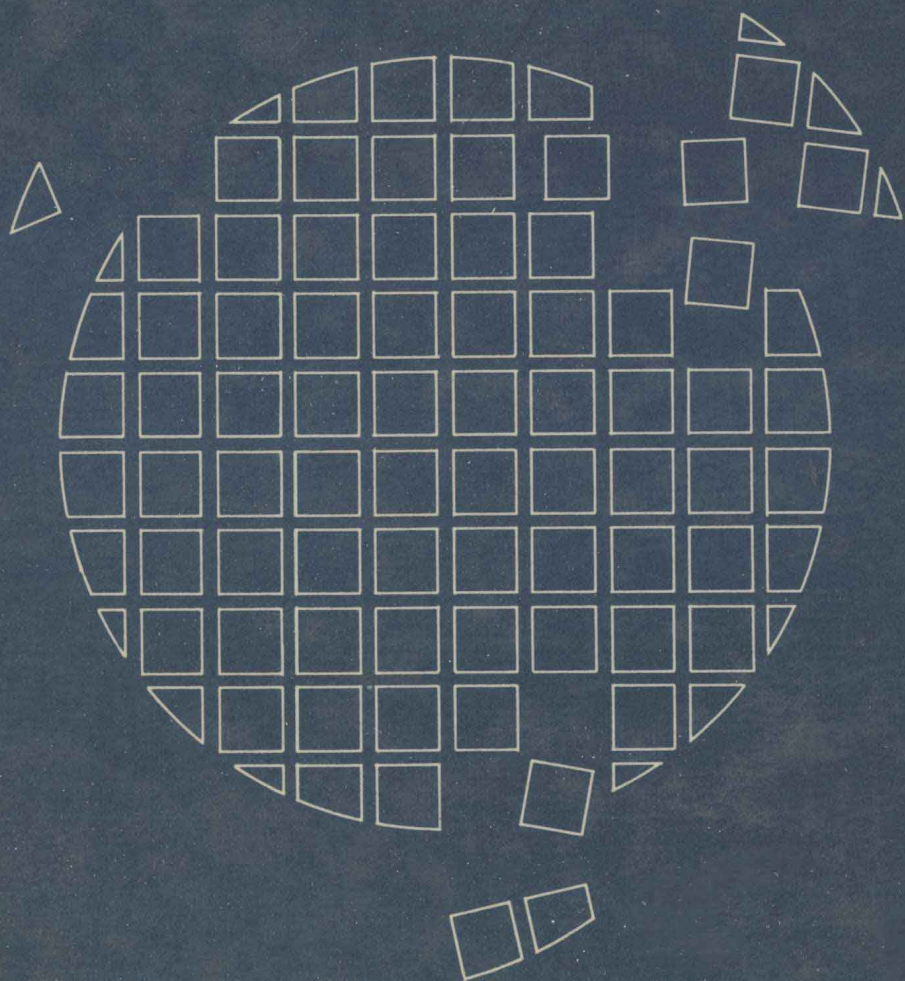


URBAN POLITICAL ECONOMY

Edited by Kenneth Newton



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PREFACE

The study of urban political economy needs no justification, for cities are the heart (and arguably the soul) of our civilisation, and their political and economic conditions are the linchpins of its existence. The question is not whether to study urban political economy, but how to do so. The 10 essays in this volume deal with different nations – Belgium, Denmark, France, Norway, the U.K. and the U.S.A. – and with different problems – expenditure patterns, service provision, economic development, fiscal strain, budgetary cuts, and borrowing systems – but they all agree on two fundamental points about the study of their subject matter.

First, the urban economy cannot be understood outside its political context, just as urban politics cannot be understood without its economic background. The essays by Sharpe, Skovsgaard and Kuhnle make it plain that the urban patterns they analyse are generated by such a complex tangle of political and economic circumstances, that the terms political and economic must be treated as abstractions not as 'real' entities. Similarly Glassberg demonstrates that different political interpretations of fiscal crisis in London and New York produce economic outcomes which are surprisingly different from those normally expected of unitary and federal systems. And Sbragia shows how local borrowing systems in Britain, France, and the U.S.A. are created by a fusion of political and economic forces, and how the system so created then sustains and reinforces broader political patterns in these countries.

