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## Politics and macroeconomic performance in the OECD countries

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**Politics and Macroeconomic Performance  
in the OECD Countries**

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Thomas R. Cusack

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## **Abstract**

This paper provides an overview of the major macroeconomic problems that have confronted the OECD countries during the last four decades. It also explores some leading arguments regarding the political bases of these problems. An extensive account of the experiences of these countries in terms of five major macroeconomic problem areas, growth, employment, price stability, external balances, and equality, is provided. The relative performance of these countries is given particular emphasis. An attempt is made to place their economic progress and difficulties into a broader historical perspective and to provide some background with respect to related developments. This is followed by a discussion of three of the leading arguments regarding the political basis of economic performance ("social consensus", "class-based partisan politics," and "government failure"). An evaluation of the empirical validity of these arguments is provided.

None of the three arguments (and their variants) garnered evidence that was uniformly supportive. Aside from some modest support for the coherence version of the class-based partisan politics model, the effects of political factors on growth appear to be nil. The existence of tradeoffs between left and right preferences in terms of other macroeconomic outcomes, specifically with respect to unemployment and inflation, seem not to manifest themselves in the presence of social consensus. Both the desired outcome of full employment and price stability can be achieved under conditions of social consensus. Interestingly, such consensus will do nothing to advance the goal of income equalization. Partisan politics does seem to matter in most of the economic problem areas examined. There is some evidence that a strong left and labor will bring about lower unemployment and greater equality at the cost of higher inflation and a poorer performance on the external account.

## **Zusammenfassung**

Vorliegende Studie bietet einen Überblick über die wichtigsten makroökonomischen Probleme, mit denen sich die OECD-Länder in den letzten vierzig Jahren konfrontiert sahen. Dabei werden auch Argumente in Betracht gezogen, die politische Gründe für das Auftreten der Probleme verantwortlich machen. Eine ausführliche Darstellung über die Erfahrungen der Länder in den fünf makroökonomischen Problembereichen Wachstum, Beschäftigung, Preisstabilität, Außenbilanzen und Gleichheit wird geliefert. Besondere Aufmerksamkeit kommt dabei der relativen Performanz dieser Länder zu. Der Autor versucht, sowohl den wirtschaftlichen Fortschritt als auch die Probleme in diesem Bereich in einen breiteren historischen Kontext einzuordnen, um damit die Hintergründe für damit einhergehende Entwicklungen zu verdeutlichen. Im Anschluß daran werden die drei wesentlichen Konzepte, die den Zusammenhang zwischen politischen Rahmenbedingungen und wirtschaftlicher Performanz zu erklären suchen („social consensus“, „class-based partisan politics“ und „government failure“), diskutiert. Diese Modelle werden dann auf ihre empirische Gültigkeit hin überprüft.

Keiner der drei Ansätze (oder Varianten davon) können durch Daten eindeutig belegt werden. Abgesehen von einem schwachen Beleg für die Kohärenz-Version des „class-based partisan politics“ Modells, scheinen die Auswirkungen politischer Faktoren auf das Wirtschaftswachstum nicht relevant zu sein. Das Vorhandensein von „tradeoffs“ zwischen linken und rechten Prioritäten in Bezug auf andere makroökonomische outcomes, insbesondere in Verbindung mit Arbeitslosigkeit und Inflation, scheinen sich unter den Bedingungen des „social consensus“-Modells nicht zu manifestieren. Sowohl das gewünschte Ergebnis der Vollbeschäftigung als auch Preisstabilität können unter den Bedingungen des „social consensus“ Modells erreicht werden. Interessanterweise trägt dieser Konsensus nicht dazu bei, eine Angleichung der Einkommen zu schaffen. „Partisan politics“ hingegen scheint in den meisten untersuchten ökonomischen Problemfeldern eine Rolle zu spielen. Es hat sich gezeigt, daß häufig eine starke Linke in Kombination mit einer starken Arbeiterbewegung niedrigere Arbeitslosigkeit und mehr Gleichheit schafft, auf Kosten von höheren Inflationsraten und verschlechterter außenwirtschaftlicher Performanz.

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# **1 Introduction**

The economy is frequently treated as a sphere distinct and separate from the political system. Nevertheless, there are ample grounds to believe that these two spheres are intimately connected to each other. The basic institutional and regulatory framework within which economic agents operate is shaped by the political system. Furthermore, the policies and practices of government can play an important role in a country's macroeconomic performance. In turn, actors and groups within the political sphere are motivated in part by their economic interests. The performance of the economy will shape their orientations toward the political system and influence their actions within that system. In any effort to deal with the structure and processes as well as the success and failures of the political system, attention needs to be given to the economic system and the major macroeconomic developments and problems therein.

This paper provides an overview of the major macroeconomic problems that have confronted the OECD countries during the last four decades. It also explores some leading arguments regarding the political bases of these problems. The presentation is limited in terms of the number of problem areas reported upon as well as in scope of the analysis.<sup>1</sup> The paper first describes the framework used to explore economic developments in these countries. Then it goes on to offer an account of the experiences of these countries in terms of the five major macroeconomic problem areas highlighted within this framework. The relative performance of these countries is given particular emphasis. An attempt is made to place their economic progress and difficulties into a broader historical perspective and to provide some background with respect to related developments. The paper then turns to consider the degree to which success or failure in broad areas of economic performance may be a reflection of competing macropartisan preferences and attempts to chart the relative performance of these countries over the last four decades in terms of these preferences. This is followed by a brief discussion of some of the leading arguments regarding the political basis of economic performance. An evaluation of the empirical validity of these arguments is provided.

## **2 The Diversity of Economic Concerns and Priorities in Industrialized Democracies**

Political systems can be evaluated in terms of their performance in a number of areas. One rich tradition in the field of political science focuses on evaluations in terms of explicit political criteria, such as stability (Powell, 1982), the translation of votes into effective representation (Taagepra and Shugart, 1989), the clarity of governmental responsibility (Powell, 1989), and so on. The focus here is on a different area, i.e., economic performance. As Lange and Meadwell (1991) point out the performance of the economy and government's assumed responsibility for this performance is a central characteristic of the industrialized democracies in the post World War II era. Certainly, numerous studies attest to the importance citizens attribute to economic problems and successes when it comes to evaluating political leaders, parties and governments (cf., Lewis-Beck, 1990).

But as with political performance, the concept of economic performance is multidimensional. Analysts need to decompose it in a systematic way. At the same time, the list of economic problems that might confront a set of countries is obviously long. Furthermore, the amount of information that would need to be provided regarding these countries' performances in all of these areas would require space well beyond that available. With these points in mind, I have chosen to focus on a restricted domain of problem areas. Despite its restrictiveness, the domain itself contains problem dimensions that are frequently at the center of political-economic discussion and debate.



At the same time the domain lends itself to a meaningful and systematic ordering in terms of the rival priorities competing political-economic interests have within advanced industrialized democracies.

The focus of discussion, then, in terms of the economic performance of these countries, is on five areas. These include economic expansion or growth, full employment, price stability, the equalization of income distribution and the balance of payments equilibrium. As Hibbs (1987) has pointed out, the economic interests of different classes and groups within society vary markedly. In turn, mass political parties attempt to reflect the interests of the classes and groups to which they appeal for support. They thereby give differential emphasis to various macroeconomic objectives. A highly stylized depiction of the differential preferences that can be said to prevail with respect to the five potential problem areas is presented in Table 1.

Within the table one can see the generally strong contrast between parties on the left, with their emphasis on achieving full employment and the equalization of income, and rightist and centrist parties which deemphasize such goals and attach greater importance to maintaining price stability and the balance payments equilibrium. This scheme is employed not because I wish to suggest that there is now or ever has been an exact correspondence between the party-type preference orderings specified and the macroeconomic goals that parties actually have pursued. Furthermore, I do not intend to give the impression that party preference structures might not change with experience. Rather, the scheme is employed because it represents a convenient ordering device which puts in relief both the major macroeconomic concerns held by many political actors in advanced industrialized democracies. At the same time it does a reasonably adequate job in illuminating the divergences in preferences that generally prevail within most if not all of these political systems.

Table 1: Political Party Preferences Regarding Economic Goals

	Socialist-Labor	Center	Conservatives
	Full employment		Price stability
	Equalization of income distribution		
Decreasing importance of goals ↓	Economic expansion	Price stability	
		Economic expansion	Balance-of-payments equilibrium
		Full employment	
		Equalization of income distribution	
	Price stability		Economic Expansion
		Balance-of-payments equilibrium	Full Employment
	Balance-of-payments equilibrium		Equalization of income distribution

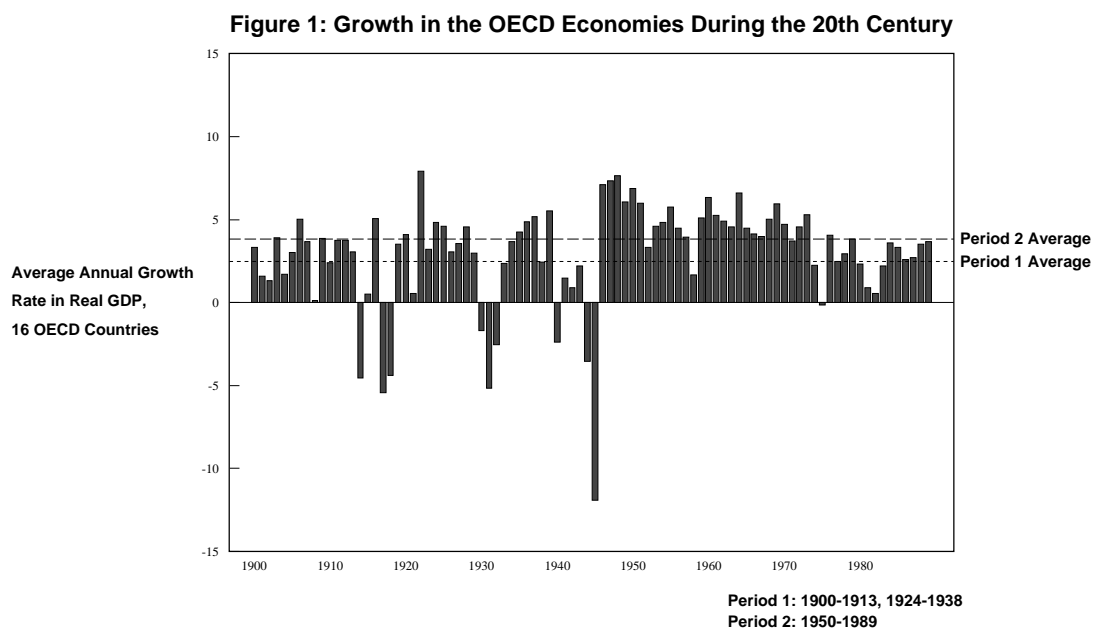
Source: Hibbs, 1987 (based on Kirschen, et al., 1964)

### 3 Comparative Economic Performance in the Post World War II Era

#### 3.1 Economic Expansion

Seen within a broad historical context, the OECD countries in the post-World War II period have achieved some major economic successes. The levels of income and wealth that they have produced dwarf their own previous accomplishments and set them well above the achievements of other countries in the world. On one of the most commonly employed measures of economic performance, growth in GDP, the group has on the whole been quite successful during the post-World War II period when compared with its achievements during the peace-time years of the first half of this century. This can be observed in Figure 1, where the average annual growth rates in real GDP for sixteen of the set of twenty countries have been plotted for the period from 1900 through 1989. Splitting this near century-long period into two parts and ignoring the World War years and the half-decades immediately following, the contrast in performance is stark. Thus, while the first half of this century saw a respectable average growth rate of 2.67 percent, the experience of the second half has been far and away superior with an average annual growth rate of 3.91 percent.

The latter period's group average, however, obscures not only variation in individual country experiences, to which I will return later, but also masks a significant general slow-down in the 1970s and 1980s. Thus, the 1950s and 1960s saw historically exceptional growth in most of these countries with an annual rate of 4.65 percent in the first of these decades and 5.12 in the second. The succeeding two decades were characterized by a reversion toward the historical norm. The pace of growth in the 1970s slowed to 3.36 percent and then dropped in the 1980s to 2.53 percent.



Source: Based on data provided in Maddison, 1991

At least in the aggregate, the record on economic growth in the post-World War II period has been superior although this group's performance level has degraded as time went by. How well did individual countries do and did they all suffer the decline in performance that marked the group as a whole?

Table 2 presents data on the average annual rates of change in real GDP per capita and thereby provides a picture of individual country growth performances. Over the long haul, Japan stands out in terms of its dramatically superior growth rates; it achieved an average of around 5.3 per cent per annum through these four decades. Others with particularly high growth rates over the period include Italy, Portugal and Greece. The laggards over the entire period were Switzerland and the four Anglo-Saxon countries, the United Kingdom, the United States, Canada, and Australia. Of interest is the fact that these five countries were also among the wealthiest at the beginning of the period (cf. Table 3). Among the Scandinavian countries, the picture is somewhat mixed. Two of these countries, Finland and Norway, did better than the group average while the other two, Denmark and Sweden, had a slightly poorer performance record. Among the Continental Europeans the picture is even more mixed; in a comparative sense Germany, Austria, and Spain did rather well while Belgium and the Netherlands performed rather poorly.

When one takes into account the starting position of each of these countries (see Table 3), the general picture that emerges here is very much in conformity with recent arguments about the convergence process in economic development. Briefly stated, the expectation is that economies that have productive techniques that are behind a leading nation, but are nevertheless not too far behind, are in a position to catch-up with the leader. They will do so, however, at rates proportional to their distances from the leading economy. Thus, those within the potential convergence circle that are the furthest behind the technological leader will achieve productivity growth rates greater than those closer to the leader and the leader itself (see, e.g., Baumol, Blackman and Wolf, 1989). This process is illustrated in Figure 2 where the relationship between the starting position of sixteen of the countries is plotted against productivity growth over the period. Here it can be observed that those economies that achieved the greatest growth in GDP per capita, or more precisely, the best performance in productivity gains, were also the ones with the lowest productivity levels at the beginning of the period. Conversely, the wealthier and more productive countries at the starting point had the greatest difficulty in achieving productivity growth.

The aggregate pattern of declining growth in GDP over the last four decades that was noted earlier also comes through clearly when one observes the individual country experiences. Nearly all of the twenty underwent dramatic slow-downs during the 1970s and 1980s. There is only one minor exception to the general tendency, viz., Norway. It experienced something of a surge during the 1970s; in the main, this can be accounted for by the gains it made through oil production and export.

While the convergence model provides an important insight into the dynamics of the group-wide slow-down, there were other factors at work. Both forces at the international and national level were in play. Some of the most frequently cited include changes in the international economic scene. Here, for example, the breakdown of the Bretton Woods system and the stable international economic environment it provided was clearly important. The difficulties induced by its collapse, and the succession of different regimes that succeeded it, included a tremendous rise in exchange rate instability (see Figure 3). Further, the dramatic volatility in world commodity markets generated pressures which many governments had difficulty in coping with. Outstanding examples of this were the dramatic increases in the price of energy (see Figure 4).<sup>2</sup> The varying impact of these shocks is illustrated in Table 4 where data on the costs of petroleum imports (expressed as percentages of GDP) are displayed for most of the countries.

Table 2 Average Annual Rate of Change in Real GDP Per Capita, Full Period and Decades

	1950-90	1950-59	1960-69	1970-79	1980-90
Australia	2.3	1.8	3.5	1.7	1.9
Austria	3.6	4.6	3.8	3.6	2.0
Belgium	2.6	1.1	4.1	2.9	2.0
Canada	2.6	1.7	3.6	3.2	1.8
Denmark	2.6	2.3	3.9	2.2	1.8
Fed. Rep. Germany	3.8	6.5	3.5	2.7	1.7
Finland	3.7	3.7	4.2	3.0	2.9
France	3.3	3.6	4.3	3.3	1.8
Greece	4.1	5.1	7.0	4.1	0.9
Ireland	3.1	1.4	3.9	3.1	3.2
Italy	4.1	5.3	5.9	2.3	3.3
Japan	5.3	3.8	9.3	3.5	3.7
Netherlands	2.5	2.7	3.6	2.3	1.3
Norway	3.2	4.1	2.6	4.1	2.2
Portugal	4.1	3.4	5.9	4.6	2.3
Spain	3.3	3.0	4.3	2.5	2.3
Sweden	2.5	2.7	3.6	1.6	1.7
Switzerland	2.2	2.7	2.9	0.8	1.7
United Kingdom	2.1	1.9	2.2	2.2	2.0
United States	2.0	1.6	3.0	2.2	1.6
Average, 20 Countries	3.1	3.1	4.3	2.8	2.1
Std. Dev., 20 Countries	0.9	1.4	1.6	0.9	0.7
Average, 16 Countries	3.0	3.1	4.0	2.6	2.1
Std. Dev., 16 Countries	0.9	1.5	1.6	0.8	0.6

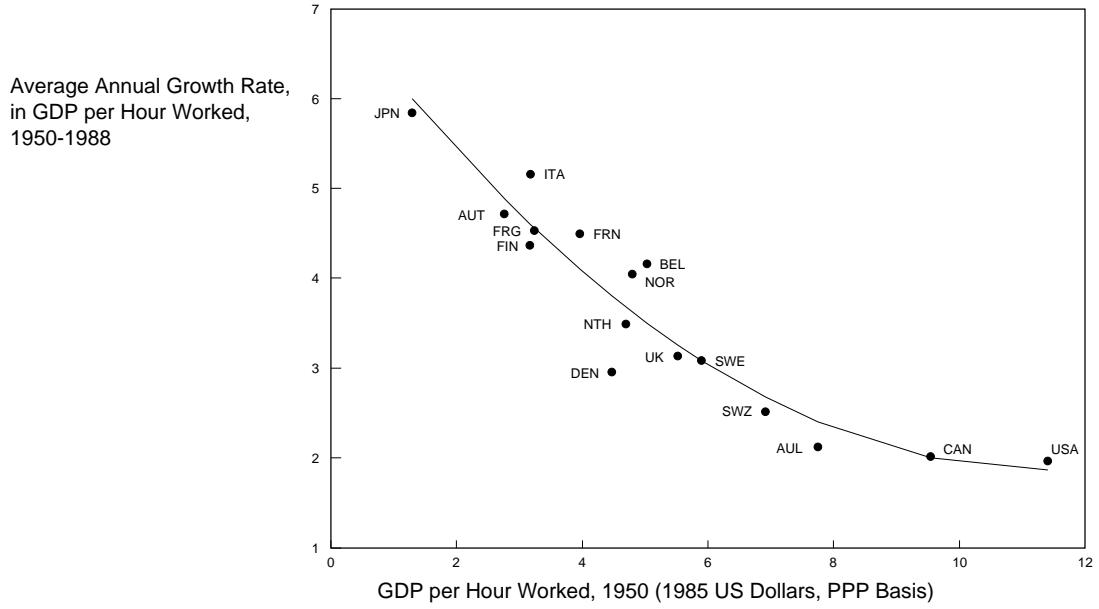
Source: OECD *National Accounts*

Table 3 GDP per capita in 1985 US Dollars (in purchasing power parity terms)

	1950	1960	1970	1980	1988
Australia	5929	7204	9978	11715	13321
Austria	2533	4476	6781	9616	11201
Belgium	4151	5207	7859	10499	11495
Canada	6913	7758	10668	13768	16272
Denmark	4512	5900	8556	10322	12089
Fed. Rep. Germany	3128	6038	8664	10993	12604
Finland	3152	4718	7259	9970	12360
France	3692	5344	8536	11148	12190
Greece	1225	1889	3798	5478	5857
Ireland	2599	3214	4865	6183	6239
Italy	2548	4375	6937	9986	11741
Japan	1275	2701	6688	9615	12209
Netherlands	4002	5587	8505	10632	11468
Norway	4263	5443	7761	11956	14976
Portugal	1050	1618	2919	4500	5321
Spain	1823	2701	5208	6514	7406
Sweden	4967	6483	9279	10910	12991
Switzerland	6668	9313	12688	14143	16155
United Kingdom	4973	6370	8006	9680	11982
United States	8665	9983	12923	15310	18339
Average 20, Countries	3903	5316	7894	10147	11811
Std. Dev., 20 Countries	1994	2193	2510	2717	3354
Average 16 Countries	4461	6056	8818	11266	13212
Std. Dev., 16 Countries	1823	1781	1844	1676	2025

Source: Summers and Heston (Penn World Tables, Mark 5, 1991)

Figure 2: Convergence in Labor Productivity



Sources: Summers and Heston, 1991; Maddison, 1982,1991; and OECD Labor Force Statistics

