**On the Political Economy of
Recent Public Sector Development**

by

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Abstract

This paper starts from a major contradiction in the literature on recent public sector development. On the one hand, globalisation theory is read as implying major tendencies towards the retrenchment of the public sector and a 'race to the bottom' in social spending. On the other, comparative studies are largely unanimous in arguing that such tendencies have not occurred. To gain greater purchase on the realities of recent public sector trends, we disaggregate data for public expenditure change in 19 OECD countries over the period 1984 to 1997. We then develop a series of models of the factors determining expenditure trends over this period. The findings presented here provide no evidence that exposure to international trade leads governments to downsize their public sectors and suggest that the main influences on contemporary expenditure patterns have been unemployment, economic growth and catch-up. from prior expenditure level.

Questions

There is widespread disagreement in the literature on the nature of recent trends in public sector development and their determinants. Much the most influential theoretical account of recent developments originates in international political economy and suggests that progressive tendencies towards the internationalisation or globalisation of national economies have set in motion ineluctable processes of welfare state down-sizing and public sector retrenchment (for reviews of this literature, see Boyer and Drache, 1996; Hirst and Thomson, 1996; Milner and Keohane, 1996). A common line of argument is that massively increased flows of trade and capital have restricted the capacity of contemporary governments to pursue traditional Keynesian demand-side policies, leaving them with little option but to cut-back taxing and spending programmes in order effectively to compete in world markets (see Scharpf, 1991; Mishra, 1996; Rhodes, 1996; cf Pfaller et al, 1991). Where governments were once compelled by demographic, democratic and partisan imperatives to expand the reach of the state (see Wilensky, 1975; Crozier et al, 1975; Brittan, 1977; Castles, 1982; Huber, Ragin and Stephens, 1993; Schmidt, 1996), they now find themselves with 'no alternative' but to radically prune or privatise public services and embark on a 'race to the bottom' in levels of social provision (see Greider, 1997; Martin and Schumann, 1997; Gray, 1998).

Seemingly contradicting such theoretical accounts are the findings of an increasing body of comparative research focussing on recent welfare state expenditure trends in economically advanced Western nations. A formative work in this genre is Paul Pierson's study, Dismantling the Welfare State?, which compares retrenchment politics under Reagan and Thatcher and concludes that "welfare state programs demonstrated considerable resilience under the tenures of both leaders" (Pierson, 1994, 164). In later work, which widens its focus to include total government spending as well as spending on specific welfare programmes, and which widens its comparative reach to include Germany and Sweden as well as the United Kingdom and the United States, Pierson (1996) argues that what we are now witnessing is the emergence of a 'new politics of the welfare state', with its origins rooted firmly in the 'path dependent' evolution of social institutions rather than the changed realities of

the international political economy. Because welfare programmes are institutions conferring substantial benefits on large groups of voters, radical retrenchment is electorally impossible and governments are restricted to piecemeal measures in areas where political blame for expenditure cuts can be minimised, ideally by the establishment of all-party consensus around reform proposals. The same story of the basic resilience of existing structures of social provision emerges from most other accounts of recent social policy development. Two of the latest collections of current research on the topic are typical of a substantial body of literature. In an editorial conclusion to a volume tellingly entitled Survival of the European Welfare State, Kuhnle argues that evidence supports the conclusion that “European welfare states have ‘survived’ the 1990s...remain(ing) generally institutionally strong with solid basic support from voters and major political parties” (Kuhnle, 2000, 235). The back cover of another collection, this time entitled Welfare State Futures (Liebfried, 2001), declares that “the bottom line is that the race to the bottom did not take place”, while its final contribution concludes by arguing that “European welfare states are undergoing a process of recasting and redefinition, but thus far not one of retrenchment” along neo-liberal lines (Ferrera et al, 2001, 000).

One of the few analyses to identify a marked retrenchment tendency in recent public sector spending trends is to be found in a study by Clayton and Pontusson (1998). This study directly confronts the ‘new politics’ thesis by arguing that Pierson’s conception of the welfare state is too narrow, focussing largely on entitlement programmes and, for the most part, ignoring the wide range of other public services provided by government. The authors point out that overall trends in public sector expenditure may be profoundly misleading, if entitlement spending on such categories as the unemployed, the elderly and the disabled is rising. In their view, such expenditure growth, rather than representing an increment in real welfare, should more properly be regarded as indicative of increasing need resulting from economic and social change. Where such expenditure growth is taking place, unchanged, or even increased, aggregate spending may well disguise adverse trends in other areas of public provision. On the basis of an examination of comparative data on recent expenditure trends in areas of public sector service provision and recent employment

trends in public sector agencies, the authors feel entitled to argue that “while the costs of social assistance and social security entitlements have continued to grow, the service components of the welfare state have been squeezed” (1998, 82). In their view, the contractionary trend of recent public sector development identified in the theoretical literature has been real enough, but has been effectively hidden from view by the tendency of most observers to focus on the major transfer programmes of the welfare state and on patterns of total public spending.