In his original and creative approach to the much discussed question of why urban authorities differ in their service expenditure patterns, Hansen takes the matter of political economy further. He concludes that: "Rather than treating political variables as additive, marginal effects in determining public expenditure, this approach suggests that political factors determine *the effects* that socio-economic variables have on expenditures. Thus, socio-economic variables are regarded as decision-making criteria rather than causal factors, and the relationship between political and socio-economic factors in determining expenditures is conceived as one of *interaction*". In other words, in order to understand urban expenditure patterns it is not enough to add political socio-economic variables together; rather socio-economic conditions must be understood in terms of how they are interpreted, evaluated, and acted upon by political actors and decision-makers. In other words, Hansen sees that the impact of social and economic factors is dependent upon the way in which they fuse with

political considerations, and he therefore develops an approach to urban political economy which transcends the political and the economic as separate considerations.

The same idea of fusion of factors lies behind the second theme of the essays, namely the extent to which the local and the national are knitted together so closely and so tightly that it is necessary to think of them as forming a single system. The essays do more than simply stress the links between local and national conditions; they demonstrate the extent to which they react upon one another, like chemicals heated in a crucible, to form an amalgam of both. Sbragia uses the term 'local borrowing system' to denote the full complexity of local-national-political-economic constraints on local authority borrowing; Clark and Crowley Ferguson examine the interplay of local and national factors in generating fiscal strain in American cities; and Sharpe, Hansen, Skovsgaard and Kuhnle explore the ways in which *national parties and national government interpenetrate in different ways with local parties and local government to generate local variations in urban policy and service expenditures.*

It is not just that cities are caught up in a national system and a national set of economic circumstances, a point made often in the past, but that they themselves form a national urban system consisting of an integrated and hierarchically organised set of urban places in which each unit plays a particular economic role. The role and position of any given city in the system appears to have a strong influence over its internal social, political and economic features. Thus, Aiken and Depre conclude on the basis of their Belgian study that the extent to which a city is the centre of production and consumption for a surrounding area, goes a long way toward explaining this pattern of service provision and expenditure. The same conclusion applies to the cities of England and Wales insofar as rank in the urban hierarchy is closely related to service expenditures. These two studies suggest that work on city-systems may have a great deal to offer to future urban research.

The preparation of this volume would not have been completed without the invaluable help of Doris Tindall whose great efficiency and capacity as a secretary kept this enterprise, and its editor, on course. Thanks are also due to Mrs Betty Bowman for typing some of the chapters and for carrying out many of the other tasks necessary to put the manuscript together.

K. Newton

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1 DOES POLITICS MATTER? AN INTERIM SUMMARY WITH FINDINGS*

L.J. SHARPE

I Introduction

The aim of this paper is to discuss the 'state of play' in the study of the political determinants of policy outputs primarily at the local-government level and with special reference to Britain. The results of an analysis of the determinants of outputs in English local authorities will also be given.

Economists have taken an interest in the determinants of the level of public expenditure for a very long time, especially in explanations for its inexorable growth in aggregate terms.¹ In the post-war period, although public sector expenditure growth studies continued,² the adoption of multiple regression techniques and the advent of the computer made it possible to examine the causes of expenditure levels in a systematic fashion applying a range of independent variables to the dependent disaggregated expenditure variables over time for large categories of political jurisdictions including nation states, sub-national units of federal systems and units of local government.³ It is important to note that only rarely were these studies, which at this early stage were almost wholly undertaken by economists, concerned with examining the possible influence of factors that might be regarded as political: occasionally, political factors were examined but were not usually recognised as such. So, the fact that these studies failed to show that political factors had any bearing on expenditure levels could hardly be said to demonstrate, as some claim,⁴ that political factors are relatively unimportant as compared with economic factors. Later output studies by economists did look at political factors. A notable example is that by Wilensky who examined the effects of the ideology of ruling parties in twenty-two countries on social-security expenditure.⁵ Also, it must be recognised that other cross-national studies by economists, such as that by Pryor for example, implicitly study the effect of political variables on policy outputs, since they compare countries with very different political systems.

