POLITICS, ECONOMICS AND WELFARE: A COMPARATIVE STUDY OF SOCIAL EXPENDITURE IN AUSTRALIA AND CANADA

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DECLARATION

I declare that this is my original work.
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ABSTRACT

This study presents an analysis of the determinants of social expenditure in Australia and Canada within a comparative perspective. Its objectives are two-fold: first, to review and examine the key economic, social and political factors influencing outlays of public expenditure; second, to carry out an empirical evaluation of competing explanations of the link between party and policy.

The core research problem of the study is a test of two models portraying the role and function of political parties and policy. One model termed the 'structural', highlights the importance of socio-economic constituencies of parties in moulding party objectives; and the other, the 'strategic actor' model stresses the importance of strategic incentives in shaping policy objectives. The analysis of the association between political party structures and policy outputs is undertaken with reference to social expenditure, and permits an evaluation of these competing models in accounting for policy outcomes. Differences in party structure and organisation in Australia and Canada provide the basis for an empirical test of these two models within a 'similar systems' design.

Methodologically a distinctive feature of the study is the use of a subset of quasi-experimental designs, the multiple-interrupted time-series design, to examine the differential impact of key political variables such as type of 'administration' on policy outcomes.

Initially, the economic determinants of expenditure are identified, paying heed to the effects of the international economic environment on policy. The latter are especially relevant in the economies of both countries as they are heavily dependent on the export of primary commodities. The political influences on expenditure outlays studied pertain to political administration and political competition. Both sets of influences are also subject to empirical examination.

The major empirical findings of the study are three-fold. First, it shows that international economic movements as reflected in expenditure changes are more apparent for Canada than Australia. This is largely because of key economic institutions such as the Arbitration system in Australia which served to insulate domestic income from the adverse effects of external forces. Expenditure was not needed to the same degree as in Canada to stabilise fluctuations in income. Secondly, the influence of 'administration' on policy outcomes is evident in both countries. An explanation of this is offered in terms of a 'turnover model' of party functioning where the strategic incentives for parties in government are seen as the
principal determinants of policy priorities. Finally, there is strong evidence that the factor of political competition, or more specifically inter-party competition, present in both countries is a significant factor in explaining expenditure and policy outcomes.

In terms of the core research problem identified earlier, the findings lend strong support for the strategic actor conception of party rather than the structural perspective. This finding has important implications for the study of party and policy-making. It suggests that consideration of party strategies should be of crucial analytical interest. From a broader systematic perspective, the issues examined in this study, shows that despite obvious differences in political systems of Canada and Australia, there are marked similarities especially in the way political factors such as political competition and government administrations influence policy.
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THE RESEARCH PROBLEM: ITS BACKGROUND
AND THEORETICAL CONTEXT

1.1 INTRODUCTION

The single most important feature of social and political development in the advanced industrialised societies of the West in the second half of the 20th century has been the rapid expansion of the budgetary allocations for social expenditure such as income-maintenance payment, health and education expenditure. This expenditure which forms the basic infrastructure of the welfare state, has been accompanied by extensive changes in the social and political structures of modern societies. It has, for example, led to the growth of the administrative and fiscal competence of the state and the development of a set of 'welfare rights' to complement the existing political and civil rights developed over the last one hundred and fifty years.

In addition to an increase in the range of 'rights' accessible to individuals in the political arena, a corresponding shift in social structures has also been apparent. As theorists such as Offe (1972) have perceptively noted, traditional cleavages based on economic class have been supplemented by those are based on the consumption of public goods and services. This new structuration of social forces is as important to understanding contemporary social and political developments in advanced societies as was the process of industrialisation in grasping the nature of
capitalist social order. It would therefore not be an understatement to say that a major consequence of increased welfare expenditure has been the occurrence of substantive changes in social attitudes as well as in the structures and functioning of civil society. More recently, in what has been termed the 'crisis of the welfare state' debate, commentators have pointed out that traditional welfare states have been riven by a profound tension (Mishra 1981; Heclo 1981). This crisis, they argue, is due to the imbalance or rather the tension between expectations of increased welfare and methods of financing it (Schmidt 1983). Although this debate lies outside the frame of reference of the present study, it underlies the practical importance of a study of this sort in exploring the wider ramifications of changes in the patterns of public expenditure. The examination of the nature, extent and causes of this increase in social expenditure is not only a matter of practical value, but is also of great scholarly interest as well.

The present research endeavour is located within this broad-ranging area of study, and aims to make a contribution to it through a comparative study of welfare expenditure. More specifically, one of its main objectives is to analyse, in the light of prevailing theoretical explanations, the growth of public and social expenditure in Australia and Canada during the post-war period.

The period covered in each country, 1950 to 1980 for Australia and 1945 to 1975 for Canada, represents one in which there was a marked growth in real welfare expenditure,
which grew annually by an average of 8.6% in Australia and 9.5% in Canada. The justification of the use of these particular periods is discussed more fully in section 3.3.2.

Indeed, as the data presented in Appendix 2 indicate, the post-war period under review remains a watershed in terms of the development of the welfare state. The OECD average of welfare as a proportion of GDP grew from 13.3% in the early 1960s to 18.8% in the mid 1970s (OECD 1978). In fact, the Australian performance of 12.8% in the mid 1970s was well below this OECD average, and illustrates an interesting paradox of welfare state development in Australia. This is a theme developed in Chapter 2, where it is argued that an early expansion of public expenditure was followed by a period of muted decline in the growth of social programmes, though not of expenditure, in the post-war period. The contradiction between the Australian and Canadian patterns of development, it is argued, is explained by the nature of the historical developments in the two countries.

In Canada, the country being compared with Australia in this study, the performance in the 'welfare stakes' approximated the OECD average. In terms of expenditure Canada was in the middle of the field, below the North European states, but ahead of countries like Australia, New Zealand and the USA. Nevertheless, despite the variability in the nature of the expenditure performances, the important point to be drawn from these figures is the underlying growth of expenditure in welfare programmes in both countries, and
the attitudinal and structural changes that flow from them.

The study of the growth as well as the determinants of public expenditure is not a well-established tradition in the discipline of political science. Within the study of economics, the analytical and quantitative study of public expenditure has a long tradition dating back to public finance economists such as Wagner (1890). Broadly, this economic tradition has been concerned with delineating the nature and process of the economic determinants of expenditure. In contrast, the small but growing political science literature has been concerned with bringing the role of political factors to the centre stage of policy analysis. In so doing it reminds us that the allocation of public expenditure is intimately linked to the process of democratic decision-making. To uncouple this process of democratic politics from the allocation of public expenditure, as is common in the economic literature, is to lose sight of an important feature of 'fiscal life' - the role of democratic participation in shaping policy outcomes.

This thesis has as its main objective a comparative analytical study of public, and particularly social, expenditure in Australia and Canada. A principal contention is that Australia and Canada are well placed for comparative analysis because they exhibit a range of similarities and so allow the analyst to evaluate the influence of variables that can be treated differently between the two nations. In the methodology of social research this comparative approach is identified as a 'similar systems design', whose
characteristic

is that, where the problem is one of identifying and accounting for specific differences, selection of units for analysis which possess many similarities in terms of relevant variables makes easier the identification of variables which do differ, and which may thus be considered as the first candidates for investigation as causal or explanatory variables (Roberts 1978: 293).

The explanatory variable which is the subject of scrutiny of this thesis is the nature of political party structure and organisation. The different party structures and organisations in Canada and Australia permit the researcher to make inferences about the nature of the forces shaping the link between party and policy by evaluating the influence of socio-economic as against strategic incentives operating in the political system in shaping party policy. As outlined in section 1.2, this is the 'core' research problem of the study. The rationale and approach of the strategy used to illuminate this problem will be discussed in Chapter 3.

A vital methodological feature of the present study, apart from its 'similar systems' strategy, is its use of a time-series design to examine the patterns of expenditure in Canada and Australia. The importance of this time-series analysis is two-fold. Firstly, time-series designs are infrequently used in the social sciences in this broad area of comparative policy studies, the dominant strategy being cross-sectional analysis. Yet, clearly, development of policy over time is of great importance. The 'economic' or Wagnerian literature makes extensive use of time-series analysis, the
best example being Fabricant (1952), while more recent studies include the path breaking work of Peacock and Wiseman (1967). The political science literature, however, lacks a sense of the importance of time in shaping policy. It is therefore instructive to evaluate comparative propositions about the nature of public expenditure not only across different political systems but also over a given period of time. Secondly, the introduction of 'time' into the analysis allows us to capture important elements of the process of bureaucratic influence on policy. The use of a time-series mode of analysis therefore has both a methodological and a conceptual dimension in this analysis, and is central to understanding the logic of the research design. These issues are discussed in section 1.2.3.

From a cross-national point of view, economic and policy developments in Australia and Canada have been at variance with the typical Western European pattern, perhaps because both countries share an economic structure shaped by the export of agricultural staples (Goodman 1964). For this reason alone it is necessary to consider to what extent cross-national studies of welfare state development can be generalised to include Australia and Canada. Guided by this fact, the analysis undertaken in this study revolves around an examination of the relationship between welfare expenditure and certain common social and economic features of the two countries. In this regard, it is particularly important to consider the role of the openness of the economy
and its influence on welfare expenditure. This issue is important because it emphasises the vulnerability of the two economies to movements of international economic forces. 'Vulnerability', in this study refers to the dependence of the domestic economy on the sale of goods, particularly staples, overseas. At a more practical level, recent years have seen both nations trying to grapple with the effects of restrictions on their economies caused by international changes. It is pertinent, then, to inquire into the manner in which domestic social policy has been influenced by international economic forces.

1.1.1 Approaches to Comparative Policy

Before embarking on this comparative study it is first useful to examine the rationale and justification of comparison. The most important justification for undertaking comparative studies of these developments is that they provide a means for generalising about the nature of policy development across all nations. Comparative studies therefore enable the formulation of a series of propositions and generalisations about the structure, nature, form and development of public expenditure; such propositions aim to be valid and applicable across different time periods and nations. Comparison is thus central to the social scientific endeavour. As Heclo, a leading exponent of comparative social policy studies, admirably sums up:

To speak of comparative analysis suggests not only that one will be looking at variables which actually vary, but also that one will be so doing in contexts which themselves vary. Even for the contemporary
Nominalist, it is only through such comparative analysis that one can appreciate what are the truly unique and what are the more generic phenomena. Particular merit resides in any mode of analysis, such as case studies, with the 'requisite variety' to specify realistically these likenesses and differences (1972: 95).

Radcliffe-Brown, an early eminent proponent of the comparative method in social science research, has also argued that

It is only by the use of the comparative method that we can arrive at general explanations. The alternative is to confine ourselves to particularistic explanations, similar to those of the historian. The two kinds of explanation are both legitimate and do not conflict, but both are needed for the understanding of societies and their institutions (1952: 113-14).

In this context it should be noted that not only does comparison provide a means of developing 'general' explanations about the structure of policy; it also enables distinctions to be drawn between 'general' and 'particular' effects on policy. In other words, it enables the analyst to recognise the general aspects of policy development from among the more particular cultural and institutional determinants of policy development. This is well expressed by Higgins, who points out that

without some degree of comparison we are unable to say whether problems of policy are peculiar to certain types of political and economic system or whether the problems are inherent in the policies themselves (1981: 12).

Within the political science literature there are three distinct approaches to comparative social policy. These may be identified as the case-study, historical and expenditure perspectives. While all are comparative in focus, they differ
in terms not only of the final objectives of comparison, but also in the manner in which they identify research problems.

The first, or case-study perspective, is premised on the comparison of policy areas between countries. A notable example of this approach is Heidenheimer's (1973) study of the differences in educational policy in Europe and America. The collections of case studies in Heidenheimer et al. (1975) contain valuable examples of the comparative case-study approach to public policy. The social policy literature in Australia and Canada abounds with examples of the comparative case-study approach (see Graycar 1979; Banting 1974). A distinctive feature of the case-study approach is that its main research problem is always a specific policy or problem area. As a result, the conclusions generated by this type of comparative approach are limited in their generality and scope. Indeed despite the early expectations of case-study theorists, 'theory still shows little sign of breaking through. At the most, these studies have generally been able to conclude with certain moralising themes' (Heclo 1972: 89). In other words, rather than assisting in the development of explanatory propositions, case studies have become little more than a catalogue of policy episodes in the library of comparative studies.

On the other hand, the historical approach is potentially richer in its ability to generate more encompassing propositions. The work of Rimlinger (1971) on the history of the welfare state in Europe is a classic example of this approach. But, regrettably, the historical perspective is
hampered by its own tradition, in that its emphasis on the formulation of a research problem in guiding comparative research is limited. Essentially, this tradition provides a descriptive account of phenomena rather than an analytical account or explanation of events. An exception is Flora and Alber (1981), whose historical studies display a high level of both descriptive and analytical modes of explanation. In general however, historical studies of welfare, although useful in an overall delineation of the growth of social policy, are constrained to the extent that they do not have a clear interpretive or analytical focus.

The third approach to comparative social policy, and that adopted in this study, is the analysis represented by the expenditure approach. The feature of these studies is the use of quantitative methods in cross-sectional research design to isolate differences and similarities in the determinants of expenditure between countries. In the expenditure approach, as the very name implies, the central focus of these studies is expenditure. A notable exponent of this type of approach is Wilensky (1975), whose work has been the impetus for a large number of other studies reported in the literature (see Shalev 1983 and Castles 1982b for a review). This thesis, situated in the broad context of public expenditure studies, is underpinned by the use of expenditure as a key dependent variable. More importantly, it is analytical rather than descriptive in the sense that a primary concern is to decipher and examine the underlying
structure of expenditure in Canada and Australia in the post-war period. It is a task guided by the nature of the research problem, namely, the relationship between party and policy as identified and described later in this chapter.

Assumptions of Expenditure Studies

Prior to discussing aspects of the research problem of this thesis, some preliminary background comment on the main assumptions of public expenditure studies is necessary in order to situate this study in relation to previous work in this general area. A careful distinction should be made between those studies that examine outputs and those that deal with outcomes. Outcome studies deal with the distribution rather than the determinants of expenditure. An example of such a study is the work by Goodin and Le Grand, (1987) on the middle class capture of the welfare state.

Research with a central focus on public expenditure analysis is often described as 'output studies' (Dye 1978), because the focus of attention is primarily on examination and analysis of the 'output' of policies. A main objective of 'outcome' studies is to identify and elucidate the social and economic impact of policies. Thus, in relation to social welfare, an output study would focus on the nature and extent of the distribution of welfare benefits amongst the population, using impact indicators such as income inequality or rates of participation in social security programmes. In this type of 'output' research, a prime consideration is to examine and analyse the economic and political determinants
of policy output; the unit of analysis is not so much the impact of the distribution of power (as in studies of policy formulation) or the impact of institutions, but the end product of policies. Consequently, output studies do not deal with policies per se but with the often quantifiable goods which these produce. These goods are invariably expressed in terms of expenditure. However, the examination of the determinants of these 'goods' often forms the basis for drawing inferences about policy. For example, the analysis of social expenditure allows us to draw inferences about social policy. As with the previous approaches, the dominant concern still lies with understanding the nature of the development and process of policy.

In output studies, the chief point of interest is public expenditure, the principal end-product of most policies. Likewise, in the present study, social welfare expenditure is taken as the end-product of social policy. This is not to deny that social policy has other non-tangible products such as the development of a sense of social solidarity. But what it does recognise is that one of the main quantifiable products of social policies is outlays expressed in terms of expenditures. It is assumed that, from an analysis of these outlays, a clearer perspective, even if a limited one, can be developed on the dynamics of policy.

While the output of policies can be both tangible and intangible, most empirical studies in the policy output field utilise expenditure as the main measure of the output of policies. Expenditure as a dependent variable is widely used,
not only because policy is often delivered in terms of expenditure, but also because of its utility as a means of comparison across different countries. Furthermore, since it is a measurable variable, it is also attractive because relevant research data are amenable to quantitative analysis. As Dye, a scholar who pioneered the advance of policy output studies into the sometimes hostile territory of public policy, has observed:

> government expenditures are the best available measure of the overall dimensions of government activity. There are few public policies that do not require an expenditure of funds. Budgets represent government policies with price tags attached (1978: 197).

Another feature of output studies is that they portray policy decisions as the product of demands generated outside the political system, which can be processed through it. Echoing David Easton, Dye explains that

> The environment is any condition or circumstance defined as external to the boundaries of the political system. The political system is that group of interrelated structures and processes which functions authoritatively to allocate values for a society. Outputs of the political system are authoritative value allocations of the system, and these allocations constitute public policy (1978: 37).

In recent years this feature has been disputed by the 'politics matter school' (see Shalev 1983; Chapter 5). Hence the distinctive feature of output studies is the attention paid to the determinants of public expenditure, and it is this feature that distinguishes it from other approaches to comparative policy analysis.9

This brief introduction is meant to situate this study
in both a conceptual and a methodological context. Having filled in the frame of the conceptual picture, we can proceed to portray the nature of the research problem that is central to the understanding of the empirical work presented in Chapters 4 -6. This provides the background to understanding the empirical drawing of the later chapters.

1.2 RESEARCH PROBLEM

In describing the nature of the research problem underlying this study, there are three features in particular that need to be identified. The first concerns the importance of democratic politics for the study of expenditure, and in recognition of this the study pays particular attention to the role of political participation in the decisions of governments. The second relates to an assessment of the role of democratic politics in policy development and, in particular, the part played by political parties. In this regard, the present study identifies a key flaw, namely, the neglect of the link between party and policy in accounting for a given pattern of policy outputs. Consequently, one of the 'core' research problems of this study is the identification and evaluation of two competing models of party and policy. The third feature of particular relevance in characterising the research problem has to do with some of the conceptual and methodological flaws in the policy output literature. These relate especially to the lack of emphasis on bureaucratic and incremental influences on policy.
1.2.1 Democratic Politics and Social Policy

Central to the analysis of the growth of welfare is the nature of democratic politics or, more specifically, the policy consequences of democratic participation. In this analysis particular attention is directed to the tension between the two logics of distribution centering around the notion of 'rights'. On the one hand we have a distributive system, the underlying basis of the capitalist economy, which attributes 'rights' to individuals as owners of property; opposed to this conception of distribution is one which attaches 'rights' to people as citizens in a democratic society. The welfare state is a 'marriage between a protective state and a capitalist economy ... a union of opposites for it required an accommodation between two opposing logics of distribution' (Myles 1984: 30).

As Offe (1972) has argued, the tension between these two different logics of distribution lies within the liberal democratic state itself. Liberalism is a set of arrangements in which participation and rights are based on private property, whereas democracy is a product of a struggle for enfranchisement and is founded on political representation on the basis of membership of a community. The conflicting values of liberalism, with its emphasis on the protection of private property, and of democracy, based on the core value of political participation, lie at the heart of discord within the liberal-democratic state. Bowles and Gintis clarify this further by noting that 'the classical liberal state, which vested rights of political participation in
owners of property, gave way to the liberal democratic state, which vests those rights in persons by virtue of citizenship' (1980: 11). It was T.H. Marshall (1963), in his classic study of 'citizenship', who was one of the first scholars to highlight this tension and its relevance for the development of the modern welfare state. Marshall argued convincingly that democracy or political participation was embodied in the concept of citizenship, which was extended from civil to political and then to social rights.

The welfare state can therefore be seen as a product of the widening sphere of political representation and participation. This idea assumes that enfranchisement is a process originating in the granting of civil rights, leading to the extension of political rights as embodied in the right to vote, and eventually incorporating a set of social rights underlying the modern welfare state. While this typology is 'heuristic' rather than explanatory, it illustrates the tension between the notion of democracy as the extension of citizenship rights, and that of liberalism seen as a defence of a market economy, a tension exemplified in the development of the welfare state. Mishra aptly notes that the development of the welfare state poses a paradox where 'growth of citizenship - which has to do with equality - has coincided with the development of capitalism, as a system of inequality' (Mishra 1981: 28).

The empirical examination of the development of the welfare state requires an analysis of the impact of democra-
tic politics on redistributive policy. The present study examines two main forms by which democratic politics influence welfare expenditure. These refer to **partisanship** and **political competition** as forms of explanation and both concede causal primacy to the role of parties. According to Castles, in most 'political' theories of policy output, the question of party influence and party control plays a central role. This is manifestly true of those theories that suggest that labour union and socialist preferences will be translated into higher levels of state interventionism. It is scarcely less so in other theories in what may be broadly described as the 'pluralistic politics paradigm'...(1982a: 5).

The partisanship explanation of policy is based on the premise that the ideology of the party in power has substantial influence on policy. In this connection it should be noted that there exists a substantial body of recent empirical literature (see Castles 1982b) which specifically draws attention to the importance of social democratic parties and their impact, not only on social policy, but in other policy areas as well. To quote Castles again, partisanship as a crucial dimension shaping patterns of public expenditure rests on the prior assumption that the political organizations among which the electorate chooses have diverse ideological leanings, which are translated into diverse patterns of policy implementation (1982b: 26).

The emphasis in this literature has been the balance of political class forces in explaining expenditure and policy variations between countries as well as policy growth within countries. (See Castles 1978; Hibbs 1977; Korpi 1980; Stephens 1979.) This literature, while being methodologically original, is part of a general tradition that has continually
emphasised the importance of 'power' in shaping distributional outcomes. In particular, the work of Lenski (1966) should be noted. Lenski's basic model of the distributive process is derived from the classical theory of elites as found in the writings of Weber, Mosca and Pareto. But, in contrast to these theorists, Lenski argued that the 'advent of democracy transformed the distribution of power. As a result the long term trend towards increasing inequality was reversed' (1966: 79).

As Canada lacks a major national social democratic party at the federal level, a comparative study of Australia and Canada would therefore provide an ideal testing ground for the examination of the social democratic explanations of policy development (discussed in Chapter 5). Political and policy debates in Canada have often focussed on the public policy consequences of a lack of a major class-based social democratic party. A comparative analysis provides a means of testing the proposition that social democracy makes a difference to the policy and expenditure priorities of governments.

The empirical analysis of this hypothesis about democratic politics and policy outcomes is structured in terms of an evaluation of two competing models of the causal link between party and policy. The first model is the 'social democratic explanation' which emphasises the social and ideological basis of parties in determining policy outcome. The other, termed the 'turnover hypothesis', emphasises the
strategic advantages for political administration of different ideological types in embarking on new policy priorities. Both models emphasise the importance of partisanship, but differ in their accounts of the link between party and policy. The turnover hypothesis is premised on a notion of party as an 'autonomous actor', whereas the partisanship model emphasises the notion of party as agent. This forms an essential element of the empirical testing of the several propositions examined in this thesis (see section 1.2.2). These issues, including a review of the relevant literature, are examined more fully in Chapter 5.

Apart from the effect of partisanship, the other avenue by which democratic politics influences policy is through political competition. In this explanation a special feature which commands attention in the evaluation of the impact of democratic politics is the relationship between the processes of democracy and welfare expenditure. The salient feature of these 'processes' is the nature and form of political competition; and, for this analysis, elections and the degree of inter-party competition are seen to play an important role in the determination of policy outcomes. Here, the pivotal element pertains to the processes of democracy rather than to the structural aspects underlying the partisanship explanation. The empirical literature on this issue, though predominantly confined to the American state expenditure literature, is extensive. Clearly, the seminal work of Key (1951) has been critical to the development of the empirical analysis of the influence of
inter-party competition on policy, but, more generally, the relationship between inter-party competition and policy is also a central theme in the theoretical work of Schumpeter (1950) and Downs (1957). An examination of these and connected issues, including a review of the relevant literature, will be found in Chapter 6.

I.2.2 Party and Policy

A serious omission, however, in the burgeoning policy output literature concerning democratic politics and policy has been the absence of any discussion of the manner in which different types of party support (class-based or non-class-based cleavages), and party structures (organisationally strong or weak) have influenced policy outcomes pertaining to welfare expenditure. To cite an example, Hibbs's (1977) work on macro-economic policy, justly considered a classic, which presents a cross-national analysis of the relationship between social democratic parties and economic policy, suffers from the absence of an appreciation of the range of differences in party organisation and structure as factors which may affect macro-economic policy. As Hibbs did not control for these factors, he is unable to shed any light on the manner in which party preferences are shaped. This serves to highlight the need for comparative studies such as those between Australia and Canada, in order to be able to distinguish and identify those characteristics that differentiate party structure and organisation, and thereby to evaluate their influence on policy outcomes.
In sum, two competing theories of party and policy can be identified. The first, termed 'structural', argues that the principal link between party and a given set of policy outcomes is the socio-economic structural basis of a 'party'. A party which represents a 'class' constituency is likely to pursue policies that benefit its constituency, as this is directly linked to the structural basis of the party system. Sartori (1969) has argued that these conceptions of party are sociological, in the sense that they emphasise the social-structural roots of party behaviour. The behaviour of parties is not autonomous, but depends on the interests of the constituencies they serve, as parties are agents of socio-economic collectivities. Lipset underlines this perspective with his oft-quoted comment that

In every democracy conflict among different groups is expressed through political parties which basically represent a democratic translation of the class-struggle (1960: 22).

Clearly, as Sartori observes, the sociological conception of parties tends to emphasise to what extent parties and party systems are a response to, and a reflection of, social stratification, the solidarity structure of the society, its socio-economic and socio-cultural cleavages, its degree of heterogeneity and of integration, its level of economic growth and the like (1969: 70).

In terms of social welfare policies, a social-democratic party is likely to provide increased budgetary allocations to social welfare expenditure in-as-much as the interests of its electoral constituency are served by such policies. In addition to the partisanship impact on policy of a party system
structured by social cleavages, a strong party system (meaning not only strong social-cultural cleavages, but also party systems characterised by ideological cleavages and strong organisation) would be more likely to produce party competition, and hence greater allocations for social welfare.

An alternative conception of the relationship between party and policy is the notion of the party as a 'strategic actor'. In this perspective Parties are viewed as autonomous actors with a strategic interest in winning elections; the policies constructed therefore are likely to reflect the primacy of these objectives. In terms of Sartori's argument, this is a party-centric rather than a sociological conception of party behaviour, wherein the causal influences in party behaviour are internal rather than external to the party. This party-centric or strategic actor conception of party has been greatly influenced by the work of Schumpeter (1950) and Downs (1957).

In an illuminating essay, Wright (1971) differentiates between two party models which he labels, the 'Rational-Efficient' and 'Party Democracy' models, on the basis of differences in conceptions of democracy, in their definition of party goals, and also in their representative function within the political system. In terms of the differing conceptions of democracy, he adopts Epstein's (1967) view that the strategic actor model (in our terms) corresponds to a pluralistic notion of democracy. As Wright notes,

The Rational-Efficient model is thus consistent with a pluralistic conception of democracy, in which party is "downgraded" to be only one of a variety
of competing political actors including interest groups and the like (1971: 20-21).

Influential theorists such as Epstein (1967) and Schlesinger (1965) based their arguments on the geographical division between North American parties and others. For these analysts, a significant feature of North American parties is that they compete with interest groups and other actors. The parties are

loosely organized, unprogrammatic, and less cohesive ...

The point is that these very characteristics allow parties to function in accord with a pluralistic conception of democracy. The characteristics are deplorable only from the standpoint of a majoritarian theory, which is at the heart of the preference, so often expressed by political scientists, for a large and strong party organization able to mobilize electoral support for programmatic policies to be enacted by a party serving as a governing agency (Epstein 1967: 351).

As against the pluralistic conception of democracy that underpins the strategic actor notion of party, the structuralist view emphasises that parties are the unique actors in the political arena. In addition, parties have clear and well-defined programmes as well as the means for pursuing these programmes once in office. Thus, in contrast to the strategic actor model, parties are more policy oriented, ideological and cohesive. Epstein (1967) aptly terms this understanding of parties as 'majoritarian' in contrast to the alternative pluralist 'strategic actor' model.

In terms of the constitution of party goals, the structuralist conception has a purposive view of party as the main definer of policy objectives. Parties win elections to
implement their objectives. According to this view, parties are seen as reflecting in their policies the socio-economic cleavages that underpin the party system. As against this perspective, the strategic actor conception subscribes to an instrumental view of parties, and sees parties as defining goals in order to *win* elections. Downs, a notable proponent of this viewpoint, notes that 'parties formulate policies in order to win elections, rather than win elections in order to formulate policies' (1957: 28).

Central to this latter conception is the implicit economic analogy of the strategic actor conception used by theorists such as Schumpeter (1950), Downs (1957), Wilson (1962), Schlesinger (1965) and Epstein (1967). As Barry notes,

> There is a clear analogy with the conception of the profit-maximizing entrepreneurs in classical economic theory. The voters correspond to the consumers (1971: 14).

In this view, the operation of democratic politics, comparable to that of the economic market or, as Downs argues, parties in democratic societies are analogous to entrepreneurs in a profit-seeking economy. So as to attain their private ends, they formulate whatever policies they believe will gain the most votes, just as entrepreneurs produce whatever products they believe will gain the most profits for the same reason (1957: 295).

The constitution of party goals therefore depends critically on the competitive market-place and not on the ideology or on the basis of socio-economic interests which support a given party. In similar vein Schumpeter (1950) has argued that there are two conceptions of democracy. The
classical conception viewed democracy as

that institutional arrangement for arriving at political decisions which realizes the common good by making the people itself decide issues through the election of individuals who are to assemble in order to carry out its will (Schumpeter 1950 in Quinton 1967: 153).

This conception is flawed because there are no means of ascertaining what constitutes the common will. Against this classical notion Schumpeter counterposed the idea of democracy as a method of competitive struggle for leadership rather than a debate over party alternatives offered by competing parties.

Wright (1971) has commented that these differing conceptions of party policy lead to divergent views on the nature of party organisations for the two conceptions of party described earlier. Thus, structuralists would argue that, if the function of parties is to represent different programmes to the electorate, they need a strong organisation; and the strategic conception would place its emphasis on leadership rather than on organisation.

The other characteristic differentiating the two models of party lies in the manner in which they formulate the nature of the representative function of parties within the polity. As noted earlier, for the structuralist view parties both represent and aggregate interests, whereas, for the strategic conception, parties act as brokers between interest groups and the political system. Thus, according to Epstein, the main characteristic of the brokerage party is its non-programmatic character: a leadership capable of responding
to diverse electoral considerations, and a transactional or brokerage view of political activity. A party may still be associated with particular policies and interests, presumably in accord with the habitual voting patterns of large portions of the electorate, but it preserves, in theory as in practice, a loose and accommodating character (Epstein 1967: 357).

Thus, parties are loosely organised and electorally oriented, whereas for the structural model a party is policy-oriented, ideological and highly organised, and seems to be responding to the interests of its socio-economic constituency. The underlying assumption of most policy studies is that a party system with parties like that is more likely to have an impact on policy than a system that is not structurally strong.

To sum up, the two models of party sketched above differ in terms of the importance of electoral considerations, organisational strength and the nature of their representative functions. For the strategic conception of party, the primary goal is that of winning elections. This objective in turn establishes the basis for the definition of party preferences.

Australia and Canada, because of their differences in the bases of party support and organisation (this point is examined in section 3.3), are from a comparative perspective well placed to provide us with an understanding of the impact of party system on policy, and thereby enable us to examine
the two competing theories of the link between party and policy detailed above. As we note in Chapter 3, the basis for the formulation of the hypotheses is that both countries are similar across a range of relevant variables. For this purpose the research methodology of the present study is designed so as to permit an examination of the impact of party support and party organisation on welfare expenditure.

An overriding concern of the study is to determine whether the presence of class-based cleavages and strong organisation (as in Australia), through the mediating impact of political variables of administration and competition, has a greater impact on welfare expenditure than a system where (as in Canada) there is an absence of class-based cleavages and strong organisation. Using the conceptual terminology described earlier, Australia can be identified as having a 'strong party system', and Canada, a 'weak party system'.

Elaborating upon these differences in the Australian and Canadian party systems and their relation to the two competing explanations of party and policy, three hypothetical models can be identified. These models, as presented below, broadly detail the possible impact of political administration or partisanship and competition on expenditure. In the diagrammatic representation of the models presented below (bearing in mind that party system denotes party support and organisation) a strong party system is identified with Australia and a weak party system with Canada. Additionally, in these diagrams, the notation '+' signifies a presence of impact, and '-' signifies an absence
of impact.

The first model is the *structural* conception of policy. In this model a strong party system would have a significant influence on competition and partisanship. It could be depicted as follows:

**MODEL 1: The Structural Model**

<table>
<thead>
<tr>
<th>Competition</th>
<th>Partisanship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Party System</td>
<td>+</td>
</tr>
<tr>
<td>Weak Party System</td>
<td>-</td>
</tr>
</tbody>
</table>

The second is the *strategic actor* conception of party, where the type of party system would be irrelevant to the impact of competition and administration. This is represented as:

**MODEL 2: The Strategic Actor Model**

<table>
<thead>
<tr>
<th>Competition</th>
<th>Partisanship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Party System</td>
<td>+</td>
</tr>
<tr>
<td>Weak Party System</td>
<td>+</td>
</tr>
</tbody>
</table>

The final hypothetical model is a *null* model where party system is irrelevant and has no impact.
MODEL 3: The Null Model

Competition  Partisanship

Strong Party System  -  -

Weak Party System  -  -

Stated differently, and in a less abstract manner, a prime objective of this study is to consider the conventional wisdom in the Canadian literature that politics is not a significant element in the determination of public policies. While this lack of efficacy can be attributed to an array of causes such as the lack of class-based parties (Brodie and Jenson 1980), the electoral system (Qualter 1970; Cairns 1968), and the lack of political participation (Mishler 1979), a persistent theme of these studies has been a reference to the inherent weakness of the Canadian party system. The implicit assumption is that the Canadian political environment is not conducive to a strong party system, and this in turn leads to low levels of policy impact by parties.

This apparent lack of influence of parties on policies in the Canadian political system may be due to three important causes. The first and perhaps the most important of these is that Canadian parties act as brokers between different regional, ethnic and economic interests and the wider political system. (The literature on brokerage politics is extensive, but see Dawson 1970 for a definitive
statement.) The following description of the Mackenzie King administration by Hutchinson gives a flavour of the brokerage view of Canadian parties, in which they were pictured as a congeries of separate groups in coalition. Men like Gardiner as the spokesman of agriculture, Howe as the representative of industry, Mitchell as the delegate of labour, St Laurent as the leader of Quebec, possessed almost autonomous and sovereign power within the party and could apply, when necessary, a veto on government policy by Calhoun's ancient Law of Concurrent Majority. (Quoted in Mallory 1967: 27).

The policy effect of 'brokerage politics', itself a consequence of the lack of class cleavages, is the diminution of the ideological distance between the two main Canadian parties: the Liberal and Conservative. As Mallory aptly notes,

A reader of party platforms and of leaders' speeches will find there is a remarkable similarity in what the parties profess to want. They claim to seek the same objectives, the very wording of some of their declared aims is almost identical. Each is in favour of everything which will attract votes: each, at least in public, is against sin (Mallory 1967: 25).

Therefore in terms of the crucial variable of party support, if the parties are close to each other in their objectives, their rhetoric and their basis of social support, they cannot distinctively affect governmental administrations. As previously argued, according to the structural conception of the link between party and policy, a party system composed of such parties will not be seen as 'efficient' in delivering outcomes as one which is characterised by sharp differences between parties. Central to this proposition is the absence in Canada of the kind of class cleavages familiar in Australia, and thereby both party
systems in terms of the structural argument have different impacts on the nature of policy outcomes (see Chapter 3 for a detailed discussion).

A second reason for the lack of influence of Canadian parties on policies is to be found in the role of Canadian political culture. Canadian parties are often viewed as a vehicle for 'elite accommodation', emphasising the values of pragmatism and compromise. Robert Presthus sums up the main component of the Canadian political culture as a national political process that may be called one of 'elite accommodation'. It is

a system in which major decisions regarding national socio-economic policy are worked out through interaction between governmental (i.e. legislative and bureaucratic) elites and interest group elites (Presthus 1973: 20-21).

This pervasive view of Canadian political culture has much in common with Lijphart's (1968) notion of 'consociational' democracy.

The emphasis on the process of elite accommodation is further underlined in the work of Horowitz (1966) on the ideological roots of Canadian political culture. In particular he has argued that the Canadian culture contains both liberal and conservative traditions. The Tory traditions of order and hierarchy are, as Van Loon and Whittington (1981) note, particularly important values in the process of elite accommodation.

The effect of this elite accommodation on parties is twofold. One is that parties are seen as agents for
accommodation where the 'role of national parties as a unifying agent in bringing together in unity some of the most parental dissident forces in the country ...could hardly be overestimated' (Dawson 1970: 415). This accommodation tends to minimise the differences between the parties and hence their impact.

The other effect of elite accommodation is that parties tend to be bypassed in the process of accommodation. This feature is accentuated by the operation of the federal system. As Mallory comments,

To the extent that many of our major governmental decisions have resulted from intensive consultations between different levels of government, parties have to some measure been locked out of the most important decision-making processes. Dominion-provincial conferences, meetings of premiers, committees of experts representing the civil services of several provinces, and possibly two or three levels of government, working parties of various provincial Ministers and experts, have all downgraded the role of parties who still bear considerable responsibility for the consequences of decisions but cannot always participate in their making. Canadian federalism has, therefore, been a major contribution to the decline in the importance and effectiveness of political parties (1967: 37).

The final factor that is thought to have contributed to the decline in the importance of Canadian parties is regionalism. This leads Mallory to conclude that 'Canadian parties are becoming increasingly regionally based, almost to the point of becoming regional parties ... None of this is particularly new but it is becoming apparent that the trend towards greater regionalism is growing more pronounced' (1967: 41). It is a statement that still has validity in the analysis of Canadian parties. This regional nature of the
parties is made further salient by national central organisations, at least in comparison with Australia. In terms of the structural model, regionalism further diminishes the impact of parties on public policy.

To sum up, the conventional wisdom in the Canadian political and policy literature is that the party system does not have any substantial effect on public policy. In terms of the model discussed above, the sources of this weakness are structural, especially in terms of party support and the efficacy of party organisation. One objective of the present study is to assess within a comparative context this underlying and often implicit, if not explicit, assumption of Canadian politics. In other words, it is to examine the 'structural' account of the link between party and policy.

The Australian system, in comparison with these elements of the Canadian party system, differs in three main ways: the articulation of interests, the role of ideology in the party system, and the strength of party organisation. The main difference between the two systems (and indeed this issue is the critical factor that demarcates the two models of party distinguished above), is that Australian parties articulate or aggregate distinct social interests, which in turn lead to ideologically distinctive parties. As Aitkin points out,

Free trade, protection and Labor extended the notion of politics as the regulation of economic interest to groups that spanned communities. Modern parties have added a thick ideological coating to the bases of economic self interest on which the party system rests (1977: 14).
This perspective markedly differentiates it from the notion of parties as brokers that is a predominant feature of Canadian parties. The conception of the relationships between parties and interests outlined above illustrates the role of parties as aggregators of economic interests. The Australian Labor Party (ALP) represents a social democratic ideology (Jupp 1963), while the Liberal and Country Parties, identified as the 'Coalition parties' because of the alliances made between these parties for purposes of government, represent different versions of liberalism and conservatism (see Tiver 1978; for a more general account see Starr, Richmond and Maddox 1978). In a similar manner, the federal organisational basis of Australian parties is stronger than that of the Canadian parties, despite the fact that the level of organisation varies between the parties.

The features distinguishing the Australian party system from the Canadian are twofold: firstly, the mode of the representation of interests, and secondly, the ideology and organisational strength of the mainstream parties. Therefore, in accordance with the structural perspective identified earlier, it should follow that the strong parties in the Australian system would wield a greater influence on policy than the weaker Canadian parties. A central issue in this study is the relevance and validity of these contrasting perspectives in the two party systems in explaining the determination of policy.
1.2.3 Conceptual and Methodological Problems

In addition to the neglect of the relationship between party and policy, a further weakness in the policy output literature is the neglect of a bureaucratic or internal budgetary process in the determination of policy. As we argue below, whether policy output models are predominantly environmental, in that they stress the effects of the environment on policy, or whether they are political, in that the focus is on political influences, the literature encounters a serious problem in that in both approaches to expenditure the models are underpinned by a conception that is society-centred. The concept of society-centred theories of policy, first used by Nordlinger (1981), denotes a perspective on state-society relations dominated by the interplay of societal actors. These models are unable to account for the influence of 'state' or bureaucratic factors on policy. Central to the argument in this thesis is that this conceptual limitation has a counterpart in a methodological defect - the neglect of time-series design in policy output studies.

Conceptual Problems

By a 'society-centred' view of policy Nordlinger means to describe a wide range of theories such as group theory, Marxism and corporatism, all of which, while having differing conceptions of the interaction of societal actors and the state, tend to deny the importance of state autonomy in influencing and shaping policy.
A major criticism that Nordlinger makes of 'society-centred' conceptions of state-society relations is that all these tend to have a sociological, reductionist concept of the state which allows no independent role for the preferences of public officials, both elected and non-elected. The policy-making process is seen as being exclusively dependent on societal actors and forces. In these studies, the state is a black box impenetrable to analysis. In contrast to these 'society-centred' conceptions of policy, a 'state-centred' model emphasises the analysis of state interests in shaping public policy.

As Nordlinger argues, the limitation of the society-centred view is that each conception of state-society relationships provides a basis for the effectiveness of different societal resources, by which he means that, while capital might be important as a resource for one set of theories, others might emphasise resources such as the ability to mobilise. His argument is that each set of resources is just about equal in weight, or alternatively that their effectiveness might vary according to specific circumstances. In either case, however, public officials have flexibility in choosing the resources and groups needed to gain support for their parties. In other words, they have a degree of autonomy.

Therefore, even within the framework of the society-centred perspective, the state is able to support certain groups and resources over others in order to gain the needed support of societal forces. Moreover,
public officials ...can purposefully restore existing patterns of societal convergence, deference and indifference so as to forestall the emergence of potentially constraining divergent preferences, and they can do so with little risk of societal sanctions since their behaviour does not run contrary to current societal preferences. (Nordlinger 1981: 69).

Nordlinger's criticism, although applicable to theories such as pluralism and corporatism, has the same force when applied to policy output models of the type being considered in this chapter. In the context of policy output perspectives examined in this chapter, a flaw in these models is that they neglect the influence of interests which, in Nordlinger's terms, are the preferences of public officials in shaping public policy.