The account of recent public sector and welfare state development given in the literature is, then, very far from a settled one. On the one hand, there are some very basic questions of fact about which there is disagreement. Has there been an overall decline in the size of the public sector and of the welfare state? Have different parts of the public budget fared differently? Have entitlement programmes survived pressures for greater austerity better than other welfare services? Has the welfare state been protected, possibly at the expense of non-welfare spending? On the other hand, there are a series of more theoretical questions concerning the nature of the most important factors influencing trajectories of public sector growth and decline over recent years. Are there any signs that patterns of expenditure development are linked to globalisation trends? Are large and popular welfare programmes and, hence, by implication, big welfare states relatively immune to pressures for down-sizing? To what extent have recent trends in public sector spending been a reflection of developments in the wider economy? Is it possible to identify the elements of a new political economy of public sector development replacing the politically induced tax-and-spend imperatives of the early post-war decades?

These are important questions, and not just for scholarly reasons. As the globalisation debate has itself demonstrated, an understanding of present trends and of the factors determining them, constitutes a very real constraint on the perceived freedom of political actors to use public sector means to achieve policy goals. In this paper, we seek to come to grips with these questions by means of a cross-national comparison of public expenditure trends in a large number of OECD countries. The first stage of the analysis is descriptive, seeking to provide answers to the factual

issues posed by current disagreements in the literature. The approach we adopt involves a systematic disaggregation of public expenditure categories. An obviously theoretically relevant distinction is between social spending and other public sector spending. Another is between spending on major entitlement programmes and spending on other forms of welfare provision. The former disaggregation allows us to assess whether the seeming absence of major cut-backs in the welfare area is replicated elsewhere in the public sector. The latter makes it possible to ascertain whether the welfare state's relative immunity to cuts is simply a function of increasing entitlement need. The second stage of the analysis is more explanatory in focus, seeking to establish how far factors like globalisation, prior programme development, economic growth and unemployment are responsible for changing trajectories of public sector growth and decline. Separate analysis of disaggregated expenditure components allows us to test a variety of hypotheses concerning the determinants of public sector growth and, potentially, to identify diverse patterns of causation in different areas of public sector provision. The overall aim of both the descriptive and the explanatory parts of the analysis is to narrow the scope for legitimate empirical and theoretical disagreement concerning the nature of recent public sector development and its determinants.

Examining the Facts

The data examined here refer to aggregates and sub-aggregates of public expenditure in 19 OECD countries for the period 1984 to 1997. All data come from official OECD sources, including - for some of the most recent data from the OECD Social Expenditure database - via personal communications from the OECD Secretariat. Spending totals are standardised across nations by presenting them as percentages of national product (GDP). In the tables which follow, countries are grouped into 'families of nations' (see Castles, 1993 and 1998) with common geographical, historical and linguistic affinities. The four families featuring here are the English-speaking nations and the countries of Scandinavia, continental Western Europe and Southern Europe. Japan is in a category of its own.

The 1984 to 1997 period is selected on the basis of two considerations. The globalisation thesis suggests that there has been a major transformation of the Western economies in recent years and hypotheses concerning that transformation are, clearly, best assessed with reference to the most recently available data. However, over these years, Western economies have experienced two major cyclical episodes (1980-1989 and 1990 until the present), during which unemployment rose sharply and then declined more gradually. Since unemployment is one of the major factors likely to be implicated in the growth of many public expenditure programmes, it would, obviously, be unwise to select a start-point for the analysis at which labour market conditions were markedly different from those at the termination of the period, lest that fact alone bias the description of recent trends. The 1984 to 1997 period satisfies this condition. Both beginning and end years are ones in which the Western economies had embarked on upswings in the economic cycle and the net increase in average unemployment rates between them was a mere 0.2 of a per cent.

We begin the analysis by examining trends in the most encompassing aggregate of all, the total outlays of general government. This national accounts category includes all the spending of governments, national, federal and local. We use it here as a proxy for the overall size of government and as an immediate check on the proposition that recent years have witnessed a major roll-back of the state brought about by the internationalisation of the global political economy. Table 1 provides information on expenditure levels in 1984 and 1997 and change in expenditure from the beginning to the end of the period.

Table 1: Levels and Changes in Total Outlays of General Government as Percentages of GDP in 19 OECD Countries, 1984-1997.			
Countries	1984	1997	Change

Australia	36.4	33.2	-3.2
Canada	45.3	42.4	-2.9
Ireland	47.7	33.2	-14.5
United Kingdom	47.1*	40.9	-6.2
USA	33.1	31.4	-1.7
Denmark	62.6*	56.8	-5.8
Finland	40.2	51.8	11.6
Norway	42.1	44.1	2.0
Sweden	59.2	59.0	-0.2
Austria	49.3	49.8	0.5
Belgium	60.7	51.4	-9.3
France	51.5	52.6	1.1
Germany	47.4	48.1	0.7
Italy	49.4	50.0	0.6
Netherlands	53.8	44.6	-9.2
Greece	43.1	50.4	7.3
Portugal	41.1	43.5	2.4
Spain	35.2	39.9	4.7
Japan	32.3	35.0	2.7
Mean	46.2	45.2	-1.0
Sources and Notes: Except where indicated, total outlays of general government from OECD (1999). *Data from OECD (1996).			