Political scientists, or rather American political scientists, started to take an interest in output studies somewhat later than their economist

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colleagues⁶ and, as might be expected, the omissions of their predecessors regarding political variables was to some extent repaired. As a result, over a relatively short period a sizeable body of literature emerged on the determinants of service expenditures at both the state and at the local level in the United States.⁷ Although these studies gave political attributes as much attention as the economists had given economic and social factors, however, broadly speaking the same results obtained: economic and social characteristics such as urbanization, population density and above all per capita income, were more strongly associated with expenditure levels than any other factors.

It is important to note that the political factors that were tested were derived from an earlier phase in the literature of American State Government notably the work of V.O. Key, Duane Lockard, and others.⁸ In this literature it was claimed that the key factors affecting the kind of policies pursued were characteristic of the state political system such as the degree of party competition, the level of turnout and malapportionment. It was assumed that where there was party competition, where turnout was high, and where seats were evenly divided among the electorate, there would be higher levels of state expenditure. We will return to this model of the representative process later; at this stage we may note that one of its implications is that what governments do is a direct reflection of the popular will. What is crucial to the effective working of the system is the transmission process. If it is defective because citizens fail to exercise their right to vote, or are prevented from doing so, then their interests will not be met by government. Especially vulnerable in this model are the poor who will be ignored by the parties in power if they fail to, or are prevented from, exercising their vote or participating generally, since there will be no incentive to cater for their interests in order to keep or attract their votes.

No one would wish to deny that it is highly likely that if the bulk of the poor opt out (or are kept out) of a system, the level of redistributive policies is likely to be less than in a system where they constitute the same proportion of the electorate but *do* participate. This participation model is too crude however; representative government is not merely a transmission process from voter to government. Governments do and must have autonomy in representative systems⁹ and there is little room in the transmission model for any conception of parties which may, when in power, act autonomously of the socio-economic structure of the jurisdiction they govern. That is to say, majority parties instigate expenditure patterns according to party ideology, and only modify their policies in order to attract enough votes to win. For such a party the level of participation of any group, including the poor, is unlikely to have any necessary bearing on government outputs. In other words, one political variable that may be considered as being crucial in other Western countries — party colour — was largely missing from the research. Curiously enough, as Godwin and Shepard have pointed out, despite the strong assumption in this research

that outputs are the direct result of a transmission process from electorate to government (this is what they call a linkage model), these same studies in their pursuit of the effects of independent political variables assume a *non-linkage* model.¹⁰

Slowly but surely the various techniques used in the American output studies have been applied to European conditions, and party colour was, as might be expected, a central feature of many of these analyses. In Britain there have been at least half a dozen of such studies of local-government outputs¹¹ and in terms of how far they reveal a party effect, results have been mixed but with a clear bias towards party colour appearing to have an effect. This result neatly reflected the extent to which the more traditional literature has been divided between those who have claimed, usually writing in very general terms, that party has little or no effect on policy¹² and those who, as a result of particular case studies, have found that it has.¹³

If, however, the British research tended to suggest a party effect, many of the other non-American output studies had found little or no relationship between the party variable, or indeed any other political variables, and expenditure patterns. Robert Fried has summarized the findings of almost four dozen of such studies covering twelve countries in the following way:

Political variables have relatively less direct and independent impact than socio-economic variables. In many, probably most cases, some socio-economic variable has been found more useful in explaining the variance in outputs than any political variable. Somehow, the nature of the socio-economic environment seems more important than the nature of community politics in shaping community policies.¹⁴

If politics is as unimportant as Fried's summary suggests, an enormous question mark is of course placed against not just a great deal of political science, but also some of the most cherished assumptions of representative democratic theory. Nevertheless, before European democrats or political scientists surrender to the 'near panic' that Dye claims seized some American political scientists,¹⁵ it may be a useful exercise to explore some of the reasons why these research findings, important as they undoubtedly are in empirical terms for improving our understanding of how political systems work, ought not to be treated as definitive.