In the case of environmental studies, the basis of policy development is the response of the state to a range of social or economic needs. In this approach, policy is seen as a series of reactions to need, as in the need for infrastructure (Wagner 1890) or for capitalist reproduction (O'Connor 1973) or as a way of satisfying social needs such as those arising out of demographic changes (Wilensky, 1975). A major limitation of this perspective is that the causal linkages between needs and the consequent policy response are never spelt out. In order to sketch a more comprehensive theory we would need to examine the role of the state in policy development.

In a similar manner, a significant weakness in the political model of policy output is that, while the impact of politics forms the core of the model, it is analytically
focussed on the role of parties and interest groups, described by Beer (1978: 20) as the 'private sector of politics', rather than on influences emanating from within the government itself. This is similar to the view of the state as a canvas on which parties and other 'interest' groups attempt to design their conceptions of public policy.

In this context, a shortcoming of the policy output model, and particularly of studies of the determinants of expenditure, is that they neglect the impact of budgetary strategies on expenditure. One way of determining the importance of budgetary strategies is to examine the influence of incrementalism, the notion that expenditure is a function of previous expenditure (Wildavsky et al. 1966). The basis of incremental budgeting is that

**Budgets are almost never actively reviewed as a whole in the sense of considering at once the value of all existing programmes as compared to all possible alternatives. Instead this year's budget is based on last year's budget, with special attention given to a narrow range of increases or decreases (Wildvasky et al. 1966: 529-30).**

Since incrementalism is pre-eminently a bureaucratic budgetary strategy in which bureaucrats tend to base current expenditure on past expenditure, the isolation of incremental factors provides a mode by which the extent of bureaucratic process can be examined.

Incrementalism is, to use Lindblom's (1959) classic phrase, a form of 'muddling through'. Lindblom uses this term to describe a decision-making process which is the very antithesis of rationalistic decision-making theory. It
emphasises the step-by-step evolution of policy in contrast to the consideration of fundamental alternatives, which is the main feature of rational decision-making theory. Lindblom (1959) outlines this incremental mode of reasoning as follows:

1) The selection of value goals and the empirical analysis of the needed action are not distinct from one another, but are closely intertwined.

2) Since means and ends are not distinct, means/ends analysis is often inappropriate or limited.

3) The test of good policy is typically that various analysts find themselves directly agreeing on a policy (without their agreeing that it is the most appropriate means to an agreed objective).

4) Analysis is drastically limited because
   
   i) important possible outcomes are neglected;
   
   ii) important alternative potential policies are neglected;
   
   iii) important affected values are neglected.

This form of decision-making emphasises the limited comparison made by policymakers between alternatives and the need to reconcile different and often contradictory values with unclear means and ends. Incremental budgetary strategy is therefore insulated from both environmental and political influences.

Methodological Limitations

These conceptual flaws are mirrored, as previously noted, by the limitations of cross sectional research design widely used in these types of output studies. In contrast, a distinctive feature of the methodology of this study lies in the use of a time-series design to examine the influence
of environment and political variables on policy. The measurement of the influence of 'time' becomes not a mere statistical procedure but also a means of measuring the impact of incrementalism on policy. The detection of autocorrelation in the time-series indicates the presence of incrementalism because it captures the influence of previous levels of expenditure on current expenditure. The fundamental assumption behind this aspect of the methodological design is that examining the influence of previous expenditure is a measure of the influence of bureaucratic process. This is the method used by some analysts to detect the influence of incrementalism (Wildavsky et al. 1966; Peroff 1977). The use of this method is preferable to using lagged dependent variables because of the technical problems associated with the latter type of statistical analysis. Apart from this technical reason, the interrupted time-series analysis used in Chapter 5 requires that the time-series be made stationary before the impact of the explanatory variable on the time-series can be fully evaluated. In this context, the use of a time-series filter to examine incrementalism has distinct advantages in the present study. Nevertheless, this assumption has obvious limitations in that it does not reveal the precise operation of bureaucratic forces, but is an aspect of research design used in studies of the impact of incrementalism (as for example in the work of Wildavsky, 1964).

In addition to this detection of statistical noise, a
more complex means by which to model the influence of bureaucratic elements in the policy process is made by designating certain economic variables as stimuli to which policy-makers respond. The main problem with the economic variables used in the environmental models of policy output is that those examined are far too general, and do not suggest causal linkages between these variables and the policymaking arena. As Jacob and Lipsey point out,

The first problem with this operationalized model is that income, urbanization, industrialization and education are not in themselves inputs. The measures have little substantive relationship to the phenomena they are supposed to represent (1968: 514).

The current study will endeavour to examine more specifically economic variables, notably revenue, inflation and unemployment. It will be argued that these variables have more direct causal influence on policy output. These measures will be emphasised in Chapters 5 and 6, which are devoted to examining the influence of party and competition on expenditure. (Chapter 5 examines a more conventional range of economic determinants.) Rather than representing several environmental stimuli, these variables will be regarded as proxies for measuring the impact of bureaucratic forces on the policy process. The use of these research strategies is an attempt to overcome the drawbacks of a society-centred conception of policy, and it therefore aims to extend the literature by attempting to isolate specific bureaucratic influences on policy. Consequently, it forms an essential part of the research methodology of this study.

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1.3 CONCLUSION

To conclude this introductory overview, the thesis has as at the core of its research design two main objectives. First, it seeks to examine the nature and role of democratic participation in policy. Second, it identifies a key weakness in the model of democratic participation - the neglect of the relationship between party and policy.

It sets out to examine these two issues in the light of two models of party and policy, termed 'structural' and 'strategic conception'. The former model emphasises the importance of parties responding to their constituents and the socio-economic cleavages on which they are based. The latter model focuses on the notion of parties reacting to strategic incentives in the political system regardless of their constituencies and the socio-economic cleavages associated with them. Differences in the nature of party support and structure are ideal for evaluating these two models of party and policy.

In Chapter 3 we turn to consider aspects of the research design employed in the study of the different conceptions of the link between party and policy, and then to examine in greater detail some aspects of the differences between the Australian and Canadian parties. The nature of the history of welfare development so critical to understanding the growth of policy is set out in Chapter 2 as a background to the research problem and empirical analysis undertaken in Chapters 4, 5 and 6.
NOTES

1. In addition to the OECD (1985) statistics on the development of the welfare state, the best source of information on the growth of welfare state in Europe is Flora and Alber (1981). For an early study see Rimlinger (1971).

2. Offe (1972) provides an excellent account of the social structural effects of welfare state development. For somewhat different accounts, see Heclo (1981) and O'Connor (1973).

3. See OECD (1978) for an analysis of public expenditure growth rates. These growth rates refer to the total public sector welfare growth, i.e., they refer to both federal and non-federal social welfare expenditure.

4. In the context of Australia and Canada, see particularly the work of Bird (1970) and Butlin et al. (1982) on the growth of public expenditure.

5. For an overview of these economic developments in Australia and Canada see Goodman (1964), Hancock (1929) and Boehm (1971).

6. Here, the distinction between openness and vulnerability should be emphasised. The present research is concerned with the vulnerability of Australian and Canadian economies.

7. See Dye (1978) for an overview of this development from institutions to outputs in policy analysis. For an introduction to such an institutionalist analysis in the Australian context see Spann (1979). For a classic decision-making approach see Lindblom (1959).

8. Welfare indicators such as health and education levels can be used to measure social policy. However these indicators are undeveloped and hence cannot be used in a time-series framework such as the one used in this study.

9. However, in methodological terms, impact studies could properly be seen as a part of the 'output' approach to policy.
10. For an incisive analysis of these theories see Barry (1971).

11. The term 'environmental' denotes a vector of economic factors thought to be influential in policy output.

12. Appendix 4 provides an outline of three conceptual models of policy output. These models are all underpinned by a set of relationships between the 'inputs' of the environment and the political systems and 'outputs' of public expenditure. These conceptual models have provided the basis for much of the empirical analysis of expenditure.

13. For an excellent analysis from a state-centred perspective see Skocpol's (1979) comparative analysis of social revolutions. She argues that the analysis of state strategies in China, Russia and France provides for a better understanding of these revolutions.

14. The incremental literature goes beyond the simple model of bureaucrats and politicians. For example, Auten et al. (1984) attempt to examine bargaining between Congress, politicians and the executive. However, because the nature of the budgetary process in Australia and Canada is not 'public', such an analysis of bargaining is not really possible in either country.
CHAPTER 2

SOCIAL WELFARE IN AUSTRALIA AND CANADA

2.1 INTRODUCTION

This chapter seeks to set the research problem outlined in Chapter 1 relating to the development of social welfare in Australia and Canada. With this objective in view, it sets out to examine briefly the main patterns of policy and expenditure growth in Australia and Canada since the early part of the 20th century. In addition, it provides a necessary conceptual basis, presented later in the chapter, for understanding the development of welfare. As this chapter seeks to provide only the backdrop for the main picture presented in the later chapters, it is not an entirely comprehensive survey of welfare state development in Australia and Canada.

More specifically, the purpose of this chapter is to indicate that, from a historical perspective, the development of the welfare state in Australia and Canada is exceptional in comparison with similar developments in Western Europe. The evidence gathered in this chapter suggests that a useful means of analysing the evolution of the welfare state is to see it as a set of puzzles. More specifically it could be argued that the analysis of policy patterns and dynamics reveals two basic puzzles. One of these is the deviant nature of welfare state development in the two countries when considered against the modal European pattern.
It is this derailment of Australian and Canadian social policy from the conventional historical tracks of welfare state development that makes the welfare experience of both countries similar, and therefore deserving of careful study and analysis.

The second puzzle or paradox arises from the existence, despite a general similarity, of marked differences in welfare outcomes in Canada and Australia. The post-war period in particular has shown, that whereas Canada has exhibited features of policy innovation and continuous growth, the pattern of Australian policy development has been more reminiscent of stagnation rather than growth or innovation. The general pattern in the post-war period has been one of significant expansion of social programmes and services. This pattern of outcome is therefore contrary to one which could be predicted from a knowledge of the existing theoretical and empirical literature on the evolution of the welfare state during the post-war period. In the light of this pattern the Australian and Canadian developments deserve explanation. (For a useful review of the literature relating to the welfare state in the post-war period see Shalev 1983.)

In summary, this chapter delineates, within the framework of Heclo's (1981) stages of the evolution of the welfare state, the main contours of policy adoption in both Australia and Canada. Additionally, it proceeds to examine the main features of social expenditure in the post-war period in Australia and Canada. A more analytical final
section discusses some of the reasons that may have led to the adoption of the policy patterns described in this chapter.

2.2 POLICY TIMING AND ADOPTION

2.2.1 A Framework for Analysing Policy Developments

Heclo (1981) has argued that the evolution of social welfare can be analysed in terms of three stages classified as experimentation, consolidation, and expansion.1 Broadly, the framework of historical evolution of the welfare state that Heclo offers is based primarily on the European experience. By using this framework heuristically we are able to categorise the development of welfare in Australia and Canada, and consider the apparent 'aberrant' welfare development of both countries.

Heclo saw the first stage, the period of experimentation, from the 1870s to the 1920s, as being characterised by significant policy innovation, notably the introduction of social insurance as well as innovations in public education and public health. 'Experimentation' was reflected in the fundamental discussion of the objectives and values of social insurance as well as in arguments over the design of policy instruments. In Europe there was also rapid development in the sphere of manufacturing and in the labour movement. While the relative emphasis placed on these forces is a matter of theoretical and empirical contention, these developments had a profound impact on the growth of welfare state policy structures.
Before turning to the key elements of development in the public welfare institutions in Australia and Canada, it may be instructive to gain some understanding of the background and the context within which social policy 'experimentation' occurred in Europe. Basing the analysis broadly on Rokkan (1970), (1974a), (1974b); Lipset (1983); and Marshall (1963), one can argue that the introduction of social insurance in Western Europe was a direct outcome of the granting of economic and political citizenship in countries such as Germany, France and Italy. 'Economic citizenship' denotes the timing and level of industrialisation that has been translated into social and economic benefits for the citizens, whereas 'political citizenship' indicates the extension of political benefits including franchise. Hence, contrary to many theories of welfare state outcomes based on a mono-causal explanation in terms of either political or economic variables, the above explanation emphasises the interaction of industrialisation and political mobilisation in the emergence of social policy. (See Flora and Alber 1981; for an earlier, more descriptive, historical study see Rimlinger 1971).

As against this, it appears that Australia and Canada were quick to exhibit 'political citizenship', as evidenced by the early granting of franchise. However, according to Albinski (1973), Castles (1985) and, Aitkin and Castles (1987), they show no evidence of 'economic citizenship' in the sense of industrial development and consequent social modernisation. In other words, the extension of political
mobilisation in the absence of the compulsive pressures of industrialisation, even though in the case of Australia there was a manufacturing push in Victoria in the 1880s, created a pattern of demands for welfare in Canada and Australia; and this pattern differed from the course of European policy development. Castles observes that this argument could equally be applied to New Zealand (see Castles 1985). It should be emphasised at this point that unlike the Australian Constitution, which gave the Federal Government power to legislate in the areas of pensions and industrial relations, the British North America Act (BNA) in Canada was highly restrictive in the legislative scope it gave to the federal authorities. However, in Canada the constitutional mechanisms for expanding federal power in areas of social welfare are very much simpler than those prevailing in Australia.

Heclo's second stage of 'welfarism' is termed consolidation, and occurs when policy experimentation is replaced by generally agreed welfare structures. The main contours of the welfare state having being laid down, emphasis now shifts to the consolidation of existing programmes. Consequently,

there was generally a great deal less argument about fundamental and private/public boundary problems; less revisability in programmes once established; less varied proposals and greater acceptance of existing constitution of social policies (Heclo 1981: 390).

In other words, during this stage there is little ideological disagreement over the fundamentals of social policy. For the
purposes of analysis, this stage of consolidation lasted from the 1920s to the late 1940s - a period which not only took in the Depression and the Second World War but also saw the growth of interventionist ideas about economic management. The welfare state not only had a social function but to it was also added the role of an agent of economic stabilisation.

The most recent and final stage of 'welfarism', classified as 'expansionism', resulted, according to Heclo, not only in the introduction of new programmes but also in great increases in both the coverage and extent of expenditure. In part the expansion resulted not so much in the growth of new programmes but in increasing levels of expenditure on existing programmes.

While Heclo's emphasis on stages in his model of the evolution of welfarism is useful only as a guide to the historical development of the welfare state, it does capture the essential elements (though not the dynamics) of the growth of the welfare state in Europe. However, as indicated in Table 3.2, both Canada and Australia (along with New Zealand, USA and Japan) differ markedly from the pattern outlined by Heclo. Perhaps it is more correct to say that, while the development of social policy in the two countries can be accommodated within Heclo's framework, it does not conform to his time scale of social policy adoption and evolution. For this reason, social policy development in the two countries may be said to differ from the modal European
pattern of development.

2.2.2 Comparative History of Policy Adoption

TABLE 2.1

Selected Social Insurance Programmes by Year of Introduction

<table>
<thead>
<tr>
<th>Country</th>
<th>SOCIAL INSURANCE PROGRAMMES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industrial</td>
</tr>
<tr>
<td>Canada</td>
<td>1930</td>
</tr>
<tr>
<td>Australia</td>
<td>1947</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1900</td>
</tr>
<tr>
<td>USA</td>
<td>1930</td>
</tr>
<tr>
<td>UK</td>
<td>1906</td>
</tr>
<tr>
<td>Sweden</td>
<td>1901</td>
</tr>
<tr>
<td>Germany</td>
<td>1884</td>
</tr>
</tbody>
</table>

"*" pertains only to federal programmes in these countries.

Sources: This table has been constructed from a combination of sources outlined in Footnote 3.

Table 2.1 above outlines the dates of introduction of key social welfare programmes in Australia, Canada, New Zealand, USA, Sweden and the UK. While this table indicates the date of initial policy adoption, it does not identify the extent of policy developments after the date of first
programmes allows an analysis of the patterns of policy initiation, but not of the nature of policy growth after the initial introduction of a programme. In other words, it serves as a guide to the period of experimentation outlined above. This table therefore not only enables an evaluation of the salient features of policy adoption in Australia and Canada, but also gives a picture of policy initiation in a wider comparative context. This comparative examination permits the analysis of welfare state development in terms of Heclo's stages model; it allows, in particular, the identification of the 'deviant' growth of social expenditure programmes in Canada and Australia.

The comparative story of policy adoption has four main features. **First**, the period of social welfare policy innovation in Australia in the early decades of the century contrasted with the absence of significant social welfare legislation during a similar period in Canada. Indeed in these terms Australian pension legislation was among the earliest in the world, and the introduction of maternity allowances was one of the early innovations in this field, preceded in this regard by New Zealand (Kewley 1965; Mendelsohn 1954). In this context the Australian experience is comparable with the European model, whereas the early Canadian experience, although similar to the United States pattern, deviates from the European model. On Heclo's stage model the introduction of social welfare legislation in Australia, particularly old age pensions and maternity
allowances, coincides with the stage of 'experimentation'.

The innovativeness of Australian welfare policy and a persistent leaning towards institutional innovation have been enduring themes of Australian historiography (Hancock 1929). Evidence for this is found in the evaluation of Australian programmes by overseas visitors. The most famous of these was Mātin, who set out in his book Socialism Without Doctrine 'to contrast the practical empirical colonial labour movements with much more theoretical and intellectual movements in the continent and to stress that in fact the colonial movement had achieved much more' (in Ward 1977, Foreword). Reeves (1902), in his State Experiment In Australia and New Zealand, extensively detailed the legislative innovations of the period as well as innovations in welfare and more particularly, pension legislation.

Among the important legislative achievements in social policy in Australia during the era were the introduction of old age and invalid pensions (1908) and maternity benefits (1912). In terms of later social policy development, as will be argued, the crucial innovation in this era was the establishment of federal compulsory arbitration and the introduction of minimum wage legislation. Castles makes pointed reference to this by noting that the conciliation and arbitration legislation enacted in Australia and New Zealand must be considered to be the most novel of the early reforms; it was also that most commented on by foreign and colonial observers and the most significant in its overall impact (1985: 13-14).
The Harvester judgment, handed down by Justice Higgins in 1907, was a landmark in the determination of the minimum wage legally payable, because this judgment had far-reaching implications for social policy in that it embodied in the wage-fixing system the principles of 'equity and need' that were the basis of European social insurance schemes. The following comment, though made with reference to New Zealand, has equal applicability to the Australian context:

the theory of fair wage that appears to prevail is the doctrine of the living wage, stated both in its negative and positive form. Stated negatively, the theory holds that extremely low wages, such as are found under the sweating system, are not fair wages, because insufficient to afford a decent living according to the colonial standard. Stated positively, a fair wage is a wage which is sufficient to give the worker a decent living according to the colonial standard, which is higher than the British standard, considerably higher than that of continental Europe, and immeasurably higher than that of the Chinese or Indian coolie. (Le Rossignol and Stevens. 1910: 239, quoted in Castles 1985).

The crucial point being urged by Castles (1985) is that a full understanding of Australian social policy development is not possible without noting the introduction of arbitration, which was central to the further evolution of welfare.

By comparison, a similar stage of 'experimentation' in social welfare policy in Canada did not begin until the 1930s, and then it lasted only until the Second World War - a period of time that coincides with the stage of consolidation in the European context. Apart from pensions and income support programmes for veterans, there were no purely national programmes in the social security field until the enactment of a federal scheme for unemployed insurance in the
1940s. Indeed, as one writer put it, the history of social welfare in the early part of the century in Canada can be summed up by the words such as 'family', 'charity' and 'local responsibility' (Guest 1980). Bryden has also observed that, although municipalities had the prime responsibility for social welfare, they

  for their part moved at a snail's pace in exercising the authority conferred on them. The void was partly filled by organized private charity, which emphasized institutional care, but also provided some outdoor relief (1974: 22).

Despite the focus of public attention on the lack of public welfare provision, political pressure for reform was almost non-existent in Canada, in stark contrast to the Australian situation. This neglect occurred at both provincial and federal levels. Most of the welfare provisions of this time were through municipal government and often took the form of outdoor relief (Guest 1980; Bryden 1974.)

During the period under review, in contrast to the legislative innovation in Australia, there was hardly any attempt in Canada by federal or provincial authorities to enact legislation in the broad area of social welfare. Despite this lack of legislative innovation, welfare was emerging on the policy agenda. This is well portrayed by Guest in his comment that:

  By the 1890's social reform had become a multi-faceted public issue. Prospects for reform in the field of housing, sanitation, town planning, public health, factory legislation, child welfare, corrections, civil politics and a host of other related subjects were brought to the public's
attention by the work of concerned individuals, by
the press, by voluntary organizations and by social

The Royal Commission of 1887 on the Relations of Labour
and Capital, set up to inquire into and report on all
questions arising out of the conflict of labour and capital,
condemned aspects of the factory system and acknowledged that
labour organisations had a legitimate role to play in
society. (See Bryden 1974, for an analysis of the Report of
the Royal Commission on the Relations of Labour and Capital.)

One innovation during this period was the introduction of
the Public Annuities Act of 1908. The Royal Commission on
the Relations of Labour and Capital had recommended in its
Report the creation of a government annuity system. Due to
perceived inefficiencies in the private life-insurance
market, the annuity scheme that emerged was, as Guest
observes, a compromise between public and private provisions:

a scheme of government-operated annuities was
offered to the public as a means of overcoming the
deficiencies in the private market. Individual
contracts could be started with an initial premium of
ten dollars (1980: 35.)

As one analyst cogently notes, the Act had many
advantages over private schemes such as

security of funds, confidence, freedom from
forfeiture, and elasticity in making payments. But
for the average factory worker it was expecting too
much in terms of discipline and sacrifice. His
surplus, if any, was small, and there were too many
current risks demanding accessible saving to make it
possible for him to tie up regular sums for a
distant prospect. The whole Act insofar as it was
intended to serve the needs of workingmen was based
on misconception of their way of life (Laycock,
quoted in Guest 1980: 35).

Whereas the above comment indicates the annuities plan
failed to attract many people, and more importantly it did not provide retirement security for many in low-income groups. In comparison with the Australian situation, Canada in the early part of this century clearly did not have any comparable social security programmes (residual or universal) similar to the relatively comprehensive system of old age security found in Australia. An important aspect of this issue is that it emphasised the different ideological bases of social intervention which underpinned government action. The Australian programme had a residual approach based on a conception of responsibility for those it deemed 'needy', whereas the Canadian programme was 'market' oriented.

Hence what is significant in terms of the comparison between Canadian and Australian policy developments is not only the degree of policy innovativeness but also the extent of federal intervention in social welfare programmes. As Butlin et al. have noted, the 1908 Pensions Act was the 'first national experience of social welfare policy involving non-contributory benefits paid from public funds' (Butlin et al. 1982: 161). By contrast, as previously observed, Canadian public welfare in the early part of the century was largely in the hands of local authorities. All provinces placed on their municipalities, by direct or indirect method, the duty of relieving the local poor. This was done sometimes by out-relief and sometimes by means of special almshouses (Mendelsohn 1954: 74).

The second characteristic feature of policy adoption in
Australia and Canada is the marked decline in Australian policy innovativeness during the inter-war period, while during this same period Canadian welfare history witnessed the beginning of the stage of policy experimentation and encompassed two main legislative enactments. The first was a programme of means-tested pensions that authorised the Dominion to provide payments to provincial old-age pensions schemes. The Old Age Pensions Act of 1928 was not so much an introduction of federal income security, as a contribution of federal grants to provinces for their operation of a pension scheme (Banting 1982). The basic logic of the scheme was to authorise the Federal Government to enter into agreement with any province to provide half the cost of pensions, provided the provincial legislation met the requirements laid down by the federal legislation. Bryden, discussing this, has observed that

Administration was entirely a provincial responsibility, but an administrative scheme and any changes in it had to have federal approval in advance. The provinces were protected against being left high and dry after having once committed themselves to the plan by a provision requiring the federal government to give ten years' notice of termination of an agreement. A province for its part could terminate at any time simply by repealing its legislation (Bryden 1974: 61).

Consequently, the operation of the Act varied from province to province. In the context of the the issues to be discussed later in this study, the role played by electoral and party considerations in the pressure for the adoption of pension legislation is important. The impact of the Firsts World War, the general climate of opinion favouring the
introduction of pensions and demographic factors were all important issues that exerted pressure for the adoption of old age pensions. In fact, the pensions issue played a crucial role in securing King's victory in the 1926 election (Bryden 1974). A comparable controversy surrounded Diefenbaker's proposals regarding social insurance in the 1956 election, and is discussed in later chapters.

The system of unemployment insurance (The Unemployment Insurance Act of 1940) introduced by the Conservative Bennett administration was the first large-scale federal welfare programme in Canada and, more importantly, the first to be nationally managed. According to Guest, this programme aimed at covering 75 per cent of wage earners...it was the largest social programme in Canadian history, up to that time, covering 4-6 million people including dependents, in its first year of operation (1980: 107).

Despite this the Act was not adequate in providing a reasonable rate of benefit for those unemployed.

Overall, this period marks out the Australian and Canadian policy experience sharply from European welfare development. It could be said that, although both countries extended social programmes, the extent of expansion was not as great as in West European countries. Therefore it could be argued that, in terms of Heclo's model of the stages of welfarism, both countries failed to pass through a period of welfare consolidation. Indeed, Australia joined Canada in the ranks of 'welfare state laggards' while Canada was passing through a period of 'experimentation'.

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Interestingly, both countries have a significant history of aborted social legislation. This suggests that this historical development was not inevitable, but may well have been different under altered circumstances. In Australia, the Commonwealth Government established a Royal Commission on National Insurance in 1923. By 1928, the Commission had produced four Reports, the main recommendation of all of them being the establishment of a comprehensive insurance scheme. Some of these recommendations were later incorporated in the National Insurance Bill of 1928. This Bill was eventually dropped. Once again, in 1938, after a period of extensive debate about social insurance, the Commonwealth passed legislation, but this was not enacted because of the impending war (Kewley 1965).

Likewise in Canada too, this period saw the introduction of social legislation that was proposed but not formally enacted. Thus, in 1935, the Conservative Prime Minister Bennett attempted to put together a package of social policies, similar in nature to a smaller version of the American New Deal, to replace the yearly relief etc. And on the eve of the parliamentary election which was lost to King's Liberals, Bennett's Government passed through Parliament a series of social welfare measures including a programme of unemployment, old age and health insurance, cost-shared social assistance and public works, measures to help people with mortgages and an agricultural programme to help farmers obtain higher prices. But, in 1937, all of
Bennett's social measures were invalidated by the Judicial Committee of the Privy Council after New Brunswick, Ontario and Quebec had initiated a legal suit challenging the Federal Government's role in compelling contributions from individuals as unconstitutional. (On the 'Bennett New Deal' see Finkel, in Panitch 1977; Bryden 1974; and Guest 1980). If these social measures were passed, Canadian social history may well have been more comparable with the European experience. In other words, the policy choices made in one period had important consequences for later policy development.

The third feature of policy timing and adoption in the two countries is the extent to which new welfare programmes were introduced after the Depression, and during and immediately after the Second World War. It was a period of critical importance for policy innovation in Australia. Indeed, nearly all key social programmes except old age and invalid pensions and maternity allowances were established by the post-war Labor Government during this period (Mendelsohn 1954; Kewley 1965; Jones 1983). Similarly, Canada saw the extension of the Unemployment and Universal Family Allowance as well as extensive proposals for federal intervention in other areas of social welfare contained in the Marsh Report, which was an important post-war social policy document (Guest 1984; Morgan 1969).

In this aspect of policy adoption, the two countries followed the European pattern, but still remained 'welfare state laggards'. Although political factors (e.g., the
strength of the industrial and political labour movements) were undoubtedly important in explaining policy outcomes in this period, the importance of two key international events - the Depression and the Second World War - cannot be overestimated in accounting for the introduction of new social policy programmes. Variations in the degree of policy innovativeness of individual countries can be accounted for by local contextual factors, but the convergence of these programmes was more likely a consequence of the Depression and Second World War. Additionally, the acceptance of Keynesian ideas of economic management, more particularly the adoption of full employment as an economic objective, changed the context of social policy formulation. Social policy came to be seen as an adjunct to economic policy. In this context, both countries produced White Papers on full employment which acknowledged the role of social welfare in economic policy.

Fourthly, health insurance is a field in which Canada and Australia (along with United States) lagged behind European developments. Whereas comprehensive health insurance was established by West European states in the decade after the Second World War (as in Britain in 1948), it was not until much later that Canada (1966) and Australia (1974) established fully comprehensive national health insurance. In fact the Australian scheme lasted for only a year and half before it was subject to major revision. (For a review of Canadian health insurance policy, see Taylor 1978.) It should
be noted that Australia had a system of subsidised health insurance, which provided substantial health cover introduced by the Menzies Government in the mid 1950s.

Canada's Medical Care Act of 1966 established a system of National Health Insurance following the recommendations of the Hall Report, which favoured the introduction of health insurance plans based on the type existing in Saskatchewan. Saskatchewan's medical insurance plan was based on (a) pre-payment; (b) universal coverage; and (c) administration by the public body responsible for the legislature. The Act established a comprehensive health insurance scheme in which the Federal Government agreed to subsidise provincial health schemes:

The funding offer for each provincial government equalled 50% of the per capita costs over all provincial plans, multiplied by the number of persons. Eventually all provinces accepted the offer — Saskatchewan and British Columbia on July 1, 1969; New Foundland, Nova Scotia and Manitoba on April 1, 1969; Quebec on November 1, 1970; and Prince Edward Island on December 1 of the same year (Brown 1983: 45-48).

Patterns of Policy Initiation

The analysis of policy initiation, focussing as it does on the date of first introduction of social programmes, gives only a partial and limited account of the nature of policy innovation in Australia and Canada. To obtain a more complete picture of policy dynamics, it is necessary to examine policy accretions, that is, significant additions to established programmes. Therefore we now focus not so much on the date of first introduction of programmes but on the nature of growth.
patterns of social policies.

Borrowing an analogy from contemporary debates in evolutionary theory (Eldredge 1985), it could be argued that whereas in Canada policy innovation is *gradualist*, the Australian pattern appears more as a process of *punctuated equilibrium*, in which periodic episodes of policy changes are followed by long periods of stagnation.

Elaborating this argument, one could identify five major periods of policy innovation and stagnation in Australia. They are:

- **1900-1914** policy innovation
- **1914-1943** stagnation
- **1943-1949** policy innovation
- **1949-1972** stagnation
- **1972-1975** policy innovation
- **1975-1980** stagnation

The characteristic feature of these periods has been that the introduction and extension of welfare programmes has occurred mainly in periods of Labor rule, though it should be emphasised that the above schemata relates to the establishment of new programmes. In relation to expenditure, the importance of Labor governments, particularly the Whitlam Government, can be exaggerated, as will be discussed in Chapter 5. It is the wave-like nature of welfare policy innovation that is a notable feature of patterns of policy development in Australia, although this is in part a function of the infrequency of Labor governments.
From a comparative perspective, a most revealing period for policy innovation in Australia is 1945-1949 (the most immediate post-war period) and the subsequent stagnation of the 1950s and 1960s. This is vividly portrayed by Jones:

The period from 1940-1946 saw many specific legislative measures in the field of Australian social security in contrast to the previous twenty years which had been rich in debate, but weak in specific actions. By 1946, a number of new programmes had been enacted: child endowment, unemployment and sickness benefits, tuberculosis, hospital, pharmaceutical and funeral benefits, and widows' pensions (1983: 48).

In contrast he notes that the 'period from 1950-1960, the dullest in Australian social policy history, produced few innovations' (1983: 55).

It is the period of policy stagnation from 1949 to 1972 that significantly marks out the Australian from the Canadian experience as well as from that of nearly all other OECD countries. It was in this period that Canadian programmes exhibited a pattern of continuous expansion, which justifies the description of the Canadian policy pattern as one of gradual or continuous changes to existing programmes. Table 2.2, below, outlines the gradual expansion of income maintenance policies in the post-war period.
<table>
<thead>
<tr>
<th>Year</th>
<th>Act</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1927</td>
<td>Old Age Pensions Act</td>
<td>means test</td>
</tr>
<tr>
<td>1940</td>
<td>Insurance Act</td>
<td>social insurance</td>
</tr>
<tr>
<td>1944</td>
<td>Family Allowance Act</td>
<td>demorgant</td>
</tr>
<tr>
<td>1951</td>
<td>Old Age Security Act</td>
<td>demorgant</td>
</tr>
<tr>
<td></td>
<td>Old Age Assistance Act</td>
<td>means test</td>
</tr>
<tr>
<td></td>
<td>Blind Persons Act</td>
<td>means test</td>
</tr>
<tr>
<td>1954</td>
<td>Disabled Persons Act</td>
<td>means test</td>
</tr>
<tr>
<td>1956</td>
<td>Unemployment Assistance Act</td>
<td>means test</td>
</tr>
<tr>
<td>1957</td>
<td>Hospital Insurance and Diagnostic Services Act</td>
<td>universal</td>
</tr>
<tr>
<td>1964</td>
<td>Youth Allowance Act</td>
<td>demorgant</td>
</tr>
<tr>
<td>1965</td>
<td>Canada Pension Plan</td>
<td>social insurance</td>
</tr>
<tr>
<td>1966</td>
<td>Guaranteed Income Supplements</td>
<td>(income test)</td>
</tr>
<tr>
<td></td>
<td>Canada Assistance Plan</td>
<td>needs test with asset limitations</td>
</tr>
<tr>
<td></td>
<td>Medical Care Act</td>
<td>universal</td>
</tr>
<tr>
<td>1971</td>
<td>Unemployment Insurance expanded</td>
<td>social insurance</td>
</tr>
<tr>
<td>1973</td>
<td>Family Allowances modified and made taxable</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>Spouse Allowance added to Guaranteed Income Supplement</td>
<td>income test</td>
</tr>
<tr>
<td>1978</td>
<td>Child Tax Credit</td>
<td>income test</td>
</tr>
</tbody>
</table>

Source: Leman (1978: 34.)

Note: 'Demorgant' indicates that programmes are confined to a given demographic category.
Canadian old-age pensions provide a classic illustration of the hypothesis outlined above. There have been two main steps in the evolution of Canadian old-age policy. One is federal intervention in the social welfare field, and the other is the establishment of comprehensive social insurance. Federal intervention in the social welfare field first occurred with the introduction of the 1927 Old Age Pension Act which empowered the Federal Government to share costs with the provinces for means-tested pensions for those over seventy. Canadian old-age policy underwent significant changes in the 1950s with the passing of the Old Age Security Act (OAS) of 1951. This Act provided for a federally financed demorgant scheme at age 70 with provision for shared cost with old-age assistance via lessened means-test for those aged 65 through to 69. As Banting notes,

Demorgants are universal, flat rate payments made to individuals or families solely on the basis of demographic characteristics, such as age, rather than on the basis of proven need as in the case of social insurance (1982: 7).

Though finance of the old-age pensions was not contributory, Prime Minister St Laurent insisted that OAS pensions be financed not from consolidated revenue but from a special old-age security tax levied on sales, corporate income and pensions. Leman notes that

This tax would have to be increased whenever benefits were hiked - although subsequent policy makers did not actually maintain this correspondence (1977: 177).

The next significant metamorphosis in Canadian old-age pensions policy was the establishment of a system of
This effectively established a three-tiered system of old-age security in Canada. The first tier consists of OAS benefits. OAS provides benefits to all Canadians regardless of income (in other words, a demorgant programme), and the scheme is financed through consolidated funds (Leman 1977). Until 1972, however, it was financed through special social security taxes (cf. 1952 Act). The second tier consists of a means-tested Guaranteed Income Supplement (GIS). The GIS is paid to Canadians who receive OAS but whose income is below a given limit; it is financed through consolidated revenue. The third tier is the Canadian and Quebec Pension Plan (C&QPP), which is effectively a system of contributory national insurance. As Rice describes the scheme:

The Canada Pension Plan pays 25% of average adjusted contributory career earning for a number of months of low or zero earnings (1979: 126).

The above description of the growth of Canadian old-age policy is intended to illustrate clearly the gradualist evolution of Canadian social policy in contrast to the Australian pattern of periodic bursts of innovative policy developments followed by periods of stagnation. The latter point also serves to underline an important difference in the structure of income maintenance in the two nations, that is, the predominantly means-tested and non-contributory programmes that are characteristic of Australian welfare programmes (Castles 1985).

In terms of finance, Australia remains deviant from the
modal patterns of welfare policy development, in the absence of contributory insurance programmes. The financing of Australian welfare programmes has been almost totally from consolidated revenue. However, the feasibility of introducing contributory insurance schemes has been widely debated, especially during the inter-war years. Twice the Commonwealth Government drafted legislation for national insurance and once, in 1938 it passed an Act of Parliament, which however, was not proclaimed. In fact the only social insurance programme was in Queensland, where a system of unemployment insurance was introduced in 1923. Brennan (1982) has provided a useful comparison of different modes of financing in OECD states by constructing a ranking of countries based on the degree to which they depend on financing welfare (largely income-maintenance programmes) from general revenue or progressive taxation. According to this ranking, New Zealand and Australia come first and second respectively, indicating the degree to which they depend on finance from general revenue.

Canada, on the other hand, has a mixed mode of financing, in that it relies on both contributory schemes and consolidated revenue. In terms of Brennan's (1982) ranking, Canada lies somewhere in the middle of the field. Kudrle and Marmor (1981) illustrate the extent to which Canadian programmes have become universalised in the post-war period. Financing, however, presents an interesting comparison with Australia in the sense that contributory insurance schemes were fairly late to develop in Canada, as it was only during
the 1960s that Canada established contributory social insurance. Prior to this, it had a system of welfare programmes predominantly financed from general revenue, though these programmes were universal rather than means tested. Indeed Canada in the 1950s was

unique among Western industrial countries in financing social security without assessing contributions directly on the prospective beneficiaries or their employers. This uniqueness was purchased, however, by their illiberality. (Leman 1977: 278).

2.3 CONCLUSION

Before drawing some general conclusions about the nature of historical developments in Australia and Canada, it is pertinent to examine some of the main trends in welfare expenditure between the two countries. It is evident from Table 1 in Appendix 2 that total welfare accounted for 18.9% of GDP in Canada, while in Australia it amounted to only 12.8%. This is a relatively high difference, and underlines the point that Australia is clearly a welfare state laggard (see Appendix 2). Canadian expenditure is around the OECD average, and, in the context of the expansion of OECD social expenditure, the figures reflect the reality of Australian stagnation rather than the growth of Canadian social expenditure.

The importance of these expenditure figures lies however, not in the absolute levels but in the rates of change of expenditure. Canadian welfare expenditure increased by 7.5% of GDP from 1965 to 1975 as against an increase in Australia
of 3.2%. Similarly, comparison of elasticity of welfare expenditure with respect to GDP indicates an Australian figure below the OECD average (see Appendix 2). This indicates that, in terms of the relationship between growth of GDP and welfare, which is what elasticity captures, Australian social expenditure had a slower rate of growth in relation to overall economic expansion of other industrialised countries. This evidence bears out the contention of this chapter regarding the contrasting periods of stagnation and innovation in Australian and history as compared with the gradualist Canadian pattern.

The analysis of patterns of policy adoption examined above raises two important problems which require explanation in terms of Heclo's model. The first puzzling fact is the early trend of Australian innovation in welfare legislation as against the almost total lack of any significant welfare legislation in Canada. The second is the unexpected stagnation in policy innovation in Australia after the initial spurt of legislative activity.

As has been explained in this chapter, a critically important factor in understanding the different patterns of innovation in the two countries is the extent of centralisation of the income-security system. In relative terms, Australia moved towards a more centralised income-security system much earlier than Canada. This occurred because in Australia pensions were unambiguously a federal power but, more importantly, because welfare issues rarely entered the arena of federal-state relations. The BNA Act, on
the other hand, did not give the Canadian Federal Government power over income maintenance. Moreover, welfare issues were part of federal-provincial relations. In sum, the relative degree of centralisation of income-security systems in the two countries was a factor in the degree of innovativeness of social policy at the turn of the century.5

Another factor which explains the differing degree of innovativeness in Australian and Canadian welfare legislation in the early part of the century is the strength of the labour movement. Both the industrial and political labour movements, as reflected in the extent of unionisation and electoral share of the ALP, were among the strongest in the world (Kewley 1965; Stephens 1979; Aitkin 1982a; and Castles 1985). It was the Fisher administration that introduced maternity allowances in 1912, while old-age and invalid pensions were introduced partly because of labour pressure. But in Canada, labour was marginal in its impact on policy. Politically organised labour was not in the mainstream of the Canadian party system; although the unions had some influence, the work force was not as highly unionised as in Australia.

Aside from these factors, a critical element in understanding policy initiation is the attitudes and values held in both countries concerning welfare. As Collins (1984: 32) has recently argued, Australian political culture can be viewed as Benthamite in the sense that it emphasises pragmatism and utilitarianism. These values were supported
and reinforced by experience. Colonial governments have a long history of state intervention to provide infrastructure, capital and services (see for example, Butlin et al. 1982). This view of political culture and conception of the State has roots in Australian historiography. While this mode of analysis, especially as employed by Collins (1984) can be faulted on methodological grounds, particularly its implicit historicism, it does provide a plausible analysis of the values and attitudes which were embedded in the early legislation and especially in the pension programme. This helps to explain the predominantly residual means-tested character of the old-age pension scheme, a form which has lasted without significant change.

Conversely, in Canada, the dominant set of values at the turn of the century was, as Hartz (1964) and other writers have noted, liberal in character. It stressed the values of self-reliance and individualism. Society was seen as composed of atomised individuals engaged in competition for material pursuits. Bryden aptly terms this the dominance of the market ethos, and argues that

The destitute were considered to be more in need of moral exhortation and uplift than material assistance ... The fundamental belief was that the family was responsible for those of its members both children and adults who were unable to provide adequately for themselves (1974: 20).

It would be a mistake, however, if we (like Hartz) neglected other sources of Canadian ideological inheritance. Horwitz (1966) cogently argued that what distinguishes the Canadian and American ideological inheritance is the presence
of the Tory values built around collectivism, and which seek to redefine liberal values. While at the turn of the century liberalism was certainly dominant, other ideological traditions have influenced the major Canadian parties, especially the dominant Liberal Party, and contributed to changed attitudes towards social policy.

