

Castles, Francis G.

**Working Paper**

## The growth of the post-war public expenditure state: long-term trajectories and recent trends

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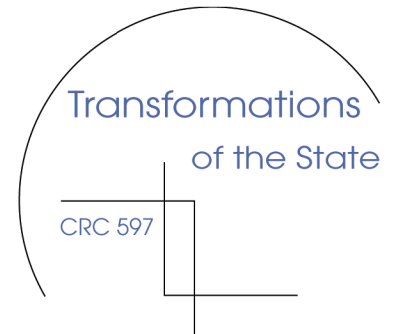
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# TranState Working Papers

THE GROWTH OF THE POST-WAR  
PUBLIC EXPENDITURE STATE:  
LONG-TERM TRAJECTORIES  
AND RECENT TRENDS

Francis G. Castles

No. 35

Universität Bremen	• University of Bremen
Hochschule Bremen	• University of Applied Sciences
Internationale Universität Bremen (IUB)	• International University Bremen (IUB)

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Staatlichkeit im Wandel	• Transformations of the State
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*Francis G. Castles*

***The Growth of the Post-war Public Expenditure State:  
Long-term Trajectories and Recent Trends***

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Staatlichkeit im Wandel / Transformations of the State

Postfach 33 04 40

D - 28334 Bremen

Tel.: +49 421 218-8720

Fax: +49 421 218-8721

Homepage: <http://www.staatlichkeit.uni-bremen.de>

## ***The Growth of the Post-war Public Expenditure State: Long-term Trajectories and Recent Trends***

### **ABSTRACT**

This Working Paper has two principal objectives. The first is to describe the main trajectories of development of public expenditure aggregates in OECD countries during the period 1960-2001. The second is to provide a more detailed analysis of expenditure trends in these countries in the period since 1980, with a view to establishing the extent and sources of expenditure retrenchment in this latter period. The aggregates examined include total outlays of general government, total social expenditure and the core spending of general government, including expenditures on defence, public order, education, general public services, economic affairs, community services and environmental protection. The headline stories of the general survey of expenditure trajectories include the massive overall expansion of public spending, the declining importance of military expenditures and the increased salience of spending on social policy objectives and, most recently, a shift within the latter category from cash benefit spending to spending on service provision. Significant findings of the analysis of trends include the pronounced convergence of aggregate expenditure levels, the role of slow economic growth in promoting the measured growth of public expenditure and the continuing importance of the partisan complexion of government in shaping spending patterns. The analysis also suggests that post-1980 retrenchment tendencies were restricted to core spending, were only marginally influenced by developments in the global economy and were driven almost entirely by a conjuncture of high levels of public indebtedness and high real interest rates which is unlikely to be repeated in the near future.

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## ***The Growth of the Post-war Public Expenditure State: Long-term Trajectories and Recent Trends***

### **INTRODUCTION**

This Working Paper has two principal objectives, which serve to structure its presentation. In Part One, I seek to describe the main trajectories of post-war public expenditure development in 18 member countries of the OECD over the period 1960-2001, showing how these developments reflect the influence of a range of factors highlighted by theories from across the social sciences. This survey of post-war expenditure development also seeks to assess how the composition of government spending has been transformed over this period, with the main focus on the rise of the welfare state and how spending for social purposes has come to assume a larger and larger role vis-à-vis other types of expenditure.

In Part Two, I focus on expenditure trends over the period 1980-2001, with a view to testing hypotheses purporting to account for the much reduced rate of growth [and, in some instances and areas, cut-backs] characterising public expenditure development during the past quarter of a century. These hypotheses inform contemporary debate on public policy development and highlight a range of factors identified as having the potential to modify the expansionary growth trends of the early post-war decades. Prominent among these factors are the supposed impacts of an increasingly internationalised economy, a shift in politics from a social democratic to a neo-liberal hegemony, the reform imperative supplied by population ageing and the deindustrialisation of Western labour markets. Other factors located here as important in accounting for recent trends are increased deficit spending, programme convergence and declining rates of economic growth.

In the analysis that follows, I use data for the big aggregates of public spending – the total of what governments spend on all their programmes, what they spend on welfare objectives and what they spend on their core tasks - as a means of comparing the changing role and reach of the modern state in different countries. In order for democratic governments to do many of the things demanded of them by their electorates, it is necessary for them to tax and spend. This, in turn, means that aggregates of taxing and spending capture, to some degree at least, the changing size and aspirations of the modern state. Arguably, and the reason that this study focuses on expenditure rather than taxation, expenditure aggregates and shifts in the composition of government spending are a better guide to aspirations than are taxation totals. What governments spend their money on tells us something about what they are attempting to achieve and what their electorates expect of them. How the composition of spending changes tells us something about how such expectations alter over time. This is not



true of taxation. There is no automatic linkage between how taxes are raised and how they are disbursed.

Although expenditure is important, it provides only a ‘rough guide’. That is for, at least, two reasons. First, governments can sometimes achieve their objectives by means other than taxing and spending, with regulation in some instances a favoured alternative. Moreover, certain countries have systematic preferences for intervening in ways that do not involve the use of public monies. The quite pronounced tendency demonstrated throughout this study for English-speaking countries to manifest lower social spending levels than other groupings of nations is, at least, in some part, attributable to such preferences. It is perfectly sensible to interpret such large-scale and consistent differences in spending as strong evidence of a diversity of national strategies of policy intervention, but wrong to assume that governments that spend less in a given policy area are necessarily less committed to shaping policy outcomes in that area. A possible usage indicative of this distinction might be to describe the English-speaking countries as favouring less ‘statist’, but not always less interventionist, social policies than the majority of other Western nations.

A second reason for seeing spending patterns as only a rough guide is that cross-national expenditure measures are rarely reliable enough to allow fine-grained comparison. When reported differences in cross-national aggregate spending levels or in single-country expenditure levels over time amount to just a few points of GDP, the sensible default option is to assume an absence of significant difference or of significant change. The reliability of public expenditure data for earlier periods has sometimes been adversely affected by the fact that governments contributing spending data to international agencies like the United Nations, the OECD, Eurostat and the IMF have taken time to conform fully to the accounting conventions used by these agencies to ensure cross-national comparability. The possibility of reliable comparison across decades is also strongly affected by the changing expenditure definitions used by such agencies and by the diverse design of expenditure programmes in different countries. What is counted as unemployment insurance expenditure in one country may well be counted as disability spending in another. What is counted as public expenditure at one point in time may subsequently be defined as private spending and vice versa.

Such measurement difficulties mean that any discussion of long-term trajectories needs to focus on the more substantial differences among countries and on changing averages of groups of countries rather than on minor differences between individual nations that are quite possibly a consequence of measurement error. In this Working Paper, I offer a broad-brush account of cross-national differences in aggregate expenditure levels for the years 1960, 1970, 1980, 1990 and 2001, but only provide a de-

tailed statistical analysis of changes from 1980 onwards. This is because it is only from 1980 onwards that the data are sufficiently reliable to attempt a modelling of the factors associated with aggregate expenditure trends. Even then, it is important to be circumspect in interpreting the findings of such models. In Part Two, I take pains to identify where conclusions concerning the determinants of expenditure variation are dependent on the inclusion of particular countries in the analysis and report alternative and more robust specifications of the findings where this is the case.

The three main aggregates of public expenditure analysed in this Working Paper are **total outlays of general government** as reported in successive editions of *OECD Economic Outlook*, **total public social expenditure** as reported in various OECD publications culminating in what is now the *OECD Social Expenditure Database* [SOCX] and what I here describe as the **core expenditure of general government**, which is a residual obtained by subtracting total social expenditure from total outlays. Total outlays and total social expenditure denote familiar concepts: the overall size or reach of the state as captured by the overall extent of public spending and that part of state expenditure devoted to social protection or welfare state functions, which the OECD has most recently defined as covering the categories of spending on old age, survivors, incapacity related spending, health, family, active labour market programmes, unemployment, housing and other social policy areas (see OECD, 2004a).

Growth in the total outlays of general government [often simply referred to as public expenditure] has been an important focus of the study of public finance for more than a century, while analysis of the factors shaping social spending has been a key testing ground for rival socio-economic and political accounts of public policy formation over the past three or four decades. By contrast, the concept of core expenditure is a new one introduced in this Working Paper for the first time, with the descriptor ‘core’ warranted by the fact that, leaving aside social spending [the aggregate of *health* and *social protection* programmes]<sup>1</sup>, the significant expenditure programmes remaining are either integral to the state’s role as the agency of legitimate power or pivotal to its continuing economic viability. The distinction between social and core expenditure is essentially a functional one, distinguishing between programmes which serve the needs of individual citizens and those required for the maintenance of the state as such.

The further distinction between legitimacy preserving and economy maintaining programmes is also functional. The first set of programmes includes the traditional ‘night watchman’ functions of the state: spending on *general public services*, on *de-*

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<sup>1</sup> The ten expenditure categories italicised in this and the following paragraph are those featuring as top-level programme heads in the United Nations latest Classification of the Functions of Government [COFOG].

*fence* and on the maintenance of *public order and safety*, together with the spending required to service the public debt and hence maintain the nation's economic integrity. The second set of programmes includes spending on *economic affairs* and physical infrastructure as well as on human capital building through *education* and training. Because, for reasons that will be explained subsequently [see pages 21-25 below], core expenditure is calculated as a residual, it also includes spending on other programmes, including *housing and community amenities*, *environmental protection* [perhaps, in this era of global warming, a component of the core in any case] and *recreation, culture and religion*. As compared to the night watchman and economic functions of the state, these programmes involve only relatively modest spending, and their inclusion only marginally derogates from the notion of spending vital to the maintenance of the core activities of the state.

The findings reported here are based on an analysis of 18 OECD countries over the period 1960-2001. The countries in alphabetical order are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, the United Kingdom and the United States. I would also have liked to include data for New Zealand, Norway and Switzerland, countries frequently compared in studies of OECD policy development. However, data for the total outlays of general government were missing for both New Zealand and Switzerland for much of the period under analysis here. In the Norwegian case, data on all relevant expenditure aggregates were available. However, because Norway's substantial overseas investment of North Sea Oil revenues effectively reduces measured domestic public expenditure levels compared to those of other countries, these data have become increasingly misleading in recent decades, making it necessary to exclude Norway from the analysis.

Finally, the reader is advised that a key narrative device of the description of expenditure trajectories and trends in this study is a contrast between groups or 'families' of nations, defined loosely as countries characterised by common historical, cultural and linguistic affinities (see Castles, 1993 and 1998). The families featuring here – and clearly identified in tables in the text below – are an English-speaking grouping of nations [Australia, Canada, Ireland, the UK and the USA], a Scandinavian grouping [Denmark, Finland and Sweden], a continental Western European grouping [Austria, Belgium, France, Germany and the Netherlands] and a Southern European grouping [Greece, Italy, Portugal and Spain]. Data for Japan are also analysed, but that country is not included as part of any wider family of nations grouping. The family of nations concept is a useful scoping device for cross-national analysis, permitting us to identify similarities and differences in patterns of policy development amongst countries and to locate potential explanatory factors associated with such patterns.

## **PART ONE: LEVELS AND COMPOSITION OF EXPENDITURE**

### **Theories**

As the tables in the next section make abundantly clear, the period of 1960-2001 was one of spectacular public expenditure growth. Over these four decades, average total outlays of general government in the 18 OECD countries analysed here went up from 26.9 to 45.6 per cent of GDP, an increase of very nearly 70 per cent [see Table 1]. The main contributor to this development was a more than doubling of social spending from 10.6 to 22.7 per cent of GDP [see Table 2]. By contrast, although core spending grew significantly, the pace of change was less hectic: from 18.0 per cent of GDP in 1960 to 22.9 per cent in 2001, an increase of just over a quarter [see Table 3]. Expenditure growth was also differentially distributed across time. Much the larger part of the expenditure increase occurred in the initial decades of the period, sometimes described as the ‘golden age’ of Western capitalism (Maddison, 1991) and of the welfare state in particular (Esping-Andersen, 1996). Since 1980, overall spending has marked time, disguising a continuing, if much slower, rate of social expenditure growth and a standstill, or even, perhaps, the beginnings of a general decline, in core spending. Commentators seeking to understand the nature of this temporal disjuncture and to capture the distinguishing characteristics of the recent expenditure slowdown have talked variously of “a new era of austerity” (Pierson, 2001) or of a “silver age of the welfare state” (Taylor-Gooby, 2002).

With a lag of something like ten years, a similar temporal disjuncture can be identified in scholarly commentary on the factors shaping expenditure development. For much of the post-war period, debate was almost entirely about the causes of expenditure growth, with economists focusing on the forces promoting increased state spending in general and sociologists and political scientists on those shaping the extraordinary expansion of the welfare state. By the early 1990s, however, the focus of public expenditure and welfare state scholarship had altered, with the bulk of attention now devoted to factors seen as capable of reversing the previous dynamic of expenditure development. I begin my Part I survey of overall expenditure trajectories by referring to theories from across a range of disciplines to generate a checklist of factors likely to have influenced post-war expenditure growth. The aim of Part Two is to model post-1980 expenditure change, and I leave discussion of specific hypotheses seeking to account for the expenditure dynamics of the ‘silver age’ until that point in the analysis.

Given the magnitude of public spending by the end of the 20<sup>th</sup> Century and its steep growth trajectory in the immediate post-war decades, it is scarcely surprising that the causes of this phenomenon have attracted so much theoretical attention from across the social sciences. Social historians have been interested in what has been an

epochal shift in the reach of the modern state, economists in the emergence of an increasingly larger public realm in the context of a capitalist mechanism supposedly driven exclusively by private interest, sociologists and social policy scholars in the state's assumption of responsibility for alleviating the needs of its citizens and extending the realm of social rights and political scientists in the way in which political demands and institutions have shaped the expansion of the public sector. Moreover, within each of the disciplines, competing analytical perspectives and subject specialisms have been concerned to demonstrate their relevance to understanding one of the great transformations of the modern era. Nor has theory development been able to stand still. The pace of expenditure development has altered over time, as have the countries in which spending has been greatest and least. Old theories have had to be rejected or modified because they no longer fitted the facts and new ones have emerged because there were new facts to fit.

All of this has meant a vast proliferation of theories of public expenditure and welfare state growth, with the main emphasis on the latter, because that was where growth was greatest. An early elaboration of explanations in the field identifies nine modes of explanation and no less than 25 specific hypotheses of public sector growth (see Tarshys, 1975). A much later survey of the 'causes of big government', focussing particularly on factors influencing the growth of the welfare state, locates 21 hypotheses, many quite different from those featuring in the earlier account (see Castles, 1998). If these theories were used in different combinations to account for different policy outcomes at different times, this proliferation might be seen as evidence of the progress of the disciplines seeking to understand public policy development. In reality, though, much theorising has taken the form of rival hypotheses purporting to locate the main engine of public expenditure growth or of the post-war expansion of the welfare state. In other words, theory development has been competitive rather than complementary, often representing attempts to assert the primacy of particular social science perspectives rather than to combine those perspectives in a more cumulative and comprehensive account of public expenditure development.

Interestingly, the competitive thrust of this literature is in stark contrast to the approach of the founding father of public expenditure research, Adolf Wagner, whose 'law of increasing expansion of public, and particularly state, activities' provides the first scholarly rationale for the ineluctable growth of government in the modern era. Although 'Wagner's Law' is generally seen as a contribution to economic reasoning, his analysis makes reference to a wide range of factors today regarded as the province of other distinct disciplines. He suggests, contrary to the thrust of much of the later literature, that political decentralisation enhances demands for spending, notes how "the desire for development of a progressive people" will "always overcome" the de-

mands of financial stringency and points to the role of industrialization and urbanisation in producing needs to which the state is forced to respond (Wagner, 1883, 8). Trying to comprehend the growing role of government in 19<sup>th</sup> Century Western Europe and, in particular, late 19<sup>th</sup> Century Germany, Wagner felt it necessary to supplement economic analysis with insights concerning the role of institutions, political demands and the evolution of social needs. In this attempt to survey the main trajectories of public expenditure development in the latter half of the 20<sup>th</sup> Century, a similar complementary approach seems appropriate. Thus, in what follows, I do not discuss the claims and counterclaims of particular theories and specific hypotheses, but rather seek to highlight the kinds of factors together likely to have influenced overall spending trajectories in the post-war era. Given that the big aggregates of spending that are under review here involve an historical accretion of myriad choices of how and whether to spend public monies in areas as diverse as defence, economic affairs, social policy and the environment, the notion that trajectories of expenditure are likely to have been predominantly shaped by any one factor operating in an invariant fashion over a period of many decades seems improbable in the extreme.

The kinds of factors listed below have strong disciplinary resonances, but should not be regarded as the exclusive preserve of any one of them. At least as far as explaining the growth of public expenditure is concerned, the contention here is that all have a potential bearing on trajectories of development over the past half century: that the study of public finance is intrinsically an area of interdisciplinary enquiry.

- **Inertial Forces.** This factor highlights the historical context and conjunctural character of policy development. Often the simplest explanation of the fact that expenditure is high or low is that it has been high or low for a long while, and often the proper explanation of why a programme takes the shape it does is that this was a shape favoured by the context in which the policy was adopted or was consciously chosen by those adopting the policy in the first instance. Explanations of the former type point to the fact that expenditure programmes rarely emerge fully-fledged, but rather tend to grow gradually from small beginnings, with coverage, generosity and range of services extended in stages and building incrementally on what has gone before. This is an argument featuring prominently in one of the earliest modelling exercises in the area, with findings demonstrating that the age of a country's social security system is the strongest predictor of its subsequent level of social expenditure (Aaron, 1967). Explanations of the latter type have become increasingly familiar as arguments that policy development is 'path dependent', with outcomes often determined by choices made at 'critical junctures' in decades or centuries gone by (see Pierson, 2000). The logic here is one of

‘policy pre-emption’: of existing policies having an in-built and often increasing advantage against alternative policy options, which can usually be seen off with the claim that they are not the accustomed or ‘proper’ ways of doing things. Arguments from inertia usually imply that what is, will continue to be so, but this need not always be the case. Combined with a notion of programme maturity or ‘growth to limits’ (Flora, 1986, xxiii), an inertial spending trajectory implies eventual ‘catch-up’ by late programme adopters. The possibility that such catch-up processes can explain public expenditure trends over recent decades will be explored in some detail in Part Two.

- **Resource Availability.** Stated formally, Wagner’s Law points to a link between rising real income and an increase in the size of the public sector relative to the private sector (Larkey et al, 1981). The argument that economic resource availability is a prerequisite for public expenditure growth has also been an axiom of moderate Social Democratic thinking since, at least, the early 1960s (see Crosland, 1963) and similarly underlies the contemporary claims of Third Way politicians that further expansion of public services is dependent on high rates of economic growth (see Giddens, 1998). Yet, on reflection, these are accounts, which are more persuasive in explaining differences in rates of expenditure development over time than differences amongst nations. Certainly, there are particular instances and periods in which the rapid economic growth has been a stimulus to expenditure development and others when declining growth has been a disincentive to programme development, with the immediate post-war ‘golden age’ of welfare capitalism, arguably, an instance of the former and the post-oil shock era of the 1980s an instance of the latter. Nevertheless, the normal logic of the relationship as manifested in cross-national comparison is quite different, with relatively higher rates of economic growth permitting the satisfaction of a given level of demand for services with a lower proportion of national income (see Wildavsky, 1975 for an early formulation of this argument). This is, moreover, a logic hard-wired into the methodology of comparative expenditure research, which measures national spending levels as percentages of GDP, a procedure automatically inflating the income denominator at the expense of the spending numerator the higher is the rate of economic growth. The expectation, therefore, is that the relationship between resource availability and spending will be negative rather than positive. Contrary to Wagner’s Law, it would appear that a significant reason why Sweden has been in the public spending vanguard for much of the post-war era has been that country’s relatively weak economic growth performance, and that, by the

same token, Japan's status as an expenditure laggard owes much to economic growth rates far higher than elsewhere in the OECD.

