DECENTRALIZATION AND THE POST-WAR POLITICAL ECONOMY*

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DISCUSSION PAPER NO. 399

March 1999

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ISSN: 0725 430X
ISBN: 0 7315 2263 X

*** A somewhat modified version of this paper, which was originally presented at the European Consortium for Political Research Workshops in Warwick in March 1998, will appear in the *European Journal of Political Research*, 35 (5), 1999.**

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SUMMARY

This paper uses cross-national data for 21 OECD nations to examine whether there is any evidence of a connection between measures of political and fiscal decentralization and the major, long-term, performance parameters of the post-war political economy. The findings of what is necessarily an exploratory analysis of a wide range of policy outcomes suggest that low levels of fiscal centralization appear to have restrained post-war inflationary pressures and gone along with higher rates of post-war economic growth. However, no evidence is found to link fiscal decentralization with post-war labour market performance. While the balance of evidence indicates that measures of political decentralization do not have any significant impact on macroeconomic outcomes, the study confirms the standard finding in the literature that federalism and other decentralized constitutional arrangements impede the expansion of the socially protective state.

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The Question

The question I ask in this paper is whether there is evidence of a connection between the degree of centralization of the state and the character and performance of the economy. With regard to the issue of the expansion of public expenditure - and, in particular, the growth of the post-war welfare state - there is now a substantial body of argument and evidence suggesting that political decentralization in the form of either federalism or other constitutional arrangements constraining the exercise of direct popular sovereignty have limited the growth of the post-war public economy. In contrast, there has been very little academic analysis of the way in which decentralization impacts on the functioning of the economy, with suggestive insights produced by public choice theory and a few comparative studies of the links between political and fiscal structure and macroeconomic outcomes.

Academic analysis notwithstanding, the economic impact of decentralization has been a hot topic of political debate in many nations at one time or another during the post-war era. Wherever fiscal powers or policy-making responsibilities are divided between different branches of government or between national and sub-national units, there is likely to be on-going controversy on the probable consequences of changing the existing rules of the game. In federal systems, such issues are always salient just because the basic rules of the political process are built around issues of territorial jurisdiction and because more power for one level of government necessarily means less for another. In unitary systems, questions concerning the financial resources and political powers of local governments also emerge, not least because changing the level at which the political game is played can have an immediate bearing on its outcomes (ie. Margaret Thatcher's attempt to reduce aggregate public spending by reducing the powers of local authorities).

On the whole, the post-war era has seen a major increase in the taxing and directive powers of central governments at the expense of both the autonomy of sub-national units and the sharing of powers between different branches and organs of government. The standard account of such developments has been the couched in terms of the role of central government as the primary agency for satisfying the socially protective demands intrinsic to the nature of modern mass democracy. Despite this, in recent decades, a number of countries - including Belgium, Italy and Spain and, presently, the United Kingdom - have taken steps to alter their constitutional arrangements so as to provide greater institutional guarantees of local and regional autonomy.

When decentralization issues are on the political front-burner, the protagonists of different positions generally claim that their favoured institutional arrangements will lead to superior economic performance or, at least, that the adoption of their opponents' positions will lead to economic disaster. In the Australian ‘new federalism’ debate of the early 1990s, the

advocates of greater powers for the states argued that a devolved taxing power would lead to a higher level of 'fiscal accountability', making it more difficult for governments to evade responsibility for 'economically irresponsible' public expenditure growth. In contrast, those who wished to maintain the existing division of powers argued that if the Commonwealth no longer controlled the 'big levers' of fiscal power, it would be unable to achieve either its equity or its full employment objectives (see Gillespie, 1994; Galligan, 1995).

Arguments of this nature link institutional arrangements (ie. the character of inter-governmental relations) to policy outcomes, implying that certain types of arrangements are to be preferred because they are conducive to particular kind of consequences. As articulated in the political arena, such arguments are generally given their force by ideological rhetoric rather than by empirical evidence. In the Australian debate, the need for central control of the 'big levers' of economic policy was not established by showing that centralized government does, indeed, lead to favourable equity and labour market outcomes, but rather by an appeal to the Keynesian orthodoxy. The identification of the autonomy of sub-national governments with 'fiscal accountability', and the view that both stand as bulwarks against a public profligacy which undermines economic performance, was no better empirically grounded, gaining whatever intellectual persuasiveness it may have had from its resonance with currently fashionable doctrines of public choice theory.

But to embark on an institutional redesign project as fundamental as that involved in a reorganization of the territorial and fiscal division of powers is obviously dangerous unless we have an understanding of the likely policy consequences of our actions (see Goodin, 1996). Because the institutional parameters with which we are concerned vary little over time and much as between nations, the only appropriate strategy for acquiring such an understanding is by comparing and contrasting the policy experience of nations with differing degrees of decentralization. One reason for the rhetorical tenor of the debate in this area is that politicians and their domestic economic policy advisers tend not to be particularly knowledgeable concerning the policy experience of countries other than their own, frequently basing their comments on recent events in individual nations interpreted in terms compatible with the institutional design proposal they currently favour.

Such an approach is deeply flawed. The whole logic of comparative analysis rests on the view that single instances prove nothing and that our confidence in findings should be a direct function of the extent to which they are replicated across time and space. Thus, if we are to deploy the evidence of other nations to link aspects of institutional design to their policy consequences, it must be on the basis of a comprehensive analysis of the experience of as many relevant (ie. reasonably similar - see Dogan and Pelassy (1990)) countries as possible. In what follows, we use cross-national data on the incidence of taxation, on constitutional arrangements and on the long-term economic performance in 21 OECD countries in order to establish whether and in what ways political and fiscal decentralization have impacted on the shape of the post-war political economy.

The Literature

The major difference between academic and political debate in this area is that the former has been more coherently focused. Political discussion has tended to focus on proposed changes in the balance of power between levels and branches of government as potential remedies for whatever economic ills are presently of most immediate popular concern. The scholarly literature has had two basic themes: the impact of decentralization on the growth of the state and its influence on the state's capacity to pursue particular types of macro-economic policy objective.

Decentralization and Small Government

Although recently claimed as a discovery of the "new institutionalism" (Pierson, 1995, 449-50), the argument that centralization enhances the size of the state is one of the oldest and best established propositions in the comparative public policy literature. Indeed, the very first hypothesis offered by Wilensky to account for the "diversity and uniformity (of social spending) amongst rich countries" in his classic study of the Welfare State and Equality argues that

> "The greater the authority of the central government vis-à-vis regional and local units, the higher the welfare state spending and the greater the program emphasis on equality" (Wilensky, 1975, 52).