The other issue raised by the analysis of policy adoption is the puzzle of Australian stagnation following the initial burst of innovation. One factor which may explain the Australian policy of a low degree of policy innovation and social expenditure as well as the residualist pattern of welfare is the system of industrial relations. Comparative research in the field of cross-national industrial relations has been increasingly directed towards the examination of the impact of different modes of industrial relations on other outputs. A pioneering work in this field was the work of Snyder (1975), who examined the impact of different models of industrial relations (in a time-series analysis) on the levels of strikes. More recently, Korpi (1980) has attempted to build on this early work, and examined different welfare outcomes under collective bargaining and corporatism. The implication of his work (it is not explicit) is the importance of trade-offs in accounting for welfare policy outcomes. In the corporatist system this trade-off is between the level of real wages and increased social expenditure; and in the collective bargaining system it is between increases in the level of real wages and reduced social expenditure.

The basis for our argument is that arbitration involves
a trade-off in policy arenas. The largely supplementary or residualist nature of Australian welfare policy is partly due to the fact that some aspects of major redistributive issues are not resolved within the mainstream of the policy process, but rather are matters that fall within the ambit of arbitration. The critical point here is that issues normally regarded as re-distributive are processed within the arena of arbitration. The system of industrial relations in this case involves not an exchange between wages and social expenditure but a trade-off between policy arenas. The consequence of this trade-off between policy arenas is reflected not only in the levels of social expenditure but also in patterns of social policy. Arbitration offered the labour movement an institutional means by which to pursue the issues of economic security.

A related but distinct argument about the role of industrial relations and social welfare concerns the linkage between social insurance and arbitration. A plausible but speculative hypothesis proposed is that arbitration is the functional equivalent of social insurance. Many analysts, the most recent being Castles (1985), have noted the strong correlation between the timing of social insurance legislation and the strength of the labour movement. One of the paradoxes of early Australian welfare history, which led Castles (1985) to write in terms of 'Australian exceptionalism,', is the presence of a strong labour movement but the lack of development of universal social insurance.
However, Castles suggests that this paradox of timing is resolved when one substitutes arbitration, or more specifically the basic-wage judgment, for universal social insurance. The argument not only provides a basis for the residualist pattern of welfare policy but, more importantly, provides an explanation for the lack of pressure from the labour movement for social insurance. Central to this argument is that institutional choice at one period of time determines the range of policy options open to the state. In the area of social welfare, the choice of arbitration reduced the capacity to introduce universalistic social policies.

A particularly interesting problem to emerge from this analysis, as we noted in the introduction, is the relationship between 'economic citizenship' and levels of policy development. Clearly, Australia and Canada have economic structures that are different from those of other industrialised countries (see Chapter 4). Given the fact that Australia and Canada are dependent on exporting staples, to what extent are the policy choices and strategies in Australia and Canada related to the fluctuations in the terms of trade? More specifically, how does social welfare expenditure respond to variations in the levels of export income? This issue forms the basis for the argument which will be examined in Chapter 4.
NOTES

1. As Heclo (1981) notes, it is possible now to delineate a further stage in which the traditional frontiers of the welfare state remain under attack.

2. The best account of the development of the welfare state in Europe in these terms is in Flora and Alber (1981), and the other articles in the collection edited by P. Flora and A. Heidenheimer (1981). See also A. Rimlinger, (1971).

3. The dates presented in Table 2.1 have been based on surveys of the welfare state development in Australia and Canada. The most useful of such surveys of the welfare state are Guest (1980; 1984), Kewley (1965) and Mendelsohn (1954), which provide an interesting introduction to the early development of the welfare state. In addition, the distinctly policy-oriented studies of Graycar (1979), Jones (1983) and Bryden (1974) provide a more analytical perspective.

4. Australian health insurance prior to the introduction of Medicare was characterised by a system of subsidisation of private medical insurance which had 85% cover in 1970. The benefits of subsidised voluntary insurance were felt mainly by supplier groups, particularly the insurance groups, who not only retained the private insurance market but whose profits were largely increased by subsidies. The other group of supplier beneficiaries consisted of the doctors, who were able to make large profits in the regulated environment (Brown 1977; Deebie 1970; Scotton 1968). The benefits of the regulation of health insurance were felt mainly by private suppliers. Indeed, it is analogous to the 'capture theory' of regulation proposed by Peltzman (1976), and Tollison and McCormick (1981). It should also be noted that the introduction of a system of national health insurance by the ALP during the post-war period was continually frustrated by both the Constitution and the BMA, which later became the Australian Medical Association - AMA.

5. It should also be argued that the provisions in the Federal Constitution for central control over pension programmes led to the centralisation of the income security system. The causality is the other way around.
CHAPTER 3

METHODOLOGY AND ASPECTS OF RESEARCH DESIGN

3.1 INTRODUCTION

In Chapter 1, the basis of the research problem that is to be the guiding framework of the research was outlined. This chapter provides an account of the research strategy, the methodology and some of the design aspects of the study. It sets out to explain not only the methods constructed to test the hypotheses, but also seeks to place these methods in a more general and methodological framework by examining the structure of the comparative design used to falsify the general conjectures outlined in Chapter 1. This research being essentially a comparative study, the selection of an appropriate comparative research strategy is not independent of the research problem, but rather is crucially dependent upon it. As Roberts points out,

the relationships between theory and strategy are multiple and rich. Theory selection may determine the way in which cases for comparison are selected, whether intra-system or cross-system comparison shall be undertaken (1978: 299).

Many earlier comparative policy studies suffered from the fact that they were based on descriptive policy studies that formed a series of isolated, episodic descriptions - particularly of legislative enactments - which are apparently thought to be of intrinsic interest. To only a very limited extent does this legacy constitute a body of scientific observation helping to discern larger patterns (Heclo 1972: 90).

The major flaw in this type of case-study approach is the
lack not only of an appropriately formulated research problem, but also of a well thought out research design. In contrast, central to the logic of this study is that the 'core problem' identified for research in this study, and described as the problematic relationship between party and policy, is best handled by a 'similar systems' research design. The nature of the design is critically dependent on the research problem. On the other hand, if the problem related more to the relationship between institutions and expenditure, a 'different systems' design would have been more appropriate because it is only through the choice of widely different institutional settings that propositions can be tested. Clearly, the choice of strategy in comparative studies is dependent on the nature and purposes of the research problem. The similar systems design pursued in this study is therefore based on the fact that it appears best suited to explicating the several features of the research problem identified in Chapter 1.

In brief, a similar systems design is one in which the selection of the units for comparative study is guided by relevant similar characteristics of the units chosen for comparison. (See Lijphart 1975, for an outline of these designs.) By contrast, in studies based on a different systems design, the selection of units for comparison is determined by relevant different characteristics of the units. The strategy is based not 'upon systems or cases which are similarly patterned in their main relationships, but on those where the actual patterns of relationships among
variables differ' (Roberts 1978: 294). To cite an example within the policy output literature, the important study of Wilensky (1975) on the determinants of welfare expenditure is one which employs a different systems design. The justification for a different systems design is that any set of explanatory statements can be generalised to a wide variety of circumstances.

The choice of a different systems strategy, despite being preferable in an ideal scientific setting, has distinct drawbacks in the uncertain social-science environment in which we operate. First and most seriously, the strategy is premised on the development of 'grand' theories in the sense of theories that attempt to be all encompassing and which therefore cry out for testing in different systems. Unfortunately, the difficulty with policy output studies is the paucity of systematic theoretical explanation. The empirical testing of middle range theoretical propositions, such as those outlined in this study, is needed so as to develop a sound body of research findings which could then be tested in a 'different system' framework. A second shortcoming of a different system strategy is that, in a study of this sort, where the problem is one of identifying the effects of specific differences,

the selection of units of analysis which possess many similarities in terms of relevant variables makes easier the identification of variables which do differ, and which may thus be considered as the first candidates for investigation as causal or explanatory variables (Roberts 1978: 293).

On the other hand, the logic of the similar systems
design is basically analogous to that of a controlled experiment and may be regarded as being similar to that described by Campbell and Cook (1979) as 'quasi-experiments'. According to these authors, quasi-experiments are 'experiments that have treatments, outcome measures, and experimental units, but do not use random assignment to create the comparisons from which treatment-caused change is inferred' (1979: 6). In order to make valid inferences about the effect of the treatment on the outcome, one needs to control the quasi-experimental setting. The important aspect of this design is that it enables the researcher to make inferences about the effect of treatment on the outcome with the knowledge that other relevant variables have been controlled.

The greatest threat to the validity of the research design comes from the researcher's failing to account adequately for the influence of factors other than those affected by the treatment (also called 'independent variables') which influence outcomes. Consequently, in determining the nature of the 'experiment' in a comparative setting, the analyst must endeavour to hold constant a set of relevant characteristics or elements, which are believed to be important in making inferences about the effect of independent variables on the dependent variable. The notion of experimental control is central to all experimental designs; its logic and its rationale are derived from John Stuart Mills's analysis of the logic of scientific inquiry,
in particular, Mills's method of difference. (See Cohen and Nagel 1934, for an outline of Mills's account of this logic of scientific inquiry.) As Campbell and Cook point out, Mills's contribution was to realize that the comparison of situations where a particular threat to valid inference was or was not operating provided the key for assessing whether the threat might account for any observed relationship between the cause under study and its possible effect (1979: 19).

The chief elements in any quasi-experimental research design such as the comparative method based on a similar systems design are (a) the selection of control elements or factors for the study (section 3.2), (b) an identification of the treatment effects or the operation of independent variables (section 3.3), and (c) determining the measures of outcome (section 3.4). Each of these elements of the research design is examined below.

Apart from this feature of comparative design employed in this study, another element of its structure is its time-series focus. As many have pointed out, a primary flaw of comparative studies, as evidenced in the cross-national literature is that, most of them have employed a cross-sectional rather than a time-series research design (Castles 1982b; Shalev 1983). The present research attempts to rectify this by a detailed time-series study of two countries, Australia and Canada. The problems of using time-series data are examined in the section on statistical procedure (section 3.5).
3.2 CONTROLS FOR COMPARISON

As indicated earlier, the countries represented in this study are Australia and Canada. Although this choice has been somewhat arbitrary, considerations such as the availability of data had an important bearing, in addition to other systematic considerations. In terms of the design adopted, the systematic grounds for the comparison rests in particular, on the presence of four relevant similar characteristics in the two countries represented in the study design.

These four key characteristics are (a) common historical experience, (b) similar parliamentary institutions, (c) similar systems of expenditure appropriation, and, (d) federal character. These particular characteristics are by no means the only similarities existing between these two countries, but from a design point of view, their inclusion has been justified in view of their special relevance for the proposed analysis of welfare expenditure. It is pertinent therefore to comment briefly on each of these characteristics, as they are vital to establishing the logic of the comparative methodology of this study.

First, the common historical experience of the two countries flows from their being settler societies, a legacy of the days of British colonial rule in the 18th and 19th centuries. Hartz (1964) sees Australia and Canada as 'Anglo fragments' because of their links with Great Britain, the overriding colonial power guiding the destinies of both countries. Furthermore, these countries have had a broadly
similar economic history, based on the exports of agricultural staples such as wool, wheat and beef which formed the central 'core' of the economy. These 'staples' in turn provided a basis for the evolving of the economic and (to a certain extent) social structure of these countries.

Perhaps it was this fact which prompted some distinguished historians like Keith Hancock (1929) in Australia and Harold Innis (1956) in Canada, to develop a comparative history of former 'Dominion States' such as Australia and Canada. Innis in particular developed his influential 'staples theory' of economic growth, stressing the backward and forward linkages that the export of staples created for the emerging process of industrialisation in these countries. Incidentally, this process of industrialisation was markedly different to that of the classic European pattern (see footnote 4 in Chapter 1) and is well characterised by Ehrensaft and Armstrong in the following terms:

In effect, there is a preponderant element of rent on natural resources, which supports the industrialization and prosperity of dominion capitalism. The economy as a whole is thus subject to the same long-term risks as any rented resource: ...Dominion capitalist societies are thus both structurally shallow and subject to high risks over the long run; in this sense we may speak of a truncated economic base (Ehrensaft and Armstrong 1981: 102).

Secondly, both countries have parliamentary systems of government based on the Westminster tradition of responsible government typified by (a) cabinet government, (b) majority party government formed on the basis of the majority
political party in the Lower House, and (c) the existence of cohesive political parties in the Legislature. As Albinski has correctly observed 'cabinet government and prime ministerial leadership' are 'the hallmarks of Canadian and Australian political life' (1973: 289).

Nevertheless, in terms of governmental structure and process, there are also some important differences, especially the divergent roles of the Prime Minister, the Upper House and Parliamentary Committees. The relatively more powerful position of the Prime Minister and his office in Canada has prompted some observers to compare the Canadian Prime Ministership with the United States Presidential style of government. The position of the Canadian Prime Minister is further reinforced by the process of election of party leaders by Party Convention. (See Van Loon and Whittington 1981.) This difference may be increasingly less significant because there are signs that the office of the Australian Prime Minister has been growing in importance in recent years. Moreover, in recent times, the issue of leadership may have increased in importance as a determinant of Australian electoral behaviour.

A further difference between parliamentary institutions in Australia and Canada lies in the role and function of the Upper House. Although in constitutional terms, the Canadian Senate has a great deal of influence (see Jackson et al. 1987), recent decades have seen the Australian Senate rise to the centre stage of political life to assume an
importance that is greater than its Canadian counterpart. An index of this increasing influence is evidenced in the growth of the Australian Senate Committee system. A reason for this phenomenon is the fact that recent Australian governing parties have often been in a minority in the Senate.

In the Lower House too, the importance of Parliamentary Committees differs between the two countries. The role of Committees and Committee work has been of greater importance, and politically more influential in the Canadian than in the Australian context. (See Jackson and Atkinson 1974, for an analysis of the Canadian system; also Kornberg and Mishler 1976.) But once again, the recent growth of Lower House Committees in Australia has tended to minimise this difference.

The third similar characteristic relevant for design purposes, is the common system of expenditure appropriation existing in both countries. Expenditure level and priorities are determined by the annual Budget process which begins in the Lower House, and passes through similar parliamentary procedures in both countries. Outside the annual budgetary context there is only minor variation of expenditure priorities.

Lastly, and importantly for our purposes of comparison, both countries have a federal system of government with the federal and sub-national units (states/provinces) of governments having specifically designated legislative and executive functions. While the type of federalism (a topic that has generated the most amount of work by scholars
interested in Australian and Canadian federalism) differs between the two countries, the relevant and crucial consideration for our purposes is that welfare functions remain divided between the federal and sub-national levels of government in Australia and Canada. (See Banting 1982, for an excellent discussion of federalism and welfare in Canada.) It could be argued that the type of federalism in Australia and Canada differs from one another. However, in an aggregate study of the kind undertaken here, it is difficult to construct measures which are sensitive to variations in the type of federalism. Moreover, such an analysis is not relevant to the issues dealt with here. The description of the principal variables having been outlined, the next task is to highlight the nature of the explanatory variables - the party structure and organisation - that differ between the two countries.

3.3 PARTY SUPPORT AND ORGANISATION AS INDEPENDENT VARIABLES

The independent variables examined in this study are briefly categorised here (they will be examined in detail in subsequent chapters) into two main groups. The first group deals with economic variables, and the second with political variables. This latter group is further classified and differentiated for purposes of analysis by considering the influences emanating from political administration and political competition. In short, the logic of the research design is to examine the impact of these variables (later
referred to as 'treatment effects') on expenditure ('outcome measures').

Broadly speaking, what is being suggested here (and this will be detailed below) is that the party systems in Australia and Canada differ from each other in two main respects: (a) in the basis of class support, and, (b) in organisational strength of parties. The absence of class-based cleavages in Canada as well as the lack of a national electorate inclines us to describe Canada as being characterised by a weak party system, whereas, by contrast, Australia has a stronger party system in that there is a degree of class support with an electorate that is not fragmented as in Canada.

To recapitulate, the proposition that has been advanced is that a strong party system, measured in terms of class support and organisation, has greater influence on welfare expenditure than would a weaker system. In this context, the Australian and Canadian data provide a useful testing ground for this proposition. The examination of these data enables the analyst to draw inferences about the nature of the linkage between party and policy. Therefore, a central interest of the study is to consider whether the marked differences in the nature of the political party system lead to differential policy outcomes through the influence of the empirically tested political variables.

From a methodological standpoint, we may be said to be invoking Mills's method of difference in that we will be drawing inferences about the mediating effect of the party
system on the independent variables. This is based on the fact that after we control for other relevant political variables, the party system (in the terms defined in the study) is the element that varies between the two countries. Inferences can be drawn about the effect of these aspects on the independent variables, and hence on policy outcomes. Of course, it is possible that there are other elements that vary between the two countries, but all possible variables which impinge on public expenditure have been controlled.

One final note of caution needs to be expressed about the design aspects of this study, particularly in relation to the independent variables: there may be factors external to those controlled for, which may influence the independent variables. This is clearly a limitation of this study. This limitation is characteristic of all 'quasi-experiment' type designs which are by definition not adequately protected from all 'threats' to the validity of the research design (Judd and Kenny 1981). Nevertheless, the chief merit of such a design is that as a reasonably controlled study, it creates a better climate for understanding the systematic issues described previously.

The diagram below represents the logic of the research design, and serves to clarify the terminology. It demonstrates the relationship between the treatment effects or independent variables (IVs), and the outcome measures or dependent variables (DVs) in the study.
Party Support and Organisation in Australia and Canada

As noted above, we have argued that the political parties in Australia and Canada may be characterised as differing in respect of two important factors, namely, the class support and the nature and extent of the organisational strength of the parties. More specifically, as regards class support, the absence of major class-based cohesive parties in Canada and their presence in Australia enables us to determine whether this factor of class-based political cleavages in the party system has an influence on welfare expenditure. It is in this sense that Australia and Canada - countries otherwise matched in terms of other relevant characteristics - provide a reasonably controlled comparative focus for explaining differences in policy outcomes between the two countries. Similarly, differences in the strength of party organisation between the two countries also permit us
to examine the effect, if any, of this element.

3.3.1 Class Support

Evidence in support of the proposition that the class cleavage in Canadian parties is not significant comes from a survey analysis carried out by Clarke et al. (1980). The latter study in fact tends to cast doubt on the proposition of an earlier work by Alford (1963) who posed the view that the party system in Canadian politics, despite its low level of class voting at the time of his analysis, would move inexorably towards class polarisation. However, Clarke et al. (1980) point out that the percentage difference in Liberal support across all occupational categories, which provide a crude measure of class interests, is not significant. In a similar manner, the New Democratic Party (NDP) in Canada has failed to capture a majority amongst any single occupational group. Again, this too is suggestive of the absence of class support for parties.

The diagram below taken from Clarke et al. (1980) shows the measure of relationship between social class and voting for the 'left' parties - the Liberal Party and the NDP - in Canada as a whole, as well as in the provinces separately. It is similar to Alford's class voting index between regions. Clarke also computed a second index of class voting using the NDP vote as the only 'left' option, but both indices were similar.
Index of Class Voting
(Liberals and NDP versus PCs and Social Credit)

Note: The indices of class voting range from -100 to +100. The positive values indicate the extent to which the working and lower classes cast proportionately more votes for the 'left' parties (the Liberal Party and the NDP) than do the middle and upper classes. Conversely, values less than 0 show the extent of middle and upper classes support for the 'left' parties in proportion to that of the working and lower classes.

Source: Clarke et al. (1980: 84).
While there are some interesting variations in class voting patterns by regions as well as by voting trends, for our purpose, the main conclusion to be drawn from this analysis is that the relationship between class and voting is weak. In this regard, a general conclusion to emerge from the survey data analysis as expressed by Clarke et al. is that the investigation of social class and vote indicates the weakness of socio-economic divisions as politically relevant cleavages in Canadian society. Confidence in this conclusion is buttressed by the fact that several measures of social class, including occupation, education, Blishen scores, and subjective assessments of social class position, all failed to yield strong correlations with voting behaviour in any of the three national surveys (1980: 86).

The comparison between the Canadian data on class and the Australian evidence, reported by Aitkin (1982a), indicates that there is a greater degree of class voting in Australia. This however, is a relative statement in relation to Canada. As recent evidence indicates, there might have occurred over the last two decades a process of de-alignment of class and party in Australia. (See Aitkin 1982a; and Kemp 1978.)

One of the earliest comparative studies of class voting in the Anglo-Saxon countries and, indeed, one of the few comparative studies of class voting in general, is Alford's (1963) analysis of the relationship between class and party. Alford's index of class voting was computed by subtracting the percentage of non-manual workers voting for 'left' parties from that of manual workers voting for 'non-left' parties. He ranked class voting in the Anglo-American democracies in the following manner:
Table 3.1: Class Voting 1952-1962

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean</th>
<th>Lowest</th>
<th>Highest</th>
<th>Based on number of surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Britain</td>
<td>40</td>
<td>35</td>
<td>44</td>
<td>8</td>
</tr>
<tr>
<td>Australia</td>
<td>33</td>
<td>27</td>
<td>37</td>
<td>10</td>
</tr>
<tr>
<td>United States</td>
<td>16</td>
<td>13</td>
<td>23</td>
<td>5</td>
</tr>
<tr>
<td>Canada</td>
<td>8</td>
<td>-1</td>
<td>17</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Alford (1963: 105).

These results, however, should be viewed with some caution as they are based on a time period earlier than that covered by Aitkin (1977; 1982a) and Kemp (1978). Furthermore, Alford's analysis is only confined to an examination of Anglo-American democracies. A larger sample of countries should be considered before arriving at a more definitive view of the causal linkages between class and party.

Nevertheless, the point we wish to make is that, in relative terms, the party system is more class-polarised in Australia than in Canada. The mean index of class voters for Canada is 8, compared with the Australian mean of 33. Indeed, in terms of the Anglo-American countries surveyed, Canada has the lowest level of class voting, leading to Alford's oft-quoted description of Canada as a case of pure 'non-class politics'.

Recent survey evidence, however, while not challenging the validity of this proposition concerning the relative degree of class voting, tends to support the thesis that, since Alford's study, there has been a narrowing of the differences in this area between the two countries. Of
course, it could be argued that Alford's analysis is flawed because he uses the NDP rather than the Liberal Party as the 'left' party in Canada. Instead, a plausible case could be argued for regarding the Liberal Party as 'left', given its perception as a more radical party than the progressive Conservatives. However, re-analysis of his data, with the Liberal Party as the major left party, does not alter the basic proposition that class voting is low in Canada, whether education, income or occupation are used singly or in combination as the measure of social class position. Class voting is also lower in all regions and with major religious grouping than it is in Britain or Australia (Alford 1963: 250).

The key to understanding the Canadian party system lies in the fragmented nature of the Canadian nation. While Canada has symbols of national integration, many of the institutions are not national in the same sense as those of a comparable federal system such as in Australia. This lack of national integrative institutions is certainly a distinctive feature of the Canadian political system. Canadian politics could be described in terms of an 'aggregation of sectional communities' (Dawson 1970). (See Porter 1965, for a classic and influential account of this aspect.) In this, it is similar to States such as Switzerland and the Netherlands where the federal systems are more decentralised.

The Canadian party system is one set of political processes which reflects this national fragmentation. One of the main differences between the Australian and Canadian party systems lies in the relative importance of a
nationalised electorate. Australia has a highly developed national electorate whereas, in Canada, the electorate is fragmented and regional loyalties predominate. As Jackman, in a study on Canadian electoral fragmentation, points out,

A review of the foregoing research leads to the conclusion that Canadian electoral politics have not become more nationalized in the twentieth century. The evidence indicates that Canadian voters were not responding to their parties in terms of national identification in the 1960's and that in this respect there has been little change in their behaviour since the 1920's. Moreover the same behaviour pattern holds regardless of whether Quebec is included or excluded from the analysis, suggesting that the presence of Quebec is not the sole reason for the results (Jackman 1972: 528).

The Table below indicates some of the marked regional contrasts in the electoral support for the main parties.

### TABLE 3.2

**Percentage of Vote by Province and Region, 1974**

(row percentages)

<table>
<thead>
<tr>
<th>Province/Region</th>
<th>Liberal</th>
<th>P.C.</th>
<th>N.D.P.</th>
<th>S.C.</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newfoundland</td>
<td>47%</td>
<td>44</td>
<td>9</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Pr Edward Is.</td>
<td>46%</td>
<td>49</td>
<td>5</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>41%</td>
<td>48</td>
<td>11</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>47%</td>
<td>33</td>
<td>9</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Atlantic Region</td>
<td>(44%)</td>
<td>(42)</td>
<td>(10)</td>
<td>(1)</td>
<td>(3)</td>
</tr>
<tr>
<td>Quebec</td>
<td>54%</td>
<td>21</td>
<td>7</td>
<td>17</td>
<td>1</td>
</tr>
<tr>
<td>Ontario</td>
<td>45%</td>
<td>35</td>
<td>19</td>
<td>x</td>
<td>1</td>
</tr>
<tr>
<td>Manitoba</td>
<td>27%</td>
<td>48</td>
<td>24</td>
<td>1</td>
<td>x</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>31%</td>
<td>36</td>
<td>32</td>
<td>1</td>
<td>x</td>
</tr>
<tr>
<td>Alberta</td>
<td>25%</td>
<td>61</td>
<td>9</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Prairie Region</td>
<td>(27%)</td>
<td>(51)</td>
<td>(19)</td>
<td>(2)</td>
<td>(1)</td>
</tr>
<tr>
<td>British Columbia</td>
<td>33%</td>
<td>42</td>
<td>23</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Canada</td>
<td>43%</td>
<td>35</td>
<td>15</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

\[ a \]

**Range:** 29 40 27 17 8

\[ x \] Less than 1%

\[ a \]

Range in percentage of popular vote across provinces

**Source:** Clarke et al. (1980: 75).
The results above indicate that for the 1974 election, the range of the Liberal vote is 29%, from a maximum of 54% for Quebec to a minimum of 25% for Alberta. The variability of the NDP and the PC vote is as great, if not greater than the Liberal vote with a variation of 40% and 27% respectively.

This evidence lends support to the proposition that a characteristic feature of the Canadian electorate is its regional fragmentation that at the same time is reinforced by religious and ethnic cleavages. Alford underscored this by noting that

This evidence of the non-class linked bases of party support underlies the fundamental cause of low class voting in Canada. Embedded within a nation where the majority is Protestant and British linked, is the enclave of traditionalist French speaking Catholic Quebec. Unlike the social cleavages in the other Anglo-American countries which cross-cut each other, Quebec unifies several crucial cleavages - ethnic, language, cultural, religious and even (to some extent) class - and these are bulwarked by a semi-autonomous political unit coexistent with boundaries of the separate culture (1963: 528).

The importance attached to regional (as well as religious) cleavages is one characteristic that distinguishes the Canadian and Australian party systems. Analysis of regional variance in electoral support in Australia has confirmed that there had indeed been an increasing nationalization of mass political responses in Australia from 1940 to 1972, with a declining proportion of variance attributable to state or local factors (Kemp 1978: 257).

It is the fragmentation of the electorate which lies at the heart of the differences in the respective party systems. Alford's comments quoted above underline the importance of
Quebec in understanding the evolution of the party. Similarly, the Canadian West has been equally important, resulting in the formation of various agrarian protest parties such as Social Credit and the Co-operative Commonwealth Federation, later the NDP.

The differences in the relative fragmentation of party support relate to the emergence of the established mainstream parties. Whereas the Australian party system was organised around the articulation of economic interest, the Canadian system centred around the representation of regional interests. The difference between the Australian and Canadian party systems lies in the notion of interest, which in turn helps to shape the structure of the political arena. This difference in the type of interest forms the basis for the relative degree of integration of the electorates.

While these differences in the mode of representation are due to a range of factors, the chief of which are political culture and the strength of labour organisation and the time of the crystallisation of the party system, the important fact to note, however, is that the party not only reflects underlying social cleavages; it also reinforces and shapes these cleavages. The differences in modes of representation shape the conception of politics. Hence in Canadian politics it is seen in predominantly non-class terms and dominated by regional interests. Consequently, the parties tend to reinforce the fragmentation of the Canadian electorate.
3.3.2 Party Organisation

A further characteristic of the party system particularly relevant to the party and policy links examined in this study is the difference in the strength of party organisations at the federal level and its relationship to policy outcomes. As a general proposition it may be stated that the Canadian party organisations are primarily provincial rather than national. Thus according to Epstein, 'in the two major national parties, one finds the principal structural elements at the provincial level' (1970: 339). For the purpose of thesis, the important point is that the Canadian party system operates at two different levels: provincial and national.

As against this, the Australian party organisations in the context of a federal structure, do have a greater national presence. (See Starr et al. 1978; Walker and Watson 1976, for a general outline.) Admittedly, this varies greatly from party to party, with the ALP having a strong and increasingly centralised national organisation. Indeed the national executive of the ALP has the power to intervene in State party branches - the ultimate sanction of a national party organisation (see Crisp 1978; Jupp 1963). Although the Liberal Party and NCP have a less centralised organisation and are more state-based (see West 1965), in recent years there has been a move towards a greater degree of centralisation within the Liberal Party as well. Therefore in terms of the federal structure in both Australia and
Canada, party organisation as a variable has different degrees of centralisation of party structure.

Related to the lack of a strong national party structure is the lack of extra-parliamentary activity in Canada. In this regard Epstein points out that,

extra-Parliamentary organizations are loose and non-doctrinal at every level. Regardless of the nature of their parliamentary wings, the external Liberal and Conservative organizations resemble their Liberal and Republican and Democratic counterparts in the United States (1970: 331).

While Canadian party organisations have changed significantly in structure since Epstein's research, the significant point of interest is the relative lack of organisational strength in comparison with the Australian party system. In making this generalisation it should be noted that individual parties in the two countries differ between themselves in the degree of organisational strength. In Australia for example, the ALP has a stronger extra-parliamentary wing than the Liberal Party (Crisp 1978), whose strength lies more in its stronger parliamentary organisation than the extra-parliamentary wing (West 1965).

To sum up, the Canadian and Australian parties differ significantly in the extent of class polarisation of the party system. In Canada, these differences are related to the lack of a nationalised electorate and the consequent importance of regional loyalties in the formation of the party system. Contrary to the highly nationalised electorate in Australia and its socio-economic cleavages, the distinctive feature of the Canadian electorate, and hence the
basis of party support, lies in its \textit{fragmentation}. Associated with this feature of the Canadian party system is the relative organisational weakness of national parties in Canada in relation to the main parties in Australia.

3.4 \textbf{OUTCOME MEASURES: PUBLIC EXPENDITURES AS THE DEPENDENT VARIABLE}

In measuring outcomes, an important question for comparative expenditure studies is comparability of expenditure. The problem is obvious, but it needs reiteration. As we argue below, federal welfare expenditure in Australia and Canada has a sufficient broad similarity for interesting comparative conclusions to be made. Nevertheless, federal expenditures in both countries are not fully comparable. An example of this is federal education expenditure in Canada: it is confined to the provision of funding to the provinces for post-secondary expenditure. On the other hand, education expenditure for Australia has a much wider field of reference.

In addition to this problem of comparability, caution needs to be exercised in relation to the inferences about welfare from expenditure statistics. Expenditure is only one approximation of the overall welfare of a nation. As Saunders appropriately notes in the Australian context:

It would, however be inappropriate to make too much of such international comparisons. They should certainly not be used for prescriptive purposes by arguing, for example, that Australia's relatively low level of spending provides sufficient justification for increasing future commitments. Such simplistic analysis can be counter-productive in the longer term. Recent research (Saunders 1986, 1987) suggests several reasons why social security (and other government)
spending levels in Australia are low by international standards (1987: 412).

The outcomes measured in the study can be disaggregated into five main expenditure categories: (i) social welfare, (ii) health, (iii) education, (iv) total welfare expenditure and (v) total expenditure.

Total expenditure, the last category, deserves a brief note of explanation. It is included in the analysis primarily to provide a comparison with non-welfare expenditure, but this variable also has intrinsic value and warrants inclusion in its own right as most explanations offered for the growth of social expenditure may be equally applied to total expenditure. In the empirical analysis we have undertaken, social expenditures are regarded as fiscal measures used in the implementation of welfare policy. As will be observed in the next chapter, the expenditure determinant literature, for the most part, uses expenditure as an operationalised measure for policy.

In the present study, federal social expenditure is taken as an operational measure of social welfare policy. It is recognised that this line of reasoning is not without its critics. It has come under attack from a wide variety of critics (among others, Donnison and Chapman 1965; Scotton 1978), some of whom argue that expenditure is a poor measure of welfare, and particularly of redistribution, which is seen as the ultimate objective of most social policies. However, the theoretical and empirical problems (such as the problem of building adequate policies) inherent in the use of social
indicators, and also those associated with operationalising measures of redistribution, are further compounded in a time-series analysis. For these reasons, social expenditure still remains a valid and defensible measure to use in an empirical study of this nature. But, as Scotton himself points out, public expenditure for social purposes is

the most important single instrument of social policy, if only because it is the principal source of income for income units outside the work force, and for unemployed people within it. In addition, of course, public outlays supplement a large number of other incomes and strongly condition the provision of, and access to, socially vital consumption in the fields of education, health, welfare and housing (1978: 8-9).

Turning to the description of the social expenditure data used in this analysis, we note that it is based on public federal expenditure data provided annually in both Australia and Canada. For Australia, these data correspond to expenditure coming under the purview of the federal government portfolios of social security, health, and education, and made available in the Annual Budget Papers. Hence, the statistics reported in this chapter as federal public expenditure correspond to the public expenditure figures reported in the Annual Budget Papers. This usage is consistent with the notion of expenditures used by other scholars such as Scotton (1978), who points out that this usage differs from the Australian National Accounts definition of public expenditure which is premised on the distinction between final expenditures and transfer payments—that is, between expenditures undertaken by the public sector and payments to households and private business enterprises, in the form of cash benefits, subsidies and grants for private purposes. Public final
expenditure are a component of final demand, while transfer payments are not. The implication is that one has a direct impact on the allocation of resources while the other is merely a redistribution of income, with any allocation effects limited to the extent that the spending patterns of the recipients of transfers are different from those of the people from whom income has been transferred (Scotton 1978: 9).

With respect to the Australian data, this study differs from the expenditure analysis presented by Scotton as well as the more recent OECD (1985) comparative analysis of income-maintenance expenditure in that it includes only federal expenditure and excludes the state and local government expenditure. However, it needs to be pointed out that most of the economic analysis of expenditure in Australia, as well as in Canada has centred on analysis of the total extent of federal and state/provincial expenditure. (For an important Canadian study see Bird 1970.) Given the predominant interest of this study in the linkage between national political variables and expenditure, it is important for the logic of our argument to confine the empirical analysis to federal public expenditure. While the division between federal and state spending varies between Australia and Canada, there is sufficient similarity between federal programmes, especially in the area of social welfare, for comparison to be meaningful.

3.4.1 Outline of Expenditure Variables

Given below is a brief description of the chief components of the federal expenditure in social welfare, health and education in the two countries.
Social Welfare Expenditure

Canadian federal social welfare expenditure includes the major income security programmes, namely, family and youth allowances, old age security, guaranteed income supplement and veterans' pensions. Canadian social welfare expenditure also includes federal-provincial income-insurance programmes and federal-provincial cost-sharing insurance and income security programmes, the main components of which are the Canada and Quebec Pension Plan, Unemployment-Insurance, Old Age Pensions, and the Canada Assistance Plan.

For Australia, social welfare expenditure at the federal level, till 1985, consisted solely of income security payments coming within the portfolio of the Department of Social Security. The main components of these payments are: old age pensions, unemployment insurance, single parent benefits, and family income supplements.

Education Expenditure

Education expenditure in both countries consists of federal transfers to the states/provinces. The Australian figures include those for education in the Annual Budget Papers. It should be noted, however, that we deal with Canadian expenditure only up to the year 1975, that is, before the substantial reorganisation of federal grants to the provinces which took place in 1977 (Banting 1982). The restriction to 1975 is warranted because of the significant changes in the principles of provincial allocations that occurred after 1975.
Health Expenditure

Health expenditure is an area where the introduction of new programmes in both countries has resulted in marked expenditure increases. Canadian health expenditure increased significantly in the late 1950s with the introduction of the Federal Hospital Insurance Diagnostic Service Act in 1958 which provided 50% of the cost of provincial health expenditure. The introduction of Medical Care Programme in 1966 introduced funding for one half of the per capita cost of medical insurance for each member of its insured population. The Australian health expenditure category includes provision of funding for public hospitals and health insurance programmes. The expenditure included in this category is under the appropriation for the Ministry of Health in the Annual Budget Papers.

Total Welfare Expenditure

Total welfare expenditure for both countries consists simply of the aggregation of federal social welfare, health and education expenditure.

Total Expenditure

In both Australian and Canada, total expenditure consists of total federal government outlays and refers to the total federal budget expenditure. In addition to state expenditures, this includes outlays on defence and infrastructure services.
3.4.2 Specification of the Dependent Variable

For the purpose of the empirical analysis undertaken, the expenditures previously examined in the study are deflated by the consumer price index for the two countries in order to arrive at a 'real expenditure level' for each of the expenditure categories. But the actual 'real levels' of expenditure are not used in the analysis. Instead, the dependent variables are specified in terms of *changes* in real expenditure arrived at by the subtraction of the current annual expenditure from the previous year's expenditure.

The specification of the dependent variable in terms of change is justified because, as the works of Shalev (1983) and Hicks and Swank (1984) suggest, the analytical focus of expenditure determinant studies is found to be on the determinants of the rates of changes in expenditure rather than on absolute levels of expenditure. The significant feature of the growth of welfare lies not so much in the increase in the absolute level of expenditure, but in the changes to the *rate* of expenditure growth. The latter is characteristic of all OECD countries where there has been an expansion of welfare expenditure in absolute terms.

Moreover, real change in expenditure is superior to other specifications of the dependent variable such as per-capita income or share of the Gross Domestic Product (GDP) in cases where the research problem concerns an examination of the behaviour of government and political parties. If these actors do behave *strategically*, policy is likely to involve changes in the real level of expenditure because the
electorate perceives changes in this manner rather than in terms of per-capita or GDP change in expenditure.

It should be mentioned, however, that there are serious problems involved in the deflation of expenditure by the consumer price index. The most important of these, as noted by Bird (1970), is the difficulty encountered by government when adjusting in any direct manner for differences in output over time. Indeed, as Baumol (1967) has so convincingly argued, the labour-intensive nature of governmental activity combined with low levels of productivity have created cost pressures on expenditure, which are significantly greater than in the private sector. However, despite these limitations, price deflation remains the best instrument for measuring real expenditure levels because of the difficulty of obtaining adequate deflators which would reflect changes in government cost over the time period studied.

In summary, this chapter has delineated some of the central analytical concerns and issues that the study set out to examine. The most important of such analytical issues was an investigation of the link between different party systems and policy outcomes. The results of such an investigation would leave us well placed to consider the relative merits of two competing models of party and policy - the structural and strategic actor models.

3.4.3 Nature of Sample

The time-series data for the expenditure variables have
been collected for Canada and Australia. For Australia the sample spans the period 1950-1980 (n=31), and for Canada, it spans the period 1945-1975 (n=31). For both countries this broadly covers the post-war period, and subsumes the crucial period in which the welfare state was constructed. Indeed, while many principal social programmes were established prior to the post-war period, the large increase in federal social expenditure was an outcome of post-war developments.

One final point needs to be made regarding the extra five years, for Australia, that is, 1975-1980. At a first glance it might appear that this extra period will lead to a loss of comparative focus, thereby diminishing the force of the conclusions drawn in the study. The reason for the lack of comparable Canadian data is practical - the lack of access to contemporary Canadian expenditure comparable with the expenditure series used by the study. At a more conceptual level, this missing period should not detract from the conclusions drawn by the study for two reasons. First, the primary interest of this thesis is in the operation of broad political and economic forces which would be little affected by small changes in the period. Second, the thesis does not focus specifically on the dynamic of welfare growth in one particular period, though of course, this remains an important area for research.
3.5 TIME-SERIES AND DATA ANALYSIS

The Problem of Serial Correlation

Regression analysis is the main method of statistical analysis employed in this study. The normal regression model consists of the following six assumptions where the function is \( y = b_0 + b_1 x_1 + U_1 \) (Ostrom 1978; see also Johnston 1984; Pindick and Rubinfield 1978):

1. \( U_1 \) is a random variable
2. The mean value of 'U' in any particular period is zero.
3. The variance of 'U' is consistent in each period
4. The variable 'U' has a normal distribution
5. The random sample of different observations \((U_i U_j)\) are independent
6. 'U' is independent of the explanatory variable

One of the assumptions of the classical normal linear regression models is non-autoregression in the residuals. As this study uses different regression models which are estimated from time-series data, a key assumption of these regression tests is that the disturbance occurring at any one point is not correlated with any other disturbance (Johnston 1984). Put differently, the disturbances are not a function of previous values. As the observation field is composed of time-series data, the biggest potential problem with the statistical analysis is the problem of serial correlation.

The assumption of course, may not be valid within time-series data, and this is especially so in the case of expenditure series because one expects the present
expenditure value to be a function of past expenditure. Indeed, a critical feature of this study is the control for influence of time on expenditure (discussed in Chapter 1) as a means of assessing the influence of incrementalism, which is the dependence of present budgetary appropriations on previous appropriations. The detection of autocorrelation and the correction for it is not merely the filtering out of 'statistical noise', but a measure of the influence of bureaucratic factors. In this analysis, therefore, the presence of autocorrelation is both an indication of a statistical and conceptual nature. Statistically, it pinpoints the correlation between the past and present values. Conceptually, the statistical noise indicates the latent presence of a certain mode of budgeting, that is, incrementalism.

The main problem with time-series data such as expenditure series influenced by autoregression is that the value of the least squares estimators are affected, and though they remain unbiased, are no longer the best linear unbiased estimators. In other words, though the estimators are unbiased and consistent, they are not asymptotically efficient (Kmenta 1971; Johnston 1984). In order to carry out the testing of the hypotheses, the estimators need to be not only unbiased but must also have unbiased minimum variance. (See Kmenta 1971; Johnston 1984; Pindyck and Rubinfield 1978.) As Peroff points out, in these instances,

Conventional formulas for carrying out tests of significance or constructing confidence intervals for
the regression coefficients may lead to incorrect statements. The calculated acceptance regions or confidence intervals will be either narrow or wider than the 'true' ones, depending on whether the bias in estimating the variance is negative or positive (1977: 77).