- **Fiscal Feasibility.** The notion that the expansion of government may be constrained by the availability of resources can be seen not only as a question of a society's affluence and rate of economic growth, but also as one of the availability of the fiscal means to pursue favoured expenditure plans. The notion of a 'tolerable burden of taxation' and the circumstances under which citizens may change their perceptions of what is tolerable is at the core of Peacock and Wiseman's (1961) research on the 'displacement effect', which they saw as accounting for the growth of public expenditure in the United Kingdom after World War Two. In this interpretation, the vital requirement of devoting greater resources to national defence under wartime circumstances displaces existing perceptions of what is a tolerable fiscal burden, allowing governments to expand peacetime spending when hostilities have ceased. How well this hypothesis actually accounts for post-war expenditure development is doubtful (see Henrekson, 1993), but the notion of a supply-side restraint on spending provided by an evolving conception of tolerable taxation levels is extremely interesting in light of debates in the 1970s and 1980s on whether, in a period of economic crisis, Western welfare states could any longer finance 'golden age' expenditure levels (see OECD, 1981). A feature of this period was the choice of some OECD governments to side-step any fiscal barriers by extensive resort to debt financing. An important question in Part Two is whether that strategy had adverse effects on subsequent expenditure development.
- **Need.** Central to Wagner's identification of the processes of industrialization and urbanisation as stimuli to public sector growth was the insight that major structural changes in society and the economy could lead to social dislocation giving rise to ameliorative action by the state. This view of the ultimately progressive impact of industrialization became the early orthodoxy of research comparing expenditure development in communist and capitalist nations (see Pryor, 1968; Rimlinger, 1971) and levels of welfare state development in Western nations (Wilensky and Lebeaux, 1958; Cutright, 1965). Central to the industrialization argument was the concept of need. Structural change alters economic and social relationships, creating advantages for some and diminished circumstances for others. Those finding themselves in need as a consequence of such changes are likely to seek redress through state intervention. Although this is an idea with a long pedigree in commentary on economic development (see, for instance, Polanyi, 1957), it was



seized upon by the sociology of the early post-war decades as an explanation of public expenditure growth nicely consistent with its structural-functional account of the modernisation process. To Wilensky (1975), the key source of welfare-related need was demographic change consequent on industrialization and increasing affluence, which, in creating a rising demand for age pensions, began to fashion a constituency of support for what was to become the largest and most expansive programme of the welfare state. Although the potential expenditure impact of future population ageing remains the headline story of much governmental thinking about the fiscal future of advanced welfare states (see, for instance, World Bank, 1994), contemporary theory has tended to decouple the idea of need from the process of industrialization, now, arguably, in reverse in many of the countries of Western welfare capitalism. The concept, however, retains much of its explanatory thrust, although now sometimes morphed into one of ‘risk’ (Taylor-Gooby, 2004; Bonoli, 2005), featuring implicitly in accounts relating the ebb and flow of welfare spending variously to processes of ‘post-industrialization’ (Esping-Andersen, 1999) and ‘de-industrialization’ (Iversen, 2000), with a new source of structural dislocation identified as the shift from manufacturing to service employment. In these accounts, the catalysts for policy change are the needs of a huge new stratum of female employees and of those dispossessed by the rundown of manufacturing employment.

- **Political Actors.** Although the idea of need or risk is important, and although it can be readily extended well beyond the realm of social policy spending which has been its natural home, it does not, by itself, provide anything like a sufficient account of the sources of public expenditure development. That is because the existence of a demonstrable need does not translate automatically through to an expressed or effective demand for the use of public monies. This is the insight provided by the scholars - some from sociology, but, understandably, most from political science - who, from the late 1970s onwards, insisted that one could not comprehend cross-national patterns of expenditure development without realising that ‘politics matters’. For needs [or, more generally, interests and preferences] to be transformed into spending outcomes, they must be enacted as policy, and that, in the context of most Western democracies, involves mobilization by political actors through political institutions. The key actors identified in the literature are political parties, with the partisan strength and ‘power resources’ of the Left (see, from a huge literature, Korpi, 1978; Esping-Andersen, 1990; Schmidt, 1996), the Right (Castles, 1978; Hicks and Swank, 1984; Imbeau, 1988) and

Christian Democracy (Wilensky, 1981; Huber, Ragin and Stephens, 1993; Van Kersbergen, 1995) variously seen as determining the overall size and shape of spending programmes, with the Left identified as a force promoting redistributive expenditures, Christian Democracy as one encouraging the growth of welfare transfers and the Right generally opposed to the growth of taxing and spending. Analogous in its policy implications to the left partisan hypothesis, but with an emphasis on the role of voters as actors exerting independent pressure through the democratic process, it has also been argued that, by effecting a reduction in the income level of the median voter, the progressive extension of the suffrage has served to encourage the growth of public spending for redistributive purposes (Mueller, 1989). Clearly, this democratic actor hypothesis provides an alternative to the ‘displacement effect’ account [see pp. 9 above] of the impetus to post-war expenditure growth, with the victory of democracy in 1945 serving as the crucial take-off platform for the steeply upward trajectory of spending in the decades thereafter. The high point of the ‘politics matters’ interpretation was probably the mid-1980s to the early 1990s. Since that time, there has been an extremely active debate about whether the perceived slowdown in public sector development after 1980 has been a consequence of a ‘new politics of the welfare state’ (see Pierson 1996) and whether this means that traditional partisan differences no longer impact on policy in the same way as previously (see Stephens, Huber and Ray, 1999; Ross, 2000; Green-Pedersen, 2002). This will be a central topic of discussion in Part Two.

- **Institutional Design.** Politics matters not just because the partisan complexion of government differs from country to country, but also because institutions take different forms in different nations. Two aspects of institutional variation are of particular relevance in seeking to understand the growth of government expenditure programmes. The first is that programmes in different countries are designed according to different principles with differential potentials for expenditure growth. In education, for instance, programmes offering comprehensive access are likely to be more expensive than those offering only selective access, while, in the area of social transfers, universal programmes and those based on insurance principles are likely to be more costly than means-tested or exchequer-financed programmes. While national benefits programmes rarely manifest a single, coherent institutional design (see Bolderson and Mabbett, 1995), writers in the ‘power resources’ tradition argue for a linkage between institutional designs and political actors, with governments of the Left favouring universal provision as a means of enhanc-

ing citizen social rights (Korpi, 1989; Esping-Andersen, 1990). The second aspect of institutional variation potentially relevant to expenditure outcomes is differences in the institutional rules by which political demands are transformed into authoritative policies. Even where demands are similar and actors are of comparable salience, outcomes may differ because institutions process expenditure demands in different ways. Diverse constitutional and electoral arrangements may make it harder or easier to get legislative approval for new spending programmes. It has been suggested, for instance, that institutions favouring negotiation and consensus lead to higher spending levels and a “kinder, gentler” sort of democracy (see Lijphart, 1999, 275). However, the longest-standing finding in the literature relating expenditure growth to institutional design is that welfare state spending is inversely related to federalism (see Wilensky, 1975; Cameron, 1978; Castles and McKinlay, 1979), a regularity generally seen as arising from the way in which federalism multiplies veto-points for obstructing new spending proposals (Immergut, 1992; Tsebelis, 2002). Recent research employing a ‘qualitative comparative’ methodology has challenged that finding on two counts, arguing that the historically inverse relationship between spending and federalism only applied where the welfare state evolved under democratic auspices [i.e. not in late 19<sup>th</sup> Century authoritarian Austria and Germany], and that, under present circumstances, where governments are pressing for expenditure retrenchment, federal veto-points can serve as ratchet mechanisms, limiting the speed and extent of expenditure cutbacks (see Obinger, Leibfried and, Castles, 2005).

- **External Influences.** An enumeration of the factors shaping public expenditure trajectories in terms of historical inertia, resource availability, fiscal feasibility, the evolution of needs and their transformation into policies through the political system offers a more or less complete, if somewhat broad-brush, account of potential domestic influences on expenditure development. Whether such an account is sufficient obviously depends on the extent to which such trajectories are influenced from outside. Three potential avenues of external influence can be identified. First are historical events in which connections with other nations can be located as sources conditioning or transforming subsequent trajectories of development. The historical affinities linking families of nations are one instance of this phenomenon as also is the imputed ‘displacement’ effect of engagement in wartime hostilities. A second kind of influence is diffusion of ideas from one country to another through a process of policy learning, with the impetus for expenditure

growth supplied by policy innovations bench-tested in other nations. Arguably, the Bismarckian institutional design for social insurance was an early instance of this phenomenon (Collier and Messick, 1975). Arguably, too, current initiatives for pension reform across the western world are similar in character (Orenstein, 2003). Finally, and of greatest importance theoretically, has been the notion that public expenditure development is strongly influenced by a country's location in the international economy. In earlier variants of the theory (see Cameron, 1978; Katzenstein, 1985), the hypothesis was that exposure to the international economy made domestic political actors – trade unions and parties of the Left – press for protective measures to defend their constituents against external vulnerability. More recently, the proposition has been recast as an aspect of contemporary globalisation theory to suggest that increased exposure to international trade and to high levels of footloose capital provide incentives to governments to engage in a 'race to the bottom' in social spending. Because this is an account with the potential to explain changed trajectories of spending from the 1980s onwards, it has received enormous attention in comparative literature, (see, amongst many others, Garrett, 1998; Huber and Stephens, 2001; Swank, 2002; Rieger and Leibfried, 2003; Castles, 2004), with some recent studies suggesting that the public expenditure effects of openness to the international economy are contingent on mediating factors such as the degree of democratic mobilization (Adserà and Boix, 2001) and the partisan composition of government (Stephens, 2005). However, as already noted, total outlays and core expenditure have suffered more conspicuous cutbacks than social spending over recent decades, and an important task of the analysis in Part Two is to establish whether increased exposure to the international economy accounts for trends in these aggregates better than it does in respect of welfare spending alone.

The theories discussed in this section identify a range of factors that, in various combinations, help to account for important aspects of post-war public expenditure development. The next section focuses on the trajectories of growth of the main public spending aggregates, pointing to some of the cross-national evidence on which these theories rest.

## **Trajectories**

### ***Outlays***

The data appearing overleaf in Table 1 on total outlays of general government as a percentage of GDP are from OECD *Economic Outlook* (various years) and constitute the only series of expenditure figures reported here providing complete coverage of

all 18 countries featuring in this analysis at each of five time-points between 1960 and 2001. When commentators discuss the size of government, it is generally this aggregate that they have in mind.

The headline figure of an average increase in total spending of almost 70 per cent from 26.9 to 45.6 per cent of GDP over four decades [getting on for two per cent growth per annum] has already been noted. However, this overall picture of very substantial growth in the size of government disguises enormous national diversity in initial and final levels of spending and in the pace, timing and direction of change. There was, in fact, not a single OECD trajectory of expenditure growth during this period, but a wide variety of national trajectories. Here, I discuss changing levels of expenditure over the long-term; in Part Two, I focus on changes occurring from 1980 onwards.

In terms of overall change in the size of government, the two extremes are represented by Ireland and the USA at one end of the spectrum and Denmark at the other. From 1960 to 2001, the size of the Irish public sector increased from 28.0 of GDP to just 33.5 per cent and US public spending increased from 27.8 per cent to 35.1 per cent of GDP. By contrast, Danish outlays grew from 24.8 per cent of GDP in 1960 to 55.3 per cent in 2001. Ireland and the USA started out as average spenders and ended up as conspicuous laggards with the two smallest public sectors in the OECD. Denmark's trajectory was the reverse, starting out with below average spending and finishing the period with a public sector second only in size to that of Sweden.

Ireland and the US also feature as the countries in which the pace of change was slowest over four decades, with spending growing by an average of less than one per cent per annum over these years. Here, however, the contrasting countries were not in Northern but in Southern Europe, with Greece and Spain almost tripling spending as a percentage of GDP over the period. Timing also differed. Some countries manifested their 'great leaps forward' [increases of as much as ten per cent of GDP in a decade] in the 1960s [Denmark, Ireland, the Netherlands and Sweden], others [plus two Scandinavian repeat performers] in the 1970s [Belgium, Denmark, Germany, Japan, Portugal, Spain and Sweden] and others still in the 1980s [Greece and Italy]. None of the countries featuring in this analysis experienced their greatest expenditure increases in the 1990s, but two – Ireland and the Netherlands - experienced cutbacks in this period of a magnitude almost comparable to their earlier expenditure spurts.

In terms of directions of change, the Irish case is again instructive, although this time in marked contrast to the American experience. As already noted, Ireland's expenditure growth over four decades was extremely modest. However, Ireland acquired its 2001 status as a country of exceptionally small government by a route quite different to that of the USA. Of the 18 countries analysed here, the USA was the only

**Table 1:** *Post-war Public Expenditure Development* [Total Outlays of General Government as a Percentage of GDP in 18 OECD Countries, 1960-2001]

	1960	1970	1980	1990	2001
<i>Australia</i>	22.1	25.5	31.4	35.0	37.2
<i>Canada</i>	28.9	35.7	38.8	46.0	41.8
<i>Ireland</i>	28.0	39.6	49.3	41.2	33.5
<i>United Kingdom</i>	32.6	39.3	43.0	39.9	41.0
<i>United States</i>	27.8	32.2	31.4	32.8	35.1
<b>Family Mean</b>	<b>27.9</b>	<b>34.5</b>	<b>38.8</b>	<b>39.0</b>	<b>37.7</b>
<i>Denmark</i>	24.8	40.2	56.2	58.6	55.3
<i>Finland</i>	26.7	31.3	38.1	45.3	49.1
<i>Sweden</i>	31.1	43.7	60.1	59.1	57.0
<b>Family Mean</b>	<b>27.5</b>	<b>38.4</b>	<b>51.5</b>	<b>54.3</b>	<b>53.8</b>
<i>Austria</i>	32.1	39.2	48.1	48.6	50.9
<i>Belgium</i>	30.3	36.5	58.3	55.0	49.3
<i>France</i>	34.6	38.9	46.1	49.8	52.5
<i>Germany</i>	32.0	37.6	47.9	45.1	48.3
<i>Netherlands</i>	33.7	45.5	55.8	54.1	46.7
<b>Family Mean</b>	<b>32.5</b>	<b>39.5</b>	<b>51.2</b>	<b>50.5</b>	<b>32.5</b>
<i>Greece<sup>1</sup></i>	17.4	22.4	30.4	48.3	50.2
<i>Italy</i>	30.1	34.2	41.9	53.2	48.7
<i>Portugal</i>	17.0	21.6	34.4	41.8	46.3
<i>Spain</i>	13.7	22.2	32.2	42.0	39.6
<b>Family Mean</b>	<b>19.6</b>	<b>25.1</b>	<b>34.7</b>	<b>46.3</b>	<b>46.2</b>
<i>Japan</i>	20.7	19.3	32.0	31.3	37.7
<hr/>					
<b>Summary Statistics:</b>					
Overall Mean	<b>26.9</b>	<b>33.6</b>	<b>43.1</b>	<b>46.0</b>	<b>45.6</b>
Coefficient of Variation	<b>23.3</b>	<b>24.0</b>	<b>23.5</b>	<b>18.0</b>	<b>15.3</b>
Correlation with 1960		<b>.88</b>	<b>.66</b>	<b>.39</b>	<b>.29</b>

*Sources and Notes:* All data from OECD, *Economic Outlook* (various dates). Data for 1960 and 1970 from Volume 32, data for 1980 and 1990 from Volume 59 and data for 2001 from Volume 74. Data from 1960 to 1990 inclusive are based on the SNA68 system of national accounts and data for 2001 on SNA93. At the present time, and probably into the future, it is impossible to obtain a consistent SNA93 based series from before 1990. <sup>1</sup>The Greek figures for 1960 and 1970 are for current disbursements of general government rather than total outlays and, therefore, somewhat underestimate total spending as compared with the other countries featuring in the analysis. Means subject to rounding errors.

country never to experience a decade in which spending increased by as much as five per cent of GDP. Ireland, in contrast, experienced public outlays growth of close on ten per cent of GDP in both the 1960s and 1970s, but then suffered cutbacks of almost comparable magnitude in the 1980s and 1990s. The US expenditure path departed only slightly from the horizontal, while that of Ireland, and, to a lesser extent, the Netherlands, followed what may best be described as a boomerang trajectory, tending to return from whence they came. Ireland, in fact, turns out to be a highly significant case for our later analysis, not just because of its dramatic changes in spending patterns over four decades, but also because its exceptional level of exposure to the in-

ternational economy, high rates of deficit spending in the 1970s and 1980s and high rates of economic growth thereafter make it a pivotal instance for several of the most influential theoretical accounts of post-war public sector growth.

An analysis in terms of changing family of nations means provides a stronger sense of how change was patterned and some indication of the kinds of factors influencing trajectories of development over time. In 1960, the big state was a largely continental Western European affair, with all the countries in that family of nations having outlays in excess of 30 per cent of GDP, and only Italy, Sweden and the United Kingdom manifesting spending of a similar order. With the exception of Sweden, these were the OECD countries most centrally involved as combatants in World War Two, a fact giving at least some surface plausibility to Peacock and Wiseman's 'displacement effect' hypothesis [see above, page 9]. Interestingly, in light of later developments, in 1960, the average size of the state in the English-speaking family of nations was marginally larger than that in Scandinavia, with Southern Europe – bar Italy – well in the rearguard. The position of the poor Southern European countries in the distribution is as might be expected on the basis of Wagner's Law. The fact that that the affluent overseas English-speaking countries, Australia, Canada and the USA, were not in the public expenditure vanguard at the beginning of the period fits much less well, but might possibly be attributable to the policy impact of federal institutional designs played out in a democratic context [see above, page 11].

Over the following decades, family of nations relativities changed radically. Already by 1970, Scandinavia had nearly caught up with continental Western Europe and, from 1980 onwards, constituted the lead, spending group in the OECD area. After 1980, the big mover was the Southern European grouping, shifting towards the middle of the distribution and leaving a quite significant gap between itself and the English-speaking family of nations, the spending levels of which grew far more slowly than other groupings. This temporal sequence fits nicely with the changing emphasis of the theoretical literature. In the 1970s, when the Scandinavian and continental groupings were roughly on a par in respect of spending levels, sociological approaches emphasised the impact on spending of catering to the needs of an ageing population, a factor clearly contrasting the experience of these families of nations from that of the English-speaking and Southern European families with far more youthful age profiles. From the late 1970s onwards, scholars began emphasising the relevance of the partisan control of government to expenditure outcomes just as the Scandinavian Social Democracies [including Norway, with spending levels akin to those of Denmark and Sweden] began spending more than the immediate post-war continental European leaders. Initially, the case for a 'politics matters' account based on the negative impact of parties of the Right was as strong or stronger than one

premised on the ‘power resources’ of the Left, since, in the former case, the big spending Benelux countries could be grouped together with those countries in which a ‘Social Democratic image of society’ had now become hegemonic (see Castles, 1978). An alternative interpretation of the rapid growth of spending in the Benelux countries in the 1960s and 1970s, is that these were exemplar nations of the use of government spending as a shield against trade induced external vulnerability [see above, page 11].

