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## Liberalization policy: An empirical analysis of economic and social interventions in Western democracies

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## Liberalization Policy

### An Empirical Analysis of Economic and Social Interventions in Western Democracies

#### Abstract

Political-economic classics of different schools agreed that capitalism inherently and inevitably leads to a decline of market principles. Analyzing indicators of liberalization policies for 21 OECD-countries in five economic and social policy fields, we demonstrate that Western industrialized countries are subject to a convergent trend towards market-creating policies. This stands in stark contrast to the theoretical expectations of classical works in the field of political economy. Since the first half of the 1980s at the latest, Western democracies have entered a new phase of economic liberalization. From a methodological perspective, our findings suggest that the methods for the causal analysis of convergent liberalization policies cannot be identical with the methods that have been used for analyzing the development and consolidation of the varieties of capitalism in the postwar era.

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## Foreword: Liberalization Goes On

This WSI Discussion Paper is an English translation of our 2011 study on comparative liberalization policies, originally published in *Kölner Zeitschrift für Soziologie und Sozialpsychologie*.<sup>1</sup> The idea behind this study was rather simple: In order to demonstrate that the removal of public interventions in markets is a general trend we gathered and combined as much reliable data on political intervention in markets as possible. The analysis of the data shows that since the mid-1980s all developed industrial countries, including different families of nations, entered a phase of liberalization policy, encompassing key social and economic policy fields such as employment protection, credit market regulation, labor market regulation, health policies, pension policies, public sectors, subsidization of private business and privatization.

As far as we know, the article was one of the first comprehensive studies to empirically corroborate the “liberalization-hypothesis” across the entirety of Western democracies and the most important areas of economic and social regulation. To make our findings accessible for a non-German speaking audience, we decided to provide a translation of the original publication.

In the original article, we argued that liberalization as an overarching trend runs counter to the expectations of many political economy classics, ranging from the political ‘Left’ to the ‘Right’, from Rudolf Hilferding to Friedrich A. Hayek, who all believed that a sustained trend of eliminating markets, rather than marketization, was inherent to modern capitalism. In contrast to these theoretical expectations, our analysis shows that more than 25 years ago developed countries entered an ‘era of liberalization policy’ which – in our understanding – should be conceived as a distinct phase of capitalist development. Since we worked on our liberalization dataset between 2008-2010, much has happened. New data is available, comparative liberalization research has advanced, and unexpected events have shed new light on some of the issues that we discussed in the article. As far as we can see, the new data largely supports our claims. For example, the data we used for the descriptive analysis in section 5 only covered the years until 2002. Observance of later data would probably have revealed a clearer decommodification trend in *distributive* social policies, due to the German Hartz reforms and their partial diffusion across Europe.

Since 2011, many interesting studies on liberalization in the policy spheres that we observed in our study have been published. Schmitt and Obinger’s (2013) article on comparative welfare state research, Armingeon and Baccaro’s (2013) article on labor market liberalization, Jackson and Deeg’s (2012) article on production regime liberalization, and Obinger, Schmitt, and Zohlnhöfer’s (2015) article on privatization policies are only four examples. An interesting and

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<sup>1</sup> Höpner, Martin; Petring, Alexander; Seikel, Daniel; Werner, Benjamin (2011): Liberalisierungspolitik. Eine Bestandsaufnahme des Rückbaus wirtschafts- und sozialpolitischer Interventionen in entwickelten Industrieländern. In: *Kölner Zeitschrift für Soziologie und Sozialpsychologie*, 36, 1, 1-32. We would like to thank the editorial department of the *Kölner Zeitschrift für Soziologie und Sozialpsychologie* for agreeing to a translation of the original article. The text has been translated by Sebastian Streb.

important comparative study on liberalization policies has just been published by Kathleen Thelen (2014). She shows that some forms of liberalization exacerbate labor market inequality, while others are compatible with social solidarity. Yet another important study has been published by Haffert and Mehtens (2013). They analyze the political economy of austerity programs and show empirically that successful consolidations do not lead to strengthened fiscal capacity, but to tax cuts and ongoing processes of cutbacks and liberalization.

Other scholars have updated our data or applied it for analyses of further research puzzles. Schmidt (2012), for example, uses our liberalization index as a dependent variable in order to find out why some countries liberalize more than others. He shows that EU membership and globalization speed up liberalization and that countries with relatively high levels of public intervention tend to catch up with those with low intervention levels. Interestingly, he also finds a correlation between liberalization extents and the party composition of governments: Left governments tend to liberalize more than centrist or right-wing governments. Schäfer (2014) has worked with our index, too. He updates the data for the years until 2010 and finds further support for our convergence claims. Furthermore, he uses the liberalization data as a predictor for other political phenomena. He shows that liberalization policy is one of the factors that explain the rise of market income inequalities. These, in turn, increase the social selectiveness of voter turnout, i.e. weakening the democratic representation of the lower classes. Recently, Armingeon and Baccaro (2012) have started a project that aims at establishing an encompassing international dataset on liberalization policies; a research effort many political economists around the world will profit from.

With respect to today's liberalization policy trends, however, another crucial event was not even mentioned in our original article: the Euro crisis. While we rightly argued that the financial crisis would be followed by austerity measures, we did not foresee the harsh liberalization policies that the Troika administers in Southern Europe today. In order to meet the conditions for urgently needed financial support, the affected Southern countries, among other measures, cut pensions and various other kinds of social provisions. Furthermore, they liberalize their health care systems, privatize, cut minimum wages, liberalize wage formation, weaken trade unions and decentralize collective bargaining among social partners (see European Parliament 2014 with respect to the economic and social implications). Since Southern European countries were liberalization laggards in our dataset, an inclusion of these new, radicalized forms of liberalization would not only have supported our claim of a common trend of liberalization policy across countries (convergence of process – type A convergence, in the terminology of our article), but also our claim of countries becoming more similar with respect to their levels of public intervention in markets (convergence of results – type B convergence).

In the light of these recent developments in Europe, we are convinced that the era of liberalization policy has not come to an end yet.

We would very much like to thank the Hans Böckler Foundation for its initiative and for the organization of an English translation of our 2011 article.

*Martin Höpner, Alexander Petring, Daniel Seikel, and Benjamin Werner, in October 2014*

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## Inhalt

1	Introduction .....	7
2	The research question: Liberalization policy as a convergent phenomenon? .....	7
3	Liberalization policy as a theoretical surprise.....	10
4	Liberalization policy in five spheres of economic and social policy.....	13
4.1	Liberalization policy as transformation of public service sectors .....	13
4.2	Liberalization policy through reduction of subsidies and privatizations .....	14
4.3	Liberalization policy as recommodification of labor power .....	15
4.4	Liberalization policy as market-creation in the fields of pension and health care.....	16
4.5	Liberalization policy as market-creation in the field of capital relations.....	18
5	Descriptive analysis .....	20
6	Discussion and outlook.....	27
7	Literature.....	31

# 1 Introduction

The tension between state, market and society has always been the main topic of political economy. Although a stable equilibrium of this tension has never existed, it can be distinguished between historical periods of relative stability and periods of heightened change. Examples are the period of liberalization in the early second half of the 19<sup>th</sup> century, the development and consolidation of organized capitalisms until the twenties and thirties of the 20<sup>th</sup> century, and the establishment of postwar capitalisms and their relative stability, which lasted for about three decades. Since the first half of the 1980s at the latest, the developed industrial countries have entered a new phase of economic liberalization.

Liberalization policy has numerous empirical facets. It comprises such different issues as for example the privatization of hospitals, the creation of capital-funded pillars of pension systems, shareholder-oriented reforms of corporate governance, and the liberalization of the banking sector. The present article aims at comprehending liberalization policy as a phenomenon which cuts across policy areas and countries and occurs systematically over a longer period of time. For this purpose, we conduct a descriptive analysis of time-variant cross-country indicators on liberalization and show that Western industrialized countries are subject to a by and large convergent trend of market-creating policies. This, in turn, has consequences both in terms of content and in terms of methods. In this regard, one of our theses is that political-economic research on explanations for different national paths of development should be increasingly supplemented by analyses on convergence.

## 2 The research question: Liberalization policy as a convergent phenomenon?

We define liberalization policy as the politically enacted and politically legitimated delegation of allocation and distribution decisions to markets. It aims at promoting market principles, especially (1) the principle of *individual responsibility*: the affected units themselves are responsible for generating their required resources; (2) the principle of *decentralized decision-making*: the affected units possess certain discretionary powers with regard to the utilization of resources; (3) the principle of *competition*: the affected units are competing for resources and their deployment. The three instruments of liberalization policy correspond with these sub-goals: (1) the *reduction of state-administered permanent cross-subsidies* (in order to establish the principle of individual responsibility); (2) the *strengthening of private property* and the freedoms that go with it (in order to establish the principle of decentralized decision-making); (3) *Competition policy* through state intervention in monopolization and other restraints or distortions of competition (in order to establish the principle of competition).