It is difficult to interpret the figures in Table 1 as evidence of a general process of expenditure contraction. In 1984, the expenditure mean for these nations was 46.2 per cent of GDP; in 1997, it was 45.2 per cent, a decline of just one percentage point of GDP over 13 years. Rather than any general trends, what Table 1 demonstrates most clearly is the huge variety of the OECD public expenditure experience, both in respect of levels of spending and expenditure change over time. In families of nations terms, the really big spenders of the mid-1980s were to be found in continental Western Europe and in parts of Scandinavia. Lower down in the distribution, the English-speaking countries were split between middle-ranking and very low spenders, while Southern Europe was the most consistently low-spending grouping. By 1997, family of nations patterns were even more distinct. The governments of continental Western Europe and Scandinavia all spent in excess of 44 per cent of GDP, while, Greece apart, the governments Southern Europe and the English-speaking world spent less. However, the English-speaking countries had now changed places with the countries of Southern Europe to feature as the most consistently low-spending family of nations.

The story of overall public expenditure change is no less varied. Five nations - Ireland, Belgium, the Netherlands, the United Kingdom and Denmark - experienced expenditure contraction on a major scale. Three others - Finland, Greece and Spain -

experienced substantial expenditure growth. The majority of nations, however, experienced only rather modest change of the order of ± 3 per cent or less. Major increases in spending occurred in three of the four families of nations and major falls in two. Nevertheless, there are family of nations patterns in the data. Public expenditure increased in all the countries of Southern Europe, consistent with the idea of an expenditure catch-up after decades of suppressed demand under authoritarian rule. Public expenditure decreased in all the countries of the English-speaking world, possibly providing a reason why the theme of the roll-back of the state has been more prominent in these nations than in most others. Overall, the pattern of variation exhibited in Table 1 seems more consistent with an account based on the diversity of factors impacting on expenditure change in different nations than with one premised on a similarity of national responses to a given change in the parameters of Western political economies.

The absence of any general contractionary trend in total public spending does not, course, demonstrate the absence of such trends in particular expenditure areas. Given the strong emphasis in the theoretical literature on welfare state down-sizing, an obvious first step in establishing investigating this possibility is to separate welfare state expenditures from other categories of spending. Because the OECD now has a social expenditure database for the years 1980 onwards (OECD, 1996a), we are able to disaggregate total public social expenditure from total public non-social expenditure. Items included in the social expenditure database are spending on health, old-age cash benefits, disability cash benefits, expenditure on occupational injury and disease, sickness benefits, services to the elderly, services to families, family cash benefits, housing benefits, unemployment benefits and spending on active labour market programmes. Major items of non-social expenditure include public education, defence, law and order, public infrastructure development, public administration and public debt interest payments. Table 2 provides information on these sub-aggregates of total public spending in exactly the same form as in Table 1.

Table 2: Levels and Changes in Total Public Social Expenditure and Total Public Non-Social Expenditure as Percentages of GDP in 19 OECD Countries, 1984-1997.						
	Social Expenditure			Non-Social Expenditure		
Country	1984	1997	Change	1984	1997	Change
Australia	13.7	18.1	4.4	22.7	15.1	-7.6

Canada	16.2	16.9	0.7	29.1	25.5	-3.6
Ireland	17.9	17.9	0.0	29.8	15.3	-14.5
United Kingdom	21.1	21.6	0.5	26.0	19.3	-6.7
USA	14.1	16.0	1.9	19.0	15.4	-3.6
Denmark	28.9	30.5	1.6	33.7	26.3	-7.4
Finland	22.3	29.3	7.0	17.9	22.5	4.6
Norway	19.7*	25.4	5.7	22.4	18.7	-3.7
Sweden	30.0	33.3	3.3	29.2	25.7	-3.5
Austria	24.3*	25.4	1.1	25.0	24.4	-0.6
Belgium	26.7	23.6	-3.1	34.0	27.8	-6.2
France	26.4	29.6	3.2	25.1	23.0	-2.1
Germany	23.6	26.6	3.0	23.8	21.5	-2.3
Italy	21.0	26.8	5.8	28.4	23.2	-5.2
Netherlands	30.2	25.1	-5.1	23.6	19.5	-4.1
Greece	16.9	22.2	5.3	26.2	28.2	2.0
Portugal	11.4	18.7	7.3	29.7	24.8	-4.9
Spain	17.8	20.9	3.1	17.4	19.0	1.6
Japan	11.4	14.4	3.0	20.9	20.6	-0.3
Mean	20.7	23.3	2.6	25.5	21.9	-3.6
Sources and Notes: Total public social expenditure supplied by OECD Secretariat from Social Expenditure Database (SOCX). Total public non-social expenditure is derived by subtracting social expenditure from total outlays from Table 1. * Data are for 1985.						

Table 2 provides a very different perspective from Table 1. In terms of means, the average decline in total public spending of 1 percent of GDP turns out to be constituted by a rise in social spending of 2.6 per cent and a decline in non-social spending of 3.6 per cent. Far more important, the diversity of trends displayed in Table 1 are resolved into quite consistent trends in Table 2. With the exception of two initially very high spenders, all these OECD countries either increased or experienced a stationary trend in spending for social purposes. By contrast, all but three countries decreased their spending on non-social spending. Families of nations patterns persist. English-speaking nations were markedly less expansionary in their social expenditure than either Southern Europe or Scandinavia, while continental Western Europe had a mixed experience. In respect of non-social expenditure, the English-speaking nations generally exhibit a marked decline in spending, those of continental Western Europe a moderate decline and the other families are mixed. The social expenditure figures allow us to be even more decisive in rejecting the hypothesis of a 'race to the bottom;' in welfare spending than we were earlier in rejecting any general trend towards a down-sizing of the state. On the other hand, the figures for change in non-social spending do clearly reveal a consistent pattern of decline in non-social areas of public sector spending.