The shift of the Southern European family of nations towards the middle of the distribution clearly fits with notion that recent public expenditure change has been highly convergent in character. The presence of a strong catch-up trend from 1980 onwards is also confirmed by the summary statistics reported in the final rows of Table 1. While the overall mean of spending was rocketing up during the ‘golden age’, the coefficient of variation remained almost unchanged, but, after 1980, as spending levels stabilised, the coefficient of variation declined quite markedly. In 2001, OECD public spending levels are much more similar than they were in 1980. Convergence, however, necessarily implied change in cross-national expenditure relativities. In 1980, the distribution of cases had clear similarities to the universe of public spending variation of two decades earlier [a correlation of .66]. By 2001, that universe of variation had become almost unrecognisable [a correlation of just .29]. We are accustomed to thinking that all the really big developments in public spending took place in the immediate post-war decades. In reality, the decisive transformation of cross-nation patterns of spending occurred later. Whether that delay is a function of historical inertia or whether the fact of so great a transformation is a refutation of the impact of such forces is a matter of interpretation.

### ***Social Expenditure***

Since total outlays are the sum of total public social expenditure and of expenditure on the core functions of government, many of the regularities noted in the discussion of total outlays in the preceding sub-section apply in some measure to its component elements discussed separately in this sub-section and the next. For instance, since social expenditure provided much of the impetus for total outlays growth throughout the period, cross-national differentials in the timing of the growth of the two aggregates are broadly similar [exceptions are Ireland in the 1960s and Japan in the 1970s]. A clear implication is that many of the factors identified as potential determinants of total outlays trajectories are also likely to emerge as factors shaping social expenditure development. In what follows, I shall not dwell unduly on patterns and potential determinants located previously. Rather the emphasis in this sub-section and the next



is on pointing up ways in which the long-term trajectories of development of social and core spending differ from those of total outlays and from each other.

**Table 2:** *Post-war Social Expenditure Development* [Total Public Social Expenditure as a Percentage of GDP in 18 OECD Countries, 1960-2001]

	1960	1970	1980	1990	2001
<i>Australia</i>	7.4	7.4	11.3	14.2	18.0
<i>Canada</i>	9.1	11.8	14.3	18.6	18.2
<i>Ireland</i> <sup>2</sup>	8.7	11.9	19.0	18.6	13.8
<i>United Kingdom</i>	10.2	13.2	17.9	19.5	21.8
<i>United States</i>	7.3	10.4	13.3	13.4	14.8
<b>Family Mean</b>	<b>8.5</b>	<b>10.9</b>	<b>15.2</b>	<b>16.9</b>	<b>17.3</b>
<i>Denmark</i>	n.a.	19.1	29.1	29.3	29.2
<i>Finland</i>	8.8	13.6	18.5	24.8	24.8
<i>Sweden</i>	10.8	16.8	28.8	30.8	28.9
<b>Family Mean</b>	<b>9.8</b>	<b>16.5</b>	<b>25.5</b>	<b>28.3</b>	<b>27.6</b>
<i>Austria</i> <sup>2</sup>	15.9	18.9	22.9	24.1	26.0
<i>Belgium</i> <sup>1</sup>	12.7	19.3	24.1	26.9	27.2
<i>France</i> <sup>2</sup>	13.4	16.7	22.6	26.8	28.5
<i>Germany</i>	18.1	19.5	23.0	22.8	27.4
<i>Netherlands</i>	11.7	22.4	26.9	27.6	21.8
<b>Family Mean</b>	<b>14.4</b>	<b>19.4</b>	<b>23.9</b>	<b>25.6</b>	<b>26.2</b>
<i>Greece</i>	7.1	9.0	11.5	20.9	24.3
<i>Italy</i>	13.1	16.9	18.4	24.8	25.8
<i>Portugal</i>	n.a.	n.a.	10.9	13.9	21.1
<i>Spain</i>	n.a.	n.a.	15.9	19.5	19.6
<b>Family Mean</b>	<b>10.1</b>	<b>13.0</b>	<b>14.2</b>	<b>19.8</b>	<b>22.7</b>
<i>Japan</i>	4.1	5.7	10.2	11.2	16.9
<b>Summary Statistics:</b>					
Overall Mean	<b>10.6</b>	<b>14.5</b>	<b>18.8</b>	<b>21.5</b>	<b>22.7</b>
Coefficient of Variation	<b>34.8</b>	<b>33.6</b>	<b>33.0</b>	<b>27.1</b>	<b>21.8</b>
Correlation with 1960		<b>.86</b>	<b>.72</b>	<b>.65</b>	<b>.69</b>

*Sources and Notes:* Data for 1960 and 1970 are for total social protection as a percentage of GDP as reported in OECD (1994). Data for 1980, 1990 and 2001 are for total social expenditure as a percentage of GDP as reported in OECD (2004a). <sup>1</sup>Data for Belgium in 1960 is for government expenditure on subsidies and transfers and is from Tanzi and Schuknecht (2000), 31. <sup>2</sup>1980 unemployment cash benefits for Austria, Belgium and Ireland interpolated from OECD (1985). Although pre- and post-1980 figures come from the same evolving OECD social expenditure database, figures from 1980 onwards may be regarded as somewhat more reliable for comparative purposes. Means subject to rounding errors.

The data on total public social expenditure appearing in Table 2 come from an evolving OECD dataset on social spending, which first reported reasonably complete figures on expenditure on public income maintenance programmes in the mid-1970s (OECD, 1976). The figures reported here for years prior to 1980 come from a mid-1990s source (OECD, 1994), which was later to become the basis for the OECD Social Expenditure Database [SOCX], from which our data from 1980 onwards are drawn (OECD, 2004a). In Table 2, pre-1980 data for Portugal and Spain are missing,

as also are data for Denmark in 1960. The OECD source from which these pre-1980 data come, in some instances, reports expenditure totals excluding spending on unemployment benefits and this missing data has been interpolated from other sources. The OECD does not regard its own pre- and post-1980 figures as fully comparable. This is an important reason why the statistical analysis of expenditure change in Part Two of the Working Paper focuses exclusively on trends in the period commencing in 1980.

As has already been pointed out, average levels of social expenditure more than doubled between 1960 and 2001, while core spending increased far more slowly. Two-thirds of total outlays growth in the period was constituted by social expenditure. This clearly signified a major shift in the post-war functions of government. In 1960, welfare provision was a subsidiary task of modern government; today, such provision is equivalent to all the other functions of government combined. This change, which has attracted far less scholarly attention than it deserves, is of the greatest possible significance, both substantively and theoretically, and provides a major analytical focus for the remainder of this Working Paper.

Diverse national trajectories of expenditure development are no less apparent in respect of social expenditure than of total outlays. Ireland was once again the most extreme laggard in terms of overall expenditure growth measured as a percentage of GDP and, again, its boomerang-shaped trajectory of development contrasted radically with the consistently modest growth pattern of the USA. In the case of total outlays, the leading country in GDP growth terms was Denmark, although, in 2001, Sweden's spending level was higher. The picture is apparently reversed in respect of social spending. Over the period as whole, Sweden experienced the greatest expenditure growth, with resources devoted to social purposes tripling in size from 10.8 per cent of GDP in 1960 to over 30 per cent in 1990. However, it was Denmark, which had marginally the highest level of welfare spending by 2001, and lacking data for that country's 1960 spending level, we cannot actually be certain that its post-war growth was any less dramatic than Sweden's. Together with Norway, these countries' expenditure growth profiles constitute a significant element in the Nordic area's post-1970s reputation as the homeland of a distinctive and superior model of social policy provision (Esping-Andersen, 1990; Kautto, 1999). That these three nations were simultaneously the OECD countries with much the longest and strongest records of democratic socialist political incumbency provides much of intellectual rationale for an interpretation of post-war social expenditure growth as primarily a function of Left partisan control of government.

They were not, however, the countries, which experienced the fastest expenditure growth in percentage terms. Between 1960 and 2001, Japanese social spending as a percentage of GDP increased fourfold and that of Greece [and, quite probably, Portu-

gal and Spain] by only a somewhat smaller margin. Japan is frequently singled out as a continuous and conspicuous post-war welfare state laggard, but by this criterion of measurement, and even more so in terms of the rate of increase in real spending on social policy programmes, Japan has actually been the country with much the fastest post-war welfare spending growth in the OECD. This is simultaneously an illustration of how much comparison depends on the type of measure employed and of the negative impact of economic growth on expenditure development measured in the conventional manner as a percentage of GDP. Japan is an extreme instance of why Wagner's Law does not work in cross-national comparison. If Japan had experienced the same post-war expenditure growth in real terms as it manifested in the period 1960 to 2001, but an economic growth rate equivalent to the OECD average over these four decades, Japan would now be amongst the OECD social spending vanguard.

A family of nations focus reveals important differences between the total outlays and total public social expenditure distributions. In 1960, both the English-speaking and Scandinavian total outlays levels were somewhat above the overall mean, but somewhat below the mean in respect of levels of social spending. By contrast, the continental Western European grouping was well above the mean for total outlays and still further above in respect of social expenditure. In other words, family differences had a rather different character in respect of the two aggregates and were rather more pronounced in respect of social spending. Admittedly, these differences in means are partly a function of missing cases, but, nevertheless, they underline the key point that, at the beginning of the period, the big states of continental Western Europe were big almost entirely because of their massive commitment to social spending. Leading the way were Germany and Austria, countries whose exceptionally high spending could be seen as a function of their early social policy innovation, with the region's overall expenditure leadership arguably a product of the diffusion of the Bismarckian social insurance model. Thus, even as early as 1960, it is reasonable to talk of the 'social states' of continental Western Europe and of the emergence of a distinctive 'European social model'. In ensuing decades, the other European families of nations either outmatched continental Western European expenditure growth [the countries of Scandinavia] or kept pace with it [the countries of Southern Europe], leaving an increasingly wider gap between all these groupings and the English-speaking countries other than the UK itself, which remains at least within shouting distance of the average OECD social expenditure level.

Summary statistics confirm these impressions. The more pronounced differences in levels of social than of total outlays spending show up in a coefficient of variation for social expenditure that starts out much higher than that for outlays and continues so until around 1980, before declining quite rapidly over recent decades. Clearly, the

OECD social expenditure distribution has converged over time, but not in such a way as to make the immediate post-war distribution unrecognisable, as in the case of outlays. As late as 2001, the correlation with initial social spending levels was as high as .69, a finding, which, for the 15 countries to which it applies, means that about half of the variation visible in 1960 is preserved to the present day, arguably suggesting that the role of path dependency may be greater for social spending than for public expenditure as a whole.

### ***Core Expenditure***

The core spending series reported in Table 3 overleaf is different in character from the series reported previously in that it is a residual obtained by subtracting total social expenditure from total outlays. This procedure is necessary if we are to get any coherent idea of the overall development of spending in areas other than of social expenditure. This is because, despite a long-term commitment to collecting functional public expenditure data and an evolving internationally standardised classification of such functions [COFOG], international agencies such as the OECD, the IMF and Eurostat, have either not been supplied with the necessary information by member nations [with blank returns for the majority of countries in OECD *National Accounts*], or have been supplied with information which does not allow cross-national comparison of these categories of spending [data reported in IMF *Finance Statistics* has only rarely been consolidated across levels of government]. Eurostat and the OECD (see OECD, 2004c) now report COFOG data for member nations from 1990 onwards, but, while that will be invaluable for future research in this area, it does not allow us to say anything significant about expenditure development in the period under analysis here.

Admittedly, there are longer series relating to particular categories of government spending: defence expenditures reported by the Stockholm Peace Research Institute [SIPRI], education spending by both the OECD and UNESCO and debt interest payments routinely reported in OECD *Economic Outlook*. However, because data for important functional categories of spending, including public services, public order, and economic affairs, are missing for many or most countries, no even faintly accurate long-term series can be constructed by aggregating what is known about these functional categories of spending. Going down the residual route is an indirect way of obtaining some intellectual purchase on what has been happening to those aspects of spending unrelated to health and social protection. Obviously, earlier warnings relating to over interpretation of small differences between countries and over time should be kept in mind [see page 3 above], but, essentially, there is no more reason to suspect the series reported here of being flawed than the earlier series from which it has been constructed and which have routinely been the subject of cross-national research.

As already noted several times before, the overall growth trajectory of core expenditure has been far more gradual than that of social spending. Indeed, Table 3 shows that, after an increase in average levels of spending of around a third from 18.0 to 24.3 per cent of GDP in the two decades after 1960, average spending marked time in the 1980s and actually began to decline in the 1990s, with a 2001 figure of just 22.9 per cent of GDP. National trajectories once again differed appreciably. Belgium, Germany, Greece, Ireland, Portugal and Sweden experienced core expenditure growth in excess of 10 per cent of GDP between 1960 and 1980, with Belgian expenditure spectacularly doubling from 17.2 to 34.2 per cent of GDP in the 1970s. After 1980, the only country to experience substantial expenditure growth was Portugal. A major difference between core spending and the other series examined here is that some countries were actually devoting a lower proportion of their GDP to core spending in 2001 than in 1960. Conspicuous amongst them were the United Kingdom, which started out the period with the highest level of core expenditure in the OECD, and, Ireland, which, by 1970, had overtaken the UK as the biggest spender. Both of these countries experienced distinctly boomerang-shaped trajectories of expenditure development over the post-war period as a whole, with Ireland's more extreme expenditure alternation once again contrasting with the United States' virtually flat-lining trajectory. The largest post-1980 cutback in core spending took place in Belgium, although 2001 spending remained above its 1960 level. In Part Two, I seek to establish whether Ireland and Belgium's dramatic core expenditure reversals were in some way related to other significant aspects of these nations' political economies, in particular, the extreme openness of their economies and their very high levels of public indebtedness.

Again, a family of nations focus highlights major differences in the pattern of development of the different aggregates of spending. Extraordinarily, in light of the growth trajectories revealed by both the social expenditure and total outlays series and of the standard account of this family of nations' preference for small government largely derived from scholarly reflection on these series, the family of nations means reported in Table 3 reveal the English-speaking countries as being in the vanguard of big spending on the core functions of government in both 1960 and 1970. In the absence of core spending data, this is a pattern, which could not readily be identified by previous scholarship, although Patrick Dunleavy (1989) does offer an account of what he describes as the 'paradoxes of ungrounded statism' in Britain's early post-war political economy, which attempts to explain what he sees as that country's unusually high level of non-welfare related public intervention in terms of the cultural weakness of industrial capital and exceptional levels of wartime mobilization. Whatever its causes, this was a pattern that was not to persist. By 1980, the core spending levels of the

**Table 3:** *Post-war Expenditure on Core Functions of Government* [Total Non-social Expenditure as a Percentage of GDP in 18 OECD Countries, 1960-2001]

	1960	1970	1980	1990	2001
<i>Australia</i>	14.7	18.1	20.1	20.8	19.2
<i>Canada</i>	19.8	23.9	24.5	27.4	23.6
<i>Ireland</i>	19.3	27.7	30.3	22.6	19.7
<i>United Kingdom</i>	22.4	26.1	25.1	20.4	19.2
<i>United States</i>	20.5	21.8	18.1	19.4	20.3
<b>Family Mean</b>	<b>19.3</b>	<b>23.5</b>	<b>23.6</b>	<b>22.1</b>	<b>20.4</b>
<i>Denmark</i>	n.a.	21.1	27.1	29.3	26.1
<i>Finland</i>	17.9	17.7	19.6	20.5	24.3
<i>Sweden</i>	20.3	26.9	31.3	28.3	28.1
<b>Family Mean</b>	<b>19.1</b>	<b>21.9</b>	<b>26.0</b>	<b>26.0</b>	<b>26.2</b>
<i>Austria</i>	16.2	20.3	25.2	24.5	24.9
<i>Belgium</i>	17.6	17.2	34.2	28.1	22.1
<i>France</i>	21.2	22.2	23.5	23.0	24.0
<i>Germany</i>	13.9	18.1	24.9	22.3	20.9
<i>Netherlands</i>	22.0	23.1	28.9	26.5	24.9
<b>Family Mean</b>	<b>18.2</b>	<b>20.2</b>	<b>27.3</b>	<b>24.9</b>	<b>23.4</b>
<i>Greece</i>	10.3	13.4	18.9	27.4	25.9
<i>Italy</i>	17.0	17.3	23.5	28.4	22.9
<i>Portugal</i>	n.a.	n.a.	23.5	27.9	25.2
<i>Spain</i>	n.a.	n.a.	16.3	22.5	20.0
<b>Family Mean</b>	<b>13.7</b>	<b>15.4</b>	<b>20.6</b>	<b>26.6</b>	<b>23.5</b>
<i>Japan</i>	16.6	13.6	21.8	20.1	20.8
<hr/>					
<b>Summary Statistics:</b>					
Overall Mean	<b>18.0</b>	<b>20.5</b>	<b>24.3</b>	<b>24.4</b>	<b>22.9</b>
Coefficient of Variation	<b>18.5</b>	<b>21.3</b>	<b>19.8</b>	<b>14.1</b>	<b>11.8</b>
Correlation with 1960		<b>.77</b>	<b>.36</b>	<b>-.10</b>	<b>-.04</b>

*Sources and Notes:* For the purposes of this analysis expenditure on the core functions of government is defined as total expenditure of general government [data from Table 1] minus total social expenditure [SOCX] [data from Table 2]. The Classification of Functions of Government [COFOG] expenditure items covered by what, as measured here, is essentially a residual categorisation include general public services [including debt interest payments], defence, public order and safety, economic affairs, education, housing, community and environmental affairs and recreation, culture and religion. Note that the footnotes in Tables 1 and 2 above have implications for the core spending totals reported here precisely because the figures reported here are residuals of the data reported in those tables. Means subject to rounding errors.

countries of the English-speaking family had been outstripped by both the nations of Scandinavia and those of continental Western Europe. Between 1980 and 1990, the only area in which core spending continued to grow was Southern Europe, where convergence trends were almost as pronounced as in respect of welfare spending. After 1980 in the English-speaking and continental European worlds, and after 1990 in Southern Europe, average spending levels began to decline, with Ireland, Belgium and the United Kingdom leading the way with the biggest expenditure cutbacks, leaving Scandinavia, where spending remained static, the area of much the highest spend-

ing in the OECD. In 2001, Denmark and Sweden, the biggest welfare spenders in the OECD, were also the biggest core spenders. The former English-speaking vanguard nations of core spending now constituted the OECD rearguard.

The summary statistics in Table 3 also provide interesting perspectives on the course of development over these decades. In 1960, variation in the cross-national distribution of core expenditure was lower than for either social spending or for total outlays, suggesting, perhaps, that core spending programmes were closer to maturity – and, hence, convergence – than was the case of social spending programmes at the same point in time. If that interpretation is correct [and, if this spending truly is largely devoted to the core functions of government, that is what one would expect], it would appear that these differences in the relative degrees of maturation of the programmes constituting the respective aggregates have been maintained over time, for, although social expenditure patterns have become more similar over these decades, so too has core spending. The vast majority of OECD nations now have core spending levels bunched between 19.0 and 25.0 per cent of GDP, with a coefficient of variation for the distribution as a whole of 11.8 indicative of the now quite remarkably low degree of cross-national difference manifested by this expenditure aggregate. The summary statistics also capture the dramatic change over time in the lead and lag countries in the distribution identified above. Already by 1980, the 1960 pattern of spending was well nigh unrecognisable [a correlation of .36]. By 2001, it had disappeared altogether, with a negative correlation of -.04.