There are several procedures that can be used to correct for serial correlation. One such method is the use of lagged variables in the equation. The problem with this procedure is that the current and lagged values of a variable will be highly correlated and this leads to a compounding of their separate effects on the dependent variable (Hibbs 1974).

Another procedure is the method of first-difference. It calls for the transformation of the original data on 'y' and 'x' into first difference:

\[ Y_t - Y_{t-1} \text{ and } X_t - X_{t-1} \]

The equation: \[ Y = a + bX_t + e_t \]

becomes \[ Y_t - Y_{t-1} = a^* + B(X_t - X_{t-1}) + (e_t - e_{t-1}) \]

where \[ a^* = 0 \]

The equation can then be estimated by Ordinary Least Squares (OLS). The assumption behind this method is that the auto-correlation coefficient is close to unity. As Kmenta (1971) notes, the estimated variance of the regression coefficients is small when the autocorrelation is close to unity, but relatively large when it is small. As a result, the estimates of the variance of the coefficient in the first differences equation may still not be the most efficient.
estimators. Hence the problem of using these estimators for significance testing is the same as those outlined for serial correlation. The method therefore is not appropriate if the autocorrelation coefficient is not unity.

Another possible way to correct for the presence of serial correlation and to measure the extent of any incremental budgetary process is the inclusion of lagged dependent variables. Indeed, many of the early budgeting (Wildavsky 1966) used such a variable to measure the influence of incrementalism. The inclusion of a lagged dependent variable appears to be the easiest method of correcting for serial correlation.

However, the combination of lagged values and autocorrelation disturbances means that OLS estimators will no longer be consistent. As Johnston points out,

> Autocorrelated disturbances without lagged Y values do not produce biased estimators, even in small samples; lagged Y values with random disturbances will give OLS estimators which are consistent, though biased in finite samples; the combination of the two problems, however, throws OLS off-beam and gives inconsistent estimators (1972: 307).

In a similar context Ostrom adds that

> if we have a model with lagged values of the dependent variable serving as explanatory variables and the positive serial correlation, we are likely to be overconfident about the fit of the model. That is, we are likely to overestimate b, underestimate p, and d will be biased towards 2.00 (1978: 51).

The basic technical problem here is that the current and lagged values will be highly correlated and this leads to a compounding of their separate effects on the dependent variable.
Another minor factor which weighs against the use of lagged dependent variables is the fact that in a small sample regression such as that utilised in this text, the inclusion of an additional explanatory variable will further diminish the degree of freedom available to the analysts.

A more appropriate procedure for estimating parameters is based on the theory of Generalized Least Squares (GLS). This procedure does not require the assumption that autocorrelation coefficient is 1. The method is based on least squares estimation of transformed variables. The transformed variable can be presented as follows ('p' is the autocorrelation coefficient).

\[
Y^*_1 = Y_1 (1-p^2)
\]

\[
X^*_1 = X_1 (1-p^2)
\]

\[
Y^* = Y_t - pY_{t-1}
\]

\[
X^* = X_t - pX_{t-1}
\]

The errors are also implicitly transformed;

\[
U^*_1 = U_1 (1-p^2)
\]

\[
U^*_t = U_t - pU_{(t-1)}
\]

The GLS estimator has minimum variance in the class of linear unbiased estimator. Unlike the classical Ordinary
Least Squares (OLS) estimators, the virtue of GLS estimation procedure is that it yields an unbiased estimate of the error variance when disturbances are autocorrelated (Aitken 1935; Johnston 1978).

The efficacy of the GLS method depends on knowing the autocorrelation parameter. Since this is rarely the case, several procedures have been constituted for estimating 'p' and using it to improve the efficiency of OLS. A common method that is used, and also utilised in this study, is the Cochrane-Orcutt method. It is similar to GLS, but not exactly the same, as it depends on reducing the sample size from N to N-1. The Cochrane-Orcutt procedure involves an iterative process of estimating several values of 'p' until that value which provides the minimum sum of squares is obtained (Johnston 1978). Ostrom (1978) notes two questions raised by this process: (i) convergence, and (ii) local minima versus global minimum, that is, the existence of multiple solutions. With respect to these problems, it has been shown that this

iterative process will always converge to a stationary value of the sum of squares with respect to the possibility of several local minima (in which case the process would converge to one of them depending on the starting point). Sargen found that in a large number of studies there was no occurrence of multiple minima" (Peroff 1977: 24).

(For an excellent discussion of these issues in the context of time-series modelling see Hibbs 1974.)
3.6 **SUMMARY AND CONCLUSION**

To sum up, the basis of the research design utilised in this study is a quasi-experimental form of comparative testing. The basis of selection of units for analysis is based on the similar features of the two countries being tested. While this does not rule out the operation of factors external to those controlled for in this study a similar systems design allows the analyst to draw confident conclusions as to the effect of the treatment variables on outcomes measures.\(^7\)

In addition to this aspect of the research design, another key feature of the analysis is the use of time-series data. In examining time-series data, attention has been drawn to the important problems of auto-correlation, and the procedures for correcting these problems. Having outlined the research problem, the historical context, and the rationale and justification for the research strategy, we now move on to consider the main empirical problems of this thesis.

**NOTES**

1. Przeworski and Tenue (1970) contain an interesting plea for a different systems framework. But their approach is premised on both availability of comparative data and a solid conceptual framework which allows examination of hypotheses in 'different systems'. Both of these conditions are difficult to obtain in the social sciences which is the area of concern to Przeworski and Tenue.

2. The Hartz thesis has not had wide application in Australia, but for Canada see Horowitz (1966).
3. For an excellent introduction to the Canadian legislative system see Jackson and Atkinson (1974). For a discussion of the form of responsible government in Australia see Archer (1980); Weller and Jaensch (1980).

4. For a comparative study of Australian and Canadian Prime Ministers see Weller (1985); for the role of the Canadian Prime Minister see Punnett (1977); for the Canadian Senate see Kunz (1965). The theory of the Westminster form of responsible government should be qualified for Australia. The Senate in Australia has equal power with the House of Representatives thereby providing conditions for conflict, as those which led to the dismissal of the Whitlam government in 1975.

5. For an account of Canadian leadership conventions see Smiley (1968) and Courtney (1973).

6. The type of federalism in Australia and Canada does vary considerably. Broadly, Canada has a more decentralised system of federal and provincial relations than Australia (Banting 1982; Aitkin 1982a). Canadian federalism is similar to patterns of elite accommodation observed in states such as Switzerland and the Netherlands (Lijphart 1968; Porter 1965). For a survey of the influence of federalism on policy making in Canada, see Simeon (1972).

7. The statistical analysis presented in this thesis relies on 'beta' coefficients rather than partial regression coefficients. The main reason for this is because the thesis is concerned not so much with prediction as with the testing of hypothesis. In this context, the interest of the thesis lies in the falsification of conjectures in the Popperian sense.
CHAPTER 4

THE ECONOMIC AND SOCIAL DETERMINANTS
OF PUBLIC POLICY

4.1 INTRODUCTION

The objective of this chapter is twofold. The first is to examine the economic and social determinants of policy outcomes. Such an examination is important not only in terms of the evaluation of the larger controversy between the advocates of economic and political theories of policy, but also in terms of understanding the sub-structure on which policy outcomes are founded. To use a metaphor, economic and social structural determinants provide the scaffolding on which are built the political factors that influence policy.

The second objective is to understand the process by which the common economic structure of both countries (Goodman 1964) influences the nature of public expenditure outcome. Such an analysis is important because, while the two countries are similar to West European nations in terms of Gross National Product per capita (GNP), the dependence of the Australian and Canadian economies on the export of primary commodities sharply distinguishes these economic structures from the West European model.

The study of economic determinants of public expenditure has a long history, but it was Adolf Wagner, a German economist, who first inspired interest in the subject.¹ Wagner's theory of public policy and public expenditure can best be described as a research programme in the Lakatosian
Lakatos 1970) sense rather than as a fully developed body of rigorous hypotheses. The notion of the research programme, that is, a series of common assumptions guiding theoretical work, best sums up the tradition of scholarly inquiry stimulated by Wagner's work. The evolution of the research programme and the availability of better data and techniques have led to the development of a variety of competing models. The common 'hard core' - in the Lakatosian sense - of the research programme is the idea of a link between levels of economic development and the growth of the public sector. Associated with this idea is the concept of public policy and public expenditure as a response to the needs, or the consequences of economic development. These two concepts define the limits of the research programme (Tarschys 1975), the boundaries of which are necessarily broad.

The 'positive heuristic' of the research programme, to use Lakatos's terminology, is the attempt to develop, both theoretically and empirically, causal linkages between public expenditure and economic development. The existence of competing models within the research programme should be understood not in terms of compatibility of the later formulation of the Wagnerian hypothesis to its original one, but as an attempt to defend the hard core of the research programme.
4.2 HISTORICAL DEVELOPMENT OF THE WAGNERIAN MODEL

Before proceeding to formulate and test Wagner's model, it is instructive to examine the original model and some critical work which has influenced its development. Some of this ground, already covered in Chapter 1, is further developed in this chapter. Wagner's (1890) basic insight was that a growing public sector is the inevitable consequence of economic growth and industrial development. While this does not seem a highly original notion in the late 20th century, the concept was novel at the time. The following quotation from Tarschys exemplifies (barring some notable exceptions such as Adam Smith, the early Socialists and Marx) the prevailing view of governmental activity:

In the age of Enlightenment it was a common view that the scope of government actions would diminish through the moral and economic evolution of mankind. Authority was required in so far as people were unable to control themselves and manage their own affairs. As they matured, however, they would no longer need guidance (Tarschys 1975: 10).

This 'enlightenment' view was not shared by Wagner, who was convinced after an analysis of public expenditure trends that government activity would tend to increase rather than diminish with economic development. Wagner discerned a 'law' of increasing governmental activity,

the result of empirical observation in progressive countries at least in our Western civilization; its explanation, justification and cause is the pressure for social progress and the resulting changes in the relative spheres of private and public economy, especially compulsory public economy. Financial stringency may hamper the expansion of state activities causing their extent to be conditioned by revenue rather than the other way around as is more usual. But in the long run the desire for the development of a progressive people will always
overcome these financial difficulties (Wagner 1890, in Musgrave and Peacock 1958: 8.)

The growth of public expenditure itself is explained with reference to several processes. Firstly, defence costs would increase as the nation invested in sophisticated weaponry; secondly, the greater complexity of society would result in a need for more public control in areas such as law and social defence; thirdly, the ability of the government to meet demands for public goods that are income-elastic would lead to increased government expenditure. Of these, the second and third are the central components of the Wagner explanation. As regards the third, Tarschys notes that, for Wagner,

Education and culture were fields where collective producers were by and large more efficient than private ones. Hence, the public sector would grow as basic needs were satisfied and the consumption pattern shifted in this direction (Tarschys 1975: 10).

F.S.Nitti (1920), an Italian economist, was perhaps one of the first to examine public expenditure trends in several countries. He observed a tendency for expenditure to increase, and speculated that some of the causes for this trend were the continued increase in military expenditure, the growth of public works and the development of forms of social control. Nitti laid particular emphasis on the impact of urbanisation and population density in accounting for expenditure growth.

In another early study, Arnold Brecht (in Tarschys 1975) compared public expenditure in different German Länder or sub-national units during the Weimar Republic. His
findings also supported Nitti's work by stressing the importance of population density and urbanisation as causal factors in accounting for expenditure differences. Brecht's work was important in being one of the first efforts to empirically examine sub-national differences in expenditure, a tradition that was carried on by the American economist, Solomon Fabricant (1952).

In terms of methodology, technical sophistication and scope, the work of Fabricant (1952) remains the classic work on the determinants of government expenditure. Fabricant, in his account of expenditure differences among American States, concluded that three main variables accounted for most of the variance in expenditure. These three variables were income, urbanisation and per-capita income. Fabricant argued that, of this trinity of variables, income was by far the most important overall, even though urbanisation was a central factor in explaining expenditure variation in specific areas such as fire-protection, sanitation and social welfare.

Fabricant's work proved to be a direct stimulus to economists, who produced a number of studies of inter-state expenditure differences. These studies were followed by political scientists whose interest lay primarily in the examination of the role of the political as against the economic determinants of policy. Foremost among the latter was Thomas Dye (1966) who, after examining inter-state expenditure differences in the United States, argued that economic rather than political variables were a better
predictor of expenditure differences. Referring to the economic variables themselves, Dye found that income was by far the best predictor of state expenditure. (For another important early study see Sharkansky & Hofferbert 1969.)

Besides this work of Dye, Pryor (1968) too, in a more cross-national context, examined some of the economic determinants of public expenditure, and showed that the 'economic systems variables' accounted only for some items of expenditure, such as, research, non-military external security, internal security and foreign aid, but not for defence, health or welfare. Likewise, per capita income failed to account for spending on military purposes, health and education, but related in a significant manner to such items of expenditure as foreign aid, research and development and internal security.

4.3 TESTING MODELS OF ECONOMIC AND SOCIAL DETERMINANTS OF POLICY

The test of the economic research programme has been carried out in two phases or separate stages of analysis. The first of these is to test the original Wagnerian hypothesis concerning the relation of the elasticity of expenditure to economic development. This version of the model, termed by us in this study as the 'income elasticity model', is not a structural or a causal one, in that it does not seek to isolate the linkages between economic growth and public expenditure. What it does is to test the statistical relationship between growth in Gross Domestic Product (GDP)
and elasticity of expenditure, which in theoretical terms would be assumed to grow more than proportionately because expenditure is income-elastic in terms of the Wagner law of expanding government activity. In other words, as economic resources available to a nation increases, the demand for public goods and services grows at a linear or exponential rate. The income elasticity model therefore is a proposition about the relationship between the increase in economic resources of a nation and the resultant expansion in expenditure. Moreover, central to this notion is the argument that expenditure will outstrip the growth in income. The hypothesis, as noted below, can be examined in terms of GDP per capita. However, both in terms of the objectives of the thesis and the technical problems involved in having GDP on both sides of the equation, nominal expenditure is a more relevant test of the Wagnerian thesis.

The second phase involves the testing of a more structural hypothesis concerning the 'causal' linkages between economic development and public expenditure. An appropriate metaphor for this stage of analysis is that it is more concerned with the 'hydraulics' rather than the 'mechanics' of the relationship between economic variables and expenditure. We seek to examine the variety of causal models that have been proposed to explain the growth of expenditure. Two distinct 'causal' models are identified. The first, termed an economic needs model, lays emphasis on the primary importance of economic factors in the growth of State expenditure. The second, termed a social needs model,
gives emphasis to the alleviation of social needs (arising as a consequence of industrialisation), and is distinguished from the economic model in placing greater weight on social structural variables such as demographic changes in explaining expenditure changes.

4.4 A TEST OF THE INCOME EFFECT

4.4.1 The Income Elasticity Model

There has been debate over the precise specification of the dependent variable in models which test the notion of the primacy of economic development in explaining public expenditure. Indeed, often the differences observed in relation to these competing hypotheses appear to rest on the characterisation of the dependent variable. Three major specifications of the dependent variable can be identified. The first is found in the model of Peacock and Wiseman (1967), who hypothesise that public expenditure rises faster than output, the dependent variable in this version being aggregate expenditure. Another specification of the dependent variable is evident in Pryor's hypothesis, namely, that in 'growing economies the share of public consumption expenditure in the national income rises' (1968: 451). In this formulation, the dependent variable is the share of public consumption expenditure. A third version of the dependent variable is presented by Musgrave (1969) who contends that Wagner's hypothesis must be interpreted in terms of the increase in the share of the public sector relative to GNP.
The analysis of the elasticity of expenditure carried out in this chapter is based on the Peacock and Wiseman (1967) formulation, using aggregate nominal expenditure as the dependent variable. This specification has been selected in preference to Musgrave's interpretation which poses some technical problems for regression analysis because the denominators of the dependent and the independent variables are identical (see Mann 1980). The model can be specified as:

\[ E = f(GDP) \]

where \( E \) = level of aggregate expenditure

\( GDP \) = Gross Domestic Product

Expenditure elasticity as a concept denotes the response of expenditure to an increase in GDP. The basic proposition being tested is that as GDP increases, expenditure will increase more than proportionately to GDP. In statistical terms, the hypothesis to be tested proposes that the elasticity of expenditure is greater than one. The growth in GDP should result in the demand for public or collective goods and services to increase more than proportionately to the growth in economic resources (Mann 1980: 190).

The income-elasticity model has been tested in the general logarithmic form, so that the elasticity of expenditure can be derived directly. (This is examined for both Australia and Canada.) The general regression equation is as follows:
\[ \log y = a + b \log x \]

where \( b \) = elasticity of expenditure

The expenditure categories (dependent variables) covered are social welfare, health, education total welfare and total expenditure. In terms of the model specified above, the values of all the expenditure categories are specified in nominal terms as are the values of Gross Domestic Product (independent variables).

Table 4.1 outlines the main results of the analysis. Included in this Table is also the mean rate of changes in nominal expenditure expressed in percentage terms so that comparison can be made not only with the elasticity coefficient, but also with the results of the structural model presented later on in the chapter.
### 4.4.2 Results and Discussion

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Elasticity Coefficient</th>
<th>Nominal Expenditure Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aus: 1.1</td>
<td>Can: 1.2</td>
</tr>
<tr>
<td>Social Welfare</td>
<td>8.9</td>
<td>11.0</td>
</tr>
<tr>
<td>Education</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>25.1</td>
<td>36.7</td>
</tr>
<tr>
<td>Health</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>16.6</td>
<td>12.0</td>
</tr>
<tr>
<td>Total Welfare</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>9.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>1.1</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>10.4</td>
<td>10.1</td>
</tr>
</tbody>
</table>

**Note:**

- a) For Australia the period tested is 1950 to 1980; for Canada the period tested is 1945 to 1975.
- b) The elasticity coefficients for both countries are significant at p < .01.
- c) Nominal expenditure growth rate is a figure calculated on the basis of changes in current expenditure over previous year's expenditure as a proportion of expenditure (in percentage terms). The figures are the mean values for the periods defined in Note a.
- d) For sources see Appendix 1.
- e) Aus: Australia; Can: Canada.

This may not be an entirely fully appropriate test of the income elasticity hypothesis, because the examination of federal government expenditure does not fully and properly test a proposition relating to the expansion of public expenditure in general. The hypothesis examined is therefore
of the elasticity of federal expenditure. However, as federal government expenditure in both countries has been an area which has risen markedly in the last few decades, the analysis retains much of its strength. Nevertheless, there is ground for belief that the elasticity of health and education expenditure would be greater if non-federal expenditure was compared. Considering that only federal expenditure was taken into account, caution should be exercised when comparing the elasticity of expenditure of unitary state systems with federal states.

The results presented in Table 4.1 show a positive relationship between GDP and elasticity of expenditure in all the expenditure categories examined for both countries. The analysis of the elasticity coefficients for all expenditure categories confirm Wagner's hypothesis that expenditure grows more than proportionately with the growth of GDP. In terms of the hypothesis tested therefore, elasticity is greater than one. Before examining these results it should be mentioned that the analysis was confined to the post-war period which was characterised by high rates of expenditure growth in comparison with the pre-war period.

The striking feature of the results of the analysis is the degree to which the coefficients are similar across expenditure categories for both countries. This pattern of results is consistent with the rate of growth of nominal expenditure outlined in Table 4.1.

The elasticity coefficients of social welfare for both
expenditure categories examined. This pattern indicates that social security expenditure has had the lowest rates of growth in the welfare expenditure categories examined.

Indeed, the Canadian results indicate that both health and education expenditure grew by 2.2 and 1.2 respectively whereas for Australia the comparable figures were 2.5 and 1.5. The Canadian figures reflect the fact that once the major social insurance programmes were established, the rate of growth of social welfare expenditure was largely predictable. On the other hand, Canada in the 1960s and 1970s witnessed increasing debate over health policy with the federal government intervening to establish guidelines for the provision of health insurance (Taylor 1978). In a similar manner, education expenditure by the federal government has increased rapidly in the Canadian context. The largest expansion in the welfare budget has been in education expenditure (OECD 1978). The results of the analysis of the political variables suggest that while social welfare was subject to influence of party in government in the 1950s (after controlling for incremental forces), it was predominantly the health and education expenditures that were subject to political influence in the 1960s and 1970s. It should be noted however that in Canada, federal education expenditure was almost non-existent before the 1950s and hence the rapid escalation of expenditure reflects the low base from which it started.

In a similar manner, Australian health expenditure has...
the highest elasticity coefficient for all the expenditure categories. This again reflects the emergence of health as a political issue in the late 1960s and the eventual introduction of Medibank by the Whitlam Labor Government. This along with changed federal-state relations with respect to public hospitals created the conditions for increases in health expenditure.

In respect of education expenditure, the Australian and Canadian figures differ in the degree of their responsiveness to expenditure changes. The reason for this difference is the vast increase in Canadian education expenditure, an increase which stands out in the analysis of Canadian expenditure data.

The final point of note in the analysis of the elasticity coefficients is the degree to which the elasticity of total welfare and total expenditures were similar, despite the fact that in Australia the total budget grew marginally more than the total welfare budget, whereas in Canada the opposite was the case with total welfare growing marginally more than the total budget.

4.5 THE STRUCTURAL MODEL

4.5.1 Introduction

The specification of Wagner's hypothesis in terms of the expenditure elasticity model in the manner described, as we have previously observed, is not the direction taken by the type of research programme in the last quarter of the century. The emphasis has shifted from a crude identification
of a statistical relationship between GNP and expenditure to an examination of the structural factors and causes related to expenditure growth. In this process, considerations pertaining to the causal structure have become issues of major concern. For this reason, the model being examined is defined by its epistemological structure rather than by any specific set of propositions, and is capable of accommodating diverse theoretical frameworks, such as those of Dye and Fabricant emphasising the importance of environmental factors in public expenditure, and the neo-Marxist analysis of James O'Connor (1973). The underlying epistemological structure in all these versions is the causal notion of 'need'. This is the view that expenditure arises out of the 'needs' of both economic and social structures, and therefore account for its description in this research as the 'policy responsiveness model'. Diagrammatically it may be presented as follows:-

**DIAGRAM 4.1**

Policy Responsiveness Model

<table>
<thead>
<tr>
<th>initiating factor</th>
<th>causal structure</th>
<th>policy output</th>
</tr>
</thead>
<tbody>
<tr>
<td>increased economic need</td>
<td>the development of expenditure</td>
<td>increased social need</td>
</tr>
</tbody>
</table>

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4.5.2 Economic Needs

The first explanation of the causal linkages between economic development and public expenditure, termed the economic needs model, is based on the notion of expenditure as a response to the needs of industrialisation. Distinct from the 'social needs model', the explanatory structure of the economic needs model emphasises the causal primacy of economic infrastructure and resource determinants of expenditure. The four main causal factors identified in the economic needs explanation are: (1) concentration of capital, (2) industrialisation, (3) resources and (4) international economic structure.

Concentration of Capital

The work of O'Connor (1973) has been influential in shifting the focus of attention to the segmentation of capital and its social and political impact. Relevant for this analysis is the emphasis on the relationship between concentration of capital and the growth of social expenditure. O'Connor maintains that the 'monopoly sector' within the capitalist economy attempts to externalise the cost of production (for example, by socialising the cost of education, housing etc.). This process serves to reduce labour costs and performs an accumulative function for capital, but at the same time creates pressure for the state to supply these services. Apart from this accumulative function, the growth of monopoly capitalism creates legitimation problems for the state caused by the recurrence...
of economic crises, and thereby necessitates investment in social expenditure. Therefore, there can be both accumulative and legitimation bases for public expenditure (Devine 1983; Hicks et al. 1978).

**Industrialisation**

This has been the central explanation in most Wagner-inspired accounts of expenditure development. In these accounts, industrialisation leads to demand for the provision of capital infrastructure as well as intervention by the state to provide social insurance to compensate for the deleterious impact of industrialisation on the social fabric. While the influence of industrialisation has been a source of great interest in classic public expenditure studies of Fabricant (1952) and Dye (1966), the work of Rimlinger (1971) provides a more historical account which delineates the link between social insurance and industrialisation in Western Europe. Rimlinger's approach is similar to the 'concentration' explanation in its emphasis on the infrastructural needs of economic development. But as Mann argues, the causal primacy is that the technological needs of an industrial society require larger amounts of capital than those forthcoming from the private sector. As a consequence the state is impelled to provide the necessary capital funds to finance large-scale capital expenditure (Mann 1980: 189). The main difference between the concentration of capital approach and the industrialisation hypothesis is the emphasis of the latter on technological rather than 'class needs' for
infrastructural expenditure.

Resources

The argument that resources are important in determining expenditure, in general, and social expenditure, in particular, has been an influential element in economic theories of policy output. As mentioned earlier, this argument was one of the paramount concerns of those who investigated the economic determinants of expenditure. Fabricant isolated a trinity of variables of which income, as a proxy for the extent of resources, was a key variable. The work of Dye (1966) and Sharkansky and Hofferbert (1969), no doubt influenced by early public expenditure studies, gives pride of place to 'income' in the range of economic variables identified, as being central to the development of public expenditure. The fundamental explanatory premise of this argument is that the extent of economic resources within the community determines the ability of the government to structure the nature and extent of both the total public expenditure and welfare expenditure sectors.

Independent of this public-expenditure literature, several writers on the welfare state stress the importance of economic resources in determining levels of welfare expenditure. These include not only Cutright (1967a) who proceeded from a quantitative analysis to argue for the importance of economic resources, but also a range of other more descriptive historical works on the welfare state which examine the impact of resources on the development of the
welfare state. Rimlinger's work noted above is one such outstanding example; and within the specific context of Australia and Canada, the works of both Kewley (1965) and Bryden (1974) stress the importance of economic resources in the development of the welfare state. In this study per capita income is a proxy variable to operationalise the influence of economic resources on expenditure.

**International Economic Structure**

In contrast to the emphasis placed on the domestic economic determinants of expenditure, some studies have argued that the impact of the international economic influences on expenditure deserves equal consideration. The most important of these studies is that of Cameron (1978) who has shown the importance of the *openness* of the economy in determining levels of expenditure.\(^9\) Cameron's general contention is that the 'openness' of the economy leads to increased expenditure through two main avenues: one, through the influence of an open economy on the labour movement by its impact on economic concentration, and the other, through the pressure on the state brought to bear by an open economy to intervene in order to stabilise national income. The latter, it is suggested, tends to fluctuate more in an open economy than in a closed one because of the sensitivity of an open economy to the international economy. Influences emanating from the international economy can be operationalised in many ways, but in this analysis they are confined to and measured by the openness or rather the
vulnerability of the economy.

Central to this analysis however is not the impact of the degree of openness of the economy, on which score Australia and Canada are not particularly high, but on the extent of the vulnerability of the economy to the international economic environment. The measure of openness can be consistent with a variety of interpretations. What lies behind this proposition is the raw material-exporting structure and the predominance of primary products of the national economies of Australia and Canada (see Goodman 1964; Boehm 1971; and Armstrong 1970). A key causal factor in this analysis is the instability of the national incomes in both economies, caused by the vulnerability of each economy to fluctuations in the international economic environment, and the extent to which this vulnerability in turn is associated with the growth of the public sector. Conceptually therefore, the two notions of vulnerability and openness should be distinguished. The former describes an economy which by virtue of its structural characteristic is vulnerable to fluctuations in the international economy; while all open economies are vulnerable, vulnerability is not an attribute exclusive to a highly dependent export economy. Economies such as Australia and Canada, while not being in relative OECD terms, export dependent (Katzenstein 1984), are highly vulnerable because of their reliance on primary and raw material exports. It is this vulnerability which exposes such economies to the fortunes of the international economy. Consequently the argument about openness which
depends on the impact of international economy on public policy is equally applicable to vulnerable economies.

In the Canadian case, in addition to the vulnerability of the economy, there are two other features that make the Canadian economy particularly sensitive to fluctuations in the international economic environment. The first of these pertains to the dependence of the Canadian economy on the United States, its 'gigantic' neighbour in the south, for its exports as well as for direct investment in Canada (Kornberg et al. 1972; Falcone 1974). Secondly, trade and exchange restrictions in Canada after World War II were dismantled much earlier than in other countries (English 1961). Moreover, the floating of the Canadian dollar in 1970 was a contributing factor to the increasing importance of the international economic environment in the domestic economic sphere. In this context, the measure utilised to examine this vulnerability is the fluctuation in the value of exports. Given the nature of the economic structures of Australia and Canada, such a measure is a good indicator of the effects of the international economy on public policy. Other possible measures of vulnerability include such variables as prices of primary commodities and the terms of trade. Both these variables capture central elements of economic vulnerability in Australia and Canada. Clearly, any future research on this aspect has to include a discussion of some of these measures.
4.5.3 Social Needs

The explanatory structure of the social-needs model hinges critically on the causal significance attached to economic development in accounting for the growth of expenditure. It is argued that the increasing social interdependence associated with economic growth creates social dysfunctions which necessitate the sort of public intervention reflected in expenditure growth. The functional significance attached to integration and solidarity in the course of economic development has a long and important legacy in sociological theory stemming from the classic work of Durkheim. These social functions were implicit, if not explicit, in the concepts of 'citizenship' and 'social rights' expounded by later scholars such as Marshall, Titmuss and others in theorising about social development. Central to all this work is the functionally altered nature of social interdependence caused by economic development. Put differently, economic development creates new forms of dependency which require public intervention to maintain both income and social support. An example of this type of intervention is the need for the provision of income security in old age. Two factors in particular have been responsible for the changing patterns of social interdependence. These are: (a) increases in the size of the population; and (b) changes in the age structure of the population. In this study, the latter are represented by changes in the size and age composition of the population dependent on services. These two variables are empirically
examined here.

Population Changes

It has been argued that population increases result in the growth of a range of social problems which require state intervention. These population pressures are often linked to the development of industrialisation. In the context of Australia and Canada, a central feature of this analysis concerns the impact of migration-induced population changes on social expenditure. As noted by Lowery and Berry:

a population increase would intensify and expand existing interdependence thus leading to an expansion of government (1984: 688).

Demographic Changes

The influence of demographic changes on expenditure has been a key variable in most accounts of expenditure determinants which refer to changes in the age-structure of the population as a result of economic development. Thus, these changes are seen as the determinants of pension and education expenditure, and are interpreted specifically as expenditures for programmes and services which are needed by certain age-specific demographic groups, for example, the young and the aged.

One of the best empirical studies linking demographic structure to social security expenditure, is that of Wilensky (1975). Wilensky's key proposition is that increased economic development leads to welfare growth through the mediation or the impact of demographic factors. According to Wilensky, as
the economic level rises the proportion of the aged in the population increases because of a fall in birth rates and increased life expectancy associated with high levels of GNP. This change in the proportion of the aged directly affects spending as income security in old age is one primary function of the social security system. In addition to this direct causal link, economic development and the increased proportion of the aged in the population help to determine the timing and spread of social security programmes, the age of which in turn indirectly affects the growth of social security expenditure. Wilensky sums up the argument thus:

Over the period, economic level is the real cause of welfare state development, but its effects are felt chiefly through demographic changes of the past century and the momentum of the programmes themselves once established (1975: 47).

A critical element of Wilensky's argument, although this is not set out clearly, is that an increasingly aged population creates political pressure for government pension expenditure. Apart from this engine for the expansion of pensions, an increased proportion of aged in the population, given an existing social security system, leads inexorably to the growth of pension expenditure in the absence of any changes to entitlements. The latter outcome might be termed a 'systems effect'. Hence while Wilensky's demographic explanation is centred on pensions expenditure, the systems effect is likely to influence education expenditure as well, because with the increase in the proportion in the population of those who use the education system, education expenditure will expand, although this is the case only if the proportion
of the young in the total population increased.

4.6 HYPOTHESES AND MODEL

To recapitulate, what links these two competing causal models in the 'economic determinant' research programme is the concept of need. The programme is premised on the assumption that governmental activity is a response to needs of different kinds. In particular, the model identifies two kinds of 'needs' namely, economic needs and social needs. The model itself is based primarily on two assumptions: (a) that needs are objectively identifiable, and (b) that the modern state is automatically responsive to social and economic needs.

The hypotheses examined in this chapter can be summarised more rigorously as follows:

4.6.1 Economic Needs Hypotheses

H1 The growth of industrialisation is associated with the growth of welfare and total expenditure.

Industrialisation is measured by changes in the proportion of GDP contributed to manufacturing. The values for manufacturing GDP are nominal.

H2 The increase in resources available to a country leads to an increase in the rate of growth of expenditure.

Resources are measured by changes in per capita income.
H3 The increasing concentration of industrial activity will lead the State to perform ever-increasing accumulation and legitimising functions. The consequence of this will be an increasing public sector as the degree of concentration increases. This is primarily an operationalisation of O'Connor's theory (not tested for Australia). Concentration is measured by changes in the number of enterprises with more than 500 employees.

H4 As the degree of economic vulnerability increases, the rate of social and total expenditure growth increases. The vulnerability of the economy is measured in terms of the changes in the value of exports.

4.6.2 Social Needs Hypotheses

H5 Increases in population changes are associated with changes in expenditure.

H6 This hypothesis postulates a relationship between the growth of the service-dependent population and the increase in welfare expenditure, in the following terms:

(i) the growth in the size of the population of those 65 and over is associated with the growth of social security expenditure;

(ii) the growth in the size of the population of those under 19 is associated with increase in education expenditure; and,

(iii) the growth of total welfare is associated with the growth of those over 64 and those under 19.
The Model for Australia can be specified as follows:

\[ y_1 = b_1 x_1 + b_2 x_2 + b_3 x_3 + b_6 + e \]

\[ y_2 = b_1 x_1 + b_2 x_2 + b_4 x_4 + b_6 + e \]

\[ y_3 = b_1 x_1 + b_2 x_3 + b_5 + b_6 + e \]

\[ y_4 = b_1 x_1 + b_2 x_3 + b_5 + b_6 + e \]

\[ y = \text{annual changes in } \$\text{ in real level of expenditure} \]

where \[ x_1 = \text{changes in } \$\text{ in manufacturing gross national product} \]

\[ x_2 = \text{changes in } \$\text{ in per capita income} \]

\[ x_3 = \text{changes in the proportion of the population of those aged 65 and over} \]

\[ x_4 = \text{changes in the proportion of the population of those aged under 19} \]

\[ x_5 = \text{changes in the proportion of the population of those aged 65 and over, and those under 19} \]

\[ x_6 = \text{changes in } \$\text{ in the value of exports} \]

\[ y_1 = \text{changes in } \$\text{ in real social welfare expenditure} \]

\[ y_2 = \text{changes in } \$\text{ in real education expenditure} \]

\[ y_3 = \text{changes in } \$\text{ in real total welfare expenditure} \]

\[ y_4 = \text{changes in } \$\text{ in real total expenditure} \]

\[ b = \text{standardised regression coefficient} \]

\[ e = \text{error term} \]
The Model for Canada can be specified as follows:

\[ y_1 = b x_1 + b x_2 + b x_3 + b x_6 + b x_7 + e \]
\[ y_2 = b x_1 + b x_2 + b x_4 + b x_6 + b x_7 + e \]
\[ y_3 = b x_1 + b x_2 + b x_5 + b x_6 + b x_7 + e \]
\[ y_4 = b x_1 + b x_2 + b x_5 + b x_6 + b x_7 + e \]

\[ y = \text{annual changes in } $s \text{ in real level of expenditure} \]

where

\[ x_1 = \text{changes in } $s \text{ in manufacturing gross national product} \]
\[ x_2 = \text{changes in } $s \text{ in per capita income} \]
\[ x_3 = \text{changes in the proportion of the population of those aged 65 and over} \]
\[ x_4 = \text{changes in the proportion of the population of those aged under 19} \]
\[ x_5 = \text{changes in the proportion of the population of those aged 65 and over and under 14} \]
\[ x_6 = \text{changes in } $s \text{ in the value of exports} \]
\[ x_7 = \text{changes in numbers in the concentration of enterprises} \]
\[ y_1 = \text{changes in } $s \text{ in real social welfare expenditure} \]
\[ y_2 = \text{changes in } $s \text{ in real education expenditure} \]
\[ y_3 = \text{changes in } $s \text{ in real total welfare expenditure} \]
\[ y_4 = \text{changes in } $s \text{ in real total expenditure} \]
\[ b = \text{standardised regression coefficient} \]
\[ e = \text{error term} \]
The regression analysis is carried out on social welfare, education, health, total welfare and total expenditure. All the equations have been corrected for first order autoregression. As noted in Chapter 3, the adjustment for autoregression is not only a correction of statistical noise, but also a control for incrementalism.

The discussion will be in two parts: the first (sections 4.7.1 and 4.7.2) is essentially descriptive in that it does relate the results to the central issues in the literature, the second (section 4.7.3), is more interpretive, and seeks to place the analysis in terms of the specific context of Australia and Canada.
TABLE 4.2

Economic Determinants of Real Changes in Expenditure for Australia 1950-1980 (n=31)

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td>0.05</td>
<td>-0.25</td>
<td>-0.18</td>
<td>-0.02</td>
</tr>
<tr>
<td></td>
<td>(0.35)</td>
<td>(-1.12)</td>
<td>(-0.11)</td>
<td>(-0.11)</td>
</tr>
<tr>
<td>PCI</td>
<td>0.50 z</td>
<td>0.28</td>
<td>0.65 z</td>
<td>0.85 z</td>
</tr>
<tr>
<td></td>
<td>(1.31)</td>
<td>(0.34)</td>
<td>(1.98)</td>
<td>(1.30)</td>
</tr>
<tr>
<td>Pn</td>
<td>-0.12</td>
<td>0.19</td>
<td>0.49</td>
<td>-0.32</td>
</tr>
<tr>
<td></td>
<td>(-0.93)</td>
<td>(0.08)</td>
<td>(0.48)</td>
<td>(-0.16)</td>
</tr>
<tr>
<td>Dem</td>
<td>0.89 z</td>
<td>-0.01</td>
<td>-0.22</td>
<td>0.25</td>
</tr>
<tr>
<td></td>
<td>(1.32)</td>
<td>(-0.02)</td>
<td>(-0.56)</td>
<td>(0.13)</td>
</tr>
<tr>
<td>Ex</td>
<td>0.02</td>
<td>-0.26</td>
<td>-0.19</td>
<td>-0.09</td>
</tr>
<tr>
<td></td>
<td>(0.19)</td>
<td>(-1.1)</td>
<td>(-1.0)</td>
<td>(-0.33)</td>
</tr>
<tr>
<td>R²</td>
<td>0.71</td>
<td>0.22</td>
<td>0.59</td>
<td>0.30</td>
</tr>
</tbody>
</table>

where *' = p < 0.10; '*' = p < 0.05; '***' = p < 0.01

and, M = Manufacturing; PCI = Per Capita Income; Pn = Population; Dem = Demography; Ex = Exports.

The main Table entries are beta coefficients; the figures in parentheses are 't' values.

For sources see Appendix 1. Raw Expenditure data are provided in Appendix 3.
TABLE 4.3

Economic Determinants of Real Changes in Expenditure for Canada 1945-1975 (n=31)

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCI</td>
<td>0.80</td>
<td>0.73</td>
<td>1.09</td>
<td>1.03</td>
</tr>
<tr>
<td></td>
<td>(3.19)</td>
<td>(1.52)</td>
<td>(2.74)</td>
<td>(3.85)</td>
</tr>
<tr>
<td>Pn</td>
<td>-0.09</td>
<td>-0.95</td>
<td>-0.53</td>
<td>-0.71</td>
</tr>
<tr>
<td></td>
<td>(-0.43)</td>
<td>(-0.14)</td>
<td>(-1.14)</td>
<td>(-0.33)</td>
</tr>
<tr>
<td>Dem</td>
<td>0.35</td>
<td>2.42</td>
<td>0.68</td>
<td>0.32</td>
</tr>
<tr>
<td></td>
<td>(1.32)</td>
<td>(2.23)</td>
<td>(1.53)</td>
<td>(0.82)</td>
</tr>
<tr>
<td>Ex</td>
<td>0.54</td>
<td>-0.27</td>
<td>0.37</td>
<td>0.37</td>
</tr>
<tr>
<td></td>
<td>(4.86)</td>
<td>(-0.81)</td>
<td>(2.68)</td>
<td>(2.08)</td>
</tr>
<tr>
<td>Con</td>
<td>-0.85</td>
<td>-0.71</td>
<td>-0.59</td>
<td>-0.39</td>
</tr>
<tr>
<td></td>
<td>(-0.27)</td>
<td>(-0.33)</td>
<td>(-0.74)</td>
<td>(-0.72)</td>
</tr>
<tr>
<td>R²</td>
<td>0.78</td>
<td>0.28</td>
<td>0.73</td>
<td>0.82</td>
</tr>
</tbody>
</table>

where 'x' = p< 0.10; 'xx' = p< 0.05; 'xxx' = p< 0.01 and, M = Manufacturing; PCI = Per Capita Income; Pn = Population; Dem = Demography; Ex = Exports Con = Concentration.

The main Table entries are beta coefficients; the figures in parentheses are 't' values.

For sources see Appendix 1. Raw Expenditure data are provided in Appendix 3.
4.7. DISCUSSION OF RESULTS

### TABLE 4.4

Summary of Statistical Significance of Hypotheses

<table>
<thead>
<tr>
<th></th>
<th>M</th>
<th>PCI</th>
<th>Pn</th>
<th>Dem</th>
<th>Ex</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>A C A C</td>
<td></td>
<td>A C</td>
<td>A C</td>
<td>A C</td>
<td>A C</td>
<td>A C</td>
</tr>
</tbody>
</table>

**SW**  
- - + + - - + + - + na -

**Ed**  
- - - + - - - + - - na -

**TW**  
- - + + - - - + - + na -

**TE**  
- - + + - - - - - + na -

Note:  
C = Canada  
A = Australia  
SW = Social Welfare  
Ed = Education  
TW = Total Welfare  
TE = Total Expenditure

'+' = confirmed  
'-' = not confirmed  
na = not ascertained

Other abbreviations as in Tables 4.2 and 2.3

### 4.7.1 The Economic Needs Hypothesis

The general conclusion to emerge from the analysis of the data is that there is a striking degree of common ground for both Australia and Canada in the analysis of the influence of manufacturing on expenditure. The relationship is universally negative and the per capita income variable is, with one exception, positive for all the expenditures examined. In contrast, the pattern of results for demography and exports indicated a set of differential policy outcomes.
which point to interesting research problems.