The story so far is, thus, not one of general cut-backs in the size of the state, but of a major and quite general change in government spending priorities. What we witness is a marked differentiation of expenditure trends, with spending on major social programmes ‘ring-fenced’ from other areas, which have been far more vulnerable to retrenchment pressures. The consequence, of course, has been precisely the opposite of that predicted by much of the theoretical literature. Not only has social expenditure increased in absolute terms in most nations, it has also become more prominent in relative terms. This is clearly shown in Table 3, which calculates social spending as percentage of total government outlays in 1984 and 1997. The message of this table is unequivocal. In every single one of these 19 OECD nations, social expenditure constituted a higher proportion of total public spending in 1997 than in 1984. In 1984, welfare state spending averaged 44.4 per cent of total spending; by 1997, the figure was 51.3 per cent. These figures make it clear that we are now in an era in which welfare is the foremost priority of the vast majority of governments in industrially advanced societies.

Table 3: Total Social Expenditure as a Percentage of Total Outlays of Government in 19 OECD Countries, 1984-97		
Country	1984	1997
Australia	37.6	54.5
Canada	35.8	39.9
Ireland	37.5	53.9
United Kingdom	44.8	52.8
USA	42.6	51.0
Denmark	46.2	53.7
Finland	55.5	56.6
Norway	46.8	57.6
Sweden	50.7	56.4
Austria	49.3	51.0
Belgium	44.0	45.9
France	51.3	56.3
Germany	49.8	55.3
Italy	42.5	53.6
Netherlands	56.1	56.3
Greece	39.2	44.0
Portugal	27.7	43.0
Spain	50.6	52.4
Japan	35.3	41.1
Mean	44.4	51.3
Sources and Notes: Calculated from the data in Tables 1 and 2.		

That leaves us with the question of the kind of welfare concerns served by the contemporary state: has the recent growth in social expenditure been simply a matter of increasing benefits paid out under the major entitlement programmes catering for

increased societal need or has the advance been on a wider front? To answer this question, we undertake a disaggregation of total social expenditure in such a way as to distinguish entitlement and non-entitlement spending. In reality, the distinction is not an easy one to make, since spending on virtually all welfare programmes is triggered by entitlement conditions. Here, we seek to get at what appears to be the substance of Clayton' and Pontusson's argument: that automatically triggered expenditure on growing categories of need accounts for what growth the welfare state has experienced in recent years. The most obvious forces triggering need over these decades have been population ageing, seen by many commentators as a factor making for a massive increase in pensions spending (World Bank, 1994; OECD 1996b) and pronounced cyclical trends in economic growth producing major changes in the numbers qualifying as eligible for unemployment and disability benefits. Table 4 separates out spending on cash benefits for the old, the unemployed and the disabled from all other spending for social purposes, including health expenditure, sickness, housing and child benefits and services to the elderly and to families.

Looking initially at spending levels, Table 4 once again reveals interesting families of nations patterns. Already by 1984, but still more decisively by the end of the period, the English-speaking nations were marked entitlement programme laggards. This clearly reflects distinctive features of the institutional design of the welfare state in these nations, with the majority of welfare programmes offering flat-rate or means-tested benefits, rather than the earnings-related provision common in most other nations. Turning to non-entitlement spending, the countries of Scandinavia are the distinctive grouping, already spending more than most other nations in 1984 and decisively more so by 1997. Again, this is a well-recognised pattern, with commentators from the early 1980s onwards pointing to the distinctive service-bias of the Scandinavian welfare states (Kohl, 1981; Esping-Andersen, 1990; Castles, 1998). Looking now at change over time, the key finding is the lack of any substantial difference between trends of entitlement and non-entitlement spending. In both cases, mean expenditure levels increased, with the percentage increase in non-entitlement spending slightly exceeding that of entitlement spending. Moreover, these expenditure trends are quite consistent across the majority of nations, with only four of the 19 countries experiencing a decline in entitlement spending and only three a

decline in non-entitlement spending. It would, therefore, seem that the trend of increased public expenditure on the welfare state revealed in Table 1 cannot be attributed simply to increased benefit entitlement consequent on population ageing and unemployment.