Wilensky uses evidence from 22 countries - both OECD and Communist - to demonstrate a strong negative relationship between social security spending and an index of centralization in which the central government's share of total tax revenues weighs more heavily than the constitutional division of powers. Other studies of the 1970s come to a similar conclusion, although with a focus on the territorial division of powers rather than on taxation arrangements. Cameron, in a study otherwise devoted to examining the role of trade openness in promoting the growth of the state, identifies the role of federal institutions in "dampen(ing) the degree of expansion of the public economy" (Cameron, 1978, 1253), while Castles and McKinlay (1979, 1980), in research devoted to demonstrating that "politics matters", note that "the gap between unitary and federal systems is greater than that between non-right and right-wing systems".

More recent research, using pooled time-series methods, has produced more contested results. Studies by Korpi (1989) and Pampel and Williamson (1989) offer almost no support for a variously measured decentralization effect. On the other hand, an important paper by Huber, Ragin and Stephens (1993, 721) conceptualizes territorial decentralization as one of a number of constitutional arrangements which are seen as inimical to social reform legislation. Using an additive index of the impediments to majority rule built into the constitutional structure and a pooled time-series design, these authors demonstrate a strong negative relationship between constitutional obstacles to reform and both social security transfers expenditure and total government revenue over a period of some three decades (Ibid, 735-37). Research using a somewhat different index of "institutional constraints on central state government" developed by Schmidt (1996, 175) further points to inverse relationships with the growth of big government, gender equality and labour market policy effort.

The notion underlying all of these arguments is that political and fiscal arrangements can make it harder or easier to push through programs of public expenditure. Wilensky sees this as a matter of the obstacles faced by "political elites who embrace the welfare state" and who are advantaged by a centralization which means that the battle for reform is fought out in one, highly transparent, national arena (Wilensky, 1975, 52). Huber, Ragin and Stephens give a slightly different account of the protagonists in this struggle, with the interests of the "underprivileged majority" opposed by "minority interests (Huber, Ragin and Stephens, 1993, 722)" which can use constitutional provisions dividing the authority of the state as a means of containing the growth of big government. The story, however it is told, is that institutions matter: that cross-national differences in the rules by which the game is played are factors highly relevant to the diversity of post-war outcomes concerning the size of the state.

Decentralization and the Macro Economy

It is possible to identify two strands of argument linking political and fiscal decentralization to the character of macro-economic objectives. One is a set of propositions emanating from public choice theory, which suggest that, in order to contain the supposedly revenue-maximizing proclivities of national governments, it is necessary that there be restraints on the capacity of the central state to take certain kinds of policy initiatives. The most familiar argument in this mode is that, because governments have an inherent tendency to put a higher priority on revenue maximization than on monetary stability, they cannot be trusted with the control of monetary policy, which is more appropriately located in the hands of independent central banks. In a somewhat similar vein, the "dispersal of fiscal authority among differing levels of government" has been seen "as a means of controlling Leviathan's overall fiscal appetites" (Brennan and Buchanan, 1980, 181). Although motives of this kind do not appear to have been to the forefront in recent moves towards greater territorial devolution of powers in countries like Belgium, Italy and Spain, the notion that decentralized government is more economically efficient, as well as - or because of - having a less imperial growth potential, has been the staple argument of those favouring further fiscal decentralization in existing federal states (see Walsh, 1989).

Public choice theory starts from a neo-classical and deductivist framework very different from the inductivist, comparative public policy, approach which has characterized research focusing on the links between decentralization and the growth of the socially protective state. More in the latter tradition is a second strand of argument, which points to differing degrees of freedom for macro-economic policy manoeuvre in countries characterized by differential degrees of fiscal decentralization. Using a comparative case-study approach, Scharpf argues that the capacity of national governments to utilize demand management techniques in a Keynesian manner to boost economic growth and unemployment is a function of the existing magnitude of public budgets and the extent to which they are controlled by the central government (Scharpf, 1991, 212-13). The point is that governments cannot readily stimulate an economy they do not control. Building on Scharpf's notion of differential degrees of 'fiscal difficulty', Busch (1993, 65-69) further argues that nations face a real economic performance trade-off, since increases in aggregate demand facilitated by large

public budgets and a centralized fisc are likely to be a source of substantial inflationary pressures. Using data for 17 OECD countries, Busch demonstrates that countries manifesting the preconditions for effective Keynesian control of the economy had significantly higher rates of inflation than other OECD countries in the period 1973-86.

It is important to note that hypotheses concerning the macroeconomic implications of fiscal and political decentralization have been less fully explored than those relating to the growth of the state. Public choice theory is about the logic of economic institutions, and has been little concerned with the empirical testing of hypotheses. Almost the only major concern of that school of thought to be taken up seriously by empirical economic policy research has been the insight that central bank independence is linked to lower rates of inflation. Some of this work has involved sophisticated econometric modelling (see Alesina, 1989; Grilli, Masciandaro and Tabellini, 1991). In contrast, the work on 'fiscal difficulty' we have briefly reviewed here must be seen as having a rather more tentative character, since it does not use appropriate modelling techniques to take account of other obviously crucial factors conditioning macro-economic performance.

The Research Design

The research design employed here involves assessing the impact of a variety of measures of political and fiscal decentralization on robust models accounting for substantial degrees of cross-national variance in the long-term performance parameters of the post-war political economy.

Measures of Decentralization

Five measures of decentralization are featured in Table 1. Sources and notes to that table provide precise details of the operationalization of each variable and our presentation here merely highlights some of the implications involved in the use of the various measures.

Federalism. This measure is largely unproblematical. Six countries - three Anglo-American and three German-speaking - have been federations throughout the post-war period. Belgium became a federal state in 1993, but this was too late to affect any of the performance measures used in this study.

Constitutional Structure . This is a measure developed Huber, Ragin and Stephens (1993) and updated by Schmidt (1996) to include the countries of Southern Europe. The measure seeks to capture the way in which constitutional structures serve to limit the strength of democratic majorities by giving privileged access to other political actors in the policy process. Such mechanisms as federalism, directly elected presidents, territorial constituencies, strong second chambers and referenda all constrain (or function as veto-points against) the legislative will of the majority. There are ambiguities concerning the measurement of two cases. The new Swedish constitution of 1970 abolished a reasonably strong upper house. However, since Sweden has been unicameral for most of period under review here, the Schmidt coding stands. Until the restoration of democracy in 1976, Spain is appropriately coded as having no veto-points. We retain the Schmidt operationalization based on Spain's present democratic status, but note that