In this sense, we understand liberalization policy as the political implementation of market principles, regardless of the form of coordination that was dominant before the principles of individual responsibility, decentralized decision-making and competition were introduced. Apart



from the market, the literature on governing modes of modern societies usually also mentions hierarchy and solidarity as possible forms of coordination (see the comparison of twelve such differentiations in Willke 1995, p. 88). Bargaining between organized interest groups and concerted actions in networks have also been regarded as basic forms of social coordination (Streeck and Schmitter 1985). Whenever one of these coordinating forms is subjected to market mechanisms by a political act, we speak of liberalization policy.

It is important to point out that liberalization policy is not the same as deregulation policy, i.e. the reduction of the density of administrative regulations. The identification of liberal economic principles with *laissez-faire* dates back to the 19<sup>th</sup> century, when for example Kleinwächter (1893, p. 172-173) recommended that the government should simply sit back while calmly watching the natural development. This interpretation changed considerably during the 20<sup>th</sup> century. From then on, market-creating policies were not associated with a passive state anymore, but with an active and regulating one. In his polemic pamphlet "The Road to Serfdom", the great economic liberal Hayek pointed out that the liberal argument "is not an argument for leaving things just they are. It is based on the conviction that [...], in order that competition should work beneficially, a carefully thought-out legal framework is required, and that neither the existing nor the past legal rules are free from grave effects" (Hayek 1976, p 26).

The relationship between market-creating policy and the density of administrative regulations is thus an empirical question. Liberalization policy can imply deregulation, for example when provisions on employment protection are relaxed, thus strengthening the commodity character of labor power (recommodification). However, in other areas market-creation is accompanied by an increase in the density of regulations. These areas include for example merger controls or the setting up of regulatory agencies for companies in the public service sectors in the course of privatization processes. In order to characterize the retreat of state influence on the production and distribution of resources and the delegation of the respective freedoms to private market participants, we speak of the political reduction of *intervention*. In individual cases the political reduction of intervention can involve unchanging or even increasing density of *regulations*.

Additionally, this contribution is not concerned with the consequences of liberalization policy. It is not surprising that in the literature there is little agreement on the consequences of liberalization policy. Usually liberalization policy is connected with the hope for gains in efficiency. On the other hand, the increased utilization of the market as a coordinating mechanism is also associated with unwanted rises in social inequality. Empirical studies from the debate about 'Varieties of Capitalism' seem to confirm this: Liberal market economies, in which coordination primarily takes place by means of market mechanisms, reveal a higher degree of income inequality than organized economies (cf. Estevez-Abe et al. 2001; Heise 2008; Rueda and Pontusson 2000; Rueda 2008 and many others). In this connection, the difference of institutional designs of labor markets and wage bargaining systems, organizational forms of education systems, the varying sizes of the state sector and of course the different varieties of welfare states are identified as the most important causal mechanisms. Pierson and Hacker (2010), for example, analyzed the rapid increase in income of the richest 1 per cent of the American population and attributed this amongst other things to the politically enacted liberalization of the finance sector, the liberalization of corporate governance, the loss of significance of collective wage bargaining and a declining redistributive capacity of the tax system.

However, one should not jump to the conclusion that liberalization policy inevitably leads to increasing inequality. From a theoretical perspective, the relation between liberalization and inequality is by no means an irrefutable fact. This is because market-creating policy is also able to reduce inequalities by abolishing monopolistic structures, opening up closed insider labor markets and eliminating the privileges of well-organized private interests (as for example Olson 1982, ch. 6 argues). Therefore, the effects of liberalization policies can only be assessed against the background of a concrete empirical case. Empirically, however, there is evidence that most liberalization measures lead to an increase in inequality.

Using internationally comparative time-variant data, this contribution asks whether convergent patterns of liberalization policy exist. Convergence principally means the similarity of conditions or developments (Heichel et al. 2005; Holzinger et al. 2007a; Knill 2005). For the purposes of our analysis, we distinguish between two forms of convergence. We speak of a convergent liberalization trend either if the degree of interventions in all countries has declined (type A convergence, convergence of processes) or if the countries with a strong degree of state intervention have moved closer towards the liberal countries over time (type B convergence, convergence of results).<sup>2</sup> While type A convergence is about the convergence of the adopted measures (“all countries pursue a similar liberalization policy”) and countries not necessarily become more similar, type B convergence describes an increase of similarity (“nowadays the level of intervention is similar in all countries”) which does not require that all countries liberalize.

Political science research provides different answers on the question of whether one can speak of a convergent liberalization trend in the sense of these types. Streeck and Thelen (2005, p. 2), for example, characterize liberalization as the overarching trend of developed industrial nations since the 1980s (type A convergence). They are primarily concerned with states’ declining ability to oblige companies to goals other than economic success (concept of “organized capitalism”). Schmidt (2009, section 6) disagrees with the ‘liberalization hypothesis’. According to him, policy trends in countries such as Germany are too inconsistent to be labeled as liberalization. The state-subsidized “Riester”-pension plan or the introduction of the social-insurance based compulsory nursing care insurance, as Schmidt argues, are not consistent with the asserted convergent trend of liberalization.

The existence of a convergent trend of type B (convergence of results) is also disputed among researchers. Siegel (2007, p. 254) points to significant ‘catch down’-effects in the areas of public service provision and employment protection (countries become more like each other on a low level of intervention). Hall and Soskice (2003) provide an interesting counter-thesis. Although they acknowledge that the developed industrial nations are subject to a generally convergent liberalization trend (type A convergence), they argue that in liberal market economies the degree of liberalization policy is larger than in coordinated market economies. As a result, the differences between liberal and coordinated market economies would become even bigger (no type B convergence). In order to support their thesis, they refer for example to data on labor market flexibility and trade union density.

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<sup>2</sup> Type B convergence is sometimes also called  $\alpha$ convergence. So far, there exists no consistent terminology for describing different types of convergence; compare Holzinger et al.’s. (2007b, p. 18-23) suggestion for distinguishing between four types of convergence.

The fact that the mentioned authors come to highly different conclusions is not surprising. Although all of them are concerned with the tension between capitalism and collective intervention in the economy, they refer to different empirical objects. Therefore, our study is based on a large number of indicators from different policy areas. Such an overall analysis on a high level of abstraction is not meant to replace analyses on individual aspects of liberalization policy. The same is true for country-specific political dynamics of liberalization. Although urgently necessary, these partial analyses run the risk of remaining unrelated to one another, thus losing sight of the big picture. Instead, empirical analysis has to take account of the fact that liberalization policy is a phenomenon that cuts across policy fields and countries.

### 3 Liberalization policy as a theoretical surprise

The topic of convergence is not new but has been on the agenda of modern Political Economy throughout its hundred-year history. A look at this literature reveals an interesting result: The idea of a synchronicity of policies across countries was not new to the classics of political economy (type A convergence). However, the idea that a convergent and lasting trend of liberalization policy would be possible in modern capitalisms was unknown. In theoretical retrospect, those views that identified a lasting and secular decline in the relative importance of market and competition and that considered the politically enacted reversal of this process as unlikely or even impossible, are predominating. Additionally, it is remarkable that this view of the classics seems to be independent from the normative assessment of the division of labor between state and market. This can be shown on the basis of different political economic theories on modern capitalism: Arranging authors from 'left' to 'right', we start with those classics that strived for the abolishment of the market as the economically dominant mode of coordination. We then move on to those authors that called for a containment of the market instead of its abolishment. Finally, we deal with the economic liberal classics who wanted to give the market as much freedom as possible.

To start on the very 'left' means to turn towards the Marxist theoretical debate. Here, the decline in the importance of the market was clearly formulated as an evolutionary 'law'. While the postulate of a natural and evolutionary departure of capitalism from market principles is already identifiable in Engel's writings and in early Marxist contributions on the cartel debate, it is especially pronounced by Hilferding (1923, 1924) and Naphtali (1969). Referring to economic forms of organization, Hilferding predicted in his early work "Das Finanzkapital" ("Finance Capital") that it would be the highly cartelized German economy and not the early industrialized England that would show the way forward internationally (Hilferding 1923).

The fierce revisionist debate of leftist theorists until the 1930s should not belie the fact that they agreed that free markets would disappear from capitalism and that a return to market capitalism did not seem to be possible. Following Lenin, there were no intermediate steps on the historical ladder between the at that time current stage of capitalism and socialism (Lenin 1971, p 370). Thus, both orthodox Marxist and revisionists like Bernstein and the later Hilferding agreed that calls for market-creation by the state stood in conflict with the natural dynamics of capitalist

development. They were seen as petty-bourgeois radicalism (Schoenlank 1890, S. 531), a reactionary program (Sombart 1987) and backward thinking (Naphtali 1969, p. 37). This heterogeneous theoretical orientation can be followed up from the Frankfurt School (Pollock 1975) up to "stamocap", which considered state monopoly capitalism as the direct opposite to free competition and the last phase of imperialism (Boccaro 1976, p. 22f). What is crucial is not that the mentioned authors are principally critical towards market capitalism. The more important point is that they assumed a *law* that stipulated the gradual abolishment of market principles. From their point of view, this law would not just come into force with the intended transition to socialism, but was inherent to capitalist development.