Table 4: Levels and Changes in Expenditure on Entitlement and Non-Entitlement Programmes of the Welfare State as Percentages of GDP in 19 OECD Countries, 1984-1997.						
	Entitlement			Non-Entitlement		
Country	1984	1997	Change	1984	1997	Change
Australia	5.6	6.8	1.2	8.1	11.3	3.2
Canada	5.8	6.0	0.2	10.4	10.9	0.5
Ireland	8.7	5.8	-2.9	9.2	12.1	2.9
United Kingdom	8.7	9.7	1.0	12.4	11.9	-0.5
USA	7.0	6.8	-0.2	7.1	9.2	2.1
Denmark	12.4	12.5	0.1	16.5	18.0	1.5
Finland	10.1	14.0	3.9	12.2	15.3	3.1
Norway	7.3*	8.6	1.3	12.4	16.8	4.4
Sweden	10.1	12.5	2.4	19.9	20.8	0.9
Austria	11.7*	12.4	0.7	12.6	13.0	0.4
Belgium	12.8	11.6	-1.2	13.9	12.0	-1.9
France	12.1	13.6	1.4	14.3	16.0	1.8
Germany	12.2	13.0	0.8	11.4	13.6	2.2
Italy	11.4	15.5	4.1	9.6	11.3	1.7
Netherlands	15.5	13.4	-2.0	14.7	11.7	-3.1
Greece	9.7	12.1	2.4	7.2	10.1	2.9
Portugal	6.0	9.4	3.4	5.4	9.3	3.9
Spain	9.4	11.9	2.5	8.4	9.0	0.6
Japan	4.4	6.3	1.9	7.0	8.1	1.1
Mean	9.5	10.6	1.1	11.2	12.7	1.5
Sources and Notes: Entitlement programmes = the sum of spending on cash payments to the aged, unemployed and disabled, with data supplied by the OECD Secretariat from the OECD Social Expenditure Database (SOCX). Non-entitlement spending is derived by subtracting entitlement programme spending from total public social expenditure in Table 2. * Data are for 1985.						

This brings us to the conclusion of the descriptive part of our analysis. Examining the facts of recent public sector development reveals a series of findings not easy to square with the headline warnings of globalisation theory. There has been no general down-sizing of the state and there has been no 'race to the bottom' in welfare state spending. Rather the evidence provided here seems broadly supportive of Pierson's view that the contemporary welfare state has proved relatively immune to radical reform initiatives. Moreover, contrary to the view of Clayton and Pontusson, that immunity is not just a matter of increased entitlement spending in response to greater population need, but appears to have been a consistent feature of spending trends on all components of the welfare state. On the other hand, we have also discovered, that, in areas of non-social spending, OECD countries have manifested a

consistent tendency to expenditure contraction. It seems highly probable that it is cutbacks in these areas rather a squeeze on the “non-service components of the welfare state” that Clayton and Pontusson are picking up on when they locate a reduction in public consumption expenditure and public sector employment over recent years. If this were so, it would mean that their findings complement those of Pierson rather than, as they believe, contradicting them.

Such a complementarity might even serve as a basis for a revised account of the likely impact of globalisation. Although the blanket predictions of the international political economy literature appear to be invalidated by the evidence presented here, there, nevertheless, remains a possibility that the consistent contractionary trend of non-social expenditure is in some way linked to changes in the international economy. If the impact of increasing globalisation on public sector development is mediated by the political practicability of making expenditure cuts, then the logic of Pierson’s ‘new politics of the welfare state’ would suggest that it would be precisely in areas of non-social spending that the public sector would be most vulnerable. We will be in a better position to assess the viability of such a revisionist interpretation of the likely effects of economic globalisation once we have completed the hypothesis-testing exercise of the next section.

Testing the Hypotheses

The absence of any clear indication of a general roll-back of public expenditure as a whole or of the welfare state in particular does not necessarily imply that trends towards globalisation were without effect. The change columns in Tables 1, 2 and 4 demonstrate considerable cross-national variation in recent public expenditure trends and it could well be that vulnerability to world market forces was amongst the factors responsible for this variation. The measure of vulnerability which has featured most prominently in the literature on the size of the state and its welfare effort has been the extent of national exposure to international trade. Over time, however, there has been a major reversal in the way in which the impact of this variable has been theorised. Originally, the linkage was viewed as a positive one, with political actors on the Left seen as mobilising against the effects of trade openness by establishing public

programmes designed to protect against externally induced economic fluctuation (see Cameron, 1978; Katzenstein, 1985; Rodrik, 1996). More recently, the linkage has been seen in more negative terms, with an emphasis on the need for exporting nations to reduce the size of their public programmes to maintain a competitive edge in world markets (see Gourevitch, 1986; Rodrik, 1997). Theorising of this latter variety has supplied the logic for predictions of a substantial down-sizing of the state and a 'race to the bottom' in terms of social provision.

Although, as we have already shown, public sector cutbacks on this scale have not eventuated, there is clear *prima facie* evidence of a negative association between cross-national variation in trade openness and recent public expenditure trends. This is shown in Table 5, which presents simple bivariate correlations between trade openness, as measured by imports plus exports as a percentage of GDP in 1984 in the 19 countries featuring in this study, and subsequent change in the various components of public sector spending identified in Tables 1, 2 and 4. All five relationships are negative and those for outlays of government, social expenditure and entitlement programmes are strongly statistically significant. In the cases of non-social expenditure and non-entitlement programmes, the reported relationships are only marginally below the .05 level of significance. These findings clearly demonstrate that, in recent years, and in a number of significant areas of spending, those nations most exposed to international trade did, indeed, experience lower public expenditure growth than nations less exposed to such trade.