Table 1: Measures of Political and Fiscal Decentralization

Country	Federalism	Constitutional Structure	Fiscal Decentralization	Fiscal Centralization	Fiscal Difficulty
Australia	1	4	21.3	78.6	4.1
Canada	1	4	44.7	43.3	5.8
Ireland	0	0	4.4	82.2	3.1
New Zealand	0	0	6.4	93.3	•
UK	0	2	8.8	73.9	3.4
USA	1	7	28.8	41.0	7.9
Denmark	0	0	29.9	66.9	2.8
Finland	0	1	24.1	59.5	3.8
Norway	0	1	20.4	54.4	3.5
Sweden	0	0	32.0	49.2	3.6
Austria	1	2	21.6	51.8	4.2
Belgium	0	1	4.8	62.2	3.3
France	0	2	8.5	48.9	4.7
Germany	1	4	30.8	33.4	6.7
Italy	0	1	2.6	60.8	4.4
Netherlands	0	1	10.0	56.4	3.4
Greece	0	2	4.3	65.7	4.5
Portugal	0	0	4.4	70.1	4.3
Spain	0	1	8.6	50.2	6.2
Switzerland	1	6	39.9	27.0	11.3
Japan	0	2	25.0	46.6	7.3
OECD Average		2.0	18.1	57.9	4.9

Sources and Notes: **Federalism** is coded: 0 = no, 1 = yes. **Constitutional Structure** from Huber, Ragin and Stephens (1993) as modified by Schmidt (1996). This variable is an additive index where: Federalism 0 = no, 1 = weak, 2 = strong; Parliamentary / presidential government: 0 = parliamentary, 1 = president or collegial executive; Proportional representation / single-member districts: 0 = proportional representation, 1 = modified proportional representation, 2 = single-member, simple plurality system; Bicameralism: 0 = no second chamber or second chamber with very weak powers, 1 = weak bicameralism, 2 = strong bicameralism; Referendum: 0 = none or infrequent, 1 = frequent. **Fiscal Decentralization** is equivalent to the share of state and local taxes in total revenue, data averaged from 1973, 1983 and 1992, from OECD, Revenue Statistics, various dates. **Fiscal Centralization** is equivalent to central government revenue as a share of total revenue, data averaged from 1973, 1983 and 1992, from OECD, Revenue Statistics, various dates. **Fiscal Difficulty** is equivalent to the reduction in the central government's revenue share that would be required to reduce the total receipts of government by 1 per cent of GDP. Data on the central government share of revenues from the previous column of the table; average receipts of government for 1973, 1983 and 1992 calculated from OECD, Historical Statistics, various dates.

for all performance measures, bar unemployment, it might have been more appropriate to give Spain a score of .5 had other cases in the index had been differentiated in this manner.

Fiscal Decentralization . This measure, which is simply the sum of state and local taxes as a percentage of total tax revenue, is the simplest and most unambiguous measure of the territorial decentralization of the fisc. Other taxes are levied on behalf of supranational bodies (the EU), by central governments or by agencies with national scope (social security funds). The revenues listed in the column 3 of Table 1 derive exclusively from taxes levied at a sub-national level. Since the share of social security taxes is likely to be higher where social security spending is higher, a negative relationship between fiscal decentralization and welfare state expenditures may well be in some part endogenous. Since we are attempting to capture the reality of fiscal centralization over the post-war period as a whole, our measure is based on averaging OECD data for the years 1973, 1983 and 1992.

Fiscal Centralization. It is important to distinguish fiscal decentralization as defined above from fiscal centralization or, as I have elsewhere called it, 'discretionary fiscal centralization' (see Barwise and Castles, 1991). Fiscal centralization as defined here measures the share of the tax take going to the central government. Because it also excludes supranational and social security taxes, it is not simply the mirror-image of fiscal decentralization (see correlation matrix in Table 2 below). The reason for the label 'discretionary' preceding the centralization variable rests on an argument analogous to that underlying Scharpf's 'fiscal difficulty' hypothesis: namely, that the central government cannot manipulate social security and supranational taxes with the same ease as it does the main categories of tax under its direct control. So a demonstrated link between fiscal centralization and economic performance would imply that central control of the fisc has a direct effect on policy outcomes. In contrast to fiscal decentralization, the predicted positive relationship between fiscal centralization and high levels of social spending would not be endogenous. The exclusion of social security taxes from the central category makes such a link *a priori* less rather than more likely. As in the case of fiscal decentralization, the data here is averaged for the years 1973, 1983 and 1992.

Fiscal Difficulty. There is no routinely available data on the central government's share of public expenditure, so, appropriately enough, we use the available OECD data on the share of revenues accruing to central government to measure fiscal difficulty on the revenue rather than the expenditure side of the budget. Thus, rather than following Scharpf's lead in assessing how difficult it is for national governments to deliver demand stimulus through central government public spending, we look at the implications of delivering a comparable stimulus to the economy via a central government tax cut. The figures in the final column of Table 1 show the percentage by which the share of central government taxes would have to fall in different countries in order to secure a one per cent of GDP increase in demand. There are complex and conflicting issues of causality and endogeneity here. On the one hand, the very construction of the variable is such that countries experiencing substantial post-war growth of the state will, all other things being equal, have a lower level of fiscal difficulty than countries which did not. On the other hand, the logic of the fiscal difficulty

hypothesis itself suggests that countries with small tax states are likely to find it difficult to reduce the size of the state further. As in the case of our other fiscal measures, the data presented here involves averaging over the years 1973, 1983 and 1992.

Two points should be emphasized. First, it is apparent that endogeneity could be something of a problem in research linking fiscal shares with spending outcomes. However, it should be noted, that the three measures of decentralization which have actually featured in the studies of the size of the state reviewed above - tax centralization, federalism and constitutional structure - are not affected by this problem. There would appear to be no endogeneity problems in using any of our five decentralization measures in modelling aspects of macro-economic performance. Second, it is important to stress that, while the measures presented here in the context of the overall development of post-war economic policy are either substantially invariant (federalism and constitutional structure) or involve averages for different time-points (the measures relating to decentralization of the fisc), in reality degrees of decentralization alter over time. More detailed future research on this topic will need to take that into account.

We conclude this discussion of decentralization measures by seeking to establish the extent to which they capture the same dimension of the functioning of the modern state. Table 2 presents a simple correlation matrix for the five variables, which shows the strongest affinities to be between federalism and constitutional structure (.83), fiscal centralization and fiscal difficulty (.77) and fiscal difficulty and constitutional structure (-.77).

Table 2: Correlation Matrix of Political and Fiscal Decentralization Variables

	Federalism	Constitutional	Decentralization	Centralization	Difficulty
Federalism	1				
Constitutional	.83	1			
Decentralization	.64	.54	1		
Centralization	-.48	-.57	-.63	1	
Difficulty	.56	.77	-.51	-.77	1

The first two of these linkages are, in some part, definitional, since federalism is used in the elaboration of the constitutional structure index and fiscal centralization in the elaboration of the fiscal difficulty measure. There are no obvious definitional reasons why constitutional structure and fiscal difficulty should be so closely akin. A .70 correlation implies that two variables share half the same variance. Given that these are all supposedly measures of the decentralization of the state, it is appropriate to note that most of the other linkages identified in Table are quite moderate. Indeed, the .64 correlation between federalism and fiscal decentralization is the strongest link between political and fiscal measures proper (ie. excluding the hybrid fiscal difficulty term) and it could very well turn out that these two dimensions of decentralization have substantially different implications for policy outcomes.

