discussion paper

FS I 95 - 313

Partisan Politics and Public Finance: Changes in Public Spending in the Industrialized Democracies, 1955-1989

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1995

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Introduction

The role of partisan politics in shaping public policy is a contentious issue. Traditionally, scholars have divided into two major schools of thought on this question. One of these schools suggests that partisan politics plays little if any role in how governments in modern industrialized democracies shape public programs and finance them. A leading example of this is the general position that a uniform logic of industrialization dictates the major course or direction of policy. The policy differences that exist between countries at any time or within countries over time are shaped by variable economic, technological and demographic imperatives. Partisan politics is at best marginal.

The opposing school attributes central importance to the ideological differences that obtain between groups within society and the parties that represent these groups (e.g., Tufte, 1978; Hibbs, 1987a, 1987b). Critical here is the left-right dimension on which differing class interests are seen as pivotal. Lower income groups and labor in general are seen as favoring a large and active state. This is a state heavily engaged in regulating the market and using public finances to equalize the outcomes of market operations. Upper income groups and capital in general are depicted as aiming to minimize the role of the state in shaping market operations and outcomes. These latter groups are particularly concerned to limit the size of the state and its control over society's financial resources. Parties competing for votes orient their programs to serve these different interests; they will act to implement these programs if and when they come into government. While economic, technological, and demographic factors are not unimportant in shaping policy, the place of partisan politics is central.

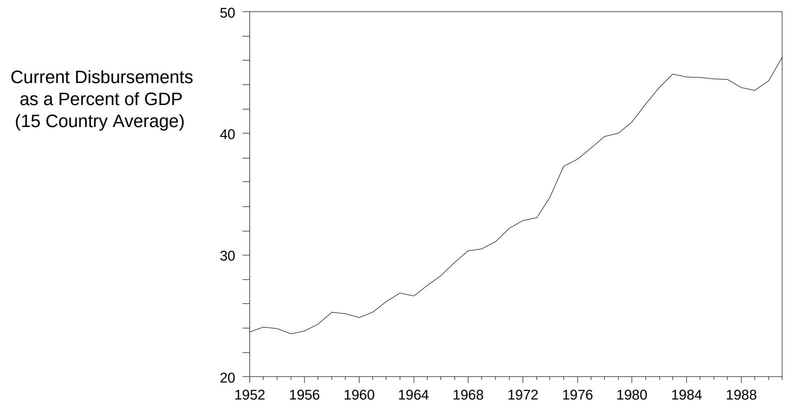
Complicating this debate is the argument that while the "partisan politics matters" thesis may have held in the past, when states enjoyed policy latitude afforded by embedded liberalism, the surge in the size and importance of international capital markets has diminished the freedom of national governments to pursue independent policies -- policies that reflect the democratically revealed preferences of society. As a consequence of the loss of national autonomy in fiscal policy making, the preferences of governing parties and their electorate can play little if any of a role in shaping government budgetary decisions. Thus, while politics may have mattered in the "golden age," its importance has withered. Even if parties continue to engage in ideological debate and persist in staking out sharply different ideological positions, the role of politics in shaping policy outcomes has been reduced to little more than "cheap talk."[1]

This paper will address these debates. It focuses solely on one aspect of public policy, governmental spending, and attempts to ascertain the role that partisan politics plays in altering these spending levels. In the next section some background is provided. Following that, a model meant to capture the impact, if any, of partisan politics on one major aspect of government policy, viz., public spending, is introduced. After that, results from statistical tests of this model, based on a pooled cross-section time series analysis for a large number of OECD countries, are presented.[2] The conclusion based on these results then follows.

Background: Politics and Public Finance

The Growth of Government Spending:

The state's control over economic resources within industrialized democracies has grown dramatically in the twentieth century. This growth has been particularly marked in the post World War II period (see Figure 1).[3] The tremendous expansion of the public sector had, by the 1970s, prompted both expressions of concern for the economic, political and social consequences (see, especially, Bacon and Eltis, 1976, Bernholz, 1982, and Wolf, 1988), as well as a large cottage industry of scholarly work dedicated to providing an explanation of this widespread phenomenon (see review by Larkey, et al, 1981, and the volume edited by Lybeck and Henrekson, 1988). The 1980s saw something of tapering off in this growth of government. Indeed, at least one scholar suggested that while many existing theories could account for both historical growth and the contemporary and anticipated decline, little attention seemed to be paid to this dramatic break (see Hood, 1991). In part this reversal reflected serious efforts at scaling back by the state; one might also note that the relatively good economic performance in this period altered the base against which government spending is generally compared in order to measure its relative size. And so with the downturn in the economy in the early 1990s the supposed decline of government size vanished to be replaced by another upward movement.



Politics and Public Spending

How has politics played a role in shaping the decisions that have brought about these developments? The non-partisanship school suggests that ideology and parties, the principal carriers of ideology, are marginal. The point here is not that politics, per se, is unimportant, but rather that the interpretation of what is political differs from the partisan competition model. There are two broad streams in this literature. The first represents politics as essentially both embedded within and dominated by a broader system. Politics is then a sphere which faithfully translates impulses from its environment into public policy outputs. In other words, politicians are simply responding to changing needs and tastes of society; public policy is demand driven. Leading illustrations of this approach include Wagner's Law, with its emphasis on the requirements of social progress, the demographic imperative of the modern welfare state (Wilensky,1976), and the role of structural change brought about through uneven technological development (Baumol, 1967).