Figure 3: Exchange Rate Instability Among OECD Countries

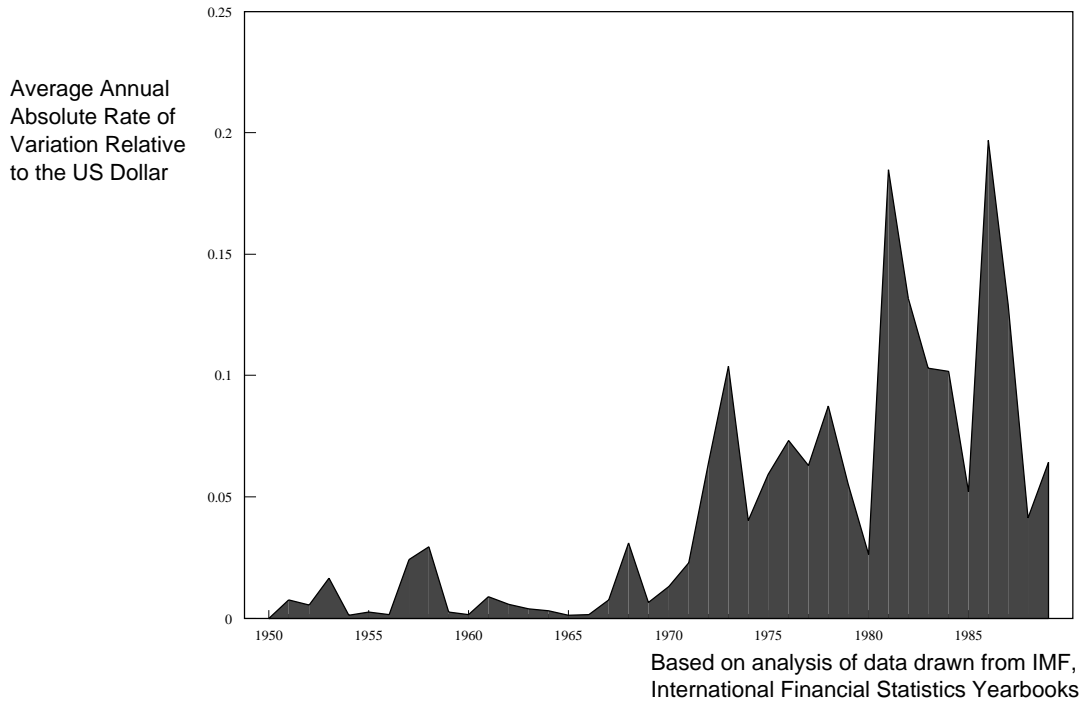
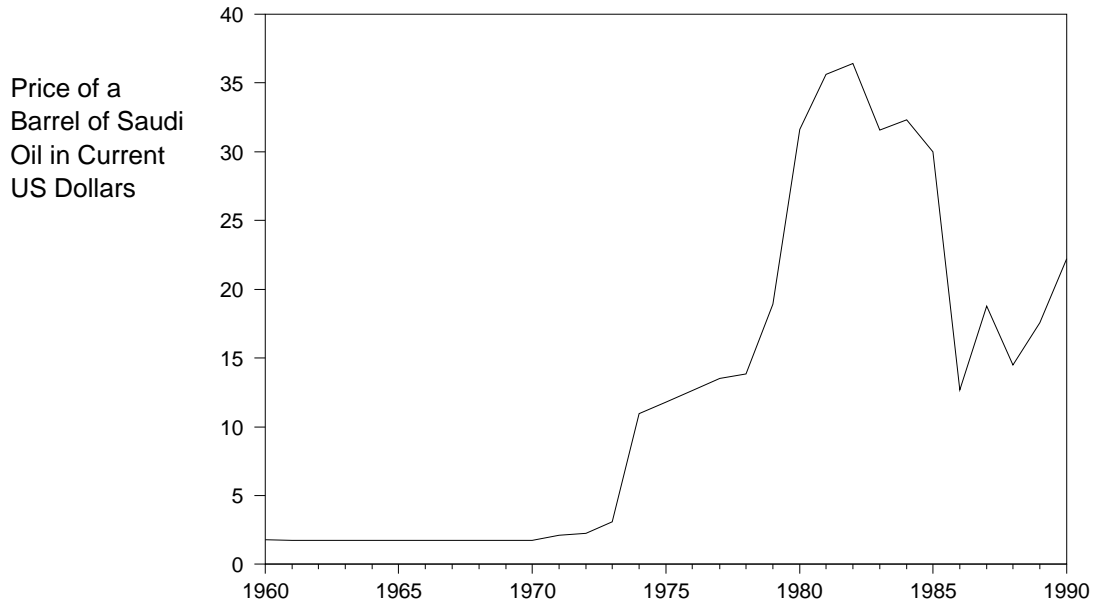


Figure 4: The Price of Oil



Source: IMF, International Financial Statistics Yearbooks and UN, World Economic Survey

Often cited is another development at the international level (cf., Frieden, 1991). This is the growing interdependence among national economies, a tendency which this group of nations has probably experienced to a degree greater than any other set of states. Such interdependence helps to undermine the conditions required for successful national macroeconomic management in the Keynesian mold. Thus, while openness to trade has increased (see Figure 5), and thereby generally helped in promoting greater efficiency, taken in combination with the even greater surge in the movement of capital across national boundaries (see Figure 6), it has worked to narrow the latitude for national macroeconomic management.

Obviously, developments within these national economies have also played an important role in shaping the context for growth and performance along other dimensions. Probably one of the most dramatic of these developments has been the tremendous structural changes that these economies have undergone (cf., Maddison, 1991). Some data on labor markets help to illuminate this point (see Figure 7). In the late 1950s, for example, an average of thirteen percent of the working age population were employed in agriculture. By the end of this period, the employment level in this sector had dropped below four percent. Services and industry, which includes manufacturing, mining, utilities and construction, were roughly equal in size (26-27 percent) in 1958. By 1989, industry had declined by about one-fifth to approximately twenty percent while services had ballooned to nearly 44 percent.

These changes played an important role in the growth dynamics of the OECD countries.<sup>3</sup> The migration out of agriculture both moved people into more productive activities and, particularly when the outflow was great, i.e., in the 1950s and 1960s, helped to relieve labor shortage problems and thereby restrained inflationary pressures. On the other hand, the relative shrinkage of the manufacturing base and the explosive growth of the service sector are often cited as a cause for the slow-down in growth.<sup>4</sup> This arose because of the difficulties that supposedly hold in achieving productivity gains in the service sector, particularly relative to manufacturing. With services taking an ever increasing share of factor inputs, the economy as a whole should experience a number of significant problems, not least of which would be a diminution in growth.

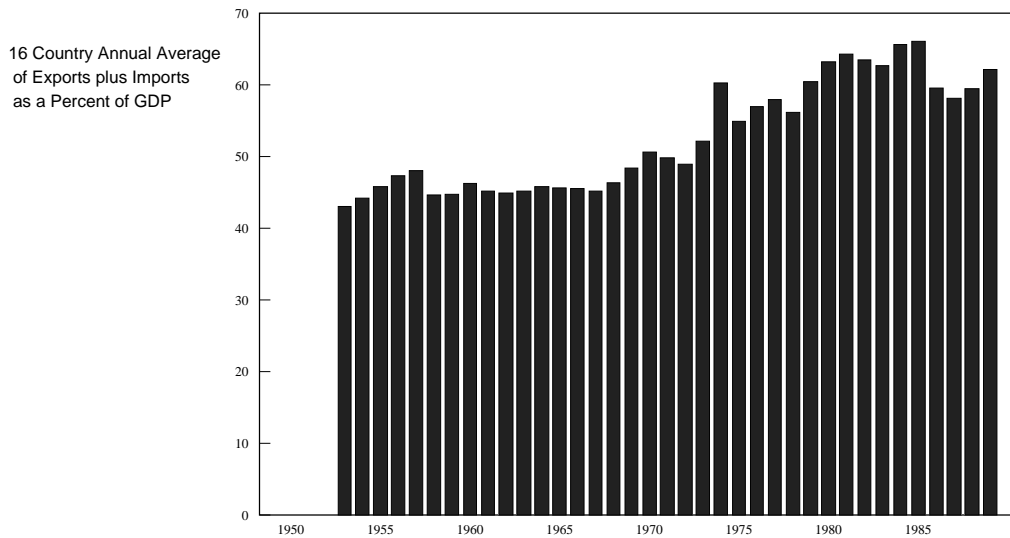
Returning for a moment to the role played by the shift out of agriculture in meeting the demand for labor in the first two decades, the general exhaustion of this pool may also have contributed to the rise in labor militancy at the end of the 1960s. As Figure 8 illustrates, the succeeding years saw much higher levels of labor-capital conflict. This too played a part in some of the economic difficulties that were experienced in many of these countries.

Table 4 Petroleum Imports as a Percentage of GDP, Decade Averages

	1950s	1960s	1970s	1980s
Australia		1.0	0.9	1.1
Austria	0.3	0.7	1.9	2.4
Belgium	1.9	2.2	4.5	6.9
Canada	0.9	0.6	1.3	1.1
Denmark	2.3	2.3	3.7	3.3
Fed. Rep. Germany	0.6	1.1	2.4	3.1
Finland	1.1	1.6	3.7	4.1
France	1.2	1.1	2.4	2.3
Greece				
Ireland	2.9	2.5	4.7	4.5
Italy	1.3	1.5	3.6	2.8
Japan	1.1	1.4	2.9	2.9
Netherlands	2.8	2.6	4.8	5.1
Norway				
Portugal				
Spain		1.3	2.7	4.0
Sweden	2.4	2.1	3.3	3.9
Switzerland	1.7	1.4	2.3	2.5
United Kingdom	1.8	1.8	3.0	2.3
United States	0.3	0.3	1.4	1.6

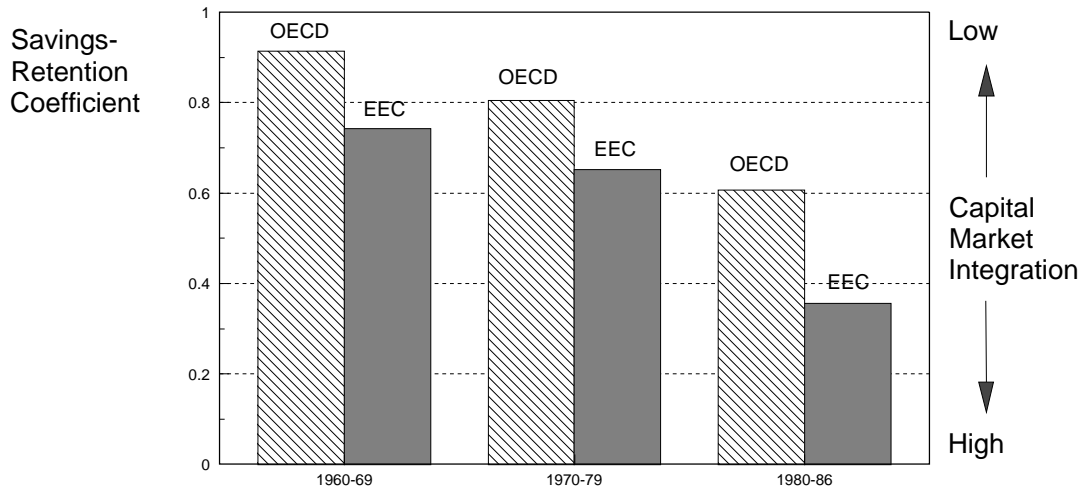
Source: IMF, *International Financial Statistics*

Figure 5: The Growth in Trade Openness of the OECD Countries



Source: Based on data drawn from OECD National Accounts Statistics

Figure 6: The Growth in International Financial Integration



Source: Based on analyses in Feldstein and Bacchetta, 1991

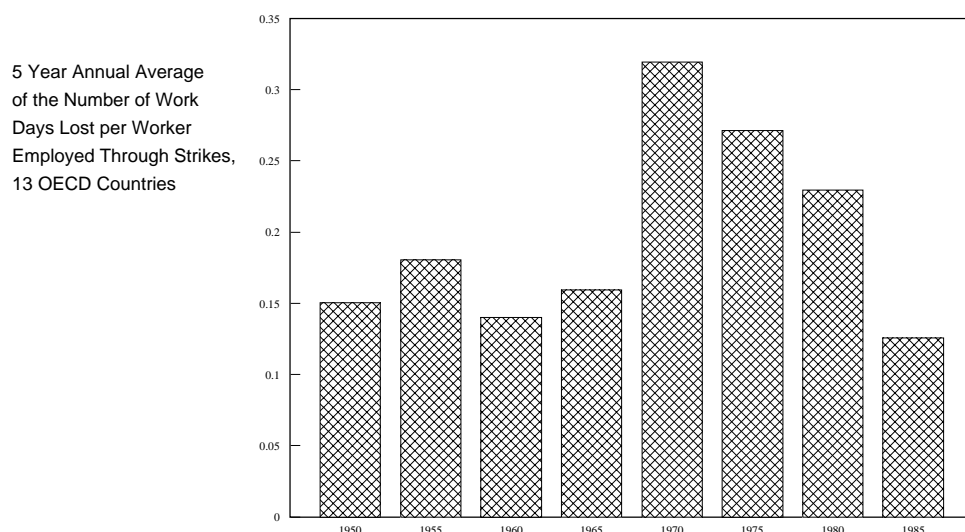
Figure 7: Trends in the Sectoral Distribution of Labor, 1958 - 1989



Source: Based on OECD Labor Force Statistics



Figure 8: Strike Activity in the OECD Countries \*



Average figures for thirteen OECD countries: Australia, Austria, Canada, Denmark, Finland, Germany (FRG), Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom.

Sources: Based on data from ILO Yearbooks of Labour Statistics and OECD Labor Force Statistics

Finally, one other major area needs to be considered. This is the significant diversity in investment rates across these countries and the effects that government budgetary policies have had on these rates. Table 5 presents data on capital formation as a percentage of GDP over the four decades of this era. One is struck by the great variation in these figures, particularly some of the notable differences between Japan, the fastest growing of these economies, and those of the United Kingdom and the United States, two of the principal laggards in the growth area. For all of the countries there has also been a marked drop-off in investment levels during the last decade. Two forces that clearly have played a role here emanate from the fiscal practices of the state. These involved the massive downward shifts in savings (see Table 6) on the part of the public sector (the Norwegian case with its energy revenues being the principal exception) and the general shrinkage in investment by the public sector itself for infrastructure and other purposes (see Table 7).

Table 5 Gross Domestic Fixed Capital Formation as a Percent of GDP

	1950s	1960s	1970s	1980s
Australia	25.2	26.9	25.2	24.8
Austria	24.2	27.7	28.6	24.3
Belgium	17.9	22.3	22.7	17.1
Canada	24.1	23.8	24.0	21.6
Denmark	18.1	25.2	23.7	18.1
Fed. Rep. Germany	23.9	26.5	23.5	20.6
Finland	25.7	26.6	28.5	25.6
France	22.7	25.4	25.5	20.8
Greece	13.1	22.7	28.8	21.3
Ireland		20.7	26.8	22.1
Italy	22.0	28.6	28.4	23.1
Japan	27.5	34.5	34.5	29.9
Netherlands	23.9	27.1	23.3	19.5
Norway	30.0	28.9	31.8	26.3
Portugal		24.6	27.9	28.1
Spain		26.1	26.6	21.7
Sweden	21.4	24.9	21.8	18.7
Switzerland	22.3	30.4	26.9	26.0
United Kingdom	15.7	19.1	19.7	17.6
United States	19.5	19.4	19.9	18.3
Average, 20 Countries		25.6	25.9	22.3
Std. Dev., 20 Countries		3.6	3.7	3.6
Average, 16 Countries	22.8	26.1	25.5	22.0
Std. Dev., 16 Countries	3.6	3.7	4.0	3.7

Source: OECD *National Accounts*

Table 6 Government Savings as a Percentage of GDP

	1950s	1960s	1970s	1980s
Australia	6.1	5.3	3.5	0.5
Austria	5.4	7.7	6.4	2.2
Belgium	-0.6	1.5	0.7	-5.7
Canada	2.5	2.4	1.4	-3.0
Denmark	4.2	3.0	4.7	0.0
Fed. Rep. Germany	6.7	5.5	4.3	2.1
Finland	10.8	7.6	6.8	3.1
France	3.6	4.1	4.7	2.3
Greece	0.3	4.0	2.3	-7.3
Ireland	0.3	0.7	-2.2	-7.1
Italy	5.1	1.3	-4.2	-6.6
Japan	6.6	7.1	4.8	4.4
Netherlands	7.3	5.0	2.7	-1.3
Norway	8.9	7.1	6.6	8.3
Portugal		2.3	0.7	-1.9
Spain		3.8	2.7	-0.5
Sweden	6.6	8.2	6.9	1.7
Switzerland		5.2	4.5	4.0
United Kingdom	1.6	2.5	1.9	-0.3
United States	2.9	1.7	-0.4	-3.3
Average, 20 Countries		4.3	2.9	-0.4
Std. Dev., 20 Countries		2.3	2.9	4.1
Average, 16 Countries	5.2	4.7	3.4	0.5
Std. Dev., 16 Countries	2.8	2.3	2.9	3.8

Source: Cusack, 1991

Table 7 Government Capital Formation as a Percent of GDP

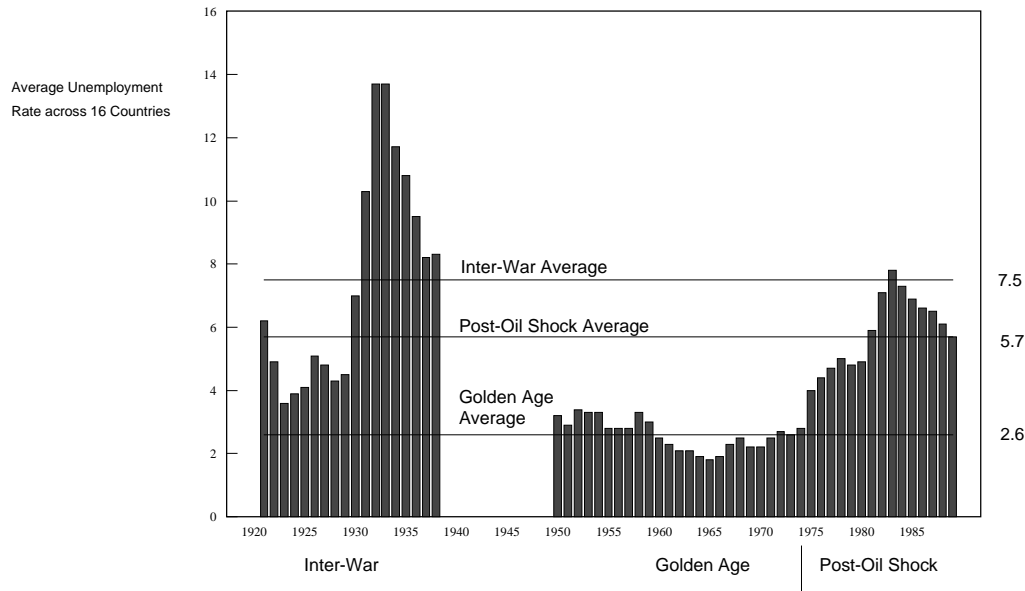
	1950s	1960s	1970s	1980s
Australia		4.3	4.0	2.9
Austria	4.1	5.0	5.2	3.9
Belgium	0.5	3.5	4.4	2.7
Canada	2.8	4.2	3.4	2.5
Denmark	2.8	2.4	3.5	2.9
Fed. Rep. Germany	2.9	4.7	5.0	3.3
Finland	6.7	5.1	4.2	3.8
France	3.8	2.8	3.4	3.6
Greece				
Ireland		3.9	4.0	4.2
Italy	4.2	2.6	2.7	3.5
Japan		5.6	6.4	6.3
Netherlands	6.0	6.6	4.1	2.8
Norway	4.7	5.0	4.3	4.2
Portugal		2.8	2.8	3.9
Spain		2.7	2.6	3.1
Sweden		5.6	5.1	3.5
Switzerland				
United Kingdom	4.2	4.1	4.7	2.7
United States	3.8	3.5	2.8	1.6
Average, 20 Countries		4.1	4.0	3.4
Std. Dev., 20 Countries		1.2	1.0	1.0
Average, 16 Countries	3.9	4.3	4.2	3.4
Std. Dev., 16 Countries	1.5	1.2	1.0	1.0

Source: Cusack, 1991

### 3.2 Full Employment

The "Golden Age" of capitalism is a term widely used to describe the period after World War II up to the first "Oil Shock" in 1973. Indeed, the growth rate figures detailed above attest to the aptness of this characterization. On other dimensions of significant economic importance, one can readily see how special this time truly was. For example, the maintenance of full employment has always posed a special challenge to market economies. Certainly the inter-war period saw significant problems arising in this area with unemployment averaging 7.5 per annum among the OECD countries for which relatively complete statistics are available (see Figure 9). During the Golden age, from 1950 through 1973, the group as a whole achieved major success in this area with unemployment kept to an average of only 2.6 percent. Again, as with overall growth, problems arose in this area after the first "Oil Shock" with the average rate of unemployment more than doubling to 5.7 percent.