Measures of Outcomes

Table 3 provides data for four major parameters of the post-war political economy. They are standard topics for political economy research and do not require detailed explanation. Three are measures of the fulfilment of the three main objectives of contemporary economic policy-making: high economic growth, low inflation and low unemployment. The fourth measure of total social protection seeks to capture the most important dimension of the growth in the size of the post-war state. The definition of the macro-economic performance variables is in accord with standard practice. The social protection variable comes from the OECD's social expenditure database, and is the sum of social security transfers, welfare service provision and health spending. Data sources and definitions are to be found in the notes to Table 3.

The precise operationalization of these four measures for this study involves certain choices. A narrow focus on specific years chosen because they are likely to demonstrate the operation of hypothesized causal mechanisms might be one approach. Another - and that chosen here - is to examine variables over the long-term, allowing us to ascertain the extent to which decentralization variables have influenced post-war performance as a whole. In so far as we locate strong associations in the data, that leaves for further research the question of whether such impacts have been constant over the whole period or focused at particular junctures. Because the thrust of comparative labour market research has been on the rise of unemployment since the mid-1970s, we adopt a comparable restriction of focus.

In the case of both economic growth and inflation, our operationalization is in terms of annual average rates of change: ie. the annual average rate of per capita economic growth and the average annual rate of increase in the consumer price index. In the case of both unemployment and the rise of the socially protective state, we are concerned with the shaping role of decentralization on the trajectory of post-war change, so these variables are measured in terms of the increase (or decrease) in the values of these variables over specified periods of time. In the case of unemployment, change is calculated as the difference between averages for periods rather than particular years. This is because unemployment is a largely cyclical phenomenon and cross-national comparisons are necessarily distorted where countries enter and leave recessions at different times. The data here measure the change between labour market performance in the recession following the First Oil Shock and that of the early 1990s.

Methodology

Although exploratory research in new areas and with novel variables is often justified in using case-study methods and in arguing for *a priori* conclusions on the basis of bivariate findings, such conclusions are necessarily preliminary. It is clear that, in a multi-causal universe, hypotheses are only fully grounded in so far as they are tested in the context of models which substantially account for the phenomena in question. Where the focus of research is on determining the causal impact of particular variables or categories of variables,

Table 3: Performance Parameters of the Post-war Political Economy in 21 OECD Nations

Country	Per Capita Economic Growth, 1960-1992	Average Rate of Inflation, 1960-93	Increase in Unemployment 1974 / 1979-1990 / 1994	Increase in Total Social Protection 1960-1993
Australia	1.9	6.5	4.5	9.0
Canada	2.5	7.6	3.0	10.6
Ireland	3.3	8.1	7.4	11.4
New Zealand	1.1	8.2	•	12.1
UK	2.4	7.6	4.2	13.2
USA	1.9	4.9	-1.9	8.3
Denmark	2.3	6.7	2.9	•
Finland	2.6	7.2	7.6	26.6
Norway	3.2	6.4	3.8	21.5
Sweden	1.9	6.8	3.3	27.2
Austria	2.9	4.4	1.9	9.9
Belgium	2.8	4.7	3.5	•
France	2.7	6.3	6.0	15.3
Germany	2.5	3.5	3.5	10.2
Italy	3.2	8.5	4.5	11.9
Netherlands	2.4	4.4	1.9	18.5
Greece	3.7	12.0	6.6	10.2
Portugal	4.3	12.6	-.9	•
Spain	3.6	9.7	14.0	•
Switzerland	1.6	3.9	•	15.7
Japan	5.1	5.2	.5	8.4
OECD Average	2.8	6.9	4.0	14.1

Sources: **Per Capita Economic Growth, 1960-1992** is the annual average increase in per capita GDP and is calculated from an update of Summers and Heston (1991). **Average Rate of Inflation, 1960-93** is equivalent to the average annual rate of increase of the consumer price index over the period. Data is from OECD, Historical Statistics, 1960-1993, 1995. **Increase in Unemployment, 1974/1979-1990/1994** is the increase in the average unemployment rate between the period 1974 to 1979 and 1990 to 1994. Data from OECD, Historical Statistics, 1960-1994, 1996. **Increase in Total Social Protection, 1960-1993** is the percentage point increase in the sum of social security, welfare services and public health spending as a proportion of GDP over the period 1960 to 1993. Data for 1960 is from OECD (1994); data for 1993 is from OECD (1996).

this obviously involves a substantial task of data-gathering, since models must be elaborated across a wide range of subject-areas.

Such modelling exercises are also methodologically problematic, because of the very considerable number of explanatory variables which must be examined in order to do justice to the relevant scholarly literature. The difficulty is that the low case numbers available for cross-national research permit us only to investigate a limited range of hypotheses using conventional cross-sectional designs, while the use of pooled time-series designs using multiple dependent variables makes an already major data-gathering exercise quite prohibitive in terms of cost and energy. To get around these difficulties, I have relied on the extensive database gathered in the context of my recent work on the determinants of post-war public expenditure development and labour market trends (Castles, 1998). I have also utilized the same research strategy that was used in this work, combining a simple cross-sectional design with bivariate analysis as a means of exploring the full range of hypotheses suggested in the literature, and using a variant of stepwise regression to generate models maximizing levels of explained variance (adjusted R^2) on the basis of variables satisfying a minimum criterion of statistical significance ($t > 2.00$). The standard approach to cross-sectional investigation which excludes possible explanations by failing to test potentially relevant hypotheses rests on what I call 'disingenuousness by omission'. My own approach also clearly leads to some degree of model misspecification, but does allow discussion of a much wider range of potentially relevant hypotheses. It is transparent in a way the standard approach is not.

The precise application of this methodology in the present study involves the elaboration of stepwise regression models for each of the political economy variables itemized in Table 3. In addition to the criteria used for model specification in my earlier work, I further take account of the robustness of the findings by establishing whether the statistical significance of terms is a function of the inclusion of particular cases in the analysis. Having elaborated basic models with a capacity to account for much of the cross-national variance in each performance parameter, I include each of our measures of political and fiscal decentralization in turn, seeking to establish whether they are themselves statistically significant and robust. Basic models for each performance parameter, together with successive elaborations of the effects of the decentralization measures, are reported in Tables 4 to 7 respectively and are discussed below.