We now turn towards those theorists that can be characterized as 'reform-oriented' in a broader sense. Adolph Wagner, one of the most important economists of the Bismarck era, regarded the gradual replacement of the private economy with public institutions and services of the state, organized interest groups and municipalities as being so regular that he considered it to be appropriate to speak of a law (Wagner 1970, p. 241, 243). Wagner attributed the regular decline in the importance of the market and the private economy to a whole bundle of reasons, including technological progress, growth of population and the increasing division of labor, i.e. functional requirements of modern economies. Joseph Schumpeter also described a law on the decreasing formative power of private property (Schumpeter 1950): Together with the dwindling entrepreneurial function, the specific benefit of the private economy would diminish. The management of a company would become a mere administrative matter. As a consequence, capitalism would gradually come closer to socialism. One of the most impressive descriptions of a permanent and irreversible departure from market principles is provided in John Maynard Keynes' Essay "The End of Laissez-Faire". While not sympathizing with socialism, for him a development towards a corporate economic order which he labeled "State Socialism" was inherent in modern economies. Despite all disadvantages, he considered this to be a "natural line of evolution" (Keynes 1926, p. 44).

The heyday of convergence theories of different kinds was between the 1950s and the 1970s. The declining importance of markets and private property would bring the developed capitalist economies closer to the socialist economies, as for example argued by Aron (1964) in his "Dix-huit leçons sur la société industrielle". Galbraith (1967) observed that the power over the means of production increasingly was in the hands of technocrats who themselves were no owners and did not compete; this 'techno structure', which in principle had already been described by Berle and Means (1932), would equally develop in different models of economy and society, thus leading to a convergence of systems. Based on his analysis of the increasing relevance of public economic governance compared to private sector decision-making power, Tinbergen (1961) arrived at similar conclusions. Shonfield (1965), whose analysis on "Modern Capitalism" dealt with the "Changing Balance of Public and Private Power" (the subtitle of his work), also fits into this line of theory. He argued that economic systems as different as the British, the American, the German and the French were characterized by a similar evolutionary development: a secular decline in the importance of markets and a transformation of companies into quasi-public institutions.

This line of reasoning can also be found in the early works of the debate on corporatism, albeit under different auspices. From this point of view, the corporation as an economically acting and market-restricting unit was gaining ground and would gradually replace the pluralistic represen-

tation of interests with atomized market participants. "Trends Toward Corporatist Intermediation" was the programmatic title of the first encompassing anthology on Neo-Corporatism (Schmitter and Lehmbruch 1979).

It is astounding how little liberal theorists – in spite of conflicting premises – differed from the above mentioned authors in their view of the unlikelihood or even impossibility of extensive liberalization policy. Hayek's work "The Road to Serfdom" (1976) was first and foremost a warning against any economic interventionism, which would set in motion further interventions and end in a socialist or fascist dictatorship – a "Serfdom" without free markets and civil liberties.<sup>3</sup> Especially for the area of social policy, the ordoliberal Röpke also warned against the self-reinforcing dynamics of interventionist measures. He compared the welfare state with a one-way street on which a turnaround was almost impossible or at least immensely difficult (Röpke 1988, p. 262). An explicit formulation of this train of thought as a formal law is Olson's "The Rise and Decline of Nations". The older a capitalist democracy is, Olson argues, the more persistent and irreversible it will fall into "institutional sclerosis" (Olson 1982, p. 78, 210, 217), i.e. the abolishment of the market through formal agreements between economic subjects as well as economic and social interventions of the state on behalf of well-organized private interest groups.

This theoretical review makes no claims of being complete. Nonetheless, the compilation illustrates that the assumption of a trend towards market abolishment that is inherent to modern capitalism unifies some of the most important political economic classics, irrespective of their affiliation to the usually different theoretical schools. For some of the most influential economic thinkers the development of capitalism was not characterized by decentralized or politically administered market-creation, but by an evolutionary decline in the importance of markets; not only in the sense of empirical observations that are limited by time and space, but in the sense of underlying laws that are inherent to capitalism. As different the historical starting points, normative premises and empirical points of reference of the mentioned theorists might be, in theoretical retrospective the entrance of the developed industrial nations into a phase of market-creating policy is anything but a "natural" and self-explanatory phenomenon. We will now turn to the empirical evidence of market-creating policy. In chapter 4 we describe indicators for politically enacted liberalization in five spheres of economic and social policy. In chapter 5 we conduct a basic descriptive analysis and give proof that in the 1980s Western industrial countries have entered a convergent phase of politically enacted liberalization. In the final chapter 6 we discuss our findings both in terms of content and in terms of their methodological implications.

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<sup>3</sup> In contrast to Olson, for Hayek the movement towards increasing monopolization and state intervention did not follow a general evolutionary process of capitalism (cf. especially Hayek 1996, p. 78 and 106). Similar to Röpke, Hayek saw self-reinforcing dynamics inherent to welfare-state intervention. These, however, could be counteracted with political will. Franz Böhm (1933, p. 369), another founder of the Freiburg School, also warned against a disruption of the free economic system. He argued that almost all intellectual, economic and political schools of his time were interested in this disruption. However, he did not recognize a general principle.

## 4 Liberalization policy in five spheres of economic and social policy

In this section we describe the spheres of activity for which we have searched for potential indicators of liberalization policy. As to the selection of the spheres, we were guided by the French Regulation School and research on “Varieties of Capitalism”. These strands of literature identify institutional spheres which in their entirety constitute a production- or an allocation-regime (Boyer and Saillard 2002; Hall and Soskice 2001; Jessop 2001; Lipietz 1985) and can be potential targets of liberalization policy. On this basis, we differentiate between liberalization policies in five spheres of economic and social policy: (1) Liberalization of product markets in the public service sectors; (2) Reduction of direct state interventions in the private sector by means of privatization policy and reduction of subsidies; (3) Liberalization of labor markets through cutting back employment protection and through reforms in the granting of wage replacement benefits; (4) Liberalization policy in the two other important pillars of the welfare state, i.e. pension and health policy; and (5) market-creating policy with regard to the relations between companies themselves, between companies and investors, and in the sphere of financial markets.<sup>4</sup>

Within these five spheres we aimed at finding indicators for as many aspects of state activity as possible. These indicators should meet the above mentioned criteria; they should be directly attached to state activity (instead of capturing *outcomes* of economic policy); they should be convincing as to their reproducibility and reliability; and they should be as complete as possible from 1980 until the recent past. Our sample comprises 21 OECD-countries.<sup>5</sup>

### 4.1 Liberalization policy as transformation of public service sectors

Literature agrees that since the early 1980s public service sectors have been targets of extensive liberalization policy (see for example Bieling et al. 2008; Hoj et al. 2006; Schneider and Tenbrücken 2004; Siegel 2007). In the course of these liberalization policies, market elements in the sense of the above developed definition were introduced into the public service sectors, albeit without putting them on the same footing as the private sectors. There is not one affected sector from which the state has retreated completely. In contrast, literature has repeatedly emphasized that especially in the previously monopolistic public service sectors market-creation

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<sup>4</sup> Regulation theory usually differentiates between five “institutional forms”: the wage-labor nexus, the form of competition, the monetary and financial relations, the form of state intervention (including the public service sectors), and the international regime (Lipietz 1985, p. 121; Jessop 2001; Boyer and Saillard 2002, p. 38ff). Since we are interested in the domestic regulation of economic and social policy, we have decided to exclude the international regime. All other areas are covered, although it has to be taken into account that – different from “Varieties of Capitalism” – the regulatory school usually considers the welfare state as a part of the wage-labor nexus.

<sup>5</sup> The 21 countries of our sample are: Australia, Belgium, Denmark, Germany, Finland, France, Greece, Great Britain, Ireland, Italy, Japan, Canada, New Zealand, Netherlands, Norway, Austria, Portugal, Sweden, Switzerland, Spain, and the US. The desirable recognition of further countries such as Iceland, Luxemburg and Turkey is not possible because of unsolvable problems of data availability.

requires a high degree of regulation, which is reflected in the frequent establishment of regulatory agencies (Gilardi 2005, p. 140; Thatcher 2002).

The *Regulatory Provisions*-Indicators of the OECD are suitable for measuring the intensity of market-creating policy in the public infrastructure sectors. They are available separately for the three most important infrastructure sectors energy, transport and communication for all observed 21 countries and over the entire period from 1980 to 2003. Each indicator comprises four sub-indicators which measure the depth of state interventions on the basis of the following criteria (Conway and Nicoletti 2006, p. 8-10): (1) the degree of public control as opposed to private control; (2) the degree of market access barriers for private competitors and the freedom of supplier choice for consumers; (3) the degree of vertical integration within the sectors; and (4) the distribution of the market shares between the affected companies (market structure). No distinction is made as to whether the regulations apply to the central or the subnational level of government. The indicators were constructed by the OECD on the basis of national laws and regulations and reflect the depth of market interventions on a scale from 0 to 6, with a higher value indicating a higher degree of depth of intervention.