The second stream essentially suggests that politicians are maximizing something other than what they would within the partisan competition framework. The central notion here is that politicians are "revenue maximizers" or "rent seekers" (cf. Levi, 1988) Given this motivation, institutional frameworks and broader environments that facilitate access to societal resources translate into larger governments. In other words, government spending is supply driven. Leading illustrations of this approach include arguments about the role of fiscal illusion (see, e.g., Peacock, 1979, and Wagner, 1976), the displacement effect (Peacock and Wiseman, 1962), the degree of centralization within the government sector (see, e.g., Marlow, 1988, Oates, 1985), and the changing character of the economy and labor market (Kau and Rubin, 1981).

In the basic partisan politics model of public policy outcomes, the ideological preferences of the governing parties are central in determining such things as the levels of government spending (see, e.g., Tufte, 1978; Hibbs, 1987a,b). Parties of the left, favoring redistribution, provide greater government spending while parties of the right, favoring the untrammelled workings of the market system, reduce government spending. A refinement of this model suggests that it is the combination of both government party partisan preferences and the strength of organized labor that determines policy outputs and economic outcomes (see, e.g., Alverez, Garrett and Lange, 1993, Garrett and Lange, 1991, Cusack and Garrett, 1993). This "social democratic corporatism" version of the partisan politics school argues that concordance between the governing strength of the left and power of organized labor allow governments to pursue expansionary fiscal policies, which are also accompanied by beneficial economic outcomes. A strong right in combination with weak labor promotes reductions in government while also allowing positive macroeconomic performance.

A more refined version of the partisan politics approach to public policy holds that a combination of the preferences of voters *and* political parties shape such policy outputs as public spending (Wittman, 1983, Keech, 1995). The preferences of voters are based on objective differences across groups within the electorate, differences that reflect the economic well-being of the individuals within these groups. Poorer and working class groups tend to favor greater government intervention in the economy, intervention that often comes about through the use of economic resources for public purposes. More affluent groups have a distinct interest in restricting government intervention and holding down the size of government (Hibbs, 1987a,b). Parties on the left represent the interests of the former groupings while those on the right represent those of the latter. Their platforms and their policies will be geared in some measure to advance these interests.

The problem for political parties is that while they and their activists may have clear preferences in the policy sphere, they also face a critical tradeoff in pursuing these preferences. This tradeoff involves the loss of electoral support involved in favoring one side of the spectrum along which the electorate is arrayed. Policies designed to achieve partisan preferences in their fullest run the risk of undermining the level of support for the governing parties implementing them. On the other hand, policies designed to attract the greatest electoral support risk losing support from one's core constituencies. Ultimately, governing parties seeking to implement policies based on partisan preferences may see a need to develop a strategy that balances these concerns.

Regardless of which one of the variants of the partisan politics model one might favor, it is clear that they are all the objects of similar criticisms. Two debates have arisen around the question of partisan politics influence on public policy, particularly in the area of budgeting. On the one hand there are those who deny that partisan politics can ever matter in such an area (Jackman, 1986). On the other hand, there are those who argue that under special circumstances -- especially relatively high national autonomy vis-a-vis the international economic system -- such a linkage can hold but that these conditions effectively have disappeared over the last two decades (see, e.g. Scharpf, 1991, Kurzer, 1993).

The first debate has seen two related challenges to the partisan politics argument. One is theoretical and the other is empirical. On the theoretical side the challenge presented is that the logic of party competition inside the institutional structures of modern democratic systems negates the potential for the ideological preferences of parties to come to the fore in the shaping of policy outputs. The institutional structures of these systems minimize the possibility of implementing policy positions that are other than those that might draw upon at least a minimal consensus. This restricts the possibility of a government with partisan preferences from imposing policies that accord with its position on the left-right scale and forces it to accept policies distant from that position and more acceptable to those parties not in the government.

Likewise, the idea that parties act responsibly, i.e., that parties are unified, disciplined and collectively responsible to their voters for keeping policy promises, is seen as unrealistic. This critique focuses on the putatively central and overriding objective of parties and politicians, namely, electoral success. From this perspective, parties will be vote or office motivated but are immune to the idea that policy is an overriding goal. Policy promises in electoral campaigns may differ, but actual policy outputs will be convergent.[4]

Taken together all of this suggests that existing democratic institutions diminish the opportunity to impose the majority's (or governing party's) will. Political survival and electoral success constrain rational actors from pursuing ideological objectives in the form of substantive policy.

On the empirical side, the conclusions different scholars have drawn from studies of the impact of partisan politics on public spending are quite divergent. At one extreme stands Rose (1984), who concludes that the differences in policy outputs between parties is more a matter of rhetoric than reality. Von Beyme (1985) argues that the importance of partisan preferences is relatively small in comparison to a host of societal and institutional factors. Based on one of the more extensive evaluations of this hypothesis, Blais, et al (1993) concluded that the evidence was somewhat mixed on the effects of partisan politics but that where one found consistent relationships they tended to be relatively modest in their impacts. On the other hand, there is a fair amount of evidence put together by a series of scholars which suggests that partisan politics does play an important role in shaping the size of the public sector. Here are a number of illustrations from more recent work. Comisky (1993), examining two cross-sections of growth rates for non-defense spending during recent decades, found that these rates were positively related to the strength of leftist parties in government. DeHaan and Sturm (1994) demonstrated that leftist parties in government fuelled growth in government spending across the European Community during the 1980s. Roubinin and Sachs (1989b) also showed that the long-run equilibrium of the ratio government spending to GDP during the period from the early 1970s through the mid-eighties was heightened by the dominance of leftist parties in government.