Figure 9: Unemployment in the OECD Countries, 1921-1989



Source: Based on data drawn from Maddison, 1991

In the aggregate, then, during the first two decades in the post World War II era performance with respect to employment was very good. However, the succeeding two decades were marked by major problems. Once again, though, there was very wide diversity in the performance across the set of countries (see Table 8). Japan, Switzerland, Austria, and the Scandinavian countries, with the exception of Denmark, had notable achievements: their period-long average rates of unemployment were relatively low compared to the group as a whole and they were generally able to avoid or at least minimize the major surge in unemployment that occurred in the last two decades of the period. The pattern for the remaining European countries, which are also the European Community members in the group under consideration, was a less successful one. Some of them experienced initial difficulties in the 1950s, viz., Belgium, the Federal Republic, Italy and Denmark, did generally well in the 1960s, and then almost uniformly experienced major problems later on, particularly in the 1980s where very high levels of unemployment became the norm for this cluster of nations. Two of the three remaining Anglo-Saxon countries, the United States and Canada, have had a consistently poor record relative to the group norm, and have also experienced the major upward surge toward the end of the period. Australia went from a relatively good performance level in the early decades to a progressively poorer one.

The use of unemployment statistics to characterize performance with respect to the goal of full employment has a number of drawbacks. One in particular is that it shields from view the rather significant variation that exists across these countries in terms of population participation rates in labor markets. Often there are entry barriers to these markets that discourage participation. The denominator against which the number of officially registered unemployed are compared to derive an unemployment rate is thereby reduced with the consequence that the apparent level of performance is artificially inflated. In effect, a low unemployment rate may actually mean that a country is doing very poorly in relation to the goal of full employment.

Table 8 Unemployment Rates, Full Period and Decade Averages

	1950-90	1950-59	1960-69	1970-79	1980-90
Australia	3.9	2.0	1.9	3.9	7.4
Austria	2.6	3.9	1.9	1.4	3.2
Belgium	7.3	9.1	3.5	5.5	10.9
Canada	6.4	4.2	5.1	6.8	9.2
Denmark	6.6	9.5	3.5	4.9	8.3
Fed. Rep. Germany	4.5	6.1	1.0	2.8	7.6
Finland	2.9	1.3	1.9	3.6	4.8
France	3.6	0.6	0.7	3.5	9.0
Greece	5.6			1.8	6.7
Ireland	8.7	6.4	5.0	6.9	14.2
Italy	7.8	9.3	5.2	6.4	10.3
Japan	1.6	1.3	1.0	1.7	2.5
Netherlands	4.3	2.0	1.2	3.9	9.6
Norway	1.8	1.5	1.2	1.6	3.0
Portugal	6.7			6.0	7.1
Spain	8.1		1.5	4.2	17.5
Sweden	1.9	2.2	1.4	1.6	2.2
Switzerland	0.5	0.8	0.1	0.3	0.6
United Kingdom	4.4	1.6	2.0	4.2	9.5
United States	5.7	4.4	4.8	6.2	7.1
Average, 20 Countries	4.7	3.3	2.1	3.8	7.5
Std. Dev., 20 Countries	2.3	3.1	1.7	2.0	4.0
Average, 16 Countries	4.1	3.7	2.3	3.6	6.6
Std. Dev., 16 Countries	2.1	3.0	1.6	1.9	3.2

Source: OECD *Labor Force Statistics*

Perhaps a better way of assessing a country's performance with respect to the full employment goal is to compare the number of employed persons to a base that is unaffected by rules and other forms of bias mobilization. Thereby one may gain a less distorted view. Using the working age population as such a base, the data presented in Table 9 offer a somewhat different perspective on the successes and failures of this group of nations in achieving full employment. For example, some of the countries with really poor performances when measured with unemployment rates actually appear to have had reasonable success during these decades. This success is to be seen in their ability to (a) maintain high (relative to the group norm) ratios of employed to the working age population base, and/or (b) achieve significant growth in this ratio through the decades of the post-World War II era. The United Kingdom, the United States, and Australia, relatively poor performers in terms of unemployment rates, have done moderately well in terms of either maintaining high levels or expanding the actual rate of employment while others, such as many of the richer Continental European countries, have experienced eroding performance levels.

It should also be pointed out that the record of most of these countries in terms of employing their working age population over these decades has been greatly aided by the major expansion of employment within the public sector (see Table 10). When one nets out these government employment figures from the total (see Table 11), it can be seen that the economies of most of these countries have shown significantly diminished capacities to provide employment. This diminution has been particularly strong in most of the European and Scandinavian countries. Japan and Switzerland, two of the leading countries in terms of the maintenance of low unemployment rates, have had relatively stable performance while Canada and the United States have greatly expanded their employment rates on this alternate performance measure.

One further development played a role in the varying measures of success achieved in terms of confronting the employment problem. This was the growing participation of women in the labor force. Traditionally men have been overwhelmingly present in the labor market, either working or seeking employment, and women have been much less active therein. Thus, in 1950, the average male labor force participation ratio was 91 percent for the sub-set of sixteen countries, and that for women was only 38 percent (Maddison, 1991). The latter grew to about 45 percent by 1960 (see Table 12) and continued to grow to the level of nearly 63 percent by 1990. On the other hand the male participation ratio had dropped to around 83 percent by the end of the 1980s (Maddison, 1991). Furthermore, while growth in female participation rates occurred in all of these countries, expansion generally was far greater in the Scandinavian and Anglo-Saxon countries. The Continental Europeans were laggards although the 1980s seem to have been a period of major expansion for even these countries. This development, of course, goes together with the general pattern of service sector expansion discussed previously. Women are overwhelmingly concentrated in this sector. Their employment opportunities have therefore been far greater in those countries which have experienced more dynamic growth in this sector. This has been particularly the case in Scandinavia where the tremendous growth in government services has provided women with a large labor market.

Table 9 Total Civilian Employment as a Percentage of Working Age Population, Decade Averages

	1950s	1960s	1970s	1980s
Australia	63.6	66.6	68.4	66.0
Austria	69.6	71.0	67.8	64.9
Belgium	56.7	60.1	59.8	55.5
Canada	57.3	58.8	62.4	66.2
Denmark	72.3	73.1	73.8	74.0
Fed. Rep. Germany	64.8	70.2	66.9	63.9
Finland	75.6	75.3	72.2	72.6
France	70.1	67.0	65.4	60.3
Greece		58.5	55.3	55.0
Ireland	63.1	64.1	58.9	53.0
Italy	58.2	56.3	53.6	52.6
Japan	73.5	71.4	70.1	70.7
Netherlands	58.6	58.9	54.4	53.8
Norway	68.1	67.7	70.1	75.5
Portugal		57.5	63.5	65.7
Spain		59.6	57.1	46.1
Sweden	70.9	72.5	75.8	79.6
Switzerland	68.2	71.3	76.8	72.1
United Kingdom	68.6	71.2	70.6	67.3
United States	60.8	61.0	63.3	67.5
Average, 20 Countries		65.6	65.3	64.1
Std. Dev., 20 Countries		6.1	6.9	8.8
Average, 16 Countries	66.1	67.0	67.0	66.4
Std. Dev., 16 Countries	6.0	5.9	6.7	7.6

Sources: OECD *Labor Force Statistics*

Table 10 Civilian Government Employment as a Percent of Working Age Population

	1960	1970	1980	1989
Australia	6.2	7.1	9.9	10.3
Austria	6.5	8.0	11.3	12.0
Belgium	5.0	6.7	9.5	9.6
Canada	7.6	10.8	12.3	13.7
Denmark	6.5	11.3	19.8	21.7
Fed. Rep. Germany	4.7	6.5	8.4	8.5
Finland	4.5	7.1	11.2	14.6
France	8.2	10.0	11.3	12.2
Greece	0.5	1.3	1.9	2.7
Ireland	5.4	6.8	8.7	8.6
Italy	4.6	5.6	7.6	8.1
Japan	5.1	5.1	5.9	5.6
Netherlands	4.8	5.6	6.4	6.2
Norway	7.9	10.4	17.3	21.8
Portugal	1.5	1.3	6.1	8.2
Spain	1.6	2.0	3.8	5.7
Sweden	7.8	13.8	23.2	24.5
Switzerland	4.5	5.7	7.6	7.6
United Kingdom	9.9	11.7	13.9	13.2
United States	5.4	7.4	9.4	9.5
Average, 20 Countries	5.4	7.2	10.3	11.2
Std. Dev., 20 Countries	2.3	3.3	5.1	5.6
Average, 16 Countries	6.2	8.3	11.6	12.4
Std. Dev., 16 Countries	1.6	2.6	4.7	5.5

Note that the 1960 figures are from other years for the following countries: Canada (1961), Ireland (1961), Spain (1964), Greece (1961), and Norway (1962).  
Sources: OECD Printout, OECD *National Accounts*, OECD *Labor Force Statistics* and IISS, *The Military Balance*

Table 11 Total Civilian Non-Government Employment as a Percentage of Working Age Population, Various Years

	1960	1970	1980	1989
Australia	57.3	63.1	56.5	59.0
Austria	65.3	60.7	56.2	53.2
Belgium	53.7	54.1	48.5	46.6
Canada	48.7	49.5	53.7	56.6
Denmark	66.2	62.4	53.9	53.0
Fed. Rep. Germany	65.8	63.0	57.4	56.3
Finland	73.2	66.8	60.8	59.2
France	60.8	56.0	52.4	47.1
Greece	61.8	54.2	52.4	52.1
Ireland	59.3	55.1	49.1	42.3
Italy	53.2	48.2	44.9	45.9
Japan	66.1	66.0	64.5	66.1
Netherlands	55.0	52.2	46.6	53.0
Norway	60.3	57.7	56.8	52.9
Portugal	57.8	57.8	60.2	59.1
Spain	57.7	57.5	46.1	41.8
Sweden	65.6	59.4	56.3	57.2
Switzerland	64.8	68.1	71.7	68.4
United Kingdom	61.0	59.1	55.8	58.5
United States	55.5	54.5	56.5	62.1
Average, 20 Countries	60.5	58.3	55.0	54.5
Std. Dev., 20 Countries	5.7	5.4	6.3	7.1
Average, 16 Countries	60.8	58.8	55.8	55.9
Std. Dev., 16 Countries	6.3	5.9	6.3	6.3

Note the 1960 figures for Canada, Ireland and Greece are from 1961, that for Norway is from 1962, and that for Spain is 1964.  
Sources: OECD Printout, OECD *National Accounts*, OECD *Labor Force Statistics* and IISS, *The Military Balance*

Table 12 Female Participation in the Labor Force

	1950	1960	1970	1980	1990
Australia	26.4	34.1	46.5	52.1	62.1
Austria	47.3	52.1	48.7	48.7	55.4
Belgium	31.9	35.7	40.2	48.2	52.4
Canada	26.1	32.0	43.2	57.2	65.4
Denmark	47.3	51.5	58.0	71.4	78.4
Fed. Rep. Germany	43.9	49.3	48.1	50.0	57.0
Finland	57.4	65.8	61.4	70.1	72.9
France	41.7	46.5	48.3	54.4	56.6
Greece	27.2	27.8	31.2	33.0	43.5
Ireland	36.0	34.4	34.3	36.3	38.9
Italy	32.2	36.7	33.5	39.4	44.5
Japan	53.7	56.1	55.4	54.9	60.4
Netherlands	28.3	26.2	28.3	35.4	53.0
Norway	28.9	36.3	38.8	63.2	71.2
Portugal	26.3	20.1	30.8	57.0	61.3
Spain	17.4	23.6	29.2	32.0	40.9
Sweden	33.7	51.0	59.4	74.1	81.1
Switzerland	37.2	51.0	52.3	54.1	59.2
United Kingdom	42.3	47.6	50.7	58.3	65.7
United States	36.1	42.6	48.9	59.7	68.6
Average, 20 Countries	36.1	41.0	44.4	52.5	59.4
Std. Dev., 20 Countries	10.0	11.8	10.3	12.2	11.6
Average, 16 Countries	38.4	44.7	47.6	55.7	62.7
Std. Dev., 16 Countries	9.4	10.1	8.9	10.3	9.6

Data for Ireland for 1950 and 1960 are actually from 1951 and 1961, respectively. For Greece the actual years are 1951, 1961, 1971, and 1988.

Sources: OECD *Labor Force Statistics* and *Manpower Statistics*

### 3.3 Price Stability

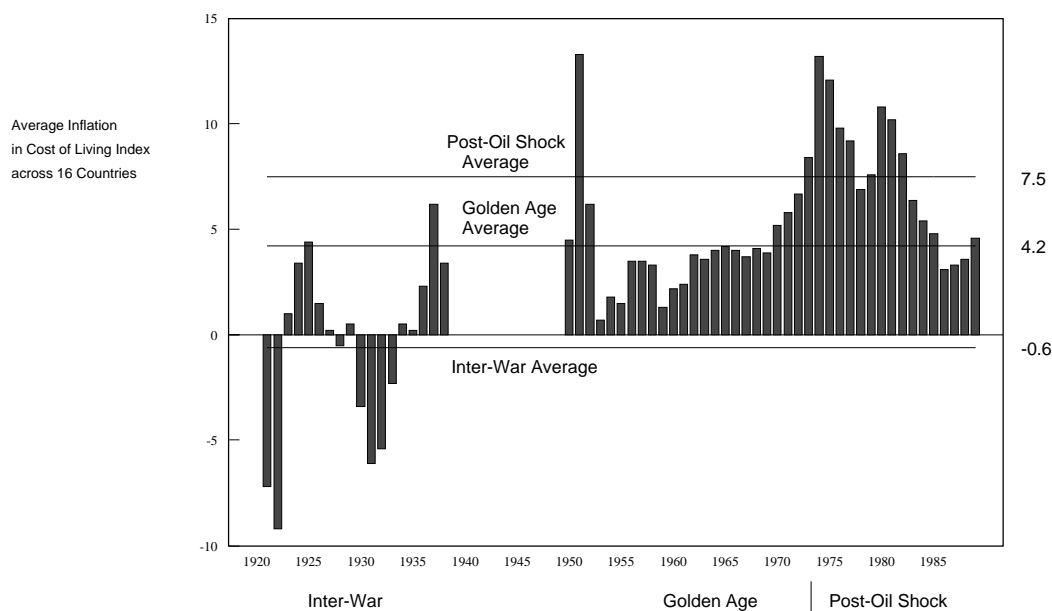
The "Golden Age" also stands out in terms of price stability (see Figure 10). While more inflationary than the inter-war years that preceded it, price stability was far greater. In turn, the post "Oil Shock" period saw explosive price movements upward that make the experience of the Golden Age seem relatively tame.

Inflation became a major problem in the latter two decades of this period. Hovering around four per cent per annum in the 1950s and 1960s it ballooned to an average level of over nine percent during the 1970s and then declined moderately through the 1980s averaging slightly less than seven percent (see Table 13) during this decade. Some countries did relatively well on average over the entire period. For example, Germany and Switzerland were the best performers with inflation rates averaging under four percent. Among the wealthier countries, Italy and Finland did the poorest with inflation rate averages of over seven percent. Especially poor in performance here were the four poorer countries, Greece, Ireland, Portugal and Spain. Three of these countries averaged inflation rates of over nine percent throughout the entire period.

Across the first three of the four decades being examined there is little evidence of a widespread pattern of strong continuity in terms of relative performance on inflation in the sixteen wealthier countries. In one decade a country might have done very well relative to the others and then in the succeeding decade performed badly in relative terms. However, just as inflation became a major and widespread problem in the 1970s and was brought somewhat under control throughout the 1980s, the pattern of inconsistency disappeared. Country performance in terms of inflation rates was highly correlated across these two decades ( $r=.81$ ). It would seem that as inflation became a problem some countries were suddenly placed in a changed and unattractive situation. The problem was no longer just as likely to go away as to stay; it became persistent.



Figure 10: Cost Inflation in the OECD Countries, 1921-1989



Source: Based on data provided in Maddison, 1991

Table 13 Inflation, Full Period and Decade Averages

	1950-90	1950-59	1960-69	1970-79	1980-90
Australia	6.6	5.8	2.7	10.4	7.3
Austria	5.0	6.8	3.6	6.2	3.9
Belgium	4.1	2.2	3.3	7.2	4.2
Canada	4.8	3.1	2.8	8.3	5.4
Denmark	6.0	3.3	6.0	9.3	5.8
Fed. Rep. Germany	3.6	3.0	3.1	5.2	3.0
Finland	7.2	5.8	5.9	11.0	7.1
France	6.5	6.8	4.1	8.8	6.6
Greece	9.6	6.0	3.0	12.5	16.7
Ireland	7.3	4.3	4.9	12.8	7.3
Italy	7.7	2.4	4.2	13.2	10.8
Japan	4.8	5.5	5.0	7.4	1.8
Netherlands	4.5	3.6	5.0	7.6	2.5
Norway	5.6	4.0	3.9	7.5	6.7
Portugal	9.5	1.0	3.1	14.5	16.7
Spain	9.2	7.9	6.1	14.3	9.3
Sweden	6.4	4.7	4.0	9.0	7.8
Switzerland	3.8	2.2	4.2	5.3	3.9
United Kingdom	6.9	4.4	3.8	12.5	7.2
United States	4.2	2.6	2.7	6.5	4.8
Average, 20 Countries	6.2	4.3	4.1	9.5	6.9
Std. Dev., 20 Countries	1.8	1.8	1.1	2.9	3.9
Average, 16 Countries	5.5	4.1	4.0	8.5	5.5
Std. Dev., 16 Countries	1.3	1.6	1.0	2.3	2.2

Source: OECD *National Accounts*

There is reason to believe that the success countries had in these last two decades was in no small way shaped by institutional considerations (Alesina, 1988; Alesina and Summers, 1993; Cukierman, 1992). Important here was the degree to which central banks were independent of government authorities. Thus, using the Alesina's measure of central bank independence for fourteen of the sixteen countries (data not available for Austria and Finland), it is clear that the greater the latitude accorded the central bank to pursue monetary policy, the more successful the country was in combating inflation. In the 1970's the correlation between the independence score and the average inflation rate was  $-.82$ ; in the 1980's it was  $-.77$ .

### **3.4 Equalization of Income Distribution**

Comparable and useful data on the distribution of income for these countries over the four decades are very difficult to come by. Table 14 provides the best available information on income distribution for the time frame and countries under consideration. The data characterize the distribution of disposable income across households within these countries for each decade, when available. Disposable income reflects the workings of both markets and government -- the former through the distribution of employment and non-employment related earnings and the latter through the effects of taxation and transfers. The data are presented in terms of the percentage of the total disposable income available to each quintile (ranging from the lowest to the highest). Data are also provided on the share going to the highest decile (see last column) as well as a summary measure (column 3) that shows the share (expressed in percentage terms) of the income received by the two lowest quintiles in relation to that received by the highest.

There is a fair amount of diversity here both across countries at any one time as well as in the movements over time. As to be expected, those states with fairly large and well-developed welfare state systems have generally done best at providing more equitable income distributions. Conversely, those with relatively undeveloped ones did poorly on this dimension of economic performance. The Scandinavian countries, Belgium, and the Netherlands generally had the most equitable distributions in any decade although there seems to have been a fairly uniform retreat toward less equality during the decade of the eighties within these countries. The United Kingdom also displays a similar pattern. Germany, on the other hand, has had a trajectory of increasing equality through to the end of the period although it still straggles behind most of the advanced welfare states.

Switzerland, France, Australia, Japan, and the United States stand out in terms of their relatively poor performance with respect to the level and improvement in the equalization of income distribution. Japan and Australia seem peculiarly exceptional in that they experienced significant declines over the years.