The first important finding was the absence of any relationship between the level of industrialisation (measured by manufacturing GDP) in both countries, and the growth of expenditure in all categories. In fact the beta coefficients for manufacturing GDP were negative, that is, they were contrary to the expected direction, for all categories except for Australian social welfare expenditure which is positive, but not statistically significant. These results lend support to rejecting the manufacturing hypothesis or more correctly, the industrialisation explanation of public expenditure.

The evidence presented is significant in terms of the literature for two reasons. The first is that the relationship between industrialisation and expenditure growth lies at the heart of many theorists who emphasise economic explanations of expenditure. The second, and perhaps, a more important reason is that late industrialisation in Australia, and more so in Canada, provides a classic test of the industrialisation hypothesis in the time-span under analysis, because it is possible to evaluate the influence of industrialisation in a period of time when 'mature' industrialised countries were passing through different economic transitions.

In the case of Australia, the period of two decades following the Korean War was one of sustained economic growth. Indeed, a comparable period of economic growth was only achieved between 1860 and 1890. In the period under
consideration, output per-capita grew by an average annual rate of 2.5%, a figure twice that of the inter-war performance. To support the proposition being advanced, it is necessary to examine not just economic growth but also the structural changes in the Australian economy. In this context, it should be noted that the 1950s saw the historical shift to manufacturing, a change that was delayed in terms of the European and American experience. Butlin et al. summarise these changes as follows:

Part of the explanation of the increased per capita performance was that Australia experienced for the first time the conventional Western structural change, a shift to manufacturing, in circumstances in which manufacturing output per unit of labor input was high and rising relatively to rural activity (1982: 112).

Australian expenditure data, in particular, may be regarded as a critical test for the hypothesis that the shift to manufacturing is accompanied by growth in public expenditure. The analysis of the empirical data as reported in Table 4.2 fails to substantiate this hypothesis in terms of either social expenditure or total welfare expenditure. Indeed, the Australian experience presents a somewhat puzzling pattern. There exists a relatively high rate of public-sector growth, particularly infrastructure growth in the pre-war period, and this is associated with low rates of manufacturing growth when compared with the high rates characteristic of the performance during the period immediately following the war. According to Butlin et al. (1982), the high rates of public sector growth in the 19th century and the first half of the 20th century - aptly
described as a period of 'colonial socialism' - are due to the active intervention of colonial governments through 'infrastructure' supports. This pattern of public intervention was followed by both the Commonwealth and the States into the early part of this century.

Interestingly, the manufacturing hypothesis is not confirmed in the Canadian case either. The Canadian shift to manufacturing was similarly late in comparison with the international experience, although it was twenty years earlier than the structural shifts evident in Australia. The structural changes in the Canadian economy occurred during the 1920s and 1930s, placing it beyond the time-frame of our analysis (Officer & Smith 1970). However, given the growth of industry in the 1950s, one would have expected a confirmation of the hypothesis relating public expenditure to manufacturing.

In summary, the conclusion that one can draw from this discussion is that the hypothesis relating to the level of industrialisation is not applicable in Australia for the growth of public welfare and non-welfare sector. A similar pattern of results is found in Canada. This general conclusion should, however, be qualified by the fact that this kind of comparison is fraught with some difficulty, mainly because the structural composition and history of the Australian and Canadian economies are different from West European economies which were the basis for the formulation of the original hypothesis.
Overall, however, these results suggest that the link between industrialisation and expenditure growth does not have a great deal of explanatory value. Industrialisation by itself does not appear to be sufficient cause for expenditure growth. It is the presence of industrialisation mediated by other social and political variables which is likely to lead to certain policy outcomes.

In contrast to the negative results obtained for the industrialisation hypothesis, the 'per capita income explanation' of expenditure obtains some corroboration, as indeed one must have predicted from the early results for the income elasticity model (Tables 4.2 & 4.3). However, the degree of support for this hypothesis differs between the two countries. The relationship between per capita income and expenditure finds more support with the Canadian than the Australian data.

To recapitulate, the purpose of this empirical test was to examine whether welfare expenditure increases concomitantly with an increase in the availability of economic resources. The empirical evidence reported provides support for this hypothesis. Within the Australian data, the strongest support comes from two categories of expenditure, namely, total welfare and total expenditure, with coefficients of 0.65 and 0.85 (Table 4.2) respectively. The other welfare expenditure categories of education and social welfare although positive, fail to show the same degree of responsiveness to changes in per capita income. However,
significant, whereas education with a beta coefficient of 0.28 is not.

The Canadian data on the other hand yield stronger support for linking the per capita income variable with all the expenditure categories examined. Here, the coefficients range from 0.80 for social welfare expenditure to 1.03 for total expenditure (Table 4.3). Indeed the lowest level of support is for education expenditure with a coefficient of 0.73.

An interesting finding of these results is that social welfare expenditure in Canada is strongly related to changes in per capita income with a partial correlation of over .50, whereas a much weaker relationship is found in Australia with a correlation of only 0.23. One reason for these findings is that changes in per capita income are much more likely to have a greater impact in a system where there is universalised social insurance programmes as in Canada (Bryden 1974) than in a social welfare system that is characterised by a greater degree of means-testing (Brennan 1982). This argument is consistent with the median voter argument of public choice theory (Buchanan and Tullock 1962) wherein politicians and parties, in order to win office appeal to the 'median' voter. Since benefits are universal, governments are more likely to increase benefits in order to retain support, and these benefits are more prone to reflect the increase in levels of average income.

The results obtained in this study for Canada are
replicated in Bird's (1970) analysis of government expenditure, where a relationship is noted in Canada between expenditure and per capita income. However, Bird rightly expresses a cautionary note in observing that the relationship between per capita income and expenditure is highly questionable since much of the association between the government expenditure ratio and per-capita income probably reflects common trends. There is no presumption at all that changes in per capita income over the period were the main causes of the observed changes in government expenditure ratio (1970: 17).

In terms of the wider literature, the per capita hypothesis, which is supported in this study by a time-series analysis of Australia and Canada, has received extensive support in cross-national studies of public expenditure. As we noted, Dye's (1966) study of inter-state differences in expenditure lends support to the explanation that per capita income is a central determinant of policy outcomes. In other words, the availability of resources forms the basis on which policy is built.

However the dominant impression of the per capita results is the degree to which expenditure is more responsive to income in Canada than in Australia. One of the reasons we suggested was the degree to which Canadian income maintenance programmes are more universal than comparable Australian programmes. Another significant reason for this pattern of results is also the extent to which the Canadian federal government centralised the income security system during the period (post-1945) under analysis (see Banting 1982). The availability of resources clearly allowed the government to
centralise the income security system more rapidly. One inference to be drawn from this time-series data is that a resources hypothesis is not by itself an explanation for a set of expenditure patterns. The more interesting issue is the degree of responsiveness of expenditure to the availability of resources in Australia and Canada. The availability of resources might well form the basis of policy, but the extent to which it is important depends on a variety of other factors.

On the other hand, a variable that was found to produce a differential pattern of outcomes for both Australia and Canada was that of changes in the level of exports. The measure of the level of exports was intended to gauge the impact of changes in the international economic environment on levels of expenditure. As against other economic variables which broadly measure the impact of domestic economic factors, this variable is argued to capture the impact of economic events outside the domestic sphere.

As we observed earlier, the rationale for the testing of this hypothesis lies in the vulnerability of the two economies to international economic fluctuations, creating the conditions for domestic instability. We inferred from this, following Cameron (1978), that governments will be pressed to intervene to protect the economy and domestic incomes from the destabilising impact of such fluctuations.

The evidence for the importance of the impact of changes in the international environment on expenditure differs
between the two countries. Strong evidence of the link between changes in exports and expenditure was found in Canada for all expenditure categories, with the exception of education expenditure for which the sign was not in the expected direction. Social welfare expenditure had the highest degree of responsiveness with a coefficient of 0.54, whilst total welfare and total expenditure had the next strongest coefficients at approximately 0.37. In contrast, Australian data revealed that there were no statistically significant coefficients for change in the level of exports. This is demonstrated by the fact that the expenditure categories of education, total welfare and total expenditure, had negative coefficients. In fact, of the expenditure categories examined, only social welfare had a sign in the positive direction.

The main conclusion to emerge from the analysis of the relationship between changes in the level of exports and expenditure is that the two countries have responded to different stimuli. Canadian expenditure, except in the area of education, has been responsive to changes in the international economic environment. On the other hand, Australian public expenditure has not displayed the same degree of sensitivity. It will be recalled that Cameron (1978) suggested two ways in which fluctuation in exports might influence the economy: through its impact on labour centralisation or by the need for government to intervene to stabilise the economy through public expenditure. Given the low rates of unionisation in Canada (Myles 1984) it is likely
that the second explanation is more applicable in Canada. (This finding is the most interesting of all the variables and will be discussed in the final section of this chapter.)

The final 'economic need' variable to be examined is the concentration-of-capital hypothesis (H3). As operationalised by O'Connor, this postulates that with increasing concentration of capital, that is, the growth of monopoly capital, expenditure tends to increase. A two-fold explanation may be posited to account for this relationship.

On the one hand, the need for accumulation leads to the externalisation of the key costs of production, while on the other, the need by the state for legitimisation leads to increased social spending. These accumulating and legitimising functions correspond broadly (though not mutually exclusively) to total welfare and public expenditure. Hence, the existence of a positive empirical relationship between capital concentration and changes in both total and welfare expenditures would tend to support O'Connor's explanation of public expenditure in terms of both legitimisation and accumulation.

But the data failed to locate any relationship between concentration and expenditure growth. Indeed all the Canadian expenditure coefficients for concentration have negative coefficients, that is, the signs were in a direction opposite to that predicted by the hypothesis. The conclusion that can be reached from an analysis of this quantitative evidence is that in Canada, concentration is not related to expenditure.
The link between industrialisation and the 'concentration' variables was noted in our previous discussion of the hypotheses. Both these variables attempted to capture the impact of 'infrastructural need' on expenditure. The empirical data presented in Tables 4.2 and 4.3 indicate that infrastructural need was not a major determinant of the growth of the public sector in the periods under review.

The analysis so far has been on the 'economic need' hypothesis for expenditure growth. Excluding the 'concentration-of-capital' and 'industrialisation' hypotheses which were negative, the analysis has focussed on two major hypotheses which could be termed the resource level and international economic explanations respectively. In terms of the diagram presented (see Diagram 4.1), these are the two variables, reflecting changes in economic structure that are causally associated with expenditure.

4.7.2 The Social Needs Hypothesis

We turn next to the analysis and the assessment of the impact of social structural changes on expenditure levels examined in terms of the argument developed. Here, we consider the impact of two key variables, namely, population and demographic changes.

In the case of the 'population' variable, the evidence fails to confirm the hypothesis for any of the expenditure categories. Certainly, for Canada, the direction of all the coefficients are negative (see Table 4.3). In a similar manner, the Australian data, with negative coefficients for
social and total expenditure, do not lend support to the hypothesis. In fact, the only positive coefficients are for education, which is 0.19, and for health which is 0.49, neither of which is sufficient to establish an empirical relationship between population changes and these expenditure levels. The obvious conclusion from an analysis of this evidence, is that expenditures in both countries have been similarly unresponsive to changes in population.

The 'social needs' model of expenditure explanation is central to the demographic explanation. This model focuses on the pre-eminent role of social need in driving the engine of expenditure, and more particularly, the welfare state locomotive. As suggested above, one particular type of social need which is the main lubricant of the social need engine of the welfare state is the change in demographic structure. (By 'demographic', we mean expenditure implication of changes in the composition of the service-dependent population.) Here, the work of Wilensky is critical in developing an empirical account of the impact of demographic changes.

Wilensky (1975) has argued that economic development mediated by demographic changes was critical in accounting for expenditure. In particular, he observes that changes in the proportion of those aged 65 and over in the population was the major determinant of the growth of social expenditure. We attempt to test this demographic argument in three ways. Firstly, it is tested to some degree by examining the relationship between changes in the population of those 65 and over and social welfare expenditure.
Admittedly, this is not strictly a proper test of Wilensky's hypothesis, because the manner in which social welfare expenditure has been measured makes it more related to social welfare programmes than to those dealing with pensions. Secondly, by an extension of the demographic explanation, we can study the responsiveness of education expenditure to changes in the population of those under the age of 19. Finally, we examine the changes in the combined proportions of those over 65 and under 19, in order to test the total impact of demographic changes on total welfare, which includes social welfare and education, as well as health expenditure. A similar test is carried out for the total expenditure categories to serve as an indication of the weight of the demographic structure on changes in the entire public budget.

In the first test of the demographic explanation, that is, the relationship between changes in population of those aged 65 and over and social welfare expenditure, both countries have statistically significant coefficients of 0.89 for Australia and 0.35 for Canada (see Tables 4.2 & 4.3), indicating a high degree of responsiveness to changes in demographic structure. It is moreover a relationship in the same direction. Hence, in terms of social welfare, regardless of the impact of other economic structural variables, 'need' has a similar impact on Australia and Canada.

With regard to the second test of the demographic
explanation, that is, in terms of its impact on education, the two countries produce dissimilar effects. Canadian education expenditure is highly responsive to demographic changes, with a beta coefficient of 2.42 suggesting a high degree of responsiveness. This should be interpreted with caution for two reasons. First, the role of Canadian federal government in educational expenditure is relatively small, and second, most federal funding is to the post-secondary sector. However, in the Australian case education expenditure is not responsive to demographic changes.

In the third and final test of the demographic explanation, that is, in terms of the relationship between the two demographic categories already examined, demographic changes do not appear to have an impact on either the overall welfare budget or the total budget in Australia. This is not the case with the Canadian data which reveal that the growth rate of both expenditure categories do reflect the impact of demographic changes. The total Canadian welfare budget no doubt reflects the cumulative impact of the demographic determinants of social welfare and education discussed earlier. An interesting, and to a degree unexpected, finding is the impact of demography on changes in the total Canadian budget. This reflects the importance of change in the welfare budget in the rate of growth of total expenditure caused by demography.

A caveat in the analysis of demographic hypotheses in general and Wilensky’s model in particular, is that time lags are critical in the overall analysis of the
responsiveness of the policy-making process to changes in 'need'. A problem with these types of analyses is the underlying assumption that policy processes automatically reflect changes in need rather than adjustments over a time period. In this context, it should be noted that our analysis of this relationship is more appropriate than Wilensky's because of its time-series focus. A major flaw in Wilensky's research design - a design which constrained him from analysing the influence of demographic changes over time - was its cross-sectional methodology. Demographic explanations require an examination of the responsiveness of expenditure to changes in demographic structure over time. But even within a time-series framework, it is not possible to examine the impact of time lags.

4.7.3 Interpretation

One final comment on the virtue of the time-series mode of analysis as against cross-national research design is that most structural hypotheses tested have been confirmed only at the cross-national level. The importance of this structural model lies in the fact that its empirical examination is carried out with time-series data. The main problem with cross-national analysis of expenditure is that it might be prone to the fallacy of assuming that findings from a large range of countries can be generalised and applied to a smaller group of countries. Most of the empirical work supportive of convergence theory has been based on large sample studies. Thus, Wilensky, for example, has a sample of
sixty-four countries. As Castles and McKinley (1979b) have shown, the distribution of countries around the measure of economic development is bi-modal in character, with developed and developing countries clustered together. In this situation, one is bound to find a relationship between economic development and social expenditure. The results obtained in this study tend to contradict the cross-sectional analysis of the impact of industrialisation. On the other hand, the time-series data are consistent with some of the cross-sectional studies in indicating a positive relationship between resources and demographic structure and expenditure. The evidence provided is important not only because of the time-series data employed, but also as an empirical test for incrementalism.

In summary, the empirical results obtained, apart from industrialisation and population variables which had no impact on expenditure, can be classified into three main effects: resource, demographic and international economic effects.

In terms of the resource effect, we obtained two important findings. First, the finding that the availability of resources is important for the determination of social welfare expenditure in both countries. Resources are clearly a central element in the building block of the welfare state. Moreover, these findings are consistent with the analysis of the data from the test of the income elasticity model where the elasticity coefficients of all expenditure categories
were greater than one.

However, the degree of responsiveness of social welfare to resources varies greatly, and warrants some explanation. One may argue that the greater responsiveness of social security expenditure to the availability of resources in Canada arose for two main reasons. One relates to the particular character of federal-provincial relations with regard to welfare in Canada that allows for greater availability of resources for the Canadian federal government, thereby enabling it to centralise the social security system as well as to expand its involvement in education and health expenditure (Banting 1982). Consequently, resources may be seen as a lever by which the federal government expanded into the welfare sector.

The other and analytically more interesting reason is the degree of means-testing of social security payments, in terms of the explanation about the greater impact of per capita income on social welfare than on the other expenditure categories. This has been explained as being related to transfer payments as a dominant composition of the social welfare expenditure examined. With regard to this median voter argument, it might be suggested that the universalised and contributory system of income-maintenance in Canada during the period under review (Guest 1980) is subject to greater pressure for the increase of benefit levels in line with increasing average incomes than would a more predominantly means-tested and flat-rate benefit system such as that prevailing in Australia (Jones 1983). The
empirical evidence is consistent with such an interpretation.

The second important finding with respect to the responsiveness of expenditure to resources (the resource effect) is the differential impact of resources on the growth of educational expenditure. The results are paradoxical in that Canadian expenditure is significantly related to resources, whereas Australian expenditure is not. This is of interest in that resources do not seem to play any part in the determination of the level of federal education expenditure in Australia. The result suggests support for expenditure trends examined earlier which indicate that educational expenditure as a federal responsibility expanded rapidly in Canada during the post-war period. The relationship between expenditure and demographic changes also represents the impact of the higher Canadian participation rate in secondary and post-secondary education in comparison with Australia (Jones 1983). Moreover, a high proportion of federal funds earmarked for education consisted of assistance to the tertiary sector.

These analyses of the positive impact of resources on public expenditure support the findings of many Canadian expenditure determinant studies. Bird's study (1970) has already been noted. However, political science studies of policy output such as those of Kornberg et al. (1972) and Falcone (1974) suggest the importance of socio-economic factors in determining policy output. Limited studies of provincial expenditure differences by Poole (1972) and Hogan
(1972) also suggest the importance of socio-economic variables. In addition to the above research which have been broadly in the tradition of output studies, one important qualitative analysis which emphasised the importance of resources in influencing social welfare public expenditure is that of Bryden (1974). The present work, by virtue of its employment of a comparative time-series framework as well as controlling for factors such as demography, suggests issues which have not been examined in the studies referred to previously.

A problem in these studies is that they do not indicate how resources translate into the political process. For this reason, in the subsequent chapters we attempt to evaluate the impact of resources through measures such as unemployment and revenue to which policy-makers respond directly.

In terms of the demographic effect, social welfare expenditure responds in a similar manner in both countries. On the other hand, education and total welfare expenditures are statistically significant, and is related to demography in Canada, but show no impact in the Australian scene. The main conclusions to emerge from this analysis of need are two-fold. The first is that changes in the proportion of the service-dependent population have an impact on social welfare expenditure in both countries. Given the demographic changes in both countries in the move towards a static and ageing population (UN 1974;), these findings with regard to Australia, as Jones points out, have great significance:

The aged have gradually become more important in
Australian society. Part of the reason is simply the decline in mortality: more aged now survive (1983: 115).

Secondly, a major finding of the study is that need is associated with resources. If resources vary positively with expenditure, so does need. This assertion is borne out by an examination of the Australian and Canadian data, and partly accounts for the differential impact of need on education expenditure in the two countries. However it should be recognised that a problem with need-based explanations of expenditure determinants, in this instance the demographic explanation, is that they do not indicate the causal agency by which 'need' is linked to policy outcomes. The missing element as with the resources explanation is an account of how political pressures determine the manner in which need affects policy - a topic which will be the subject of the next two chapters.

In terms of international economic effects, the evidence for the relationship of exports to expenditure comprises the most important and interesting finding of the analysis. A main objective of the study was to examine the influence of a primary product and raw material exporting economy, such as that characteristic of both Australia and Canada, on expenditure patterns. There is a positive relationship in the pattern of results for Canada whereas it is negative for Australia. This is partly explained by variations of the rates of internationalisation and external dependence of the Canadian and Australian economies. As many have observed (see section 4.5.2), the period under study, namely, 1945-
1975, witnessed an increase in the dependence of the Canadian economy on the American economy. By contrast, the Australian economy, though remaining dependent on agricultural exports, was not internationalised in the same manner. This was mainly because the mode of industrialisation was of the import substitution variety (Boehm 1971).

There is however a more substantial theoretical reason for this pattern of results, and this lies in the institutional framework of the Australian economy. Katzenstein (1984) in a recent work entitled: Small States in World Markets, has drawn attention to the influence of international economic patterns on the institutional structures of the domestic economy. The argument being advanced is that the significant feature of Australian history has been the development of institutions to cushion against the effects of the instability of the international economy on local producers and consumers. This is reflected in the ensemble of structures such as trade protection, arbitration and agricultural marketing authorities. As Macintyre observes:

The search for balance is a persistent theme of the regulatory activities of the Australian government. It as a colonial government administration sought to provide for all; so the federal government strove to maintain the fragile equilibrium between all the states, between producers and consumers, between urban and rural interests. (1986: 105.)

In this context, it should be noted that the institutional innovation of the first decades of federal government followed the collapse of export prices and the
financial crisis of the 1890s (Macintyre 1986).

This argument is consistent with the recent work of Castles (1985) on the Australian welfare state in which he argues that arbitration diffused the pressures for social expenditure. In terms of our argument, the instability of the domestic economy, or more particularly of domestic incomes, caused by external forces was stabilised through an ensemble of institutions rather than through expenditure.

Canada, on the other hand, lacked the kind of federal institutions that were evolved in Australia in the early part of this century to protect 'domestic income' (Denoon 1983). Consequently, public expenditure was the means by which fluctuations in the domestic economy were stabilised in the sense argued by Cameron. Moreover, recent years have witnessed the increasing vulnerability of the Canadian economy to international movements. Two main features of this vulnerability are its dependence on the American economy and the floating of the Canadian dollar. These pressures on domestic incomes have created conditions for the increasing use of social expenditure to stabilise incomes.

To conclude, the evidence suggests, firstly that resources and demography are broadly similar in their influence on social expenditure, and indeed, given the international literature, one would expect the pattern of results to be similar in the direction of causation. Resources and demography are the basic building blocks of the welfare state. Secondly, given the structure and the particular vulnerability of the Australian and Canadian
economies to movements in the international economy, the analysis suggests that these movements have a differential influence on expenditure. In Australia, the responsiveness of expenditure is minimal, because of the growth of institutions which could absorb the adverse impact on the domestic economy caused by fluctuations of the international economy. On the other hand, social expenditure in Canada is positively related to fluctuations in export income, suggesting that expenditure is perhaps one means of stabilising national income.

NOTES

1. Wagner's basic work was Finanzwissenschaft, extracts of which are produced in Musgrave and Peacock (1958).

2. Lakatos's notion is more useful than the Kuhnian concept of a paradigm because it identifies the solution of problems as the key enterprise of science.

3. For an excellent overview and summary of Wagner's model see Bird (1971). This study is also a landmark analysis of Canadian expenditure.

4. For a critical discussion of the models employed by those attempting to test Wagner's model see Gandhi (1971).

5. For two such important studies from Wagnerian standpoint, see Veverka (1963); O'Donoghue and Tait (1968) which are interesting studies of Britain and Ireland respectively.

6. Mann (1980) has a useful discussion of the utility of these different specifications.

7. Ian Gough (1979) has attempted to develop a Marxist theory of the welfare state which emphasises both the interest of capital and the pressure from labour. However, his theory
is not easily operationalisable.

8. Claus Offe (1972; 1985) has developed a more theoretical account of the welfare state based on O'Connor's account.

9. There has been a developing literature on the interaction effect of the international economy on the domestic political economy. See Katzenstein (1984) for an incisive analysis of such aspects; also a recent work by Aitkin and Castles (1987).

10. The sources of data for both countries are set out in Appendix 1; section 3.4.1 outlines the method of deflation of expenditure data.
CHAPTER 5
THE IMPACT OF PARTY ON PUBLIC POLICY

5.1 INTRODUCTION

In any evaluation of modern democratic government, an assessment of the impact of the party in government on public policy is crucial, because parties are the central element of modern democratic societies. They provide the mediating link between the variety of 'interests' that constitute modern society and government. In other words, participation in democratic politics is through the party system (Sartori 1969).

The main purpose of this chapter is to present an analysis of the influence of governing parties on public policy in terms of the conceptual problem and research strategy sketched in Chapter 1. The paramount analytical problem of this thesis is an examination of the influence of political administration or parties in government in countries with 'strong' and 'weak' party systems. This is considered in terms of the two models identified in the introductory chapter as the 'structural' and 'strategic actor' models of policy.

The lack of class-based cleavages in Canadian politics and especially the absence of a major social democratic party, with a consequent diminution of policy differences, allow us to analyse the proposition that the socio-economic structure of the party system is the major contributing factor in determining policy outcomes. In relation to the
models identified in Chapter 1, this conception of the link between party and policy (Model 1) is what has been identified as the 'structural model'. It denotes the influence of the socio-economic constituency of parties in defining the objectives of party policy. If the structural conception of party is to account adequately for the determination of policy, it could be expected that the organisationally and ideologically, as well as the socio-economically divided Australian parties would have a greater influence on policy when in government. By the same token, one would expect the ideologically and socio-economically non-distinctive Canadian parties to have little influence whilst in government.

The alternative conception to the structural model examined is the 'strategic actor' model (Model 2 in Chapter 1). This model, it will be recalled, places emphasis on the ways in which parties operate on the strategic environment rather than on the socio-economic basis of party support. The link between party and policy here is the set of strategic incentives which propel parties to act in a particular manner. From this model, one would expect parties in government to have a significant impact in both countries, regardless of the strength of the party system.

The Canadian literature, as remarked in Chapter 1, often laments the lack of a strong party system capable of aggregating the different social interests in society. Implicit in this argument is the fact that the Canadian party
system, with its weak organisation and lack of class cleavages, has negligible policy impact; and hence, is not capable of producing distinct policy differences.¹ (See Meisel 1975; Regenstreif 1965: 84-106; and Chapter 1.) Further evidence from Canadian scholars such as Mallory (1967) Engleman and Schwartz (1975: 209-11) seem to support the conventional wisdom that party does not influence policy in the Canadian context. In relation to policy differences over the welfare state, Scarrow (1964) cites survey evidence which suggests that the Liberals and the Conservatives do not differ in terms of their attitude to social welfare. Chandler cogently sums up the conventional view when he notes that:

> It is commonly held that the traditional and predominant parties of Canadian federal politics are in a policy sense very much alike. Both are seen as brokerage parties with rather broad and diffuse clienteles (1977: 759).

The absence of policy differences is due to the fact that according to the conventional wisdom, the Canadian party system is based on brokerage and clientelism, conditions which are thought to inhibit the influence of party on policy. Porter's (1965) classic and influential work, The Vertical Mosaic, argued that Canadian politics was characterised by a system of competitive elites which allowed little room for the influence of parties on public policy. Indeed the thrust of his argument was that if parties had any role, it was to function as agents of elite accommodation. The two major parties which perform this role at the federal level are the Liberal and Conservative parties. These are the
only parties to have held governmental power in the period of review in this study. Consequently, as this is a study of federal expenditure, only the Liberal and Conservative parties are considered; the minority parties and in particular, the NDP are excluded from the analysis.

Australian historiography, in marked contrast, has a long tradition of emphasis on the role of party on policy, particularly the emphasis on the role of the Labour Movement. It has been aptly noted that this theme is the Australian version of the 'Whig' interpretation of history, in which the story of Australian society is the story of a general progress towards the enhancement of liberty. In the Australian context the 'Whig' interpretation took the form of 'the Labor Party acting positively as an agent of progress and its opponents negatively as the enemies of progress' (Loveday 1985: 94). The 'initiative-resistance' debate served to bring these issues to the forefront in a more explicitly political-science context. The seeds of this debate were sown much earlier by the work of Hancock (1929), but the argument was revived in Mayer's (1956) classic analysis of the notion of a party of initiative, and continued in Rawson's (1968) and Goot's (1969) consideration of the issues raised.

The most recent renewal of debate concerns the impact of the Whitlam period of Labor government on public policy. Castles (1987) examines the influence of the Whitlam Labor period on social expenditure, while collections of articles
edited by Patience and Head (1979) deal with the policy differences between the Whitlam and Fraser governments in several areas. Although useful as descriptive sources, none of the articles in the latter collection tackles the conceptual issues considered in this study. Adopting a distinctly social policy perspective, Graycar (1979), Jones (1983) and Tulloch (1979) concentrate on the impact of the Whitlam period on aspects of social welfare. Apart from the larger analytical issues of concern in the thesis, an examination of the role of Australian parties, especially the Labor party provides a basis for the evaluation of debates in both Australian historiography and political science.

5.2 TWO EXPLANATIONS OF THE ROLE OF PARTY IN GOVERNMENT

Two distinct explanations of the impact of party on policy have appeared in the empirical literature over the last decade. The first explanation could be termed the 'turnover' hypothesis, which posits that a new administration will set priorities which are distinct from those of its predecessors. The policy effect of changes in administrations is that expenditure will take on distinct patterns and reflect changes within each period. This hypothesis would be consistent with the strategic actor model. The basis of the hypothesis is that new administrations will attempt to get new policy priorities to consolidate support. In terms of the models outlined above, the turnover hypothesis emphasises the strategic incentive rather than structural factors for parties in government.
The second explanation, which might be termed the 'social-democratic' hypothesis, seeks to locate policy changes in party systems. In particular, it lays causal emphasis on the influence of class-based cleavages on policy and is consistent with the structural conception of party outlined above. It highlights the importance of party constituencies on policy. Applying this to the Australian context, one would expect the Australian Labor Party administrations to have considerably greater impact on social expenditure than would Coalition (Liberal/National) administrations. Likewise, it could be argued along these lines that by and large Canadian social expenditures would not be responsive to changes in administration. This may be seen as a consequence of the lack of a major social democratic party in the Canadian party system.

5.2.1 Turnover Hypothesis

Empirical support for the turnover hypothesis comes mainly from the work of Bunce (1980; 1981). She tested the impact of elite succession (measured by changes in administration) on seven democratic countries viz., Austria, Britain, Canada, the Federal Republic of Germany, Sweden, Japan and the United States. In this study, a significant feature was the use of time-series data to examine expenditure changes which were identified as the dependent variable in the study design. The major conclusion of this study was that:

chief executives and elections do in fact influence
the policy process in democratic states. "The routines of politics" to borrow Sharkansky's (1970) phrase, are disturbed by elections and changes in administrations; elections rotate policies as well as leaders in nations as diverse as Sweden and the United States (1980: 391).

Despite the uncertain theoretical basis for this conclusion, the clear inference is that leadership succession prompts new elites to consolidate support by altering budgetary priorities. Bunce's analysis is conceptually unclear as it does not recognise the difference between elections and administrations. The rationale for arguing that elections are a determinant of expenditure is distinct from the argument that a change in administration results in the adoption of different policy priorities. A restatement of the position would be that the influence of elections on policy is based on the assumption that the proximity of an election leads to strategic behaviour by the incumbent administration - a behaviour manifested in the adoption of different expenditure priorities. The essential proposition is that the basis for the impact of party on policy lies in the strategic incentives for new 'political elites' to change policy priorities rather than influence of party ideology.

A more serious problem with this study, a methodological one that will be discussed later, is the absence of variables which control for the influence of economic and incremental factors. An approach which attempts to analyse average changes of differences in patterns of expenditure of various administrations cannot by this research design rule out the influence of other factors,
especially incremental change. The formulation of a comprehensive model of the influence of political administration requires the delineation of a clear set of incremental and bureaucratic variables.

5.2.2 Social Democratic Explanations of Policy

In contrast to the turnover hypothesis, what we have termed the social democratic explanation rests on a different set of theoretical assumptions. In essence, what this emphasises are the policy implications of class-based parties. A classic work in this regard is that of Hibbs (1977) on cross-national differences in unemployment and inflation. It is worth summarising the approach and main outlines of Hibbs's paper, as they help to elucidate many of the underlying assumptions of the party explanation.

Hibbs noted that amongst industrial democracies during the postwar era, average levels of unemployment and inflation yielded negative correlations. Thus, countries with lower levels of unemployment generally experienced higher levels of inflation. A reason for this relationship is the unfavorable trade-off between unemployment and inflation illustrated in the so-called Phillips curve. As a result, governments are unable to maximise both the economic objectives of full employment and price stability. As these objectives may be contradictory, economic policy invariably involves a choice between employment and price stability. However, this policy choice is not class-neutral. In tight labour markets, lower-income-earners will, in theory and in practice prosper from higher employment. On the other hand, upper-income-earners, who are less vulnerable to unemployment, will tend to favour price stability. In fact, this class-differential impact of unemployment
and inflation was confirmed by Hibbs in his later research (1979).

Hibbs maintains that because economic class is a major basis for electoral and ideological cleavages on questions like unemployment and inflation, parties are prone to respond to the interests of their core constituencies. From this, it could be predicted that Labor and social-democratic governments will tend to favour the achievement of full employment even at the cost of price stability.

The empirical evidence marshalled by Hibbs to support this contention is indeed impressive. He shows, among other things, that cross-national differences in unemployment and inflation were closely correlated (−.68 and .74 respectively) with the number of years during which social democratic parties controlled the government. A re-analysis of this data, carried out in response to criticism that Hibbs failed to include countries such as Japan did not alter the basic explanation that he proposed. The Table below outlines the correlations between rates of unemployment and inflation and electoral and parliamentary shares of social democratic parties.
### Table 5.1

Linear Correlation for Eleven Industrial Democracies

<table>
<thead>
<tr>
<th></th>
<th>Average Unemployment Rate: 1960-1969</th>
<th>Average Inflation Rate: 1960-1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Left Share of Vote (1960-1969)</td>
<td>-.70</td>
<td>.48</td>
</tr>
<tr>
<td>Average Left Share of Cabinet (1949-1969)</td>
<td>-.38</td>
<td>.36</td>
</tr>
<tr>
<td>Average Left Share of Cabinet (1960-1969)</td>
<td>-.27</td>
<td>.31</td>
</tr>
<tr>
<td>Average Percent Years Left in Cabinet (1945-1969)</td>
<td>-.41</td>
<td>.50</td>
</tr>
</tbody>
</table>

**Source:** From Table 1, Hibbs (1979). The countries are Australia, Canada, Denmark, Finland, France, Italy, Japan, Sweden, U.K., U.S., and West Germany.

The explanation offered for these differences in Table 5.1 is that cross-national differences in unemployment and inflation reflect the degree to which social democratic and conservative parties have influenced the specific nature of the trade-off between unemployment and inflation.

While this evidence is both interesting and impressive, especially in that the work of others such as Cowart (1978) and Tufte (1978) has tended to support Hibbs's conclusions, it has nevertheless been challenged by analysts such as Payne (1979), Schmidt (1982), Beck (1982a) and Kernell (1980). Although a full discussion is outside the terms of this thesis, one problem encountered by Hibbs and others studying the impact of social-democratic parties on public policy...
warrants mention. This pertains to the fact that the party composition of government and macro-economic policy may be viewed as products of a third variable, and therefore, spuriously correlated with each other.

Kernell offers an alternative explanation of Hibbs's data along these lines by stating that the relationships reflect the coincidence of party control and a nation's specific unemployment/inflation tradeoff. Various estimates agree that the United States has an especially unfavourable tradeoff such that to drive unemployment to Europe's low levels would require unprecedented levels of inflation. (1980: 4).

The same argument may well be extended to welfare expenditure. Thus for example, the high Scandinavian and Northern European levels of welfare could be explained on a variety of grounds other than party composition, such as the presence of Christian democratic and Catholic parties as in the Netherlands. Likewise, the degree of corporatism and the openness of the economy measured in terms of exports as a proportion of GDP have also been offered as explanations. (See Cameron 1978; Schmidt 1982; Stephens 1979; and Wilensky 1976.)

In the area of welfare and public expenditure, there exists an extensive literature which has examined the impact of partisanship on policy. Three studies, in particular, those of Cameron (1978), Stephens (1979), and Castles (1982a; 1982b) deserve special attention; Cameron argues that politics is important in influencing the scope of the public economy. The partisanship of government is associated with the rate of expansion, and whether a nation's government was generally
controlled by social democratic (and their leftist allies), or by non-leftist parties, provides a strong clue to the relative degree of change in the scope of the public economy (1978: 1251).

Yet he does not come out fully in favour of a partisanship theory of public policy. He argues instead, that the openness of the economy, a variable examined in Chapter 4, is a prior causal factor creating the conditions for social democratic domination of the governmental apparatus.

Stephens (1979) has provided perhaps one of the better statements of what has been termed the labour mobilisation theory of social policy. In a cross-national analysis of 17 countries he found that the distribution of power within civil society, measured in terms of the power of both the industrial and political labour movement, is an important factor of welfare state development. For Stephens, the centralisation of wage bargaining, a variable used by him as a measure of the strength of corporatism is related to the level of the development of the welfare state. He argues that corporatism operationalised by the presence of centralised wage bargaining is a product of a strong trade union movement. Consequently, he stresses the importance of the interaction of social democratic control of government and trade union strength in producing distributional outcomes favourable to the labour movement.

Castles (1982b), while supporting a partisanship theory of public policy, maintains that welfare policy is not necessarily the sign of a strong Left, but may also belong to (or be associated with) a weak and fragmented Right. The
contention here is that a weak and fragmented Right will provide the conditions for the growth of a strong Left party, whereas a strong Right party serves to inhibit the expansion of welfare policies. This is however an extension of, rather than an alternative to, the social democratic explanation.

Summary of the Social Democratic Model

As the literature on the impact of social democracy is extensive, it is worthwhile attempting to trace the main assumptions of the argument, and the underlying hard core (Lakatos 1970) of the research programme. Before outlining the assumptions of the research programmes, two key meta-theoretical propositions of the party explanation need to be unveiled. Following Castles (1982a) (1982b), two main propositions within the Lakatosian hard core are: first, the denial that socio-economic structure or any technological imperative is more important than the political factor or political arrangements; secondly, that political parties are seen as capable of both responding to, and shaping social change. Consequently, the distribution of political power or, rather, governmental power, does make a difference to public policy outcomes.

Turning to the theoretical 'core' of the research programme, three key assumptions can be identified. The first assumption of the social-democratic thesis is that public policy involves different class interests. Public policies are not seen as 'class-neutral' but as class-biased, in so far as the benefits of public policies, which can be
both economic and political, are not distributed equally among all classes. The logical deduction from this proposition is that the Labour Movement will, both politically and industrially, support policies that will benefit its constituencies, especially where these lead to favourable distributional outcomes. Hibbs's thesis about macro-economic policymaking argues that the core constituency of social democratic parties will benefit from a favourable trade-off between unemployment and inflation. The assumption leads us to qualify one of the meta-theoretical propositions about the autonomy of parties. Parties are autonomous in so far as they are agents which shape social change. However, such autonomy is constrained by their constituencies. Parties are not principal actors so much as constrained agents.

With respect to social welfare expenditure, the central thesis of the social democratic argument has been that welfare policies involve a given set of distributional outcomes that are likely to benefit the social democratic constituencies. Hence, it is argued that under these circumstances, social democratic parties will tend to increase welfare expenditure. (See Stephens 1979, for a further elaboration of this argument.)

The second assumption, closely related to the first, is that policy is not seen in functional terms. Social welfare policy and the distributional outcomes that flow from it are not the automatic responses of the state to the emergence of immanent social and economic needs (see section 4.2 for review) or the response to the 'need' for the reproduction
of capitalist society. Public policy and social welfare policy are seen as outcomes of conflict between groups which have different interests. As Shalev puts it:

The outcomes of this moreover, are by no means pre-determined by socio-economic or any other imperative ...they depend on the balance of class forces in the policy making arena (1983: 31).

The final and most questionable assumption of social democratic theories is more methodological in nature, and equally applies to the *administrative turnover* hypothesis. The problem concerns the logic of the research design employed which excludes consideration of the influence of incremental and bureaucratic factors in these studies of the impact of party on policy. This is reflected in the fact that no attempt has been made in these study designs of typically time-series studies of expenditure (see Castles 1982, for an initial approach to time-series design), to control for incrementalism, by which is meant the influence of previous expenditure on current expenditure. Compared with these earlier studies, an important advance of the present study is the delineation of bureaucratic and incremental variables which are discussed more fully later on.

**5.3 TESTING THE ADMINISTRATIVE IMPACT MODEL**

5.3.1 Descriptive Model

Before proceeding to formulate a model of administrative impact which takes into account bureaucratic and incremental factors, it is useful to analyse the mean changes in nominal expenditure growth by political administration for Australia
and Canada. This is done for two purposes; first, to give an analysis of nominal rates of expenditure growth under different administrations, and second, to examine a familiar model of the influence of party on policy which is based on the descriptive statistics. This allows a contrast to be made between this model and a more complex administrative impact model.

Rather than test for the impact of party, we have broken the time-series into different administrative periods. (For an analysis of the United States macro-economic policy broken down by Presidential administration see Beck 1982a.) This method can be defended on three main grounds. First, the turnover hypothesis requires an analysis of the policy changes of different administrations. This is because central to the turnover hypothesis is the fact that it is the different political administrations even of the same party that produce distinct policy changes. Second, in the period under examination, the long periods of one-party dominance by the Liberal-NCP Coalition governments in Australia from 1950 to 1972, and by the Liberal Party in Canada in all the years except during the Diefenbaker period from 1956 to 1961, make it possible to examine the policy outputs of different governments of the same party. Third, coincidentally, the period covered in the time-series contains only one Labor administration in Australia, and similarly, one period of Conservative rule in Canada. Hence for both Labor and Conservatives, it is a test of party as well as of administration.
In the case of Australia, four distinct administrative periods are tested. The first is the Menzies period, that is, the period of the Menzies Prime Ministership from 1950 to 1966. The second, the period from 1966 to 1972, is described simply as the 'post-Menzies period' because it includes the short tenures of four Prime Ministers (Holt, McEwen, Gorton and McMahon); this makes further divisions technically untenable. The third is the Whitlam period, from 1973 to 1975, the only period of Labor rule under study. The final period is the Fraser Prime Ministership between 1976 and 1980.