In sum, the partisan politics approach to public policy stands not only in competition with other approaches, it has also come under attack for theoretical and empirical reasons. Nevertheless, this critique has not gone unchallenged and there has been evidence to suggest that there is a measure of validity to the approach. That aside, though, there is still the question of the continuing vitality of partisan politics in the shaping of public policy. Have the parameters defining the latitude with which governments can set fiscal policy changed so much as to greatly reduce or completely eliminate the effects of partisan politics?

Operating under few or no external constraints, a nation's government has a range of options available to it in terms of the fiscal and monetary policies it can choose to pursue. In such a context, the putative effects of partisan politics in such areas as government expenditure and taxation policies can come to the fore. Absent this latitude, the room for partisanship in policy making is greatly reduced if not completely eliminated.

The last two decades supposedly have seen a great shrinkage in the latitude afforded national governments by the international economic system. This has come about through the tremendous growth in international financial integration (IMF, 1991, Simmonds, 1995). As the discussion centering around Keynesian policy recommendations emphasized, the inability to prevent or restrict capital movements entails a grave loss in the ability to steer monetary and fiscal policies (Helleiner, 1994). For many analysts, autonomous policies shaped by domestic political preferences have been removed from the repertoire of states (Sharpf, 1991, Streeck and Schmitter, 1991, Kurzer, 1993 Hall, 1995). As a consequence, the partisan preferences of both voters and governing parties can be said to have been deleted from the vector of forces shaping taxation and spending policies.[5]

In sum, the idea that partisan politics plays a role in shaping the size of the public household has been challenged on a variety of grounds. And while some scholars are willing to concede that perhaps under certain conditions partisan effects may be present, the conventional wisdom has become that the conditions required for their presence have disappeared. The effort described in the following pages is intended to explore the validity of these contentions.

A Model of Public Spending Decisions

Assume that in addition to a set of political and other forces, X, partisan politics plays a role in shaping public spending. Partisan politics could enter in two ways. First, the ideological stance of the governing party or coalition of parties shapes the preference for more or less spending. Second, the distance between this ideological position of the government and the position of the electorate might lead the government to modify its preferences with the intention of attracting electoral support. Spending decisions then could be represented in the following simplified form:

$$\Delta G = \alpha + \lambda X + \gamma_1 P_1 + \gamma_2 (P_1 - E)$$

where:

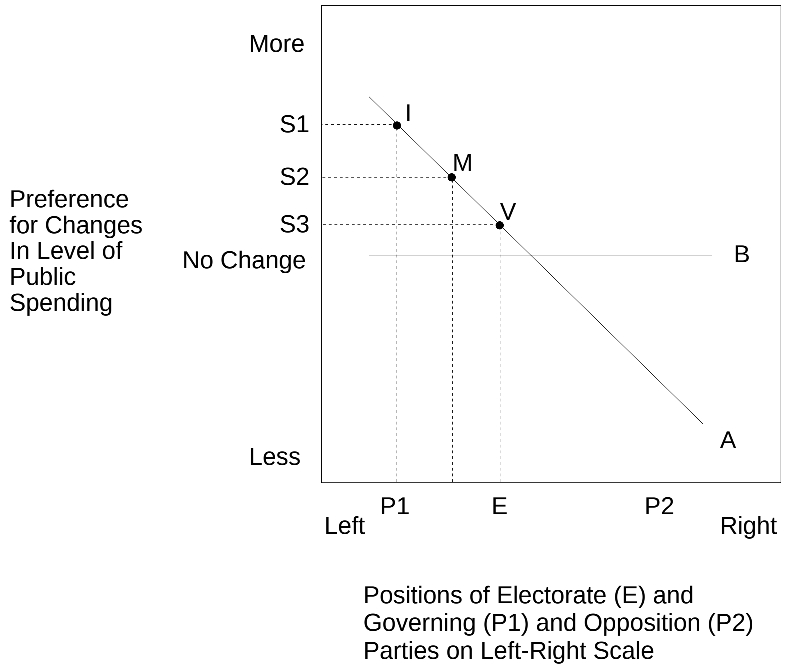
P_1	is the governing party's (coalition's) position on a left-right scale;
E	is the electorate's position on the same left-right scale.

If the scale portraying the left-right positioning of the of parties and goes from a low score representing an extreme left position to a high score representing an extreme right position, the traditional class-based partisan politics hypothesis would predict that γ_1 would be negative.

To the extent that governing parties compromise their ideological stance to take into account the potential electoral losses that could flow from ignoring voter's preferences by implementing an ideologically based policy not in accordance with the latter's interests, then γ_2 would be positive. It would taken on a value close to zero when governing parties strongly discount electoral concerns. On the other hand, γ_2 would take on a value close to $-\gamma_1$ when governing parties are driven solely by electoral considerations and are willing to discount their own ideologically based policy preferences. This condition does not undermine the idea that policy outcomes are driven by ideological preferences; rather it suggests that the ideological preferences that matter in policy-making are not those of the policy-makers but of the electorate.

