VOLUME 4

COMPARATIVE PUBLIC POLICY

Edited by Michael Hill

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VOLUME IV

Policy Fields: Economy, Environment and Others

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COMPARATIVE PUBLIC POLICY

Introduction: Policy Fields – Economy, Environment and Others

Michael Hill

Economic Policy, Labour Market Policy and Taxation

This section brings together comparative articles about various aspects of economic policy, broadly defined. Varieties of capitalism theory is obviously much in evidence here but the first article by Vis and her colleagues addresses a patterns of democracy theme, exploring the impact of institutional differences on economic performance. The article by Bonoli suggests that the exploration of active labour market policies needs to go a lot wider than simple variations in the management of capitalism. Lallement's study is important because it uses varieties of capitalism theory to explore contemporary developments, but with (as noted in the section on this theory) the identification of a Mediterranean group relying heavily on the social protection system but having weak education and training systems.

The final article in this section might have been placed in the 'other policy areas' section since the comparative study of tax policy seems to have been developed without any particular emphasis on alternative ways of managing capitalism. Swank's concern is to explore what may be called a 'policy transfer' issue, the spread of neo-liberal approaches to tax policy.

Environment Policy

The introductory article highlighted the way in which comparison in respect of environment policy is dominated by questions about which countries achieve the best results and why this is the case. The crucial research issue then is about disentangling factors that are likely to be more or less outside government control – the natural environment and past and present patterns of industry – from the political processes. The article by Fiorino offers a good overview in this respect, while Jasanoff focuses particularly on institutional differences and Özler and Öbach give particular attention to the interface between economic policy and environment policy.

In the development of environment policies the United States has been noted as a 'leader' that has become a 'laggard', meanwhile the European Union has developed a special role as a promoter of policy progress. These are themes that feature in the articles by Janicke and Lieffernink et al. Finally Harrison and Sundstrom explore the politics of that vital topic of global concern, where collaboration between nations is essential: climate change.

Other Policy Areas

One of the difficulties of compiling a collection of this kind has been how to secure as wide a coverage as possible, in terms of types of studies, countries covered and policies examined. The choice of policies has been to some extent influenced by the other two considerations. Moreover, some topics have secured much more attention than others. This has to be seen as a function both of the variations in the extent to which comparative analysis has developed, itself influenced by variations in the availability of data (particularly quantitative indices). Hence, the identification of the policy areas which form the earlier sections of books three and four.

That inevitably leaves some questions about what is missing. For example, nothing has been included on foreign and defence policy where the literature is limited and it is the interactions between nations which are likely to be the key explanatory variables, forming part of the international relations literature a specialist field rather different from comparative politics or policy making. An absence that is perhaps less easily justified is regulatory policy, other than environment policy. The justification offered is that environment policy may be seen as a good example of this wider category with an interesting literature. By contrast other forms of regulation often involve very specialised considerations and the comparative literature is limited.

We end thus with a small residual section. The article on immigration policies by Freeman offers an overview of a developing field. Here we have what may be described as a global issue, the crucial questions are about to what extent there are variations around the theme of increasing limitation, and what may explain those variations.

Finally, two articles about housing policy are included. These might have been put in the social policy collection in book three. Housing policy is interesting in terms of the interaction identified in Norris and Domanski's title between 'states, markets and households' with strong pathways established by the extent to which owner occupation has developed (obviously public policies will influence this) and generated vested family interests. Schwartz and Seabrooke identify (significantly in an article published the year it became clear that indiscriminate mortgage lending had become an important source of international economic instability) the comparative analysis of housing policies as an important missing element in comparative political economy.

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Economic Performance and Institutions: Capturing the Dependent Variable

Barbara Vis, Jaap Woldendorp and Hans Keman

Introduction

Over time and across countries, the variation in economic performance such as economic growth and the level of employment is substantial. Some countries, like Germany and the Netherlands, perform very well economically at particular points in time but much less so at other times. There are also countries, like the United States, which typically outperform other countries, like Spain, at all times. In the extensive literature focusing on economic performance, institutions (such as the degree of corporatism or consensus democracy) are often argued to (partly) explain the existing variation in economic performance. The question to what extent institutions matter in this respect is a central and contested issue in several literatures in comparative politics. Studies are often inconclusive about both the impact of these institutions on overall economic performance and their effect on separate indicators of economic performance (e.g. Lange and Garrett, 1985; Calmfors and Driffill, 1988; Lijphart, 1999; Anderson, 2001; Hall and Gingerich, 2004; Kenworthy, 2006; Soskice, 2007).

