of the distinction between constituency-based and elite-level sources of partisanship. That is, the informational and cognitive capacities required to undertake strategic partisan policy-making would seem to be unlikely to manifest themselves across typical members of a party’s core constituency. At the elite level, however, this would seem to be a wholly realistic possibility. Such a view is in accordance with Fiorina, who writes that,

> I teach my students that RC [rational choice] models are most useful where stakes are high and numbers low, in recognition that it is not rational to go to the trouble to maximize if the consequences are trivial and/or your actions make no difference […]. Thus, in work on mass behavior I utilize minimalist notions of rationality […], whereas in work on elites I assume a higher order of rationality […]. (Fiorina, 1995, 88)

The empirical relevance of the distinction between mass and elite partisanship is shown with the study of the politics of privatisation, where the juxtaposition of individual-level opinion in Chapter 7 and elite-level policy-making in Chapter 8 suggests that left-wing elites were the important actors in this case, not broader left-wing opinion. More generally, the introduction of elite-level strategic consideration of payoff maximisation through time provides a new source of conditioning variables for studies of partisanship. While previous studies have concentrated on the circumstances in which mass left-of-centre opinion will change, consideration of elite-level partisanship points towards various institutional (i.e. legislative) and organisational (i.e. power-based) conditioning variables.
CHAPTER 9. CONCLUSIONS

A third major theoretical contribution in this dissertation is the proposed synthesis of rational choice institutionalism (RCI) and historical institutionalism (HI). Again, this synthesis emerges naturally from the primary insight of (partisan) policymakers seeking to maximise the benefits of their policies for their constituents through time. While individual ‘maximising’ behaviour is one of the defining features of the rational choice approach, its tendency to acquire a theoretical blinkering to the importance of maximisation across a number of periods has left RCI underdeveloped in terms of time-related conceptual building blocks. It is in this respect that HI proves especially useful. The empirical HI literature has shown the importance of path dependent processes and their critical juncture sources. At the theoretical level, however, HI scholars have been far more reticent to draw out some of the theoretical implications of these findings. Marrying a rational choice standpoint with the prevalence of path dependence points to the value of explaining the rational sources of these phenomena.

The combination of RCI and HI has a further benefit in the form of a more nuanced understanding of how ‘agency’ and ‘structure’ can or should enter our explanations of social outcomes. Beyond the more complicated institutional structure in which agents are presumed to operate under the rational choice approach when maximising through time, the synthesis provides something else. Taking the broader HI conception of structure into RCI opens a number of interesting possibilities. With this import, structure no longer need be constrained to formal rules and laws: demographics, coalitions, and organisations all become sources of structure.\(^1\) The result is that ‘power’ is introduced into RCI — an approach in which it has been notably absent.

To be clear, the argument, advanced above, for consideration of rational decisions being made at critical junctures so as to select preferred political ‘paths’ into the future is in no way meant to constitute a claim that all path dependent pro-

\(^1\) ‘Structure’ as distinct from ‘institutions’, which I maintain definitionally as formal rules and laws so as to provide some conceptual clarity.
cesses have rational roots. It would be quite wrong to interpret my reasoning as implying that political environments do not exhibit ‘unintended consequences’; that all outcomes were or, more weakly, could have been foreseen. Empirical work in the HI tradition has already shown that such a claim would be foolhardy in the extreme. Rather, the aim here is to re-tilt the analytical scales back towards consideration of rational, strategic, action on the part of political agents. There appears to be a tendency among HI scholars to settle for explanations based on historical contingency. At the most extreme, I suggest that this tendency would amount to a capitulation of political science to historical narrative. ‘Political science’ reverting to ‘political studies’ or, perhaps, to ‘history’. Explanatory factors appearing as almost random events or actions. No generalisable understanding to be drawn from cases. Of course, if this extreme were intended as a description of the extant HI literature, it would be a grossly inaccurate caricature. What it does underline, though, is the value of political scientists pushing for theoretically coherent and generalisable explanations of political phenomena. Beyond the inherent value of such explanations to our understanding of the world around us (where they are correct), such a path is surely one on which political scientists can exercise their disciplinary comparative advantage within the social sciences and humanities.