As a result, the indicators show an extensive liberalization trend which clearly exceeds the degree of liberalization policy in the other spheres that are part of our analysis. For the energy sector, the values of the *Regulatory Provisions*-Indicator decreased from an average of 4.76 in 1980 to 2.37 in 2003; for the transport sector they decreased from an average of 5.30 in 1980 to 2.17 in 2003; and for the communication sector they fell from 5.13 in 1980 to 2.13 in 2003. All three indicators show that during the observed period a surge of liberalization is visible within all 21 countries.

## 4.2 Liberalization policy through reduction of subsidies and privatizations

The reduction of subsidies to privately organized companies is an indicator for liberalization since it strengthens the principle of individual responsibility. As regards this sphere of activity, literature also agrees on the existence of an overarching trend: Since the 1980s the developed industrial countries have entered a period of declining subsidies (see for example Lee and Strang 2006; Obinger and Zohlh ofer 2007).

The OECD provides data on public subsidy payments (OECD 2008b). With the exception of Switzerland until 1989, it is available for all observed countries and years. The data covers direct subsidies from central, regional or local authorities to companies, but includes no indirect subsidies such as tax reliefs, less expensive loans or consumer subsidies.<sup>6</sup> In order to ensure comparability between countries, we assess the data on subsidies in relation to the annual national GDP. As expected and in line with the literature, the results show a liberalization trend. While in 1980 the developed industrial countries spent 2.29% of their domestic added value on subsidies

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<sup>6</sup> The European Commission also provides cross-country data on subsidy policies. Compared to the OECD, the Commission's definition of subsidies is broader. However, data is only available for the EU-countries and for parts of the 1990s (Europ ische Kommission 2001, 2007).

on average, in 2005 they spent only 1.24% on average (data without Switzerland<sup>7</sup>). In Austria, Spain and the US, subsidy ratios increased slightly during the observed period of time. In contrast to international trends, the Danish subsidy ratio increased considerably during the observed period of time: from below-average 1.47% in 1980 to above-average 2.21% in 2005. In all other analyzed countries subsidy ratios went down.

Privatizations are also covered by our definition of liberalization policy since they strengthen private property and the freedoms that go with it. Literature considers privatization policy and economic liberalization as being so closely related that the term liberalization policy is sometimes used as a synonym for privatizations. Literature also agrees that in the 1980s and especially in the 1990s the developed industrial nations were subject to a historically unparalleled wave of privatization, which primarily affected the transformation of the public sectors such as telecommunication, post, energy, water supply, and railways (Bortolotti et al. 2004, p. 305f., Obinger and Zohlnhöfer 2005, p. 602). Unfortunately, the data for the observed countries and years is incomplete and thus cannot be recognized in the quantitative analysis.<sup>8</sup>

### 4.3 Liberalization policy as recommodification of labor power

The following subsections deal with indicators that fall under the category of welfare state policy in a broader sense. We start with the two spheres of activity that show the closest proximity to labor markets, i.e. employment protection and wage replacement benefits in the case of unemployment. In the sense our definition, the cutback of wage replacement benefits is market-creation since it works towards strengthening the principle of the individual responsibility of the affected employees. The reduction of employment protection is also market-creation since it expands the employers' freedom to hire or dismiss employees.

Comparative and time-variant indicators on labor market regulation usually deal with employment protection but cover only short periods of time.<sup>9</sup> The OECD's "Employment Protection Legislation"-index is an exception; it covers all observed countries and at least the years 1985 to 2003 (New Zealand from 1990 onwards). The index refers to employment protection legislation against dismissal both for workers with regular employment contracts and for those with temporary contracts. It is based on the averages of several seven-stage single scales (0-6), with high values indicating extensive protection against dismissal. With regard to temporary contracts, the index shows whether these contracts can only be concluded under restrictive conditions, how often they can be renewed, and the maximum cumulated duration of the contract. For regular

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<sup>7</sup> In contrast to the international trend, the Swiss direct subsidy payments remained stable between 1990 and 2005 (with a minimal increase) and on a comparatively high level (1990: 3.93%; 2005: 4.01%).

<sup>8</sup> Privatization policy can be assessed on the basis of the privatization proceeds in relation to the national GDP (see for example Bortolotti et al. 2004; Obinger and Zohlnhöfer 2005). The OECD (2002) provides data on the privatization proceeds for all countries of our sample, but only between 1990 and 2001; the international privatization barometer comprises country-specific data on privatization proceeds from 1977 to 2007, but unfortunately only for the EU-25 (see [www.privatizationbarometer.de](http://www.privatizationbarometer.de)).

<sup>9</sup> E.g. International Institute for Management Development (2007) and Worldbank (2007).



contracts the index contains information on procedural requirements when dismissing, dismissal notice periods, amount of severance pay after different times (nine months, four years, twenty years) and on the valid grounds for dismissal (Nicoletti et al. 2000; OECD 1999).

The data indicates that employment protection has been considerably liberalized in the developed industrial nations since the 1980s (cf. also Hoj et al. 2006, p. 5; Siegel 2007). Between 1985 and 2003 the average index value decreased from 2.35 to 1.92 (without New Zealand). Out of the observed 21 countries, 16 have reduced employment protection since the 1980s. Only five countries, almost all of them English-speaking, indicate a moderate increase: Australia, Great Britain, Ireland, New Zealand (from 1990 onwards) and France. The data furthermore shows that the liberalization of employment protection is mainly based on deregulating the provisions for temporary employment contracts. Although there is also a slight liberalization of permanent "normal working conditions", with the average index value decreasing from 2.20 in 1985 to 2.07 in 2003 (without New Zealand), the liberalization of the temporary contracts exceeds the liberalization of the permanent contracts by far. For permanent contracts the index decreased from 2.50 in 1985 to 1.77 in 2003 (again without New Zealand).

Apart from protective legislation against dismissal, the arrangement of wage replacement benefits in the case of unemployment is another sphere that can be subject to liberalization tendencies. Esping-Andersen (1990) provides a procedure for measuring the respective degree of de-commodification. Besides the amount and the duration of benefits, he takes into account the number of waiting days and weights the combined value of these three indicators against the coverage rate. Lyle Scruggs compiled a dataset for 18 OECD countries between 1980 and 2002 which comprises adequate time series data on the degree of de-commodification of unemployment insurance (Scruggs 2005). We use the slightly modified method of calculation as provided by Scruggs and Allan (2006). This index allows for values between 0 and 15, with high values indicating a high degree of de-commodification. Unfortunately, there is no data for the southern European countries Spain, Portugal and Greece.

Compared to the indicators that have been presented so far, this data tells a whole different story: Between 1980 and 2002, the average value for the de-commodification of unemployment insurance increases from 7.48 to 7.96. While eight out of 18 countries show liberalization tendencies, in the other 10 countries the level of intervention increased. Three of these countries – Finland, Italy and Ireland – are social policy laggards in which the period of expansion continued until the 1980s; in the other developed industrial countries this expansion took place during the 1960s and 1970s. Denmark, Norway, Sweden, Australia, Canada, Great Britain and Japan are the other seven countries with increasing values.

#### 4.4 Liberalization policy as market-creation in the fields of pension and health care

In addition to unemployment insurance, pension and health insurances are the main collective social security programs against individual risks. They have a de-commodifying effect and are thus possible targets of liberalization policy. We will first turn towards pension policy. Almost all OECD-countries possess pension systems with a public pillar that has a redistributive character. Between countries, the size of the public pillar and the level of cross-subsidization vary according to the pension amount and the methods of funding and payment. Two measures fall under

our definition of liberalization, since they strengthen the principle of individual responsibility: a reduction of public income-related pension schemes and an expansion of private pension insurance schemes.

The OECD's *Social Expenditure Database* includes information on private pension expenditures as a percentage of GDP (OECD 2007). As has been shown by De Deken and Kittel (2007), the use of this data is not unproblematic. For example, the differentiation between voluntary and mandatory private pension expenditures is quite difficult for countries with collectively agreed comprehensive occupational pensions. Additionally, the data on both forms of private pension expenditure is patchy. For these reasons, we do not use this data for our analyses. Nonetheless, it should be noted that this data also indicates a tendency towards liberalization: In almost all countries the share of private pension expenditures increased between 1981 and 2003. No country for which data is available shows a significant reduction of the share of private pension expenditures.

For the public pension pillar we use an indicator that captures the generosity of the public pension scheme. Since the ageing of the industrial societies leads to a "natural" growth of pension budgets over time, public pension expenditures are not a suitable indicator. Instead, we use data on the generosity (in terms of the degree of decommodification) of the public pension as available in Lyle Scruggs' *Welfare State Entitlements Data Set* (Scruggs 2005). This indicator draws on Esping-Andersen's concept for measuring the decommodification of pensions. It condenses information on the minimum pension amount, the standard pension amount, the duration of the assessment period, the share of the employee contributions, and on the coverage rate of the public pension (Scruggs and Allan 2006, p. 57; Esping-Andersen 1990, p. 49f.). The scale ranges from 0 to 18, with high values indicating a high degree of decommodification. As in the case of the index on unemployment insurance, data is available for 18 countries (without Spain, Portugal and Greece) between 1980 and 2002.