Against this backdrop, many studies extensively discuss the best conceptualization and operationalization of the so-to-speak crown-independent variable: the specific institutional arrangement. The dependent variable, economic performance, is typically ignored or at least not addressed in as much detail. Although the definition and operationalization of what exactly constitutes corporatism varies considerably among researchers (e.g. Lijphart

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and Crépaz, 1991; Siaroff, 1999; Molina and Rhodes, 2002; Baccaro, 2003; Compston, 2003), most scholars classify the same countries as corporatist. Similarly, researchers disagree about the relevance of one of the two dimensions of consensus democracy proposed by Lijphart (1999): the federal-unitary dimension that refers to the constitutional setup of nation-states (e.g. Lane and Ersson, 2000; Vergunst, 2004: 42). Again, however, most scholars agree on the classification of consensus democracies. This consensus indicates that despite differences of opinion about the correct conceptualization and operationalization of these key independent variables, a commonly accepted standard is available.

Remarkably, such a standard appears to be absent for the dependent variable of these studies: economic performance. A substantive or conceptual discussion of what constitutes economic performance is typically missing, especially regarding *overall* economic performance. Researchers often simply use a range of different and separate indicators that lack theoretical or substantive backing – except perhaps for the tacit understanding that the more indicators one uses, the more convincing the conclusions of the analysis become (e.g. Lijphart, 1999: 266–267; Vergunst, 2004: 120–122). This practice generates at least two problems (cf. Vis *et al.*, 2007). First, researchers lump together indicators of economic performance (e.g. economic growth), indicators of policy performance (e.g. income equality), and indicators uncertain to what category of performance they belong (e.g. strike activity). Consequently, assessing the effect of various institutions on *overall* economic performance becomes problematic. Second, comparing the analyses' findings is usually difficult because they examine different dependent variables.

In this paper, we set out to overcome these problems by proposing and assessing a substantively grounded conceptualization, operationalization, and measurement of overall economic performance. We consider the lack of such a dependent variable to be a weak spot in the research into the relationship between institutions and economic performance, which leads to the inconclusive and thereby contested results of these studies. We construct eight ideal types (models) of overall economic performance and examine how 19 capitalist democracies – all members of the OECD – fared for the period 1975–2005.[1] To assess the variation over time, we concentrate on four periods: 1975–1979, 1985–1989, 1995–1999, and 2001–2005. These periods represent distinct macroeconomic circumstances, allowing different countries to emerge as strong (or weak) economic performers.[2] We use fuzzy-set ideal-type analysis, a relatively new technique combining fuzzy-set theory and ideal-type analysis (Kvist, 1999; Vis, 2007; Hudson and Kühner, 2009)[3] to map these countries' cross-national and longitudinal economic performance. The descriptive analysis reveals substantial variation across countries and over time. Using simple statistics, we assess to what extent this variation can be accounted for by means of the existing literature's key independent variables: corporatism and consensus democracy. We show that these two factors cannot adequately explain the variation in performance.

The paper has the following structure. The second section discusses the inconclusive results of studies on the relationship between corporatism, consensus democracy, and economic performance. The third section elaborates our conceptualization and operationalization of overall economic performance. The fourth section introduces fuzzy-set ideal-type analysis and examines the cross-national and longitudinal changes in the countries' fit with the different economic performance models. The fifth section assesses whether corporatism and consensus democracy matter for overall economic performance. The last section discusses the results and concludes.

Institutions and Economic Performance: Inconclusive Evidence

A first strand of literature studying the relationship between institutions and economic performance concentrates on the effect of corporatist institutions. The argument in brief, which we label the *corporatism hypothesis*, is that countries with a corporatist institutional arrangement outperform those without corporatist institutions in terms of economic performance (e.g. Schmidt, 1982; Czada, 1987; Alvarez *et al.*, 1991; Crépaz, 1992; Kenworthy, 2002; Wilensky, 2006).

The definition of what exactly constitutes 'corporatism' varies across researchers. Siaroff (1999: 177), for example, suggests that the core features of corporatism may be '(...) the co-ordinated, co-operative, and systematic management of the national economy by the state, centralised unions, and employers (...)'. Somewhat more broadly, Baccaro (2003: 683) defines corporatism as a '(...) particular structure of the interest representation system, characterized by monopolistic, centralized and internally non-democratic associations'.[4] Nonetheless, there is agreement across researchers on the classification of countries as (clearly) corporatist and (clearly) non-corporatist,[5] which we adopt here.[6]

As we stated above, a similar substantive conceptual discussion among researchers about what constitutes (overall) economic performance is remarkably absent. In the literature, there is broad agreement about the use of indicators like (un)employment, economic growth and inflation, either as separate indictors (like unemployment, see Schmidt, 1982; Kenworthy, 2002), or as simple, albeit different, additive indices. There are also indicators that are less frequently used, like real wages (Czada, 1987), labour productivity growth, capital investment, income inequality, social expenditure (Wilensky, 2006), or strike rates (Crépaz, 1992; Wilensky, 2006). Especially the latter range of indicators represents in our view either government policy performance (income equality and social expenditure), or corporate policy performance (capital investment and labour productivity growth), factors which may or may not influence economic performance indicators like economic growth and employment. For other indicators (real wages and strike rates), it is unclear to what category of performance they refer.