All this can be seen more clearly in Figure 1. Here the positions of the electorate and two hypothetical parties are arranged on a left-right scale at the bottom. Preferences with respect to changes in public spending are portrayed on the vertical axis. If the null hypothesis that partisan politics does not influence public spending decisions is correct then the line B can be seen as representing the absence of any political impact in this arena. Line A depicts a hypothetical function that maps ideology on public spending decisions in the situation where partisan politics matters and embodies the traditional image of the left as favoring government expansion and the right as opposed.

The illustrative governing party's position here is to the left of the electorate and so its ideological preference for public spending changes intersects line A at point I which translates into a spending change of S1. This is a larger spending change than that desired by the electorate, which favors a smaller increase than that which the governing party desires to implement. If the governing party were solely concerned with the goal of holding office it would move from point I to point V on A and thereby deliver exactly what the electorate would prefer, i.e., S3. An example of a mixed outcome, where the governing party preserves a measure of ideological commitment while simultaneously improving its electoral chances over position I would be the case of point M, where it supplies less (S2) than what it would prefer but more than what the electorate favors.



For this study two indices with a similar structure are employed to represent government's and the electorate's positions on a left-right scale. Both embody what Gross and Sigelman (1984) describe as a skyline view of party systems. On the vertical dimension the relative strength of, for example, a party within a coalition government is portrayed while on the horizontal dimension the "ideological-programmatic" position of that party is captured. The general formula for this measure of the political center of gravity takes the following form:

$$CG = \sum_{i=1}^{n} T_i C_i$$

where T_i is party *i's* decimal share of seats, or votes, and C_i refers to party *i's* position on a left-right continuum (Gross and Sigelman, 1984). In the case of the electorate's political center of gravity (*EPCG*), each party's share of the vote is captured by the *T* term and its left-right position by the *C* term. In the case of the government's political center of gravity (*GPCG*), the *T* term measures the relative share of the cabinet seats within the government held by party *i* (which, of course, equals 0 if the party is in opposition).

To operationalize parties' positions of the left-right continuum the Castles and Mair (1984) codings of party's placement on a left-right scale have been employed. The Castles-Mair scale is based on expert codings and ranges from a low of 1 (extreme left) to a high of 5 (extreme right). Unfortunately, the score given to any party with this measure does not change over time; obviously a problem if one assumes that parties are regularly moving about and adjusting their ideological stance. On the other hand, if one is willing to assume that parties must pay a cost for any radical change in ideological commitments, this assumed constancy may not be terribly misleading. Certainly, the assumption of constancy in this term poses a harder test of the fundamental hypothesis that ideological positions matter in the shaping of public policy.

Some descriptive information based on these scaling procedures is provided in Table 1. There, for each of the 16 countries included in this study, decade averages for the governmental and electoral political centers of gravity are shown. In addition, a measure of the differences (in absolute value terms) between the government and electorate during the periods is also given.

Let us now turn to the specification of a model that will allow us to test whether partisan politics has an influence on public spending. In addition to the partisan politics terms a number of other variables have been entered into the model in order to control for additional influences that can be expected to help shape governmental budgetary policy. Three of these capture elements of budgeting within an industrialized democracy that can be expected to influence the outcome of that process. A fourth introduces an factor that should capture the effects of unanticipated economic conditions on the public sector's share of societal resources -- the dimensions of which are ultimately set on the basis of expectations about the economy that may or may not be realized. A fifth term is entered to assess the putative restrictive impact of increasing international financial integration. Finally, two other political terms, meant to capture the institutional and societal impacts of divisiveness on coherent public spending policies, have been included within the equation.

Table 1
Electoral and Governmental Political Centers of Gravity: Period Averages, 1950-1991

Country	Period	(1) Elect.	(2) Gov't.	(3) Absolute Diff.: Gov't / Elect.	Country	Period	(1) Elect.	(2) Gov't	(3) Absolute Diff.: Gov't / Elect.
Australia	1950-59	2.97	4.00	1.03	Italy	1950-59	2.84	3.05	0.20
	1960-69	2.98	4.00	1.02		1960-69	2.75	2.88	0.11
	1970-79	3.00	3.40	0.95		1970-79	2.68	2.92	0.21
	1980-91	2.99	2.50	0.99		1980-91	2.64	2.76	0.12
Austria	1950-59	2.58	2.53	0.05	Japan	1950-59	3.20	3.97	0.76
	1960-69	2.58	2.66	0.24		1960-69	3.09	4.00	0.90
	1970-79	2.53	2.00	0.53		1970-79	2.98	4.00	1.01
	1980-91	2.59	2.37	0.20		1980-91	3.05	4.00	0.94
Belgium	1950-59	2.74	2.78	0.28	Norway	1950-59	2.60	2.00	0.61
	1960-69	2.89	2.76	0.31		1960-69	2.63	2.77	0.64
	1970-79	3.01	3.00	0.25		1970-79	2.73	2.24	0.68
	1980-91	3.10	3.16	0.29		1980-91	2.91	2.63	0.72
Canada	1950-59	3.32	3.30	0.33	Netherlands	1950-59	2.75	2.73	0.14
	1960-69	3.27	3.30	0.34		1960-69	2.81	3.12	0.35
	1970-79	3.24	3.10	0.29		1970-79	2.82	2.95	0.42
	1980-91	3.28	3.67	0.53		1980-91	2.88	3.14	0.44
Denmark	1950-59	2.93	2.62	0.76	Sweden	1950-59	2.61	2.16	0.44
	1960-69	2.93	2.46	0.75		1960-69	2.58	2.00	0.58
	1970-79	2.86	2.63	0.80		1970-79	2.61	2.51	0.60
	1980-91	2.94	3.40	0.79		1980-91	2.66	2.22	0.60
Finland	1950-59	2.67	2.67	0.25	Switzerland	1950-59	3.28	3.89	0.60
	1960-69	2.66	2.63	0.32		1960-69	3.30	3.43	0.13
	1970-79	2.79	2.47	0.36		1970-79	3.36	3.43	0.06
	1980-91	2.80	2.68	0.26		1980-91	3.34	3.43	0.11
Germany	1950-59	3.33	4.01	0.68	United King.	1950-59	3.01	3.80	0.98
	1960-69	3.12	3.45	0.49		1960-69	2.96	2.80	0.95
	1970-79	3.03	2.25	0.80		1970-79	3.03	3.00	0.97
	1980-91	3.03	3.82	0.79		1980-91	3.14	4.00	0.88
France	1950-59	3.21	3.80	0.65	U.S.	1950-59	3.53	3.70	0.45
	1960-69	3.18	4.00	0.76		1960-69	3.53	3.20	0.45
	1970-79	2.99	3.84	0.78		1970-79	3.56	3.70	0.40
	1980-91	3.05	2.83	0.78		1980-91	3.56	3.92	0.46