The Models

Economic Growth

Of a long listing of hypotheses concerning the factors influencing post-war economic growth, including catch-up (initial level of real GDP), investment levels and investment growth, employment growth, corporatism, party control and a wide variety of measures of change in different categories of public expenditure (see Castles and Dowrick, 1990), the basic economic growth model as shown in Table 4 consists of a single, but enormously strong, term for catch-up. The notion that post-war economic growth has been characterized by a powerful tendency to convergence is now well established (Dowrick and Nguyen, 1989)

Table 4: Economic Growth Models

BASIC MODEL	Coefficient	Standard Error	t-Value
INTERCEPT	4.865		
1960 REAL GDP PER CAPITA	-0.0003662	0.00004483	8.168
Adj R^2 = .767			

Sources : Economic Growth from Table 3. 1960 Real GDP Per Capita from Summers and Heston (1991). Notes: 21 cases in regression. Adding an investment growth term to the model produces the following equation: 1960-1992 Economic Growth = 3.872 - .0003131 (.00004240) 1960 Real GDP Per Capita + .204 ((.071) 1960-1992 Change in Gross Fixed Capital Formation. Figures in parentheses are standard errors. Adj R^2 = .831. 1960-1992 Change in Gross Fixed Capital Formation is the average annual percentage increase in Gross Fixed Capital Formation from OECD, Historical Statistics, 1960-1992, 1994.

BASIC MODEL + FEDERALISM	Coefficient	Standard Error	t-Value
FEDERALISM	.364	.254	1.432
Adj R^2 = .779			

Sources: Federalism is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + CONSTITUTIONAL STRUCTURE	Coefficient	Standard Error	t-Value
CONSTITUTIONAL STRUCTURE	.143	.053	2.688
Adj R^2 = .824			

Sources: Constitutional Structure is from Table 1. Notes: 21 cases in regression. The t-value for Constitutional Structure is below 2.00 if New Zealand is excluded from the regression.

BASIC MODEL + FISCAL DECENTRALIZATION	Coefficient	Standard Error	t-Value
FISCAL DECENTRALIZATION	.023	.008	2.762
Adj R^2 = .827			

Sources Fiscal Decentralization is from Table 1. Notes: 21 cases in regression. The t-value for Fiscal Decentralization is below 2.00 if New Zealand or Japan are excluded from the regression.

BASIC MODEL + FISCAL CENTRALIZATION	Coefficient	Standard Error	t-Value
FISCAL CENTRALIZATION	-.017	.005	3.267
Adj R^2 = .845			

Sources : Fiscal Centralization is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + FISCAL DIFFICULTY	Coefficient	Standard Error	t-Value
FISCAL DIFFICULTY	.109	.042	2.633
Adj R^2 = .832			

Sources : Fiscal Difficulty is from Table 1. Notes: 20 cases in regression (no data for New Zealand). The t-value for Fiscal Difficulty is below 2.00 if Japan is excluded from the regression.

and is graphically demonstrated by the extremely high t-value for the relationship between the catch-up term, 1960 GDP per capita, and subsequent rates of economic growth. All other potential explanations pale beside this pattern of convergence, although the change in gross fixed capital formation, our measure of investment growth, does produce a further significant term for the full sample of 21 countries, which is shown in the notes to the basic model. It does not feature as part of the basic model as such, because the finding is not robust, depending exclusively on the coincidence of very high levels of investment and exceptionally good performance in Japan, the OECD's economic growth phenomenon.

Successively introducing our five decentralization measures into the single term basic model for economic growth reveals that no less than four of them are significantly related to economic growth, with federalism the one exception. In all instances, the signs of these terms indicate that decentralized political and fiscal arrangements are associated with superior long-term economic growth rates. However, only in the case of fiscal centralization is the resulting model a robust one, with the other decentralization terms ceasing to be significant when either Japan and/or New Zealand are excluded from the analysis. Whereas Japan's influence on these models stems from its exceptionally strong growth performance, New Zealand's arises from the coincidence of the weakest growth trajectory in the OECD and a constitutional structure and fiscal arrangements as centralized as any in the advanced world.

These findings are somewhat surprising. Economic growth is not amongst the areas in which the literature is explicit in suggesting a link between decentralization and favourable economic performance, although notions of efficiency gains from restraining Leviathan's tendency to produce a revenue surplus might be interpreted as being compatible with such an outcome. Moreover, superficially, the findings conflict with our casual impressions of the post-war growth record of many OECD nations. Looking to one extreme, Switzerland and the USA have amongst the poorest growth records in the OECD, but they are federal, have more constitutional veto-points than any other OECD countries, have exceptionally high levels of state and local taxes, are almost at the bottom of the distribution in respect of the central tax take and have the two highest readings for fiscal difficulty. At the other extreme, Ireland and Portugal exhibit opposite characteristics

Moreover, these are not impressions derived from just a few extreme cases. Four of our five measures produce bivariate correlations with growth which are signed as indicating that decentralization is inversely related to economic performance. The exception is fiscal decentralization, but even here the correlation is negligible (-.04). If nothing else, this strongly underlines the methodological point that only full model specification provides us with the evidence required for well-grounded conclusions. Turning again to our examples at the extremes, it is impossible to know what is going on in respect of the economic growth performance of these countries until we have discounted the fact that Switzerland and the USA started out the post-war period very rich and that Ireland and Portugal started out very poor. If we don't know how much catch-up matters, we can't establish how much political and fiscal decentralization matter either.

Inflation

The basic model for inflation consists of three terms: corporatism, sectoral transformation and the growth of civilian public consumption expenditure. For the regression reported here, the latter term is not robust and is dependent on the inclusion of Japan in the analysis. The model is, however, reported in this form, since the term for public consumption becomes wholly robust in a number of the subsequent specifications including measures of decentralization. As in the case of economic growth, this model has strong resonances with the standard literature in the field. The role of corporatism as a factor containing inflationary growth has produced a huge literature (see eg Bruno and Sachs, 1985; Crouch, 1985; Crepaz, 1992), while the role of public spending has been much demonized by the government overload and public choice schools of thought. Public consumption expenditure which is focused substantially on public service provision might be thought of as particularly conducive to inflation because of an inherent tendency to low productivity growth in the service sector (see Baumol, 1967). Finally, the strong positive link between inflation the sectoral transformation, measured as the shift from agricultural employment into other sectors of the economy, confirms the standard view that rapid economic development is a source of an overheated economy.

It is also appropriate to mention two variables which do not feature in the analysis, both of them, according to the Busch's paper earlier cited (Busch, 1993), important determinants of inflation. They are central bank independence and a measure of distributional conflict, the strike coefficient. In the former case, we do not have data for Ireland or the countries of Southern Europe and cannot replicate his findings for our full sample of cases. Busch's analysis suggests that there is a strong positive connection between central bank independence and decentralization, so that it is possible that any links we might establish between our measures and inflation are really to be attributed to the way in which central banks function. For the 17 countries for which we have a coding of the degree of bank independence (Busch, 1993, 60), the correlation with federalism is a moderate .54 and there are comparable degrees of association with constitutional structure (.51) and fiscal decentralization (.49). The correlations with fiscal centralization (-.78) and fiscal difficulty (.67) are still stronger.