Regardless of the increasing relevance of capital-funded pension pillars, the average value of the decommodification index on pension insurance increases from 11.27 to 11.65 between 1980 and 2002. This does not indicate liberalization policy, but a slight increase in decommodification. However, in contrast to unemployment insurance one can observe a remarkable temporal pattern. The average degree of decommodification increases considerably until the mid-1980s (up to a value of 12.80 on Scruggs' scale); it then decreases considerably until 1990; another slight increase until 1993 is subsequently followed by another decrease to 11.65 until 2002. As Scruggs states: "In general, benefits have converged upwards over the entire period since the 1970s, but with clear evidence of cuts after the mid to late 1980s, particularly in high-benefit systems" (Scruggs 2007, p. 149). Thus, also in the case of pension insurance the pension policy laggards are responsible for the increase of the average value (Italy and Ireland). Sweden and Finland, by contrast, show the most pronounced liberalization tendency.

In addition to pension policy, health policy is another central field of a state's social policy and one of the largest components of social policy expenditure. In contrast to most other areas of social policy, benefits in the health care system are chiefly provided in the form of services while direct monetary transfers constitute an exception. Therefore, there are different levels on which one could trace liberalization tendencies in health policy. Maarse (2006) looks for privatization tendencies and distinguishes between funding, provision, management and investments. Unfortunately, reliable time-variant data for these four aspects is not available; data for a larger num-

ber of countries and years is only available with regard to the funding of health care systems. Thus, we use the public health expenditures as a percentage of total health expenditure (OECD 2008a) as an indicator.<sup>10</sup> Again, decreasing values indicate liberalization policy as this would strengthen the principle of individual responsibility.

11 out of the 18 countries for which data is available for 1980 show an increase of private health expenditures and with that a decrease in public funding. In 7 countries, however, the share of public expenditures increases: USA, Portugal, Austria, Japan, Greece, Australia and Germany. In these 18 countries, the average value of public health expenditures as a percentage of total expenditures decreases from 75.0% in 1980 to 73.6% in 2002. Thus, on average the result indicates a (slight) tendency towards liberalization.

#### 4.5 Liberalization policy as market-creation in the field of capital relations

In this final subsection we will deal with several heterogeneous spheres of activity that can be subsumed under the heading of 'capital relations': general competition policy, banking and financial regulation, and regulation of corporate governance. While there is some empirical evidence for liberalization in all three fields, the quantity and quality of cross-country data over longer periods of time is far from satisfactory. The regulation of banking and the financial system was the only field for which we could identify an indicator that fulfills our initially stated criteria.

Competition law aims at preventing the abuse of market power and at ensuring a minimum of competition between producers. It thus fulfills the function of protecting the mechanism of competition. In our definition, the strengthening of this mechanism has been introduced as a part of market-creating policy. Generally, antitrust law is considered as the heart of competition policy. Amongst other things, the World Economic Forum's "Global Competitiveness Index" also contains data on the intensity of antitrust law (World Economic Forum 2008, p. 424). However, data is only available from 1996 until 2007.<sup>11</sup>

Banking and financial regulation is a distinct sphere of activity that must be distinguished from general competition policy and corporate governance. In recent decades, many countries have transformed their banking sectors: Banking sectors had been highly regulated, broadly excluded from competition and served different purposes of general competition policy. As a result of reforms, they became part of the private economy, acting more or less freely on the financial markets and following the principles of competition and profitability (Lütz 2002). Since they

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<sup>10</sup> OECD-data is available with the exceptions of Belgium until 1995, Greece until 1987, Italy until 1988, Switzerland until 1984, France between 1981-1984 and 1986-1989, and Germany for 1991. The entry for New Zealand for the year 1981 is obviously wrong (4.8%) and was corrected to the value of the following and the previous year (12.0%); cf. also New Zealand Ministry of Health (2002).

<sup>11</sup> The sub-index "Effectiveness of anti-monopoly policy" uses expert judgments for measuring the effect of antitrust law on the intensity of competition. According to this data, the rigidity of antitrust law increased in all observed 21 countries between 1996 and 2007.

strengthen the principles of competition, of individual responsibility (in the sense of economic self-reliance) and of decision-making power over the utilization of resources, these changes indicate liberalization policy in the sense of our definition.

A subcomponent of the *Fraser-Institute's* "Economic Freedom of the World"-Index deals with the regulation of banking and finance (Gwartney and Lawson 2007, p. 189-190).<sup>12</sup> Using a large number of subcomponents, this index measures the degree of economic freedom in international comparison. Data is available for all observed countries for the years 1980, 1985, 1990, 1995 and for 2000 until 2004. Each single scale ranges from 1 to 10 (high values = high degree of economic freedom) and is based both on raw data and on expert judgments. The subcomponent on the regulation of banking and finance comprises four sub-indexes: (1) the degree to which banks are privately owned; (2) the degree to which domestic banks compete with foreign banks; (3) the degree of domestic credits granted to the private sector; (4) the degree to which interest rates are determined by the market instead of fixed by the government. Between 1980 and 2004 the average index value for the 21 observed countries increases from 7.54 to 8.65, thus indicating an increase of the degree of freedom in the banking and financial sector. 14 out of the 21 observed countries show positive tendencies towards liberalization; in Denmark, the degree of economic freedom remains the same. In the remaining six countries the index value decreases slightly: Belgium, France, Japan, Canada, Netherlands and the USA. For these six countries the initial degree of economic freedom as shown by the index was already above average in 1980.

Corporate governance is also part of the capital relations. Literature agrees that in the recent past corporate governance has been the target of market-oriented reforms in all developed industrial countries. Crucial reforms took place since the late 1980s and especially in the second half of the 1990s (Cioffi and Höpner 2006; Gourevitch and Shinn 2005). The strengthening of shareholder rights vis-à-vis companies and the establishment of the principle 'one share, one vote' constituted the key aspects of these reforms. Additional measures included strengthening the transparency of accounts and establishing rules for friendly and hostile takeovers. Since aiming at linking corporate governance closer to the owners (strengthening of private property and the freedoms that go with it), these reforms can be regarded as liberalization policy. Unfortunately, so far there are no indexes that cover all countries and years of our sample.<sup>13</sup>

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<sup>12</sup> There are two further indexes on banking and financial regulation. However, for reasons of missing countries and years and also because of a lack of transparency of the measuring methods, we did not include them. The International Monetary Fund provides an index on banking and financial regulation which contains information on the regulation of credits, of interest rates, and of transactions with foreign institutions (cf. Helbling et al 2004, especially p. 133). Another time-variant index is Abiad and Mody's (2003) "Financial Liberalization Index". As expected, this index also indicates substantial liberalization measures.

<sup>13</sup> However, existing time-variant indexes point to a high degree of market-creating policy; see La Porta et al. (2000), Pagano and Volpin (2003), Siems (2007), and Lele and Siems (2007).

## 5 Descriptive analysis

Based on the previously described five spheres of activity we identified nine indicators. These indicators depict the level of state intervention and its reduction – i.e. liberalization policy – across countries and time relatively reliably. The remaining data gaps are so small that the resulting dataset allows for simple quantitative analyses and descriptions of basic patterns. However, as a consequence of the data gaps, the following analyses are partly based on different sub-samples that comprise different countries and years. For all following analyses we have chosen the year 2002 as the latest point in time. For the descriptive analyses we have recoded all indicators in a way that decreasing values indicate liberalization policy, while increasing values point to an increase of the level of public intervention. The research question of our empirical observations is as follows: Is liberalization policy a general phenomenon that cuts across policy areas and countries over a longer period of time? In other words, does the data reveal a convergent trend of politically enacted market-creation?

We start our analysis on convergence with observing the situations at the beginning and at the end of our period of investigation. In order to be able to include as many countries and indicators as possible, we take the year 1985 as starting point. We generated a combined intervention index by standardizing<sup>14</sup> the individual indicators across all countries and years and subsequently adding the respective nine values for the two points of observation. Taking a look at the combined index, what does it tell us about the level of public intervention for the starting year 1985 (Table 1)? In 1985, the USA were by far the country with the economically most liberal set of rules and regulations. They are followed by other English-speaking countries: Australia, Great Britain and Canada. In 2002, these four countries are still to be found at the market-liberal end of the ranking. However, compared to 1985 the distance between the USA and the other countries is much closer. For both points in time France, Italy and Norway are among the four countries with the highest level of intervention. The country-related mean values that are given for both points in time indicate a substantial liberalization trend that affected all countries without exception. This holds also true for the USA, which started from a high level of market-liberalism but nevertheless continued to pursue liberalization policy.

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<sup>14</sup> Data was z-transformed, i.e. the difference between the single values and the mean value was divided by the standard deviation.