Budgetary Inertia and Competition

Three terms capturing elements of the budgetary process are included. Two of these additional terms are meant to capture the effects of inertia and previous commitments in major areas of the public household. In effect, they capture short term and largely non-discretionary aspects of budget-making. One of these deals with governmental income transfer programs, a major component of total public spending in the industrialized democracies. The principal involved here is that in the short term, partisan politics aside, there is a large measure of automaticity involved in the realization of outlays for this major governmental spending program. Three forces fundamentally shape these outlays; they include existing levels of "generosity," the size of the major groups eligible for such transfers, and the indexation to price levels in the consumer sector. The testable hypothesis here is that, other things being equal, changes in government spending expressed as a share of GDP systematically reflect the (1) preceding level of transfer program generosity (captured here by total transfer spending, as a percentage share of GDP, divided by the sum of the retired and unemployed, expressed as a percentage of total population), (2) the change in the relative size of the transfer target population (the retired and the unemployed), and (3) the relative change in consumer prices:

$$\Delta TC_t = \frac{RPC_t}{RPC_{t-1}} * \Delta DB_t * \frac{TC_{t-1}}{DB_{t-1}}$$

where *TC* represents the transfer costs within the total governmental budget, *RPC* is the consumer price index over the GDP price index, *DB* is the sum of the retired and unemployed expressed as a percentage of the total population.

The second non-discretionary term deals with another relatively large element of governmental budgets, viz., spending on civilian goods and services -- civilian government consumption. Again, the idea here is that there is a significant amount of inertia involved in spending on this major category. Other things being equal, governments will attempt to provide the same level of goods and services as in the previous year. Since, however, the costs of these provisions, given their service-intensive character, are likely to be changing (and in an unfavorable direction), the previous year's outlays (again, as a percentage of GDP) will need to be adjusted to take into account relative price changes.

$$\Delta GC_t = \left(\frac{RPG_t}{RPG_{t-1}} * GC_{t-1} \right) - GC_{t-1}$$

where *RPG* is the ratio of the government price index to the overall GDP price index and *GC* is government outlays on goods and services.

A third budget specific term has been introduced to capture the effects of competition between different policy objectives. The dependent variable in the model is current non-military outlays as a percentage of GDP. The exclusion of military spending from the dependent variable allows the model to incorporate the potential trade-offs that follow from the competition for scarce resources between military and civilian purposes. As has been shown elsewhere (see, e.g., Russett, 1973; Cusack, 1988), there are strong grounds for expecting that a rise in defense outlays will squeeze the amount of resources available for civilian purposes and thereby lead to a decrease in such spending. Likewise, a cutback in military outlays frees resources for civilian objectives and one would expect that a cut in military spending will be accompanied by an increase in civilian spending. The expectation here, then, is that a tradeoff holds between military and civilian spending and that it is symmetric; thus, the coefficient on this term should be negative. It is not at all clear, however, whether one should expect the tradeoff to be one-to-one. Certainly a change in one of these broad categories can be covered in part by either changing budget balances or altering taxes.

Unanticipated Economic Performance

Ultimately, government budgets are contingency plans. Spending decisions are made for a future period for which expectations are presently held with respect to a variety of economic conditions, including the overall level of economic activity. Therefore, if government's expectations about where the economy will be at t+1 are wrong, then any previously set level of expenditures will reflect a relative weight in the economy different from that which had been planned. In order to capture this obvious but nonetheless important consideration in government spending dynamics, a term is introduced into the model that reflects discrepancies between plausible expectations about economic activity and the reality of the situation. The variable meant to capture this phenomenon, UG, is simply a function of recent growth rate performance relative to the actual growth rate in the economy; specifically it is operationalized as the average growth rate for the three previous years minus the current growth rate. A positive (negative) score indicates that growth was lower (higher) than might have been expected based on recent trends. With lower than anticipated growth (UG>0), planned outlays will necessarily be a higher share of actual GDP than had been anticipated, and vice versa. Therefore, the expectation is that the sign on the parameter for UG should be positive.