Table 14 Distribution of Household Disposable Income, OECD Countries, 1950s through 1980s,  
Decade Averages Based on Best Available Data

Country	Decade	(Q <sub>1</sub> +Q <sub>2</sub> ) as a % of Q <sub>5</sub>	Quintile(Q <sub>i</sub> ):					Highest Decile
			1	2	3	4	5	
Australia	1960s	51.80	6.60	13.50	17.80	23.40	38.80	23.70
Australia	1970s	32.70	5.40	10.00	15.00	22.50	47.10	30.50
Australia	1980s	36.73	4.40	11.10	17.50	24.80	42.20	25.80
Belgium	1970s	57.11	7.00	13.80	18.80	24.00	36.40	21.70
Canada	1970s	37.71	4.40	11.25	17.90	24.95	41.50	26.00
Canada	1980s	43.53	5.70	11.80	17.70	24.60	40.20	24.10
Denmark	1970s	53.33	7.40	12.60	-{42.5}-		37.50	----
Denmark	1980s	45.81	5.81	11.78	18.10	25.93	38.39	21.97
Finland	1960s	43.49	5.90	11.80	17.50	24.10	40.70	24.90
Finland	1970s	52.42	6.78	12.72	18.54	24.76	37.20	----
Finland	1980s	49.02	6.34	12.11	18.41	25.48	37.65	21.66
France	1970s	36.63	5.30	11.00	16.50	22.67	44.50	28.80
Germany	1950s	36.51	5.60	10.70	16.05	23.00	44.65	----
Germany	1960s	37.87	6.10	10.70	16.00	22.83	44.37	----
Germany	1970s	39.60	6.72	10.98	15.53	22.07	44.70	----
Germany	1980s	45.81	7.33	12.08	16.43	21.82	42.36	----
Ireland	1970s	38.73	5.00	11.50	17.00	23.90	42.60	26.40
Ireland	1980s	40.14	5.20	11.60	17.20	24.00	42.00	25.80
Italy	1960s	33.95	4.95	10.75	16.30	21.80	46.25	30.70
Italy	1970s	39.72	5.97	11.37	16.27	22.83	43.63	27.70
Italy	1980s	45.85	6.80	12.00	16.70	23.50	41.00	25.30
Japan	1950s	41.41	6.10	11.50	17.10	22.80	42.50	27.00
Japan	1960s	36.44	5.00	11.30	16.23	22.67	44.73	29.30
Japan	1970s	31.82	3.80	10.90	16.30	22.80	46.20	30.70
Netherlands	1950s	36.71	5.25	11.05	15.50	22.50	44.40	29.35
Netherlands	1960s	42.19	6.50	11.60	16.40	22.70	42.90	27.70
Netherlands	1970s	60.58	8.60	13.75	17.88	22.87	36.90	22.31
Netherlands	1980s	57.90	7.68	13.72	18.11	23.52	36.97	22.03
Norway	1970s	51.62	6.25	12.85	18.85	25.00	37.00	21.70
Norway	1980s	49.48	6.00	12.90	18.30	24.60	38.20	----
Portugal	1970s	30.96	5.20	10.00	14.40	21.30	49.10	33.40
Spain	1970s	42.08	6.00	11.80	16.90	23.10	42.30	26.70
Spain	1980s	48.50	6.90	12.50	17.30	23.20	40.00	24.50
Sweden	1970s	51.27	6.83	12.59	17.49	25.06	37.87	----
Sweden	1980s	50.70	7.21	12.31	16.91	25.06	38.50	----
Switzerland	1970s	26.47	4.80	9.80	13.40	16.90	55.10	34.40
Switzerland	1980s	37.89	5.20	11.70	-{38.5}-		44.60	----

Table 14, continued

Country	Decade	(Q <sub>1</sub> +Q <sub>2</sub> ) as a % of Q <sub>5</sub>	Quintile(Q <sub>i</sub> ):					Highest Decile
			1	2	3	4	5	
United Kingdom	1950s	43.52	6.00	11.80	17.10	24.10	40.90	25.20
United Kingdom	1960s	51.16	6.67	13.22	17.62	23.60	38.88	----
United Kingdom	1970s	52.51	7.15	12.80	18.21	23.98	38.00	22.73
United Kingdom	1980s	48.07	7.67	11.45	17.16	23.93	39.79	24.09
United States	1960s	34.05	4.00	11.05	-{40.67}-		44.20	----
United States	1970s	33.80	4.56	10.42	-{40.70}-		44.32	----
United States	1980s	37.47	4.70	11.00	17.40	25.00	41.90	25.00

## Methods and sources:

Where data are available for only one year during a decade, these values are provided; otherwise the data reported are averages for the years within the decade for which data exist. Normally, the sources report the data in terms of deciles or quintiles. However, sometimes the information provided consists only of income ranges and group sizes. In such cases, an mathematical algorithm was used to convert this information into quintile distributions.

The Australian data for the 1960s are based on "1966/67" values as reported by Sawyer, 1976 (table 4). The 1970s values are for "1975/76" and derive from the World Bank *World Development Report* for 1984. Data for the 1980s are based on 1985 figures which are drawn from the World Bank *World Development Report* for 1993.

The 1970s Belgian data are drawn from the United Nations (1985) *National Accounts Statistics: Compendium of Income Distribution Statistics* (p.52) which reports figures for the period "1978/79."

Canadian data for the 1970s are based on the averages of the values for 1972 and 1977. The sources are Sawyer, 1976 (table 4) and the World Bank *World Development Report* for 1984. Data for the 1980s are based on 1987 figures drawn from the World Bank *World Development Report* for 1993.

The Danish data for the 1970s are based on the 1976 values taken from the World Bank *Social Development Indicators* Diskette. The 1980s values are based on the year 1981 and are drawn from the United Nations (1985) *National Accounts Statistics: Compendium of Income Distribution Statistics* (p.144).

Data on Finland for the 1960s are based on 1966 values and are drawn from Uusitalo, 1987. The 1970s values are the averages based on data for five years, viz., 1971, 1976 through 1979. The 1971 and 1976 data derive from Uusitalo, 1987. The 1977 data are drawn from United Nations (1981) *A Survey of National Income Distribution Statistics* (p. 102). The 1978 and 1979 data derive from Alestalo and Uusitalo, 1986 (p. 238). The 1980s values are based on data for 1981 as reported in the United Nations (1985) *National Accounts Statistics: Compendium of Income Distribution Statistics* (p. 167).

The 1970s French data are based on the averages for three years, 1970, 1975 and 1979. Sawyer, 1976 (table 4) provides figures for 1970 while the World Bank *World Development Report* for 1984 and 1993 are the sources for the latter two years.

Data on Germany are based exclusively on information drawn from various *Wochenbericht* of the Deutsches Institut für Wirtschaftsforschung. The 1950s values reported are the averages for the two years, 1950 and 1955. The 1960 values are the averages for the years 1960, 1964 and 1968. The 1970s values are averages based on data for 1970 and each year running from 1973 through 1979. Note that the data for the years 1973 through 1979 are based on a reclassification of the data as reported by the source. All values for the years up to and including 1970 come from the *Wochenbericht* number 25 in 1970. The other data for the 1970s come from numbers 35 (1974), 31 (1975), 30-31 (1976), 27 (1977), 32-33 (1978), 46 (1979) and 38 (1980). The 1980s values are the averages for the years 1980, 1981, 1983, 1984, 1985 and 1988. The data for 1981 and 1988 also needed to be reclassified. In consecutive order, the *Wochenbericht* sources are: 4 (1982), 30 (1983), 14 (1985), 45 (1985), 51-52 (1986) and 22 (1990).

Data on Ireland are available for two years, 1973 and 1980. The former is drawn from Nolan, 1981 (p.69) and the latter is taken from the United Nations (1985) *National Accounts Statistics: Compendium of Income Distribution Statistics* (p.260)

The Italian data for the 1960s are based on two years' values, 1967 and 1969, which are drawn from Sawyer, 1976 (p. 27 and table 4, respectively). The 1970s values are based on three years of data, those for 1972, 1976 and 1977. The 1972 values come from Sawyer, 1976 (p.27) while both the latter years' values are drawn from United Nations (1981) *A Survey of National Income Distribution Statistics* (p. 169). The 1980s values are from the year 1986 and are taken from the World Bank *World Development Report* for 1993.

Table 14, continued

The 1950s values for Japan are based 1959 data and are drawn from Stark, 1977 (p. 135) and are estimates developed by Wada for the ILO. The 1960s values are averages based on 1962 and 1968 estimates by Wada reported in Stark, 1977 (p. 135), as well as Ishizaki's, 1985-86 (p. 36) estimates, also for the year 1968. The 1970s values are also Wada's estimates as reported by Stark, 1977 (p. 135) for the year 1971.

In the case of the Netherlands two yearly reports are available for the 1950s. Data for both years, 1954 and 1959, are drawn from Sawyer, 1976 (p. 28). Sawyer also reports (table 4) the one set of values that is available for the Netherlands in the 1960s, i.e., 1967. Four separate annual values are available for the 1970s. The first, for 1973, is taken from the United Nations (1981) *A Survey of National Income Distribution Statistics* (p. 211). The data for the other three years, i.e., 1975, 1977, and 1979, are drawn from different volumes of the *Statistical Yearbook of the Netherlands* (1981, 1982, 1983, respectively). Three yearly sets of values are available for the 1980s. One, for 1983, is drawn from the World Bank *World Development Report* for 1993, while the other two, i.e., 1981 and 1986, are based on data provided in the 1984 and 1988 volumes of the *Statistical Yearbook of the Netherlands*.

Norwegian data for the 1970s are based on two years, 1970 and 1979. The 1970 data derive from Sawyer, 1976 (table 4) and the 1979 data are drawn from the World Bank *World Development Report* for 1993. The 1980s values are based on data reported for 1982 in the United Nations (1985) *National Accounts Statistics: Compendium of Income Distribution Statistics* (p.260)

Portuguese data for the 1970s are based on "1973/74" values as reported in the World Bank *World Development Report* for 1988.

Data for the 1970s for Spain are based on the "1973/74" data reported in Sawyer, 1976 (table 4). The 1980s values are drawn from the World Bank *World Development Report* for 1993 and are those reported for the period "1980/81."

Swedish data for the 1970s are averages based on 7 different yearly sets, viz., 1972 through 1976, 1978, and 1979. Data for 1972 derive from Sawyer, 1976 (table 4). Data for 1973 are drawn from the United Nations (1981) *A Survey of National Income Distribution Statistics* (p. 314). The 1974 values are based on my own calculations of data reported for the year in the *Income Distribution Survey in 1974*. The 1976 and 1978 data are my own calculations based on data reported in the *Statistical Abstract of Sweden*, 1978 (p. 363) and 1981 (p. 354), respectively. The data for 1979 are drawn from World Bank *World Development Report* for 1984. The values reported for the 1980s are based on 10 separate years of data running from 1980 through 1989. The original data are all drawn from *Statistical Abstract of Sweden*, 1982/83 (p. 352), 1984 (p. 215), 1986 (p. 209), 1987 (p.207), 1988 (p.207), 1989 (p. 207), 1990 (p. 208), 1991 (p.211), 1002 (p. 199), and 1993 (p. 201). Due to the non-standardized way in which the source presents the data it was necessary to us my own calculations to derive the final values.

Data on Switzerland for the 1970s are based on 1978 values as reported in the United Nations (1985) *National Accounts Statistics: Compendium of Income Distribution Statistics* (p.260). The 1980s values are based on information taken for the year 1982 from World Bank *Social Development Indicators* Diskette.

United Kingdom data for the 1950s are based on the 1959 values reported in Sawyer, 1976 (p.29). The 1960s values are based on 9 separate annual measures running from 1961 through 1969. The values for 1961-65 are taken from the Royal Commission on the Distribution of Income and Wealth, Report No.4, 1976 (p.111). The 1966 through 1969 data come from Stark, 1976 (pp. 22 and 181 for the first two years and p. 225 for the last two). The 1970s data are based on 10 separate annual measures running from 1970 through 1979. The 1970 and 1975 values are drawn from the Royal Commission on the Distribution of Income and Wealth, Report No.4, 1976 (p.111). The 1971, 1972 and 1973 data come from the Central Statistical Office's *Economic Trends* (Dec. 1980). The 1976 through 1979 data are drawn from the Central Statistical Office's *Economic Trends* (Dec. 1982). The 1980s figures, are based on 8 annual measures running from 1980 through 1987. They are also drawn from various issues of the Central Statistical Office's *Economic Trends* (1981-1989).

The United States' 1960 values are based on data for 1966 and 1967 which are drawn from World Bank *Social Development Indicators* Diskette and Stark, 1977 (p.181), respectively. The 1970 values are based on five years of data, i.e., from 1970, 1972, 1974, 1976, and 1978. The respective sources are: Stark, 1977 (p.181), Sawyer, 1976 (table 4), Stark, 1977 (p.181), the World Bank *Social Development Indicators* Diskette and the World Bank *World Development Report* for 1984. Data for the 1980s are the 1985 values reported in the World Bank *World Development Report* for 1993.

### 3.5 Balance of Payments Equilibrium

Finally, the relative performances of these countries in terms of the external or balance of payments equilibrium can be briefly examined. Table 15 provides the period-long as well as the four decade averages for each of the twenty countries surpluses (+) or deficits (-) on the current account, one of the standard measures used in this area.

Approximately two-thirds of the countries weighed in with external account positions that were on average in deficit over the whole period. Particularly bad performances were registered by the lower income countries as well as the Scandinavian group, Australia, and Canada. The Continental European group generally have performed well, managing on average to have been in surplus. Germany and Switzerland have led the group in this area by accumulating on average rather large surpluses while Japan turned in an especially good performance in the decade of the 1980s.

Table 15 Average Annual Surplus on Current Account as a Percentage of GDP, Full Period and Decades

	1950-90	1950-59	1960-69	1970-79	1980-90
Australia	-2.5	-1.2	-2.4	-1.2	-4.8
Austria	-0.4	-0.5	-0.1	-0.8	-0.3
Belgium	0.4	1.3	0.3	0.6	-0.6
Canada	-1.7	-2.6	-1.5	-1.3	-1.5
Denmark	-1.9	-0.2	-1.9	-2.6	-3.0
Fed. Rep. Germany	1.6	2.4	0.8	0.9	2.1
Finland	-1.3	0.5	-1.2	-2.3	-2.1
France	0.1	-0.6	0.9	0.4	-0.5
Greece	-3.7	-6.2	-2.4	-2.3	-3.9
Ireland	-4.1	-4.5	-1.9	-5.6	-4.6
Italy	0.0	-0.4	1.3	0.2	-1.0
Japan	1.0	1.0	0.2	0.8	2.1
Netherlands	1.5	1.5	0.4	1.1	2.7
Norway	-2.1	-2.7	-1.8	-5.1	0.9
Portugal	-2.9	-3.5	-1.3	-2.4	-4.6
Spain	-0.6	-0.8	-0.1	-0.5	-1.0
Sweden	-0.6	0.2	-0.2	-0.4	-1.9
Switzerland	2.1	1.9	-0.3	2.8	3.9
United Kingdom	-0.3	0.6	-0.3	-0.6	-1.0
United States	-0.2	0.2	0.6	0.2	-1.6
Average, 20 Countries	-0.8	-0.7	-0.5	-0.9	-1.0
Std. Dev., 20 Countries	1.7	2.2	1.1	2.0	2.4
Average, 16 Countries	-0.3	0.1	-0.3	-0.5	-0.4
Std. Dev., 16 Countries	1.3	1.4	1.1	1.8	2.2

Source: OECD *National Accounts*

### **3.6 Economic Performance and Left-Right Preferences: A Comparison of National Tendencies**

The mass of information presented in the previous pages can now be drawn together to provide a parsimonious depiction of the relative economic performance of the OECD countries over the last four decades. Two scales are used here. One represents relative success with respect to the economic preferences of the left and the other is an attempt to describe the relative success in terms of the economic preferences of the right. Both scales are composite indices based on two separate economic performance measures. The left scale taps performance with respect to the two highest valued economic outcomes for those on the left, viz., full employment and the equalization of income. The right scale measures performance with respect to the two highest priority goals of that wing of the political spectrum, viz., price stability and balance of payments equilibrium.

Because of data availability problems, scores have been developed for only the sixteen higher income countries. For each component measure, given that the four decade averages are used, there are 64 observations. These observations have been standardized with respect to the observed mean and standard deviation of the particular series. Since a high score on the standardized unemployment indicator signifies poor performance in terms of the full employment goal, the score on this measure is subtracted from the standardized score on the income distribution index in order to arrive at the final value for the left performance scale.<sup>5</sup> Similarly, a high inflation score represents poor performance in terms of price stability. Therefore, the standardized score for inflation is subtracted from the standardized score for the current account so as to produce a right performance index.

The results of these operations are plotted for each country in Figures 11a through 11p. Let me briefly describe the developments recorded therein. By the end of the period all four of the Anglo-Saxon countries had moved into the least successful quadrant. Their routes to this uncomfortable end zone were, however, different. On the one hand, Canada and the United States moved from the position of moderate success in terms of right preferences and unsuccessful performance in terms of left preferences. On the other hand, both the United Kingdom and Australia retreated from positions that combined at least near average if not relatively good performance on the right and relatively good performance on the left dimension.

The four Scandinavian countries all share a fairly similar pattern in terms of their movements. The 1950s through the 1970s were marked by major tradeoffs against right preferences to the benefit of increasingly successful performance in terms of left preferences. The transition to the 1980s brought with it a reversal of this tradeoff. Greater success accrued to the right at the costs of diminished success in terms of left preferences. By the 1980s, indeed, only two of the four, i.e., Finland and Sweden, remained in the quadrant of successful left and unsuccessful right performances. Denmark retreated into the "failure all-around" category, while Norway moved into the quadrant of joint success.

Three Continental European countries stand out as a group in terms of their strikingly similar trajectories and approximate positions through the four decades. These three include Germany, the Netherlands, and Belgium. Having been so tightly intertwined economically, this is not too surprising. Their early movements were generally toward increasingly better performance in terms of left preferences, usually at the expense of right preferences. The movement into the 1980s were characterized by a uniform and radical reversal of direction with significant improvement accruing in terms of right-favored outcomes at the expense of the performance preferences of the left.

The performances of the other Continental countries form a somewhat diverse pattern. France moved from modest success on one or both dimensions in the first two decades into the quadrant of joint failure. Italy, while making some gains in terms of left preferences in the early part of this period, moved radically into the joint failure zone by the 1970s and remained there in the succeeding decade. Despite a bit of zigzagging, both Austria and Switzerland moved in the general direction of success along both dimensions, and, indeed, by the 1980s the two countries were to be found in the upper right hand quadrant.

Japan manifested generally superior performance along both dimensions through the first three decades although the 1970s saw a drop to the point where performance was slightly below average in terms of the two partisan preferences. The transition to the 1980s were marked by a modest increase in success with respect to left preferences combined with a radical improvement in terms of performance conforming to the preferences of the right.

Over time there has been significant diversity in terms of the tendency for performance to conform to right or left preferences. The 1950s and the 1960s saw most countries, eleven and twelve of the sixteen, respectively, doing above average in terms of right preferences. All but three, however, had sunk to a below average right performance in the decade of the 1970s. The 1980s saw an increase in this number with seven having above average performance during this decade. On the left, the 1960s and 1970s saw the majority of the states, eleven and nine, respectively, doing above average. The 1980s, however, saw a return to the situation of the 1950s where only seven were performing above average in terms of left preferences.

Figure 12 is an effort to picture the central tendencies of these nations throughout the post war period. It combines the information on relative success and failure with respect to left and right preferences through the four decades in such a way as to convey the habitual placements of these states. Performances along both dimensions are separated into two categories: frequent relative success, i.e., where the country was above average along the relevant performance dimension during three or four decades, and no or infrequent success, i.e., where the country experienced two or fewer decades of above average performance. The largest grouping is composed of six states, three of the Anglo-Saxon countries, viz, Australia, Canada, and the United States, two large Continental European countries, viz., France and Italy, and the sixth, Denmark. All of these countries fall into the joint failure category. The smallest grouping is composed of Switzerland and Germany. These states fall into the successful right and unsuccessful left category. Five countries, Austria, Finland, Norway, Sweden and the United Kingdom belong to the polar opposite grouping, i.e., the category of frequent success in terms of left preferences and no or little success in terms of performances in conformity with right preferences. The last category, joint success in terms of both sets of preferences, is composed of a rather mixed group of countries including Belgium, the Netherlands, and Japan.