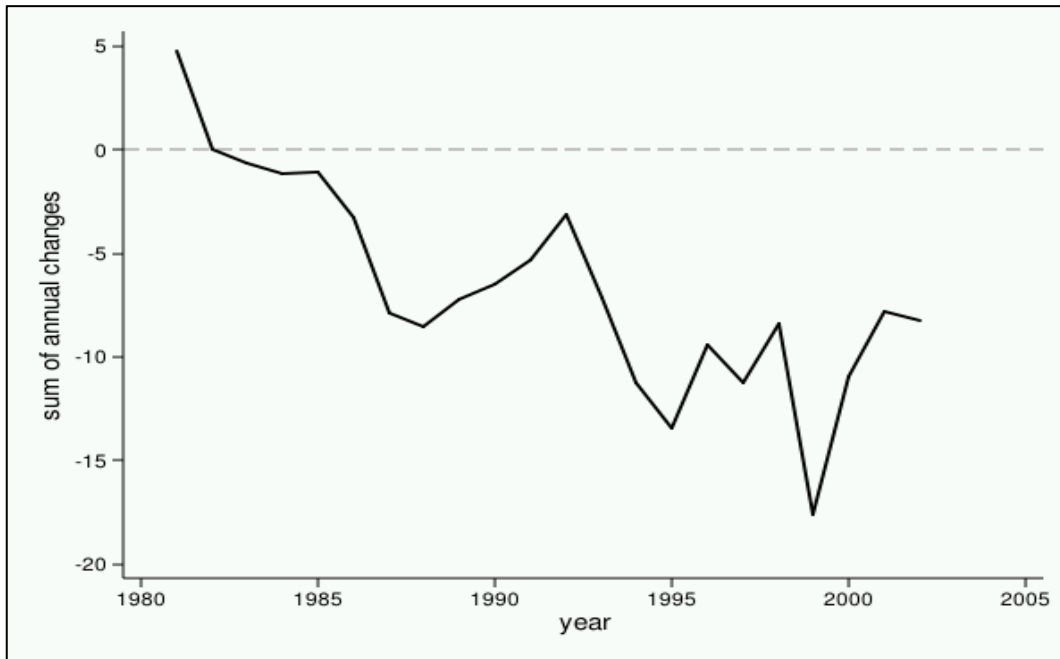
**Table 1: Levels of Intervention (stocks) and ranking of 18 countries, 1985 and 2002**

Ranking 1985	Country	Level of intervention 1985	Level of intervention 2002	Ranking 2002
1	Sweden	10.56	-2.81	8
2	Norway	9.42	1.90	1
3	Italy	9.07	-1.69	4
4	France	7.71	1.24	2
5	Netherlands	7.60	-4.60	12
6	Belgium	7.26	-2.07	6
7	Denmark	6.81	-2.63	7
8	Finland	5.48	-3.26	10
9	New Zealand	5.34	-6.39	14
10	Austria	4.68	-1.40	3
11	Germany	4.52	-4.61	13
12	Ireland	3.56	-2.03	5
13	Japan	1.09	-3.75	11
14	Switzerland	-1.18	-3.10	9
15	Canada	-1.66	-6.90	15
16	Great Britain	-1.70	-9.19	17
17	Australia	-2.34	-9.01	16
18	USA	-9.76	-11.63	18
<i>mean</i>		<i>3.69</i>	<i>-4.00</i>	
<i>Standard deviation</i>		<i>5.29</i>	<i>3.53</i>	

Note: Entries are sums of z-standardized levels of intervention (*stocks*) of all nine indicators. Higher values indicate more intervention.

Definition and sources of variables: see text

A look at the mean values across all indicators reveals that indeed all countries have moved into the same direction, i.e. they have pursued liberalization policy (type A convergence). Moreover, table 1 shows that in 2002 the standard deviation is lower than in 1985. This is a first indication that there have also been catching-up processes, i.e. countries have become more similar over time (type B convergence). We will deal with these catching-up processes in more detail further below. Before we do that, we will have a closer look at the temporal structure of the liberalization trend and its extension across policy areas: Was there an especially intensive period of liberalization and did liberalization proceed consistently in all policy areas?

**Figure 1: Sum of annual changes across 8 indicators and 21 countries, 1981-2002\***

\*Without the regulation of credit markets; this data is only available in five-year steps. Data on employment protection is only included from 1985 onwards. For a definition and the sources of the variables: see text

Fig. 1, in which the sum of annual changes is displayed over time, visualizes the temporal dynamics of liberalization policy. Whenever the curve is below the zero point, this indicates liberalization policy; if the curve slopes downwards, the speed of liberalization has increased; if the curve slopes upwards, the speed of liberalization has slowed down. The shape of the curve shows: Liberalization policy occurred mainly in the 1990s. The first years under investigation even indicate an increasing level of intervention. The phase of liberalization then starts in 1983; it continues until 2002 and even accelerates over time. The years between 1992 and 2000 prove to be an especially intensive period of liberalization.<sup>15</sup>

Fig. 1 thus shows that the liberalization trend that has been ascertained for all countries in table 1 affects the whole period of investigation; especially the second half of the 1990s stands out as an intensive period of liberalization. But were all policy areas under investigation affected by liberalization?

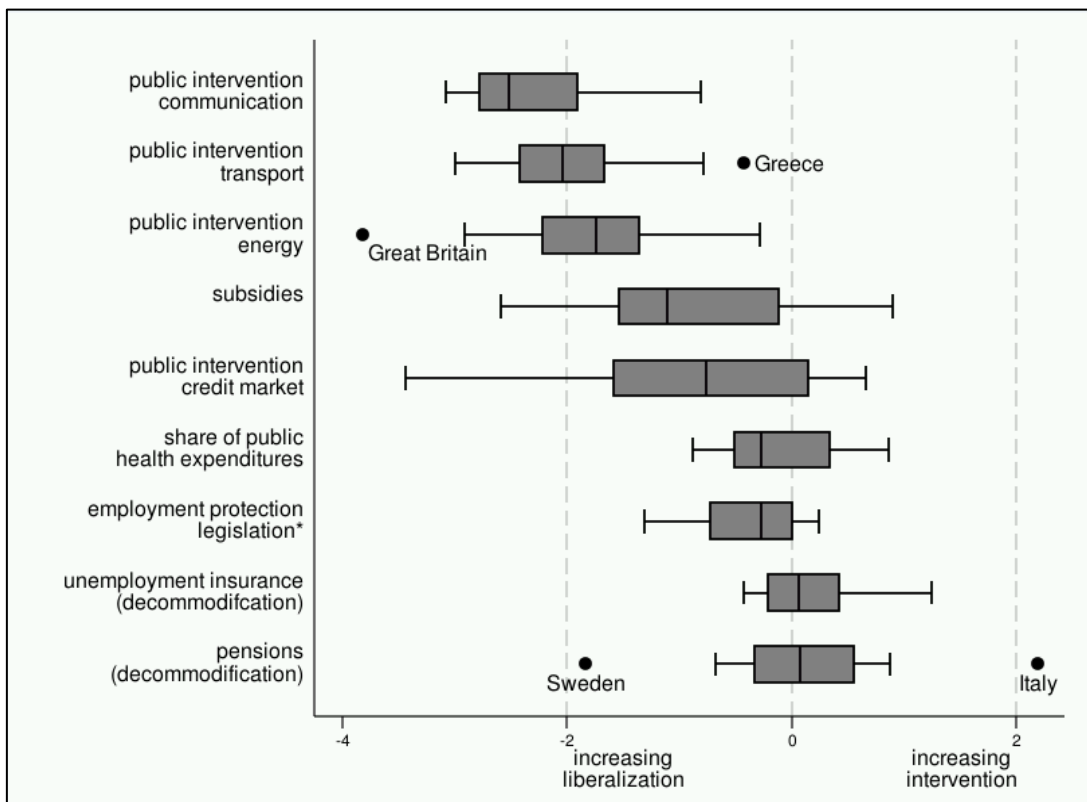
Boxplots<sup>16</sup> are a useful means for comparing the different policy areas (fig. 2). They allow for both capturing differences between individual indicators as well as for capturing indicator-related patterns of change across time. Each of the nine indicators contains the differences between the standardized starting value (earliest possible observation point from 1980 onwards)

<sup>15</sup> New Zealand, Great Britain, Ireland, Japan and Canada took substantial steps towards liberalization as early as in the 1980s.

<sup>16</sup> Boxplots allow for the graphical representation of trends towards convergence. The line within the boxes depicts the median; 50% of the observation points are outside the boxes; the 'whiskers' (vertical limits of the lines) are 1.5-times the interquartile range; points outside the 'whiskers' are outliers which are characterized by the respective name of the country.

and the final value (2002) for all observed countries. Except for the indicators on the decommodification of unemployment insurance and health insurance, all medians are negative. In these seven areas the majority of observed countries also pursued liberalization policy. The boxplots on intervention in the fields of communication, transport and energy are even completely negative, which indicates that each and every country pursued liberalization policy. With regard to subsidies and the regulation of credit markets it can be stated that a large majority of countries liberalized. However, both indicators show a broad span of changing values.

**Figure 2: Boxplots of changes between 1980 and 2002, nine indicators**



\*The changes of employment protection relate to the period from 1985 to 2002. For a definition and the sources of the variables: see text

Thus, the liberalization trend did not proceed consistently in the observed policy areas. In the observed countries, unemployment policy as well as pension and health policy were affected by liberalization policy to a lesser degree than for example the public service sectors. One interpretation is that the liberalization of social policy might be a lagging indicator of a general liberalization trend and that major steps towards liberalization in these areas are still to come. However, the data does not indicate clear trends with which this assumption could be either supported or rejected. This is shown in table 2 in which we have split the changes in the levels of intervention between 1980 and 2002 into four sub-periods.