Another set of correlations [calculated by the author but not reported in Table 3] indicates how changed patterns of core spending relate to the trajectories of development of the other aggregates of expenditure discussed in Part One of this Working Paper. In 1960, the degree of association between core spending and social spending was a mere .01; in 1970, it was .26 and, in 1980, .69, a level maintained, more or less, to the present day [.55 in 1990 and .63 in 2001]. The story, then, of early post-war public expenditure is of two major aggregates of spending seemingly, initially shaped by quite different factors, which have substantially converged, not only in the sense that the countries became more alike in respect of each category of spending, but also in the sense that the two cross-national distributions have become more like each other, making the structure of public spending more internally coherent. Since, our previous analysis demonstrates that social expenditure patterns were relatively unchanged over time [see the discussion on page 17 above], it follows that what occurred in the decades after 1960 was a process by which the core spending distribution became progressively more similar to the existing social expenditure pattern. An important clue as to how this came about is to be found in the next section on relativities of spending, where, along with other aspects of change in the composition of pub-

lic expenditure, I discuss shifts in the salience of spending for military and social purposes over the four decades covered by this study.

## **Relativities**

In this section, I seek to say something more about the evolution of post-war public expenditure patterns by focusing on the changing composition of the big aggregates of spending. I do this by examining relativities or ratios between sub-components of these aggregates: between military expenditure and social expenditure [‘guns versus butter’], between social expenditure and core expenditure [spending on social functions versus spending on core functions] and between cash benefit provision and in-kind social provision [transfers versus services]. For the first two of these relativities, I provide data for the five time-points reported in previous tables. In respect of transfers versus services, data are only available from 1980 onwards. Given, however, that an influential school of thought dwelling on the ‘new social risks’ arising from post-industrial modernisation [see page 10 above] sees a shift toward services as the next big advance in the development of the caring state, it seems worth briefly deploying the evidence presently available to us.

### ***Guns versus Butter***

The relative salience of military and social expenditure has been a preoccupation of scholars for much of the post-war era, although with some signs [in an era of radically declining military expenditures] of recently diminishing interest. This preoccupation has had two sources. First, from the late 19<sup>th</sup> Century through to World War Two, these were by far the two largest categories of public spending (Eloranta, 2004). Second, for this very reason, there has been considerable speculation on the possibility of a trade-off between these expenditure categories, with the basic idea being that preferences for one could limit the potential for expansion of the other. This literature derives from two main scholarly traditions: a concern with the determinants of the extent of military spending (see, for instance, Russett, 1970; Keman, 1982; Mintz and Huang, 1991) and a budgetary policy concern with the factors determining the size and composition of government spending (see, for instance, Peacock and Wiseman, 1961; Wildavsky, 1988; Berry and Lowery, 1990). Despite the fact that the notion of a trade-off between guns and butter has become part of the conventional wisdom of popular commentary, research findings are largely negative, suggesting either that military and social spending levels are determined by quite different factors (Domke, Eichenberg and Kelleher, 1983) or that they are mediated by the diverse outcome preferences of different political formations. According to Eloranta (2004), in the period prior to World War Two, the big difference in preferences was between the militarism of the authoritarian nations and the welfare leanings of the democracies. According to



Wilensky, after the World War Two, the major divide was between the welfare values of corporatist polities and the greater emphasis on military [and higher education] spending of the least corporate nations (Wilensky, 2002, 260-1).

My interest here is less in trade-off than in salience, with Table 4 on the next page designed to answer the question of how the relativity between military and social spending has differed over time and as between countries and families of nations. The headline story is, of course, one of the declining salience of military spending over time, with the average level of defence expenditures equivalent to 40 per cent of total social expenditure in 1960, 18 per cent in 1980 and a mere 8 per cent in 2001. At the beginning of the period, the idea that the resources devoted to military purposes represented a potentially major diversion from social spending could appear a quite persuasive notion in many of these countries; today, those seeking greater resources for welfare expansion would, with the exception of Greece and the United States [spending respectively 4.6 and 3.1 per cent of GDP in 2001], be better advised to look elsewhere. The rapidity of the decline in salience was initially a function of massively increased spending on welfare in the ‘golden age’ and subsequently of a gradual, but continuous, decline in the average level of military spending as a percentage of GDP starting around 1970 and accelerating further with the post-1990 ‘peace dividend’ following the end of the Cold War. Although the pronounced shift from military to social expenditure may look like a ‘crowding out’ effect, the cross-national evidence does not support such an interpretation. At not one of the time-points reported in Table 4 is the correlation between military spending and social spending greater than -.08 [author’s own calculations]. In other words, it is not and has never been the case at any point during these years that the countries with the highest military spending have been systematically those with the lowest social spending or vice versa.

The relativities reported in Table 4 are unlike any of the series reported in earlier tables in that there is virtually no cross-national variation in trajectories of change. All countries experienced a substantial relative decline in military spending and at much the same rate, as shown by the only marginally changing correlations between spending in 1960 and at later dates [see summary statistics]. What this means is that the very substantial cross-national variation manifested in 1960 has remained quite high and relatively constant [see and compare coefficients of variation in Table 4]. The countries with a strong military resource commitment in 1960 were the superpowers, the United States, Britain and France, and those nations engaged in regional or colonial conflicts, Greece and, although figures for 1960 and 1970 are not reported here, Portugal as well [with expenditure of 4.2 per cent of GDP in 1960 and 7.2 per cent in 1970]. The countries with exceptionally low levels of military commitment were Ireland, Finland, Austria and Japan, which either had a tradition of neutrality or were

committed to low spending by the conditions of the post-war peace settlements. None of these countries spent as much as 2 per cent of GDP on defence in either 1960 or 1970. The same countries remained high or low in the distribution four decades later, although actual differences in military spending levels had diminished enormously. Arguably, there is more scope for a path dependency interpretation of the post-war development of military expenditures than of any of the main aggregates that are the subject of this Working Paper.

**Table 4:** *Guns versus Butter* [Ratio of Military Expenditure as a Percentage of GDP to Total Social Expenditure as a Percentage of GDP]

	1960	1970	1980	1990	2001
<i>Australia</i>	.35	.45	.24	.15	.11
<i>Canada</i>	.47	.20	.13	.11	.07
<i>Ireland</i>	.16	.11	.11	.06	.05
<i>United Kingdom</i>	.64	.37	.28	.21	.11
<i>United States</i>	1.22	.75	.42	.40	.21
<b>Family Mean</b>	<b>.57</b>	<b>.38</b>	<b>.26</b>	<b>.18</b>	<b>.11</b>
<i>Denmark</i>	n.a.	.12	.08	.07	.05
<i>Finland</i>	.19	.10	.08	.06	.05
<i>Sweden</i>	.37	.21	.11	.08	.07
<b>Family Mean</b>	<b>.28</b>	<b>.15</b>	<b>.09</b>	<b>.07</b>	<b>.06</b>
<i>Austria</i>	.06	.06	.05	.04	.03
<i>Belgium</i>	.27	.15	.14	.09	.05
<i>France</i>	.48	.25	.18	.13	.09
<i>Germany</i>	.22	.17	.14	.12	.05
<i>Netherlands</i>	.35	.16	.12	.09	.07
<b>Family Mean</b>	<b>.28</b>	<b>.16</b>	<b>.13</b>	<b>.09</b>	<b>.06</b>
<i>Greece</i>	.69	.54	.50	.22	.19
<i>Italy</i>	.25	.16	.13	.08	.08
<i>Portugal</i>	n.a.	n.a.	.32	.19	.10
<i>Spain</i>	n.a.	n.a.	.12	.09	.06
<b>Family Mean</b>	<b>.47</b>	<b>.35</b>	<b>.27</b>	<b>.15</b>	<b>.11</b>
<i>Japan</i>	.27	.14	.10	.08	.06
<b>Summary Statistics:</b>					
Overall Mean	<b>.40</b>	<b>.25</b>	<b>.18</b>	<b>.13</b>	<b>.08</b>
Coefficient of Variation	<b>71.1</b>	<b>76.6</b>	<b>50.3</b>	<b>66.5</b>	<b>57.4</b>
Correlation with 1960		<b>.92</b>	<b>.84</b>	<b>.96</b>	<b>.91</b>

*Sources and Notes:* Military expenditure as percentage of GDP is from SIPRI (various years). Data on total social expenditure (SOCX) is from Table 2 above. Means subject to rounding errors.

Arguably, the most interesting point of all in Table 4 is the early post-war family of nations pattern it reveals. In 1960, the grouping of nations in which military spending was highest relative to social spending was the English-speaking family, which, with the exception of Ireland, had constituted the victorious Allies of World War Two. These countries' exceptional expenditure effort on defence, which was to continue for at least another decade, may be contrasted with the much lower military commitment

of the continental Western European family of nations, which was largely a function of the demilitarisation of the former Axis powers, either literally in the Austrian case or, as compared to the past and to the current superpowers, in the case of Germany. This is old history now, but interesting history insofar as it provides a strong clue to one of the reasons why core spending patterns were different from social spending patterns in the early post-war decades and why this difference gradually disappeared in later post-war decades. In these years, an important reason that core spending in the English-speaking countries was higher than in other families of nations was that military spending was higher in the English-speaking countries. In 1960, for example, the gap between core spending levels in the English-speaking and continental European worlds virtually disappears if military expenditure is excluded, with spending in the former grouping averaging 14.6 per cent of GDP as compared to the 14.5 per cent of the latter grouping. Moreover, excluding military expenditure, Scandinavia was already, in 1960, the area of the highest average core spending and remained so throughout the period under review, with the single exception of 1980, when the countries of continental Western Europe recorded marginally higher spending levels. The reasons for this Western European aberration are analysed more fully in Part Two.

High military commitment is, of course, an important element in Dunleavy's explanation of the United Kingdom's 'ungrounded statism' in the early post-war years, but it is here writ somewhat larger, applying not just to the experience of the United Kingdom, but also to that of the United States and Canada. These were countries that were slow to demobilize their World War Two military commitment, partly for geopolitical reasons, but also, possibly, because the boost to employment provided by military spending served a secondary purpose as a form of industry policy insuring against the risk of mass unemployment. As the Cold War diminished in intensity, and as 'golden age' economic growth provided its own insurance against labour market failure, military spending levels declined everywhere and with them the distortionary effect on core spending.

### ***Social Functions versus Core Functions***

The second relativity examined here is that between public spending on the social and core functions of government over the period 1960 to 2001. This is a period generally seen as one in which welfare objectives became the foremost priorities of the government, although it has been suggested that the term 'welfare state' might be better reserved for instances in which social spending outweighed all other categories of spending combined (Therborn, 1983), with Gøsta Esping-Andersen (1990) noting that, by this criterion, there were very few welfare states to be found amongst the

ranks of the OECD nations until the 1970s. In fact, the figures in Table 5 overleaf suggest that states in which core spending was exceeded by social spending remained extremely few and far between until some time in the 1980s. In 1960, Germany, with its depressed military spending, was the only case where social spending outweighed core expenditure. In 1970, Germany had been joined by Belgium, but, by 1980, both of these countries had ceased to qualify by Therborn's criterion and only Denmark was a fully-fledged welfare state. The age of the welfare state proper only really began some time after 1980, and, interestingly, well after the 'golden age' was long gone, with seven of the OECD countries meeting the criterion in 1990 and nine in 2001, a time-point at which, according to the summary statistics in Table 5, social and core spending were almost exactly balanced in the OECD as a whole.

This movement over the course of four decades from a world in which social spending only averaged around 60 per cent of core spending to one in which the two major aggregates of public expenditure were almost equivalent in size is clearly just another way of capturing the seismic shift in the functions of government of the post-war era that has already been noted in several contexts previously. However, as previously, the extent of the shift differed radically from country to country. Paradoxically, the nations in which the salience of the welfare state grew least were Germany and Austria, with levels that were exceptionally high from the outset, but which remained, more or less static thereafter. German and Austrian commentary has for many decades tended to identify these countries as "Sozialstaaten", and this long-standing prominence of policy directed toward welfare state goals, although, by 1970, no longer premised on spending levels higher than elsewhere in continental Europe and Scandinavia, helps to account for the self-perception. Quite contrasting countries in which the salience of social functions also increased relatively slowly were Canada, Ireland, the United States and, until 1990, Australia. Clearly, this is a finding, which fits with these latter countries' normal designation as 'liberal' welfare regimes (Esping-Andersen, 1990) and reluctant welfare states

At the other end of the spectrum, the countries in which the salience of the welfare state increased most were a mixed bunch, including the Scandinavian grouping as a whole [including both Denmark and Norway] plus Belgium and the United Kingdom. The increased prominence of social spending in the UK is particularly interesting, given that country's starting point as the nation with the highest level of core spending and the fact that it too is generally classified as a 'liberal' welfare regime. In the majority of countries, the trajectory of post-war change has been, more or less, continuously upwards, although it is, once again, worth noting the extraordinary Belgian blip in 1980, accounted for not by a decline in social spending, but by a massive increase in core expenditure that may have been associated with that country's high

level of public indebtedness. After 1990, however, it is possible to identify a significant minority of nations, including Ireland, Finland, Sweden and the Netherlands, in which the trend towards increasing welfare state salience was reversed.

**Table 5:** *Social Functions versus Core Functions* [Ratio of Total Social Expenditure as a Percentage of GDP to Expenditure on the Core Functions of Government as a Percentage of GDP]

	1960	1970	1980	1990	2001
<i>Australia</i>	.50	.41	.56	.68	.94
<i>Canada</i>	.46	.49	.58	.68	.77
<i>Ireland</i>	.45	.43	.63	.82	.70
<i>United Kingdom</i>	.46	.51	.71	.96	1.14
<i>United States</i>	.36	.48	.73	.69	.73
<b>Family Mean</b>	<b>.45</b>	<b>.46</b>	<b>.64</b>	<b>.77</b>	<b>.85</b>
<i>Denmark</i>	n.a.	.91	1.07	1.00	1.12
<i>Finland</i>	.49	.77	.94	1.21	1.02
<i>Sweden</i>	.53	.62	.92	1.09	1.03
<b>Family Mean</b>	<b>.51</b>	<b>.77</b>	<b>.98</b>	<b>1.10</b>	<b>1.06</b>
<i>Austria</i>	.98	.93	.91	.98	1.04
<i>Belgium</i>	.72	1.12	.70	.96	1.23
<i>France</i>	.63	.75	.96	1.17	1.19
<i>Germany</i>	1.30	1.08	.92	1.02	1.31
<i>Netherlands</i>	.53	.97	.93	1.04	.88
<b>Family Mean</b>	<b>.83</b>	<b>.97</b>	<b>.89</b>	<b>1.03</b>	<b>1.13</b>
<i>Greece</i>	.69	.67	.61	.76	.94
<i>Italy</i>	.77	.98	.78	.87	1.13
<i>Portugal</i>	n.a.	n.a.	.46	.50	.84
<i>Spain</i>	n.a.	n.a.	.98	.87	.98
<b>Family Mean</b>	<b>.73</b>	<b>.82</b>	<b>.71</b>	<b>.75</b>	<b>.97</b>
<i>Japan</i>	.25	.42	.47	.56	.81
<hr/>					
<b>Summary Statistics:</b>					
Overall Mean	<b>.61</b>	<b>.72</b>	<b>.77</b>	<b>.88</b>	<b>.99</b>
Coefficient of Variation	<b>43.2</b>	<b>34.7</b>	<b>24.7</b>	<b>23.0</b>	<b>18.00</b>
Correlation with 1960		<b>.76</b>	<b>.49</b>	<b>.40</b>	<b>.70</b>

*Sources and Notes:* Data on total social expenditure (SOCX) is from Table 2 above. Data on expenditure on the core functions of government from Table 3. Means subject to rounding errors.

The main family of nations story apparent from Table 5 is the familiar one of the English-speaking countries [in this instance, minus the United Kingdom] lagging well behind other groupings that manifested a highly convergent pattern of development throughout the period. Ireland apart, by 2001, a European pattern of high welfare salience had become universal. It is this pattern that is captured by the continuous decline in the coefficients of variation reported in the summary statistics of Table 5 from a 1960 high of 43.2 to a 2001 low of 18.0. The other interesting aspect of family of nations development is the way in which the Scandinavian family takes over from continental Western Europe as the area of leading welfare salience in both 1980 and 1990

to slip back again to second place in 2001. The same story is also told by the pattern of correlations between salience levels over time, with the much lower correlations reported for the 1980 and 1990 distributions reflecting the greater Scandinavian dominance at these time-points.

A final point is worth making here, which could have been made of the earlier section on social expenditure growth, but which is reinforced by the story of increasing welfare state salience told by Table 5. The prevailing theoretical account of social expenditure development of recent years has been that offered by globalisation theory, warning of ineluctable pressures towards a ‘race to the bottom’ in social spending. Neither our analysis of the figures appearing in Table 2 or in Table 5 support such an interpretation of recent developments. Since 1980, a reasonable time-point from which to date the advent of markedly higher levels of globalisation, average social expenditure levels have increased in all but a tiny minority of OECD countries and the salience of social spending has increased quite markedly. Today, the public expenditure state can be more properly be described as a ‘social state’ than at any time previously, with much of the business of the state concerned with its social functions and much of the politics of the state similarly preoccupied. Although this constitutes a major refutation of the most frequently stated claims of globalisation theory (see Castles, 2004), it does not necessarily refute the logic informing the thesis. As we shall see in Part Two, a far better *prima facie* case for the retrenchment impact of globalisation can be mounted in respect of total outlays and core expenditures than of social spending.

### ***Welfare Transfers versus Welfare Services***

Social spending has now become so large an element in total outlays that some further differentiation is required to discern likely trends in future development. A straightforward approach is to disaggregate at the level of the programme categories identified by the OECD in its Social Expenditure Database [SOCX] [see page 3 above], but analysis on this basis would be at a micro level and necessarily somewhat descriptive in character. Another alternative, allowing us to focus on broader trajectories of change in the structural attributes of social spending, is to use SOCX data to distinguish between cash transfer and in-kind service expenditures. This is a distinction that allows us to gain some purchase on important debates concerning probable trajectories of change in contemporary social spending. One pointer to future trends may be found in the ‘new social risks’ literature, which suggests that many of the emerging risks of post-industrial society, and, in particular, those relating to increased female employment and to the care needs of the elderly, require a welfare state that gives greater emphasis to service provision than to traditional income security goals (see

Taylor-Gooby, 2004, 1-28). An alternative vision of the shape of things to come suggests the likelihood of a shift “from the ideal-type Scandinavian model of social welfare to a market-oriented version, which is identified with the Anglo-American approach” (Gilbert, 2002, 4). This shift towards what Gilbert calls an ‘enabling’ state, “designed to promote labor force participation and individual responsibility” (Ibid), has many, complex and countervailing implications for patterns of spending, but, clearly, suggests a move away from the kind of free service provision that Gøsta Esping-Andersen (1990), amongst others, sees as the highest expression of social solidarity in the welfare state and the essence of a Social Democratic model of welfare provision.