Table 5: Bivariate Correlations between Change in Components of Public Sector Spending and Trade Openness in 19 OECD Countries, 1984-1997.	
Expenditure Component:	Correlation with Trade Openness
Outlays of Government	-.59**
Social Expenditure	-.59**
Non-Social Expenditure	-.42
Entitlement Programmes	-.57*
Non-Entitlement Programmes	-.44
Sources and Notes: Trade Openness = 1984 imports plus exports as a percentage of GDP (calculated from OECD, 1996 Change in components of public sector spending from Tables 1, 2 and 4. Correlations are Pearson's r. * = significant at .05 level; ** = significant at .01 level.	

By itself, however, this is not a sufficient test of the globalisation argument. A proper test requires us to establish whether trade openness continues to predict lower rates of expenditure growth, whilst simultaneously controlling for a variety of other factors also known to be associated with spending trends. Such factors are likely to include economic and demographic trends. Both unemployment and population ageing are factors with obvious effects on expenditure via entitlement programmes for the unemployed and the elderly. Unemployment also affects spending on labour market programmes and ageing is usually regarded as a major influence on levels of health spending. Moreover, because of the way expenditure is measured in this and most other studies, economic growth is likely to impact strongly on reported trends of expenditure development. Because expenditure is expressed as a percentage of GDP, it follows that, all other things being equal, the more rapid is the growth of national product in a given period, the slower will be the reported growth of spending as a percentage of GDP. Apart from these economic and demographic effects, there is also the question of deliberate political choice. Many studies of post-war spending levels have identified party ideology as a key factor shaping policy outcomes, and the prominence of public sector down-sizing in neo-liberal rhetoric certainly makes it appear likely that countries with strong right-wing governments would be in the vanguard of retrenchment initiatives in recent times.

Finally, there is the question raised by Pierson's analysis of whether big welfare programmes, and hence a large welfare state and public sector, themselves constitute obstacles to subsequent public sector down-sizing. This hypothesis might suggest that public expenditure cuts would be less pronounced in countries in which public sector spending was already high. However, if this did prove to be the case in the period under investigation here, it would represent a major reversal of earlier post-war trends. The vast majority of comparative studies of post-war expenditure development have identified negative relationships between prior levels of spending and subsequent expenditure growth, implying a tendency for the spending programmes of initially low spenders to catch-up and converge with those of initially high spenders. A standard interpretation of this finding is that it is natural outcome of timing

differences in the adoption of major government spending programmes in different countries and of the slower growth of most expenditure programmes as they approach maturity (see Castles, 1998, 312-16).

Table 6: Bivariate Correlations between Change in Components of Public Sector Spending and Unemployment Change, Population Ageing, Economic Growth, Party Complexion of Government and Catch-up in 19 OECD Countries, 1984-1997.

Expenditure Component:	Correlation with:				
	Unemployment	Population Ageing	GDP Growth	Complexion of Govt.	Catch-up
Outlays of Government	.78**	.39	-.51*	.27	-.47*
Social Expenditure	.62**	.20	-.18	.30	-.45
Non-Social Expenditure	.68**	.42	-.61**	.17	-.59**
Entitlement Programmes	.72**	.41	-.57*	.29	-.25
Non-Entitlement Programmes	.33	-.06	.26	.22	-.43

Sources and Notes: Unemployment Change = 1997 unemployment level minus 1984 unemployment level (calculated from OECD, 1999); Population Ageing = 1997 population aged 65 and over minus 1984 population aged 65 and over (calculated from OECD, 1997 and OECD, 1999a); GDP Growth = 1984-1997 average rate of real economic growth (calculated from OECD, 1999); Party Complexion of Government = 1984 to 1997 averages (calculated from Schmidt, 2000). Catch-up = 1984 level of each expenditure variable as indicated in Tables 1, 2 and 4 above. Change in components of public sector spending from Tables 1, 2 and 4.. Correlations are Pearson's r. * = significant at .05 level; ** = significant at .01 level.

Table 6 once again uses bivariate measures to test for the presence of *prima facie* relationships with expenditure change. Three factors turn out to be strongly or moderately strongly linked to expenditure trends and two manifest an absence of such linkages. The three variables with strong *prima facie* credentials are change in unemployment, economic growth and prior expenditure levels. A key finding is that, with the exception of non-entitlement programmes, change in unemployment is more strongly associated with expenditure outcomes than trade openness. This obviously makes it essential to examine these relationships in such a way that the impact of both variables can be assessed simultaneously. Our subsequent modelling seeks to do this. For three of the expenditure components, GDP growth is a significant predictor, and with a single exception, the findings are negative as predicted. Findings relating to prior expenditure levels are only significant in two instances, but are consistently negative and, therefore, more supportive of a continuing catch-up effect than of an immunity to cut-backs afforded by large and popular programmes of public provision. The two variables with no significant links to spending are population ageing and party complexion of government. This finding should not be interpreted as contradicting the huge body of evidence linking these factors to post-war public sector

and welfare state development. Present-day spending levels of most major public programmes clearly reflect the influence of these factors (Castles, 1998), but it would appear that this is not a function of change in the most recent period (in respect of the recent influence of party, see Stephens, Huber and Ray, 1999).

Table 7: OLS Models for Change in Components of Public Sector Spending in 19 OECD Countries, 1984-1997.