The findings of output studies despite their number are, in short, the beginning rather than the end of the potential capacity of the technique to tell us what are the determinants of policy.¹⁶ We must be particularly careful not to jump to the dramatic conclusions, or overstate the case. Fried seems to have succumbed to precisely such a temptation: 'the weakness of party differences even in apparently more polarised urban

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systems seems to suggest that all urban systems are, in effect, non-partisan systems'.¹⁷

No, the watchword must be first, caution and secondly a frank recognition of the more obvious weaknesses of the existing research in telling us anything definitive; a discussion of some of these weaknesses will be the main burden of the next section of this paper.

II

The first weakness to note, which is shared by all output studies, even the very best of them, is that they have had perforce to employ some rudimentary data. The dependent variables suffer, as do those of most later studies including the one from which this essay is derived, from the general deficiency that they are usually financial statistics, substituting for policy, with all the well known problems that this entails.¹⁸ At the present state in the evolution of techniques for comparing outputs this is largely unavoidable. What is, perhaps, less avoidable is that many of the studies Fried was summarizing were comparing total expenditures. In other words, what was being tested was whether one party when in power spent more in aggregate than another. Now it is possible that total expenditure is a slightly better guide to party effect at the local level than at the central level because local, unlike national, expenditure is more closely tied to what it was intended would be spent. This is because local authorities do not indulge in deficit financing as a deliberate act of policy, and therefore only raise what they plan to spend, net of transfers and other estimated receipts. But this difference is only marginal; the crudity of taking total expenditure as a policy substitute remains. Moreover, there is some evidence that the apparent imperviousness of total expenditure to party, like the incrementalist claim covering the imperviousness of budgets to anything but the accepted marginal increase from one year to the next, may be largely a function of the degree of aggregation.¹⁹ The higher the degree of aggregation the lower the likelihood of variation, precisely because of the greater impact that such change has on total expenditure and hence tax levels. Since local government systems throughout the West have, in the post-war period, been required to provide an ever rising range and quality of services, without in most cases having a commensurate expansion of their tax base, sensitivity to the tax effect of increasing expenditure has been sharpened.²⁰ It follows that for sub-sector expenditures and low-spending whole sectors, such tax effect constraints will be weaker, and so the possibility of parties raising spending levels correspondingly increases.

Sectoral expenditure totals are in one sense accounting abstractions: they may have little *operational* meaning for either politicians or bureaucrats except at budget making and perhaps none at all for those elements of the general public who count, namely the various 'policy communities'.

In order to get to grips with the operational reality of a given service, we need to disaggregate to what may be called the agency level.²¹ These are, in British terms, the sub-departments responsible for the sub-functions around which the possible sources of change emanating from decision makers are likely to focus.

It is possible that at this politically relevant sub-functional level it will become apparent that many of the key policy changes have no expenditure effects in any case, and this may be partly because of the constraints on expenditure just noted. Because of such constraints the bulk of political effort may be steered into policy change that has least expenditure impact. But such party-derived policy change will not reveal itself in conventional output studies. We will have more to say on policy change that has little or no expenditure effects in a moment.

One of the most favoured measures of party impact that has been employed in output studies outside the US is the strength of the left-wing parties: Labour, Social Democrat or Communist. The reason why this particular measure has been specially favoured is partly, no doubt, its availability — parties of the Left almost always identify themselves as such — and partly because it is assumed that parties of the Left, much more than those of the Right, seek to diminish inequality in society by pursuing redistributive policies in government. Like political factors generally, however, it has been found wanting as a significant determinant factor of outputs. As Fried again has it,

It is certainly not clear that the presence of Communist, Social Democratic, or Labourite party majorities in a city make as much difference as might be expected. A direct, independent and strong impact on urban policymaking owing to leftish party control is quite exceptional, though the aggregate (rather than distributional) performance measures that have been used may mask the true extent of interparty differences and of party control impact.²²

As we have just seen, Fried notes one exception to this general trend and this is British Local Government, and it is to a closer and more detailed examination of the British case and possible reasons why it is deviant that we now turn.