The omission of a distributional conflict variable, despite a bivariate relationship between the post-war strike coefficient (for a variable definition, see footnote 1 below) and inflation which is stronger (.82) than any of the terms featuring in the basic model, is in order to reduce the risk of endogeneity. The problem is that, whilst distributional conflict is undoubtedly a trigger for inflationary wage rises, inflation itself is often part of a vicious circle fostering further union militancy and strike activity. We do not believe that the omission of an explicit distributional conflict term from our modelling leads to undue misspecification of the relationships involved, because we have reason to think that two of the variables figuring in our basic model - corporatism and sectoral transformation - are amongst the main factors conditioning whether distributional conflict emerges in the first instance.[1]

Table 5: Inflation Models

BASIC MODEL	Coefficient	Standard Error	t-Value
INTERCEPT	2.008		
CORPORATISM	-1.115	.346	3.226
1960-1993 SECTORAL TRANSFORMATION	.166	.032	5.185
1960-1993 INCREASE IN CIVILIAN PUBLIC CONSUMPTION EXPENDITURE	.307	.111	2.757
Adj R^2 = .648			

Sources: Inflation from Table 3. Corporatism scores from Crepaz (1992), with data for Greece, Portugal and Spain supplied by Professor Hans Keman of the Free University of Amsterdam;. 1960-1993 Sectoral Transformation is equivalent to the percentage of the employed population leaving the agricultural sector, calculated from OECD, Historical Statistics, 1960-1993, 1995. Increase in Civilian Public Consumption Expenditure calculated from OECD, Historical Statistics, 1960-1993, 1995 and SIPRI, Yearbook, various years. Notes: 21 cases in regression. The t-value for Civilian Public Consumption Expenditure is below 2.00 if Japan is excluded from the regression.

BASIC MODEL + FEDERALISM	Coefficient	Standard Error	t-Value
FEDERALISM	-1.375	.714	1.914
Adj R^2 = .697			

Sources: Federalism is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + CONSTITUTIONAL STRUCTURE	Coefficient	Standard Error	t-Value
CONSTITUTIONAL STRUCTURE	-.411	.165	2.499
Adj R^2 = .731			

Sources: Constitutional Structure is from Table 1. Notes: 21 cases in regression. The t-value for Civilian Public Consumption Expenditure is below 2.00 if Japan is excluded from the regression. The t-value for Constitutional Structure is below 2.00 if New Zealand is excluded from the regression.

BASIC MODEL + FISCAL DECENTRALIZATION	Coefficient	Standard Error	t-Value
FISCAL DECENTRALIZATION	-.073	.023	3.155
Adj R^2 = .77			

Sources Fiscal Decentralization is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + FISCAL CENTRALIZATION	Coefficient	Standard Error	t-Value
FISCAL CENTRALIZATION	.06	.015	3.908
Adj R^2 = .809			

Sources : Fiscal Centralization is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + FISCAL DIFFICULTY	Coefficient	Standard Error	t-Value
FISCAL DIFFICULTY	-26	.142	1.834
Adj R^2 = .756			

Sources : Fiscal Difficulty is from Table 1. Notes: 20 cases in regression (no data for New Zealand).

Turning now to our decentralization measures, we find that no less than three - constitutional structure, fiscal decentralization and fiscal centralization - are significantly associated with inflationary outcomes, with decentralization once again conducive to superior post-war economic performance. While the model specification including constitutional structure is lacking in robustness on at least two counts, the models including the fiscal variables are quite satisfactory on this score. Of the two robust models, the one including fiscal centralization has somewhat the greater explanatory power, leaving us with the finding that this variable features as the strongest of our measures in respect of both economic growth and inflation.

Given that this measure is the one most closely associated with central bank independence in Busch's 17-country data-set, it will be tempting for some to interpret this finding as supporting the view that bank independence provides the crucial institutional basis for sound macro-economic performance. Whilst that might possibly be the case, such an interpretation is not supported by the data at our disposal. 17-nation regressions of economic growth and inflation replicate the findings of the models including fiscal decentralization in Tables 4 and 5. Moreover, in each case, these models perform better than do specifications in which central bank independence replaces fiscal centralization, with the bank term having no effect whatsoever in the growth model.[2] This does not rule out central bank independence as being a factor contributing to superior macro-economic management in the post-war period, but it does suggest that it is far from being the whole story.

Unemployment

The basic model for change in the level of unemployment between 1974/79 and 1990/94 as reported in Table 6 consists of four terms: corporatism, sectoral transformation, Right cabinet incumbency and change in real earnings. The hypotheses tested to derive this model highlight the potential influence on labour market performance of a wide range of factors. They include productivity growth, exposure to international trade, changes in employment composition, part-time employment, inflation, real earnings growth, cultural factors (including religious belief), union density, the institutionalization of class conflict, partisan control of government, public expenditure development and unemployment benefit replacement rates (see Castles, 1998).

Table 6: Unemployment Models

BASIC MODEL	Coefficient	Standard Error	t-Value
INTERCEPT	4.345		
CORPORATISM	-1.736	.422	4.114
1974-1994 SECTORAL TRANSFORMATION	.34	.082	4.133
1979-1993 CHANGE IN REAL EARNINGS	1.808	.434	4.167
1974-1994 RIGHT CABINET SEATS	-.091	.016	5.814
Adj R^2 = .844			

Sources : Unemployment from Table 3. Corporatism scores from Crepaz (1993), with data for Greece, Portugal and Spain supplied by Professor Hans Keman of the Free University of Amsterdam. 1974-1994 Sectoral Transformation is equivalent to the percentage of the employed population leaving the agricultural sector, calculated from OECD, Historical Statistics, 1960-1994, 1996. Average annual real change in hourly earnings in manufacturing from OECD, Historical Statistics, 1960-1993, 1995. 1974-1994 Right Cabinet Seats is equivalent to the average annual percentage of cabinet seats held by the major party of the Right., with data from Schmidt (1996a) and the definition of the major party of the Right according to criteria in Castles (1982). Notes: 18 cases in regression.

BASIC MODEL + FEDERALISM	Coefficient	Standard Error	t-Value
FEDERALISM	-.274	.859	.318
Adj R^2 = .832			

Sources: Federalism is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + CONSTITUTIONAL STRUCTURE	Coefficient	Standard Error	t-Value
CONSTITUTIONAL STRUCTURE	-.036	.278	.131
Adj R^2 = .831			

Sources: Constitutional Structure is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + FISCAL DECENTRALIZATION	Coefficient	Standard Error	t-Value
FISCAL DECENTRALIZATION	-.002	.032	.066
Adj R^2 = .831			

Sources Fiscal Decentralization is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + FISCAL CENTRALIZATION	Coefficient	Standard Error	t-Value
FISCAL CENTRALIZATION	.003	.027	.096
Adj R^2 = ..831			

Sources : Fiscal Centralization is from Table 1. Notes: 21 cases in regression.

