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Ideology, Institutions, and Public Spending

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Abstract

One of the hallmarks of the twentieth century was the widespread propensity for government to increase its role and size inside national economies. The general pattern observed among what today constitute many of the OECD countries was for government to double its size relative to the economy every 50 years or so. We have been able to show how politics has affected the course of this development over the long term. In addition, we have paid particular attention to political-institutional factors and how these help shape decisions on public spending in the short term. More specifically, we have presented a model that brings to bear both the ideological preferences of governing parties and the institutional context in which government must operate. This model highlights the importance a favorable legislative institutional context for the successful achievement of government's preferred policy outcome, be it an expansion or a contraction of the size of the budget. Absent such an environment, governments are constrained to accepting the status quo.

Zusammenfassung

Eines der Kennzeichen des 20. Jahrhunderts war die weitverbreitete Tendenz von Staatstätigkeit, innerhalb der Volkswirtschaften Aufgaben an sich zu ziehen und an Volumen zuzunehmen. Im großen und ganzen lässt sich für OECD Länder als allgemeines Muster alle 50 Jahre eine Verdopplung der öffentlichen Haushalte relativ zur Wirtschaft beobachten. Es war uns möglich die Art und Weise aufzuzeigen, wie die Struktur der politischen Systeme diese Entwicklung langfristig beeinflusst hat. Darüber hinaus widmeten wir politisch-institutionellen Faktoren und ihrem kurzfristigen Einfluss auf Entscheidungen bezüglich öffentlicher Ausgaben besondere Aufmerksamkeit. Im speziellen stellen wir ein Modell vor, das sowohl die ideologischen Präferenzen der regierenden Parteien als auch die Zwänge des institutionellen Kontextes von Regierungsarbeit zur Geltung bringt. Unser Modell hebt die entscheidende Bedeutung eines günstigen legislativ-institutionellen Umfeldes für die erfolgreiche Realisierung von politischen Zielsetzungen hervor. Für die Ausweitung wie die Verkürzung öffentlicher Ausgaben gilt gleichermaßen, dass Regierungen ohne die Unterstützung eines günstigen institutionellen Umfeldes gezwungen sind, den Status quo zu akzeptieren.

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Introduction[1]

The principal focus of this paper is on the political-institutional determinants of government spending. We demonstrate here that one of the most dramatic developments of the twentieth century was the huge expansion over the control of economic resources by government. And while this trend has been general, the speed at which it has occurred has varied significantly. We show how not only economic developments but also political forces were behind this immense growth in government throughout the century. Over the last two decades or so political scientists and economists have undertaken to develop an understanding of how political institutions have shaped cross-national differences in government spending patterns. We review some of these theoretical efforts and evaluate the extent to which they have proven successful in empirical terms. Building on the work of some of these scholars, we develop a model of how the partisan-ideological preferences of government are constrained or freed by legislative institutions to work their effects on public spending. We review the empirical evidence in terms of the expectations one would have from this model under different assumptions regarding the importance of different parts of the legislative system and the requirements needed to provide support for government's preferred policy. These alternative hypotheses are then embedded in a more encompassing model of public spending outcomes and the variations on this model are empirically tested. These tests are generally supportive of the basic model and confirm the principle that legislative institutions can act to constrain or liberate government in its pursuit of policy objectives.

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1 An earlier version of this paper was presented at the conference on "Politische Ökonomie: Leistugsprofile in internationalen Vergleich," held at the Zentrum für Sozialpolitik der Universität Bremen. We thank Herbert Obinger, Bernhard Kittel, Uwe Waagshal, and other participants in the conference for their helpful criticisms and suggestions.

The Development in Government Spending within the OECD Countries: An Overview

Long-Term Trends in Government Spending

The twentieth century witnessed a massive increase in the size of the public sector relative to the rest of the economy. Table 1 presents an overview of the development of public sector weights inside many of the OECD countries.[2] Presented there are figures on the total general government spending expressed as a percentage share of GDP within 19 countries for the period from 1870 through 1995. Lack of data prohibits us from presenting a more complete picture of these developments, particularly in the earlier part of the era.

Data deficiencies aside, it is quite clear that public spending represented a relatively small share of overall national economic activity in the late 19th and early twentieth century. In terms of regional cultural groupings, the Continental European states stood above all others (with the exception of Japan), devoting, on average, about fourteen 14 percent of GDP to the public sector. The Nordic and Anglo-Saxon countries generally lagged behind, with group averages of between ten and eleven percent.