**Table 6:** *Welfare Transfers versus Welfare Services* [Ratio of Cash to In-kind [Service] Provision in 18 OECD Countries, 1980-2001]

	1980	1990	2001
<i>Australia</i>	1.28	1.12	1.25
<i>Canada</i>	0.70	0.78	0.86
<i>Ireland</i>	1.57	2.10	1.36
<i>United Kingdom</i>	1.81	1.95	1.69
<i>United States</i>	1.77	1.39	1.19
<b>Family Mean</b>	<b>1.43</b>	<b>1.47</b>	<b>1.27</b>
<i>Denmark</i>	1.27	1.29	1.12
<i>Finland</i>	1.53	1.57	1.71
<i>Sweden</i>	1.05	1.15	1.02
<b>Family Mean</b>	<b>1.28</b>	<b>1.34</b>	<b>1.28</b>
<i>Austria</i>	2.86	2.83	2.77
<i>Belgium</i>	3.25	2.59	2.13
<i>France</i>	2.37	1.89	1.79
<i>Germany</i>	1.95	1.53	1.36
<i>Netherlands</i>	2.96	2.69	1.71
<b>Family Mean</b>	<b>2.68</b>	<b>2.31</b>	<b>1.96</b>
<i>Greece</i>	2.03	2.48	2.12
<i>Italy</i>	2.08	2.49	2.60
<i>Portugal</i>	1.95	1.73	1.71
<i>Spain</i>	2.53	2.25	2.06
<b>Family Mean</b>	<b>2.15</b>	<b>2.24</b>	<b>2.12</b>
<i>Japan</i>	1.08	1.20	1.17
<hr/>			
<b>Summary Statistics:</b>			
Overall Mean	<b>1.89</b>	<b>1.84</b>	<b>1.65</b>
Coefficient of Variation	<b>37.2</b>	<b>33.8</b>	<b>32.5</b>
Correlation with 1980		<b>.88</b>	<b>.77</b>

*Sources and Notes:* Data calculated from OECD, *Social Expenditure Database, 1980-2001*, 2004, Paris. Means subject to rounding errors.

Table 6, which reports the ratio of cash transfers to in-kind benefits in our 18 OECD countries in 1980, 1990 and 2001, provides us with a means of assessing which of these interpretations is the more compelling. The first point to note is that, with the

single exception of Canada, cash remains king, with transfer expenditure outweighing in-kind spending in every other country at every time-point. Table 6 also identifies the very considerable diversity of national and family of nations patterns. At one end of the distribution in 2001 is Canada, with cash spending amounting to only 86 per cent of its service provision; at the other is Austria, spending two and three-quarter times more on transfers than on services. Differences between family patterns are also considerable and generally quite coherent, although Finland is not a typically service-oriented member of the Scandinavian family and Germany is, for once, very different from its Austrian neighbour and an exception to the high transfers profile of the continental European family. Over time, family of nations relativities remain distinguishable, although some of the continental European countries moved in a distinctly Scandinavian direction. The stronger salience of cash transfers in the countries of continental Western and Southern Europe is testimony to the impact of programme design, with these countries' 'status preserving', and inherently more expensive, social security systems contrasting with the flat-rate universal and sometime means-tested benefits of the Scandinavian and English-speaking groupings.

From the point of view of judging whether we are moving towards a welfare state providing services addressing new kinds of risk or towards an 'enabling state' in which services are progressively privatised, the key question is one of the overall trajectory of change. The summary statistics in Table 6 show that the salience of cash transfers has been gradually declining, especially in the period after 1990. The family of nations means in the table also show that three out of four of these groupings experienced a similar downwards shift. The Scandinavian exception, with an almost unchanging level of salience over these decades, was, of course, in the family of nations with by far the highest level of service spending throughout. Arguably, the 'enabling state' hypothesis could be rescued if the declining salience of cash transfers had been occurring within the context of a reduced total of overall spending. However, our previous analysis of social spending [see the figures in Table 2 above] has shown that this was not the case, and, in fact, between 1980 and 2001, both average cash transfer and average in-kind benefits levels increased significantly [cash: from 12.1 to 13.8 per cent of GDP; services: from 6.8 to 8.8 per cent of GDP]. All this being so, the general, but not universal [Finland, Italy and Japan are the major exceptions], trend away from cash and towards services may be seen as tentative *a priori* evidence in favour of the 'new social risks' interpretation of contemporary welfare state development.

Finally, to complete Part One of this study, I combine the data on transfers/services relativities from Table 6 with that on social spending from Table 2 in an attempt to provide some further insight into where the welfare state has been going in recent



decades and where it likely to go now. Table 2 above tells us that there has been no ‘race to the bottom’ in spending as a result of the more globalised economy of the 1980s and 1990s and Table 6 suggests that welfare state structures are, in many cases, becoming, more service focused. Figures 1 (a) and (b) on the following pages bring this information together in a way that assists us in capturing the overall direction of change for the 18 countries included in this survey.

**Figure 1 (a):** *The Changing Profile of Western Welfare States – 1980*

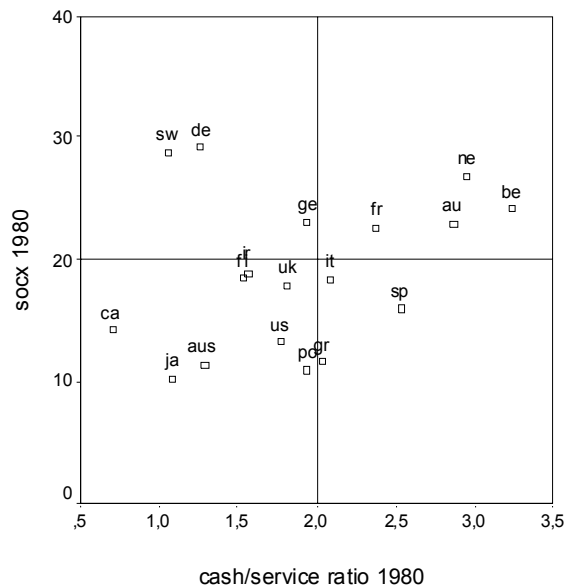
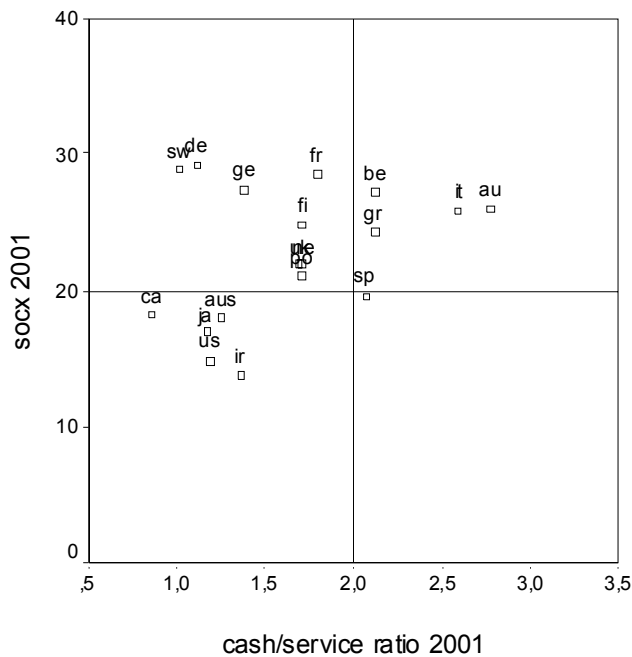


Figure 1 (a) describes the distribution as it was in 1980. By categorising values on each of the dimensions of spending as either high and low, a classificatory device is created with the potential to generate four kinds of cases: high spending and high cash salience [top right quadrant]; high spending and low cash salience [top left quadrant]; low spending and high cash salience [bottom right quadrant] and low spending and low cash salience [bottom left quadrant]. In 1980, each of these quadrants is populated, and, in each case, largely dominated by a particular family of nations. Four of the five countries of continental Western Europe are to be found in the top right quadrant and Germany is closely adjacent on the fringe of the top left quadrant, which is otherwise Scandinavian in character, with Finland on the bottom left fringe. Otherwise, the bottom left quadrant is largely dominated by the English-speaking countries plus Japan. Finally, the bottom right quadrant is a Southern European affair, with Portugal closely adjacent on the bottom left fringe.

This coincidence of expenditure types and family patterns is a strong vindication of the analytical utility of a family of nations approach. It is no less a vindication of what is undoubtedly the best-known classification of varieties of modern welfare states: Esping-Andersen’s ‘regime’ typology. His data are also from 1980 and the patterns established in his typology are near identical to those in Figure 1 (a): a top left ‘Social

Democratic’ type, a top right ‘Conservative’ regime and a bottom right ‘Liberal’ world of welfare. Esping-Andersen’s (1990) book does not classify the counties of Southern Europe, but, in subsequent work, he has suggested that around this time these countries should be seen as being constrained on the expenditure side by their late economic and democratic development, but as being characterised by similar structure of provision as the Conservative countries of continental Western Europe, exactly the position they occupy in the matrix here (see Esping-Andersen, 1993).

**Figure 1 (b):** *The Changing Profile of Western Welfare States – 2001*



The interesting question with which I complete my analysis is how this picture had changed by 2001, with the answer provided by the Figure 1 (b) not of a general shift towards an Anglo-American ‘enabling state’, but rather of a shift towards a reality that looks more Scandinavian and ‘Social Democratic’ in character, with most countries spending more and with cash provision becoming generally less salient. Admittedly, an English-speaking group, with Japan as an honorary member, is still quite distinct, but the UK together with the non-English-speaking countries on the fringe of this quadrant have moved upwards into the lower fringes of the Scandinavian quadrant. However, by 2001, the lower right quadrant is virtually unpopulated, with Greece and Italy firmly located in the Conservative quadrant and Portugal on the Scandinavian fringes. These are all moves consequent on higher spending, but, arguably, more significant still are shifts from the top right to the top left quadrant by continental European countries like Germany and France, gradually divesting themselves of their traditional Conservative cash transfers approach and edging towards a more Social Democratic [and post-industrial?] style of social provision. Continental Western

Europe is the area of the OECD in which the pressures for welfare state reform have been greatest in recent decades and, arguably, there are real signs of significant changes in the making.

In this section on expenditure relativities, I have attempted to fill out my earlier broad-brush account of post-war spending trajectories by looking at some of the main dimensions of change in the composition of the expenditure aggregates under investigation here. In doing so – and especially in this last sub-section on transfers/services relativities – I have already commenced the process of identifying some of the main trends in recent public expenditure development. In Part Two, I seek to use the more reliable data we possess on post-1980 spending aggregates to identify some of the factors shaping such trends.

## **PART TWO: EXPENDITURE CHANGES SINCE 1980**

The notion that the period of the late 1970s and early 1980s was a watershed in post-war public expenditure development is firmly entrenched in the literature of comparative political economy, with the first and second oil crises widely seen as the shock events heralding the conclusion of the ‘golden age’ of welfare capitalism and the onset of a ‘silver age’ of permanent austerity. Prior to 1980, OECD public expenditure development had generally been on a steep growth trajectory, although, as noted previously, the expansion of social spending was appreciably greater than other types of expenditure. After 1980, the countries of Southern Europe aside, overall expenditure growth slowed down dramatically and, in some countries, went into reverse. Major controversies in the literature concern the extent of this reversal and its causes. In particular, scholars have debated whether it is appropriate to see developments in social spending as aspects of a more general process of expenditure retrenchment and whether the new public parsimony followed inexorably from the dynamics of an increasingly globalised economy or was a consequence of primarily domestic factors. Inevitably, given the absence of complete data on many of the items constituting what I have described in Part One as the core expenditures of government, the bulk of the research in this area has focused on changing patterns of social expenditure, with the underlying problematic the question of whether we are witnessing the first steps in the dismantling of the welfare state (see Pierson, 1994). Using the data for the three major aggregates of public expenditure identified in my earlier account of post-war expenditure trajectories permits a wider focus on recent changes in total public expenditure and its separate components. In what follows, I seek to establish whether these aggregates of spending have manifested similar or divergent patterns of growth over recent decades and the nature of the factors shaping each. Answers to these questions allow

us to come to conclusions about the appropriateness of seeing the present era as one of widespread expenditure retrenchment and of the retreat of the state.

## **Trends**

Table 7 contains data on changes in total outlays, social expenditure and core spending for the period 1980 to 2001 and the two sub-periods 1980 to 1990 and 1990 to 2001. Including data for all three aggregates of spending in a single table facilitates comparison of the change profiles of different expenditure categories, a vitally important step in establishing the extent and generality of retrenchment trends in recent decades. Like previous tables, Table 7 groups countries into families of nations, with a view to identifying patterns of similarity and difference between countries sharing cultural and linguistic commonalities. Also, as in previous tables, Table 7 includes a summary measure of the extent to which countries were becoming more similar – i.e. converging – in any given period. Here, rather than use the coefficient of variation, which provides a misleading guide to differences in the character of change in different periods, we use a direct measure of the extent to which the change taking place at any given time was making expenditure distributions more alike. This measure of *catch-up* is simply the correlation between the initial level of expenditure and subsequent expenditure change, with strong negative coefficients indicative of increasing convergence amongst countries.

An initial glance at the summary statistics in Table 7 suggests three apparently clear-cut findings: first, that, even after the end of the ‘golden age’, the trend of social expenditure development continued to be more expansionary than that of core spending; second, that the general tendency of the changes taking place over the past quarter century has been broadly convergent in character, and third, that expenditure growth in the 1980s was appreciably stronger than expenditure growth in the 1990s. Support for the first of these findings is extremely strong. Between 1980 and 2001, average OECD levels of social expenditure increased by 3.9 per cent of GDP or by 21 per cent over its 1980 level. Over the same period, average core spending levels declined by 1.4 per of GDP, equivalent to almost 6 per cent of their 1980 level. Moreover, this contrast between still increasing social expenditure levels and declining or much more slowly growing core expenditure is not just a matter of averages, but applies to all family of nations expenditure comparisons for the period 1980-2001 and to the vast majority of individual country cases. Between 1980 and 2001, no less than 16 of these 18 OECD countries experienced social expenditure growth, while no less than 12 experienced a decline in core spending.

Taken at face value, these are findings very difficult to square with the notion of widespread and fundamental welfare state retrenchment, although they strongly sug-

gest the possibility of such a process in the area of core spending. However, a number of critics have suggested that increases in social expenditure in the 1980s and 1990s may not be all that they seem, with increasing expenditure on unemployment masking a decline in other items of social expenditure (see Esping-Andersen, 1990; Mishra, 1990; Clayton and Pontusson, 1998). This is a hypothesis that can be readily checked using data on unemployment spending from the OECD Social Expenditure Database (OECD, 2004). These data suggest that the objection is unsustainable, with combined expenditure on active labour market policy and unemployment benefits rising from an average of 1.6 per cent of GDP in 1980 to 2.1 per cent in 1990 and then falling back to 1.8 per cent in 2001. These adjustments indicate that non-unemployment related social expenditure was increasing somewhat more slowly in the 1980s and somewhat more rapidly in the 1990s, but are far too small to affect conclusions either about the extent of social expenditure retrenchment or its temporal incidence.

The evidence for a general process of expenditure convergence also appears quite strong, with all the catch-up coefficients decidedly negative and all but that for 1980-1990 social expenditure statistically significant. A possible objection might be to argue that the undoubtedly greater magnitude of both social and core expenditure growth in Southern Europe between 1980 and 2001 gives an impression of a generalised process of convergence, when, in reality, the phenomenon was restricted to a rather small group of countries, the catch-up trajectory of which was conditioned by their economic and political underdevelopment in the decades before 1980. The strength of this objection can be assessed by excluding the Southern European countries from the sample and recalculating catch-up coefficients. This test suggests that the phenomenon is relatively robust, with all coefficients remaining negative and only that for 1980-1990 social expenditure weaker than -0.40. Admittedly none of the catch-up coefficients for social expenditure are statistically significant when the countries of Southern Europe are excluded from the analysis, but this is not particularly surprising in a sample of only 14 cases. All the core expenditure coefficients and two out of three of those for total outlays remain significant, however, providing strong *prima facie* support for the hypothesis [see below] that, in these areas at least, recent expenditure trends have, in some measure, been shaped by programme maturation effects.

**Table 7:** Change in Total Outlays, Total Social Expenditure and Core Expenditure in 18 OECD Countries, 1980-2001

		Total Outlays			Social Expenditure			Core Expenditure		
		1980-1990	1990-2001	1980-2001	1980-1990	1990-2001	1980-2001	1980-1990	1990-2001	1980-2001
	<i>Australia</i>	3.6	2.2	5.8	2.9	3.8	6.7	0.7	-1.6	-0.9
	<i>Canada</i>	7.2	-4.2	3.0	4.3	-0.4	3.9	2.9	-3.8	-0.9
	<i>Ireland</i>	-8.1	-7.7	-15.8	-0.4	-4.8	-5.2	-7.7	-2.9	-10.6
	<i>United Kingdom</i>	-3.1	1.1	-2.0	1.6	2.3	3.9	-4.7	-1.2	-5.9
	<i>United States</i>	1.4	2.3	3.7	0.1	1.4	1.5	1.3	0.9	2.2
	<b>Family Mean</b>	<b>0.2</b>	<b>-1.3</b>	<b>-1.1</b>	<b>1.7</b>	<b>0.5</b>	<b>2.2</b>	<b>-1.5</b>	<b>-1.7</b>	<b>-3.2</b>
	<i>Denmark</i>	2.4	-3.3	-0.9	0.2	-0.1	0.1	2.2	-3.2	-1.0
	<i>Finland</i>	7.2	3.8	11.0	6.3	0.0	6.3	0.9	3.8	4.7
	<i>Sweden</i>	-1.0	-2.1	-3.1	2.0	-1.9	0.1	-3.0	-0.2	-3.2
	<b>Family Mean</b>	<b>2.9</b>	<b>-0.5</b>	<b>2.3</b>	<b>2.8</b>	<b>-0.7</b>	<b>2.2</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>
	<i>Austria</i>	0.5	2.3	2.8	1.2	1.9	3.1	-0.7	0.4	-0.3
	<i>Belgium</i>	-3.3	-5.7	-9.0	2.8	0.3	3.1	-6.1	-6.0	-12.1
	<i>France</i>	3.7	2.7	6.4	4.2	1.7	5.9	-0.5	1.0	0.5
	<i>Germany</i>	-2.8	3.2	0.4	-0.2	4.6	4.4	-2.6	-1.4	-4.0
	<i>Netherlands</i>	-1.7	-7.4	-9.1	0.7	-5.8	-5.1	-2.4	-1.6	-4.0
	<b>Family Mean</b>	<b>-0.7</b>	<b>-1.0</b>	<b>-1.7</b>	<b>1.7</b>	<b>0.5</b>	<b>2.3</b>	<b>-2.5</b>	<b>-1.5</b>	<b>-4.0</b>
	<i>Greece</i>	17.9	1.9	19.8	9.4	3.4	12.8	8.5	-1.5	7.0
	<i>Italy</i>	11.3	-4.5	6.8	6.4	1.0	7.4	4.9	-5.5	-0.6
	<i>Portugal</i>	7.4	4.5	11.9	3.0	7.2	10.2	4.4	-2.7	1.7
	<i>Spain</i>	9.8	-2.4	7.4	3.6	0.1	3.7	6.2	-2.5	3.7
	<b>Family Mean</b>	<b>11.6</b>	<b>-0.1</b>	<b>11.5</b>	<b>5.6</b>	<b>2.9</b>	<b>8.5</b>	<b>6.0</b>	<b>-3.1</b>	<b>3.0</b>
	<i>Japan</i>	-0.7	6.4	5.7	1.0	5.7	6.7	-1.7	0.7	-1.0
<hr/>										
<b>Summary Statistics</b>										
	Overall Mean	<b>2.9</b>	<b>-0.4</b>	<b>2.5</b>	<b>2.7</b>	<b>1.1</b>	<b>3.9</b>	<b>0.1</b>	<b>-1.5</b>	<b>-1.4</b>
	Catch-up	<b>-58</b>	<b>-54</b>	<b>-73</b>	<b>-35</b>	<b>-53</b>	<b>-62</b>	<b>-72</b>	<b>-63</b>	<b>-84</b>

*Sources and Notes:* Data calculated from figures in Tables 1, 2 and 3. Catch-up is the correlation between the level of spending at the beginning of each period and change in spending during that period. Means subject to rounding errors.