International Financial Integration

A further term is included that is meant to help assess a minimalist view of the impact of the growth in international financial integration on governmental budgetary policy. The idea here is that regardless of ideological or partisan considerations, the shift in the international economic environment toward the free flow of capital has had a depressing effect on government spending. Liberalized access to international capital markets reduce the discretion available to government to maintain or expand high levels of public spending often, though not always, associated with financing difficulties, i.e., deficits. The expectation here is that higher levels of international financial integration pressure governments to cutback on the size of the public sector, that is, that the parameter on this term should take on a negative sign.[6]

Institutional and Societal Divisiveness

Two terms have been introduced to capture the effects of divisiveness on shaping budgetary outcomes. Both reflect the impact of log-rolling on spending decisions. The first deals directly with the institutional side of this problem and the second deals with societal conditions that might exacerbate the problem. The first is a measure of the lack of governmental cohesion (cf., Roubini and Sachs, 1989a,b).[7] The motivation for including this term is to be found in the argument that divided and weak government (for example, in presidential systems where the legislature and the executive are held by different parties, or in parliamentary systems where multi-party coalitions hold a minority status), are less effective than more cohesive governments in developing coherent and responsible budgetary policies. The absence of such coherence and responsibility can be expected to introduce distortions in spending decisions with phenomena such a log-rolling among the various constituencies within the government occurring. The upshot is the tendency to not only fail to maintain economically warranted balances between spending and revenues but also to be prone to greater spending levels.[8]

On the societal side a simple dichotomous variable reflecting whether or not there is a high degree of ethnic/linguistic diversity within society has been introduced.[9] Some writers (Mueller and Murrell, 1986; McCarty, 1993) in the field of public choice hypothesize that high diversity is conducive to lower public spending levels. The conclusion is based on a transaction costs argument and implies that such diversity is correlated with widely divergent tastes which ultimately make it difficult to reach collective decisions and thereby will lower government spending. The evidence that has been gathered for this argument is at best mixed. Furthermore, there are ample theoretical reasons to expect the opposite effect. Differences in taste combined with the need to arrive at decisions could foster a tendency to engage in log-rolling and greater spending. Likewise, societal splits created by ethnic and linguistic differences would make it difficult to develop encompassing coalitions that would not engage in rent seeking (Olson, 1982). This spending growth enhancement effect of societal divisions seems more plausible.

The Model

Combining all of these elements along with the two partisan political terms into an equation meant to capture changes in government spending as a share of GDP, produces the following specification:

$$\Delta G_{it} = \alpha_i + \beta_1 \Delta TC_{it} + \beta_2 \Delta GC_{it} + \beta_3 \Delta MLX_{it} + \beta_4 UG_{it} + \beta_5 IFI_{t-1}$$
$$+ \beta_6 COH_{it-1} + \beta_7 ELF_i + \gamma_1 GPCG_{it-1} + \gamma_2 (GPCG - EPCG)_{it-1} + \varepsilon_{it}$$

where:

Δ	-- first difference
G	-- government spending as a percentage share of GDP
TC	-- transfer costs (function of previous generosity level, change in demographic burden and change in relative prices), as a share of GDP
GC	-- civilian government consumption costs (function of previous level of civilian government consumption outlays and relative price changes) as a percentage share of GDP
MLX	-- military expenditures as a percentage share of GDP
UG	-- unanticipated economic growth performance
IFI	-- proxy for international financial integration
COH	-- ordinal index of governmental cohesion (low: cohesion; high: lack of cohesion)
ELF	-- dummy variable for countries with high degree of ethnic/linguistic fractionalization
$GPCG$	-- index of government's political center of gravity
$EPCG$	-- index of electorate's political center of gravity (in last election)

and the following expectations hold:

$\beta_1 \approx 1,\ \beta_2 \approx 1,\ \beta_3 < 0,$
$\beta_4 > 0,\ \beta_5 < 0,\ \beta_6 > 0,$
$\beta_7 > 0,$
$\gamma_1 < 0$, if parties are policy seekers,
$\gamma_2 > 0$, if parties are office seekers, and
$\gamma_1 = -\gamma_2$, if both conditions immediately above hold, and this holds, then parties are pure office maximizers.

Analysis

Using the basic equation outlined above, two sets of analyses have been undertaken. In both sets, a a pooled cross-section time-series design was employed. In the first set pooled analyses for the period from 1955-1989 for 15 countries have been carried out. This is the lengthiest time frame that could be used given the data available but it also required dropping one country, Australia, because of the absence of some required data prior to 1960 for this country. The second set includes all 16 countries for the more limited period of 1961 through 1989. In both sets of analyses, the model as specified above was estimated. This permits one to evaluate the general argument that partisan politics have played a role in shaping the size of the public sector. In addition, a second equation was estimated where, instead of assuming the constancy of partisan politics effects throughout the estimation period, partisan effects were allowed to vary across three periods (1955/61-1973, 1974-1979, 1980-1989). This latter specification permits one to evaluate the argument that partisan politics effects in shaping the size of the public sector have diminished, if not disappeared, over the last two decades. Each pooled regression was carried out using a cross-sectionally heteroskedastic and timewise autoregressive technique (Kmenta, 1986: 618-622).