The first half of the twentieth century saw a tremendous growth in the share of national economic resources under the control of government. Of the eleven countries for which data are available for the very beginning of the 20th century, all but one increased the size of the public sector (Japan being the exception). The overall increases varied significantly among the other ten, but nonetheless, they were very substantial and ranged from an 80 percent increase in the relative size of the public sector in Italy to a 200 percent or more increase in Canada, France, Germany, Norway, the United Kingdom and the United States. The cross-country average in the share of GDP represented by public spending in 1900 stood at less than thirteen percent and by 1950 this had increased to 24 percent. For the 18 countries for which data are available in 1950, the average was slightly higher, standing at 24.3 percent. At the mid-century point the group averages stood close together with the Anglo-Saxon countries actually in the lead, devoting nearly 27 percent of GDP on

2 Appendix 1 provides information on the sources used to gather the data presented in this table. It also provides alternative estimates for some of the values included in the table.

Table 1: Total Government Spending Relative to the Size of the Economy (Percent GDP)

	1870	1880	1890	1900	1910	1920	1930	1938	1950	1960	1970	1980	1990	1995
Australia	--	--	--	--	--	--	--	--	23.9	22.8	26.1	33.2	37.1	37.3
Austria	11.4	11.7	12.9	15.0	17.6	14.7	19.8	15.2	25.1	30.4	35.3	47.2	48.2	51.5
Belgium	--	--	--	--	--	--	--	21.8	23.7	30.7	37.5	51.7	54.7	54.6
Canada	6.2	7.0	7.8	8.7	11.3	19.0	18.9	21.6	21.9	29.1	35.8	40.6	46.5	48.1
Denmark	9.2	8.9	10.6	10.8	12.3	15.4	13.5	16.7	19.6	25.2	39.4	55.6	58.1	61.6
Finland	--	--	--	--	--	--	--	--	25.8	26.9	30.5	37.0	42.5	59.1
France	11.0	14.6	14.3	14.5	15.1	22.4	29.4	29.4	29.3	34.0	37.7	43.3	49.6	54.1
Germany	9.5	9.9	12.9	14.2	16.0	25.0	29.4	36.9	29.2	32.2	36.9	46.5	44.9	47.7
Ireland	--	--	--	--	--	--	20.8	32.9	30.3	27.3	37.9	52.3	42.4	40.3
Italy	14.4	13.7	18.4	16.3	17.3	30.2	22.0	29.2	23.0	29.7	31.7	44.9	51.6	51.8
Japan	8.8	9.5	12.0	17.5	24.3	19.2	26.8	29.9	15.9	17.8	18.6	32.3	31.3	36.1
Netherlands	9.1	--	--	--	9.0	13.5	14.0	23.2	27.1	34.6	42.3	56.5	54.0	54.2
Norway	5.9	6.8	7.4	9.9	9.3	12.8	19.1	20.3	24.2	31.3	41.3	48.8	54.8	49.0
Portugal	--	--	--	--	--	--	--	--	16.4	17.8	22.0	38.0	42.8	45.3
Spain	--	--	--	--	8.3	9.3	--	18.4	--	17.7	21.5	31.1	42.0	46.6
Sweden	5.7	--	--	--	10.4	12.8	19.1	20.3	26.3	31.3	42.8	60.9	61.5	67.0
Switzerland	--	15.8	14.3	10.6	14.0	17.0	17.4	23.9	20.8	21.0	26.7	35.0	33.4	38.4
United Kingdom	8.7	9.1	9.2	14.9	12.7	27.4	24.7	28.6	32.0	32.1	37.8	44.3	40.4	44.2
United States	8.3	5.9	6.5	7.9	8.2	9.4	12.2	19.7	22.4	28.4	33.7	35.3	36.8	36.1

average to the public spending. The Continental European and Nordic countries stood near to one another, with both having group averages of about 24 percent. By this time Japan lagged well behind the others with public sector spending standing at less than sixteen percent of GDP.

Despite the historically high growth rates of the OECD national economies from 1950 onwards, the growth of the public sector continued its rapid advance.[3] The next near-half century saw a continuation of the pattern of increasing size of the public sector relative to the overall economy. Indeed, by 1995 the relative weight of general government spending had doubled again, thus achieving an average level of more than 48 percent of GDP. National patterns of government growth varied as before. As a consequence, the spread in the relative size of the public sector across the 19 countries spanned the range from a low of about 36 percent (in Japan and the United States) to a high of 67 percent in Sweden. This variation is revealed more broadly by examining the different regional/cultural groupings. On average, the Anglo-Saxon countries lagged behind in the process of expanding the public sector's share of the economy, advancing, on average, by about 60 percent, with a group average of about 42 percent of GDP allocated to public spending near the end of the century. The Continental European group more than doubled the size of the public sector relative to the economy with the group average moving from about 24 percent in 1950 up to about 49 percent in 1995. Expansion was even greater in the Nordic group of countries with the public sector's share of GDP moving from less than 25 percent to nearly 60 percent, on average.