The administrative periods tested for Canada are also defined by the Prime Ministerial stewardship and tenure. The first, the St Laurent period covers the period from 1948 to 1957; the second, that of Diefenbaker from 1957 to 1963 is as noted the only Conservative regime during the period under examination. The other two periods tested in the study are those of successive Liberal governments, namely, Pearson's tenure as Prime Minister from 1963 to 1967, and the period of Trudeau Prime Ministership from 1968 to 1970.

The mean rates of growth of expenditure by administrations for Australia are indicated in Table 5.2 presented below.
Descriptive Model: Australia

TABLE 5.2

Percentage Rates of Nominal Expenditure Changes by Administration in Australia
(in percentages)

<table>
<thead>
<tr>
<th>Admin. Period</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Health</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Menzies (1950-1966)</td>
<td>8.9</td>
<td>2.5</td>
<td>1.6</td>
<td>10.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Post-Menzies (1967-1972)</td>
<td>9.6</td>
<td>32.1</td>
<td>15.1</td>
<td>12.6</td>
<td>15.7</td>
</tr>
<tr>
<td>Whitlam (1973-1975)</td>
<td>34.0</td>
<td>56.2</td>
<td>50.1</td>
<td>39.7</td>
<td>31.3</td>
</tr>
<tr>
<td>Fraser (1976-1980)</td>
<td>14.8</td>
<td>9.1</td>
<td>2.2</td>
<td>10.1</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Note:-- The figures are calculated on the basis of the changes in current expenditure over the previous year's expenditure as a proportion of expenditure (in percentage terms). The main Table entries are the mean values for the different time periods. For data sources see Appendix 1.

The most striking feature in these expenditure changes is the marked growth in all welfare expenditures as well as in total expenditure during the Whitlam period. The two largest areas of growth in expenditure in this period were in education and health, both of which experienced mean rates of annual change in excess of 50%. The rate of change between the post-Menzies period and Whitlam period for these two
expenditure categories were 24.1% and 35% respectively. With the introduction of Medibank as a universal health insurance programme, health or rather medical insurance policy became one in which there was the greatest amount of policy innovation. Education also witnessed considerable growth with a great expansion in grants to the States as well as the Commonwealth assumption of funding responsibility for the Universities and Colleges. Social welfare too became identified as another area in which there was a significant expansion. An explanation for these figures may lie in the universalisation of the pension programmes, a significant innovation of the Whitlam government. However, the growth of expenditure in social welfare was not as great as that in health and education. It should be noted though, that social welfare did not have to expand from the relatively low base levels of health and education expenditure prevalent at the time of the election of the Whitlam government.

The post-Menzies expenditure figures indicate that compared to the Menzies period, there was considerable expansion in the areas of health and education - a jump of 29.6% in education expenditure and of 13.5% in health. In fact, the mean rates of expenditure for education changed more between the Menzies and post-Menzies periods than between post-Menzies and Whitlam periods. By contrast, the mean changes of social welfare expenditure were almost the same between the Menzies and post-Menzies periods, the difference being only 0.7%.

While both post-Menzies and Whitlam periods saw
expansions in the rate of change of expenditure from the levels of preceding administrations, the Fraser period witnessed declines in the rate of change of expenditure comparable to its increase in the two preceding administrations. The rates of change in education and health expenditure declined by 47.1% and 47.9% respectively. The decline in expenditure was greater during the Fraser period than the comparable increase of expenditure in the Whitlam period from the preceding post-Menzies period. This decline is also positively reflected in social welfare. However, given the high rates of expenditure growth during the 1970-1975 period, the scope for expansion was somewhat limited.

All three Liberal/NCP administrations exhibited different patterns of expansion in the areas of health and education, with the post-Menzies period having relatively high rates of growth for these categories. Indeed, the Whitlam period reflected the acceleration in expenditure that was apparent under the post-Menzies period. The rate of growth of the social welfare budget was approximately similar in all three administrations, ranging from 8.9% to 14.8%. This pattern is reflected in the growth of the total welfare budget; but this masks the fact that the Fraser period witnessed a decline from the Whitlam period, in the rate of change in welfare expenditure.

While the analysis of these figures must of necessity be tentative at this juncture, it is apparent that the results provide a basis for two major conclusions. First, the
significant role of the Whitlam period is reflected in the rapid growth of all the welfare expenditure categories examined. In terms of the models outlined earlier, this evidence provides some support for a social democratic explanation of social expenditure change. Further consideration of results, however, contains puzzling evidence which tends to cast a cloud of doubt over the former conclusion. This refers to the fact that a main feature of the results is that Liberal-NCP periods of political office exhibit different patterns of expenditure growth, revealing the different priorities of the respective political administrations. In terms of the social democratic argument, this suggests that Right-party administrations do not reveal a common pattern of policy priorities. This suggests that these administrations have different policy objectives, and therefore no single set of consistent objectives can be ascribed to Liberal administrations. For example, the difference between the Fraser and post-Menzies periods is as marked as the difference between the Fraser and Whitlam periods. A noteworthy feature of these results is the significant influence of the Fraser period in slowing down expenditure which is as notable as the positive impact of the Whitlam period in increasing expenditure. A pattern of results emerges from this descriptive analysis which points to the usefulness of the turnover hypothesis in explaining expenditure changes.

The mean rates of expenditure growth by political administrations for Canada are indicated in Table 5.3.
Descriptive Model: Canada

TABLE 5.3

<table>
<thead>
<tr>
<th>Admin. Period</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Health</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>St Laurent (1948-1956)</td>
<td>11.0</td>
<td>36.7</td>
<td>11.0</td>
<td>11.1</td>
<td>11.9</td>
</tr>
<tr>
<td>Diefenbaker (1957-1962)</td>
<td>9.2</td>
<td>81.5</td>
<td>36.2</td>
<td>13.0</td>
<td>57.0</td>
</tr>
<tr>
<td>Pearson (1963-1967)</td>
<td>11.1</td>
<td>57.7</td>
<td>10.1</td>
<td>10.9</td>
<td>9.9</td>
</tr>
<tr>
<td>Trudeau (1968-1975)</td>
<td>18.4</td>
<td>14.4</td>
<td>21.2</td>
<td>18.3</td>
<td>15.7</td>
</tr>
</tbody>
</table>

Note: For the method of calculation of the main Table entries, see Note in Table 5.2.

It is apparent from the information set out in Table 5.3 above, that the mean rate of change in Canadian social welfare expenditure has remained broadly similar across the four periods of Prime Ministers in tenure we have identified. The only significant escalation occurred in the Trudeau period when the annual rate of increase of social welfare expenditure rose from 11.1% to 18.4%, a change of 7.3%. This change is not so remarkable if it is compared
with changes in other expenditure categories; and more importantly, the expenditure effect of social welfare policy innovation does not seem to be greatly marked. As noted in Chapter 2, the period under study witnessed the gradual universalisation of the pension programme culminating with the enactment of a contributory insurance scheme in the Canada Pension Plan (CPP) in 1963. One of the problems with the use of descriptive statistics lies in the fact that one cannot control for such factors as growth over time, and influences such as unemployment and inflation. Therefore what appears to be a fairly similar administrative effect might mask significant differences between administrations once factors such as those mentioned above are controlled.

In contrast to the relatively slow growth of social welfare during the four periods being examined, education and health expenditure expanded rapidly. The Diefenbaker period saw the annual expansion of health expenditure growth from 11.0% under the preceding St Laurent period to 36.2%, an increase of 25.2. Similarly, education expenditure grew from 36.7% under St Laurent to 81.5% under Diefenbaker, a growth rate of 44.8%. It should be noted that the percentage change in the St Laurent period reflects not the increase in educational expenditure as much as the volatility of fluctuating levels of educational expenditure. In both areas, the Diefenbaker period established the highest annual rates of changes in expenditure for all the periods considered. The growth of health expenditure under Diefenbaker can be partly explained by the introduction of
the *Hospital Insurance and Diagnostic Services Act* of 1957.

The Pearson administration brought about a decrease in the growth rates in the annual expenditure of health and education by around 26.1% and 23.8% respectively. In terms of relative growth rates, the most marked and noticeable decline was in the area of health where the rate of change was a modest 10.1%. On the other hand, while the rate of growth in education expenditure declined during the Pearson period, yet at 57.7% it recorded an exceptionally high rate of change in relation to the patterns of other expenditures.

In the Trudeau period there was an increase of 11.1% in the rate of growth of health expenditure as compared with the preceding Pearson administration; and a reduction in the growth rate of education expenditure to 14.4%, a decline of 43.3%. The total welfare budget in the Trudeau period grew from 10.9% under Pearson to 18.3%, an increase of over 7.4% which is by far the highest increase of all the previous administrations that had an average growth rate of around 11%. The Diefenbaker administration however, had a very high rate of total expenditure growth of 57.0% reflecting a change of growth of 45.1% from the preceding St Laurent period.

The Canadian figures indicate that it is not possible to generalise about the influence of parties in government across all expenditure areas. The growth of expenditure categories differs significantly between the four periods of Prime Ministerial tenure. The St Laurent period had high rates of growth for health expenditure; the Diefenbaker
period saw a very high rate of growth in the areas of health, education and total expenditure; Pearson maintained high rates of expenditure growth in the area of education, while the Trudeau period witnessed growth in health, social and total welfare expenditure.

In terms of the Canadian literature, these results, still tentative (because the bureaucratic and internal variables are not controlled), appear to contradict the conventional wisdom that administrations do not have significant impact on policy. As with the Australian data, the pattern of evidence tends to support a turnover hypothesis. In terms of the comparative perspective adopted in this study, it appears that the influence of party in government does not vary between different types of party systems. This suggests tentative support for the strategic actor model of party policy.

5.3.2 Formulation of the Administrative Impact Model

A problem with the descriptive analysis and more generally with both the turnover and the social democratic models is the lack of specification of the internal determinants of expenditure. By 'internal' is meant bureaucratic and incremental factors which operate independently of the influence of the political executive. In the absence of a specification of these variables, no analysis can be made of the relative preferences of policymakers as distinct from the impact of political actors. The fact that most research designs are based on a cross-
sectional rather than a time-series design is an additional factor which further precludes the systematic analysis of internal and external factors of policy output. Research designs which control for economic variables do not causally link the preferences of policymakers with these variables. Economic variables are important but their effect is indirect, largely through the mediation of bureaucratic processes. A means of characterising this problem in research design is as an 'internal-external' dichotomy where there is no means of changing the preferences of policymakers and the influence of the party in government.

A means of resolving the 'internal-external' dichotomy, mentioned earlier as a problem in policy output studies is provided by the concept of a policymaker's 'reaction function'. It is assumed that policymakers adjust their policy instruments to some degree, at least in response to the actual levels of the policy targets observed. The basic purpose of a reaction function is the specification of the way in which policy instruments are adjusted to changes in the levels of policy targets. The underlying idea of the approach is that when some economic conditions (the target) differ from what authorities would find ideal, they react by manipulating other economic variables (the 'instruments') in order to bring about a more stable set of affairs" (Alt and Wooley 1982: 710).

The reaction function is a behavioral equation which is specified directly rather than being deduced from utility functions and constraints (Alt and Chrystal 1981). In the case of the current study, we attempt to specify the way in
which expenditure (policy instruments) might change with the movements of policy targets which we use to make inferences about the importance of bureaucratic factors. A feature of this approach therefore is the 'attempt to use observable outcomes, (for instance, levels of unemployment or government spending) to make inferences about the intentions of policymakers' (Alt and Wooley 1982: 711). The use of this approach to make inferences about policymakers' intentions represents a significant departure from earlier approaches to policymaking.5

'Reaction functions' present obvious difficulties. Perhaps the most significant one is the 'difficulty of avoiding a situation in which a weight a government places on a target of policy, or its desired value for that target, or both, must be presumed to be constant over the entire estimation period' (Alt and Wooley 1982: 725). In other words, a weight placed by a government on a target or targets, must be presumed to be constant over time; the parameters are assumed to be static. In addition there are problems in most policy studies of specifying rigorous behavioral functions. A further deficiency in the use of a reaction function is that the division between policy instruments and targets might not be as clear-cut. Indeed, in some cases it could be argued that policy instruments themselves are policy targets, an argument that could be applied to government expenditure. Yet the great advantage of the reaction functions approach to policy is that it allows the analyst to focus on policy outcomes in drawing
inferences about the intentions of policy makers, and provides a method for estimating in a rigorous manner the influence of what we have termed 'internal' factors.

Reaction functions can be used in several ways in examining policy output. Cowart (1978), in examining fiscal and monetary policy, used the reaction-function approach to examine whether the coefficients of targets differed under social-democratic and conservative governments. The approach utilised in this chapter is rather different. Reaction functions are assumed to represent internal or bureaucratic objectives, which in the terms outlined earlier represent 'internal' factors which govern policy output. Hence 'external' impacts are inferred from shifts in the reaction functions. Interestingly, Beck (1982b) uses a similar model to examine monetary policy in the United States.

The model being developed here assumes that policymakers behave in an 'incremental' fashion. By this is meant that policymakers tend to base current budgetary appropriations on the previous year's appropriation. As we noted in section 1.2.3, the strategy deployed to account for incrementalism is to utilise a filter to control for the effect of time. The method involved is akin to using an autoregressive filter to remove noise in the time series (see section 3.5). Thus, since all the equations exhibited significant first order autocorrelation, we have assumed that all expenditures are subject to incremental process.

Two targets to which policymakers are customarily
assumed to react are unemployment and inflation. Policymakers use public expenditure as an instrument for stabilising policy objectives as in an orthodox Keynesian model. In this method, public expenditure is used as an instrument to reflate the economy, stabilisation being the key policy objective. (For the test of such a function see Cowart 1978, and Alt and Chrystal 1981.) The coefficients for unemployment would be expected to be positive as an example of a classic Keynesian economic 'stabilisation function'. In other words, expenditure is a counter-cyclical policy instrument which is adjusted in response to variations in the target variables of unemployment and inflation.

There are two possible alternative explanations for positive coefficients for unemployment, one of which is O'Connor's (1973) hypothesis relating to public welfare expenditure. O'Connor asserts that welfare has two functions: (a) it socialises the cost of the reproduction of labour power, and (b) it performs a legitimising function. Both functions are outcomes of the increasing concentration of capital and the growing cost of labour power. This proposition it will be recalled, was examined in section 4.5, but the analysis here is in terms of the interventions of policymakers. A further explanation of the significance of unemployment relates to its impact in unemployment compensation, since the rate of unemployment is likely to have an impact in this expenditure area. In terms of the expenditure categories tested in this study, the only impact this has in both countries would be on social welfare and on
the total welfare budget, but not on health or education expenditure.

The final variable in the reaction function is modelled on the previous year's revenue level. Thus, increases in public expenditure follow increases in revenue. This variable is intended to capture explanations of fiscal drag which occurs when tax revenue increases automatically as a consequence of inflation (Peacock and Wiseman 1967; Lowery and Berry 1984). Hence, growth in revenue becomes an internal structural factor which then leads to changes in expenditure. The inclusion of a revenue term is designed to test some conventional public choice models of expenditure which lay stress on the importance of 'fiscal illusion' in enhancing the ability of governments to increase expenditure. It could be argued that revenue and expenditure measure the same effect. If governments desire to increase expenditure, they need to adjust revenue. This problem is partly dealt with by measuring the previous year's level of change in revenue (t-1) rather than changes in current levels of revenue. Therefore, the revenue effect is not dependent on current levels of expenditure. It consequently is a measure of the structural influence of revenue on expenditure.

5.4 RESEARCH DESIGN

The research design utilised in this chapter is a subset of quasi-experimental designs (Campbell and Stanley 1966) called *Interrupted Time Series* (ITS). Following Carposo and Pelowski (1971), the ITS design has three main features: (i)
periodic measurements of some variable over equally spaced points in time; (ii) the introduction of a quasi-experimental variable somewhere in the series; and (iii) the assumption that the introduction of the new variable occurs between two measurements. The results of these are indicated in a discontinuity in the measurement recorded in the time series. (For a useful description of this form of analysis see Judd and Kenny 1981.)

The objective of intervention analysis is to make the time series stationary, that is, to filter out of the series that component which is dependent on time. This has been accomplished by a first order autocorrelation (AR1) filter, that is, by filtering out the influence of first order autocorrelations for all the regressions tested, as well as the inclusion of a time trend which controls for the influence of growth over time. As noted earlier, however, the presence of AR1 is not merely statistical noise, but indicates the presence of an incremental process within the expenditure series.

The logic of the research design used here is first to specify and estimate a reaction function which models the impact of bureaucratic and internal factors on public expenditure. We then proceed to the second stage of analysis which is to examine whether the reaction function shifts for the four political administrative periods in both countries as outlined earlier in this chapter. If party in government is a significant influence in shaping policy, the reaction
function will shift. If the time series does not shift, we can infer that 'administration' itself has little or no impact on policy output.

Rather than enter for dichotomous variables in the equation and suppress the constant, in the analysis below we have allowed the constant to be given an administrative period. In the analysis which follows the constant is the Menzies period for Australia, while for Canada it is the Trudeau period. For this reason, coefficients are not reported for these administrative periods.
THE MODEL

The 'reaction function' for Australia is specified as follows:

\[ y = a + bx_1 + bx_2 + bx_3 + bx_4 + bw_1 + bw_2 + bw_3 + e \]

where

\[ x_1 = \text{time trend (TR): } 1950 = 1 \text{ and } 1980 = 31 \]
\[ x_2 = \text{changes in annual rate of unemployment} \quad (u_t - u_{t-1}) \]
\[ x_3 = \text{changes in the previous annual rate of revenue} \quad (rev_{t-1} - rev_{t-2}) \]
\[ x_4 = \text{changes in the annual rate of inflation} \quad (\text{CPI}) \]
\[ t = \text{value for current year} \]
\[ b = \text{standardised regression coefficient} \]
\[ y = \text{changes in real expenditure} \]
\[ e = \text{error term} \]

The intervention variables for Australia are as follows:

\[ a = \text{Menzies Period} \quad (1950-1966) \]
\[ w_1 = \text{Post-Menzies Period} \quad (1967-1972) \]
\[ w_2 = \text{Whitlam Period} \quad (1973-1975) \]
\[ w_3 = \text{Fraser Period} \quad (1976-1980) \]

All intervention variables are dichotomous.
The 'reaction function' for Canada is specified as follows:

\[ y = a + bx_1 + bx_2 + bx_3 + bx_4 + bw_1 + bw_2 + bw_3 + e \]

where

\[ x_1 = \text{time trend (TR): } 1947 = 1 \text{ and } 1975 = 29 \]
\[ x_2 = \text{changes in annual rate of unemployment } (u_t - u_{t-1}) \]
\[ x_3 = \text{changes in the previous annual rate of revenue } (\text{rev}_{t-1} - \text{rev}_{t-2}) \]
\[ x_4 = \text{changes in the annual rate of inflation } (\text{CPI}) \]
\[ t = \text{value for current year} \]
\[ b = \text{standardised regression coefficient} \]
\[ y = \text{changes in real expenditure} \]
\[ e = \text{error term} \]

The intervention variables for Australia are as follows:

\[ a = \text{Trudeau Period } (1968-1975) \]
\[ w_1 = \text{St Laurent Period } (1948-1956) \]
\[ w_2 = \text{Diefenbaker Period } (1957-1962) \]
\[ w_3 = \text{Pearson Period } (1963-1967) \]

All intervention variables are dichotomous.
### TABLE 5.4

Test of Reaction Function with Intervention Dummies for Australia, 1950-1980 (n=31)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Health</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>TR</td>
<td>0.15</td>
<td>-0.26</td>
<td>0.50</td>
<td>-0.10</td>
<td>-0.16</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.41)</td>
<td>(-1.19)</td>
<td>(1.50)</td>
<td>(-0.54)</td>
<td>(-0.52)</td>
</tr>
<tr>
<td>Revenue (t-1)</td>
<td>0.96</td>
<td>1.46</td>
<td>0.30</td>
<td>1.18</td>
<td>-0.58</td>
</tr>
<tr>
<td></td>
<td>(7.34)</td>
<td>(7.10)</td>
<td>(1.32)</td>
<td>(8.17)</td>
<td>(-0.15)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.12</td>
<td>-0.43</td>
<td>0.33</td>
<td>-0.17</td>
<td>0.08</td>
</tr>
<tr>
<td></td>
<td>(1.82)</td>
<td>(-3.40)</td>
<td>(2.38)</td>
<td>(-1.25)</td>
<td>(0.16)</td>
</tr>
<tr>
<td>CPI</td>
<td>-0.19</td>
<td>-0.28</td>
<td>0.24</td>
<td>-0.19</td>
<td>-0.63</td>
</tr>
<tr>
<td></td>
<td>(-2.05)</td>
<td>(-3.40)</td>
<td>(1.31)</td>
<td>(-1.92)</td>
<td>(-0.40)</td>
</tr>
<tr>
<td>Post-Menzies</td>
<td>0.42</td>
<td>-0.08</td>
<td>-0.02</td>
<td>-0.08</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>(-4.44)</td>
<td>(-0.53)</td>
<td>(-0.15)</td>
<td>(-0.78)</td>
<td>(0.66)</td>
</tr>
<tr>
<td>Whitlam</td>
<td>0.24</td>
<td>0.09</td>
<td>0.04</td>
<td>0.14</td>
<td>0.08</td>
</tr>
<tr>
<td></td>
<td>(1.64)</td>
<td>(0.53)</td>
<td>(0.15)</td>
<td>(1.97)</td>
<td>(0.33)</td>
</tr>
<tr>
<td>Fraser</td>
<td>0.15</td>
<td>-0.88</td>
<td>-0.77</td>
<td>-0.30</td>
<td>-0.82</td>
</tr>
<tr>
<td></td>
<td>(0.99)</td>
<td>(-4.35)</td>
<td>(-5.72)</td>
<td>(-1.77)</td>
<td>(-4.62)</td>
</tr>
<tr>
<td>Menzies</td>
<td>(0.86)</td>
<td>(1.07)</td>
<td>(-1.62)</td>
<td>(0.45)</td>
<td>(0.64)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.91</td>
<td>0.71</td>
<td>0.61</td>
<td>0.89</td>
<td>0.72</td>
</tr>
</tbody>
</table>

**Note:**

a) The main entries are beta coefficients; the figures in parentheses are 't' values; '***' = p<0.10; '***' = p<0.05; '****' = p<0.01

b) For sources and the raw data see Appendices 1 and 3 respectively.

c) The administration periods are entered as dummies with one (Menzies) being the constant in the equation. Therefore no standard errors are provided.
### TABLE 5.5

Test of Reaction Function with Intervention Dummies for Canada, 1947-1975 (n=29)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Health</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>TR</td>
<td>0.97</td>
<td>0.23</td>
<td>0.29</td>
<td>1.03</td>
<td>0.52</td>
</tr>
<tr>
<td></td>
<td>***</td>
<td></td>
<td>*</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3.03)</td>
<td>(0.36)</td>
<td>(1.40)</td>
<td>(6.36)</td>
<td>(1.67)</td>
</tr>
<tr>
<td>Revenue (t-1)</td>
<td>-0.04</td>
<td>-0.11</td>
<td>-0.01</td>
<td>-0.11</td>
<td>-0.20</td>
</tr>
<tr>
<td></td>
<td>(-0.31)</td>
<td>(-0.52)</td>
<td>(-0.11)</td>
<td>(-1.02)</td>
<td>(-0.18)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>-0.11</td>
<td>0.14</td>
<td>0.22</td>
<td>-0.13</td>
<td>1.18</td>
</tr>
<tr>
<td></td>
<td>(-0.83)</td>
<td>(0.67)</td>
<td>(1.60)</td>
<td>(-0.18)</td>
<td>(1.59)</td>
</tr>
<tr>
<td>CPI</td>
<td>0.59</td>
<td>-0.18</td>
<td>0.05</td>
<td>0.66</td>
<td>0.22</td>
</tr>
<tr>
<td></td>
<td>***</td>
<td></td>
<td>**</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(4.24)</td>
<td>(-1.21)</td>
<td>(0.31)</td>
<td>(8.85)</td>
<td>(1.84)</td>
</tr>
<tr>
<td>St Laurent</td>
<td>0.82</td>
<td>-0.39</td>
<td>-0.57</td>
<td>0.30</td>
<td>0.93</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td></td>
<td>**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.92)</td>
<td>(-0.56)</td>
<td>(-1.27)</td>
<td>(1.40)</td>
<td>(3.84)</td>
</tr>
<tr>
<td>Diefenbaker</td>
<td>0.45</td>
<td>-0.28</td>
<td>-0.42</td>
<td>0.28</td>
<td>0.27</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td></td>
<td>**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.75)</td>
<td>(-0.66)</td>
<td>(-1.16)</td>
<td>(1.31)</td>
<td>(2.55)</td>
</tr>
<tr>
<td>Pearson</td>
<td>0.08</td>
<td>-0.56</td>
<td>-0.50</td>
<td>-0.19</td>
<td>0.05</td>
</tr>
<tr>
<td></td>
<td>**</td>
<td></td>
<td>**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.11)</td>
<td>(-2.01)</td>
<td>(-2.73)</td>
<td>(-1.70)</td>
<td>(0.61)</td>
</tr>
<tr>
<td>Trudeau</td>
<td>(-2.70)</td>
<td>(0.13)</td>
<td>(0.13)</td>
<td>(-3.19)</td>
<td>(-5.62)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.62</td>
<td>0.23</td>
<td>0.63</td>
<td>0.77</td>
<td>0.88</td>
</tr>
</tbody>
</table>

**Note:**

a) The main entries are beta coefficients; the figures in parentheses are 't' values; 
- *= p<0.10; 
- ** *= p<0.05; 
- *** = p<0.01
b) For sources and the raw data see Appendices 1 and 3 respectively.
c) The administration periods are entered as dummies with one (Trudeau) being the constant in the equation. Therefore no standard errors are provided.
5.5 FINDINGS

The main task of this analysis is to examine the influence of parties in government on policy and expenditure in terms of the displacement of the reaction function specified above. The discussion of the results for each of the two countries is divided into two sections. The first is an analysis of the results of the test of the reaction function. The second is an examination of administrative impact. The focus of the analysis, however, is on the latter aspect.

5.5.1 Australia

Internal Bureaucratic Variables

The most striking result for Australia is that there is no overall pattern which could be discerned for any of the expenditure categories examined. Perhaps a good example of this is that a consideration of the results for total welfare could not be used to draw inferences about individual expenditure categories.

Looking at the Australian data, the impact of past changes in revenue on welfare expenditure presents the strongest relationship of any of the economic variables examined. The result indicates that, at least for the social welfare expenditures, we can confirm the hypothesis that revenue leads expenditure. The essential feature of the results presented in Table 5.4 for revenue is its wide variation. The beta coefficients for social welfare, education and total welfare expenditures lie in the range of...
0.96 to 1.46, and the significance level is above the 0.05 level. As against the strong relationship between these expenditure categories, health is relatively weakly related (significant at 0.10 level) to revenue with a coefficient of 0.30.

More interestingly, the beta coefficient for revenue has a negative coefficient in relation to total expenditure. In other words, changes in revenue have no influence on total expenditure levels. The conclusion to be drawn from these findings is twofold. Firstly, welfare expenditure is strongly associated with changes in revenue, while total expenditure reflecting the impact of non-welfare expenditure is not positively related to revenue. This is because the total welfare budget being strongly related to revenue, the coefficient for total expenditure must reflect the weight of non-welfare expenditure of which a large part is defence and capital expenditure. Hence we may conclude that while changes in revenue lead to increases in welfare expenditure, a trade-off occurs whereby non-welfare expenditure does not increase by a similar proportion.

A second and obvious conclusion to be drawn is that welfare expenditures, especially transfer payments, as evidenced by the coefficient for social welfare, are greatly influenced by changes in revenue. For these expenditure categories, fiscal drag and other structural factors which lead to rises in revenue are reflected in increases in the level of expenditure. This is supported by the Peacock and Wiseman (1967) finding that in the case of national

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emergencies and crises, there is a temporary rise in expenditure; and that furthermore, to accommodate this increase, there is a rise in the level of revenue. However, this increased revenue is then used to finance a permanently higher level of expenditure. A similar process, of the phenomenon of revenue leading expenditure, can be observed from the analysis of welfare expenditure data.

Turning to examine the stabilisation hypothesis, the coefficients for unemployment are broadly and generally consistent with the Keynesian hypothesis that expenditure is increased in response to higher unemployment as a reflationary measure. Three expenditure categories - social welfare, health and total expenditure - have coefficients that are positive, and hence, in the direction posited by the hypothesis. Of these, only social welfare and health expenditures are statistically significant, and could be said to be related to unemployment, whereas total expenditure with a coefficient of 0.08 lies outside the range of statistical significance.

The O'Connor hypothesis appears to be confirmed by the positive coefficients for social welfare and health. The pressure for legitimising and for expenditure to reproduce labour power is more likely to be reflected in these expenditures. On the other hand, the weight of the stabilisation objective for policymakers will be reflected in the coefficients for total expenditure which, while in the right direction, are not statistically significant.
Overall, both explanations stress the counter-cyclical objectives of expenditure policy. In terms of these objectives, we can conclude that transfer payments and health expenditure are more responsive to changes in unemployment than to changes in total expenditure. As noted above, social welfare expenditure appears to increase as unemployment rises, because its share of the budget contains an increased proportion of unemployment compensation payments.

In contrast to these expenditures, total welfare expenditure, with a coefficient of -0.17 is not affected by unemployment, and is therefore neutral to changes in unemployment. Education expenditure, on the other hand, with a statistically significant negative coefficient of -0.43, is associated negatively with unemployment. The reason for this might lie in the fact that education expenditure consists of transfer payments to States which are more likely to be affected by 'bad times'. To sum up, unemployment seems to have contradictory effects on the welfare budget with income maintenance and health expenditure increasing, while education expenditure decreases, and the total welfare budget remaining neutral to movements in unemployment.

The coefficients for inflation are in the expected direction for social welfare, education and total welfare expenditures. All of these coefficients, are statistically significant. Total expenditure with a coefficient of -0.63 is statistically not significant and neutral to movements in inflation. Health expenditure, once again, moves in a direction contrary to that of other welfare expenditures with
a statistically significant positive coefficient.

The difference in results between total welfare and total expenditures is interesting in that they suggest that welfare expenditure is more responsive to counter-cyclical policy than is non-welfare expenditure. Indeed, an emerging result of the Australian data is the extent to which these economic variables (bureaucratic variables) have differential impact on welfare and non-welfare expenditures. In the case of revenue, it was observed that while all welfare expenditures were positively related to revenue, total expenditure was neutral to changes in revenue. Similarly, in the case of unemployment all the welfare expenditures (with the exceptions noted) were related to unemployment. Total expenditure exhibited no such relationship. This pattern of results was repeated in the case of inflation. In general, welfare expenditure rather than non-welfare expenditure is more likely to vary in response to change in economic circumstances. Social welfare expenditures in particular are more prone to be liable to the influence of changing economic events and the resultant policy responses.

An interesting point to emerge from this analysis of health expenditure and its positive relationship to inflation is that it seems to bear out the result that health expenditure is subject to cost pressures. In the discussion of results for Canada we note that one of the reasons for the positive relationship of inflation to real expenditure may lie in the fact that cost pressures are particularly
important in explaining the growth of welfare expenditure. A further reason for this positive relationship might lie in the high rate of inflation in the early 1970s which also saw the introduction of a new health insurance programmes with the introduction of Medibank in 1974.

So far, we have analysed inflation and unemployment separately. If however, we were to examine whether expenditure follows an orthodox Keynesian stabilisation objective, we would need to look at the sign of the coefficients of both inflation and unemployment. As noted above, if a stabilisation function is being followed, the sign of unemployment and inflation will be in the opposite direction. Turning to the data, (see Table 5.4) we find that only two expenditure categories - social welfare and total expenditure - have the signs on unemployment and inflation coefficients in the direction posited by a stabilisation hypothesis. Social welfare has the strongest significant relationship of the two expenditures, with coefficients of 0.12 and -0.19 for unemployment and inflation respectively. It could be inferred from these data that income maintenance expenditure is highly responsive to counter-cyclical policy. On the other hand, while the signs for the coefficients for total expenditure are in the correct direction, the 't' values indicate that they do not achieve an acceptable level of statistical significance. Hence, any conclusion about the impact of stabilisation policy by analysis of the data on total expenditure rests on rather weak ground.
The Impact of Administrations

One central research objective of this chapter has been to examine the displacement of bureaucratic internal factors by the influence of political administration. Two general assertions can be made about the impact of administration. First, as analysed above, the dominance of incremental and bureaucratic objectives is apparent. Every expenditure category is dominated by the influence of bureaucratic forces which cut across all the administrative periods. Second, this dominance of incremental bureaucratic variables is offset to a degree in the Whitlam and Fraser periods of government. The Whitlam period saw some expenditures rising faster than could be predicted from the incremental/bureaucratic model, while the Fraser period saw some categories of welfare expenditure rising slower than could be deduced from the model.

The Menzies period saw the dominance of the incremental bureaucratic model for most expenditures. Expenditure itself is neutral to the influence of the governing party, the only exception being health expenditure which is significantly negative. The figure for health expenditure is one that should be expected from an analysis of the descriptive statistics. The mean annual rate of increase was only 1.6%. In similar fashion, the post-Menzies period exhibits no displacement of incremental and bureaucratic factors. In fact, the beta coefficients are all negative except for total expenditure but none of these are significant. The only conclusion that one can reach from this data is that
expenditure is not responsive to the influence of parties in government.

The analysis of the Whitlam period runs contrary to the results of the descriptive statistics. The descriptive statistics indicated that this period witnessed a substantial jump in expenditure in all categories. However, after controlling for economic variables, the relationship between the various expenditure categories and the Whitlam administration appears to be much weaker. While the coefficients are positive for all the expenditure groups, only social welfare and total welfare, with 't' values of 1.64 and 1.97 respectively, reach a satisfactory level of statistical significance. These relationships, though significant, are somewhat weaker than could be inferred from the analysis of only the annual mean changes of expenditure.

The most surprising result is that the growth in health expenditure is not significantly related to the Whitlam period, given the obvious escalation of health expenditure as seen in Table 5.2. However, the model, if set up without a time trend, shows a strong relationship with health expenditure during the Whitlam period. Without a time trend, the coefficient for health expenditure is 0.37 with a 't' value of 2.3 which is statistically significant. These two contradictory results demonstrate that some of the increases in health expenditure during the Whitlam period are captured by the time trend. In other words, while there is a significant rise in health expenditure reflected in the
descriptive data, this increase is a result of growth over time rather than the impact of the government in power. It is not an increase which could be attributed to any particular political administration. Put differently, if one sets up a counter-factual experiment in terms of the re-election of a Liberal-NCP Coalition government in 1972, the analysis suggests that health expenditure would have increased by approximately the same margin.

The results obtained also show that in the Australian context, the support for the social democratic hypothesis is not very strong. As noted, these results contradict the descriptive statistics in Table 5.2, but the crucial point is that after controlling for economic variables and incrementalism, real expenditure changes show only a weak relationship to the Whitlam administration. However, the analysis of the Whitlam period is complicated by the fact that there is only a small number of years over which the impact of this government could be measured (n=3). Moreover, this period was accompanied by high levels of unemployment which may tend to bias the empirical findings.

The Fraser period is noteworthy for two reasons. Firstly, it displayed what could be termed de-incrementalism in the sense that changes in real expenditure are below what could be predicted from an incremental and bureaucratic model. The coefficients for health, education, total welfare and total expenditures were both negative and statistically significant. Indeed the only positive coefficient is for the category of social welfare expenditure, but this is not
statistically significant. In fact, the Australian data yielded more evidence for the negative impact of conservative administrations, than for the positive effect of social-democratic parties. (See Castles 1982b for argument concerning the impact of the Right on politics.) A further important feature of the Fraser period is this de-incrementalist mode of policymaking, distinguishing the Fraser period from the other two previous Liberal administrations which were overwhelmingly incremental in policymaking.

The conclusion from the analysis of the influence of administration on expenditure in Australia is threefold. First, the import of the evidence which has emerged clearly indicates that the Australian expenditure adjusts more to incremental and bureaucratic forces than to the manipulations of political administrations.

Within this context of the dominance of these forces, the second noteworthy feature of the results is the lack of strong support for the social democratic explanation of policy. Indeed, the only areas which provide a significant result were social welfare and total welfare expenditures. The thrust of the results suggests that ideology is not a markedly strong influence on policy priorities of government. The evidence for the Whitlam period indicates that without the time trend the coefficients for health expenditure would indicate a significant relationship with the party in government. What this indicates is that the process at work
in accounting for the large increase in health expenditure observed in the descriptive model is political competition and not ideology. A similar argument can be applied to changes in real levels of social welfare expenditure which without the time trend shows a greater degree of responsiveness to the influence of Labor in government in the period between 1973 and 1975. The shift in social welfare expenditure can be attributed to a change in government rather than an effect of party ideology. The evidence therefore suggests support for the turnover hypothesis.

Finally, more support for the turnover hypothesis is found when the analysis of the Fraser period is considered. The analytical significance of the period for our research lies in the fact that it differs distinctly from previous Liberal-NCP Coalition administrations. This is amply demonstrated by the fact that the Whitlam administration is closer to Menzies and post-Menzies administrations in the area of health and education than it is to the Fraser administration. The logic of these results therefore suggest that the turnover and the strategic actor model might be a better explanation of the influence of administration than the structural model. However, a final conclusion as to the efficiency of these models must await a comparative analysis.

5.5.2 Canada

Internal Bureaucratic Variables

As with the Australian data the overriding impression of the impact of the bureaucratic variables on Canadian
expenditure is the degree to which they are not consistent across the expenditure categories. A consistent set of patterns for the coefficients examined does not emerge from the analysis.

However, the Australian and Canadian data diverge sharply as regards the impact of economic and bureaucratic factors on social expenditure. Indeed, the first factor to be noted about the differences between the two are that the time trend captures a far greater proportion of the variance in expenditure in Canada than in Australia for the major categories of expenditure - social welfare, total welfare and total expenditure.

The impact of previous year's revenue on changes in real expenditure in Canada is one important point of divergence between the Australian and Canadian data. All the expenditure categories for Canada indicated that revenue was not a significant determination of expenditure. Indeed, the extent of this lack of influence of revenue is indicated by the fact that all the coefficients are negative. However, none of these are significant. In fact the only similarity between the coefficients for Australia and Canada lie in the neutral impact of revenue on total expenditure; but interestingly, the Canadian expenditure does not suggest that trade-off between welfare and non-welfare expenditure noted for Australia.

The isolation of changes in welfare expenditure from changes in previous year's revenue suggests that Canadian programmes are immune from the influence of changes in
revenue. In the area of social welfare the entrenchment of universal contributory schemes means that the growth of these programmes are immune to changes in revenue. In fact once these programmes are entrenched, they are not vulnerable to short term pressure brought on by changes in economic circumstances. By contrast, Australian programmes are more prone to respond to changes in economic circumstances because they are in general means-tested and provide flat rate benefits (Brennan 1982). The signs of the unemployment coefficient are positively associated with health and total expenditure, with coefficients of 0.22 and 1.18 respectively. The only other positive coefficient is for education which is not significant. The other two expenditure categories of social and health expenditure, whilst having signs in the direction opposite to that which would be predicted by a counter-stabilisation policy, are not statistically significant.

The main conclusion to emerge is that Canadian welfare expenditure, with the exception of health expenditure, is not affected by changes in the rate of unemployment. On the other hand, the Canadian data suggest that total expenditure is responsive to reflationary objectives as formulated in the Keynesian hypothesis. From this it could be inferred that non-welfare expenditure rather than welfare expenditure is subject to the pressures of stabilisation policy. The Canadian evidence suggests that Canadian expenditure is 'locked in' and is not sensitive to movements in revenue and
unemployment, though these expenditures still exhibit incremental changes. It might be relevant to note that unemployment in Australia in the 1970s was much higher than in Canada. This relationship is in contrast to the pattern of results obtained for Australia. In fact, with the exception of health expenditure which is related to unemployment, none of the welfare expenditure coefficients reveal a degree of responsiveness to changes in either revenue or unemployment. In the case of social welfare expenditure, it was suggested that its relatively more universalistic and contributory form in Canada was a plausible explanation for the contrasting pattern of results between the two countries.

A second difference between Australia and Canada lies in the fact that, except for changes in unemployment in Canada, no difference can be found in the behaviour of Canadian welfare expenditure and non-welfare expenditure. But, as we observed with the Australian data, there exists a striking difference between total expenditure and welfare expenditure.

In contrast to the revenue and unemployment coefficients, the coefficients for inflation are significant for three expenditure categories, namely, social welfare, total welfare and total expenditure. In fact the inflation coefficient is the best regression variable in predicting expenditure variance for all these three dependent variables, the lowest positive coefficient being 0.22 for total expenditure, and the highest at 0.66 for total welfare expenditure. Although contrary to this pattern, both health
and education expenditures are neutral to the impact of inflation.

If the stabilisation objective was dominant, that is, if price stability was a major macro-economic objective, expenditure would be one instrument utilised to bring about this objective. Hence, inflation would be associated with negative expenditure coefficients. This is not manifestly the case with the inflation coefficients for Canada where all excepting one, are positive.

The Canadian results for this variable contrast sharply with the Australian data, the only similarity being in the area of health expenditure where the Australian figure is positive. However, these aggregate results clearly require explanation. It was argued that in the case of health expenditure, the positive relationship to changes in price levels might reflect the influence of cost pressures unique to health expenditure. This is probably true of the Canadian health expenditure as well. However, given that health expenditure is the lowest of positive relationships observed for inflation, the explanation needs to be generalised to other welfare expenditures as well. It could be that the cost of government services increase by a greater amount than inflation, and consequently, the growth in expenditure needed to maintain real levels is much greater than the CPI increases (Baumol 1967: 22).

As it would have been inferred from the above Canadian data, little support is formed for the hypothesis that
stabilisation is a key objective of policymakers. Evidence for this proposition comes from the British context, where Price argues that:

By the end of the 50's the avowed strategy had become to ensure that public spending was neutral vis-a-vis internal stability, with public sector expanding at a rate consistent with the long run growth of the economy, so that at least one sector would be free from disturbance (1978: 77).