**Table 2: Differences in the level of intervention (z-standardized values), different periods of time between 1980 and 2002, nine indicators**

Indicator	1980- 1985	1985- 1990	1990- 1995	1995- 2000	1980- 2002
Public intervention communication	-0.10	-0.24	-0.63	-0.97	-1.95
Public intervention transport	-0.15	-0.54	-0.71	-0.44	-1.85
Public intervention energy	-0.01	-0.19	-0.32	-0.78	-1.29
Subsidies	-0.09	-0.39	-0.16	-0.29	-0.92
Public intervention credit market	-0.45	-0.37	0.26	-0.19	-0.75
Employment protection legislation	-	0.00	-0.15	-0.15	-0.29 <sup>a</sup>
Share of public health expenditures	-0.06	-0.06	-0.06	0.02	-0.16
Pensions (decommodification)	0.48	-0.23	0.12	-0.22	0.15
Unemployment insurance (decom.)	0.07	0.01	0.03	0.06	0.17
Overall	-0.30	-2.01	-1.61	-2.95	-6.88

<sup>a</sup> changes in employment protection legislation apply to the time span between 1985 and 2002.

Note: negative values indicate liberalization.

Definition and sources of variables: see text

The assumption that liberalization in the areas of pension and unemployment insurance started late but gained momentum during our period of investigation and will thus continue in the future cannot be validated. With regard to unemployment insurance all values are very close, but still above the zero point. The respective boxplot in fig. 2 indicates that this area was a target for political reforms and that decreases and increases in decommodification more or less balanced out one another. As to pension insurance, the period of investigation does indeed end with a phase of liberalization. However, a look at the entire period reveals that phases of decommodification and recommodification alternate without an overarching trend. This does not hold true for the public service sectors (communication, transport, energy) and to a lesser extent for the reduction of subsidies, the liberalization of employment protection, and the liberalization of credit markets: in these areas liberalization followed a trend and accelerated throughout the entire period of investigation.

These findings suggest a closer look at the different developments in the countries. Do differences across countries follow a recognizable pattern? As to this question, table 1 has given a first indication: Having pursued liberalization policy, countries were more similar with regard to levels of intervention than before (type B convergence). In connection with the finding of an overarching liberalization trend, this suggests that convergence occurs mainly when countries with an above average level of public intervention underwent a catching-up process, i.e. if they liberalized above average. If this were the case, the changing values between 1980 and 2002 (flows) could be significantly explained by the starting values (stocks) in 1980.

Table 3 shows both Pearson's correlation coefficients between starting- and changing-levels and the explained variance as share of the total variance, ordered according to the strength of the connections found. In the fields of telecommunication and credit markets, more than 80% of the variance can be attributed to changes in the level of intervention in the starting year. Here, the convergence effect (of type B) is exceptionally strong. In the case of employment protection and the share of private health expenditure, about 50% of the variance can be attributed to changes

in the level of intervention in the starting year. Concerning subsidies, the regulation of the transport sector and pension insurance, the relationship between starting- and changing values is considerably weaker, but still reaches the significance level of 0.05. Only with regard to the energy sector and the decommodification of unemployment insurance there is no significant relationship. However, also in these two cases the values point into the expected direction.

**Table 3: Correlation of earliest level of intervention with changing values**

Indicator	Pearson's r	Explained variance
Public intervention communication	-.92***	0.85
Public intervention credit market	-.91***	0.83
Share of public health expenditures	-.73***	0.53
Employment protection legislation	-.69***	0.48
Subsidies	-.62**	0.38
Pensions (decommodification)	-.53*	0.28
Public intervention transport	-.47*	0.22
Public intervention energy	-.35	0.12
Unemployment insurance (decom.)	-.29	0.08

Note: Coefficients are Pearson product-moment correlation coefficients; \*p < 0,05; \*\*p < 0,01; \*\*\*p < 0,001; N=21 with the exception of decommodification values for pensions and unemployment insurance (N=18).

Definition and sources of variables: see text.

The assumption of a convergence process can therefore be clearly validated for the large majority of our indicators. Based on the current observations we can state three findings: (1) Liberalization occurred in all countries. (2) Countries with originally strong levels of public intervention took especially strong liberalization measures. (3) The degree of these liberalization policies varies between the investigated areas. The third finding suggests to examine whether the differences between liberalization policies in the nine investigated fields show an interpretable pattern. For this purpose we conducted a Principal Component Analysis. This method analyzes whether a large number of original variables can be condensed into a small number of 'principal components' with as much significance as possible.

Due to data gaps it is not possible to trace the liberalization processes for all countries and indicators between 1980 and 2002. In limiting the period under investigation to the years from 1990 to 2002, we are able to include 17 out of the 21 countries into the analysis.<sup>17</sup> For these countries we accounted for the difference in each of the nine indicators between 1990 and 2002 and looked for similarities.

Indeed the Principal Component Analysis reveals two dimensions that are open to interpretation (table 4).<sup>18</sup> The first dimension shows indicators for which public intervention is based on regulation in a narrower sense and not primarily on monetary transfers. This includes the regulation of credit markets, the regulation of the three public service sectors, and employment protection.

<sup>17</sup> Spain, Portugal, Greece and Belgium are excluded from the analysis.

<sup>18</sup> The two factors reflect the original matrix to 57%. A third dimension with an eigenvalue of 1.09 was not recognized since it offered no interpretable pattern.

The second dimension shows those indicators that indicate the level of public transfer payments: generosity of pension and unemployment insurance, public health expenditures, and subsidies. Accordingly, we label the first dimension as *regulatory liberalization* and the second dimension as *distributive liberalization*.

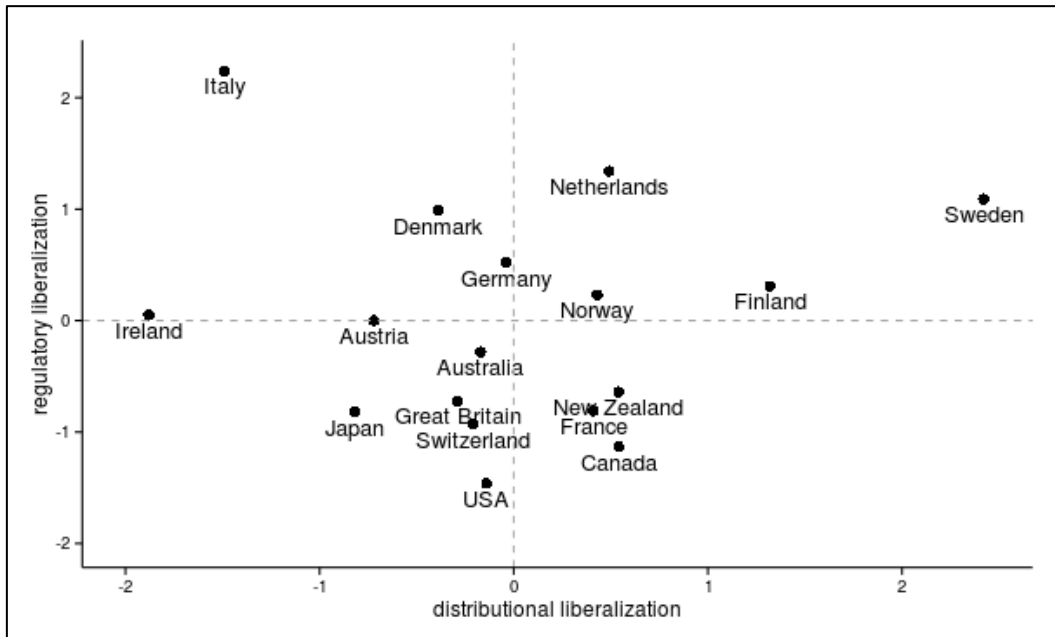
**Table 4: Factor loadings of the rotated principal component analysis, nine indicators, changes 1990-2002**

Variable	Dimension 1: regulatory liberalization	Dimension 2: distributional liberalization
Employment protection legislation	<b>0.83</b>	0.10
Public intervention energy	<b>0.82</b>	-0.11
Public intervention communication	<b>0.80</b>	-0.09
Public intervention transport	<b>0.67</b>	0.17
Public intervention credit market	<b>0.50</b>	0.14
Pensions (decommodification)	0.05	<b>0.82</b>
Unemployment insurance (decom.)	-0.34	<b>0.68</b>
Share of public health expenditures	0.50	<b>0.59</b>
Subsidies	0.42	<b>0.53</b>

Note: rotated principal component analysis (varimax-rotation with Kaiser-normalization).

Definition and sources of variables: see text.

Crossing the two dimensions yields four groups of countries; figure 3 shows a graphical illustration. Some countries, for example Sweden and the Netherlands, liberalized above average both with regard to distribution and regulation (in a narrower sense). The opposite quadrant contains countries that also pursued liberalization policy in both dimensions, albeit below average when compared to the other countries. This includes for example Switzerland, Japan, and the USA. The upper left quadrant contains countries which pursued stronger regulatory liberalization than distributive liberalization, e.g. Italy and Denmark. Germany is also positioned in this quadrant, albeit comparatively close to the middle of the two scales. Following Schmidt (2009), one could speak of a 'middle way' of German liberalization policy. Finally, in countries such as France and New Zealand the degree of distributive liberalization was stronger than the degree of regulatory liberalization.