BASIC MODEL + FISCAL DIFFICULTY	Coefficient	Standard Error	t-Value
FISCAL DIFFICULTY	.133	.263	.506
Adj R^2 = .834			

Sources : Fiscal Difficulty is from Table 1. Notes: 20 cases in regression (no data for New Zealand).

We have already demonstrated an inverse relationship between post-war inflation levels and corporatism. The negative association between corporatism and unemployment in the basic model represents the other major plank of the fashionable argument of the 1980s that labour quiescence through labour discipline has brought major gains to working class movements in certain countries (see eg Cameron, 1984; Crouch, 1985). That the shift out of agriculture produces unemployment as well as inflation is unlikely to be a source of surprise, reflecting the difficulty of retraining an unskilled labour force for either manufacturing or service occupations. The finding of a negative relationship between unemployment growth and Right partisan control will be far more controversial, but is interpreted (in Castles, 1998, 239) as a proxy for a variety of policy initiatives promoted by the Right to underwrite the efforts of employers "to create the basis for a more flexible or market-determined operation of labour markets". That differences between nations in the trajectory of unemployment growth will be, in part, a response to the relationship between real wages and productivity is an argument which derives directly from the neoclassical model (Gregory, 1993, 62).

When we turn to our five measures of decentralization, there is almost no story to be told, because there are no significant findings to report. Perhaps, that should occasion little comment. The only obvious linkage in the literature is via the capacity of countries with low levels of fiscal difficulty to use Keynesian demand management techniques to boost employment. We have operationalized the fiscal difficulty measure on the tax side, whereas both Scharpf and Busch provide measures for the expenditure side of the budget. It is, therefore, possible that our lack of a significant finding for this variable is result of discrepancies between the two measures, together with the obvious truth that Keynesian strategies were built more around increasing public expenditure than reducing taxation. However, comparing the few cases in which the variable has been operationalized in expenditure terms with those same countries as shown in the final column of Table 1, reveals no discrepancies of any magnitude. Were this correspondence to be demonstrated widely across the full distribution of OECD nations,[3] it would seem to suggest that decentralization was unlikely to be prominent in the list of the reasons why Keynesian policy intervention has failed to rein in the growth of unemployment since the mid-1970s.

Social Protection

Our final modelling exercise seeks to establish the basic determinants of change in the size of the welfare state and further to establish whether decentralization is amongst the factors influencing the growth of post-war social protection. Because the size of the state has been the foremost preoccupation for more than two decades of comparative policy analysis, the list of potential hypotheses to be investigated is longer even than in respect of the macro-economic parameters of post-war political economy. For that listing the reader is again referred to Castles (1998, 106-10).

In the case of change in total social protection, the basic model in Table 7 contains three terms: Right cabinet incumbency, change in the size of the aged population and the extent of Catholic adherence. The Right incumbency finding is a variant of the partisan control of government thesis, which numerous studies since the late 1970s have replicated in various ways for different

measures of the size of government (for an excellent early discussion, see Shalev, 1983). The notion that social protection reflects needs and/or demands of the aged has an even longer pedigree (see Wilensky, 1975; Pampel and Williamson, 1989) and is now an orthodoxy of policy advice at an international level (World Bank, 1994; OECD, 1996a). The most straight-forward way to account for the fact that countries with substantial Catholic populations have exhibited lower post-war welfare growth than others is to contextualize the argument in terms of Esping-Andersen's (1990) discussion of the Conservative world of welfare. The Conservative world is largely a Catholic world (cf. van Kersbergen, 1995), in which the welfare state emerged early and developed along social insurance lines. Hence, the reason that Catholic welfare states grew relatively slowly between 1960 and 1993 was that many of these countries were already amongst the OECD's social expenditure leaders at the beginning of the period. In other words, the Catholic coefficient in Table 7 is a catch-up coefficient.

Introducing the decentralization measures into our basic model is slightly more complex than in previous instances. That is because the addition of federalism to the basic model also makes it possible to locate a significant negative relationship between post-war economic growth and the development of the socially protective state. This latter effect stems from the fact that high growth countries are in a position to expand their economies at lesser fiscal cost in terms of revenue shares of GDP than more weakly performing nations (for an early formulation of this hypothesis, see Wildavsky, 1975). Because several of the federal nations in the OECD have experienced exceptionally low rates of post-war economic growth, this general tendency only becomes apparent when we control for this aspect of the institutional structure. Economic growth does not interact in the same way with other aspects of political and fiscal decentralization and, consequently, our other measures are presented in the context of the basic three-term model.

Apart from fiscal difficulty, all of the measures of decentalization emerge as statistically significant. However, neither of the models featuring fiscal terms can be accepted at face value. As we pointed out earlier in discussing issues relating to the research design of this study, there is an endogeneity problem in linking fiscal centralization with social expenditures. On the other hand, the fiscal decentralization model, which does not suffer from this problem, is deeply suspect on robustness grounds. Neither of the political decentralization models are problematical on these count. Federalism is clearly the strongest of the two political measures. This, obviously, owes something to the interaction of economic growth and federalism which allows both terms to figure in the successful model, but federalism would still be much the stronger of these two measures if it simply replaced constitutional structure in the three-term basic model. These findings suggest that what matters for the growth of the socially protective state is political rather than fiscal decentralization and that what matters most of all is the presence or absence of a federal division of powers.

Table 7: Social Protection Models

BASIC MODEL	Coefficient	Standard Error	t-Value
INTERCEPT	19.497		
1960-1993 RIGHT CABINET SEATS	-.191	.026	7.369
CATHOLICISM	-.054	.02	2.693
1960-1993 CHANGE IN AGED POPULATION	1.196	.425	2.814
Adj R^2 = .811			

Sources: Increase Total Social Protection from Table 3. 1960-1993 Right Cabinet Seats is equivalent to the average annual percentage of cabinet seats held by the major party of the Right., with data from Schmidt (1996) and the definition of the major party of the Right according to criteria in Castles (1982). Catholicism is the percentage of the population baptised a non-Protestant Christian faith, with data from Barrett (1982) and is for the late 1970s / very early 1980s. 1960-1993 Change in the Aged Population is the change in the percentage of the population of 65 years and over, with data from OECD (1993) and OECD (1995). 17 cases in regression.

BASIC MODEL + ECONOMIC GROWTH AND FEDERALISM	Coefficient	Standard Error	t-Value
1960-1993 GROWTH RATE OF REAL GDP PER CAPITA	-1.541	.43	3.585
FEDERALISM	-4.79	.658	7.284
Adj R^2 = .962			

Sources: 1960-1992 Growth Rate of Real GDP Per Capita from Table 3. Federalism is from Table 1. Notes: 17 cases in regression.

BASIC MODEL + CONSTITUTIONAL STRUCTURE	Coefficient	Standard Error	t-Value
CONSTITUTIONAL STRUCTURE	-.725	.268	2.702
Adj R^2 = .873			

Sources: Constitutional Structure is from Table 1. Notes: 17 cases in regression.