Likewise, in the British context Alt and Chrystal (1981) have failed to find evidence of the pursuit of stabilisation objectives. As previously suggested, the lack of support for such an objective in the Canadian context does not imply that changes in unemployment and inflation lack significance in explaining the determination of expenditure; but they do require a different explanation.

The Impact of Administrations

In respect of the influence of party in government on policy, the evidence indicates that the influence of political administrations in setting Canadian policy priorities is strong. The impact of government in power is an important factor in accounting for the growth of certain areas of expenditure after accounting for 'internal' factors. An important finding in this context is the differential impact on policy of the political administrations of St Laurent, Pearson and Trudeau. The data show clear differences in policy impact with respect to these periods of Prime Ministerial tenure, all of which belong to the same party. Canadian policy output studies such as those by Kornberg et al. (1973) and Falcone (1974),
by focussing on party rather than the government in power, have failed to bring out the differences in policy and expenditure priorities between administrations of the same party.

One area in which administration does not have a substantial impact on policy is educational expenditure. The only influence is the negative effect of the Pearson administration on education expenditure. These figures however should be put in the context of rapidly rising education expenditures during the preceding Diefenbaker period (see Table 5.3). In terms of the descriptive data, education expenditure still grew substantially during the Pearson period.

The St Laurent period had a positive impact on social welfare, total welfare and total expenditures, but only a neutral impact on health and education expenditures. While these expenditures have negative coefficients, they are far too small to be of any significance. Clearly, the main impact of expenditure lies in relation to social welfare. As mentioned earlier, the Prime Ministership of St Laurent saw the gradual extension of Federal pension programmes with the introduction of Old Age Security programmes (OAS). The statistically significant influence on total welfare reflects the weight of social welfare expenditure in the total welfare budget. A noteworthy feature of the results is that the St Laurent government also had a strong impact on total expenditure, a relationship that is somewhat stronger
than those with some welfare areas. This finding suggests that while the government had a major influence on the growth of real welfare expenditure, its impact on non-welfare expenditure was even greater.

The Diefenbaker period has a pattern identical to that of the St Laurent period. Education and health expenditures are neutral in terms of administrative impact. The two welfare areas where an administrative influence can be discerned, are again, social welfare and total welfare. A pattern similar to both administrations is that they had a greater impact on total expenditure than on total welfare. This pattern of results is interesting because it indicates that non-welfare expenditure may have been more responsive than welfare expenditure to administrative influence.

In terms of the influence of both St Laurent and Diefenbaker governments, the evidence clearly indicates that social welfare was the dominant political issue in the 1950s. Consequently the policy priorities of both governments reflected the politicisation of social welfare. Indeed, Bryden (1974) notes that social welfare was an important issue in the 1956 election. As against the positive relationship between government in power and social welfare expenditure, no relationship was found between political administration and health expenditure. Pre-empting the results of the next chapter, the study does find evidence to link inter-party competition to health expenditure, whereas no such link can be found for social welfare. The evidence therefore indicates that social welfare is possibly subject
to an *administrative effect*, whereas health expenditure is subject to a *competition effect*.

The Pearson period is markedly different from both the Diefenbaker and the St Laurent periods in broadly having no positive impact on welfare expenditure, except for social welfare which has a positive coefficient. All the other coefficients are negative and significant. These results suggest that Pearson had a negative influence on education and health expenditure. This argument is consistent with the pattern of expenditure changes for health and education expenditure observed from an analysis of the descriptive statistical data in Table 5.3. Turning to total expenditure which while being positive is not significant, and is neutral to the influence of government in policymaking for non-welfare areas. This incremental style of policymaking sharply distinguishes it from the two preceding political administrations of Diefenbaker and St Laurent, both of which had significant roles in non-welfare policymaking.

The Trudeau period has statistically significant negative values for all expenditures except for education and health. In this it differs from the Pearson period which had a strong negative influence on these expenditure. These negative relationships between social welfare, total welfare and total expenditure should be placed in context. The rate of change of all welfare expenditures during the previous period was comparatively high. The data for the Trudeau period reflect the decline in these rates of expenditure.
growth. Nevertheless, this analysis shows up the important differences in policy priorities of the Trudeau period in comparison with not only the Pearson regime, but also with the Diefenbaker and St Laurent governments.

The Canadian data tend to suggest that an 'administrative turnover' hypothesis is appropriate as an explanation of Canadian expenditure changes. Not only does the Canadian evidence tend to support the turnover hypothesis in terms of the emergence of distinct policy priorities of various regimes, but the results of the test of the reaction function suggest that changes in government was a strong influence on the rate of expenditure change. In terms of the analytical issues examined in this chapter the Canadian evidence indicates a pattern of evidence which suggests that the type of party system is not a factor relevant to the determination of the influence of political administration. Hence, it provides a basis for supporting the strategic actor model of party policy.

5.6 CONCLUSION

In terms of the research issues addressed in this study the evidence strongly supports the 'administrative turnover' hypothesis as against the 'social democratic explanation' of policy. The weight of the evidence tends to support the view that 'political administrations' tend to have different expenditure priorities whatever the nature of the party system. In terms of the model outlined in Chapter 1, it was expected that if the structural explanation of policy was to
hold, administrations would have significant influence in Australia, and that the opposite, that is, the absence of any impact, would be true of Canada. On the other hand, if the strategic explanation was to hold, administrations would be more similar in both countries, irrespective of the type of party system. Given the evidence for the impact of party in government on expenditure in both countries, the evidence tends to strongly support the strategic actor model of policy. In sum, the main conclusion of this chapter is that the influence of political administration on policy is not a function of the structure of the party system. A more plausible explanation of its impact on policy would be in terms of the strategic incentives for government, regardless of ideology, to pursue different policy priorities.

The clear test of the social democratic explanation lay in the analysis of the impact of Whitlam period of administration on expenditure in Australia. The Australian evidence was by no means strongly supportive of this hypothesis. The Whitlam period was significant for only social welfare and total welfare. While the other coefficients were positive, none of them were significant. More importantly, the evidence indicates that different administrations have different expenditure priorities. The clearest indication of this lies in the results for the Fraser period of administration, which not only stands out against previous Liberal/NCP administrations, but is also more significant (albeit in a negative fashion) than the Whitlam period.
The Canadian evidence tends to place in sharp focus the evidence of policy output studies (Kornberg et al. 1972; Falcone 1974), that party is not a significant influence on policy. It is clear that the testing of administration instead of party yields a pattern of results markedly different from that obtained in earlier studies. In the Canadian context, this suggests that strategic incentives for parties to set new expenditure priorities are more important than the structural basis of the party system. The results also run counter to the conventional wisdom outlined in the introduction that if there is no major ideological difference between the parties, administrations will have negligible influence on policy. Indeed, if at all, the argument could be made that Canadian governments have greater influence in setting policy priorities than their Australian counterparts. In policymaking Australian governments are dominated to a greater extent than the Canadian governments by 'internal' factors. The results of these early policy output studies in the Canadian context therefore need reassessment in the light of conceptual methodological changes marked in this study.

NOTES

1. Analysis of provincial expenditure provides some evidence for the impact of the New Democratic Party. See Chandler (1977) for extensive discussion.

2. In this study, the term 'administration' relates to \textit{political} administration or to the influence of party in
3. Bunce bases her study on a descriptive analysis of expenditure data. For an approach which uses similar methodology, see Gruen (1984).

4. 'Social Democratic' meaning in this thesis, a member of the Socialist International.

5. For the first rigorous analysis of economic policy from such a perspective see Thiel (1968).

6. The 'reaction functions' were also tested by using the changes in the previous year's levels of unemployment and inflation. However, the direction of the coefficients were similar to those obtained when levels of current expenditure were used.

7. There are other techniques to achieve a stationary times-series. The most important of this is Box-Jenkins's (1976) procedures. However the problem with Box-Jenkins analysis is that first, it needs a large number of time points, at least 74; second, the use of Box-Jenkins or AIRMA analysis does not allow one to use the reaction function approach used in the analysis. For a description of the technical and conceptual issues raised see Hibbs (1974).

8. For the method of deflation of expenditure data, see section 3.4.1.

9. Cameron (1986) is a recent study of party and government growth in Canada which has come to my attention following completion of work on this study. Interestingly, it deals with issues somewhat similar to those addressed in this chapter. However it would appear that Cameron's study is not strictly comparable because it differs from this study in key respects, especially as regards the dependent variables and also the time period covered. Furthermore, the inclusion of theoretically specified bureaucratic variables which constitutes a significant feature of the present design, is absent in Cameron's work. It is the latter feature of the design which makes the present study a significant innovation in the field of comparative public policy.
CHAPTER 6

THE IMPACT OF POLITICAL COMPETITION
ON EXPENDITURE

6.1 INTRODUCTION

The analysis of the impact of democratic institutions and practices on public policy is a question which has stimulated much scholarly inquiry; indeed the roots of this speculation reach back into the eighteenth century. Political theorists such as Montesquieu and later de Tocqueville (Myles 1984) argued that democracy would have an egalitarian impact because the growing enfranchisement of the population would lead to the powerless having the means of gaining political power. It was argued, to put it in terms of contemporary experience, that the advent of democratic the process and practices created the conditions for altering existing distributional practices within the capitalist economy. As described by one theorist, the many were able to 'combine against the few; even though individually the many are weaker, in combination they may be as strong or stronger' (Lenski 1966: 318). This chapter sets out to examine the public policy impact of democratic processes in the two countries under review, particularly in the area of welfare expenditure.

The analysis is conducted at two different levels. The first level is an examination of the impact of the variables of political competition on policy. This part of the analysis follows on from Chapter 5, which examined the impact
of party, and more specifically, the impact of political administration on policy. At this level the analysis in this chapter is descriptive in the sense that it is an examination of the influence of central elements of the democratic process on public policy, quite apart from the general argument of this thesis about the link between party and policy framework.

The second level of analysis is interpretive, and is intended to provide the explanatory flesh to the descriptive body. Here the analysis is concerned with the understanding of the causal basis of political competition, and thus, with an evaluation of the differing models of explanation of party and policy outlined in Chapter 1, by considering empirically the influence of competition on policy.

6.1.1 Descriptive Level

Two strategic political variables are examined for their impact on expenditure and policy. These are: (a) the role of elections on policy; and, (b) changes in the level of inter-party competition. Inter-party competition is examined in the two dimensions of electoral and parliamentary competition. Electoral competition is measured by differences in the electoral share of the government and opposition; parliamentary competition is measured by the difference between the parliamentary seats of the government party and opposition. While the latter tests the impact of party competition on policy, both variables are important aspects of the political process, and hence critical to our
examination of the impact of political competition. In clarification of the terminology used here in the analysis, the term 'political competition' denotes the influence of both elections and inter-party competition on policy as they are the most general aspects of the competitive democratic process. The term 'inter-party competition' refers more specifically to electoral and parliamentary competition.

The literature focussing on the impact of political competition on public expenditure is substantial, though confined in the main to the analysis of American state government expenditure. This American literature, as we noted in Chapter 1, has tended to ignore the impact of incremental changes on expenditure, and has instead examined the role of economic and political variables in policy formation. The cross-national literature, although theoretically better formulated than the American State expenditure literature, has two main limitations. Firstly, as in the American state literature, it does not explicitly focus on the influence of incremental and bureaucratic process. Secondly, because its dominant concern lies with the influence of party in government on policy, it ignores the impact of the major elements of a democratic society such as elections and party competition. Indeed, the literature contains scarcely any analysis of the role of competition in influencing policy.

In this study, however, we will consider the role of political competition in the light of the operation of both incremental and bureaucratic processes - processes which have
already been examined in Chapter 5. Again, the research design has deployed models of the bureaucratic and incremental processes, and examined variables relating to changes in (a) revenue, (b) unemployment and (c) inflation. These are in effect proxies for the influence of bureaucratic and economic variables.\(^1\)

### 6.1.2 Explanatory Level

The important conceptual issue dealt with in this chapter is the impact of the type of party system on the structure of political competition. Following the discussion in Chapter 1, two explanatory frameworks for the analysis of the impact of competition on policy can be discerned: first, what is termed a 'structural' conception, and the other, a 'strategic' conception of democracy. The 'structural' view stresses the importance of democratic structures, such as strong organised parties with a solid socio-economic constituency in affecting the nature of public policy. The other, the 'strategic actor' view, emphasises the importance of strategic incentives in determining the behaviour of parties. In a democratic framework these incentives exist regardless of the type of party system.

The structural explanation of policy assumes that strong party systems have identifiable consequences for public policy. In particular, as we have argued in section 1.2.2, the theory assumes that these parties will provide the electorate with distinct electoral programmes because they are governed by socio-economic cleavages and contrasting
ideologies. Where socio-economic class provides the primary cleavage between parties, the nature and character of their 'core constituencies' will provide incentives for parties to cater to the economic preferences of these core constituencies.² In terms of social welfare expenditure, this leads to the proposition that social democratic parties are more pro-welfare than their conservative opponents, because welfare expenditure benefits the core constituency of social democratic parties. This was essentially the proposition examined in the last chapter (see 5.1).

Apart from this 'core constituency' effect, one inference which can be drawn from the 'party' explanation is that party systems are ideologically and organisationally characterised by higher degrees of competition. In other words, competition depends on ideological and policy distinctiveness.

The clearer these policy alternatives are (and depending on how real the opposition threat is perceived to be) the more likely it is that contagion can be observed. Where all significant political forces espouse identical policy alternatives, or where all share power (as in grand coalition and consociational cases), there is little or no room for policy contagion (Chandler 1977: 757).

Competition is thus a function of the level of the organisation of the party system, and the nature and extent of competition is causally dependent on the structure of the party system.

In contrast to this structural explanation, as we have already seen, an alternative assessment of parties views them as 'strategic actors', who attempt to maximise their
positions within the democratic polity. The *strategic actor*
notion of politics is an outgrowth of Schumpeter's (1950)
conception of politics as analogous to market processes. From
this perspective it is competition which is the defining
feature of politics (or rather democratic politics) rather
than ideology.

In his well known argument concerning the dynamics of
party competition, Downs (1957) stated that party programmes
tend to converge ideologically. This is largely because
parties in a two-party system are competing for votes in the
centre of the system. While Downs's simple model of party
convergence has given way to a more sophisticated conception
of party competition, the basic logic of the original
conception of Downs (1957) and Schumpeter (1950) remains
relevant, namely, that it is the process of democracy,
particularly its competitive nature, and not the social-
structural basis of party, which is central to an
understanding of politics.\(^3\) The nature of the competitive
environment in which parties find themselves is responsible
for their behaviour. In the context of politics, it is the
need to win elections that determines the nature of party
policy. The process of politics provides incentives for
parties to maximise their interests.

The 'party' conception stresses the importance of party
support in policy, whereas the strategic actor conception
emphasises the nature of the electoral environment.
Proponents of the latter perspective would contend that while
programmes are important, they will be based on strategic
electoral goals. In this connection, Kernell's comment exemplifies the importance of 'strategic' interests in framing party goals:

Internal party conflicts arising from the tension between strategic electoral goals and ideological commitments have long been documented, but Downs' contribution is in showing that this tension is inherent and that political parties will either be strategic when they must or they will atrophy (1980: 4).

These perspectives can be set out more simply: the structural view says that parties will look after their supporters; the strategic actor view says parties will look after whatever set of voters will place them in power. Of course the second could include the first, but it implies that parties have to look further than simply their habitual supporters.

In terms of the models outlined in Chapter 1, these perspectives correspond to Model 1 and Model 2 respectively. The structural perspective of Model 1 should posit the view that a strong party system determines the level of competition, whereas the strategic actor perspective of Model 2 contends that the type of party system is irrelevant to the determination of the level of competition.

A principal objective of this chapter is therefore not only to examine the impact of political competition on policy, but also to assess the impact of differently structured parties on competition and processes of democratic politics. This is achieved by a research design set out in Chapter 3, which examines the impact on political competition.
of the differently structured party systems of Australia and Canada. These differ in the extent to which they depend on class-based structural cleavages and the organisational and ideological commitment of the parties. Australian parties, having a greater dependence on class support, are organisationally and ideologically more distinctive than their Canadian counterparts which are not differentiated by strong socio-economic cleavages. Crucially, for our purposes, the Canadian party system lacks major national parties that offer the electorate a clearly defined ideological choice. A final note of terminological clarification: party structure or system means the strength of socio-economic cleavages, and the organisational strength and ideological commitment of parties within the polity.

From the alternative strategic actor perspective, competition is endogenous and is not determined by the social structural basis of the party system. In terms of the differences in party system discussed one would expect competition to have equal impact in both Australia and Canada (Model 2). On the other hand, as we have noted, it could be inferred from the structural viewpoint that the stronger the party system the greater would be the degree of competition. In this case one would expect that competition would have more impact on the Australian party system (Model 1). The two explanations make distinctly different claims about the impact of competition on Australian and Canadian polity.
The Electoral Shares of the ALP and NDP

One hypothesis that cannot be as easily incorporated within this research design is the examination of the particular influence upon policy of the electoral shares of the Australian Labor Party (ALP) and the Canadian New Democratic Party (NDP). There are two reasons for this examination in the Australian context. First, the relationship between ALP and NDP electoral share and expenditure provides for the examination of an alternative measure of the impact of social democracy on policy. This is because while some have argued that impact of social democracy occurs through its possession of governmental power (for example, Castles 1987), others (for example, Shalev 1983) suggest that the extent of the social democratic electoral share is the critical element in the casual link between left parties and policy. Second, and conceptually more important, given that the ALP was out of power for all but three years of the period covered in the study, it will be argued that the ALP electoral share is in fact a proxy for electoral competition.

The case of the Canadian NDP is somewhat different. While its electoral strength is a test of social democracy on policy, there are other perhaps more important strategic explanations for examining its influence on expenditure. In particular, the NDP, not being a dominant federal party but a third party within the Canadian national political system, can hold a decisive and influential role. Therefore its impact on policy could be due to it holding this
bargaining position in the political system.

6.2 CONCEPTUAL OVERVIEW

6.2.1 Introduction

Before proceeding to test the political competition model, it is relevant to place this in systematic context by outlining briefly the conceptual history of the two major processes being examined. Two factors, viz., the impact of elections and inter-party competition, are highlighted in this brief overview.

6.2.2 Elections

The term 'political business cycle' has been used to denote the manipulation of policy instruments and macro-economic outcomes by a government seeking victory at the next elections. (See Nordhaus 1975; Macrae 1977; Frey 1978a, 1978b; Frey and Schneider 1978a, 1978b, 1978c, 1979, 1982; and Tufte 1978.) This political business cycle explanation stresses the importance of the strategic incentives available to government to manipulate certain outcomes. Voters are assumed to have homogeneous preferences for some commodities the supply of which the government can influence. The upshot of this is that parties in governments are pushed to increase the supply of these commodities just before election time in order to improve their prospects of being returned to power.

Another strand of the literature analyses policy reaction to a government's current level of popularity (Frey
The first analyst to examine in a rigorous manner the impact of elections on macro-economic outcomes was Nordhaus (1975) who argued that after an election a government raises unemployment and attempts to depress inflationary expectation. Towards election eve, unemployment is gradually decreased, at the expense of an increase in actual inflation. The net effect of these changes in the political economy is that the government attempts to manipulate the electorate on election eve by having low unemployment and high actual inflation rate. As Borooah and Van Der Ploeg claim,

it thereby lumbers the next administration with the inflationary consequences of this myopic policy. On election eve, the government has secured the lowest unemployment rate and the highest inflation rate (1983: 81).

The existence of a political business cycle of the kind that Nordhaus envisaged requires three assumptions, viz., that (a) a government must be able to exploit the dynamic properties of the economic system in the formation of expectations about price levels; (b) electors are backward-looking; and, (c) the only interest of an incumbent government is to maximise its electoral share.

In similar vein to the analysis of Nordhaus, Tufte argues that two basic components of macro-economic outcomes can be observed:

The United States has experienced two types of political economic cycles: two-year cycle of acceleration and deceleration in disposable income, and a four year presidential cycle of high employment early in the term followed by economic stimulation, increasing prosperity and reduced unemployment late in the term (1978: 56-57).
According to Tufte, in the period 1947-1978 real income grew in 70% of the election years, but in only 20% of the non-election years. Clearly, within this analysis an increase in disposable income is expected to win votes for the government.

Nordhaus, however, argues that policymakers can set unemployment at any level they wish through the use of fiscal and monetary policy. Tufte is more cautious about the use of fiscal and monetary policy instruments, arguing that they have uncertain time-lags, and do not seem to play a dominant role during election periods. His contention is that in pre-election times the dominant instrument in stimulating the economy lies in the expansion of transfer payments in general, and of social security and veteran payments in particular.

Frey and Schneider (1978b) also propose a four-year cycle in policy instruments. Their model predicts that governments will increase expenditure, transfers, and jobs if popularity is low shortly before an election, but that governments pay no attention to such timing if their popularity exceeds a security threshold.

The objective of this chapter is to examine the impact of elections on two policy instruments, viz., welfare expenditure and total public expenditure. In so far as we examine total public expenditure, the model will attempt to test the hypothesis that there is a fiscal policy instrument cycle, that is, the proposition that governments manipulate public expenditure before an election to enhance their

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6.2.3 Inter-Party Competition

The concept of competition is critical to process theories of democracy. As mentioned earlier, Schumpeter's (1950) observation about the similarity of democracy and markets emphasises the competitive aspects of both, particularly the pursuit of strategic interest by parties in either the market or the political context.

The inter-party competition hypothesis was tested in the work of V.O.Key in his classic, Southern Politics (1951). Key's basic research objective was to account for the low level of social welfare and educational programmes in the south in comparison with other States. He argued that this low level was associated with the nature of electoral politics. In particular, it was a product of personalised and disorganised electoral politics, where Republican opposition was minimal. The implication of this form of uncompetitive politics was that elected officials had little incentive to change:

Over the long run the "have-nots" lose in a disorganized politics. They have no mechanism through which to act and their wishes find expression in fitful rebellions led by transient demagogues who gain in confidence but often have neither the technical competence nor the necessary stable base of political power to effectuate a programme (1951: 327).

Key's work led to the testing of what came to be called the 'inter-party hypothesis'. The logic of the hypothesis, at least in the context of the American States, was that the have-nots constituted the largest pool of potential voters.
designed to attract have-nots. As Gray put it, '... a two-party competitive state will offer more policies beneficial to have-nots than will one-party competitive states' (1976: 293).

The inter-party competition hypothesis has been extensively tested in the American context, Lockard (1959) being the first to examine Key's proposition. His work was followed by that of others such as Dawson and Robinson (1963), Dye (1966), and Fry and Winters (1970). The conclusion to emerge strongly from this work was that the 'effects of inter-party competition are largely spurious and that a state's socio-economic environment determines both policies and politics' (Jennings 1979: 416). That is, in the original example, welfare systems were poorly developed in southern States because they were relatively poor, rather than because there was no competition between parties.

A major difficulty with some of the American studies has been that the inter-party competition hypothesis has not been rigorously specified. It is clear that Key's original conceptualisation of the problem left much to be desired. In particular, his resolution of the problem of the lack of welfare in the south by attributing it to the absence of inter-party competition, failed to answer the underlying question as to why a competitive party system should move towards more liberal welfare as a consequence of the properties of the party system itself. It was assumed that since the majority of the people were poor, the voters would
prefer a more liberal welfare state. What was not examined however, is the mechanism by which a more liberal welfare state was produced.

In terms of the levels of analyses explained above, most of the American studies have remained at a descriptive level unilluminated by an explanatory framework. In defence of Key, it must be pointed out that this was not his central concern; he was interested broadly in analysing the politics of the south because it differed from politics in other regions of the United States.

Key's understanding of inter-party competition is, in our terms, a party explanation in that competition is a function of party structure. Additionally, for Key, a party which drew support from a pro-welfare constituency would be more likely to push for more favourable welfare outcomes than a party (such as that which existed in the South) which was based predominantly on patronage. The implicit explanation of inter-party competition is that competition is a function of the structure of the party system. In our analysis, this view is consistent with a structural conception of the determination of party policy.

The notion of inter-party competition can be more rigorously recast within a Downsian framework to incorporate aspects of the *strategic party explanation*. The simple Downsian interpretation has voters distributed along a continuum of policy preferences. While the distribution of preferences is uni-modal, it is skewed in favour of liberal welfare policies because all those who would benefit from
welfare policies make up such a large proportion of the population. In this context, Jennings argues that both parties are encouraged to move their welfare policy formulations towards the midpoint of the distribution (which represents more generous welfare policies) because they can acquire most votes (1979: 415).

It is this competitiveness of the party system which leads to specific policy outcomes. It would appear that under conditions in which the median voter prefers more welfare, a competitive system irrespective of the nature of the party system is likely to lead to increased social welfare expenditure. The essence of this concept of inter-party competition is that it is the properties of the competitive environment in which parties operate that produce certain sets of policy outcomes. In our analysis, this concerns the bidding up of welfare expenditure to maximise a government's chance of re-election.

The fundamental distinction between the two explanations lies in the disagreement over the bases of party preference: the strategic actor explanation locates the basis of party preferences in the process of competition, while the other highlights the factors relating to the structure of the party system. The literature has thus far failed to differentiate conceptually between these two distinct explanations of inter-party competition. Important in any analysis of these two perspectives is therefore a need to examine the nature of the party system. The analysis of inter-party competition in the Australian and Canadian context is an attempt to examine
these issues discussed above.

One final methodological note should be made about the measure of inter-party competition used in this analysis. In order to capture the full impact of inter-party competition, two different measures are utilised: the first is termed electoral competition, and is assessed by subtracting the electoral share of the runners-up from that of the governing parties; the second is termed parliamentary competition, and is measured by subtracting the number of seats of the opposition from that of the government. (It should be noted that for Australia the Liberal and the National Country Party are considered together.) These two measures in fact test two different conceptions of inter-party competition: one places emphasis on the closeness of electoral shares to party behaviour, whereas the other emphasises the importance of the division of parliamentary seats in influencing behaviour. While the two would obviously move in the same direction, the extent of competition may vary between the two forms of party competition.

A problem that arises from a consideration of the electoral shares of the Australian parties is the aggregate electoral stability of electoral share of the major parties. It could be argued that the measure of electoral competition used, that is, the difference in the electoral shares of the opposition and government, is not a satisfactory guide to the degree of inter-party competition. In terms of the stability of the electoral shares a more plausible measure should be one that involves an index constructed on the basis of
deviation of electoral share of the major parties from their average electoral support. In order to test this contention, we examined deviations from mean electoral share for the major parties in the manner described above. The results of the two methods were broadly consistent.

6.3 HYPOTHESES AND MODEL

6.3.1 Hypotheses

The examination of the empirical literature suggest four hypotheses concerning the relationship between political competition and expenditure. The first concerns elections and its role in 'bidding up' expenditure. The second and third hypotheses examine the response of expenditure to party, and the last examines the role of the ALP and NDP electoral share on policy. These four hypotheses are outlined more rigorously below.

H1: The approach of an election will lead to an increase in welfare expenditure (referred to as election hypothesis).

H2: As inter-party competition increases, public and welfare expenditure also increases. Inter-party competition is measured by the changes in the difference between the electoral share of opposition and government. (Electoral competition is referred to as IPC (1).)

H3: As the difference between the parliamentary numbers of government and opposition narrows, expenditure on welfare increases. (Parliamentary competition is referred to as IPC (2).)

H4: The share of the left party is associated with increased social and public expenditure (referred to as electoral share).
These hypotheses are tested with controls for bureaucratic variables, changes in revenue and unemployment. The rationale for the use of these variables was set out in section 5.3.2 and we do not report the coefficients for these variables because the coefficients are approximately the same size as those detailed in that chapter. As there are technical difficulties in the use of lagged dependent variables in linear regressions (see Hibbs 1974; and section 3.5), incrementalism was tested, as previously explained, by a first order autocorrelation (AR1) process. In order to test for such correlation the regressions were tested by Ordinary Least Squares (OLS) and all the equations exhibited for first order autocorrelation. (See section 3.5 for a discussion of these procedures.) The reason for this procedure is not merely to engage in a statistical exercise, but an attempt to examine the impact of time on expenditure.
6.3.2 Political Competition Model

The political competition Model for Australia and Canada is set out as follows:

\[ y = a + bx_1 + bx_2 + bx_3 + bx_4 + bx_5 + bx_6 + bx_7 + e \]

where \( a = \) constant

\( x_1 = \) election coded 1 for an election year and 0 for a non-election year

\( x_2 = \) the changes in the difference between the electoral share of the main governing party and that of the opposition.

\( x_3 = \) changes in the difference between the seats of the government and those of the opposition in Parliament.

\( x_4 = \) the electoral share of the ALP in Australia and that of the NDP in Canada

\( x_5 = \) annual rate of change in $s of previous year's total revenue

\( x_6 = \) annual rate of change in unemployment

\( x_7 = \) annual rate of change of inflation

\( y = \) changes in real expenditure

\( b = \) standardised regression coefficient

\( e = \) error term

The rationale of this research design is to control for the impact of time on expenditure, the influence of which taken together with the economic variables is a measure of bureaucratic influence on expenditure. In the light of these variables, the study examines the impact of competition on expenditure.
### TABLE 6.1

The Impact of Political Competition on Real Changes in Expenditure for Australia, 1950-1980 (n=31)

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elections</td>
<td>-0.05</td>
<td>-0.14</td>
<td>-0.19</td>
<td>-0.06</td>
</tr>
<tr>
<td></td>
<td>(-0.44)</td>
<td>(-1.71)</td>
<td>(-0.98)</td>
<td>(-0.54)</td>
</tr>
<tr>
<td>IPC (1)</td>
<td>-0.05</td>
<td>0.41</td>
<td>-0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Electoral Competition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-0.29)</td>
<td>(3.9)</td>
<td>(-0.08)</td>
<td>(1.13)</td>
</tr>
<tr>
<td>IPC (2)</td>
<td>0.45</td>
<td>-0.54</td>
<td>0.42</td>
<td>0.35</td>
</tr>
<tr>
<td>Parliamentary Seats</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.57)</td>
<td>(-3.21)</td>
<td>(1.31)</td>
<td>(1.38)</td>
</tr>
<tr>
<td>ALP Electoral Share</td>
<td>0.20</td>
<td>0.01</td>
<td>0.43</td>
<td>0.30</td>
</tr>
<tr>
<td></td>
<td>(0.74)</td>
<td>(0.01)</td>
<td>(1.31)</td>
<td>(1.34)</td>
</tr>
<tr>
<td>R²</td>
<td>0.73</td>
<td>0.87</td>
<td>0.26</td>
<td>0.73</td>
</tr>
</tbody>
</table>

**Note:** The main Table entries are beta coefficients; Numbers in parentheses are 't' values;

- * p<0.10
- ** p<0.05
- *** p<0.01

For sources see Appendix 1. Raw Expenditure data are provided in Appendix 3.
TABLE 6.2

The Impact of Political Competition on Real Changes in Expenditure in Canada, 1945-1974 (n=31)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Health</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elections</td>
<td>-0.17</td>
<td>-0.07</td>
<td>-0.20</td>
<td>-0.21</td>
<td>-0.10</td>
</tr>
<tr>
<td></td>
<td>(-1.25)</td>
<td>(-0.38)</td>
<td>(-1.17)</td>
<td>(-1.08)</td>
<td>(-1.14)</td>
</tr>
<tr>
<td>IPC (1)</td>
<td>-0.35</td>
<td>-0.38</td>
<td>-0.36</td>
<td>-0.31</td>
<td>-0.64</td>
</tr>
<tr>
<td>Electoral Competition</td>
<td>(-1.1)</td>
<td>(-0.01)</td>
<td>(-1.3)</td>
<td>(-0.10)</td>
<td>(-0.27)</td>
</tr>
<tr>
<td>IPC (2)</td>
<td>-0.72</td>
<td>0.98</td>
<td>0.49</td>
<td>0.34</td>
<td>-0.13</td>
</tr>
<tr>
<td>Parliamentary Seats</td>
<td>(-0.23)</td>
<td>(2.75)</td>
<td>(1.77)</td>
<td>(1.41)</td>
<td>(-0.59)</td>
</tr>
<tr>
<td>NDP</td>
<td>-0.01</td>
<td>0.45</td>
<td>0.42</td>
<td>0.19</td>
<td>0.07</td>
</tr>
<tr>
<td>Electoral Share</td>
<td>(-0.72)</td>
<td>(1.80)</td>
<td>(1.29)</td>
<td>(0.71)</td>
<td>(0.22)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.49</td>
<td>0.35</td>
<td>0.61</td>
<td>0.57</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Note: The main Table entries are beta coefficients; Numbers in parentheses are 't' values;  
* $p<0.10$  
** $p<0.05$  
*** $p<0.01$  

For sources see Appendix 1. Raw Expenditure data are provided in Appendix 3.
### Table 6.3

Summary of Statistical Confirmation of Hypotheses

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Health</th>
<th>Total Welfare</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>A C A C A C A C A C</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elections</td>
<td>- - - - - - + -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IPC (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electoral Competition</td>
<td>- - + - - - -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IPC (2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament: Competition</td>
<td>+ - - + + + + + -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALP/NDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electoral Share</td>
<td>- - - + + + + - -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:**
- '+' confirmation
- '-' no confirmation or negative relationship
- A: Australia;
- C: Canada
  - significance only for coefficients in the expected direction

#### Social Welfare

The pattern of results for social welfare (Table 6.1) indicates that elections and electoral competition in Australia are not positively associated with social welfare expenditure. In fact, for both variables have coefficients which are negative. As against this lack of association with
electoral competition, parliamentary competition is positively associated with social welfare expenditure, yielding a coefficient of 0.45. This indicates that in Australia, one measure of inter-party competition is related to expenditure. Another additional feature of the Australian data is the positive (though not statistically significant) coefficient for the electoral share of the ALP at 0.2.

The Canadian results (Table 6.2) for social welfare present a pattern that is very different from the Australian social welfare pattern. None of the competition or 'process' variables examined, namely, elections, electoral competition, parliamentary competition or the electoral share of the NDP, has a positive sign. Of these variables, electoral competition and elections have no relationship to expenditure in both countries. The difference between Australian and Canadian social welfare expenditure is that the former is significantly related to changes in parliamentary competition. Moreover, the ALP electoral share, while not being statistically significant, indicates a positive coefficient. But in the Canadian context, these variables have no relationship to social welfare expenditure; the coefficients for the equivalent variables do not reveal any association with social welfare expenditure.

These results appear to suggest that social welfare expenditure is unresponsive to competitive pressure in Canada. An explanation for this may be in the dominant universalistic and contributory characteristics of social
insurance which contrast sharply with similar Australian programmes. These features may indicate that the scope for extending benefits in response to competitive pressure in Canada is limited because the extent to which the government can increase welfare benefits is highly circumscribed. Further evidence for this proposition is found in the analysis presented in Chapter 5, where it was noted that political administrations in the 1950s were significantly associated with changes in social security expenditure. Once these programmes were established they were immune to political pressure.

Education

Australian education expenditure (Table 6.1) differs from the pattern of results obtained for Australian social welfare and health expenditures in three main respects. The first and perhaps most important difference lies in the positive and significant coefficient of 0.41 for electoral competition which shows no association with the other expenditure categories examined. The second difference lies in the association of parliamentary competition with rates of growth of social welfare and health expenditure on the one hand, and the lack of any positive association with education expenditure on the other. Indeed, the direction of the coefficient for parliamentary competition of -0.54 which is significant, indicates a negative relationship between changes in parliamentary seats and expenditure. The final cleavage between social welfare and health expenditure on the
one hand and education expenditure on the other is in the very weak ALP electoral share coefficient of 0.01 for education expenditure, a coefficient which suggests that the relationship between the two variables is negligible. The only similarity between education and the other welfare expenditure categories for Australian data is in the direction of the coefficients for elections which is negative for all the expenditures examined. The pattern of results for education expenditure is clearly aberrant to the general pattern observed in the behaviour of the other welfare expenditures. A reason for this pattern of results may be in the fact that education expenditure, being for the most part effective in the States, is not responsive to competitive federal pressures.

The Canadian education expenditure results exhibit a pattern similar to that of Canadian health expenditure. The results fall clearly into two distinct groups. Those in the first group, namely, elections and electoral competition, are not related to education expenditure, and as with all the expenditure categories examined thus far, present a sign in the negative direction. The second group, namely, parliamentary competition and NDP electoral share, reveals significant positive coefficients of 0.98 and 0.45 respectively. While the direction of the coefficients for education and health are similar, education expenditure reveals a greater degree of responsiveness to parliamentary competition.

These Canadian results are significant in that they
reveal that the bidding-up of expenditure was in the areas of health and education expenditure rather than in income maintenance payments. The differences between Australian and Canadian education figures are marked. The only similarity between the figures lies in the coefficient for election which is negative for both countries. The primary difference between Australian and Canadian education expenditure rests with the other variables considered and lies in their relative scores on the two measures of inter-party competition. Whereas in Australia electoral competition is significant, in Canada it is parliamentary competition which is positively related to the growth of education expenditure.

Health

The coefficients for the competition variables for Australian health expenditure (Table 6.1) indicate a similarity in the direction of the relationships with social expenditure. Two variables - elections and electoral competition - do not have any positive impact on health expenditure. As with social welfare expenditure, the coefficients for these variables are negative. Australian health expenditure is responsive to the other two coefficients examined, namely, those of parliamentary competition and ALP electoral share, with coefficients of 0.42 and 0.43 respectively. Both coefficients are statistically significant. While the direction of the relationship between these two independent variables and health expenditure and social welfare are similar, the
Statistical significance of the variables differ. The electoral share of the ALP is significant for health expenditure and has a coefficient similar to that of parliamentary competition. This is contrary to the pattern of relationship between parliamentary competition and the ALP electoral share where the latter is not statistically associated with social welfare. These results may indicate the importance of the Whitlam period in health expenditure.

Like Australian health expenditure, the Canadian data (Table 6.2) too are unresponsive to elections and electoral competition. Indeed the signs of these coefficients are negative for both countries. On the other hand, parliamentary competition and the electoral share of the NDP are positive and statistically significant; and the coefficients of the variables are approximately of the same size (0.49 and 0.42 respectively). Unlike social welfare expenditure, health expenditure appears to be responsive to competitive pressure, reflecting the degree to which health policy became a major political issue in the 1960s and 1970s (Taylor (1978)). Canadian and Australian health expenditures appear to be broadly responsive to the same variables. Both reveal a lack of association between health expenditure and elections or electoral competition, and the presence of a positive relationship between parliamentary competition and the electoral share of the ALP/NDP.

Total Welfare

Australian aggregate or total welfare expenditure (Table
6.1) reveals a pattern of results that is similar to that obtained for social welfare and health expenditure. Both parliamentary competition and the electoral share of the ALP are positively associated with total welfare expenditure. With coefficients of 0.35 and 0.30 respectively, the coefficients for parliamentary competition and ALP electoral share are statistically significant. Moreover these two coefficients are broadly similar in the degree of their association with total welfare. While there is a positive coefficient of 0.02 for electoral competition, the size of the coefficient suggests that its impact on expenditure is negligible. Canadian total welfare expenditure, produces a set of results broadly similar to the Australian data. The two variables found to have positive association with Canadian total welfare are parliamentary competition (0.34) and NDP electoral share (0.19). Of these only the latter coefficient fails to achieve statistical significance. Here, it differs from the Australian pattern of results which revealed the importance of the electoral share of the ALP in influencing the rate of change of Australian aggregate welfare expenditure.

A significant feature of this pattern of results obtained with the Canadian data for total welfare lies in its similarity to health and education expenditure especially in the degree of its association between parliamentary competition and NDP electoral share and expenditure. The only deviation from this pattern of results for the welfare
expenditure categories is with social welfare expenditure.

**Total Expenditure**

The Australian total expenditure figures (Table 6.1) are interesting in that all four coefficients of the independent variables examined are positive. Two of these coefficients, electoral competition (0.06) and parliamentary competition (0.01), indicate no relationship to total expenditure, and in this respect, total expenditure stands out from the other welfare expenditures in not being related to a measure of inter-party competition. The coefficient for elections (0.13) on the other hand, reveals an association with total expenditure. This is a noteworthy feature because none of the coefficients for elections in the relationship with welfare expenditure categories is positive. This does suggest that if there is any link between elections and expenditure, it is in a relationship with non-welfare expenditure. In other words, if governments bid up expenditure before elections, they are likely to do so in non-welfare areas. The other feature of the Australian total expenditure results worthy of mention is that the electoral share of the ALP is positively associated with total expenditure.

The Canadian total expenditure figures are contrary to the Australian data in that, barring one variable, none are positive. The exception is the coefficient for NDP electoral share which is only 0.07. As such, the relationship with total expenditure is negligible. The other variables, namely, elections and the two measures of inter-party competition, failed to indicate a positive relationship with total expenditure.
expenditure. In fact, all the signs of the coefficients are negative. Canadian total expenditure indicates a pattern of behaviour similar to that of social welfare expenditure although it differs from the latter in its positive coefficient for electoral share of the NDP. The general conclusion to bear in mind is the positive responsiveness of total welfare to competitive pressure.

A critical feature of the results detailed so far is the consistent difference between total expenditure and total welfare expenditure for both Australia and Canada. Total welfare expenditure in both countries is associated with competition, especially parliamentary competition. In Canada, the coefficient for parliamentary competition is 0.34 (Table 6.2), and in Australia it is 0.35 (Table 6.1). The comparable figures for the parliamentary competition coefficient for total expenditure are 0.01 and -0.13 respectively for Australia and Canada. An inference to be drawn from these results is that while welfare expenditure appears to be influenced by competition, non-welfare expenditure seemingly does not respond to it in a like fashion.

g 6.5 DISCUSSION

The discussion of results is based on the two levels of analysis set out in the introduction to this chapter. This discussion is divided into two sections. The first is concerned with the results of the analysis conducted at the descriptive level. The second is concerned with the results in the context of the explanatory issues discussed in the
6.5.1 Descriptive Level

The conclusions that can be reached from an analysis of the data for the rate of change of expenditure in relation to competition are threefold. **First**, a significant feature of the models examined was the lack of any positive relationship between 'elections' and 'social expenditure' variables, in that there was no significant link for any of the welfare categories examined. Indeed the only positive significant relationship between expenditure and elections found in the analysis was with Australian total expenditure. Therefore the inference to be drawn from this pattern of evidence for both countries is that social expenditure is not manipulated by governments at election time in order to retain office. However, it should be pointed out that the absence of a positive association between elections and expenditure does not necessarily mean that governments in policy terms, are non-responsive to the timing of elections. In particular, as we know, governments may adjust macro-economic policy to such factors as levels of inflation and unemployment which are linked to governmental popularity. Although this issue is outside the scope of this thesis, it is worthwhile noting Tufte's (1978) contention that governments wishing to maximise re-election chances are most likely to use expenditure instruments rather than macro-economic policy if only because the former are more flexible.