III

In their work on the financial behaviour of English county boroughs, Oliver and Stanyer conclude that 'there is no evidence that political attitudes have any effect on current expenditure or on rate receipts'.²³ As King pointed out, however, they may have underestimated the importance of the relationship they discover between Labour strength and per

capita expenditure, even though the relationship is not statistically significant. He argues that, insofar as central-government grants are supposed to equalize the financial resources of local authorities, any positive relationship between Labour strength and per capita expenditure, may represent a real tendency for Labour areas to spend more.²⁴ This argument is strengthened by the finding that central-government grants do not, in fact, equalize financial resources, the purchasing power of a given tax rate in areas such as Merthyr, Burton-on-Trent, and Rotherham being considerably lower than that in Brighton, Westminster or Kensington, even after central-government grants are taken into account.²⁵

Alt's figures for the 1958-68 period show that the usual relationship between rate levels and Labour Party strength was temporarily disturbed by the 1963 revaluation, the situation returning to its normal state of affairs after one or two years.²⁶ As it happens, Oliver and Stanyer chose the financial year 1964-5 for their work and consequently their figures, though accurate for their time, may not be typical. In this respect, Boaden's study of 1965-6 and Davies's study of 1965-7 may prove a more reliable guide. Also, as both Alt and Oliver and Stanyer argue, total revenue expenditure figures may conceal party variations in expenditure on particular services. There are certainly good grounds for this claim since Alt himself, together with Boaden and Davies, do find highly significant differences in the service spending patterns of Labour and Conservative councils. Even if the disaggregation argument has no validity, Oliver and Stanyer's findings have to be set against those of Alt, Boaden, Davies, Danziger and Ashford, which do find marked differences associated with party control.

The other British study which finds no evidence of significant political effect on expenditure patterns is that of Nicolson and Topham.²⁷ It must be emphasized, however, that they deal with capital and not revenue expenditure. This is an important distinction because capital expenditure is more dependent on central-government control and therefore may be less susceptible to local-party control. Moreover, in order to overcome the problem of the 'lumpiness' of capital expenditure Nicolson and Topham averaged out their expenditure figures over a ten-year period, which may have rendered them much less sensitive to revealing variations that are related to changes in party control.

Size of Labour majority is the most favoured variable used in British studies for measuring party effect, yet it is doubtful whether this is very helpful since Labour parties with a small plurality may be in just as secure a position for pushing through policies as those with 90 per cent of the seats. The Labour Party, moreover, almost invariably will take full control of the council with the barest majority and in the technical sense sometimes even without a majority.²⁸ All that can be said with any confidence is that a very small majority may be more constraining than a comfortable one. One possible way of refining the scale problem is to use the logarithm

of the Labour majority, or perhaps, more simply, whether the Labour Party is or is not in control. What is almost certainly more important than size of majority is the length of the Labour Party's tenure in office. Most major policy change takes time and only when sufficient time has elapsed can we expect any change of course to reveal itself.

The general hypothesis that is usually being tested in relation to the party effect, as we noted earlier, is that left-wing controlled councils will spend more than anti-left-wing controlled councils, but it must be emphasized that, whatever the broad accuracy of the high spending socialist hypothesis for aggregate expenditure, it is a somewhat crude measure since we may presume that a socialist party's tendency to spend more is unlikely to operate across the board for all services. Indeed, some studies have suggested that such discrimination takes place.²⁹ It seems likely, for example, that Labour will tend to spend more on those services that are, or are thought to be,³⁰ overtly redistributive and socially ameliorative, such as primary and secondary education, housing and the welfare, personal health and children's services, rather than highways, police and the environmental health services. Even this assumption however, has been questioned by some on the grounds that whereas socialist parties may in general favour redistribution, where such parties are dominated by working-class members they may take a hostile attitude towards certain classes of adult recipients of the redistributed expenditure and, therefore, curtail it.³¹