The third finding to emerge from the summary statistics, that expenditure growth was higher in the 1980s than the 1990s, remains true in respect of social expenditure even when we adjust for changes in unemployment-related expenditure in these decades. However, in the case of core expenditure, what appears to be a no less decisive contrast between no-change expenditure development in the 1980s and a general trend towards expenditure cutbacks in the 1990s turns out to be far more problematic than it appears on the surface. That is because the figures for core spending in Table 7 take no account of the quite substantial change in net debt interest payments that took place during these periods. In the 1980s, such payments were rising steeply partly because the general level of public debt was increasing and partly because interest rates had increased dramatically. Through the 1970s, real interest rates had been low and sometimes even negative, but, from the time of the second oil shock, governments began to take a less accommodative stance to inflation, raising rates to the “relatively high average levels” that persisted until the early 1990s, after which they have declined continuously and quite markedly (OECD, 1993).

Changes in net debt interest payments are of great significance both substantively and theoretically. From 1980 to 1990, the average level of debt interest paid by these 18 countries went up from 1.8 to 4.3 per cent of GDP. From 1990 to 2001, average debt interest levels went down from 4.3 to 2.8 per cent of GDP. Unlike unemployment-related social expenditure changes, these are changes of sufficient magnitude to alter the entire perspective of what was happening to core expenditure in these decades. Theoretically, the point is that a higher level of debt interest servicing, just like a higher level of higher unemployment-related expenditure, is not an unalloyed good in the sense of affording citizens greater levels of service provision, but rather may be seen as a response to problems largely or wholly of a government’s own making. Just as, in principle, higher levels of unemployment-related expenditure can simultaneously lead to higher levels of total social expenditure and to cuts across the board in other social programmes, so increasing debt interest expenditure can increase core spending, whilst masking cuts in provision in areas such as defence, public order, education, economic infrastructure and community services. Because the notion of retrenchment is as much about levels of provision as of expenditure, it is, therefore, necessary to assess the extent to which trends in core spending are artefacts of change in debt interest payment levels.

The simplest means of doing this is to calculate changes in both core spending and total outlays minus net debt interest payments. The results of this adjustment are shown in Table 8. Looking initially at the findings for core expenditure, the apparent story told by the summary statistics in Table 7 concerning the temporal incidence of spending cuts is turned completely on its head. Between 1980 and 1990, average lev-

els of core spending minus debt interest payments went down from 22.5 per cent of GDP to 20.1 per cent, a cutback of almost exactly 10 per cent in 1980 spending levels. Table 8 further shows that, between 1990 and 2001, the sharp decline in net debt interest payments resulting from the interest rate cuts of the period was sufficient to turn around the 1.5 per of GDP core expenditure reduction shown in Table 7, leaving the average level of core spending minus debt payments unchanged.

Moreover, this reversal of the temporality of cutbacks is just as apparent at the individual country level as it is in terms of averages. In the 1980-1990 period, no less than 15 of these 18 countries experienced reductions in core expenditures minus debt interest payments, while, in the 1990s, eight countries increased their spending, eight reduced spending and, in two countries, spending was unchanged. Contrary, then, to the impression given by Table 7, if core expenditure retrenchment was occurring in the last decades of the Twentieth Century, a strong case can be mounted for arguing that it was a phenomenon of the 1980s and not of the 1990s. That said, it should be pointed out that Table 8 shows that the cutbacks in core spending minus debt interest payments of the 1980s were not turned around in the 1990s, suggesting, perhaps, that these new constraints on levels of core spending have now been built into the budget bottom line.

Obviously, the change in the temporal incidence of core expenditure cutbacks implied by taking account of debt interest payment changes also has implications for the temporal incidence of changes in total outlays. Table 7 suggests that outlays grew markedly in the 1980s but declined marginally in the 1990s. Looking at the first column of Table 8 reveals that average total outlays minus debt interest payments actually only increased by 0.4 of a per cent of GDP in the 1980s compared to the 2.9 per cent of GDP shown in Table 7. In contrast, the second column of the table shows expenditure growing by 1.1 per cent of GDP compared with the 1.5 per cent decline reported in Table 7. When unemployment-related expenditure is also taken into account, the 1980s story is one of exactly countervailing tendencies, with core expenditure cutbacks precisely matched by continuing social expenditure increases and with the real level of provision afforded by outlays spending remaining unchanged. Making the same adjustments for the 1990s, produces an overall figure for increased spending of 1.6 per cent of GDP. Again the temporality of expenditure changes is reversed, but, in this instance, a retrenchment verdict is less obviously appropriate, given that adjusted outlays never actually fell and demonstrated an appreciable recovery trend in the 1990s.



**Table 8:** *Change Core Expenditure Minus Net Debt Interest Payments and Total Outlays Minus Net Debt Interest Payments in 18 OECD Countries, 1980-2001*

	Core Expenditure Minus Net Debt Interest Payments			Total Outlays Minus Net Debt Interest Payments		
	1980-1990	1990-2001	1980-2001	1980-1990	1990-2001	1980-2001
<i>Australia</i>	-1.9	0.0	-1.9	1.0	3.8	4.8
<i>Canada</i>	-0.4	-1.5	-1.9	3.9	-1.9	2.0
<i>Ireland</i>	-10.4	3.1	-7.3	-10.8	-1.7	-12.5
<i>United Kingdom</i>	-4.3	-0.5	-4.8	-2.7	1.8	-0.9
<i>United States</i>	-1.0	2.0	1.0	-0.9	3.4	2.5
<b>Family Mean</b>	<b>-3.6</b>	<b>0.6</b>	<b>-3.0</b>	<b>-1.9</b>	<b>1.1</b>	<b>-0.8</b>
<i>Denmark</i>	-1.1	-1.2	-2.3	-0.9	-1.3	-2.2
<i>Finland</i>	1.6	1.4	3.0	7.9	1.4	9.3
<i>Sweden</i>	-2.3	-2.0	-4.3	-0.3	-3.9	-4.2
<b>Family Mean</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-1.2</b>	<b>2.2</b>	<b>-1.3</b>	<b>1.0</b>
<i>Austria</i>	-1.8	0.4	-1.4	-0.6	2.3	1.7
<i>Belgium</i>	-11.6	-1.3	-12.9	-8.8	-1.0	-9.8
<i>France</i>	-2.1	0.6	-1.5	2.1	2.3	4.4
<i>Germany</i>	-3.5	-2.0	-5.5	-3.7	2.6	-1.1
<i>Netherlands</i>	-4.3	0.0	-4.3	-3.6	-5.8	-9.4
<b>Family Mean</b>	<b>-4.7</b>	<b>-0.5</b>	<b>-5.1</b>	<b>-2.9</b>	<b>0.1</b>	<b>-2.8</b>
<i>Greece</i>	0.7	1.6	2.3	10.1	5.0	15.1
<i>Italy</i>	-0.3	-1.5	-1.8	6.1	-0.5	5.6
<i>Portugal</i>	-1.1	2.7	1.6	1.9	9.9	11.8
<i>Spain</i>	3.4	-2.2	1.2	7.0	-2.1	4.9
<b>Family Mean</b>	<b>0.7</b>	<b>0.2</b>	<b>0.8</b>	<b>6.3</b>	<b>3.1</b>	<b>9.4</b>
<i>Japan</i>	-2.0	0.6	-1.4	-1.0	6.3	5.3
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<b>Summary Statistics</b>						
Overall Mean	<b>-2.4</b>	<b>0.0</b>	<b>-2.3</b>	<b>0.4</b>	<b>1.1</b>	<b>1.5</b>
Catch-up	<b>-65</b>	<b>-44</b>	<b>-73</b>	<b>-53</b>	<b>-66</b>	<b>-74</b>

*Sources and Notes:* Data calculated from figures in Tables 1, 2 and 3, with net debt interest payment data from OECD Economic Outlook (various dates). Catch-up is the correlation between the level of spending at the beginning of each period and change in spending during that period. Means subject to rounding errors.

These findings based on the analysis of average changes in expenditure aggregates over two decades require greater cross-national nuance when we turn to contrasts between families of nations. Two points are of particular interest in this context. The first is the extent to which families of nations' averages in both Tables 7 and 8 are affected by aberrant and extreme cases. The English-speaking family's broadly negative growth profile during these decades was substantially due to Ireland's extensive cuts in core spending in the 1980s and welfare in the 1990s. In contrast, the Scandinavian grouping's mildly expansionary stance in the period was almost entirely a function of Finnish social expenditure growth in the 1980s and core spending growth in the 1990s. Finland as much as the countries of Southern Europe was a catch-up country throughout the period under analysis here. In the case of the continental Western European family, there is not just one aberrant case, but two, with the Belgian and Dutch expenditure profiles markedly more negative than those of the other nations constituting the grouping. Belgium's outlier status derives from the exceptional depth of core spending cuts in both the 1980s and 1990s, although Table 8 demonstrates that, in the latter period, these cutback are much moderated taking into account changes in debt interest payments. In the Dutch case, levels of total outlays owe much to substantial cuts in the welfare budget during the 1990s. Only in Southern Europe was there a relatively common trajectory of development, with Table 7 showing all four countries manifesting strong social and core expenditure growth in the 1980s and declining core expenditure levels in the 1990s and Table 8 offering a broadly common picture of steady-state core spending throughout the period under analysis here.

Clearly, an important part of the task of accounting for trends in public expenditure in these years is to make sense of both aberrant cases and Southern European commonalities. Interestingly, the Finnish case apart, a factor common to both is the potential impact of public debt, with Ireland and Belgium the countries with the highest levels of gross financial liabilities in the OECD in 1980 and with the Netherlands, Greece and Italy joining them in the indebtedness vanguard by 1990. As noted several times in Part One, Ireland, Belgium and the Netherlands are prominent amongst a number of countries which have manifested boomerang-shaped trajectories of public expenditure growth over the post-war period as a whole. Table 7 shows that, in respect of core spending at least, the Southern European countries have exhibited similar boomerang-shaped expenditure profiles during the past two decades, with an expansionary phase in the 1980s immediately followed by expenditure contraction in the 1990s. On the basis of our analysis above, it is clear that a possible candidate for explaining such a pattern of expenditure development is the impact of interest rate changes during the period, initially magnifying and then diminishing the budgetary effects of high levels of public indebtedness. Another candidate is convergence, with Southern Europe in the 1980s

clearly on a very marked catch-up trajectory in respect of welfare spending and with the aberrant cases within each family of nations adopting expenditure profiles making them more similar to other members of their respective families. As the coefficients of variation in Tables 1, 2 and 3 clearly demonstrate, by the end of the period, the distributions of all three aggregates of expenditure were markedly more similar than they had been in 1980. Although not calculated in these tables, coefficients of variation for individual families of nations manifest the same tendency.

A final point to note before proceeding to a more comprehensive review of the hypotheses the literature offers to account for expenditure trends in this period is that, in at least one significant respect, the families of nations' patterns exhibited in Table 7 differ from those that might be expected on the basis of the standard suppositions of that literature. There is, of course, no occasion for surprise concerning the markedly stronger growth profile of the Southern European nations catching-up with the welfare expenditure levels of the rest of Western Europe. This is precisely what one would expect on the basis of a convergence-based account of recent public expenditure trends. Nor is there any difficulty in understanding why the Scandinavian countries exhibited stronger overall outlays' growth than either the English-speaking countries or those of continental Western Europe. Clearly, that fits nicely with the 'politics matters' hypothesis concerning the expansionary expenditure impact of Left partisan control of government, although, interestingly, the Scandinavian spending superiority is much more pronounced in the area of core expenditure than of social expenditure, which is domain in which the claims of the partisan model have been most comprehensively tested.

The really big surprise, however, is the absence in Table 7 of any significant difference between the expenditure profiles of the English-speaking and continental Western European families of nations, and that, taking account of the effect of debt interest payment on changes in core spending and total outlays as shown in Table 8, the average extent of cutbacks in continental Western Europe was actually much greater than in the English-speaking world. Table 8 reveals that, between 1980 and 2001, core spending minus debt interest payments declined by 5.1 per cent of GDP in the former grouping as compared to 3 per cent of GDP in the latter. The table further shows that all five countries in the continental grouping experienced significant expenditure reductions over these decades, with Germany's cutback of 5.5 per cent of GDP more than matching the Netherlands' 4.3 per cent and more than compensating for the German post-unification hike in social spending of 4.6 per cent identified in Table 7. During the same period, Table 8 also reveals that total outlays minus interest payments went down in the English-speaking countries by an average of 0.8 of a per cent of GDP, but by 2.8 per cent of GDP in continental Western Europe. Making the same adjustments to figures for the 1980s and 1990s sub-periods produces essentially similar results: at all time-periods and

in respect of all aggregates of spending, the level of expenditure constraint in the countries of continental Western Europe was greater than that in the English-speaking world.

These findings are clearly anomalous. They fit neither with the view that ‘liberal’ welfare regimes are inherently more expenditure averse than ‘conservative’ ones nor with the fact that the neo-liberal parties that dominated governments across much of the English-speaking world during this period were rhetorically, at least, far more committed to public expenditure retrenchment than the more consensus-oriented parties and governments of continental Western Europe. Conjoined with the findings that social expenditure was never at any time in danger of retrenchment and that, taking into account debt interest payment changes, the core expenditure retrenchment which occurred took place in the 1980s rather than the 1990s, they are departures from the standard account of recent expenditure trends and of the factors shaping them that any successful account of recent public expenditure trends must seek to explain.

## **Hypotheses**

The remainder of this Working Paper is devoted to locating reasons why recent trends in public expenditure development depart so radically from those highlighted in the scholarly literature. The methodology adopted for this purpose is cross-sectional modelling of expenditure levels and changes over the period from 1980 to 2001 using the methods of linear regression analysis. These models are derived by identifying, which of a series of factors, hypothesised to be influential in shaping public expenditure trends over these years, best accounts for the expenditure variation exhibited by the 18 countries under analysis here. Each hypothesis derives from and is a variant of one of the theories discussed in Part One of this Working Paper. In this section, I offer a brief account of the argument underlying each hypothesis and identify the variable or variables used to test that hypothesis in our subsequent modelling exercise.

- **Catch-up and Convergence.** Essentially, the logic informing the idea that expenditure development follows a catch-up path leading to greater convergence in expenditure policy outcomes is one of inertial forces [see page 7 above] propelling expenditure growth to inherent limits implicit in programme design. The argument is that programmes grow rapidly at first, but tend to stabilise as they become mature, i.e. achieve the coverage and generosity their architects envisaged. Obviously, limits may be periodically upped as community aspirations [for better pensions, more university places, an improved public transport network or a more humane prison system] get higher, but ultimately, as these aspirations are achieved, expenditure growth will again begin to slow down. The argument that the process of programme maturation helps to account for cross-national expenditure trends rests largely on the proposition that different countries adopt programmes at different times. Initially, this implies increasing

divergence amongst countries as some experience rapid programme growth and others none at all. However, if and when all or most countries adopt a particular expenditure programme, there will come a time when the early adopters enter the programme maturation phase, whilst the programmes of late adopters continue to grow rapidly. At this point, countries' expenditure levels will begin to converge as countries with lower levels of spending begin to catch-up with those who initiated their programmes earlier. Arguably, too, maturation effects may also help explain expenditure cuts in countries, where, for economic reasons [see below], countries overshoot expenditure targets inherent in programme design, thus supplying the mechanism for the kind of boomerang effects noted in our earlier discussion of post-war public expenditure trajectories [see pages 13-25 above]. The coefficients of variation featuring in Tables 1, 2 and 3 do not suggest that any significant degree of convergence was occurring prior to the 1980s. However, after 1980, cross-national variation in all three aggregates of expenditure is markedly reduced. Moreover, after 1980, the strongly negative correlations between initial levels of spending and subsequent spending featuring in Tables 7 and 8 provide strong *prima facie* evidence that catch-up has been occurring on a major scale. In our modelling, we test whether the initial expenditure level variable used to detect the presence of catch-up in these tables remains a significant predictor of expenditure outcomes when we take account of the effects of variables deriving from other hypotheses.

- **Economic Slowdown.** Given the theoretical debate on the implications for expenditure development of economic resource availability [see pages 8-9 above], it is natural to speculate on whether declining economic growth rates after the oil shocks of the 1970s can help to explain what happened to OECD public expenditure development in the ensuing period. A Wagnerian or, for that matter, a Third Way perspective might suggest that high growth rates were a prerequisite for increasing or, at least, unchanged expenditure levels, while the obvious alternative position is that higher economic growth rates allow policy makers to do more with less, at least as measured by spending as a percentage of GDP. Arguably, both arguments might be simultaneously relevant if one were seen as providing an account of changes over time and the other of differences between countries, with the Wagnerian perspective explaining why new programme adoption slowed so rapidly right across the OECD in the wake of the 1970s oil shocks and with the counter argument providing a logic explaining why countries exhibiting higher rates of economic growth experienced lower expenditure growth than countries exhibiting lower economic growth

rates. Against even the temporal variant of the Wagner hypothesis, however, it must be kept in mind that a no less immediate impact of the 1970s slowdown was to create budget blowouts as predetermined programme spending ate up lower than predicted economic and fiscal resources. Since the modelling undertaken here is exclusively of cross-national expenditure differences, the clear expectation is that it will be the negative relationship that will be most prominent in our findings. In our modelling of expenditure levels in 1980 and 2001, the variable testing this hypothesis is a nation's average rate of economic growth in the twenty years preceding the year in which expenditure levels are being measured. In our modelling of expenditure changes, the relevant variable is the average rate of economic growth over the period in question. Data for constructing these variables comes from Armingeon et al (2004) and is derived from OECD sources.