The inconclusive evidence discussed above derives (at least partly) from the absence of a common standard of (overall) economic performance, the (related) use of separate and different indicators of economic performance, the various ways of measuring the indicators used, and the different time periods involved. Depending on the indicators used, the way these are measured and the time period involved, corporatist countries outperform non-corporatist ones, or not. For example, between 1960 and 1990 corporatism had a positive (lowering) effect on unemployment (Schmidt, 1982; Alvarez *et al.*, 1991; Crépaz, 1992; Kenworthy, 2002), but in the 1990s this positive effect disappears (Kenworthy, 2002). The positive effect of corporatism on economic growth and inflation is linked with openness in the 1970s (Czada, 1987). In the 1970s and 1980s, corporatism has only a weak positive effect on economic growth, but a strong positive effect on inflation (Crépaz, 1992); or a strong positive effect for both economic growth and inflation (Alvarez *et al.*, 1991). Wilensky (2006), finally, shows that between 1950 and 2000, there are different (corporatist) routes to good (economic) performance, represented by unemployment, economic growth, and inflation, plus an extensive range of quite different indicators (see above).

The same inconclusiveness applies to those scholars criticizing the *corporatism hypothesis*. For example, Woldendorp (1997: 62, 67–68) shows that the macroeconomic performance of corporatist countries does not co-vary with the level of corporatism of these countries between 1970 and 1990 (when looking at various indicators like economic growth, inflation, unemployment, budget deficits, public debt or trade balance). Flanagan (1999: 1171), conversely, focusing on inflation, unemployment, the aggregate real wage level and wage dispersion, finds that corporatism may have had some positive effects in the late 1970s and early 1980s, but that effect disappears in the 1990s and may not have existed in the 1960s.[7]

A second body of literature examining the link between institutions and performance focuses on the cross-national variation in *types of democracy*. The thesis in brief, which we label the *consensus democracy hypothesis*, is that the consensual model of democracy is conducive to a better ('kinder and gentler') economic performance than the majoritarian (Westminster) model of democracy (e.g. Lijphart, 1999: 263–270). Consensus democracies are characterized by proportional representation, a multi-party system, and coalition politics in government. Majoritarian democracies are typified by plurality electoral systems or majority representation in politics, leading to a two-party system in which government alternates between the two dominant parties within the party system (Lijphart, 1999: 9–21, 34–41, 312ff.).

The scholarly debate on the conceptualization and operationalization of the types of democracy centres on one of the two dimensions proposed by Lijphart (1999: 312) to assess whether a country is a consensus democracy or a majoritarian one. The first dimension is the *executive-party dimension* and refers to the electoral system (proportional representation or majority voting), the party system (multi-party or two-party), and the type of government (coalition or single party majority). The second dimension is the *federal-unitary dimension* and refers to the constitutional setup of nation-states. While the first dimension is largely uncontested (but see Armingeon, 2002), the second attracts criticism. Lane and Ersson (2000) and Vergunst (2004: 42), for example, argue that this dimension is less important for explaining consensus or majoritarian democracy than the first one. This idea is enhanced by the fact that among the federal states, there are consensus democracies (Austria, Germany, and recently Belgium) as well as majoritarian ones (Australia, Canada, and the United States). Still, many students agree on the classification of countries, and we follow this classification here.[8]

As with corporatism, there is no substantive conceptual discussion of (overall) economic performance. Instead, separate indicators for performance are used, especially economic growth, inflation, unemployment, strike activity, and budget deficits (Lijphart, 1999: 266–267). Lijphart concludes (1999: 270; also see Crépaz, 1996) that consensus democracy had no positive effect on economic growth between 1970 and 1995, had 'a slightly better record' for unemployment, strike activity and the budget deficit, and 'a significantly better record' on inflation. By testing the relationship between consensus democracy, inflation, and unemployment specifically, Anderson (2001: 442–443) shows that these positive results should be attributed to either corporatism (unemployment) or corporatism plus central bank independence (inflation) rather than to consensus democracy (as represented in particular by the *executive-party dimension*). Armingeon (2002: 95–99), examining inflation, unemployment, economic growth, and debt, shows that consensus democracy does not lead to a better performance compared to majoritarian democracies.

The absence of a common standard of (overall) economic performance and the use of separate and different indicators for economic performance that are not substantively grounded also produces inconclusive evidence as to the relationship between consensus democracy and economic performance.

To conclude, the relationship between corporatism or consensus democracy and economic performance can be clarified further when a substantively grounded common standard of (overall) economic performance is conceptualized and operationalized. The absence of such a common standard has the effect that at present economic performance can be literally all things to all (wo)men.