The association of left-wing control with high aggregate expenditure may be misleading on other grounds. Where high levels of expenditure are seen as being essential to maintaining the overall prosperity of the town — in a seaside resort or tourist centre for example — anti-socialist parties, as parties broadly speaking representing the interests of local capital holders, may be enthusiastic big spenders.³² It is also possible that since a more middle-class population is likely to make more demands on local government for some services than a predominantly working-class population, and it is in these areas that bourgeois parties tend to flourish, it follows that this provides another example of high spending reflecting bourgeois rather than socialist dominance. Both Aiken and Martinotti for Italy, and Hansen and Kuhnle for Norway have detected this phenomena operating.³³ There is also the boosterism of some distinctly non-left-wing city councils who spend in order to attract industry and promote growth. Given the greater mobility of some factors of production, this may be a more likely phenomenon in the US however.³⁴

Also, as we noted earlier, the application of some ideological differences between the Right and Left may not have very big, or any, expenditure effects for certain services. As Irwin suggested in relation to Dutch Local Government, 'many of the desires of the socialist programme cannot be described in monetary terms. Democratization and influence are not matters requiring more money to be spent but on the reorganization of

social and political life'.³⁵

Where the Left has come relatively recently to power it will, like all 'new brooms', be searching for policies, the effects of which will be felt reasonably quickly. In competitive politics there is nothing to be gained from changing policy that will bear fruit when you are no longer in power. But, since large items of expenditure are difficult to alter rapidly, the tendency again will be to seek out policies with high visibility, especially to its own supporters, but with small expenditure effects. It follows that such time considerations also have a close bearing on the assumption that the party effect can be isolated by conventional output studies, for if major policy change does take a long time in electoral terms to take effect, parties have to be in power long enough if we are to relate outputs to party majorities. Where local authorities have changed hands, moreover, we may need to know the colour of the preceding regime in order to determine the party effect.³⁶ For some policy issues, however, the Left may favour expenditure cuts in one service so as to ensure higher expenditure on another, on straight redistributive grounds. The net effect of Left policies in such cases for all the different services may not involve any increase in expenditure overall.

One of the prime examples of such relatively non-financial ideological policy change can occur in planning where a majority of the Left could make substantial changes in the discretionary powers in exercising development control on ideological grounds. Similarly, the expansion of comprehensive schools — a policy objective dear to some European socialist parties — could be achieved in some cases with minimal expenditure increases by re-allocating resources.

Examples of important policy change that has little or no expenditure effects; policy change that has high visibility, low cost and can be implemented fairly quickly; and finally, change which is disguised in aggregate by changing priorities between services are well illustrated in the Annex to this paper which sets out in very broad terms the expenditure consequences of policy change for the major services introduced by the Labour Party after it had won a majority for the first time ever on an English city council.

It was not possible to put precise monetary values on each of the fifteen new policies introduced by the party in its first two years in office, but despite the fact that the majority of them had positive expenditure effects, the net long-term result in expenditure terms was undoubtedly negative and not positive, as a great deal of past research has assumed. This was because of the considerable saving made by cancelling the urban motorway. There may be grounds for arguing that the British Labour Party is more ideological — that is to say, more left-wing — than its counterparts in other countries, but that is not a subject that can be pursued here.

IV

There remain two further aspects of the impact of political factors on outputs that will be discussed. The first concerns cross-national output studies and the second concerns the impact on outputs of party competition. Our foray into cross-national research will be brief.