- **An Increasing Debt Burden.** As noted previously [see page 9 above], during the 1970s and 1980s, many OECD countries sought to sidestep potential resistance to the higher taxes required to fund new or existing expenditure programmes by increasing levels of public borrowing. In 1970, the average level of gross financial liabilities of general government in the 18 OECD countries analysed here was 34.4 per cent of GDP; in 1980, the figure was 40.9 per cent; in 1990, 63.7 per cent and, in 2001, 70.0 per cent [the data on gross financial liabilities of general government and on net debt interest payments used in this study comes from OECD, *Economic Outlook*, various dates]. In the 1970s, at least, increased borrowing could be seen as a relatively painless option because of the generally low prevailing real interest rates, but, as also previously noted [see page 37], interest rates were to rise dramatically at the end of decade and to remain high throughout the 1980s before declining again in the 1990s. High levels of borrowing plus high real interest rates automatically translate through into higher rates of real net debt interest payments, which already by 1980 were, in some countries, a significant component of core expenditure. In that year, the average level of net debt interest payments of the five most indebted OECD countries was 3.8 per cent of GDP. Ten years later, it was a massive 8.2 per cent of GDP. An obvious implication, then, is that high levels of indebtedness will lead to higher levels of core spending and total outlays at times that interest rates are rising and to declining expenditures at times that interest rates are falling. In other words, this hypothesis suggests that indebtedness levels in 1980 will be associated with increased levels of spending over the following decade and that indebtedness levels in 1990 are likely to be associated with reduced spending in the years thereafter. There is, however, a complication that

has the potential to interfere with these, seemingly, ineluctable relationships. Higher real interest rates increase the cost of borrowing and, hence, provide a government with an extremely strong incentive to cut expenditure wherever possible. This means that expenditure outcomes are likely to be subject to contradictory forces, with escalating debt interest payments pushing core spending levels upwards at just the same time that governments read the same entrails as warning of the need for a more contractionary fiscal policy stance. In what follows, we shall seek to disentangle these effects by contrasting the impact of indebtedness levels on change in core spending levels [data from Table 7] and on changes in core spending levels minus net debt interest payments [data from Table 8]. A negative relationship between public debt and expenditure change after debt interest payments are removed from the equation would be indicative of an effect above and beyond that supplied by the automatic operation of the interest rate mechanism.

- **New Politics/New Risks.** A significant group of scholars, who have confronted the contradiction between predictions of wholesale social expenditure retrenchment and the fact that, over the past quarter century, the vast majority of countries have actually expanded their spending, have argued that retrenchment pressures have been overwhelmed by the electoral necessity for governments to respond to demands for increased spending on existing social programmes and to initiate new programmes to cope with the ‘new social risks’ attendant on life in post-industrial societies. Although these scholars have suggested that such developments represent a ‘new politics of the welfare state’ [see the contributions to the volume of that name edited by Paul Pierson, 2001], in effect what is being argued is that, under modern conditions, social needs – old and new – trump traditional partisan politics in shaping social expenditure outcomes [see p.9 above]. Leaving aside for the moment whether that is actually the case, and largely unconsidered by the ‘new politics’ paradigm itself, is the possibility that strong pressures for the maintenance and extension of the social budget could constitute an important reason why governments might look around for alternative arenas – i.e. core spending – in which to undertake whatever expenditure retrenchment may be considered necessary. In what follows, I consider four different hypotheses relating to need. Two point to factors traditionally highlighted by sociological theories of social expenditure development: the role of population ageing and of unemployment in increasing the demand for benefits that are everywhere parts of the standard repertoire of welfare provision. Two further factors are amongst those frequently highlighted by proponents of ‘new social risk’ theory: the extent of the stresses attendant on de-

industrialisation and the extent to which increased female labour force participation has created new needs for state support for family life. Levels and changes in the size of the population aged 65 and over, of unemployment and of female labour force participation are all standard variables to be found in OECD *Labour Force Statistics*. The variable used to measure de-industrialisation comes from Iversen (2001, 61) and is calculated as “100 minus the sum of manufacturing plus agricultural employment as a percentage of the working age population”. The data required for this calculation are also to be found in *Labour Force Statistics*.

- **Politics Still Matters.** The idea that the partisan preferences of political actors [see pages 10-11 above] have been superseded by a ‘new politics of the welfare state’ is a point of major contention in the literature. ‘New politics’ findings, such as those of Huber and Stephens (2001, 221) of a “sharp narrowing of political differences in the 1980s”, have been challenged by researches replacing expenditure-based dependent variables with measures variously indicative of the quality of welfare outcomes and showing that recent cuts in entitlements have been strongly linked to the partisan preferences of political actors (see, amongst others, Korpi, 2003; Allan and Scruggs, 2004 and Hacker, 2004). In my own recent work, I have continued to focus on the determinants of social expenditure change with somewhat ambiguous results: in one study (Castles 2004), the strength of the Left emerges as a moderately significant predictor of recent expenditure growth, while, in another, it does not (Castles, 2005). My tentative conclusion is that, in an era in which social expenditure growth has been far weaker than in the past, partisanship remains an influence, but one probably not as strong as previously, with the significance of statistical findings dependent on the way in variables are operationalised, the sample of countries analysed and the particular time-period under investigation. My concern here, though, is as much with whether partisanship influences core spending as with settling the debate between the protagonists of the old and new politics of the welfare state. Research on the role of partisanship in shaping components of public expenditure other than social spending is not well developed. However, some, at least, of the functions served by core spending, including particularly economic affairs, infrastructure and human capital development, resonate strongly with traditional Left partisan aspirations and there is no reason why politics should matter less in this than in any other expenditure context. In the modelling that follows, I operationalise Left partisanship in two ways designed to distinguish between immediate and longer-term effects of incumbency. A *Left impact* variable measures the average share of Left cabinet seats



in a country over a given period of expenditure change [i.e. the 1980s or the 1990s], while a *Left legacy* variable measures the average share of Left cabinet seats from a date early in the post-war period [1950] to the time-point of the expenditure comparison in question. The latter variable seeks to capture the extent to which Left party aspirations have been built into taken-for-granted policy agendas. Data for calculating both variables again come from Armingeon et al (2004).

- **Federal Ratchet Effects.** As noted previously [see page 11-12 above], the longest-standing finding in the literature linking expenditure development to institutional design is that pointing to a negative relationship between social expenditure growth and federalism. In public choice terms, this relationship can be seen as a special case of the rule that the power of Leviathan is diminished the freer are individuals to move between sovereign jurisdictions (see Brennan and Buchanan, 1980). Under such circumstances, it can be argued that the propensity of governments to spend is curbed, literally, by the possibility that citizens will vote with their feet (Greve, 1999). In the political science literature, which is the source of most empirical research on this topic, the weakness of social expenditure development in federal countries has generally been attributed to the problem of overcoming the multiple veto-points deliberately built into federal arrangements. More recent political science research using qualitative historical methods rather than cross-national quantitative techniques has, however, suggested that, in times of serious retrenchment pressure, multiple veto points, such as those constituted by strong bicameralism and resort to constitutional courts, can serve as ratchet mechanisms limiting the speed at which reforming politicians can dismantle existing spending programmes [see the separate country contributions in the volume edited by Obinger, Leibfried and Castles, 2005]. In principle, this argument should apply to core spending programmes with no less force than to social expenditure programmes, although it is conceivable that the multiplication of institutional structures and personnel built into federal arrangements might make the costs of government administration somewhat greater in such systems. Whether such retrenchment retarding effects – either in respect of social or core spending – will show up using the necessarily less case-sensitive techniques of quantitative modelling is another matter. As is universally the case in such modelling exercises, our measure is simply a dummy variable denoting the presence of federalism, with a positive and significant finding indicative of the presence of the ratchet effect. Certainly, it does not help us in demonstrating the ratchet hypothesis that Switzerland could not be included in the analysis, since, although lacking the

data for a full comparison with other OECD countries, there is ample evidence that, in respect of welfare state spending at least, this federal nation has been amongst the OECD countries most dramatically defying the supposed expenditure retrenchment imperatives of recent decades [see Kriesi, 1999 and Armington, 2001].

- **The Threat of Globalisation.** Much the most influential explanation for perceived expenditure retrenchment trends in the period since the early 1980s has been the ‘crisis threat’ of globalisation leading to a ‘race to the bottom’ in social spending. As noted previously [see pages 12-13 above], this account involved a complete reversal of earlier theorising on the impact of open economies, which suggested that it was precisely the countries most exposed to outside influences that were most likely to experience state intervention to compensate workers for this additional economic vulnerability. The vast bulk of the empirical research on the presence of a ‘race to the bottom’ in social spending and on negative globalisation effects on social spending has been highly sceptical and I have argued that the simple fact of continued social expenditure growth through the 1980s and 1990s is sufficient evidence to reject such propositions (for a book length treatment, see Castles 2004). Clearly, however, that does not apply to core expenditure development, where Table 7 shows average expenditures to have been declining from 1990 onwards and where our recalculated figures for core expenditure minus net debt interest payments demonstrate a sharp fall in average spending in the 1980s, with no less than 15 of the 18 countries covered in this analysis experiencing reduced spending during the period. An obvious hypothesis, therefore, is that what globalisation effects there have been are likely to have been concentrated in the area of core spending, with, as noted previously [see page 49 above], the ‘new politics of the welfare state’ quite possibly deflecting policy-makers from effecting cuts in social expenditure. In the modelling exercise that takes up the final substantive section of this Working Paper, the extent of globalisation is measured by variables capturing the openness of economies to international trade and to cross-border capital flows. The trade variable is operationalised as is conventional in the literature by a measure of imports and exports as a percentage of GDP, with data coming from OECD *Historical Statistics* (various years). The capital flows variable used is a measure of the average level of foreign direct investment in a given country for each of the expenditure change periods featuring in the analysis, with data calculated from OECD, *Foreign Direct Investment in OECD Countries* (various years) and IMF *Balance of Payments Statistics* (various years).

## **Findings**

In this last substantive section of the Working Paper, I present cross-sectional, linear regression models of variation in levels of total outlays spending, total public social expenditure and core spending in 18 OECD countries in 1980 and 2001 and of change in these aggregates of spending over the periods 1980-1990, 1990-2001 and 1980-2001. The choice of a research design based on successive cross-sections rather than on pooling data for different years is informed by both methodological and strategy of comparison considerations. On the methodological front, it can be argued that, rather than increasing the number of cases observed, all that pooling data really does is to proliferate observations of those cases (see Kittel, 1999). However, even if this were not the case, the problem with the pooled time-series technique is that it produces findings by averaging variation over time, whereas the purpose of this analysis is to contrast and account for variation in levels of spending at different times and in changes in spending patterns in different time-periods. Clearly, in order to identify diverse patterns of association at different times necessitates the employment of a strategy of comparison that maintains a clear separation between the instances that are being compared. By its very nature, pooled time-series analysis breaches that requirement.

The downside of not using pooled time-series techniques is the relatively small number of cases on which conclusions concerning the association of variables rest. However, while this is a difficulty inherent in our chosen research strategy, there are still ways of assessing the coherence and robustness of the findings that emerge from the analysis. The best test of the coherence of the models under consideration here is to regard the separate models of variation in levels and changes in a given expenditure aggregate as constituting components of a single account to be judged by whether it makes sense as a whole. This means that our judgement of the reasonableness of our findings is not simply a function of the strength of the statistical relationships located in individual 18-case comparisons, but depends crucially on whether those findings makes sense in light of other information we have concerning these cases at other times. The standard test for robustness is to jackknife equations by removing each case in turn, thereby establishing whether they are dependent on the inclusion of particular cases. Where jackknifing reveals that the exclusion of one or more cases in a given model leads to t-values of less than 2, a robust variant of the model is also reported including only those variables that do attain the required significance threshold. In what follows, I interpret findings that meet the robustness test as strongly indicative of particular associations of variables, while I regard non-robust terms as suggestive of possible, but as yet unproven, relationships.

The models reported in tables 9, 10 and 11 below are derived by taking all the variables identified in the hypotheses elaborated in the previous section and using them to

generate best-fit models including only variables that are themselves statistically significant. Where a variable identified in a particular hypothesis does not feature in a model, the proper conclusion is that there is insufficient evidence to support the presence of the hypothesised relationship in respect of the level or change in expenditure being modelled. The tables reporting expenditure models are presented together as a block to allow contrasts and comparisons to be made of the influence of particular factors on different expenditure aggregates. Data sources for the variables featuring in the models are to be found in the notes and sources section of each table.

**Table 9:** *Modelling Total Public Expenditure in 18 OECD Countries, 1980-2001*

	Coefficient	Standard error	t-value
<b>1980 Level</b>			
Intercept	26.45	2.83	9.35
Left cabinet seats 1950-1980	.19	.04	4.37
Imports + exports [IMEX] 1980	.23	.05	4.53
Adj. R <sup>2</sup> = .76			
<b>1980-1990 change</b>			
Intercept	47.33	7.06	6.71
Initial [1980] expenditure level	-.60	.10	-6.22
Average GDP growth 1980-1990	-6.97	1.46	-4.78
Adj. R <sup>2</sup> = .70			
<b>1990-2001 change</b>			
Intercept	21.13	3.79	5.57
Initial [1990] expenditure level	-.29	.08	-3.81
Average GDP growth 1990-2001	-1.80	.48	-3.75
Public debt 1990	-.06	.02	-2.58
Adj. R <sup>2</sup> = .71			
<b>1980-2001 change</b>			
Intercept	44.33	4.95	8.95
Initial [1980] expenditure level	-.57	.10	-5.59
Average GDP growth 1980-2001	-4.52	1.05	-4.30
Public debt 1980	-.14	.06	-2.28
Adj. R <sup>2</sup> = .85			
[Robust variant: 1980-2001 Change = 47.65 – .71[.09] Initial level – 5.54 [1.08] GDP growth. Adj. R <sup>2</sup> = .81]			
<b>2001 Level</b>			
Intercept	52.56	3.96	13.29
Left cabinet seats 1950-2001	.16	.05	3.39
Average GDP growth 1980-2001	-4.43	1.16	-3.81
Adj. R <sup>2</sup> = .74			

*Sources and notes:* Data on levels of initial total public expenditure from Table 1. Data on changes in levels of total public expenditure from Table 7. Data on left cabinet seats, imports plus exports as a percentage of GDP and average annual rates of economic growth calculated from Armingeon et al, (2004). Additional data required to extend the left cabinet seats variable back to 1950 are from Castles (1998). Public debt as here measured is equivalent to gross financial liabilities of general government as a percentage of GDP and come from OECD *Economic Outlook*, with missing data kindly supplied by Uwe Wagschal. The models for both 1980-2001 and 1990-2001 are necessarily affected by the change from SNA68 to SNA93 based data. In the case of the 1980-2001 model, there is nothing that can be done about this. In the case of the 1990-2001 model, it is possible to use consistent SNA93 data on total public expenditure (from *Economic Outlook*, Volume 84) and a model based on this data features significant variables identical to those reported above, although the associations are somewhat diminished. Robust equations are reported where jackknifing leads to a variable in the model failing to meet the significance threshold of a t-value in excess of 2.

**Table 10:** *Modelling Total Social Expenditure in 18 OECD Countries, 1980-2001*

	<b>Coefficient</b>	<b>Standard error</b>	<b>t-value</b>
<b>1980 Level</b>			
Intercept	-19.95	11.92	-1.67
Left cabinet seats 1950-1980	.18	.03	5.56
De-industrialisation 1980	.40	.15	2.61
Imports + exports [IMEX] 1980	.06	.03	2.17
Adj. R <sup>2</sup> = .74			
[Robust variant: 1980 Level = -20.77 + .20 [.04] Left + .45 [.17] De-industrialization. Adj. R <sup>2</sup> = .68]			
<b>1980-1990 change</b>			
Intercept	25.54	2.92	4.35
Initial [1980] expenditure level	-.28	.07	-3.93
Average GDP growth 1980-1990	-2.82	.65	-4.37
Δ De-industrialisation 1980-1990	.75	.20	3.76
Adj. R <sup>2</sup> = .72			
<b>1990-2001 change</b>			
Intercept	14.18	2.12	7.00
Initial [1990] expenditure level	-.53	.09	-5.71
Average GDP growth 1990-2001	-1.59	.35	-4.50
Left cabinet seats 1991-2001	.06	.03	2.47
Adj. R <sup>2</sup> = .71			
<b>1980-2001 change</b>			
Intercept	22.87	2.47	9.26
Initial [1980] expenditure level	-.64	.07	-8.84
Average GDP growth 1980-2001	-2.77	.60	-4.62
Left cabinet seats 1981-2001	.05	.02	2.82
Δ Female labour force 1980-2001	-.14	.06	-2.18
Adj. R <sup>2</sup> = .86			
[Robust variant: 1980-2001 Change = 25.54 - .64 [.09] Initial Level - 3.72 [.67] GDP growth. Adj. R <sup>2</sup> = .77]			
<b>2001 Level</b>			
Intercept	28.91	2.30	12.58
Left cabinet seats 1950-2001	.08	.03	2.81
Average GDP growth 1980-2001	-4.19	.76	-5.51
Imports + exports [IMEX] 2001	.03	.01	2.21
Adj. R <sup>2</sup> = .82			
[Robust variant: 2001 Level = 28.47 + .11 Left [.03] - 3.41 [.76] GDP growth. Adj. R <sup>2</sup> = .78]			

*Sources and notes:* Data on levels of initial total social expenditure from Table 2. Data on changes in levels of total social expenditure from Table 7. Data on left cabinet seats, imports plus exports as a percentage of GDP and average annual rates of economic growth calculated from Armingeon et al, (2004). The additional data required to extend the left cabinet seats variable back to 1950 come from Castles (1998). The concept of de-industrialisation is from Iversen, 2001, 61 and is calculated on the basis indicated on page 43 above. Data for this variable are calculated from OECD (2004b). Robust equations are reported where jackknifing leads to a variable in the model failing to meet the significance threshold of a t-value in excess of 2.

**Table 11:** *Modelling Core Expenditure in 18 OECD Countries, 1980-2001*

	Coefficient	Standard error	t-value
<b>1980 Level</b>			
Intercept	13.08	1.14	11.53
Left cabinet seats 1950-1980	.07	.02	3.87
Public debt 1980	.13	.03	4.43
Imports + exports [IMEX] 1980	.07	.02	3.84
Adj. R <sup>2</sup> = .87			
[Alternative variant: 1980 Level = 24.45 + .23 [.05] Left + .19 [.04] Imports + exports. Adj. R <sup>2</sup> = .76]			
<b>1980-1990 change</b>			
Intercept	15.65	3.86	4.06
Initial [1980] expenditure level	-.70	.09	-7.55
Average GDP growth 1980-1990	-4.21	.73	-5.74
Δ Age 65+ 1980-1990	1.92	.44	4.40
Adj. R <sup>2</sup> = .84			
<b>1990-2001 change</b>			
Intercept	2.46	.98	2.52
Public debt 1990	-.06	.01	-4.45
Adj. R <sup>2</sup> = .53			
<b>1980-2001 change</b>			
Intercept	15.36	3.02	5.09
Initial [1980] expenditure level	-.45	.17	-2.59
Public debt 1980	-.14	.05	-3.01
Adj. R <sup>2</sup> = .79			
[Robust variant: 1980-2001 Change = 8.38 - .24 [.04] Public debt. Adj. R <sup>2</sup> = .72]			
<b>2001 Level</b>			
Intercept	20.84	.95	22.00
Left cabinet seats 1950-2001	.07	.03	2.65
Adj. R <sup>2</sup> = .26			
[No robust variant can be calculated]			

*Sources and notes:* Data on levels of core expenditure from Table 3. Data on changes in levels of core expenditure from Table 7. Data on left cabinet seats, imports plus exports as a percentage of GDP and average annual rates of economic growth calculated from Armington et al (2004). The additional data required to extend the left cabinet seats variable back to 1950 come from Castles (1998). Public debt as here measured is equivalent to gross financial liabilities of general government as a percentage of GDP and come from OECD *Economic Outlook*, with missing data kindly supplied by Uwe Wagschal. Once again, the models for both 1980-2001 and 1990-2001 are necessarily affected by the change from SNA68 to SNA93 based data. As in the equations reported in Table 10, there is nothing that can be done to remedy the situation in respect of the 1980-2001 model. However, in the case of the 1990-2001 model, it is possible to use consistent SNA93 data on total public expenditure (from *Economic Outlook*, Volume 84), with the same significant finding as that reported above, although the extraordinarily strong linkage with public debt is somewhat diminished. Robust equations are reported where jackknifing leads to a variable in the model failing to meet the significance threshold of a t-value in excess of 2.