Table 2a presents the results from the first set of analyses with the longer estimation period but using only 15 of the 16 countries. Table 2b provides the results from the shorter time frame with all 16 countries. Since the results across the two sets of estimates are quite close to each other, discussion will focus exclusively on the first set. The first column of estimates in Table 2a provides information on the specification where the effects of partisan politics are held constant and the second where these effects are allowed to vary across the three periods. As can be seen at the bottom of the table the overall fits between the models and the data are quite good. Indeed, one might also note that they nearly indistinguishable. In terms of the non-partisan variables, expectations outlined earlier have been born out. Inertia in both transfer and civilian consumption programs seems to have been at work. Additionally, the posited tradeoff between military and civilian spending appears to have been in effect. Unanticipated economic performance also played the role expected. International financial integration would appear to have had the dampening effect posited (here one might note that this is the one non-partisan politics term with a substantially different impact across the two specifications). Finally, the expectation that diversity in both institutional and societal contexts tends to push up spending receives support. Lack of governmental cohesion promoted spending, as did ethnic/linguistic diversity within society.

The estimates of the parameters on the partisan politics terms are of particular interest. In the constant effects specification both are statistically significant and take on the anticipated signs. Notable as well here is the relative size of the absolute values of these two parameters. They are approximately equal. All of this suggests that the partisan politics has been important in shaping the dynamics of government spending. It furthermore suggests that governing parties respond completely to the revealed preferences of voters. Governments to the left of voters will spend less than the ruling party(ies) would prefer and move budgetary outlays completely to the position that accords with voters' preferences. Governing parties to the right of voters will spend more than they would prefer and spend at a level that accords with the electorate's preferences.

Have these estimated effects of partisan politics been constant over time or has there been a diminution or disappearance as many contend? The second column of estimates would suggest that a mild decrease in the impacts of partisan politics over the last three or so decades has occurred. Thus, while γ_1 stood at -.79 for the period ending in 1973, it decline by about 15 percent in the middle period and stayed at approximately that level in the 1980s. The γ_2 parameter shifted in a parallel way and thereby indicating that the tendency to accede to the electorate's preferences has not changed. Thus, partisan political considerations would appear to have retained a vital role in shaping the size of the public sector. One sees as well that the office-maximizing tendencies revealed in the estimates have retained their importance.

Table 2a: Pooled Cross-Sectional Time-Series Analysis of Changes in Non-Defense Outlays as a Percentage of GDP, 15 OECD Countries, 1955-1989

	Parameter (t-stat)	Parameter (t-stat)
Change in Transfer Programs Costs	.88 (15.5)	.79 (13.2)
Change in Civilian Government Services & Operations Costs	1.21 (13.9)	1.20 (13.4)
Change in Military Outlays	-.40 (-7.1)	-.45 (-7.3)
Unanticipated Economic Performance	.16 (23.6)	.17 (22.8)
Level of International Financial Integration	-1.28 (-3.5)	-2.37 (-3.4)
Lack of Governmental Cohesion	.13 (4.2)	.11 (3.7)
Ethnic/Linguistic Diversity	.44 (5.2)	.44 (5.2)
Government's Political Center of Gravity	-.65 (-4.5)	
Distance Between Government's and Electorate's Political Centers of Gravity	.70 (4.2)	
Government's Political Center of Gravity, Period 1		-.79 (-5.2)
Government's Political Center of Gravity, Period 2		-.67 (-4.5)
Government's Political Center of Gravity, Period 3		-.69 (-4.5)
Distance Between Government's and Electorate's Political Centers of Gravity, Period 1		.89 (4.8)
Distance Between Government's and Electorate's Political Centers of Gravity, Period 2		.71 (3.8)
Distance Between Government's and Electorate's Political Centers of Gravity, Period 3		.74 (3.9)
Constant	2.17 (5.0)	2.66 (5.8)
Buse R^2	.74	.73
number of observations	525	525

Table 2b: Pooled Cross-Sectional Time-Series Analysis of Changes in Non-Defense Outlays as a Percentage of GDP, 16 OECD Countries, 1961-1989

	Parameter (t-stat)	Parameter (t-stat)
Change in Transfer Programs Costs	.78 (15.5)	.70 (12.7)
Change in Civilian Government Services & Operations Costs	1.38 (16.5)	1.35 (15.2)
Change in Military Outlays	-.49 (-6.2)	-.55 (-6.2)
Unanticipated Economic Performance	.19 (23.9)	.19 (22.0)
Level of International Financial Integration	-.94 (-2.6)	-1.74 (-2.5)
Lack of Governmental Cohesion	.13 (4.0)	.11 (3.6)
Ethnic/Linguistic Diversity	.38 (4.2)	.38 (4.1)
Government's Political Center of Gravity	-.62 (-4.0)	
Distance Between Government's and Electorate's Political Centers of Gravity	.60 (3.5)	
Government's Political Center of Gravity, Period 1		-.72 (-4.4)
Government's Political Center of Gravity, Period 2		-.60 (-3.7)
Government's Political Center of Gravity, Period 3		-.64 (-3.9)
Distance Between Government's and Electorate's Political Centers of Gravity, Period 1		.78 (4.1)
Distance Between Government's and Electorate's Political Centers of Gravity, Period 2		.62 (3.2)
Distance Between Government's and Electorate's Political Centers of Gravity, Period 3		.56 (2.9)
Constant	2.05 (4.4)	2.38 (4.9)
Buse R^2	.78	.77
number of observations	464	464

Conclusion

This paper has examined a long-standing debate on the importance of partisan politics in shaping public policy. The focus has been on the extent to which changes in the public sector size arise from different ideologically based partisan preferences on the part of governing parties and the electorate. The paper has also examined one of the recent challenges to the idea that partisan preferences play a major role in policy outcomes. This challenge argues that changes in the context within which policy is made, brought about by the increased integration into international financial markets, have reduced national policy making latitude and removed the possibility for partisan preferences to be revealed in public spending decisions. The analysis has covered over three decades of data on the development of the public sectors in 16 OECD countries. The results from our analysis lend firm support to the partisan politics model and also suggest that partisan politics influences have not been eliminated with the tightening of linkages to the international economy.