Figures 11a-11p Relative Performance With Respect to Principal Leftist and Rightist Macroeconomic Performance Goals

Figure 11a

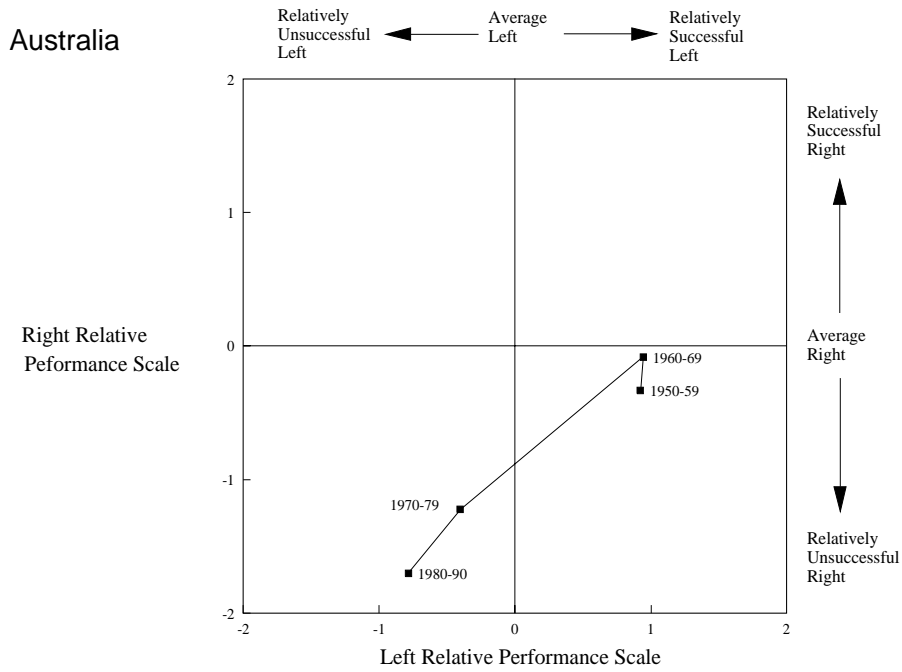


Figure 11b

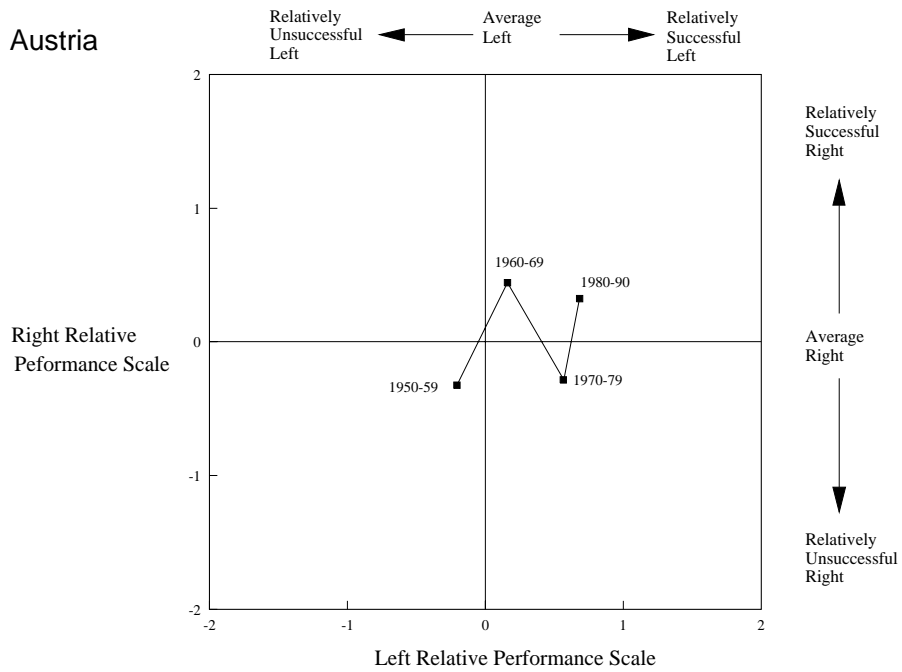


Figure 11c

Belgium

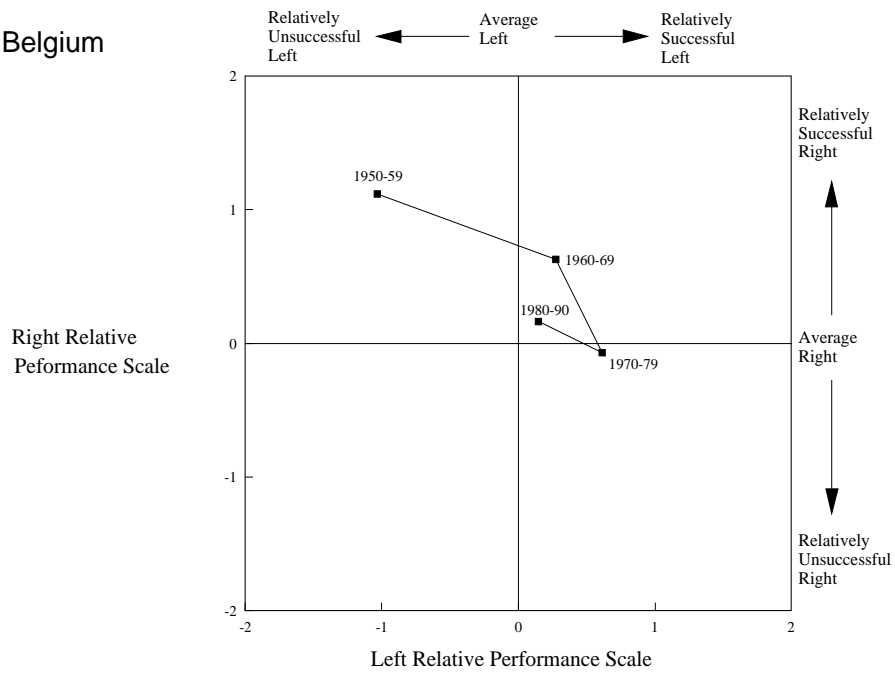


Figure 11d

Canada

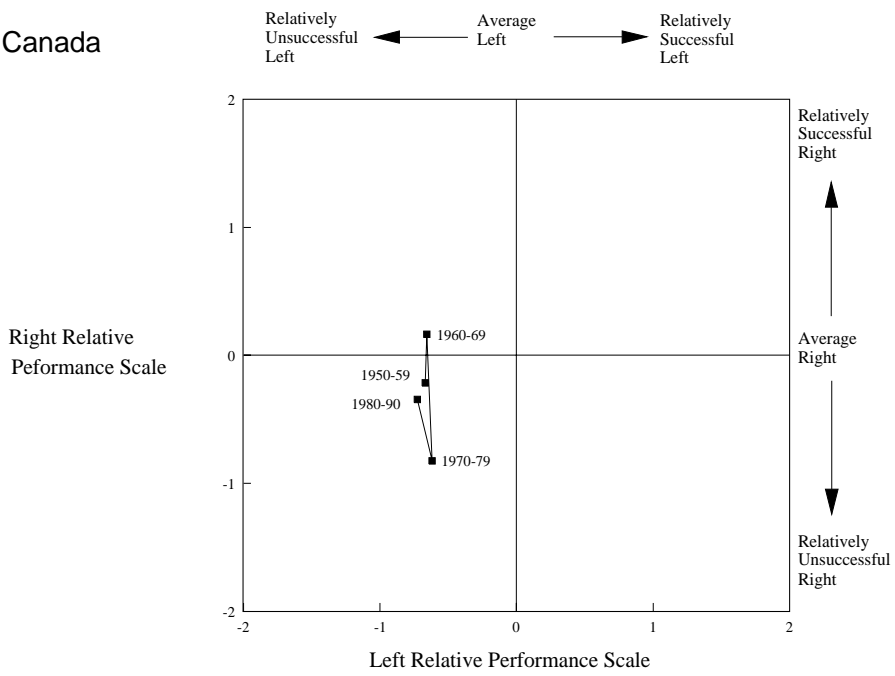


Figure 11e

Denmark

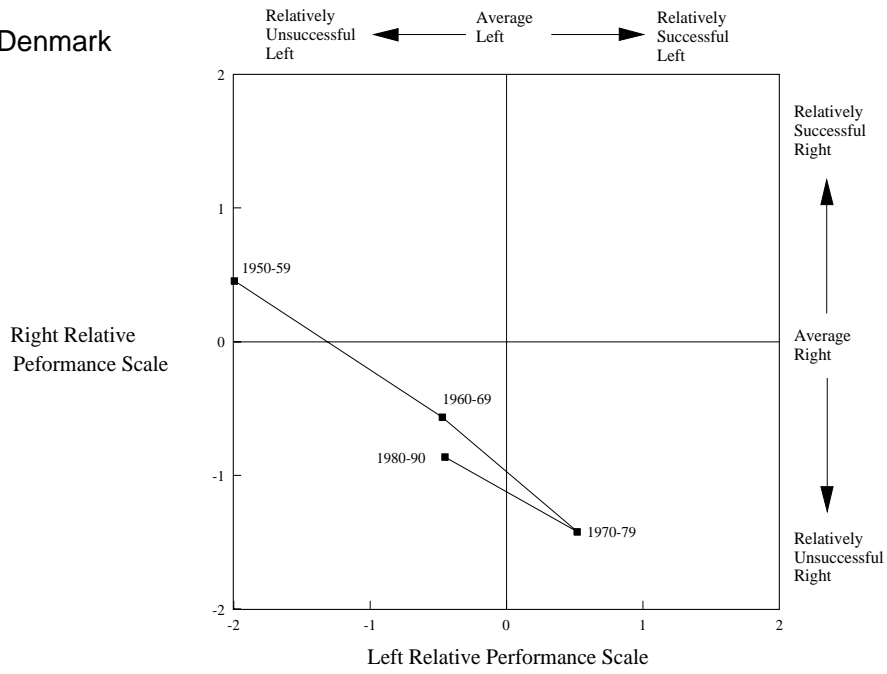


Figure 11f

Finland

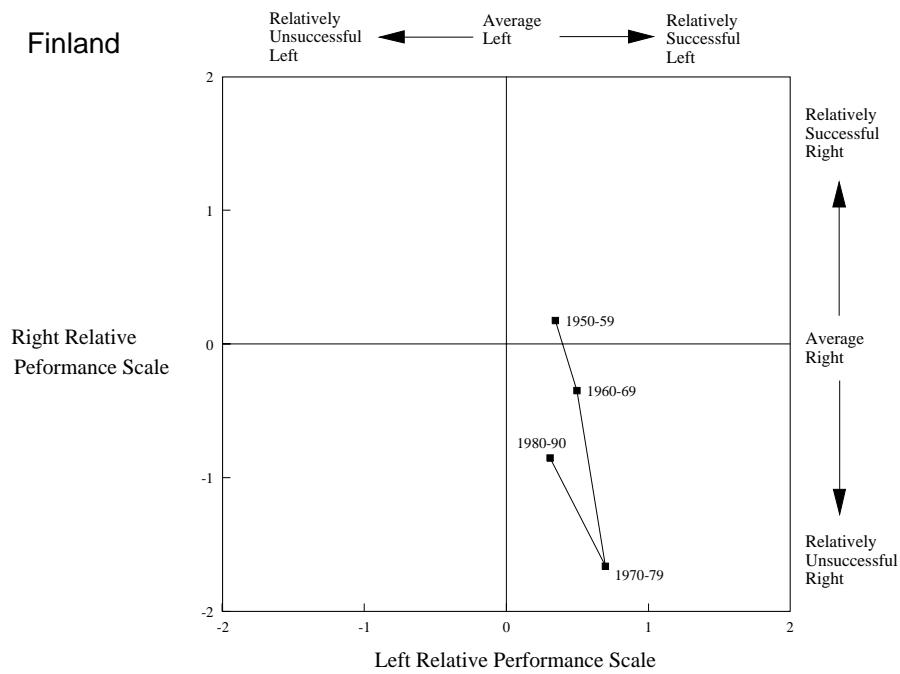


Figure 11g

France

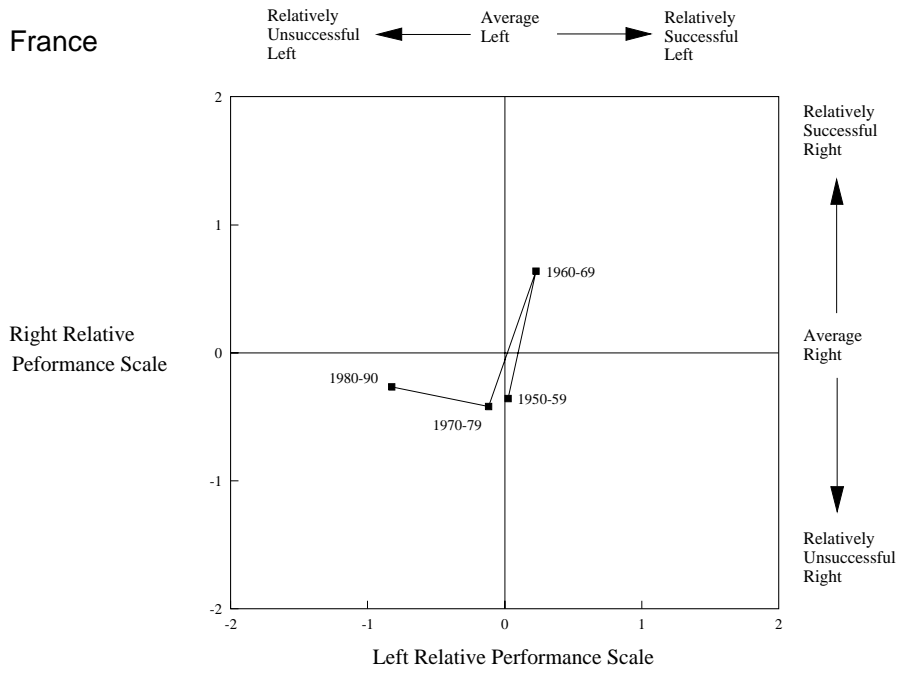


Figure 11h

Germany

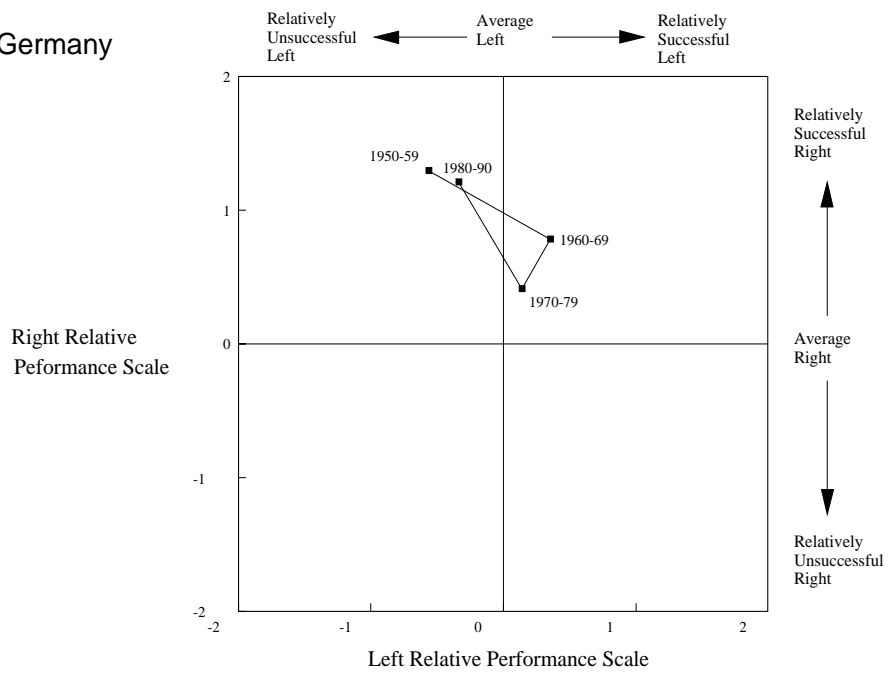


Figure 11i

Italy

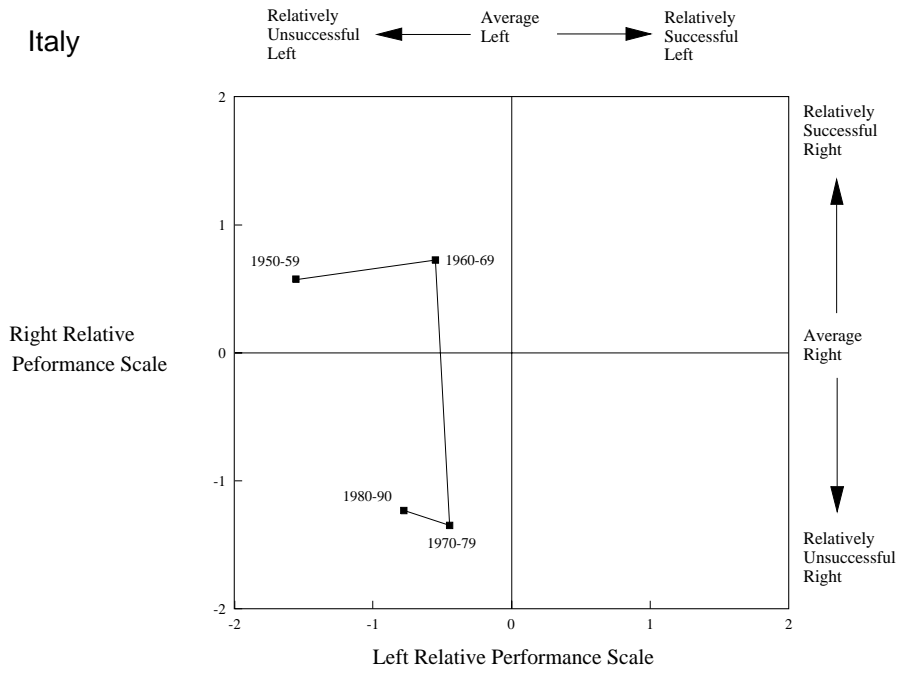


Figure 11j

Japan

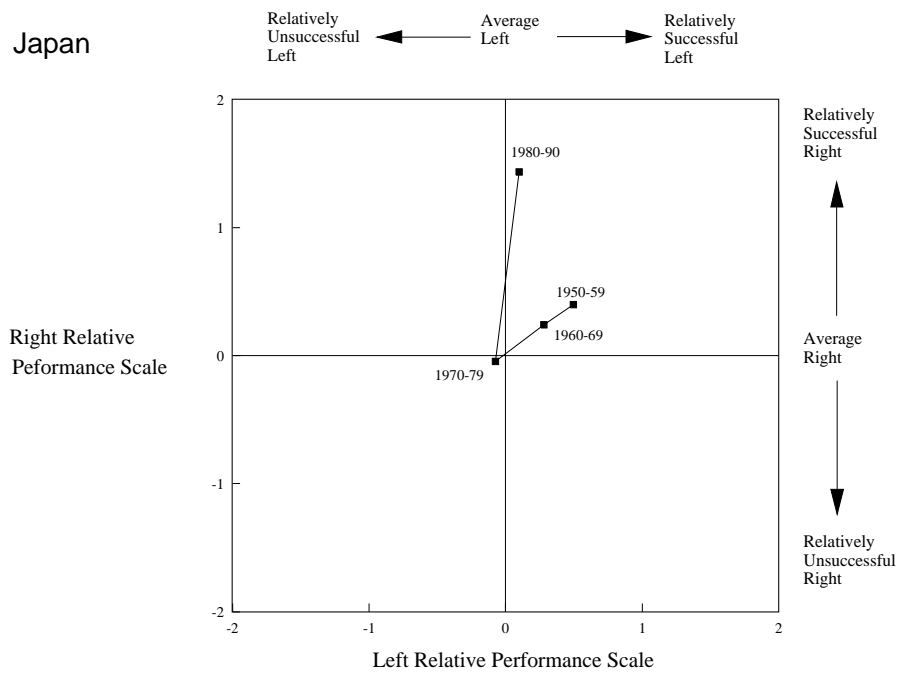


Figure 11k

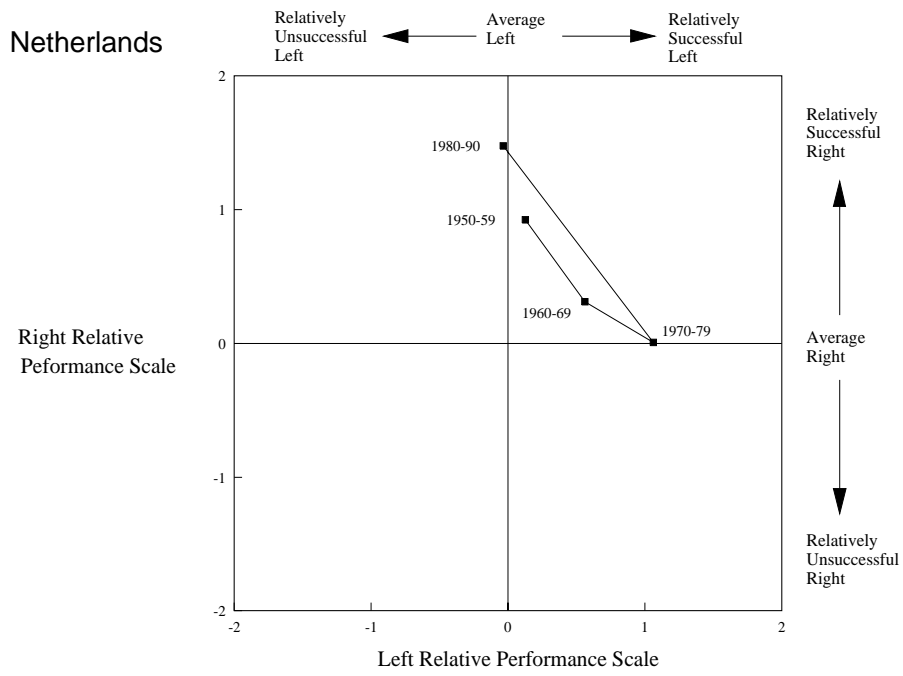


Figure 11l

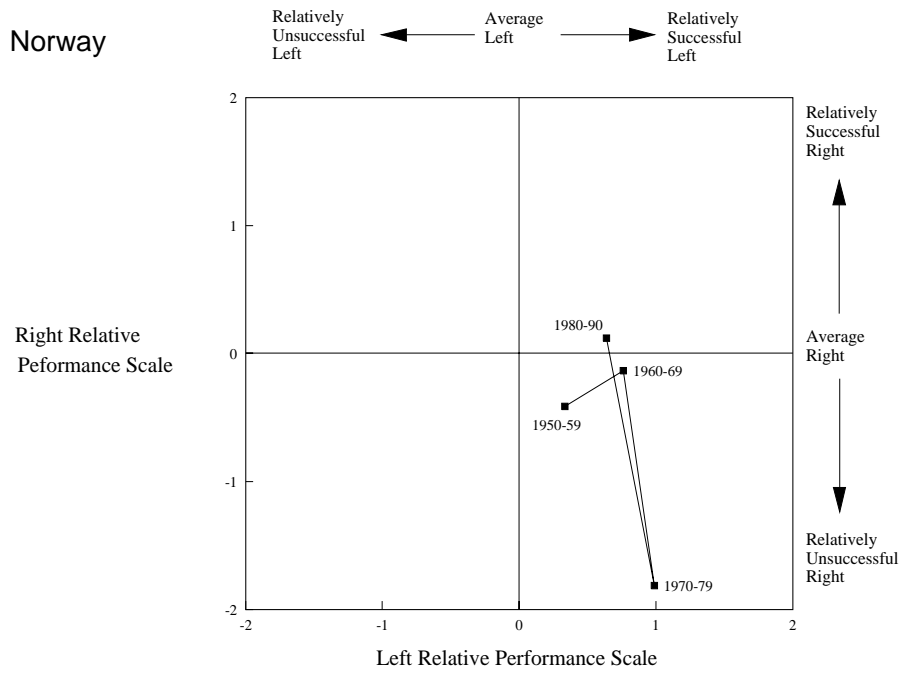


Figure 11m

Sweden

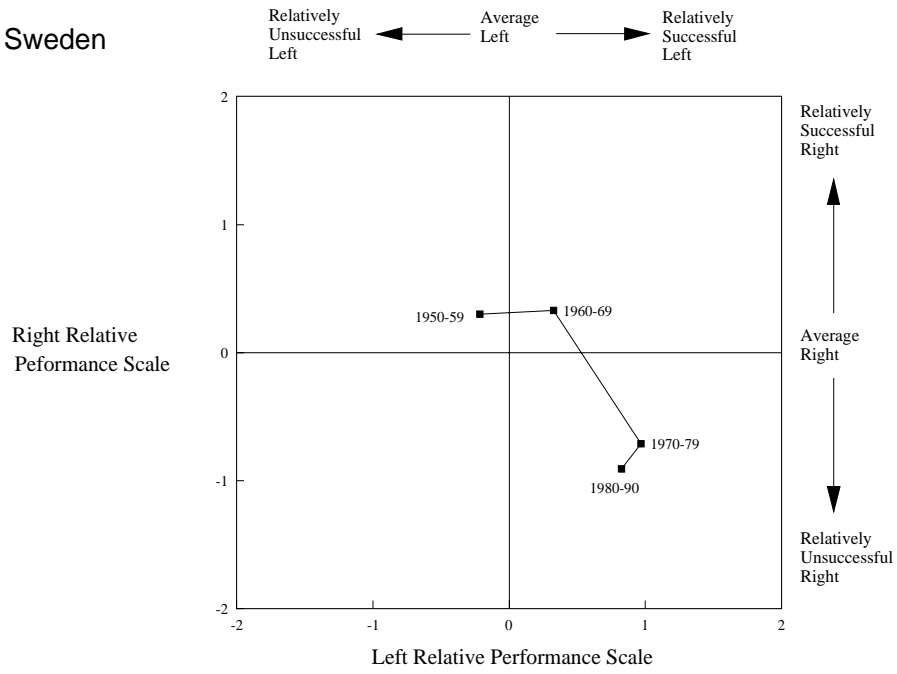


Figure 11n

Switzerland

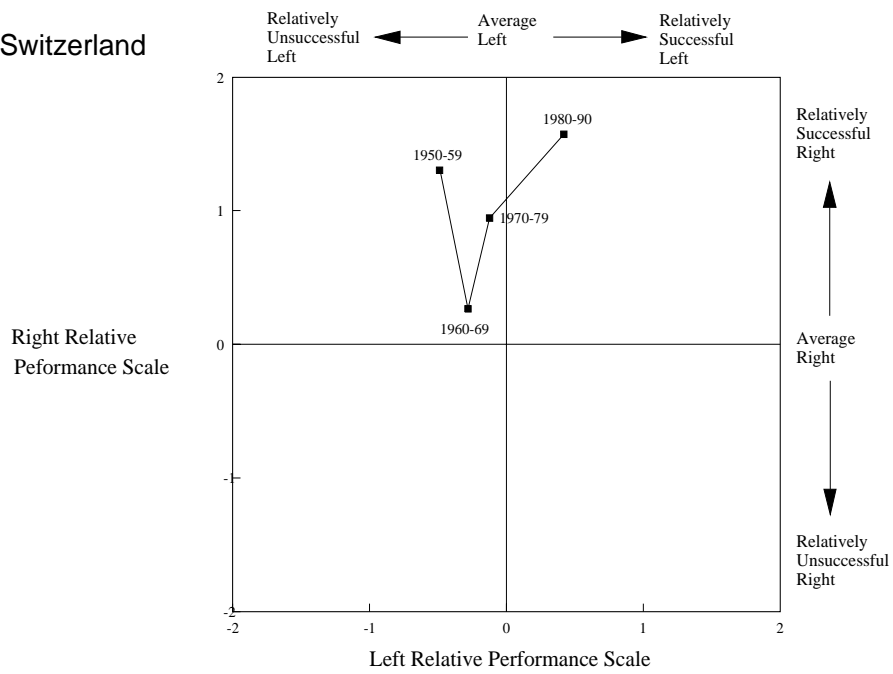


Figure 11o

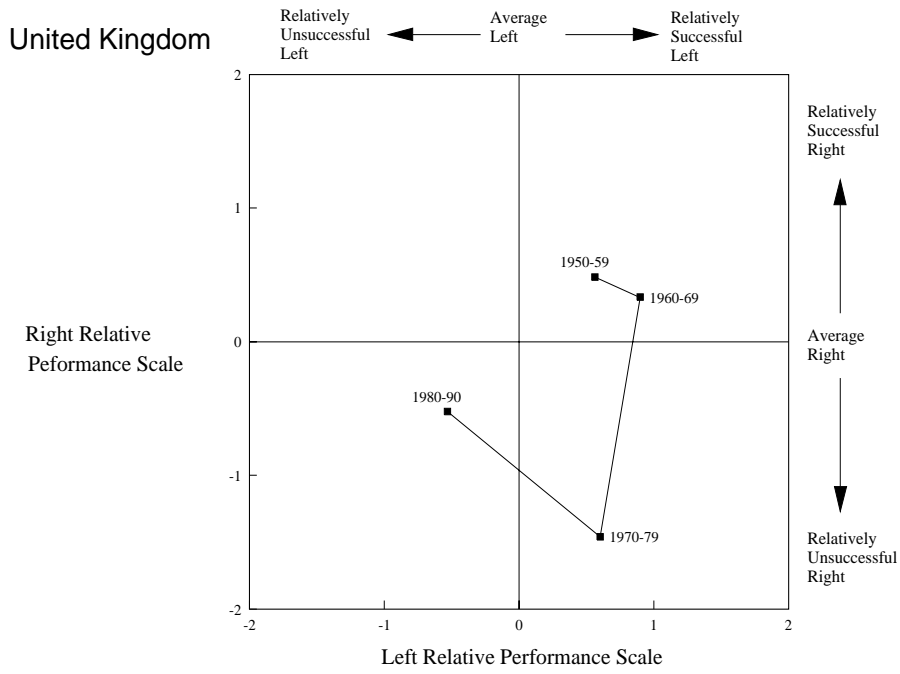


Figure 11p

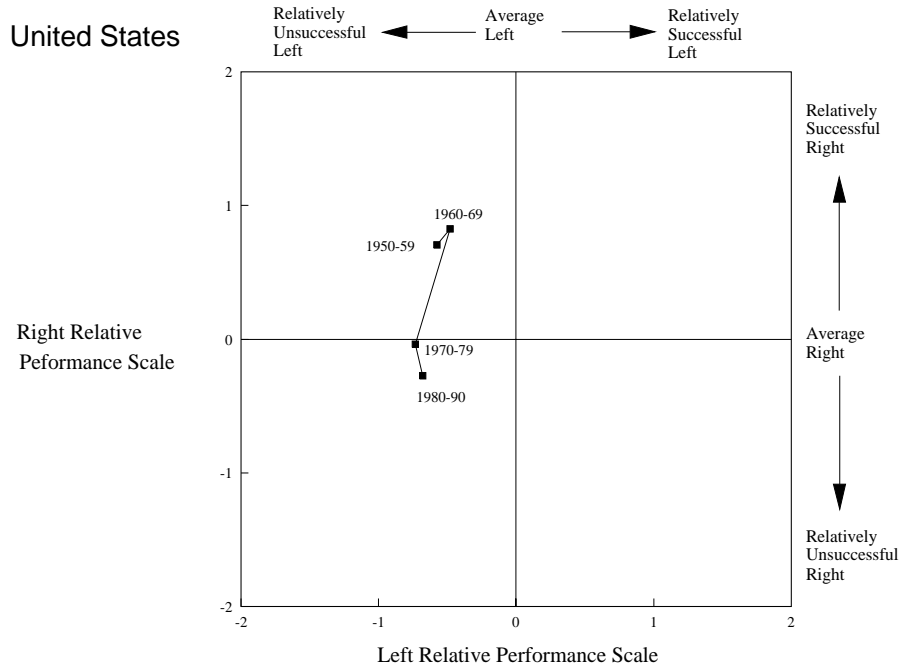




Figure 12 A Classification Of OECD Countries In Terms Of Their Macroeconomic Performances In Light Of Alternative Partisan Preferences

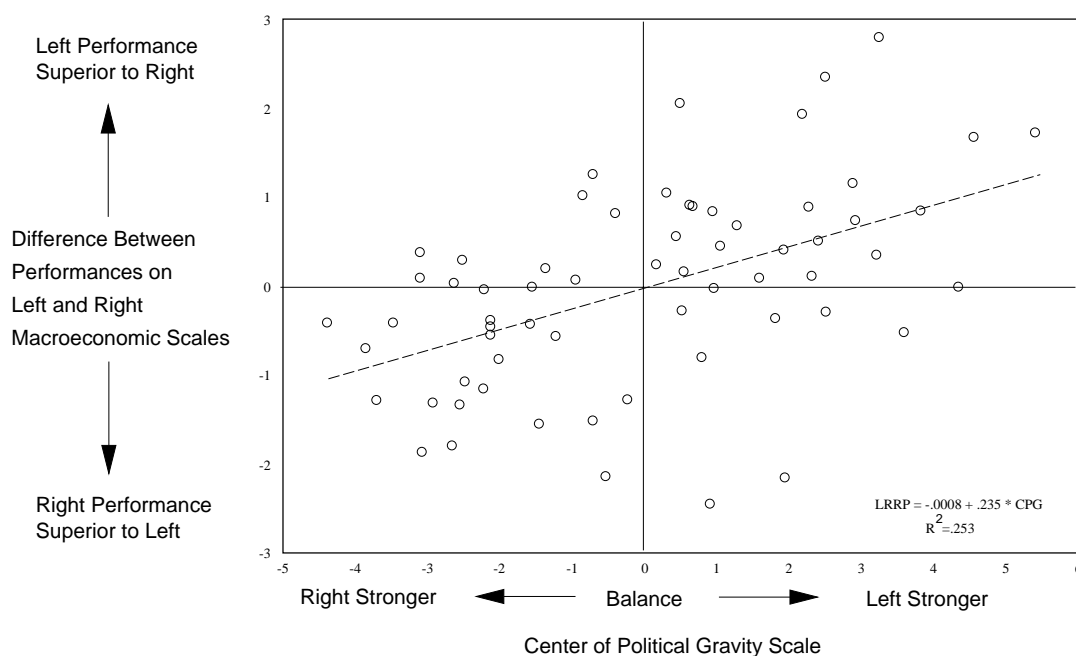
		Achievements With Respect To The Macroeconomic Preferences Of The <u>Right</u>	
		No Or Infrequent Relative Success	Frequent Relative Success
Achievements With Respect To The Macroeconomic Preferences Of The <u>Left</u>	No Or Infrequent Relative Success	Australia Canada Denmark France Italy United States	Germany Switzerland
	Frequent Relative Success	Austria Finland Norway Sweden United Kingdom	Belgium Japan Netherlands

### 3.7 The Political Strength of the Left and Right and Relative Success in Preferred Macroeconomic Outcomes

The next section provides a discussion and analysis of competing arguments regarding the political sources of macroeconomic performance in the five specific areas described earlier. Here I would like to stop for a moment and consider the degree to which politics influenced the broad set of outcomes that have just been described. This is done in a relatively straightforward manner. Using a measure that characterizes the center of political gravity along the left-right dimension in these countries over the past four decades, an evaluation is made of the degree to which the political complexion of a country at any one time bears any correspondence to relative success between the preferred macroeconomic outcomes of the left and right. Figure 13 registers the country-specific decade averages of the center of political gravity score on the horizontal axis. The differences between the left and right performance indices are measured on the vertical axis. As can be seen in the chart there is some indication of a relationship between the relative political powers of the left and right and the success with which macroeconomic outcomes accord with left or right preferences. As the center of political gravity shifts to the left, macroeconomic outcomes favoring the left as opposed to the right tend to be realized, and vice versa. The regression results reported in the figure are based on OLS. Even when one allows for both country-specific as well as time-specific effects, the relationship still holds, and does so at a statistically significant level.

Figure 13

Left-Right Relative Performance and the Center of Political Gravity



#### 4 Three Arguments Linking Politics to Economic Performance

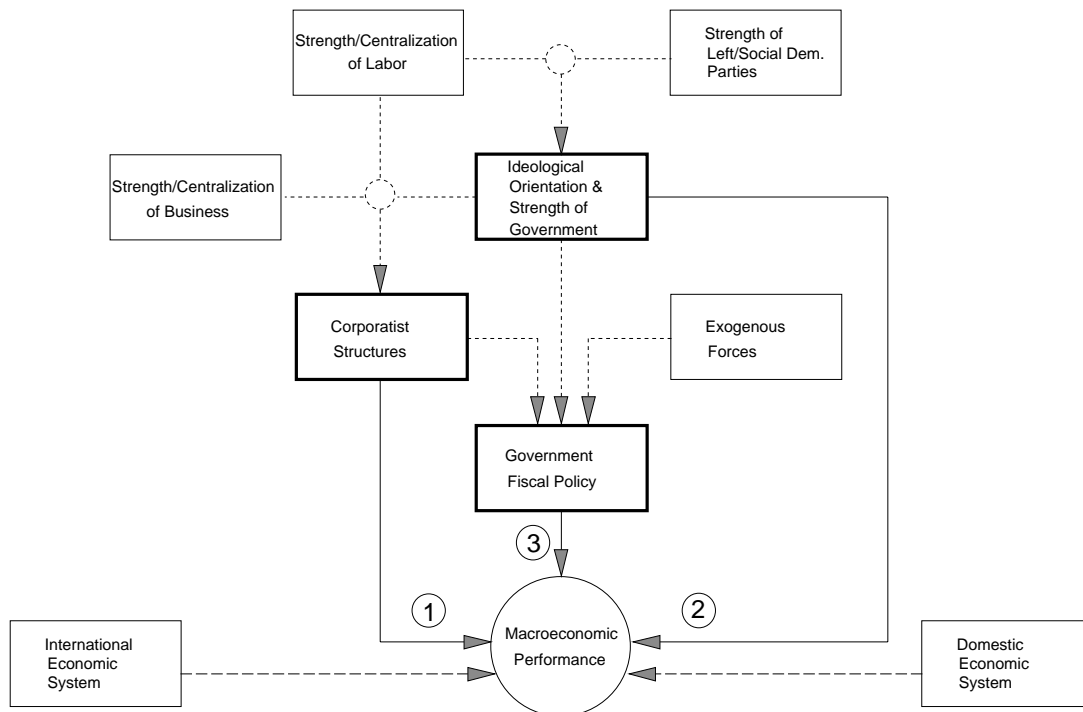
The aim of this section is to shed some further light on the political foundations of the economic performance records described in some detail within sections 3.1 through 3.5. The analyses reported here should be viewed as tentative. The focus is on three stylized arguments that are widely used in the literature. The first argument emphasizes the role that social consensus, produced by corporatist and similar structures, has in maximizing performance across a variety of economic problem areas. The second attributes significant importance to class-based partisan politics in generating macroeconomic outcomes. The third argument focuses on the contribution of government, particularly its budgetary and fiscal policies, to the production of macroeconomic outcomes (see Figure 16 for a schematic overview).