The Sources of Growth in the Size of Government

What brought about this huge growth in the control of economic resources by government during the twentieth century? Answers to this question are legion and in this brief section it is possible to provide only a brief survey and analysis of the

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3 As Maddison points out, the second half of the twentieth century stands out for its historically high growth rates, particularly among the OECD countries. This was clearly so during the period from 1950 through 1973, the so-called "golden age," and continued to be the case despite the relative slow-down during the "neoliberal order" in last quarter of the century. See Angus Maddison, 2001, pp. 125-141.

some of the leading arguments about the forces that have been at work in bringing this growth about.[4] It would be fair to say that both economics and politics have played a role and we will concentrate on these two areas.

The Economics of Government Growth: Economic developments over the last century or so, both internal and external to the national economy have been seen by many to be major forces shaping the size of the public sector. In the internal side, the dynamics of capitalism set in train major changes within economy and society itself. On the one side, shifting patterns of productivity and demand act to uproot people from traditional economic roles (and the social settings within which these are carried out) and bring them into new activities. Two major shifts over the last century or so have affected huge parts of the population: (1) the decline of the agricultural sector and the rise of the industrial sector and then (2) the latter's decline with the consequent rise in the service economy. These massive economic transformations in the long-term dynamics of capitalist economies have brought about a decline in the capacity of family units and local communities to provide for their own needs. This has acted to increase demand for the state to supply these goods and services and for the state to continuously expand the domain of activities in which it is involved.[5]

On the other side, the dynamics of rising income as well as differential patterns of productivity growth have brought about major imbalances which place pressure on the state for corrective action. As income rises patterns of consumption shift. The level of consumption of services and goods supplied by others rises. But particularly in the service sector it is notoriously difficult to increase levels of productivity. This creates vast economic and social problems which culminate in pressure of government to address the negative externalities accompanying this economic

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4 For some surveys of this vast literature, the reader is referred to Peacock and Wiseman (1979), Larkey, et al. (1982), Taylor (1983), Lybeck (1986), Lybeck and Henrekson (1988), Pommerhene (1990), and Holsey and Borcherding (1997).

5 The classic reference on development and the growth of the public sector is Wagner (1883). For a critical review of the extensive number of recent empirical studies on this matter, see Peacock and Scott (2000).

development. More often than not this has resulted in the public provision of services and goods that traditionally would have been on offer in the private market, but at price levels affordable only to the few.[6]

Many argue that the international economy has played an important role in shaping the size of the public sector in the advanced industrialized democracies. Although fairly integrated in terms of both finance and trade at the end of the 19th and early 20th centuries, war, depression, and competitive practices helped to severely discouple these economies from their previous high levels of mutual dependence.[7] This was slowly reconstructed in the post-World War II era and accelerated following the breakdown of the Bretton Woods regime in the early 1970s.[8] One of the hallmarks of the phenomenon of such mutual dependence is the high degree to which large numbers of citizens are exposed to the risks associated with the seemingly constant need to adjust to externally produced shocks. In the view of many, this brought about great pressures on the state to cushion its population and particularly its work force against these shocks and thereby minimize the differential risks involved. This again requires significant financial commitments on the part of the state and is seen as leading to an ever expanding public sector.[9]

The Politics of Government Growth: At least since Tocqueville (1835 [1945]), commentators have pointed out that the expansion of participation in political decision-making provided by democratic forms of government places great pressure on the state to increase government spending. Traditionally, even in the early modern democracies such as Britain or the United States, political participation was very restricted and this invariably in such a way as to concentrate political power in the hands of the same people who had inordinate wealth and income. As these people must lose private riches to allow the state to expand its activities, they are inordinately opposed to a large and well-financed state. Over the last century or so, the scope

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6 The classic statement of this argument is to be found in Baumol (1967) and has been studied intensively by Beck (1985).

7 For an interesting and informative perspective on previous high levels of "globalization", see O'Rourke and Williamson (1999).