Expenditure Component:	Intercept	Unemployment	GDP Growth	Catch-up	Trade Openness	adj. R ²
Outlays of Government	28.24	+ .90 (.2)**	- 3.57 (1.00)**	- .43 (.10)**	+ .00 (.02)	.87
Social Expenditure	9.00	+ .60 (.17)**	- .11 (.48)	- .25 (.12)*	- .02 (.16)	.62
Non-Social Expenditure	17.38	+ .25 (.19)	- 2.92 (.80)**	- .53 (.13)**	+ .01 (.02)	.76
Entitlement Programmes	7.73	+ .23 (.08)*	- 1.25 (.42)*	- .29 (.11)*	- .01 (.01)	.75
Non-Entitlement Programmes	-.33	+ .35 (.13)*	+ 1.38 (.58)*	- .10 (.12)	- .01 (.01)	.42

Sources and Notes: All variables are as referenced and described in previous tables. Figures outside brackets are unstandardised regression coefficients; figures inside brackets are standard errors. * = significant at .05 level; ** = significant at .01 level.

We now seek to provide a more complete account of the main determinants of recent public sector spending trends. In Table 7, we present Ordinary Least Squares (OLS) regression models of change in each component of public sector spending, using as independent variables the four factors which featured as statistically significant in Tables 5 and 6. With the partial exception of the regression for non-entitlement programmes, all the models shown in Table 7 are highly successful in accounting for cross-national variation in expenditure trends. Unemployment proves to be much the most significant influence on social spending and this is reflected in positive impacts on both entitlement and non-entitlement programmes and on total spending. Economic growth has a significantly negative impact on total outlays and on non-social spending, but not on total social expenditure. Looking at the models for the sub-aggregates of social spending, we can see that the lack of a relationship with total social spending is a consequence of systematically different relationships between growth and entitlement programmes and growth and non-entitlement programmes, significantly negative in the first instance and significantly positive in the latter. However, it should be noted that this finding, as well as others involving the impact of economic growth, are substantially dependent on the inclusion of Ireland in the sample. Excluding Ireland, an outlier in respect of both economic growth and overall expenditure decline, removes the unexpected finding of a positive association between

growth and non-entitlement spending and leaves catch-up as the only significant term in the non-social expenditure model.

Relationships between prior spending levels and subsequent expenditure growth are consistently negative, and significant in all instances other than non-entitlement programmes, indicating a continuing catch-up tendency in most areas of spending. Finally, and, in the context of this analysis, perhaps most importantly, trade openness proves to have a consistently negligible influence on all components of spending, irrespective of whether Ireland is included in the sample or not. In other words, once we control for a variety of factors known to be associated with change in public sector spending, all signs of negative impact of exposure to the international economy disappear. The model relating non-social spending, the one component of public sector spending in which there was a marked contractionary tendency, provides no more evidence of a negative link between trade openness and spending than any other model. Not only has there been no major expenditure retrenchment over these years and no 'race to the bottom', on the reading of the evidence here, there is no sign of a systematic relationship between a country's position in the global economy and its recent public sector development.

This is such an important conclusion, that it is worth exploring in rather more detail. In a sense, what we wish to do is to expand the model of expenditure change we have been using to look not only at the relationships between the dependent and the independent variables, but also at the interconnections amongst the independent variables. Table 5 shows that trade openness by itself is strongly negatively linked with several components of expenditure change, yet, taking account of prior spending levels, GDP growth and change in unemployment, these relationships cease to be significant. Finding out why involves untangling the linkages between trade openness and these other factors. In Figure 1, we attempt to do this for the total outlays of government by means of a technique known as critical path analysis. This permits us to distinguish between the direct and the indirect effects of variables, using standardised regression coefficients as measures of the strength of association between variables and sequences of variables. Direct effects are represented by paths (arrows) directly linking independent variables with expenditure outcomes. These

direct effects simply replicate the relevant model in Table 7. Indirect effects are represented by sequences of interconnected paths (sets of arrows) indirectly linking one variable to another. Asterisks indicate paths which are statistically significant. For an indirect effect to be statistically significant all the paths linking that sequence of variables must also be statistically significant.

Figure 1: Critical Path Analysis of Change in General Government Outlays in 19 OECD Countries, 1984-97

Sources and Notes: All variables are as referenced and described in previous tables. * = significant at .05 level; ** = significant at .01 level.

Figure 1 reveals five indirect paths between trade openness and expenditure change. The linkages in four instances are via economic conditions. The paths which go to expenditure change via economic growth and to expenditure change via economic growth and unemployment are negative and significant. In this period, greater trade appears to have enhanced economic growth and minimised unemployment, in both cases moderating the overall growth of the state. However, it is worth noting that the significance of these negative paths to expenditure is once again exclusively a result of Ireland's inclusion in the sample. In contrast, the paths in which there is a more indirect and extended linkage to economic conditions via the prior extension of the state are positive, with higher spending in 1984 militating against subsequent economic growth and, via that route, promoting higher

unemployment. This path remains significant whether Ireland is in the sample or not. Taking all these paths via economic conditions together, negative indirect effects slightly - but only slightly - outweigh positive ones.