Although these three arguments are often treated either implicitly or explicitly as independent and competing explanations of the political basis of macroeconomic success and failure, there are some reasons to suggest that they are indeed at least partially linked and interdependent. This is highlighted in Figure 14 (as is the important idea that there are other forces clearly at work). In sum, these arguments can be seen as related to a degree. For example, government budgetary and fiscal policies are not set in a political vacuum. There are substantial grounds to believe that the partisan preferences of governing parties and their strength in society have an impact on the shape and form of these policies (cf., Garrett and Lang, 1991; Cusack, 1992; Cusack and Garrett, 1993). So too are there good reasons to believe that corporatist arrangements play a role in shaping these governmental policies (cf., Schmitter, 1981; Summers, Gruber and Vergara, 1993). Stepping further back, there are clear interdependences between the development and maintenance of corporatist arrangements on the one hand and the strength of labor in the economy and the left in politics on the other (Lijphart and Crepaz, 1991; Western, 1991). Nevertheless, for present purposes I will treat these arguments

as they are generally handled in the literature: they are assumed to contain factors that are independent of one another and indeed can perhaps be treated additively in any full model of the political basis of economic performance.

The three arguments are outlined in the following pages. Details on the steps involved in conducting the empirical analyses of these arguments are presented and then the results of the analysis are provided. While there is no expectation that debates can be resolved here as to which, if any, of these arguments is correct, it may be possible to identify the dimension or dimensions of economic performance that have shown themselves susceptible to influence by political forces.

Figure 14 Politics and Macroeconomic Performance



#### 4.1 Social Consensus Model

One widely shared view about the way in which the political sphere shapes economic performance is to be seen in various hypotheses regarding the way in which broad based institutional patterns regulate the behavior of societal interest groups and thereby either shield the economy or expose it to untoward influences. At its most general level, this approach suggests that the manner in which interest groups interact with each other (and with government) will shape the quality of economic performance. Competition among these groups in various domains, particularly with respect to their influence on government and its interference with the market mechanism, when excessive and unbridled, will undermine economic efficiency and thereby generate a variety of economic problems. In effect, if distributive struggles are not constrained by stable institutional forms, economic performance will decline. Countries vary in the extent to which institutional patterns have developed to manage conflicts over distribution and therefore differ in their capacities to promote economic performance.

The most dominant school of thought in this approach argues that corporatism is the most effective means of interest intermediation.<sup>6</sup> However, Lehner (1987) and a number of others suggest that while corporatism does indeed help in that it can provide better performance than predominantly pluralist systems, it can be surpassed in guaranteeing superior economic performance by systems that have even more encompassing forms of co-ordination of the interactions of the public and private spheres, examples of which include Japan and Switzerland.

The presence of these state-society frameworks contribute directly to cooperative and non-conflictual behavior on the part of the two major camps within the economy, viz., capital and labor. This outcome will manifest itself in a number of ways, most markedly in terms of the level of industrial conflict. Thus, peaceful capital-labor relations, manifested by low levels of industrial conflict, are to be found in highly coordinated economies, while stormier industrial relations mark capital-labor relations in less coordinated economies. In the absence of any direct measure of institutionally based mechanisms for generating social consensus I will rely on the putative behavioral manifestation, the scope of strike activity. As McCallum (1983,1986) has demonstrated, this measure appears to perform adequately for the concept of interest.

## **4.2 Class-Based Partisan Politics Model**

In actuality there are two major approaches linking class-based partisan politics to macroeconomic performance. The first treats the strength of the left and labor (as well as the right and capital) as additive elements to what is effectively a force accumulation equation. Strength in the governmental sphere added to strength in the economic sphere combine to determine the success or failure in a specific economic problem area and likely entails the inverse with respect to some other economic problem area. The second postulates that success with respect to most problem areas is conditional upon non-contradictory or coherent power constellations in both the economy and the political system.