A final contribution from this dissertation might be considered to be a refocusing on ‘what’s left’. That is, by showing that there are rational reasons for left-wing parties to engage in what are often considered relatively right-wing policies, it draws into question the validity of universally characterising policies in such an ideological way. Most pertinently, those rational reasons need have nothing to do with electoral exigencies or tactical or strategic surrender to the Right. Of course, the basis of this insight is the distinction drawn between ‘ends’ and ‘means’. Public policies are a means through which the Left can pursue their ends, but the social, political, economic, and international context in which those policies operate varies dramatically both through time and across countries — even within countries. Consequently, it is
hardly surprising that the optimal policy means with which to pursue left-wing ends will vary, as well. In that light, a simplistic mapping of generic policy to ideology is surely misguided.

The specific examples from the preceding chapters bear this out in the realm of privatisation, fee-for-service health care, and means-tested cash transfers (as opposed to nationalised welfare services). Of these, perhaps privatisation is the most readily associated with the Right — the ideological shadows of Margaret Thatcher, Ronald Reagan, and, in opposition, Karl Marx loom large. But to classify privatisation as inherently right-wing\(^2\) is, implicitly, to rule out any possibility of economic benefits from the policy. For, if there are economic benefits as well as distributional costs (as seen from the Left), then the possibility remains that those costs can be mitigated with side-payments in a Pareto-superior politico-economic bargain. Put another way, if privatisation increases the total resources available to a society and left-wing parties can ensure that those who would lose from such a policy are compensated, then what is right-wing about this? To my mind, defining policies themselves, rather than their outcomes, in ideological terms is analytically lazy. For the Left, it may be worse than that: it is likely to concede intellectual terrain to their opponents for entirely unwarranted reasons.

9.3 Further Research

A number of avenues for further research are opened up by the preceding chapters. In terms of applications of the core ideas presented here, I firmly believe that the empirical work undertaken so far amounts to only the tip of the iceberg. As an example, consider the issue of competition and ‘choice’ in state education systems.

The politics surrounding school choice is sharply divergent across countries. Not only does it vary dramatically across countries, it appears to do so in a rather counterintuitive way. While school vouchers and other school choice policies are

\(^2\)As one prominent professor of political science did in conversation with me at a conference only a few weeks ago.
dismissed as right-wing attempts to destroy public schooling in that stronghold of the Right, the USA, they are embraced by all sections of society in that bastion of the Left, Sweden. The puzzle, then is how school choice — and especially various manifestations of school vouchers — appear to be at once too right for the Right and just right for the Left. Building from the theoretical framework developed in Part II, an explanation for this puzzle is possible. While market-oriented education systems offer the prospect of greater efficiency and egalitarian outcomes, an inherent characteristic of such systems is the great ease with which governments can change their distributive consequences. In a competitive schools market, the degree to which the education system redistributes to the least well-off is critically determined by market regulations such as restrictions on school selection and ‘voucher’ top-up. By contrast, more bureaucratically-directed schools systems have far less malleable distributive outcomes as governments are constrained by patterns of organised (teacher and administrator) interests that limit the opportunities for change. The result, as perceived from left-wing parties, is a potential trade-off between efficiency and the survival of educational redistribution under future right-wing governments. Where the likelihood of right-wing government falls, the left-wing parties come to feel more comfortable in constructing competitive schools systems.

Beyond reapplication of the same kind of theoretical framework to a new empirical puzzle, another opportunity presents itself. It has been a maintained assumption that the mass public are not sophisticated enough to engage in the kind of strategic calculation ascribed to political elites. The result, I have argued, is that, in certain circumstances, (left-wing) elites make policy that diverges from core constituency and median voter opinion. Furthermore, in doing so, they will often choose policies that are ‘inefficient’, at least as viewed from a non-strategic position: the construction or maintenance of powerful public sector organisations that limit competition and innovation has been a motivating example throughout the preceding text. However, it remains as an open question whether citizens are, nonetheless, sophisticated
CHAPTER 9. CONCLUSIONS

enough to notice these inefficient policy choices on the part of left-wing parties. If they are this sophisticated and choose to punish such left-wing parties for these choices, then such a mechanism would constitute a new path through which left-wing parties may find themselves electorally disadvantaged. That is, an initial set of reasons for them to ‘win’ fewer elections — such as the electoral system, employment demographics, and union strength — may be magnified by the policy responses that this initial disadvantage dictates. For example, electoral weakness leading to a preference for nationalised industry may further weaken left-wing parties in the face of a pro-privatisation public. As such, it would seem to be important to ascertain the extent to which public opinion is aware of the inefficient policy choices of their governments.