Bearing in mind that it is fraught with even more difficulties than intra-state output analyses, cross-national output studies carried out with the express intention of seeing how far political variables (i.e. the party effect) are associated with outputs have also tended to suggest that party is of more importance than had been evident in the earlier studies by economists discussed at the beginning of the paper.³⁷

For example Christopher Hewitt examined the relationship between socialist party dominance in twenty-five democracies and a series of welfare and egalitarian measures, and found a clear, positive relationship.³⁸ Cameron has also found over the period 1960-75 a strong relationship between the growth of the public sector in eighteen Western democracies and left-wing support for the government,³⁹ and other comparative studies have found a relationship between political variables and redistributive policies,⁴⁰ while more specialized comparative studies conclude that parties influence outputs. Headey for example, in his study of housing in Sweden, Britain, and USA claims that 'parties appear to have made a vast difference to housing programmes'.⁴¹ Similarly Castles and McKinlay have shown, in a sample of nineteen democracies, that high levels of transfer payments and educational expenditures tend to be associated with left-wing party dominance, or rather, the absence of a strong and united party of the Right.

The Castles and McKinlay reformulation is interesting because its assumption that measuring party effect by using the Right rather than the Left party dominance is persuasive. For it may be hypothesized that the task of the party of the Right is easier than that of the Left, since it may be argued that maintaining the status quo is easier than changing it. It follows that the existence of a strong and united party of the Right may provide better conditions for measuring the party effect than a party of the Left.⁴²

So much for the party effect at the cross-national level. We must now turn to another aspect of the impact of politics on outputs in British Local Government – the impact of the interrelationship between competing parties. The most commonly used measure of this type is the competitiveness of the party system. This is employed by Alt for the British county boroughs, but British studies generally have not paid the same attention to it as has the American literature. The assumption in this literature, as we noted earlier, is derived from V.O. Key and others who postulated that the smaller the majority, and therefore the closer the competition, the more likely the incumbents are to increase spending. Behind this

assumption lies a species of Downsian model⁴³ whereby the competing parties when in power increase welfare policies in order to retain and increase their support because the poor are more numerous than the rich.⁴⁴ Although he used a slightly different measure, Alt found no evidence that more intense party competition did lead to higher expenditures, and impressionistic knowledge of British Local Government would suggest that the reverse may be true. That is to say, parties with small majorities tend to pursue budgetary caution because of the impact of increased expenditure on the rates. This type of response also seems to be apparent among parties in Norwegian cities.⁴⁵ But even if closer competition did not produce caution, it is not at all clear that incumbent parties are skilful enough to manipulate welfare outputs with the necessary precision.⁴⁶

The difficulties involved in manipulating services so as to achieve the desired redistributive effect in order to attract votes raised of course a very much larger and considerably more fundamental problem, namely that a great deal of what is often regarded as redistributive, and which for this reason figures in many output studies, is not redistributive. For example, it does not follow that an increase in welfare expenditure is redistributive unless both the tax system itself is progressive and the income distribution structure is, in fact, pyramidal.⁴⁷ Similarly, it seems likely that education expenditure and especially post-secondary education expenditure⁴⁸ is not redistributive despite its almost hallowed place as a measure of egalitarianism in a large swathe of the literature on comparative welfare that extends well beyond output studies.⁴⁹ These considerations raise very large questions, the further explanation of which lie outside the ambit of this paper, but they will have to be explored if output studies are to develop their fullest potential.

To return to party competition, different types of party could also affect the extent to which closeness of competition between them affects expenditure. Closeness of competition between two parties may reflect no more than a division of allegiance within an homogeneous electorate. Alternatively, it may reflect a division of the electorate into two socially distinct sub-communities. In the former case, increased expenditure may induce more support for the government party since a change of allegiance signifies no more than a change in tastes. In the latter case by contrast, increased government welfare may evoke no response from minority party supporters since a change in voting choice may signify disloyalty to the voters group.⁵⁰ In other words, we are back to the problem noted at the outset, namely that the party competition explanation for output variation assumes both non-ideological parties and highly volatile voters. While the assumption may hold, broadly speaking, for USA and possibly Canada, it is inadequate for European party systems. It is of some interest that research undertaken since Alt's does suggest that in British Local Government, at least, a competitive system with parties alternating in power rather than the smallness of their majorities affects spending levels,⁵¹ and