Clearly there are a host of factors that shape the size of the public household. However, this fact does not gainsay the importance of partisan politics in bringing about changes in government spending. The strength of the left, or alternatively the strength of the right, matters. The left increases the size of the public sector and the right reduces it. What comes through in the results presented above is that the governing parties have followed a strategy of adopting policies that accord with the electorate's preferences in this matter and not their own. While political theorists interested in electoral system dynamics have long concerned themselves with whether and how parties adjust to the ideological predispositions or preferences of voters, analysts focused on policy process and policy outcomes have tended to give this short shrift. In particular, the importance of this consideration has long been overlooked in the work focused on politics and public finance.

Finally, while the continuing integration of these states into the international capital market appears to have the depressing effect on the size of the public household that numerous scholars suggests it does, there is no evidence here to conclude that this trend has overwhelmed the importance of domestic partisan political considerations. While the impact of these considerations has declined somewhat, they still play a pivotal role.

Endnotes

1. The Party Manifestos Project (Budge, et al, 1987) has systematically examined the platforms of the major parties in advanced industrialized democracies for the period after World War II. A number of very clear patterns have emerged. First, in nearly all countries the dominant axis of competition for parties in the programmatic statements is a left-right scale that reflects a concern for economic policy conflicts. It emphasizes the degree of government regulation of the economy. Second, party positions are distinguishable and social democratic parties are consistently to the left of conservative parties.

   Nevertheless, some argue that parties have lost their willingness and capacity to differentiate themselves along the traditional left-right dimension. On the other hand, others suggest that no such convergence has occurred and that sharp differences in this regard continue to exist. While the studies in the Budge, Robertson and Hearl volume suggest that there was a strong movement to convergence in the 1970s, earlier movements were in the opposite direction. They conclude that the observed movements have no uniform pattern and that convergence is neither a "preordained or irreversible" process. Furthermore, Andrea Volkens (1994) extensive comparative work on party system polarization on socio-economic issues in the post-World War II period demonstrates that (a) polarization has not been minimal and that (b) there has been no consistent and widespread movement toward convergence. Evidence along similar lines is provided by Budge (1994).

2. The empirical analyses presented in this paper is based on data from the last four decades and cover 16 industrialized democracies, including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

3. Data for this figure as well as the government spending variable (and GDP) used in the analyses later in this paper are drawn mainly from OECD sources and are presented in Cusack (1991). The variable employed is general government civilian current disbursements expressed as a percentage share of GDP. The government spending measure includes civilian government consumption, transfers, subsidies, and interest payments. It excludes military spending and capital outlays. Note that because of missing data problems for Australia in the 1950s, it has been excluded from the calculation of the averages presented in the figure.

4. Klingeman, et al's (1994) examination of this question comes to conclusions contrary to this critique. They found evidence to suggest that governing parties appear to set their spending priorities in line with the policies they have emphasized in their electoral campaigns.

5. This view has not gone unchallenged. As Garrett and Lange (1991) and Cusack and Garrett (1993) have shown, there still seems to be some room for partisan preferences to work their effects on fiscal policy.

6. The international financial integration measure is the annual average across the countries in our study of the absolute value of 1 minus the ration of private investment to private savings. The notion here is that any imbalance between these two terms reflects the realized flow of capital across national borders and captures to some extent the level of international financial integration (see Byoumi, 1880 and Feldstein and Horioka, 1980).

7. Note that Roubini and Sach's ordinal index has been employed here. It ranges from 0 to 3, with the following codes:

   0 = in parliamentary systems a one party majority government; in presidential systems, both executive and legislative branches dominated by the same majority party.

   1 = in parliamentary systems a majority government with two to three coalition partners; in presidential systems the executive dominated by one party and the parliament by another.

   2 = parliamentary system with a majority government controlled by a coalition of four or more parties.

   3 = parliamentary system with a minority government.

   Roubini and Sachs, 1989a, have data for 13 of the 16 countries included in this study. Their series runs from 1960 through 1985. For this study the series has been extended back into the 1950s and up until 1988. Data were also assembled for the three countries (Australia, Canada and Switzerland) not in the Roubini and Sachs' study. In addition, the US series was modified to take into account the mis-classification of some presidential election years found in the Roubini and Sachs' codings.

8. Roubini and Sachs (1989a,b) as do Blais, et al (1993), find strong support for this argument. However, in a more limited study of the EC countries during the 1980s, De Haan and Sturm (1995) fail to find support for it.

9. The data used to construct this measure ELF_i have been drawn from Taylor and Hudson (1972) and are based on Atlas Narodov Mira. Countries with a score of .50 or above on the ethno-linguistic fractionalization measure have been coded as 1 (this includes the United States, Canada, Belgium, and Switzerland) and those with a score of less than .5 have been given a zero.

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