BASIC MODEL + FISCAL DECENTRALIZATION	Coefficient	Standard Error	t-Value
FISCAL DECENTRALIZATION	-.151	.039	3.899
Adj R^2 = .91			

Sources Fiscal Decentralization is from Table 1. Notes: 17 cases in regression.

BASIC MODEL + FISCAL CENTRALIZATION	Coefficient	Standard Error	t-Value
FISCAL CENTRALIZATION	.085	.036	2.342
Adj R^2 = .859			

Sources : Fiscal Centralization is from Table 1. Notes: 17 cases in regression. The t-value of Fiscal Centralization is below 2.00 if any one of New Zealand, the USA or Germany are excluded from the regression. The t-value of Catholicism is below 2.00 if Greece is excluded from the regression.

BASIC MODEL + FISCAL DIFFICULTY	Coefficient	Standard Error	t-Value
FISCAL DIFFICULTY	-.43	.295	1.46
Adj R^2 = .845			

Sources : Fiscal Difficulty is from Table 1. Notes: 16 cases in regression (no data for New Zealand).

The Conclusions

There are only three points I wish to make here. The first is that political and fiscal decentralization is not a topic of purely academic interest. Governments initiate centralization of functions, devolve their powers and promote tax reform programs. Governments also tread a tight-rope of satisfying demands for greater social protection whilst heeding calls for a leaner meaner state, and they would all like to find more optimal trade-offs between macro-economic policy objectives. So if changes of the former type could make the latter kinds of policy dilemmas easier to resolve, it would matter not merely in the sense that we would know more, but in the sense that we could, as a community, do more.

A dramatic instance of what is potentially at stake is the finding here that fiscal centralization is significantly associated with a weaker record of post-war economic growth and with poorer inflation outcomes. These outcomes can be quantified. If the implications of our models are taken at face value, we can say that, if the United Kingdom had been characterized by the OECD average level of fiscal centralization (ie. if the level of fiscal centralization had been on average 16 percentage points lower across the post-war era), that country would have experienced a post-war economic growth rate on average .27 percentage points higher and an average post-war inflation rate .97 points lower than was actually the case. Countries like New Zealand, Ireland and Australia, with still more centralized fiscs, would have stood to make proportionately greater gains. If the positive relationship between fiscal centralization and social protection shown in Table 7 is discounted because of its lack of robustness, these economic performance gains might be seen as being costless in terms of human welfare. If they are not, the calculated cost, again using the United Kingdom as example, would have been a lesser increase in post-war social protection of 1.36 percentage points of GDP.

Clearly, if demonstrated, the trade-off between economic performance and welfare implied here is one which would be grabbed by most contemporary OECD governments with both hands. My second point, however, is that the findings here are quite inadequate for demonstrating such relationships to the satisfaction of any sane policy-maker. The modelling we have undertaken is designed to be exemplary rather than comprehensive. We have been discussing big aggregates of data for long aggregates of time. From our analysis above, we do not know whether relationships that apply to social protection as a whole apply to its component elements and we do not know whether relationships which characterize the period as a whole characterize its separate parts.[4] There would seem good reasons to suppose that the magnitude of the effects with which we are concerned will have been at their greatest during the periods when the cross-national variances of particular performance parameters were at their greatest: economic growth before the First Oil Crisis, inflation from the mid-70s to the mid-80s, unemployment today and the growth of social protection in the 1970s and 1980s. If that is so, the relevance to present-day policy-makers of our various findings will depend on whether the story told by reading the entrails of long-term outcomes is picking up on contemporary effects or on ones long since dead and buried.

So why a study of long-term aggregates, if long-term aggregates offer us little relevant in the way of immediate policy implications, and the answer is to

stimulate further research. It is axiomatic that much of that research effort should be empirical: that we should systematically disaggregate into policy components and time-periods and establish within what parameters political and fiscal decentralization is relevant to policy outcomes. My third point, however, is that, in this instance, theoretical work is a no lesser priority. In the case of the 'politics matters' paradigm, the mechanism of policy impact was, in crude outline, obvious enough. Voters choose candidates, at least partly, on the basis of their policy platforms, so class and party preferences translate into legislated expenditure programs. The mechanisms by which decentralization impacts on outcomes are far less transparent. Nowhere is this truer than in respect of the linkages between fiscal arrangements and economic performance. Usually in the field of comparative public policy analysis, theory suggests the hypotheses that require empirical testing. If some of the relationships located here pass the test of a more detailed empirical analysis, it will be time to reverse the process and demand of theory answers to the question of how decentralization matters.

Endnotes

1 Post-war Strike Coefficient = -93.382 - 174.475 (51.129) Corporatism + 22.445 (4.827) 1960-1993 Sectoral Transformation. Adj R^2 = .594. 21 cases in regression. Figures in parentheses are standard errors. The strike coefficient is defined as the number of working days lost per 1,000 employees in non-agricultural sectors of the economy and is calculated for the period 1967 to 1992 from ILO, Yearbook of Labour Statistics, various years.

2 1960-1992 Economic Growth = 6.381 - .0004411 (.00005356) 1960 Real GDP Per Capita -.018 (.006) Fiscal Centralization. Adj R^2= .815.

1960-1992 Economic Growth = 4.812 - .0004275 (.00006231) 1960 Real GDP Per Capita + 212 (.114) Central Bank Independence. Adj R^2 = .648.

1960-1993 Inflation = .274 - .727 (.185) Corporatism + .09 (.024) 1960-1993 Sectoral Transformation + .239 (.057) 1960-1993 Civilian Public Consumption Expenditure + .053 (.011) Fiscal Centralization. Adj R^2= .797.

1960-1993 Inflation = .6.17 - .541 (.213) Corporatism + .067 (.025) 1960-1993 Sectoral Transformation + .176 (.064) 1960-1993 Civilian Public Consumption Expenditure - .959 (.227) Central Bank Independence. Adj R^2 = .772.

Notes to equations: 17 cases in all regressions. Figures in parentheses are standard errors. Source for central bank independence coding is Busch, 1993, 60.

3 Such discrepancies will occur where there is Vertical Fiscal Imbalance (VFI), ie. where central governments levy a higher proportion of taxes than they spend, passing on revenues to be spent at lower levels. Where VFI is high, as in Australia, it means that the fiscal difficulty of central governments will be higher on the expenditure than the tax side of the budget. It seems quite probable that a measure of the ratio of the relative ease with which central governments may boost public expenditure as compared with initiating tax cuts could explain a great deal about some countries' post-war policy development.

4 My earlier work (Castles 1998) provides a more detailed analysis of aspects of the size and growth of the state using measures of political, but not fiscal, decentralization. It shows that constitutional structure is an important factor shaping both the total outlays of receipts of government and also a strong influence on public spending on education. Federalism impacts on social security transfers spending. The influence of both of these measures is experienced in the post-First Oil Crisis world and not before.

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