**Strength Leads to Success in Some Areas and Failure in Others.** In its most standard forms, the class-based partisan politics model argues that successful economic performance is influenced by one or both of the conditions of a strong labor movement and a left/labor oriented government. At a minimum, the strength of labor and the left should promote successful performance in at least three areas; these are growth (e.g., Whiteley, 1983), full employment (e.g., Hibbs, 1987), and equity in the distribution of income (e.g., Brooks, 1983). Alternatively weak labor and a strong governmental right will facilitate the application of policies and practices that do not prejudice performance with respect to inflation or the balance of payments equilibrium and may indeed be beneficial to price stability and external balances.<sup>7</sup>

Countries with a center of political gravity on the left will be able to counteract the potential problem of capital's inability or unwillingness to provide productive investment. A political system so configured can do this by enlarging the share of publicly controlled investment and by implementing policies that insure that private agents supply sufficient capital. Given their natural commitment to full employment, left governments with strong electoral support and powerful organized labor will be able to adopt macroeconomic policies that shore up demand and will also undertake direct job creation and active labor market schemes, all of which can help guarantee full employment. This political constellation is also the most conducive to the production of equity in income distribution. The possibility of successful bargaining with capital in the labor market and the political basis for providing non-market supplied supplements to household income are both maximized in this situation.

To capture the effects expected by this argument an index meant to capture countries' political centers of gravity on a left-right scale is used. This scale is a composite measure that gives equal weight to the strength of organized labor, as measured by union density and the political orientation of the government. The latter index is based on the distribution of cabinet seats (by party) weighted by the position of the parties on Castles and Mair's left-right scale. Reversing Castles and Mair, the cabinet seats scale runs from low values implying right-wing orientation and high values a left wing orientation. Both the union and government measures have been standardized.<sup>8</sup>

**Coherence Leads to Success.** A more subtle argument in this tradition has been advanced (Garrett and Lange, 1986; Alvarez, Garrett, and Lange 1991). This suggests that the *interaction* of these two factors, the power of labor in the economy and the left's strength in government, is the politically important element in the determination of macroeconomic performance. The logic here is that the strength and partisan preferences of the governing party/coalition needs to accord with the dominant interests within the electorate.

Symmetry needs to prevail in the distribution of power in both politics and the market. Where the strength and orientation in these two spheres conflict, the potential for a misfit is great between the policies of government and the willingness of major economic interest groups to act in a cooperative fashion and thereby help achieve the goals of these policies. The outcome is likely to be poor macroeconomic performance all around. Where there is coherence between the two spheres, e.g., the left controls government and labor is strong and encompassing, or where the right controls government and labor is weak and divided, the potential for superior economic performance in all areas is enhanced.<sup>9</sup> In other words, strength in one of these areas when combined with weakness in the other will diminish the level of macroeconomic performance. Superior performance, then, is conditional upon either the presence or absence of *both* elements.<sup>10</sup>

### 4.3 Government Failure Model

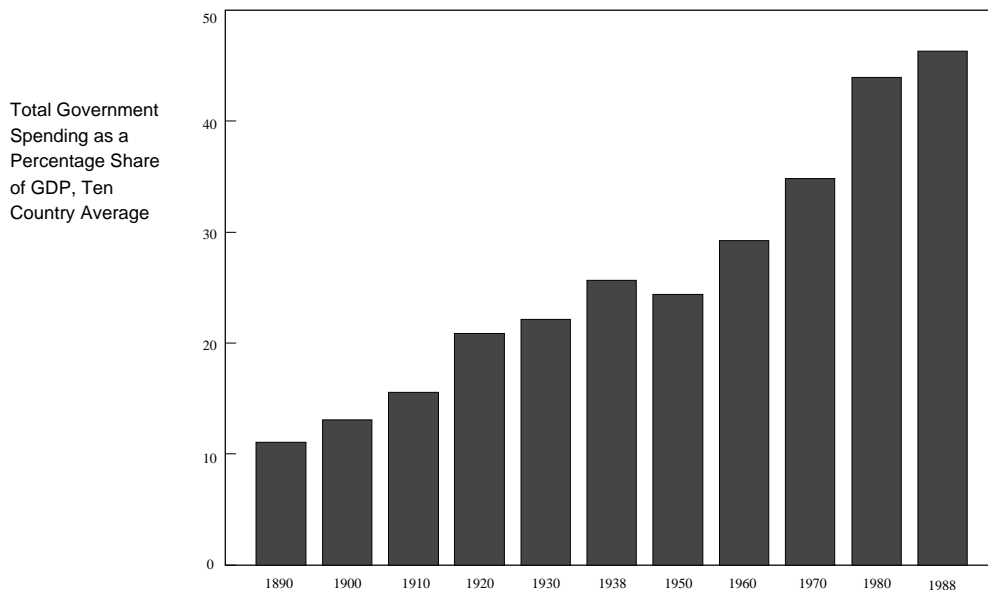
The basic premise here is that the market mechanism is the most efficient distributor of resources within the economy. In the absence of any disturbance or distortions to the market mechanism, performance, including production and income, will be maximized. Disturbances and distortions can be introduced by any number of sources. In the 20th century, however, it is generally held that a major source of disturbance has been the ever expanding role of government in the economy. Both directly through its taxation and spending programs and indirectly through regulatory practices, government policy alters the way in which resources are distributed and how they are used. Since government does not need (nor indeed is it likely) to conform to the discipline of the market (the incentive structure confronting those making decisions within government are influenced by personal and group political interests), the upshot of its activities is to distort the smooth operation of the economic system. This distortion can be expected to result in a decline in economic efficiency and overall macroeconomic performance.<sup>11</sup>

In light of developments during the 20th century, it can be seen that the potential importance of government's role in disturbing or supporting the proper functioning of the market mechanism within these countries has grown appreciably. In Figure 15, the trend in the average size of government, as represented by total spending as a share of GDP, for ten of the sixteen countries in our group is plotted. At the turn of the century, government spending accounted only slightly more than ten percent of GDP. During

the inter-war period it averaged in the low 20s. After World War II, the rise in its direct control of economic resources continued and culminated in spending levels equal to nearly half of gross domestic product.

In an effort to capture the empirical manifestations of the effects that this argument entails, I will rely on different measures of government interference in the economy with the specific indicators used being dependent upon the macroeconomic performance measure under consideration. With respect to growth and unemployment, three governmental spending aggregates are employed; these include capital spending, subsidies, and civilian consumption outlays, all expressed as percentages of GDP. In terms of inflation and the balance of payments, the term used is the government deficit as a percentage of GDP. In terms of growth and full employment, the operational hypothesis is that the greater a country's government spending share, the poorer the performance record in the economic sphere. Similarly, deficits are expected to drive up inflation and diminish the balance of payments position of the country.

Figure 15 The Growth of Government, 1890-1988 \*



\* Average figures for ten OECD countries: Austria, Canada, Denmark, France, Germany (FRG), Italy, Japan, Norway, United Kingdom, and the United States.

Source: Cusack, 1991

#### 4.4 Model Specifications and Analyses

The analyses carried out here are limited by the availability of data. With respect to four of the five economic performance measures, a pooled design was adopted and measures based on six five-year averages (i.e., 1960-64, 1965-69, 1970-74, 1975-79, 1980-84, 1985-89) employed.<sup>12</sup> In the case of performance with respect to the equalization of income, severe restrictions in terms of data availability limit the analyses undertaken to a set of data characterizing a one decade period (viz., the 1970s). In the four pooled analyses, a general model specifying, typically, both exogenous international and domestic economic factors, as well as a term or set of terms intended to capture the effects of a specific political hypothesis, is used.<sup>13</sup> Thus, three basic political-economic specifications are estimated. In addition, a combined model with all three political

considerations incorporated within the specification is introduced. Furthermore, since there are two variants on the class-based partisan politics argument under consideration, this model and the combined model are estimated twice using two different specifications of the impact of labor and left government power. The analyses are presented in the same sequence as that used in Section 3.

**The Impact of Politics on Economic Expansion.** The formulations examined to ascertain the impact of various political factors on growth rate performance incorporate not only the political term(s) relevant to a specific argument, but also take into account factors that are used in many contemporary specifications of the economic bases of growth. The general specification of the equation for economic growth is as follows:

$$GR_{it} = \alpha_1 + \beta_1 RY_{it} + \beta_2 \Delta WD_{it} + \beta_3 PRI_{it} + \gamma_1 PT_{it} + \varepsilon_{it}^1$$

where  $RY_{it}$  is an index reflecting the distance between the income per capita of country  $i$  in period  $t$  and the income per capita of the richest among the OECD countries in the same period (with 1 equalling the income of the richest and higher values reflecting lower income per capita),  $\Delta WD_{it}$  is the first difference in a measure reflecting the lack of world demand for exports (operationalized as the sum of trade weighted unemployment rates of the country's OECD trading partners), and  $PRI_{it}$  is the country's private sector investment expressed as a percentage of GDP. The  $PT_{it}$  term is a vector of political variables, the contents of which varies across the model specifications. The expectations with respect to the parameters for the exogenous economic variables are as follows:  $\beta_1, \beta_3 > 0$  and  $\beta_2 < 0$ . The expectation that  $\beta_1$  is positive is consistent with the "convergence" or "catch-up" argument in modern economic growth theory (cf., Abramovitz, 1986; Baumol, Blackman and Wolf, 1989; Barro and Sala-i-Martin, 1992) that posits growth rates to be inversely related to the relative position of the economy vis-a-vis the technologically most efficient. The expectation that decreases/increases in world demand will have a depressing/stimulating effect reflects the reality of the heavy dependence of these economies on the international economy (cf., Alt, 1985; Alvarez, Garrett, and Lange, 1991). Finally, the inclusion of the investment term and the related expectation that its impact will be positive on economic growth is consistent with standard the standard findings for economic growth models (cf., Levine and Renelt, 1991, 1992).

In terms of the first political specification, that dealing with the social consensus model, one term, strike days lost per worker, is employed and labelled the "Social Dissension Index." The expectation here is that the estimate for this operational term's impact on economic growth should be negative, i.e.,  $\gamma < 0$ . In other words, the lower the level of social consensus, the poorer the economic performance in terms of growth. In the second political specification, involving the simpler argument with respect to class-based partisan politics, the expectation is that the sum of labor's strength in the economy and the left's strength in government, will, when at high levels, produce greater economic growth compared with the situation where the additive combination of their power is at low levels; this implies a  $\gamma > 0$ . In the more complex formulation, the critical expectation is that strength in both areas is amplifying while strength in one in the presence of weakness in the other is debilitating. In sum, the expectation is that the  $\gamma$  terms on the constituent elements, the score on labor strength and the score on left government strength, should be negative while the estimate on the interaction term should be positive. With respect to the government failure model, the expectation is that all of the parameters associated with the government expenditure terms are negative.

Tables 16a-16b present the estimation results for the various specifications of the political-economic bases of growth. One can observe across all the equations that the economic factors have estimated impacts consistent with expectations. Almost uniformly, however, there is little in the way of support for the various political hypotheses. Thus, while the parameter on the social dissension index takes on the correct sign, it lacks statistical significance. The same lack of consistency with expectations holds for all of the expenditure terms in the government failure model. Results with respect to the class-based partisan politics model are mixed. In the case of the simpler formulation, the estimate on the parameter for the Left-Labor Power Index (the additive variable) takes on a sign opposite that expected but nevertheless is statistically insignificant. On the other hand, some modest support emerges for the more complex formulation of this model which includes the interaction term and its constituent elements. With respect to the government failure model there is little in the way of support for the expectation that the size of major government spending programs undermines economic growth. Indeed, there is only one case of a modestly significant ( $p < .10$ ) coefficient on the expenditure terms, that for government investment, and it takes on a positive, i.e., growth enhancing value.

Table 16a Pooled Analyses of the Potential Political and Economic Determinants of the Growth Rate in Real GDP Per Capita

<i>Model:</i>	Social Consensus	Class-Based Partisan Politics	Government Failure	Joint
<i>Variable:</i>				
Relative Income	1.21 (7.95)	1.19 (7.67)	.107 (6.06)	1.10 (6.35)
ΔWorld Demand Factor	-.581 (-2.04)	-.612 (-2.16)	-.646 (-2.92)	-.575 (-2.42)
Private Sector Investment	.143 (5.95)	.141 (5.95)	.138 (5.31)	.150 (6.16)
Social Dissension Index	-.565 (-1.34)			-.528 (-1.09)
Left-Labor Power Index		-.049 (-1.28)		-.028 (-0.45)
Government Investment			.114 (1.84)	.083 (0.94)
Government Subsidies			-.120 (-1.00)	-.131 (-1.27)
Government Civilian Consumption			-.017 (-0.55)	-.001 (-0.01)
Constant	-1.82 (-3.33)	-1.84 (-3.43)	-1.56 (-2.67)	-1.81 (-2.07)
$\bar{R}^2$	.667	.665	.675	.672
number of cases	90	90	90	90

t-statistics in parentheses, based on White standard errors



Table 16b Pooled Analyses of the Potential Political and Economic Determinants of the Growth Rate in Real GDP Per Capita

<i>Model:</i>	Class-Based Partisan Politics (Coherence)	Joint (Coherence)
<i>Variable:</i>		
Relative Income	1.24 (7.92)	1.12 (6.62)
$\Delta$ World Demand Factor	-.563 (-1.85)	-.488 (-2.15)
Private Sector Investment	.127 (5.00)	.133 (6.25)
Social Dissension Index		-.214 (-0.38)
Labor Power	-.036 (-0.32)	.121 (0.80)
Left Power	-.068 (-0.57)	-.040 (-0.30)
Labor Power * Left Power	.204 (2.77)	.175 (2.62)
Government Investment		.038 (0.44)
Government Subsidies		-.157 (-1.55)
Government Civilian Consumption		-0.03 (-0.99)
Constant	-1.80 (-3.18)	-.972 (-1.38)
$\bar{R}^2$	.667	.675
number of cases	90	90

**The Impact of Politics on Full Employment.** The next economic outcome to be analyzed is that of performance with respect to unemployment. The following equation is used:

$$UN_{it} = \alpha_2 + \beta_4 WD_{it} + \gamma_2 PT_{it} + \varepsilon_{it}^2$$

Included here is only one economic term, a level measure of the relative absence of world demand. The expectation here is that lower levels of world demand will be transmitted into higher levels of unemployment. Given the scaling of the  $WD$  term, this would imply that the estimate for  $\beta_4$  should be positive. Expectations regarding the political terms are as follows. The impact of social dissension should be to raise the level of domestic unemployment. In terms of the simpler version of the class-base partisan politics model, the parameter on the Left-Labor Power index should be negative. In the more complex version of this model, the interaction term should be negative. With respect to the arguments from the government failure model, one should see significant negative coefficients for all of the terms.

The results from the various estimations dealing with the putative determinants of unemployment levels are reported in Table 17a-17b. It is clear from all of the estimations that the world demand factor plays an important role in shaping the possibilities for full employment. What also comes through clearly here in the present case, in contrast with the results presented with respect to growth, is that politics does appear to play a role in shaping outcomes.

The evidence suggests that social consensus lowers unemployment. Similarly, both the class-based partisan politics formulations receive support for the general expectation that the stronger labor and the left are, the lower the unemployment. Here, though, it is clear that the more complex formulation, involving the notion that it is the joint presence of both conditions, receives far greater support and does a better overall job in accounting for the variation in unemployment performance than does the social consensus model. Contrary to the expectations one would draw from the conservative image of the effects of government's involvement in the economy, the results suggest that a greater degree of government involvement in the economy (in two of three instances, viz., capital spending and subsidies) is conducive to lowering unemployment levels. In terms of the overall fit of the individual models, it is also clear that the model dealing with government's control and use of economic resources has the greatest success. In turn, it is evident that the joint models, combining all three political hypotheses, do the best job in accounting for performance in terms of unemployment. Overall, the joint model that includes the more complex formulation of the class-based partisan politics model does prove to be the best specification, both in terms of its explanatory power as well as its demonstration of the importance of all the possible sources of political influence.

Table 17a Pooled Analyses of the Potential Political and Economic Determinants of Unemployment

<i>Model:</i>	Social Consensus	Class-Based Partisan Politics	Government Failure	Joint
<i>Variable:</i>				
World Demand Factor	.918 (17.11)	.866 (19.87)	.760 (9.27)	.830 (9.84)
Social Dissension Index	4.13 (3.94)			2.27 (2.82)
Left-Labor Power Index		-.210 (-2.70)		.060 (0.66)
Government Investment			-.944 (-4.21)	-.796 (-4.13)
Government Subsidies			-.736 (-5.37)	-.726 (-5.17)
Government Civilian Consumption			.129 (2.60)	.093 (1.68)
Constant	-.686 (-2.23)	.521 (2.14)	4.44 (3.06)	3.50 (2.74)
$\bar{R}^2$	.552	.464	.677	.700
number of cases	90	90	90	90

Table 17b Pooled Analyses of the Potential Political and Economic Determinants of Unemployment

<i>Model:</i>	Class-Based Partisan Politics (Coherence)	Joint (Coherence)
<i>Variable:</i>		
World Demand Factor	.927 (20.73)	.821 (10.98)
Social Dissension Index		1.36 (1.90)
Labor Power	-.359 (-1.65)	-.158 (-0.48)
Left Power	.172 (0.68)	.238 (1.24)
Labor Power * Left Power	-1.15 (-3.33)	-.830 (-3.09)
Government Investment		-.685 (-5.49)
Government Subsidies		-.628 (-4.22)
Government Civilian Consumption		.135 (2.21)
Constant	.913 (2.67)	3.04 (2.91)
$\bar{R}^2$	.600	.764
number of cases	90	90

**The Impact of Politics on Price Stability.** Attention now turns to the political-economic foundations of price stability. These are putatively captured in the following equation:

$$INFL_{it} = \alpha_3 + \beta_5 CBI_{it} + \beta_6 I_{it} + \beta_7 OPEN_{it} + \gamma_3 PT_{it} + \epsilon_{it}^3$$

The general formulation to be estimated includes a number of economic and institutional terms in addition to the political variables directly tied to the three main approaches to explaining the political basis of performance on this dimension. Of critical importance in terms of institutional matters is the degree of central bank independence,  $CBI_{it}$ . The inclusion of this term is consistent with arguments and evidence regarding how such independence facilitates credibility on the part of monetary authorities and thereby enhances their capacity to facilitate lower inflation rates (cf. Cukierman, 1992; Cukierman, Webb, and Neyapti, 1992; Alesina, 1988 ; Alesina and Summers, 1993; Grilli, Masciandaro and Tabellini, 1991). Given the scaling of  $CBI$ , where a low score represents minimal independence and a high score signifies maximum independence, the expectation for the estimated coefficient is  $\beta_5 < 0$ .<sup>14</sup> The inclusion of the imported inflation term reflects the importance of changes within the international economic system to developments within the national economic sphere. The expectation here is that impulses such as higher prices for imported goods and services will translate directly into increases in the domestic price level, i.e.,  $\beta_6 > 0$ . A trade openness term,  $OPEN_{it}$ , operationalized in terms of exports as a percentage share of GDP is also included on grounds somewhat similar those that substantiate the inclusion of a measure of central bank independence. Romer (1993) has shown that the importance of international trade is a vital factor in a monetary authority's ability to restrain inflation. This follows from the recognition that unanticipated monetary expansion has a negative impact on the real exchange rate. Sensitivity to this effect is higher in more open economies; it follows

that this source of inflation is held in check to a greater degree than in economies less dependent on foreign markets for sales of their goods and services. The expectation on this term, then, is that  $\beta_7 > 0$ .

The estimation results for the diverse specifications of the political-economic bases of inflation are reported in Tables 18a-18b. In most instances the expectations regarding the influence of economic and institutional factors receive support. Central bank independence appears to lower the rate of inflation. Price movements emanating from the international economic system play an important role in the movement in overall prices confronting the economy. And the constraints stemming from the reliance upon world markets appear to dampen inflationary tendencies.

Estimates for the impacts of the political terms are generally consistent with expectations. Social dissension takes on the appropriate sign in all of the equations in which it is included but is statistically significant at the more conservative level of .05 in only the specification where it is the single political term included. The simpler version of the class-based partisan politics formulation would appear to provide the most consistent estimates with respect to the expectation that weak unions and strong right governments are conditions for lower inflation rates. The expectation that government deficits bring about higher inflation would appear to be supported.