While some overseas research tends to support this
finding about elections and expenditure, the work of Tufte (1978) on the relationship between expenditure data and elections in the United States contains some contradictory findings. One possible explanation for the differences between Tufte's findings for the United States and our results for Canada and Australia might be due to the nature of the control of transfer payments. The United States system allows a higher degree of Presidential discretion in determining the level and timing of benefits. This discretion allows for the rapid adjustment of the level of transfer payments in response to political influence. On the other hand, the nature of the annual budgetary process in Australia as well as in Canada precludes the rapid adjustments of transfer payments for electoral purposes. Apart from this, as Frey and Schneider (1978a) argue, even from a rational-choice framework the explanation for the public policy impact of elections appears to be weak. In particular, they contend that, if public opinion polls suggest that an incumbent is certain of re-election, it might not be in his interest to pursue an inflationary strategy. Therefore they maintain that the use of expenditure instruments depends strictly on the level of popularity of governments.

The second feature of the results lies in the impact of inter-party competition on expenditure. The main aspect of this impact of 'competition' lay in the significance of parliamentary rather than electoral competition in those expenditure categories where the inter-party competition was
significant. Indeed of all Australian expenditures, only educational expenditure was associated with electoral competition as an independent variable. On the other hand, social welfare (0.45), health (0.42) and total welfare (0.35), were related to parliamentary competition. In the Canadian context health (0.49), education (0.98) and total welfare (0.34) expenditures, were all associated with parliamentary competition. So in comparative terms, health and total welfare expenditures revealed a similar pattern of results not only in terms of the positive association with parliamentary competition, but also in their relationship with ALP and NDP electoral share. This aspect of the results will be discussed in more detail in the concluding section of this chapter.

The third feature of the empirical results lies in the pattern of relationships between the electoral share of the ALP in Australia and the NDP in Canada, and the growth of expenditure. The electoral share of the ALP was significantly associated with the expenditures for health (at 0.43) and total welfare (at 0.30). Both total and social expenditures were positively associated with ALP electoral share. In Canada, the electoral share of the NDP was significantly linked to health (at 0.42) and education expenditures (at 0.45), while total welfare and total expenditures had positive coefficients of 0.19 and 0.07 respectively. A revealing feature of these results for social democratic electoral share is that they seemed to be associated with parliamentary competition. In Australia, health and total
welfare expenditures were significant and related to parliamentary competition as well as to the electoral share of the ALP. In similar fashion Canadian expenditure was also related to these same variables of parliamentary competition and NDP electoral share.

In terms of the Australian literature, the importance of inter-party competition has been a singularly neglected topic in the policy literature. While emphasis has been placed on the importance of the impact of ALP administration on policy, no similar effort has been directed to study the influence of inter-party competition on policy. The findings of the present study indicate a need for a reassessment of this position, and for more attention to be directed to the importance of party strategy in the determination of policy. A surprising feature of these results is the continuing importance of inter-party competition despite high levels of stability in the political system (Aitkin 1977). However, high levels of stability by themselves cannot rule out competition because such competition is at the margins.

The Canadian results on inter-party competition places this study at some variance with the work of Kornberg et al. (1972) and Falcone (1974) who find little evidence for the impact of inter-party competition. These results could be due to three factors. First, the studies mentioned do not all focus on welfare expenditure. Indeed all of these are studies of legislative output rather than of expenditure which is the main focus of this present study. Second, the time period in
which legislative output was considered is more expansive than the period covered in the present study. Kornberg et al. and Falcone consider broadly a period from about 1900 onwards. Finally there are technical and methodological differences in the research. Unlike in this study, there is no control for the influence of autocorrelation and, more pertinently, for the specific economic variables considered in this study.

In terms of the more general Canadian policy literature, this analysis indicates that ideological distinctiveness does not imply the diminution of party competition. In comparative terms, the analysis indicates the presence of class cleavages, and ideologically distinctive parties do not by themselves increase competition between the parties. This issue will be discussed further in the next section.

6.5.2 Explanatory Level

In this section we turn to the analytical issues outlined above, the evaluation of the competing claims in accounting for the influence of competition on expenditure in Australia and Canada provided by the 'structural' and 'strategic' conceptions of policy. The relevant empirical results were of a twofold nature: first, the association between inter-party competition and expenditure was positive for both countries; and secondly, with the exception of Australian educational expenditure, all those expenditures related to inter-party competition were positively associated with parliamentary rather than electoral competition.
In particular, it should be pointed out that total welfare for both countries was associated with inter-party competition. The relationship between inter-party competition and total welfare expenditure is critical because it may be argued that if a competitive logic is operating, governments may tend to view welfare as a whole rather than in separate categories.

This examination of the two competing models of party and policy, viz., the structural and the strategic actor conception, has been considered in the experimental context of evaluating the influence of competition on policy in Australia and Canada. One of the main propositions tested was, as explained previously, the proposition that political competition was a 'function' of structure. Because the party systems differed markedly in terms of class cleavages, organisation and ideological strength, this proposition was amenable to testing with the Australian and Canadian evidence.

Two distinct explanations concerning the impact of competition were identifiable. One pertains to a structural explanation: this emphasises that competition is a function of the structure of the party system, the latter defined in organisational and ideological terms. The causal sequence in this account consisted of a strong party system which leads to competition and thereby to its impact on policy output. The other explanation stresses that competition is not a function so much as a consequence of the process of 'strategic interaction' between parties.
The results reveal that not only was competition a significant factor in the determination of most of the welfare expenditure, but also that its impact was felt in both countries. This conclusion therefore lends support to the strategic conception of policy output which argues that it is the competitive environment rather than the structure of the party system which is important in influencing outcomes, and hence expenditure. This is the first important conclusion in relation to the explanatory issues examined.

A further significant feature of the inter-party competition results is that, of the several variables examined, it is only the parliamentary measure of inter-party competition which was positively associated to welfare expenditure (with the exception of Australian education). The consistent strength of parliamentary competition in its influence on expenditure and policy is a marked and important feature of the results obtained. This evidence tends to suggest that parliamentary competition is a better indicator of competitiveness than electoral competition because parties take greater account of parliamentary competition when it is viewed as a struggle for seats. The latter may serve as a good indication of the hold parties have on the government, or alternatively, the closeness of opposition to government.

It is not entirely clear, however, that parliamentary competition is the dominant form of competition in Australia. A feature of the findings reported for Australia (Table 6.1), is the relationship between the electoral share of the ALP
and expenditure. In this regard, all four dependent variables were positively associated with ALP electoral share. The coefficients of the electoral share of the ALP are: social welfare (0.20), health (0.43), total welfare (0.30) and total expenditure (0.16). Only education expenditure was negligibly related to the electoral share of the ALP. By and large these results tend to support the view that the electoral share of the ALP is a vital determinant of expenditure.

However an important pattern to emerge from the results is the association between the electoral share of the ALP and parliamentary competition. The expenditure categories related to ALP electoral share are also associated with parliamentary competition. These categories with their respective parliamentary coefficients (indicated in parentheses) are, social welfare (0.45), health (0.42), total welfare (0.35) and total expenditure (0.01). The two expenditures which are statistically significant were health and total welfare expenditures. The latter category suggests that Australian governments manipulated the total welfare budget in response to competitive pressure. The coefficient for parliamentary competition is negligible at 0.01. This analysis then leads to the inevitable conclusion that the electoral share of the ALP is linked to parliamentary competition.

It will be recalled that in the introduction to this chapter, it was argued that the measure of the electoral share of the ALP was intended to capture the impact of the presence of a social democratic party on expenditure. In
this sense, this variable was seen as a test of the party explanation, or more precisely, a test of the constituency effect: what we called the social democratic hypothesis. Hence it appears from the finding reported that the Australian evidence lends support to both the strategic actor and social democratic hypotheses. A resolution of this apparent paradox may be found in the evidence linking parliamentary competition and ALP electoral share, and this evidence would seem to indicate that the electoral share of the ALP does not reveal the impact of party as such, but serves as a proxy measure for competition. Indeed, given that the ALP was out of government for all but three years of the time tested in our analysis, the coefficient for the impact of the ALP electoral share tends to capture the effect of electoral competition. Consequently, it could be reasonably argued that these results, rather than being contrary to a political competition perspective provide a further basis of support for this standpoint.

In short, the argument suggested is that for Australia, both parliamentary and electoral competition indicated by the electoral share of the ALP were important determinants of expenditure. This of course differed from the Canadian results (Table 6.2) in that electoral competition was not related to any of the expenditure categories examined. However, it should be noted that the electoral share of the NDP was, as with the ALP, related to expenditure areas that are associated with parliamentary competition. Nevertheless,
an argument analogous to that advanced for Australia concerning the role of the electoral share of the ALP cannot be made about the NDP in the Canadian context because of two salient aspects of the NDP: its regional character and its minor party status.

To sum up the argument, a major inference to be drawn from the findings reported in this chapter is that, whilst for Canada, parliamentary competition is the only variable of significance, for Australia both parliamentary and electoral competition appear to be of central importance.

One speculative proposition to account for the lack of importance of electoral competition in Canada may lie in the factors related to the nature of the Canadian party system. As noted earlier (see section 3.3), one of the significant features of the Canadian party system is its fragmentation or its lack of a nationalised electorate; it could therefore be argued that fragmentation makes electoral competition less important than parliamentary competition in its impact on expenditure. Similarly, in the Australian context, the high levels of electoral stability may serve to strengthen the role of electoral competition rather than diminish it, because competition for the limited 'marginal' electorate is more intense.

In addition to the systematic factors outlined here, there is one further reason for the significant relationship of parliamentary competition to expenditure in Canada. This is the extent to which Canadian politics was characterised by the presence of minority governments in the period of
analysis. Support for this explanation is found in the evidence which links the electoral share of the NDP to parliamentary government. If the contention about minority government was valid, it could be assumed that the NDP as a major third party should have enhanced its strategic position in the party system. These results therefore give strong credence to the strategic actor explanation.

The proposition being developed, bearing in mind its speculative nature, is that inter-party competition in general is not a function of the party system. The type of competition, whether it be electoral or parliamentary competition however, is related to the structure of the party system. This aspect of the argument reinforces the need not only to empirically differentiate between measures of competition, but to examine whether these measures of competition have different theoretical bases.

The conclusions of this analysis are twofold. The first conclusion is that competition is not a function of the party system. In terms of the analytical models set out at the start of this chapter, the analysis confirms the proposition that competition is not limited to Australia, as the structural perspective would contend, but is present (albeit at different levels) in Canada as well. The evidence therefore confirms the strategic actor perspective of party. Indeed, the results presented in this chapter as well as in Chapter 5 conclusively point to the support for the strategic actor model (Model 2) of party.
The second conclusion is that while competition is present in both countries, the type of competition whether it be electoral or parliamentary competition, differed between the two countries. In Canada, parliamentary competition was the major determinant of expenditure whereas in Australia, both parliamentary and electoral competition played a determining role. The proposition that was advanced to support this pattern of evidence was built around the nature of electoral support: its fragmentation and regional basis in Canada, and its degree of stability in Australia. While this proposition is speculative, it indicates that competition in general is not determined by the nature of the party system even though the specific form of competition may well be influenced by the nature of the party system.

This final point serves to underline the importance of the examination of party strategy in influencing policy. In both Australia and Canada, what appears as critical in an analysis of expenditure is the manner in which parties react to the processes of political competition. No doubt individual studies such as Regenstreif (1965) on Diefenbaker, and Patience and Head (1979) on Whitlam and Fraser, contain important aspects of this subject. The policy determinant literature would be enhanced if this aspect was considered in more detail. This will be discussed in the concluding chapter of this thesis.
NOTES

1. See Chapter 5 for an explanation for the rationale for the inclusion of these variables.

2. The term 'core constituency' refers to the dominant socio-economic basis of party support. The basis of this description lies in the structuralist conception outlined in Chapter 1 (see Hibbs 1977).

3. For such an analysis see Robertson (1975). Robertson in particular emphasises the need to take into account the position of the median party supporter as well as the median voter. He notes that the differing positions of the two might result in a degree of tension in party strategy. More recently, neo-Downsian theory has moved to consider the nature of party competition when the issue space dominated by a variety of considerations rather than one dominant issue. Indeed the Downsian theory of the median voter rests critically on the assumption of a uni-modal rather than multi-dimensional issue space.


5. The method of deflation of expenditure data is outlined in section 3.4.2.
CHAPTER 7

CONCLUSION

7.1 INTRODUCTION

The research outlined and reported in earlier chapters had, as noted in Chapter 1, two broad and distinct objectives. The first was largely to examine, in the light of the similar economic and political structures existing in Australia and Canada, the role of social and economic variables in shaping expenditure policy. In particular, it was suggested that the differences of their economic structures from those of other Western countries provided a vantage point from which one could reasonably examine the significance and impact of the international economy on policy developments in Australia and Canada.

The second objective of the research was more analytical, and centred on developing an understanding, through comparative study, of the significance attaching to two key determinants of policy, namely, the influence of party structure and party organisation. Hence, a central research problem posed in this study has been that of determining whether the strength of the party system in liberal democratic countries makes a critical difference in accounting for differential levels of public expenditure in relation to the countries being compared. For this purpose two models of party functioning describing the link between party and policy, identified as the structural and the strategic actor models of policy (see section 1.2), were
studied to determine the nature of their influence on variations in expenditure, as both models make distinct claims about the relationship between type of party system and policy output.

This final chapter provides an overview of the research by drawing together the distinct but related findings of the study as outlined and presented in Chapters 3-6. Additionally we will also endeavour to place these findings within the context of public policy research.

7.2 THE IMPACT OF THE INTERNATIONAL ECONOMY ON PUBLIC POLICY

Turning to findings of the study relating to the economic determinants of expenditure, we have been able to show that factors pertaining to economic resources and demography have similar effects on social welfare expenditure. For this category of expenditure, demography and resources form the bedrock on which nations construct their different policy superstructures. A feature of the Australian and Canadian economies that distinguishes them from those of other industrialised countries is their dependence on commodity exports. Consequently a major research problem concerns the analysis of the impact of movements in the international economy on expenditure. Put differently, the issue becomes one of the extent to which the vulnerability of these economies to international economic movements is reflected in expenditure policy.

One conclusion that may be drawn from a consideration
of the analysis of international economic developments is that in Australia changes in the levels of exports have had little or no direct influence on expenditure levels, whereas in Canada expenditure does appear to have responded to changes in the levels of exports. In explaining this difference we have argued that the Australian pattern of results was a function of the existence of a matrix of institutions, foremost of which was the arbitration system. The existence of the latter enabled Australia to absorb with greater ease fluctuations in domestic income caused by movements in the international economy. Canada on the other hand, lacking a comparable set of institutions, had to resort to a strategy of stabilising fluctuations in income through expenditure outlays.

Two fairly general conclusions or generalisations may be drawn from these results. First, at a conceptual level, they indicate the need for policy studies in general and expenditure determinant analyses in particular, to pay greater heed to the impact of international economic events on policy. The works of Cameron (1978) and Katzenstein (1984) provide evidence of the utility of such an approach. In the Australian and Canadian contexts such a perspective is all the more necessary because of the vulnerability of these economies to changes in the price of commodities. The policy output literature reviewed earlier fails to examine systematically the constraints of the international trading system on domestic policy. Clearly, this indicates the need
in studies of this nature to take account of the different strategies adopted by countries in the face of movements in the international economy.

A second and more speculative issue arising from these results is of more practical utility and relates to the likely impact of international economic forces on expenditure in the foreseeable future. As regards the Australian findings it should be noted that the time span covered by this study precedes a dramatic decline of commodity prices and the worsening of the terms of trade. But, in general, a main contention has been that in the past the matrix of social economic institutions has served to insulate from, as well as to act as a buffer against adverse effects in the domestic income sector caused by the heightened vulnerability of the economy. But it is also suggested that, if the policy and ideological consensus underpinning these institutions were to break down, then pressure on expenditure, particularly on social expenditure, may be quite different and be comparable to that of Canada (see section 4.7.3).

In the immediate future, however, as Denoon (1983) points out, both Australia and Canada face major problems of structural adjustment. Both economies will be subject to great economic pressures, and a significant feature of the political economy of the two countries will be the extent to which social policy and public policy in general cope with the social consequences of that structural adjustment. In the Canadian context the effect of these adjustments may place great pressure on the extent to which social expenditure in
the future is able to respond to and accommodate these rapidly changing circumstances.

At a more general level, it is clear that the results of this study point to a potential goldmine for comparative policy studies in the evaluation of the differential impact of the international economy, especially on policy determination. In this respect a major task for researchers in this area must be to identify valid and reliable indicators of economic vulnerability.

7.3 THE LINK BETWEEN PARTY AND POLICY

As pointed out earlier, an important feature of the research problem has been to consider the influence of party structure and party organisation on policy outcomes. Two explanations, termed the 'structural' and 'strategic actor' models, were offered to account for the link between party and policy, and these conceptual models, when subjected to empirical tests, revealed an interesting pattern of results. Before examining the empirical conclusions, some comment needs to be made on the methodology adopted in the empirical part of the study.

Methodologically, the approach of the present research, when considered along with the international literature, is important for several reasons. In particular, the research design used here - the Interrupted Time-Series design (ITS) - may have relevance and utility for policy output studies in general. The value of the ITS design, or intervention analysis as it is sometimes called, is that it allows the
analyst to model the influence of time on policy, and thereby estimate the influence of intervention on the variables being examined. In similar fashion the notion of 'reaction function' employed in Chapter 5 has the potential to be of considerable value in future political science research. Moreover, by examining specific economic variables such as revenue, inflation and unemployment in a context where the causal influence between these variables and policy output are specified, it becomes possible to uncover the nature of the bureaucratic mechanisms in the delivery of policy output. This operationalisation of bureaucratic 'inputs' in terms of economic variables is a considerable advance over conventional models of policy output. In these models economic variables have often been defined too generally for any rigorous specification of causality between them and the response of policymakers to these economic conditions. In sum, what is most attractive for policy analysis in the notion of the 'reaction function' is that it enables inferences to be drawn about the intention of policymakers in an analytical manner.

Moreover, the reference to distinct periods of government rather than party in a time-series study is valuable, not merely for its theoretical significance in underpinning a strategic actor model of policy (an issue discussed below), but also showing the effects of variations in policy priorities of governments at different times. Indeed, more light is likely to be shed on this aspect of the
analysis by a more detailed disaggregation of policy sectors.

Finally, the distinctive methodological aspect of this study is that it escapes the conceptual and empirical straight-jacket of society-centred theories of policy output (section 1.3). By using time-series techniques, the study is able to detect the influence of incrementalism on policy. Furthermore, the use of a 'reaction function' approach, along with an ITS design, allows us to demarcate the impact of bureaucratic from that of political factors in policy output. These twin features of the research design of this study makes it a substantial methodological improvement to conventional accounts of policy output. Moreover, as noted in Chapter 1, this methodological improvement is not merely an issue of technical complexity, but reflects a different conceptual approach to policy analysis. Specifically the methodological advances reflect the need to move to state-centred conceptions of policy output.

Looking at the empirical findings, we note that some of the results go against the grain of convention. Thus, in the Australian context an important and counter-intuitive finding is of a two-fold nature: (a) that the impact on expenditure of the Whitlam administration was not as great as suggested in the literature; and (b) that the sources of change in this period can be attributed to a change of government rather than ideology. It will be recalled that the analysis of these results offered in Chapter 5 indicated that it was a 'turnover' effect rather than a 'party' effect.

More support for this type of explanation comes from the
finding in Chapter 5 that the influence of the Whitlam Government on spending, in the education and health areas in particular, tend to disappear when a time trend is introduced. A word of caution is needed here lest this finding be viewed as merely a statistical artefact. It is certainly possible to construct a plausible and interesting theoretical rationale to account for this finding. In brief, the explanation offered was one that highlights the importance of intense political competition in relation to welfare issues - a competition especially marked in the area of health expenditure - between several governments and opposition parties during this period. It was a feature first evident in the Gorton, McMahon and Whitlam years. Especially important was the competition between the McMahon Government and Whitlam Opposition.

To place this in sharp focus one needs to examine more closely the descriptive statistics presented in Table 5.2 in Chapter 5. An inference to be drawn from these figures is that the rate of change of expenditure appears to be marked for the Whitlam period, but the growth of expenditure seems to increase across both the post-Menzies and Whitlam periods. Indeed, this is in effect what is captured in the regression analysis of Table 5.4, and is explained by reference to the fact that welfare issues seem to have acquired a crucial strategic importance because of the intense political competition surrounding them during both periods of government. This explanation is also supported by
the distribution of the coefficients of competition reported in Chapter 6. As previously observed, most Australian welfare expenditure categories were significantly associated with electoral and parliamentary competition.

Thus, welfare issues, relatively absent during the Menzies period, had become part of the political agenda by the Whitlam era, and this is exemplified by the priority assigned to them in Whitlam's 1972 policy speech. The appointment of the Henderson Poverty Commission by the McMahon government is further demonstration of the importance of welfare issues over this period.

The analysis of the Australian data clearly demonstrates the importance of strategic imperatives in the formulation of policy. It is these imperatives rather than ideology which seem to account for policy, and for this reason we may conclude that the Australian data are consistent with what has been termed a 'strategic actor' model of party.

The negative influence of the Fraser administration on expenditure also stands out as a significant general finding of the study. This is important for two reasons. First, it demonstrates that the consideration of negative influences on policy may be no less important than the positive role of parties in government in expanding the rate of change of social expenditure. This, in passing, lends justification for the methodology of this study, especially the time-series design, because it is critical to have a baseline by which such influences may be judged. For our purposes
'incrementalism' served as the baseline. Second, the evidence of the Fraser period points to the existence of a distinct set of policy priorities that marked it out from the two previous Liberal-Country Party administrations.

The Canadian evidence too lends support to the 'turnover hypothesis' advanced in the study (Table 5.5). Two findings in particular deserve mention. The first relates to the significance attached to social welfare during the Diefenbaker period. In terms of the turnover model, it was imperative for the new Diefenbaker Government, being the first Conservative government to come into power after the long period of Liberal Party hegemony stretching from the 1930s, to establish new policy directions. Its response is perhaps best reflected in the reported expenditure figures (Table 5.4).

The second finding of interest is that, whereas social welfare expenditure appears to have been significantly altered by government intervention in the 1950s in the St Laurent and Diefenbaker periods, it was not subject to much governmental impact (in the sense defined in Chapter 5) in the 1960s. Similarly the coefficients for the political competition variables for social welfare indicate that it did not respond to any of the competitive variables examined.

If we look at comparable data for Australia in terms of the relationship between political variables and expenditure (see Tables 5.4 and 6.1), the difference from the Canadian findings warrants explanation. One interpretation of this
difference may lie in the fact that Canadian social security programmes became an accepted part of Canadian politics. Admittedly, in this connection there was much debate in the 1950s (Bryden 1974), but social welfare policy changed sharply because, once a universal social insurance programme was established, it entrenched itself politically: governments find it hard to 'wind back' such programmes once established. Indeed, as Stephens (1979) points out, a somewhat similar pattern can be discerned in Europe, where the 'frontiers' of politics have moved beyond social insurance programmes to encompass other welfare measures. In Canada, too, it was clearly health policy which became a major part of welfare policy agenda in the 1960s (Taylor 1978), and this is well reflected in our findings. These data (Table 6.2) point to the positive association between health expenditure and inter-party competition, and are incidentally consistent with a strategic actor conception of party, where the basis of competition shifts from one issue (social welfare) to another (health policy).

In the period under consideration in Canada there were five minority governments. These were the Conservative minority administrations of Diefenbaker in 1957 and 1962, the Liberal administrations of Pearson in 1963 and 1965 and the Trudeau administration of 1972. While we did not test directly for the impact of minority governments on expenditure, it could be reasonably expected that a sequence of minority governments would have contributed to a 'bidding up' of welfare expenditure. This inference is supported by
the stronger influence of parliamentary competition than of electoral competition on Canadian expenditure. The minority status of the governments intensified the parliamentary competition, with the incumbent government under constant threat of losing office.

This pattern of results also explains the influence of the NDP electoral share on expenditure. It will be recalled that one of our findings (see Chapter 6) was that the NDP electoral share was associated with parliamentary competition. If the influence of minority governments was critical in determining the level of parliamentary competition, then the NDP as the major third party would have strategic bargaining power. This finding is therefore supportive of a strategic notion of party.

Overall the strategic actor policy model is further strongly supported by the data relating to the impact of administration and competition on expenditure. These data suggest that, in considering the influence of 'partisanship' within a 'turnover' model, it is the strategic imperatives of establishing new policy priorities rather than the ideological composition of the party in power that are important. Individual administrations, even of the same party, reflected distinct patterns of expenditure priorities in Australia and Canada, lending further strength to the strategic actor model.

The influence of party competition does not appear to differ significantly between the two countries. But a major
conclusion of the study was that the type of competition, that is, electoral or parliamentary competition, differed between the two countries. The influence of parliamentary competition in Canada was explained by reference to the fragmented nature of electoral support for the party. Other than this general systematic factor, the influence of minority governments is, as pointed out earlier, of paramount consideration in explaining this pattern of results.

It was argued that, by contrast in Australia, electoral competition was a major determinant of expenditure. Following from this, an inference may be drawn to the effect that, while political competition is not a function of the type of party system, the form of the competition may depend on it. Clearly what this points to is the need for more research on indicators of inter-party competition. Indeed, different indicators of inter-party competition may be conceptually linked to different aspects of the party system.

It will be recalled that in Chapter 1 the impact of 'weak' and 'strong' party systems on policy was identified as an important research issue. A proper consideration of this would inevitably lead to the evaluation of the two competing theories of party. The first of these, in the language of this research, advances the 'structural' viewpoint. This emphasises the importance of a 'strong' party system, defined in terms of clear socio-economic cleavages, ideological distinctiveness and organisational strength. Through the influence of this 'strong' party system factor, the variables of partisanship and competition, it is suggested, would have
a greater impact on policy outcomes. But according to the alternative or competing viewpoint, i.e., the strategic actor conception in a 'weak' party system, partisanship and competition would apparently have little or no effect.

At the heart of this dispute between the strategic actor theorists (e.g., Schumpeter and Downs) and the structural theorists (e.g., Hibbs and Castles) is the question of the manner in which party policy is formulated. The structural perspective is consistent with the view that party policy is defined by the nature of the constituency served by the party. Party is an 'agent' for a given set of interests. The strategic actor conception, on the other hand, is consistent with a notion of parties as groups of 'autonomous actors' responding to competition within the party system.

Indeed, one of the reasons for selecting Australia and Canada for purposes of comparison lay in the differences between these countries in regard to three main features that serve to define what we have termed 'strong' and 'weak' party systems. These three defining features or characteristics are: first, the representation of interests (the Canadian party system is based on the representation of regional interests, and its parties are best viewed as brokerage parties, in contrast to the Australian party system, which is based on the representation of distinct economic interests); second, Canadian parties, unlike the Australian parties are not perceived as ideologically distinctive; third, Canadian federal parties are somewhat weaker organisationally than
their Australian counterparts.

The results of the analysis sustain a strategic actor model of policy (Model 2) presented in Chapter 1. The evidence for the influence of 'administration' and 'competition' on policy indicates that both factors are present in Australia and Canada. Administration and competition are not functions of the structure of the party system.

Having outlined the broad thrust of the findings of the study, it is pertinent to examine a methodological limitation of the similar system comparative design (see Chapter 3) utilised in the research. As identified previously, a main weakness of this type of design is that it controls for all factors that are thought not to contribute to a given set of outcomes. According to Rodgers (1979) the great advantage of comparative research is that propositions may be tested in a variety of settings and thereby lead to a gradual refining of propositions at specific levels of generality.

There are two different strategies that can be employed in examining public policy outputs. In one approach, that involving a contextual strategy, attempts would be made to examine policy in its historical and particular social contexts: see Heidenheimer et al. (1975) as an example of such an approach. Alternatively, as the approach used in this study exemplifies, we could examine the determinants of outputs and expenditure across a range of countries or within a time-series framework. Both these variants have their strengths and limitations. The main advantage of the
approach used in this study is the ability to derive a set of propositions that can be rigorously tested in a wide variety of settings. Admittedly, a consequence of this mode of analysis is the neglect of the historical and political context in which policies are made. Ideally both kinds of approach should be employed to provide a fuller understanding of policy-making, but this is realisable only with the cumulation of specific types of research as carried out in this study.

7.4 FUTURE RESEARCH DIRECTIONS

In sum, the findings of this study are potentially significant and valuable for developing distinct avenues of research, and these when taken jointly may provide a basis for charting new research directions for theories of policy: first, for the study of Australian and Canadian political systems in comparative perspective; and second for research on the changing concept of the 'welfare state'.

Before discussing these potential areas of future research, it should be noted that, from a conceptual and theoretical standpoint, this study has drawn pointed attention to the importance of party competition and strategy as critical elements in understanding policy, particularly policy outcomes. It would appear from what has been reported that the dominant influence on party policy is not so much the structure of the party system but the nature of competition. In other words, the emphasis in future studies
relating to the role of 'party' in the analysis of policy developments must move from one that places causal significance on the structural basis of the party system to one that focuses on the processes of party competition. This perspective has several ramifications for the conception of democratic theory, and is consistent with the definition of democracy given by Schumpeter nearly 40 years ago, when he noted that

the democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote (1950: 173-174 in Quinton 1967).

Schumpeter's standpoint is in sharp contrast to the orthodox viewpoint, which defines democracy as an

institutional arrangement for arriving at political decisions which realises the common good by making the people itself decide issues through the election of individuals who are to assemble in order to carry out its will (1950: 153, in Quinton 1967).

Adherence to the less conventional view of democracy, according to Schumpeter is expressed in terms of a struggle for a people's vote rather than a means of discerning the common good. This has two implications for the study of democracy and public policy. Firstly, it throws into sharp relief the importance of party strategy rather than the responsiveness of the party to its electoral base. Therefore this 'strategic democratic' approach places greater emphasis on political factors such as competition and leadership rather than the sociological bases of parties. Secondly, it pays more heed to the manner in which individuals form electoral preferences. These conceptual consequences of the
study must be taken into account in any evaluation of the influence of democratic participation and public policy. The conventional or structural account of the role of democratic politics in policy is underpinned by what Schumpeter (1950) calls the 'classical' definition of democracy. The thrust of this study has been to argue that the examination of policy formulation should be based on what has been described as a 'strategic' definition of democracy. This perspective goes beyond the confines of this study to enrich our understanding of the dynamics of comparative public policy.

In the context of these research findings, we can now turn briefly to consider future areas of research. The first of these relates to the study of the Australian and Canadian political systems and the findings of this study may have a significant bearing upon, and value for, enhancing our understanding of these particular political systems. It will be recalled that in embarking on this comparative study, an overriding objective was the elucidation of politics of public policy in Australia and Canada.

Part of the impetus for this study came from Alford's classic (1964) work on class voting in Anglo-American democracies, in particular his emphasis on the presence of class cleavages in different degrees in Britain, Australia and New Zealand, and absence of class cleavages in Canada and the U.S.A. Although Alford's empirical analysis is now somewhat dated, his conclusions still continue to have much significance and force.
A further set of intriguing contrasts (see Chapter 1) was the distinction between North American party systems and other party systems. The work of Schlesinger (1965) and Epstein (1968) in particular has drawn attention to this perceived geographical compartmentalisation of party systems. The party systems are said to differ in terms of the mode of representation of interests. North American parties are viewed as 'brokers' between different interests and the political system, rather than representing and aggregating social and economic interests. As a consequence, North American parties are difficult to distinguish ideologically. Additionally, these party organisations are also weaker than party organisations in competitive systems elsewhere in the world. This geographical compartmentalisation corresponds roughly to the analytical distinction between structural and strategic actor perspectives utilised in the present research.

Apart from this general literature, the Canadian political science literature, as stated in Chapter 1, perceived parties as brokers and agents of accommodation. The sources of weakness of the Canadian model, according to some writers are structural (Porter 1965) mainly because of the failure to assess the influence of class-based factors. Because the Australian parties are in many ways the antithesis of their Canadian counterparts, particularly as regards representation, ideology and organisation, we are in the fortunate position of being able to examine this implicit assumption in much of the Canadian political science.
The stability of the party system also presents additional grounds for contrasting Australia and Canada. In comparative terms, Australian parties have a high degree of stability at both the aggregate and individual level. As Aitkin correctly observes:

The party system has taken in its stride the changing balance of federal state relations, and the dislocations caused by two world wars and major economic depression...the images of the parties and the rhetoric of party conflict have been very stable for more than two generations. Stability is characteristic of the whole party system (1977: 3).

As against this the comparable Canadian survey evidence of Clarke et al. (1980) shows that in relative terms the Canadian party system does not exhibit a great deal of stability. Indeed, on a continuum Australia and Canada would lie on the extremes.

One final element of the Australian and Canadian dichotomy relates to what can be termed the 'cultural' dimension. The evidence here is rather tenuous, and more subjective than the other contrasts mentioned above. However, the works of Horowitz (1966) and Hancock (1929) point to the persistence of different ideological traditions of state intervention in the two countries, particularly to the dominance in Canada of traditions of liberalism and conservatism and in Australia the presence of a utilitarian (social liberal) tradition which has underpinned state intervention.

These several contrasting features between the two
countries serve to indicate that the policies produced by the party system would be markedly different. Given the range of contrasts, one is struck by the extent to which the two countries have produced similar sets of results for the different political variables examined in this study. There are, of course, important differences in the directions of the coefficients for expenditure categories, and these have been discussed in the individual chapters. But the dominant impression gained from this study is of two nations whose politics are broadly similar in the determination of policy output.

This general impression is certainly contrary to the traditional standpoint of Australian and Canadian literature. From a comparative perspective it would appear that Canadian parties are as influential in the determination of policy outcomes as parties that are differently structured. This in turn suggests that ideological and cultural factors might not be as important in policy formulation as the literature suggests.

A point of caution is needed here in the use of terms such as 'similar' and 'different' in comparative politics. These terms take on meaning only in a given context. The rather simple Wittgensteinian proposition is that Australia and Canada seem 'similar' in the context of social policy outputs. This does not imply that the differences between the two are not insignificant. However it does suggest that they are worth investigating in order to determine whether these differences lead to outcomes which are markedly
different.

More generally, the overriding conclusion we wish to draw is that the two nations are similar in terms of the political determinants of expenditure because the political parties are governed by a common set of 'strategic' interests. Consequently the study suggests that, apart from the analysis of structural differences, emphasis should be laid on the manner in which party strategies are formed.

This last observation points to a key systematic conclusion that may be drawn from this study, and this relates to particular analyses of 'welfare state' development. The political science literature on the welfare state (see for example the orientation of Bryden 1974, Falcone 1974 and Kornberg et al. 1972 for Canada; and Jones 1983 and Graycar 1979 for Australia), despite its substantial contribution to the study of the welfare state policy development, is notably deficient in its analysis of welfare politics. In particular, it lacks significant analysis of the role of party strategy and competition in welfare state policy development.

In this context, one promising line of research lies in the examination of how different types of welfare structures shape the nature of policy strategies. As an instance of this, we may note from the findings of this study that Canadian social welfare is insulated from political changes largely because of its character and raison d'etre as a universal contributory scheme. This in turn has provided
limited room for 'bidding up' welfare expenditure.

As a final reflection on the limitation of the data used in this analysis, it could be argued that the expenditure categories utilised are far too broad-ranging and need greater disaggregation. This point has also been expressed by Rose (1981) and Peters and Heisler (1981). There are two lines of defence to this argument. First, much of the policy output literature does in fact utilise the range of broad aggregative categories. Indeed this study has a greater degree of disaggregation than most of the studies in the field. Furthermore there is a more practical problem of comparability involved in greater aggregation. The second point, more in the nature of a methodological argument is that the degree of aggregation depends critically on the research problem. If one is doing a piece of social policy research it is imperative that specific programmes are analysed in more piecemeal fashion rather than presented as broad categories. On the other hand, if the research is focussed more generally on macro issues such as the source of welfare expenditure determinants, the level of aggregation has to be greater.

More generally, in terms of a theory of policy formulation, this study is important and valuable in that it highlights two main issues that deserve closer scrutiny in theory construction. First is the need to build into policy models a conception of bureaucratic behaviour. While this study has attempted to do this in a limited way by examining the role of 'incrementalism' in policy determination, it is
also the case that this is perhaps one of the few available indicators of the influence of bureaucracy. However, a more precise and detailed specification of bureaucratic constraints should be considered in future research.

The second issue useful in outlining a new theory of policy revolves round the conception of party that underlies research of this nature. Sartori (1969) pointed out twenty years ago that analysis must move from a sociological conception of parties to a model which allows parties a greater degree of autonomy. In the case of the analysis of social expenditure this would involve placing greater emphasis on delineating the 'strategic' issues that concern the electorate. The emphasis then would move from the interests that parties serve to a consideration of party strategy. A connected issue arising from this is the need in aggregate policy output studies to take greater account of individual level data.

But these matters, like others addressed in these concluding remarks, remain to be explored. This thesis has highlighted some of the central issues of a new research agenda. It opens a window on a new and promising research frontier.
APPENDIX 1

DESCRIPTION OF EXPENDITURE DATA AND DATA SOURCES

This Appendix sets out the sources of data used in the empirical analysis. In the expenditure data, the figures relate to broad categories of spending rather than to specific programmes. The political data pertains to federal rather than the provincial or state arena.

AUSTRALIA

A) Expenditure: Australian Federal Expenditure


The figures before 1964 have been collated by reference to:

Annual Budget Papers. (various years) A.G.P.S.

Statistical Year Books. (various years) A.G.P.S.

The data after 1978 have been updated by


Also consulted

The Annual Reports (various years) of the Departments of Social Welfare, Health and Education.

B) Economic and Social Data


Also consulted for population and demographic data:


Statistical Year Books (various years) A.G.P.S.
C) Politics


CANADA

A) Expenditure: Canadian Federal Expenditure


Also consulted:


Statistics Canada, Federal Government Finances (various years).


B) Economic and Social Data


Also consulted for population and demographic data:


Also consulted:

Statistical Year Books for Canada (various years).

C) Politics


Appendix 1 in C. Winn and J. McMenemy (1976) (eds) Political Parties in Canada

FOR BOTH COUNTRIES:

A) Expenditure

OECD (1976a) Public Expenditure on Incomeg Maintenance Programmes. Paris

OECD (1976b) Public Expenditure on Education. Paris


B) Economic and Social Data


Note on the Specification of the Dependent Variable

The dependent variable used in the analysis of Tables 4.2, 4.3, 5.4, 5.5, 6.1 and 6.2 has been calculated in the following manner (where 'x' and 'y' are expenditures):

\[
\text{deflated} \\
\text{Nominal } x \quad \text{------> to real } x_1 \\
\text{deflated} \\
\text{Nominal } y \quad \text{------> to real } y_1
\]

Then the difference between \(x_1\) and \(y_1\) forms the basis for the creation of the dependent variable.

Note: (i) Nominal expenditure has been deflated by CPI.
<table>
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<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
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<td>0.12</td>
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**Footnotes:**
1. Education expenditure/GDP ratios refer to current outlays only except for Denmark and Ireland for which investment outlays are not shown separately.
3. The education/GDP ratios are not shown here because some countries have not reported a number of the 1970 ratios.

**March 1971**
APPENDIX 3

TABLE 3.1

Raw Expenditure Data: Australia
(Nominal Expenditures in millions of $s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Social Welfare</th>
<th>Education</th>
<th>Health</th>
<th>Total Expenditure</th>
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</thead>
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<td>88.841</td>
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### TABLE 3.2

Raw Expenditure Data: Canada

(Nominal Expenditures in millions of $s)

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APPENDIX 4

MODELS OF POLICY OUTPUT

In terms of Dye's (1978) framework policy output models can be thought of as the interaction between the environment and the political system in producing a given set of outcomes. In diagrammatic terms the model, following Falcone, (1974: 25-27), can be presented thus:

DIAGRAM 4.1

General Policy Output Model

The linkages suggest several plausible as well as implausible models which have been used in the literature. Indeed this reciprocal association remains a fertile subject of study for future research.

Three models of the possible linkages between these variables can be discerned from the literature. Falcone (1974) refers to these as the sequential environmental, the environmental and the hybrid environmental models. In the diagrammatic representation of each of these models presented below, a weak linkage between variables is denoted by a broken line (---).

The sequential environmental model takes the following form:-

DIAGRAM 4.2

Model 1: Sequential Environmental Model

The sequential environmental model takes the following form:-
In this model, environmental factors are mediated through the political system. While there are hardly any studies which confirm or are based solely on this model, there are many others which have stressed the need for the presence of certain socio-economic variables, before aspects of political competition critical to the determination of policy output can come into play. Wilensky's (1975) study of welfare is one such study: he notes the critical role of economic development in fostering welfare state growth. Briefly, the thrust of his argument is that after a certain level of economic development, political determinants such as the degree of centralization become significant in influencing the level of welfare expenditure.

Secondly, the environmental model could be diagrammed as follows:

DIAGRAM 4.3
Model 2: Environmental Model

The principal determinants of welfare expenditure in this model are socio-economic forces which may influence the nature and structure of political competition. However, the significance of politics itself is marginal. The central determinants of welfare expenditure are environmental variables which include a wide variety of social and economic factors. A feature in many of these studies is the importance of the level of economic development.

The third model is that of the hybrid environment' which may be diagrammed as follows:

DIAGRAM 4.4
Model 3: Hybrid-Environmental Model
In these models a key feature is that both political and economic factors play an important role in determining policy output. While analysts differ on the relative importance of environmental and political determinants, few would claim exclusivity for either in determining the scope and level of policy output, an exception to this being the early studies of state politics of Key (1951) and Lockard (1963) (also see Jewell, (1962) who argued that the political arena was vital for processing demands.
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