Overall Economic Performance

Which indicators to select to tap overall economic performance? The selection obviously depends on the specific research question. Scholars who are interested in the effect of institutions on a particular indicator for economic performance will investigate the relationship between the selected institution(s) and that particular indicator. However, we argue that offering a substantive conceptualization of economic performance prior to operationalizing separate empirical indicators for that performance is an important addition to the literature. Related, conclusions about the effect of institutions on overall economic performance may best be based on a combination of indicators that is rooted in such a substantive notion of overall economic performance.

As indicated above, many scholars employ separate indicators to measure economic performance or construct additive indices that have no origin in a substantive notion of economic performance, let alone of *overall* economic performance. It is noteworthy that, although, for instance, Wilensky (2006: 338) considers it an advantage that his index '(...) avoids arguments about what is important – controlling inflation, good growth, or low unemployment', we propose that *all* components matter. For a country to perform excellently in economic terms, it needs to excel on all relevant indicators simultaneously.

We follow Vis *et al.* (2007) and conceptualize overall performance as the combination of *economic growth* (measured as the percentage of gross domestic product (GDP) per capita in real terms to the previous year), *total employment* (as a percentage of the total population aged 15–64 years), and the level of gross *public debt* (as a percentage of GDP). We base the selection of economic indicators on a review of the 'miracle' debate concerning economic performance in the late 1990s and 2000s (e.g. Visser and Hemerijck, 1997; Delsen, 2002; Keman, 2003; Becker and Schwartz, 2005). Although scholars disagree on what exactly constitutes an economic miracle, three types of indicators are most commonly used: various measures of (un)employment, economic growth, and budget deficits or public debt.[9] We prefer public debt over the budget deficit because public debt is a more appropriate indicator of economic performance.[10] The budget deficit, conversely, is more an indicator of policy performance. Budget deficits can be lowered relatively easy if and when the policy decision has been taken to do so – leaving aside the fact that it may be difficult to 'sell' the perhaps unpopular policy to the electorate. Arriving at a reduction of public debt, however, requires a sustained effort over time to reduce expenditure and deficit and to create a surplus whilst upholding economic growth and employment. Therefore, although public debt is more closely tied to the policy actions of governments than are growth or employment, it remains an indicator of economic performance.

Obviously, there is a fine line between government policy performance and economic performance. Over time, government policy outputs can have a direct impact on economic performance, such as on economic growth, total employment, and public debt, as well as an indirect impact through corporate policy performance (e.g. private investment, labour costs and productivity, or innovative capacity). However, the substantive argument for these three indicators of overall economic performance is that it is very difficult for governments to positively influence or manipulate them simultaneously. Furthering economic growth by *lowering* government expenditure (and thus giving more room for corporate policy performance) may increase economic growth, but at the same time hinders efforts to reduce government deficits and create surpluses in order to reduce debt over time. It can also have a negative effect on total employment, especially when public employment accounts for a sizeable part of total employment, like in some Scandinavian countries. Conversely, furthering economic growth by *increasing* expenditure (public investment) may have a short-term positive effect on economic growth and total employment, but can also jeopardize government finances (and corporate policy performance) in the longer term. Boosting total employment by creating more public jobs may have a negative impact on economic growth or government finances (and corporate policy performance), as expenditure has to increase by increasing taxes or government loans. Lowering debt by a sustained effort over time to reduce public expenditure may either foster or hamper economic growth (and corporate policy performance), but will certainly reduce public employment and, hence, total employment. Therefore, for a country to score well on these three indicators *simultaneously* is not a measure of government policy performance but of economic performance. To a large extent, overall economic performance so defined is independent of short-term government policies. If overall economic performance was a simple matter of government policy performance, directly or indirectly through corporate policy performance, countries would not experience economic cycles and for all countries the normal situation would be a continuous 'miracle' (high economic growth, high total employment, low debt) that would not at all count as a miracle but simply as a matter of fact.

Our indicators for overall economic performance, therefore, include total employment, economic growth, and public debt. Substantively, the argument is that to perform economically strong overall, a country should perform well on all three indicators at the same time.

Inflation

Let us elaborate why our measure of overall economic does not include inflation. Such a discussion is warranted since inflation is often employed as an indicator of economic performance.[11] We do not include inflation by itself in the combined measure because inflation is an indicator for policy performance (as is government expenditure) rather than for economic performance. Since the 1980s, the rate of inflation has been reduced in all countries we focus on due to the monetary policies of increasingly independent central banks. This reduction empirically indicates that inflation is in fact controllable if and when the policy decision has been taken to do so. Low inflation is therefore an indicator of central banks' policy performance, the institutions entrusted with this policy goal by national governments, and