Table 18a Pooled Analyses of the Potential Political and Economic Determinants of Inflation

<i>Model:</i>	Social Consensus	Class-Based Partisan Politics	Government Failure	Joint
<i>Variable:</i>				
Central Bank Independence	-3.17 (-2.03)	-3.88 (-2.36)	-4.57 (-2.47)	-3.32 (-1.82)
Imported Inflation	1.45 (5.33)	1.57 (5.27)	1.59 (5.86)	1.41 (5.50)
Openness	-.027 (-1.00)	-.073 (-2.33)	-.055 (-1.89)	-.055 (-2.09)
Social Dissension Index	2.85 (2.37)			2.17 (1.70)
Left-Labor Power Index		.139 (2.37)		.248 (4.46)
Government Surplus (+) / Deficit (-)			-.189 (-2.66)	-.172 (-1.98)
Constant	5.55 (3.93)	7.47 (4.79)	7.30 (4.97)	6.40 (4.12)
$\bar{R}^2$	.653	.620	.652	.689
number of cases	78	78	78	78

Table 18b Pooled Analyses of the Potential Political and Economic Determinants of Inflation

<i>Model:</i>	Class-Based Partisan Politics (Coherence)	Joint (Coherence)
<i>Variable:</i>		
Central Bank Independence	-4.23 (-2.48)	-3.79 (-2.06)
Imported Inflation	1.57 (5.12)	1.42 (5.44)
Openness	-.062 (-2.02)	-.050 (-1.95)
Social Dissension Index		2.10 (1.57)
Labor Power	-.140 (-0.83)	.267 (1.23)
Left Power	.438 (2.20)	.372 (1.96)
Labor Power * Left Power	-.171 (-0.76)	-.080 (-0.40)
Government Surplus (+) / Deficit (-)		-.178 (-1.89)
Constant	.7.45 (4.55)	6.57 (4.08)
$\bar{R}^2$	.617	.675
number of cases	78	78

**The Impact of Politics on the Equalization of Income Distribution.** As noted above, data restrictions severely limit the scope of analysis that can be undertaken with respect to the political sources of income distribution equalization. Attention is focused on the decade of the 1970s and the cases considered are limited to 15 of the 16 wealthier OECD countries. Three different models are to be estimated. The first deals with the social consensus position and specifies that the degree of equality in disposable income is simply a function of the level of social dissension,  $EQUALITY = f(SOCIALDISSENSION)$ .<sup>15</sup> The second posits that the level of equality is positively associated with the combined strength of labor in the economy and the left in government,  $EQUALITY = f(LEFT - LABORPOWER)$ .<sup>16</sup> The final specification deals with the effects of government taxation and expenditure policies. It posits that the equalization of income increases with the level of taxation on personal incomes and the generosity of social welfare transfer payments,  $EQUALITY = f(TAX, GENEROS)$ .<sup>17</sup>

Results from the analyses of the equations are mixed. On the one hand, there appears to be absolutely no relationship between the degree of social consensus and the equalization of incomes. The results from the OLS estimates for this specification are as follows (note that t-statistics are reported immediately below the parameter estimates):

$$EQUALITY = 45.76 - 8.40 \cdot SOCIALDISSENSION$$

(10.64)      (-0.60)

$$\bar{R}^2 = -.048$$

On the other hand, the results from the analyses dealing with the effects of both class-based partisan politics and governmental taxation and social welfare policies are quite strong. The relationship between the strength of labor and the left on the one side and the equalization of income distribution on the other are plotted in Figure 16 below. Included in the figure is a regression line showing the estimated effect of this measure

of the center of political gravity on equalization. As can be seen, the regression results are supportive of the argument that labor union strength and leftist government power are conducive to income equalization:

$$EQUALITY = 44.69 + 3.68 \cdot LEFT - LABORPOWER$$

(24.60)      (4.46)

$$\bar{R}^2 = .574$$

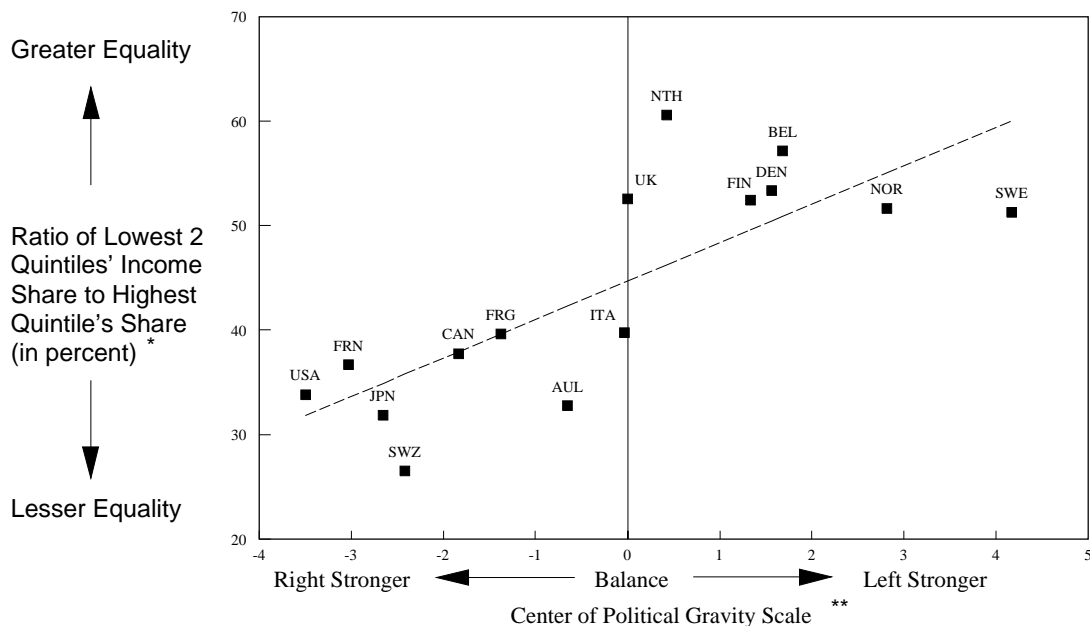
The overall fit of the equation specifying the effects of governmental taxation and social welfare policies is equally as strong and suggests that both greater taxes on personal income and generosity in the social welfare policies appreciably improve the level of equality in the distribution of household disposable income:

$$EQUALITY = 8.26 + 1.45 \cdot TAX + .19 \cdot GENEROS$$

(0.96)      (3.73)      (2.94)

$$\bar{R}^2 = .555$$

Figure 16 The Center of Political Gravity and the Equalization of Income Distribution



\* -- Values for the decade of the 1970s

\*\* -- Averages for the decades of the 50s, 60s, and 70s

**The Impact Politics on the Balance of Payments Equilibrium.** The current account represents the balance between a country's receipts and its expenditures vis-a-vis the international economy. It can be seen in national accounting terms as equivalent to the following identity:

$$CA = S_p - I_p + NL_g$$

In other words, it is equal to the difference between private sector savings ( $S_p$ ) and private sector investment ( $I_p$ ) plus the surplus (+) or deficit (-) of the government sector, i.e.,

net lending ( $NL_g$ ). In dealing with the political foundations of the current account balance I will restrict attention to the behavior of the private sector, that is the focus will be on the balance between private savings and investment ( $S_p - I_p$ ).

The general equation used to assess the effects of politics on this critical component of the balance in the current account takes the following form:

$$PSIBAL_{it} = \alpha_4 + \beta_8 CBI_{it} + \beta_9 RY_{it} + \beta_{10} USA_i + \gamma_4 PT_{it} + \varepsilon_{it}^4$$

That is to say, the private savings less investment (expressed as a percentage of GDP),  $PSIBAL_{it}$ , is a function of the degree of central bank independence, the income level of the country relative to the wealthiest state,  $RY_{it}$ , a dummy term for the United States, and a vector of political variables. In terms of the non-political elements of this formulation the expectations are as follows. Central bank independence should tend to foster higher real interest rates and thereby encourage savings relative to investment. Therefore one should expect that  $\beta_8 > 0$ . The relative attractiveness of lower income (hence lower wage) countries should foster foreign investment, while at the same time the unattractiveness of internal investment in high wage, low growth countries should tend to encourage savings relative to local investment; hence, one would expect  $\beta_9 < 0$ . Finally, because of the special role of the United States in the modern international economic system is likely to have diminished its external balance, other things being equal, one expect  $\beta_{10} < 0$ .

With respect to the impact of social consensus on the balance, one would expect that a high level of social dissension would make a country an unattractive to investors. This would both discourage domestic investment, encourage outward investment. It would also make the country less attractive to foreign investors. Thus countries with high social dissension should have positive savings-investment balances. Countries with low social dissension, by retaining their own capital as well as attracting the capital of others, should see the savings-investment balance move into the negative. This corresponds with the expectation that the  $\gamma$  parameter on the social dissension index would be positive. The propensity for both the left and labor to discount the importance of external balance, relative to such domestic priorities as full employment and the equalization of incomes, should lead to countries with center of political gravities on the left end of the scale tending to undermine the propensity for savings and thereby driving the balance into the negative. Therefore, one would expect the  $\gamma$  term to be negative in the simpler class-based partisan politics model. In the more complex version of this model, the interactive term should have a positive coefficient while the parameters on the constituent terms should be negative. Finally, in the case of the government failure model, the supposed failure of the Keynesian remedy for macroeconomic policy should lead to private actors discounting the effects of government stimuli, represented by deficit spending, in the anticipation of higher future taxes. This would accord with the "Ricardian Equivalence" effect. Thus, the  $\gamma$  on the government surplus/deficit term should be negative. If, on the other hand, aggregate demand was being stimulated by deficits, one would expect savings to diminish and investment to increase, which would be consistent with an effective aggregate demand stimulus policy, and a  $\gamma > 0$ .

The results from the analyses of the equations dealing with the private sector savings-investment balance are presented in Table 19a-19b. Across all of the estimates it can be seen that most of the expectations regarding the non-political terms are supported. Central bank independence tends to enhance the balance and high incomes (wages) tend to diminish it. Also, the tendency for the United States to run imbalances comes through clearly. In terms of the political elements it is clear that the model focusing on government finance does a much better job then the other individual political models. Consistent with the government failure hypothesis is the estimated impact of the government balance.<sup>18</sup> The joint models appear to do an even better job in accounting

for variation in the private sector balance. Here, though, the results with respect to the impact of social consensus contradict expectations. Social dissension would appear to be associated with an unfavorable balance, i.e., investment rates greater than savings rates. It might be the case that countries with high social consensus are capable of fostering greater overall levels of savings and thereby generating excess capital which can be invested overseas. In terms of the simpler class-based partisan politics formulation, it would appear that left-labor strength is indeed conducive to unfavorable imbalances. However the results from the more complex formulation seem to suggest, particularly in light of the negative parameter estimate on the interaction term, that supposedly concordant political systems are less capable of generating favorable balances between savings and investment. The results in the joint models once again lend support to the government failure hypothesis.

Table 19a Pooled Analyses of the Potential Political and Economic Determinants of the Balance Between Private Savings and Investment

<i>Model:</i>	Social Consensus	Class-Based Partisan Politics	Government Failure	Joint
<i>Variable:</i>				
Central Bank Independence	6.26 (4.06)	4.64 (3.51)	4.30 (2.76)	2.13 (1.41)
Relative Income	-2.29 (-2.07)	-2.38 (-2.24)	-3.07 (-4.18)	-2.94 (-4.68)
USA dummy	-1.85 (-2.02)	-4.19 (-6.21)	-3.20 (-4.56)	-4.41 (-5.02)
Social Dissension Index	1.39 (0.74)			-3.09 (-3.72)
Left-Labor Power Index		-.567 (-5.36)		-.389 (-3.21)
Government Surplus (+) / Deficit (-)			-.748 (-7.09)	-.774 (-8.60)
Constant	1.86 (0.93)	3.41 (1.70)	4.30 (2.81)	5.94 (4.93)
$\bar{R}^2$	.125	.244	.595	.669
number of cases	78	78	78	78



Table 19b Pooled Analyses of the Potential Political and Economic Determinants of the Balance Between Private Savings and Investment

<i>Model:</i>	Class-Based Partisan Politics (Coherence)	Joint (Coherence)
<i>Variable:</i>		
Central Bank Independence	5.85 (4.02)	2.77 (1.70)
Relative Income	-1.95 (-2.57)	-2.67 (-4.38)
USA dummy	-3.30 (-5.49)	-3.56 (-4.23)
Social Dissension Index		-3.35 (-4.36)
Labor Power	2.37 (1.81)	.883 (1.46)
Left Power	-1.12 (-3.83)	-.541 (-2.02)
Labor Power * Left Power	-.517 (-1.38)	-.504 (-2.22)
Government Surplus (+) / Deficit (-)		-.708 (-6.88)
Constant	.486 (0.27)	4.59 (42.81)
$\bar{R}^2$	.353	.663
number of cases	78	78

**Discussion.** Taken in the aggregate, the results that have just been presented provide a mixed but nevertheless interesting picture. Contrary to the findings with respect to the other four areas of economic performance, growth does not seem to be particularly susceptible to the effects of varying political constellations. In the other areas of macroeconomic performance, however, differences in political conditions seem to play, at least in part, significant roles.

In the case of full employment, for example, social consensus and concordant mixes of left and labor power appear to aid in the achievement of this goal. Interestingly, the character of government finances also appear to be an important element in shaping relative success and failure in labor markets, and, in most cases, in ways inconsistent with the expectations of the government failure model. In other words, high levels of government involvement in the economy, particularly in terms of providing infrastructure investment and subsidizing industry, contribute to lower unemployment rates.

So too with inflation. Here, though, all of the various political arguments that have been evaluated have found some support. Social consensus helps to generate lower inflation, as does weak labor and a strong right. In addition, the anticipation that deficit spending is inflationary found seems to born out by the statistical results.

The general proposition that equalization of income also is influenced by political factors was sustained. While the level of social consensus seems to play no role, the ideas that the strength of left and labor as well as the taxation and social welfare policies of governments are instrumental in promoting equality were substantiated.

Finally, some support was also found for the general argument relating politics to the ability to affect one of the principal components of the external current account, the balance between private sector savings and investment. Contrary to expectations, social consensus appears to contribute negatively to the overall balance. This somewhat paradoxical result may actually reflect a greater ability of highly coordinated economies to sustain higher savings rates while less coordinated economies have to rely upon

external capital. the power of the left and labor seem to diminish the capacity to achieve a positive balance which, given the tendency of these interests to prioritize inflation and the external account, seems plausible. The results reported above are also consistent the idea that government's efforts to stimulate the economy through deficit spending may have untoward consequences in the external balance.

The admittedly limited nature of the foregoing analysis renders it difficult to reach any definitive conclusions regarding the three approaches. None of the three approaches (and variants) garnered evidence that was uniformly supportive. Still, some general patterns did emerge. Aside from some modest support for the coherence version of the class-based partisan politics model, the effects of political factors on growth appear to be nil. The existence of tradeoffs between left and right preferences in terms of macroeconomic outcomes, specifically with respect to unemployment and inflation, seem not to manifest themselves in the presence of social consensus. Both the desired outcome of full employment and price stability can be achieved under conditions of social consensus. Interestingly, such consensus will do nothing to advance the goal of income equalization. Partisan politics does seem to matter in most of the economic problem areas examined. There is some evidence that a strong left and labor will bring about lower unemployment and greater equality at the cost of higher inflation and a poorer performance on the external account. It should be noted, however, that the coherence variant does as well if not better in terms of accounting for performance with respect to full employment. The effects of government appear to go in both direction. In broadest terms its fiscal policies can clearly do some good in terms of lowering unemployment and generating equality; but when operating under deficit financing it can undermine price stability.

## 5 Conclusion

Given the complex and tangled macroeconomic problems that have confronted the OECD countries in the post-World War II period, even the extensive amount of information contained in this paper can only serve to provide a glimpse of the progress and problems that have confronted these countries in the economic sphere. It is clear, however, that this period on the whole has been one where major economic progress has been made and where the difficulties faced were certainly less grave than those in the earlier part of this century. Nevertheless, the intensity of these problems has heightened with the passage of time. In light of the major structural changes that are still underway, and taking into account the increasing pressures emanating from the international economic system (both in terms of competitive challenges and the growing loss of national control over international financial flows), these problems are likely to continue to pose challenges to these countries.

As the descriptions supplied above demonstrated, there were marked variations in the performances of these countries over the four decade period covered. A fair number of countries would appear to have revealed a preference for trading success in some areas against failure in others. Not many achieved victory along all dimensions. Quite a few appear to have been relatively hapless in handling the economic challenges that confronted them.

Ultimately the question needs to be answered as to whether this variation in success and failure can be attributed, at least in part, to the influence of political forces. As we have seen, economic forces at both national and international levels are powerful. There should be no expectation that they can be completely overcome by the workings of the political system. Still, there is no denying that politics and the policies of government can play a role adapting to these challenges. Politics in this sense matters. The analyses

reported above provide no completely consistent picture in this regard. Nevertheless, they do demonstrate that there are grounds to believe that political forces have had a significant role in shaping macroeconomic outcomes.

## Endnotes

1. There are twenty OECD countries covered in this report. However, problems with respect to data availability prohibit uniform and consistent inclusion in the matters dealt with here. In many cases then, the coverage with respect to four of these countries, Greece, Ireland, Spain and Portugal, is restricted. The other sixteen countries covered in this study include Austria, Australia, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States.
2. See Keohane (1985) for the importance of these two developments for the formulation of national policies and economic performance during this period.
3. Dowrick's (1989) analysis of sectoral change and relative economic growth in the OECD countries suggest that the diminished capacity to shift labor out of lower productivity sectors was an important element in the slowdown of the post-1973 period.
4. The classic statement of the general argument is to be found in Baumol's (1967) paper, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis."
5. Recall from Table 14 that the data set on income distribution is incomplete. In order to correct for this a proxy measure was developed for those country-decade cases with missing values. Based on the available data, a regression model predicting the income distribution index on the basis of the generosity of income transfer programs and the level of taxation on income was estimated. Using the parameters from this estimation and the relevant data on transfer program generosity and taxation, predictions for those cases with missing values were made. These predicted values were then used as proxies for the actual but missing income distribution scores.
6. This is a very large literature and it is not possible to cite it extensively here. A useful review of the literature, its purported findings, and some crucial problems adherent to it, can be found in Pryor (1988).
7. There are a variety of arguments and findings associated with this point, e.g., Hibbs, 1987; Suzuki, 1993.
8. Information on the sources and methods involved in the construction of the indices involved here is provided in Cusack and Garrett, 1993.
9. Alvarez, Garrett, and Lange (1991) label this the "social democratic corporatism" argument. This label has been used by others in the political economic literature. But in the present case it seems to represent one of the more explicit renderings of the intersection of the corporatist and class-based partisan politics approaches (cf., Esping-Andersen and van Kersbergen, 1992).
10. Note that the strength labor index employed in this formulation is weighted by the degree of union centralization. My thanks to Geoffrey Garret for providing me with this index. The governmental index is as above.
11. Some interesting discussions of the position that the government size has a negative impact on growth and other valued economic outcomes are to be found in Buchanan (1980), Peacock (1993), and Wolf (1988). It should be made clear, however, that there is an equally plausible position advanced by others to the effect that government finances and regulation can play important positive roles in generating economic growth (see, e.g., Castles and Dowrick, 1990; Friedland and Sanders, 1985; and Korpi, 1985).
12. Data availability problems restrict these analyses in terms of country coverage. Greece, Ireland, Portugal, Spain and Switzerland are not included in any of the pooled analyses. Belgium and Japan are also excluded from the estimations dealing with price stability and the balance of payments. Austria, Greece, Ireland, Portugal, and Spain are not included in the analysis of income equalization.

13. Note that all of the pooled analyses reported here are based on OLS where the standard errors for been reestimated using White's method. Given that heteroskedasticity was not severe in any of the analyses undertaken, this method is to be favored over panel weighted least squares (Beck and Katz, 1993)

14. Cukierman's (1992) weighted index of central bank independence is used here. The index is an complex aggregation of sixteen variables characterizing the *legal independence* of central banks. The scores have been derived from the data and formulae detailed in Cukierman's book. Data on these variables are available on a decade-by-decade basis. Given that the time units employed in the present analyses are half-decades, this entailed having to use the same measure for each five year period within a decade. Since the legal independence of central banks is a fairly stable characteristic, this is not likely to undermine the utility of the measure.

15. The assumption here is that the effects of social consensus or dissension well be cumulative and therefore the measure of social dissension is the average of the scores from 1950 through the 1970s.

16. As with the social dissension index employed in the present analysis, the value taken on by the Left-Labor Power Index is the average from the three decades of the 1950s, 1960s and 1970s.

17. The taxation variable is simply general government personal income taxes expressed as a percentage of GDP. The generosity of social welfare transfer payments is computed by weighting the scope of general government social welfare transfers (expressed as a percentage of GDP),  $SX$ , by the relative size of the major demographic groupings targeted for such transfers (the retirement age population,  $R$ , and the unemployed,  $U$ , where both demographic terms are expressed as a percentage of the total population:  
 $GENEROS = \frac{SX}{R+U} \cdot 100.$

18. An alternative interpretation of the estimated impact would be that the private sector is responding to many of the same stimuli and constraints as is the public sector and that just as the public sector will tend to lower its savings in recessionary periods, so too do private agents.

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