As was already noted in Section 8.5, the study of the politics of privatisation also points to another possibility for further research. There is reason to believe that the model of left-wing decisions to privatise may be applicable in earlier periods as well, when it was nationalisation that was the dominant issue. Again, there is evidence of a surprising cross-national pattern. Countries that are traditionally thought of as being bastions of left-wing political strength appear to have pursued notably different industrial strategies during the twentieth century. The surprise is that these were often in marked contrast to the sort of strategy most typically associated with left-wing ideological positions — at least in the English-speaking world. Why did the Nordic, and Benelux countries, as well as Germany, reject nationalisation as a tool of industrial policy while their Anglo-Saxon and Mediterranean neighbours developed large-scale state-owned enterprise sectors? Why, where it was strongest, did the Left reject what many see as one of the core tenets of left-wing ideological thought?

One type of answer to this sort of question would focus on ‘ideas’ and resulting ideologies (e.g. Berman, 1998, 2006; Blyth, 2001, 2002). However, answers of this sort can leave open the question of why particular ideologies came to dominate
in different countries (and at different times). The sort of approach advocated in this dissertation has the potential to provide a more fundamental answer, though. The hypothesis would be that ideologies are endogenous to the strategic context in which parties find themselves. That is, the ideologies that come to be expressed in different countries, while rooted in equivalent fundamental philosophical notions, become refracted through different institutional/structural lenses. Political strategy, then, determines the ideological content of political discourse.

To return to the issue of nationalisation, the theoretical logic would be something like the following. Where left-wing parties found themselves in a position in which they were electorally and/or legislatively disadvantaged against right-wing parties, nationalisation was the attractive option as it had the capacity to redistribute wealth and income (through state ownership) and to create a self-reinforcing political dynamic protecting these outcomes through the construction of powerful, organised, public sector, labour interests. However, nationalisation was not without its costs and, where more efficient forms of redistribution were available, nationalisation was allowed to fall by the wayside as these other options were pursued instead. Given these strategic logics, the ideological weight placed on nationalisation by the Left would have varied accordingly. Superficially, ideology may appear to be causal, but to infer this would, if the hypothesis is correct, be to fall victim to omitted variable bias. Given this line of reasoning, research on the strategic origins of political ideology would appear to be rather valuable.

I shall conclude with a final suggestion for further research. The discussion in Chapter 2 emphasised that the correct empirical identification of partisanship effects requires that public opinion be ‘controlled’ for. If partisanship means anything, it was argued, then it means ‘the difference it makes to elect one party over another’. A failure to account for public opinion makes it impossible to rule out the possibility that policy is moving directly with public opinion, no matter which party is in power. This is true as far as it goes, but another possibility emerges from a new
literature that studies how elites influence the opinions of their followers (Gerber and Jackson, 1993; Dewan and Myatt, 2007, 2008; Dickson, 2009). That is, parties may ‘make a difference’ both in their direct policy choices and their persuasive capabilities with respect to the public. Indeed, their persuasive powers may stem from the quality of their argument and rhetoric, but they may also stem from an ability to demonstrate policy success. In this latter case, elite-level partisanship may come to be swiftly masked as public opinion catches up, endorsing the policy once it is in place. If any part of this opinion-leadership hypothesis is empirically relevant, then it has great implications for our understanding of whether parties make a difference. As such, investigation of the persuasive powers of political elites merits further research. Already, there are some suggestive empirical findings that public opinion is malleable. DellaVigna and Kaplan (2007) have shown that there is a (small) positive causal effect of access to Fox News and voting Republican in the USA. Gerber, Karlan and Bergan (2009) findings are somewhat less positive when studying the influence of newspapers in the USA, but Ladd and Lenz (2009) find rather large effects of newspaper endorsements upon their readerships’ propensity to vote for the endorsed party. Dealing explicitly with elite persuasion, Gabel and Scheve (2007) provide strong evidence that public opinion regarding the European Union was indeed shifted by ‘messages’ from political leaders. The implication of this line of research, then, is that our understanding of partisanship may need to be adjusted as there is more scope for parties to influence outcomes than simply by pulling the levers of power. In a sense, this is an upbeat conclusion for the issue of partisanship. There is a bleakness to an equilibrium modelling approach that simply leads to point predictions for policy outputs at the position of a pre-defined median voter, or partisan deviations there from. By reintroducing rhetoric, persuasion, and argument, perhaps we can feel that our models of politics are a little closer to our actual experiences of politics.
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