**Figure 3: Countries' values for the two levels of liberalization**

## 6 Discussion and outlook

The starting point of our study was the conviction of numerous political-economic classics that the gradual abolishment of market and competition in favor of alternative forms of coordination is inherent to long-term capitalist development. Notwithstanding highly different starting points, justifications and normative objectives, theorists as different as Wagner, Schumpeter, Keynes, Hilferding, Lenin, Sombart, Tinbergen, Shonfield and Olsen agreed in their diagnosis of an evolutionary decline in the importance of market principles. Considering this long period of political economic theory formation, the developed industrial nations' entrance into a phase of politically enacted market-creation is a theoretical surprise.

Of course, none of the mentioned theorists argued that selective steps towards liberalization would be impossible in capitalist democracies. However, based on indicators on five spheres of economic and social regulation we have shown that liberalization was by no means a selective phenomenon and restricted to isolated policy areas, countries and points in time. Our analysis has revealed that liberalization policy occurred as a general trend across policy fields and countries since the 1980s. Liberalization policy cut across countries and different groups of countries in such different shapes as the transformation of public service sectors, privatization policy, reduction of subsidies to privately organized companies, reduction of employment protection for both permanent and temporary contracts, the increasing relevance of capital-funded pension pillars, the declining share of public health expenditures, an increasingly rigid competition law, and shareholder-oriented reforms of corporate governance. Our result is not that all economic and social spheres of activity in all countries were targets of liberalization policy at all times. Our data did not reveal evidence for a systematic liberalization of wage replacement benefits that goes beyond individual points. However, this does not alter our diagnosis of an overarching

liberalization trend that affected different economic and social spheres of activity and cut across countries over a longer period of time. Schmidt's (2009, section 6) cautiously formulated 'liberalization hypothesis' is confirmed.

In this sense, one can speak of a joint entrance into a convergent period of market-creating policy in several policy fields (type A convergence, process-convergence) - at least as long the notion of convergence is not laden with false connotations. In this regard, it must be warned against two misinterpretations. First, the diagnosis of a convergent process must not be confused with a conclusion on causality, i.e. on the underlying causes of liberalization (which have not been a part of this study); for example that markets are indeed the superior mode of production and distribution and would thus prevail in an evolutionary process. This alleged explanation is not only based on highly controversial premises, but also obscures why historical periods of market-abolishment and market-creation alternate and especially why the establishment of 'organized' post-war capitalisms that took three or four decades was replaced by a period of liberalization (see also Czada 2003, p. 16). In short: We interpret convergence not as an explanation, but as a phenomenon that is limited by time and space and *in need of* explanation.

Comparative Political Economy has developed elaborated instruments for analyzing the inherent logics of different models of capitalism. However, our findings indicate that studying periods of capitalism is as important as studying its national and regional varieties. Some of our findings overlap with insights of the French Regulation School which also provides a vocabulary for describing periods of capitalism. As shown in figure 1, the 1990s were an especially intense phase of liberalization. According to regulation theorists such as Aglietta (2000) and Boyer (2000), this phase marks the industrial countries' entrance into a period of a finance-led growth regime, characterized by complementary policies such as financial market deregulation, privatization and the creation of competition in the public service sectors. This literature focuses on overarching trends which affect and transform all varieties of capitalism (for an overview cf. Boyer and Saillard 2002).

This leads directly to the second warning against a misinterpretation of the notion of convergence: The synchronicity of policies across countries and policy fields (type A convergence) must not be confused with a convergence of the implications of these policies, i.e. a convergence of the varieties of capitalism that emerge from the policies. The fact that all varieties of capitalism entered a period of liberalization does not imply that at the end of this process all production and distribution regimes are similar and follow the principle of liberal market economies. In different varieties of capitalism, liberalization policies might have different consequences and might meet different enabling factors and obstacles.

Even if the diagnosis of a joint entry into a finance-led growth regime is true, there might still remain room for the coexistence of different varieties of 'financial market capitalism'. For example, in the formerly coherently coordinated economies a coordinated core of large industrial corporations is increasingly supplemented with a highly flexible periphery which follows the structural principles of liberal market economies (cf. for example Palier and Thelen 2008). A key challenge for Comparative Political Economy is to be able to analyze varieties and periods of capitalism at the same time and to be able to formulate insights into variety-specific entrances into overarching development phases. In our opinion, this would require an enhanced dialogue between the literature on 'Varieties of Capitalism' and related approaches of Comparative Political Economy on the one hand, and Regulatory School, International Political Economy and he-

gemony theoretical perspectives on the other hand. Despite recurring attempts, so far such a dialogue has not really taken place.

Our dataset also revealed another type of convergence which we have labeled 'type B convergence'. A significant and sometimes surprisingly high share of the observed liberalization processes took place in the form of catching-up processes. In concrete terms, this means that countries with an initially above average level of public intervention took liberalization measures that were above average, thus moving closer towards the market liberal countries over time. From our perspective, here it is even more important to note than in the case of type A convergence that this finding must not be confused with an explanation. It is one thing to identify a convergence process in terms of an approximation of the levels of public intervention, but it is quite another matter to explain why the divergent period of the establishment of varying post-war capitalisms was replaced by a period of increasing convergence at least since the 1980s. Here, the danger of mixing up puzzle with explanation is especially high. This is because in quantitative political research catching-up processes can be easily modeled as an independent variable by considering the starting values of the dependent variable. In combination with other variables with high explanatory power they then look like a causal explanation without actually being one.

This in turn points to a principal methodological implication of our findings: The methods for the causal analysis of convergent liberalization policies cannot be identical with the methods that have been used for analyzing the development and consolidation of the varieties of capitalism in the postwar era. Both Comparative Political Economy and research on comparative public policy are based on the analysis of variances.<sup>19</sup> In the building phase of the organized post-war capitalisms these variances were the puzzle to explain. If the same methods are used for periods of convergence there is a danger that the explanations found are increasingly related to fringe phenomena, i.e. to ever decreasing differences between policies, while the phenomenon that should be explained, i.e. the convergence of policies, remains unexplained. In analytical and methodological terms, such parallel policies are much harder to grasp than the remaining differences between them.

However, this does not mean that different national manifestations of a convergent development trend do not need an explanation. In this regard, our study raises follow-up questions which can be answered with the 'traditional' instruments of comparative policy research. We have pooled our data on liberalization policy into a 'distributive' and a 'regulatory' factor and contrasted these two factors in figure 3: With the exception of Great Britain, the bottom left quadrant contains no EU members. While regulatory liberalization correlates positively with EU membership from a medium to high degree (Pearson's  $r=0.62$ ), with regard to distribute liberalization there is no connection whatsoever (which is also illustrated by the fact that except for Norway the two upper quadrants contain only EU members; for the relationship between regulatory liberalization and EU membership see Belloc and Nicita 2010). Other typical variables of comparative political research such as the socio-economic situation of countries, the political composition of governments and the configurations of political institutions could principally

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<sup>19</sup> This is a general phenomenon in the social sciences which is considerably increased by the dominant methods that are used for quantitative (and partly also qualitative) studies (see Van Kersbergen 2010; Caramani 2010; Haverland 2010).

also be examined for their explanatory power. However, one should bear in mind that such analyses do only explain differences between development trends; convergence, which is at the core of this article, is left unexplained.

Using the example of Germany, there are speculations of whether the financial crisis would bring an end to liberalization policies (for one example among many cf. the article in the German newspaper *Frankfurter Allgemeine Sonntagszeitung* from March 29<sup>th</sup>, 2009, p. 38). In our study, did we analyze a by and large finished sequence? Our differentiation between two dimensions of liberalization policy is quite helpful for thinking about this question. In case the financial crisis would result in a rethinking of liberalization policies, this would especially affect regulatory liberalization. However, there are observations that contradict this assumption. The latest phase of European Integration seems to be especially characterized by extensive interpretations of European competition law and the European fundamental freedoms (free movement of people, capital, goods and services), which enable the Commission and the European Court of Justice to take liberalization measures in fields that actually fall within the exclusive competence of the member states. At present, nothing indicates that this form of European liberalization policy has passed its peak.

As to the distributive dimension, the financial crisis might even lead to an acceleration of liberalization instead of putting an end to it. The exceptional budget deficits that are a result of supporting the finance sector and the real economy are likely to be followed by a phase of fiscal austerity policy (cf. for example the European discussion on the German 'debt brake'). Since the 1990s privatization proceeds have been specifically used for minimizing budget deficits (see the data in Streeck 2009, section I.5). Thus, we suspect that in the medium term the financial crisis will lead to further steps towards privatization, reduction of subsidies and increased pressure on social security systems. This in turn will most probably lead to an increase in social inequality. In the short to medium term, an end of liberalization policies is not in sight.

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**Seit 2007 erschienene WSI-Diskussionspapiere**

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