This means the key to the significant bivariate negative association between trade openness and expenditure change lies in the remaining path, in which the potential impact of trade exposure is mediated exclusively through prior expenditure level or catch-up. Path analyses for change in the other components of public sector spending unreported here demonstrate the existence of similar negative and significant indirect paths from trade openness to outcomes via prior spending levels in all cases except bar that of non-entitlement spending. Such findings are paradoxical, since they appear simultaneously to confirm what are usually seen as rival hypotheses concerning the effects of trade exposure. The story told by these path diagrams is one of trade openness leading to high levels of public sector spending and welfare spending in the early 1980s, but of that very development leading to lower public sector growth and weaker welfare state expansion in the years thereafter.

This is a paradox which can only be resolved by recognising that both hypotheses are at fault. That is because neither successfully captures a cross-national variation which is simultaneously one of place and time. What we are observing here is not the working out of invariant economic laws linking trade exposure to expenditure growth, but rather stages in a process of programme maturation and convergence. Trade openness leads not so much to permanently higher levels of public and social expenditure as to the early adoption of public sector programmes designed to minimise the impact of exposure to the world market. A cross-sectional focus on a period in which only these early adopters have expanded their programmes necessarily gives the impression that trade openness is strongly associated with higher levels of expenditure, and that, of course, is why Cameron (1978) and Katzenstein (1985) identify such linkages in studies focussing on expenditure development up to the late 1970s and early 1980s. However, what such studies necessarily miss is what happens next. As programmes in the countries of early adoption mature, rates of expenditure growth decline, while rates in later adopting countries accelerate. Catch-

up processes of this kind are captured by the negative association between prior expenditure levels and subsequent expenditure change. Where many of the early adopting countries are those most exposed to international trade, and where many of the later adopting countries are relatively insulated from such trade, the apparent link between trade openness and expenditure change will be strongly negative in character. Only when we control for catch up, as in the models presented in Table 7, does this effect disappear.

Answers

We conclude by attempting to answer the questions set out in the introduction. The earlier descriptive account made it possible to dismiss claims of a general trend toward expenditure contraction, of a 'race to the bottom' in social expenditure and of a shift to entitlement expenditure at the expense of non-entitlement expenditure. As a result of our hypothesis testing exercise, we are now in a position to reject the view that cross-national variance in expenditure change is attributable to trade openness and to identify unemployment, economic growth and catch-up as the main forces shaping national trajectories of public sector development. The catch-up finding, in so far as it identifies a tendency for high spending public sectors to grow more slowly than small spending ones, suggests at least some kind of a qualification to Pierson's argument that large programmes offer protection against contractionary forces. On the other hand, given that in the social expenditure area, which is the primary focus of Pierson's analysis, there are only two instances of cut-backs in spending as a percentage of GDP, and none in respect of real spending levels, this may be a caveat of only rather minor practical significance.

In terms of understanding, why overall expenditure has developed as it has in recent years, the only factor of any real importance is the growth rate of real GDP. Catch-up, despite its undoubted influence in accounting for cross-national trends cannot explain overall trends, since the expenditure decline in some countries is matched by expenditure growth in others. Unemployment has no purchase in this period because unemployment only increased very marginally in these years. That, of

course, is an important reason why there was only a marginal increase in entitlement spending over this period. However, the average rate of economic growth in these years was 2.7 per cent per annum and what our models are saying is that, had that rate had been somewhat lower, the small trend towards reduced outlays and the somewhat larger one towards reduced non-social expenditure would not have occurred. Our models also tell us that economic growth does not impact on social expenditure, which explains why this component of expenditure did not manifest the same downward trend as non-social expenditure. It would seem that governments in the OECD have been able to use increased rates of economic growth to reduce non-social expenditure to some degree, but have not found it as easy to use this strategy in the area of welfare state spending. This is, of course, supportive of the general thrust of Pierson's argument. Consistent with the analysis here, the period of the early 1970s to the early 1980s, when unemployment was increasing sharply and average real growth was around .5 of a per cent lower than in the current period, was a period during which total government outlays increased very sharply in the majority of OECD nations. This suggests that the same forces may have been operative then as now. Unfortunately, the OECD social expenditure database does not provide the same detailed information for years prior to 1980 and disaggregations of the kind presented here are not possible for this earlier period of expenditure growth.

Finally, there is the question of whether the pattern of determinants of public sector spending identified here represents what amounts to a new political economy of public sector development. The answer is that it probably does. As demonstrated repeatedly in the comparative public policy literature, much of the dynamic of earlier public expenditure growth was supplied by political and demographic factors. These factors do not appear to have been nearly so influential in recent years and the overall trend of spending has been neither expansive nor contractionary, but largely static. Expenditure change in most countries has been relatively minor and, for the most part, responsive to changing economic conditions. This sounds like the story of a public sector development which is now approaching maturity across the OECD, with the still very real differences in national levels of expenditure resulting from the substantially different institutional designs of provision put in place by political actors

in the 'golden age' of public sector growth only gradually being attenuated through a process of catch-up. The analysis here suggests that this static picture could only really be disturbed by massive increases or decreases in unemployment or changes in rates of economic growth of comparable magnitude. This is a trade-off which defenders of the welfare state and of other major public spending programmes will view with mixed feelings.

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