Looking at the models featuring in tables 9, 10 and 11, the first thing to strike one is the degree of similarity in the factors shaping levels and changes in expenditure aggregates. This is immediately apparent in the three 1980 expenditure level models, all of which highlight the formative influence of the same set of essentially political forces. Earlier [on page 22 above], we noted that quite appreciable dissimilarities in the cross-national distributions of social and core spending in the early post-war decades had, by 1980,

given way to a marked convergence of pattern, which was to persist through until the turn of the century. These models make it clear why that was the case. What they tell us is that, by 1980, these aggregates of spending were substantially shaped by the same two factors: the post-war legacy of Left incumbency and the extent of a country's dependence on international trade. Obviously, these similarities translated through to the total outlays distribution they together constituted, with these two factors alone accounting for 76 per cent of 1980 outlays' variation. The strong impact of Left incumbency clearly offers support for the view that 'politics matters', but so too, indirectly, does the role of trade dependency, for what the positive coefficient in these models demonstrates is not evidence of a globalisation-induced 'race to the bottom', but rather of the kind of political mobilisation against trade-induced economic vulnerability suggested in the work of scholars such as Cameron (1978), Katzenstein (1985) and, most recently, Rieger and Leibfried (2003).

Similarities are no less apparent when we come to look at the factors shaping expenditure change, but here the sources of common trends are anything but political. Of nine change models – three for each expenditure aggregate – eight feature a negative term for the initial level of expenditure and seven a negative term for the rate of economic growth. Although, as we shall see subsequently, there is a strong case for arguing that, in certain respects, core expenditure trends marched to the beat of a different drum from social expenditure developments, there can be little doubt that programme convergence and diverse national economic performance supplied much of the direction of overall public expenditure change during the period. Programme convergence is clearly evident in the catch-up trajectories of the countries of Southern Europe, but can also be discerned in other families of nations, with Finland moving closer to Scandinavian expenditure norms in respect of both social and core spending and Australia catching-up the rear of the English-speaking grouping in respect of social spending. Arguably, too, major expenditure cutbacks in Belgium and the Netherlands can be attributed to convergent moves in the opposite direction, with these nations moving to correct for expenditure overshoots that had put their spending levels out of kilter with those of the other nations of continental Western Europe [see 1980s column in Table 1]. Diversity of economic performance is also crucial to understanding expenditure trends throughout the period and across most aggregates of expenditure. In particular, it helps explain otherwise anomalous instances of expenditure change or lack of change, with Ireland's massive cuts in spending measured as a percentage of GDP owing much to that country's extraordinarily high rate of economic growth after the mid-1980s, and the surprising weakness of Swedish efforts to trim its high levels of spending in the period after 1980 arguably a function of growth rates so low as to make cuts in spending measured in this way well-nigh impossible.

Finally, there are also similarities – although less marked ones - in the factors influencing expenditure levels in 2001. Both Left incumbency over the post-war period as a whole and economic growth over the past twenty years strongly shape present-day distributions of social expenditures and total outlays and, although the finding is not robust, there is also evidence that core spending levels in 2001 reflect past patterns of Left incumbency. On the other hand, it should also be noted that the earlier similarity of higher spending in countries with greater trade dependence had diminished over time, now showing up only in a non-robust relationship with 2001 social spending. These findings have a number of important implications. First, it appears that, by 2001, cross-national social expenditure differences translate through to total expenditure patterns more readily than do core expenditure differences. Clearly, this is a consequence of the fact that, by 2001, cross-national variance in social spending was much greater than cross-national variance in core spending [compare the 2001 coefficients of variation in the summary statistics sections of tables 2 and 3 on pages 16 and 20 above]: in other words, that cross-national differences in core spending no longer contributed as much as previously to the distinctiveness of overall national spending patterns.

Second, it is clear that these findings have some bearing on two of the most influential theories of recent public expenditure development. On the one hand, the persistence of a Left legacy term in all three levels models suggests that, whatever evidence there may be for a ‘new politics of the welfare state’, it has as yet not had the effect of superseding the ‘old politics’ of the partisan shaping of public expenditure outcomes. Admittedly, the partisan link with core spending levels has become more tenuous over time, but the significant term for Left impact featuring in the model for social expenditure change in the 1990s suggests that, for this particular sample of countries in this particular time-period, partisan influence may actually have been becoming stronger just when the ‘new politics’ literature suggests it should have been getting weaker. On the other hand, the declining significance of trade openness might be interpreted as evidence of the beginnings of a shift to the kind of ‘race-to-the bottom’ scenario envisaged by globalisation theory. If so, the shift has, to date, been restricted entirely to core spending, where the strong linkage of 1980 had, by 2001, almost entirely disappeared, although entering the trade dependency term in the 2001 model still produces a positive coefficient. In the social expenditure arena, the positive relationship, although no longer robust, persists and, in the total outlays model, only fails to meet the required significance criterion by the smallest of margins. Differences in spending patterns between open and closed economies may be diminishing, but there is, as yet, no evidence that open economies are on track to become systematically low spenders in the manner predicted by globalisation theory.



With one extremely significant exception to be discussed at length below, dissimilarities in the models featuring in tables 9, 10 and 11 are less salient than similarities, with the majority restricted to particular sub-periods and failing to translate through to total outlays. Evidence of a Left impact effect on social expenditure growth in the 1990s has already been mentioned and other effects particular to social expenditure development include a positive relationship with de-industrialisation in 1980 and with change in de-industrialisation during the 1980s as well as a negative relationship with the growth of the female labour force in the period 1980-2001. Table 11 also shows a positive link between population ageing and core expenditure development in the 1980s. Of these findings, those relating to the impact of de-industrialisation are easiest to square with the theoretical literature, providing some limited support for the ‘new politics’ position by demonstrating that, in this period at least, social expenditure was significantly shaped by the emergence of new social risks. The evidence, however, is quite time-specific to the 1980s, and there is no sign that this factor influenced the trajectory of social expenditure change in the 1990s or was strong enough to impact on social spending levels at the turn of the century, arguably, perhaps, because the shift to de-industrialisation amongst the OECD nations is now more or less complete (see Iversen, 2001).

The remaining once-off differences are less easy to square with the standard hypotheses drawn from the literature. Female labour force participation is a test variable for another adumbration of the ‘new politics’ thesis, that new needs produce new spending, which is obviously contradicted by the non-robust negative relationship featuring in the 1980-2001 model. However, this is, almost certainly, a finding which should be discounted, since it results entirely from the experience of two countries – Ireland and the Netherlands – which, during this period, experienced extremely strong growth in female participation from a base markedly lower than that of any other of the 18 countries included in this analysis, whilst also experiencing high rates of economic growth that contributed to cuts in social spending as a percentage of GDP. Although there are possible scenarios by which these developments might be linked, it seems more likely that the association is spurious. Population ageing is also a measure of need and one whose impact on spending is undoubted. The anomaly here, though, is that this factor is not linked to social expenditure, which is where the literature tells us to expect ageing pressures to have direct knock-on effects on expenditure, but to core spending, where reasons for a positive association are far less obvious. In the absence of such reasons, we can only note the finding and the fact that, excluding the population ageing term, the 1980s core expenditure model is unchanged and no less robust, although, of course, with a somewhat reduced degree of explained variation [Adj.  $R^2 = .64$ ].

The exception to the rule that differences in the factors shaping the different expenditure aggregates are less salient than similarities is the appearance of a public debt term in three of the core expenditure models and in two of the total outlays models, but in none of the social expenditure models. It is possible to argue that the inclusion of a debt term in the 1980 core expenditure model in Table 11 is inappropriate on the grounds that high spending is likely to be as much a cause as a consequence of debt and, for that reason, the table includes an alternative variant of the model excluding the debt term. There can, however, be no reasonable doubt concerning the models for core expenditure change for the periods 1990-2001 and 1980-2001, in which debt features as the only robust predictor of core expenditure change and, by itself, accounts for somewhere between 50 and 70 per cent of explained expenditure variation. Both of these core spending regularities translate through to the corresponding total outlays' models, although, in the case of the longer period, the relationship proves not to be robust. Thus the headline story of the models featuring in Tables 11 would appear to be that the marked cuts that were occurring in core expenditure in the 1990s right across the OECD were driven largely by the extent of these countries' public indebtedness.

However, in discussing the debt burden hypothesis [see pages 47 above], it was noted that high levels of public indebtedness might influence spending in two possible ways: first, as an automatic consequence of the impact of changing interest rates on net debt interest payments and, second, because increased borrowing costs give governments strong incentives to find matching savings. The first mechanism would suggest a positive relationship between debt and expenditure change in the 1980s, when real interest rates were increasing, and a negative relationship in the 1990s, when they were declining. The findings in Table 11 provide strong evidence supporting the latter prediction, but not the former. However, the second mechanism, leading to offsetting expenditure cuts as borrowing costs increased, might supply the reason why increasing real interest rates failed to lead to higher core expenditure levels during the course of the 1980s, with cuts masking the effects of interest rate rises. A possible strategy for disentangling these effects is to model levels and changes in core expenditure minus net debt interest payments and compare the results with those in Table 11. The models presented in Table 12 enable such a comparison to be made.

The models for 1980 and 2001 levels of core expenditure minus debt interest payments and for change over the period 1980-2001 that appear in Table 12 are more or less identical to the corresponding models for core expenditure appearing in Table 11. However, the Table 12 model for the 1980s is quite dramatically different from its Table 11 counterpart, while, without the inclusion of debt interest payments as part of the dependent variable, the only significant relationship for the 1990s is a non-robust and anomalous positive linkage with economic growth wholly dependent on the inclusion of

Ireland in the analysis. The key variables in the modified 1980s model are negative terms for public debt and trade dependence, which wholly supersede earlier catch-up and economic growth terms. The negative trade dependency term provides the only statistical support in this paper for something akin to a globalisation effect, although the absence of any such findings in the models for expenditure change in the 1990s and expenditure levels in 2001 suggests that the finding is probably better interpreted as marking a once-off retreat from previous high spending policies than as evidence for the advent of a new era of globally-induced low spending. However, as we note below, this trade dependency effect does help us understand why the countries of continental Western Europe were in the vanguard of expenditure cuts during the 1980s.

The emergence in Table 12 of a strong public debt finding for the 1980s and its disappearance in the 1990s, read in conjunction with the entirely contrary findings in Table 11 and what we know of real interest rate developments during this period, tell an even more fascinating story. The fact that the negative impact of public debt is markedly higher when debt interest payments are not included in core spending strongly suggests that, in the 1980s, high debt levels led to spending cuts not because of any automatic interest rate effect, but rather because the increased cost of borrowing gave governments huge incentives to seek matching expenditure savings. The fact that, in the absence of net debt interest payments, debt levels cease to predict expenditure cuts in the 1990s suggests that this effect ceased once governments began to reap the automatic expenditure savings resulting from lower net debt interest payments, which, in effect, is what the negative debt term in the 1990s model in Table 11 demonstrates. The real story of change in core spending during these decades is, therefore, that levels of public debt were the driving force throughout, but that the effects of debt were mediated by different mechanisms at different times, with interest rate changes the obvious factor determining which mechanism was dominant at any given time. When interest rates were rising, highly indebted countries had to make cuts; when interest rates were falling, the cuts made themselves. Nor is the story one of core expenditures alone, with the same dramatic reversal translating through to models for total outlays minus net public debt expenditure unreported here, which show debt as a significant predictor of expenditure change in the 1980s but not the 1990s.

Earlier [see page 44 above], I argued that any successful account of recent public expenditure trends needed to explain why core spending was more subject to cutbacks than social spending, why real retrenchment tendencies were restricted to core spending in the 1980s and why the countries of continental Western Europe experienced greater expenditure cutbacks than the countries of the English-speaking family of nations. The analysis here provides most of the answers. In the 1990s, the big headline cutbacks in core spending were automatic consequences of declining interest rates and could not

**Table 12:** *Modelling Core Expenditure Minus Net Debt Interest Payments in 18 OECD Countries, 1980-2001*

	<b>Coefficient</b>	<b>Standard error</b>	<b>t-value</b>
<b>1980 Level</b>			
Intercept	15.46	1.34	11.58
Left cabinet seats 1950-1980	.09	.02	3.75
Imports + exports [IMEX] 1980	.08	.02	4.02
Adj. R <sup>2</sup> = .70			
<b>1980-1990 change</b>			
Intercept	5.83	1.18	4.93
Public Debt 1980	-.12	.03	-3.95
Imports + exports [IMEX] 1980	-.05	.02	-2.76
Adj. R <sup>2</sup> = .76			
<b>1990-2001 change</b>			
Intercept	-1.70	.81	-2.09
Average GDP growth 1990-2001	.66	.28	2.33
Adj. R <sup>2</sup> = .21			
[No robust variant can be calculated]			
<b>1980-2001 change</b>			
Intercept	10.85	2.58	4.21
Initial [1980] expenditure level	-.35	.14	-2.58
Public debt 1980	-.13	.03	-3.88
Adj. R <sup>2</sup> = .73			
[Robust variant: 1980-2001 Change = 4.99 - .18 [03] Public debt. Adj. R <sup>2</sup> = .64]			
<b>2001 Level</b>			
Intercept	17.80	1.07	16.72
Left cabinet seats 1950-2001	.08	.03	2.68
Adj. R <sup>2</sup> = .27			
[No robust variant can be calculated]			

*Sources and Notes:* Data on net public interest payments from OECD, *Economic Outlook*, Paris (various years). Other notes and sources as in Table 11.

have impacted in the social arena. In the previous decade, that was not so and, in principle, governments might have chosen to cut social as much as core spending in their attempts to match the increased cost of borrowing. However, the evidence here suggests that it was precisely during the 1980s that de-industrialisation served to boost and protect existing social expenditure levels, so it is possible to argue that the operation of the ‘new politics of the welfare state’ prevented cuts in social expenditure, possibly at the cost of making core expenditure cuts greater. The reason that real expenditure cutbacks occurred in the 1980s and not in the 1990s is simply that it was in the 1980s that debt levels, magnified by high and increasing interest rates, became a serious problem to governments across the OECD. Faced by net debt interest payments of as much as 10 per cent of GDP, policy-makers had to effect major cuts, enter into new borrowing commitments or find ways of altering the current perceptions as to what constituted a ‘tolerable burden of taxation’. In electoral terms, the preference for strategies resting on some combination of borrowing and retrenchment is scarcely surprising.

That leaves the question of why the countries of continental Western Europe turned out, despite the virulence of anti-statist rhetoric of leaders such as Thatcher and Reagan, to be bigger core expenditure cutters than the countries of the English-speaking world and the answer is given clearly by the models for 1980 expenditure levels and 1980s expenditure change in Table 12. In 1980, the countries of the English-speaking world and those of continental Western Europe had very similar average public debt levels [46.4 and 44.6 per cent of GDP respectively], which were appreciably higher than those of Scandinavia and Southern Europe [both around 33 per cent of GDP]. However, in 1980, the countries of the English-speaking world were far less trade dependent than those of continental Western Europe, imports plus exports averaging 55.1 per cent of GDP in the former and 81.4 per cent in the latter. Debt levels in 1980 were, therefore, a factor driving the two families of nations to similar cost-cutting exertions, but continental Western Europe's far greater trade dependence, which had earlier been a factor promoting higher levels of spending, provided a further incentive to austerity in the 1980s, which according to the figures in Table 8, persisted, although on a lesser scale, through into the 1990s.

## **Conclusions**

In conclusion, it is not my intention to reiterate the detailed findings of Parts One and Two of this study, but rather, very briefly, to ask what these findings tell us about where we are now in the long post-war evolution of OECD public expenditure development. The headline stories of Part One are of the massive expansion of total spending, the declining importance of military spending and the vastly increased salience of the welfare state. There are signs that the next stage of welfare state development will be a gradual shift from cash benefit expenditure to spending on services for families and the elderly. The headline stories of Part Two are the continuing relevance of partisan differences, the pronounced convergence of aggregate expenditure levels and the role of the debt burden in shaping core expenditure trends in the 1980s and 1990s. The last of these developments is one identified for the first time in this Working Paper. The main lesson for debates in the literature is that nearly all the explanatory factors identified in the mainstream theory have some relevance to expenditure outcomes, with even the one major exception, federalism's failure to predict lower expenditure levels, possibly significant as an augury of an emerging institutional ratchet effect [see pages 50 above] in an era of greater expenditure constraint.

The prominence of convergence trends over recent decades is hugely significant for where we are now because it suggests that the kind of public expenditure levels that have emerged over the past four decades have, more or less, plateaued and are likely to be with us for the foreseeable future. I have argued elsewhere (see Castles, 2004) that the modern welfare state has now become a 'steady-state welfare state', with the most

significant remaining source of cross-national variation the somewhat lower expenditure of the majority of countries in the English-speaking family of nations. On the basis of the analysis here, I would now argue that the same applies to public expenditure development as a whole. This is a conclusion, which could only be credibly challenged if we could identify a factor or factors capable of overriding existing commitments to democratic electorates of continuing levels of provision across a wide range of programmes including defence, health, education, social security, community services, public order and the environment.

That, of course, is why the debate over the public expenditure effects of increased international economic interdependence has been so important, because globalisation theory purports to supply a systemic factor with precisely such implications. However, the analysis offered in this Working Paper suggests that, for much of the period under analysis here, trade openness was associated with higher levels of both social and total public expenditure, and that its only demonstrable negative impact was a once-off effect on core spending in the 1980s, making it more difficult for countries with open economies to maintain their formerly more generous spending levels. In none of the models elaborated here did the extent of foreign direct investment have an effect – either positive or negative – on OECD expenditure outcomes.

Convergence accounts of expenditure development, whether based on the timing of the adoption of programmes or on correcting for earlier expenditure overshoot, are essentially conjunctural in character, since they account for present trends with reference to the unfolding of past events. So, too, in effect, is the analysis offered here of how prior levels of public indebtedness impacted on core expenditure development under circumstances of, initially, rising and, then, falling real interest rates. The aftermath of these developments has been a markedly reduced core spending variance, with 2001 spending levels even more convergent than those of social spending [compare 2001 coefficients of variation in Tables 2 and 3 above]. Indeed, it is arguable that the real reason that that it is impossible to generate a robust model of core spending difference for 2001 is that the differences are now too small and too nationally idiosyncratic to be picked up by the cross-national modelling techniques used in this analysis. Finally, it is worth noting that there is no obvious candidate for generating future expenditure retrenchment on even the scale of that experienced in the 1980s. A clear instance of policy-learning in recent decades is to be found in the determination of OECD policy-makers to do everything within their power to use monetary and fiscal policy to avoid a conjuncture of the high levels of indebtedness and high real interest rates that shaped core expenditure trends in the 1980s and 1990s.

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## **BIOGRAPHICAL NOTE**

**Francis G. Castles** is Professor of Social and Public Policy at the University of Edinburgh, Adjunct Professor of Political Science in the Research School of Social Sciences at the Australian National University and Adjunct Professor in the Centre for Social Policy [ZES] at the University of Bremen.

*Telephone:* + 61 2 61257898

*Fax:* + 61 2 61253051

*E-Mail:* castles@coombs.anu.edu.au

*Address:* Professor Francis G. Castles, Department of Political Science,  
Research School of Social Sciences, Australian National University,  
Canberra, ACT 0200, Australia.