8 For a survey of the development of the international capital market over the last century, see Eichengreen (1996).

9 See, in particular, Cameron (1978), Rodrik (1997), and Garrett (1998). For a critique and alternative model emphasizing the endogenous sources of these risks and the pressure they bring to bear on public spending, see Iversen and Cusack (2000).

of electoral suffrage has increasingly widened in the western democracies. With this widening, ever greater parts of the population with fewer economic resources have been brought into the political process. Following the logic of the median voter theorem, analysts such as Meltzer and Richard (1983, 1985) note that this development brings greater pressure on government to expand the size of the public sector as ever more people with low or no income enter the electorate. This shifts the identity of decisive or median voter further toward to position of strong support for government redistributive efforts with a consequent rise in the size of public spending.[10]

A variety of institutional features of democratic (and non-democratic) governments have been cited as important factors in shaping the size of the public sector. One of the most frequently cited institutional features is the degree to which the political system is centralized or not (Pommerehne, 1990). This has emerged as one of the main theoretical strands in the Public Choice literature on government growth. The hypothesis here states that government's share of society's economic resources will be smaller, other things being equal, to the extent that taxation and expenditures are decentralized. Movements in the direction of centralization will bring about corresponding increases in the size of the public sector. The importance of the relative degree of centralization has been strongly emphasized by Brennan and Buchanan (1977, 1980) who see it as acting as a behavioral constraint on policy-makers. Marlow (1988) suggests that this follows from the basic theoretical assumption that anything that acts to constrain government's budget or opportunity set will limit the scope of resources it ultimately spends. Federal systems are notorious for providing constraints on policy-making and it follows in the view of many Public Choice theorists that such systems will also serve to limit the size of government spending relative to more centralized systems.[11]

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10 For variations on expectations regarding the effects of democracy and widespread electoral participation on the size of government, see Downs (1960), Stiegler (1970), and Peltzman (1980).

11 For a view that stands in sharp contradiction to this argument, see Oates (1972, 1985).

Let us look briefly at how well these economic and political factors do in accounting for the growth of government spending over the long-term. In an attempt to present as broad a picture as possible, we will use the data for the period from 1880 through 1990 and this time frame permits us to include the experience of eleven countries.[12] In order to assess the effects of these putative influences we have specified the following model.

$$GX_{i,t} = a + b_1 GX_{i,t-1} + b_2 YC_{i,t} + b_3 O_{i,t} + b_4 EP_{i,t} + b_5 F_i + e_{i,t}$$

This can be estimated as a pooled cross section-time series equation. The dependent variable is general government total spending (net of military outlays) expressed as a percentage of GDP.[13] Note that a lagged endogenous variable, $GX_{i,t-1}$, is included on the right-hand side of the equation. This helps bring out the dynamics inherent in the data and helps minimize problems with respect to autocorrelation (Beck and Katz, 1995). To capture some of the influences of the transformations brought about by the internal development of these economies over the long term we include an income term, $YC_{i,t}$.[14] Representing the forces operating within the international economy is a trade openness term, $O_{i,t}$.[15] The first political term captures the level of electoral participation. It is operationalized as the decade average of the share of the population (age 20 and above) participating in national elections, $EP_{i,t}$. The timing of this variable is such that it represents the average of the ten years preceding the year of the dependent variable.[16] Finally, we include a simple dummy variable,

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12 Included in the analysis, then, are the following: Austria, Canada, Denmark, France, Germany, Italy, Japan, Norway, Switzerland, the United Kingdom, and the United States. This represents a good cross-sample of the modern industrialized countries.

13 Data on total spending are from the sources listed in the note connected to Table 1. Principal sources for the military expenditure data include: the Correlates of War National Capabilities Data set and various issues of the SIPRI *Yearbook of Armament and Disarmament*.

14 This is operationalized use gross domestic product per capita in thousands of real US dollars in the year. Data are taken from Maddison, 1995.

15 This is measured as exports as a percentage of gross domestic product. The variable is the average of the ten years preceding the year of the dependent variable. Both data series derive from Maddison (1995).

16 Data derive from a variety of sources, including, Flora, et al. (1983), Cook and Paxton (1975) International Institute for Democracy and Electoral Assistance (1997), and Mackie and Rose (1991).

FED_i, which takes a value of "1" for federal systems and a value of "0" for centralized systems. Austria, Canada, Germany, Switzerland, and the USA are treated as federal systems in the analysis. Our expectations with respect to the parameters associated with the variables on the right hand side of the equation are as follows: $1 > b_1 > 0$, b_2, b_3, and $b_4 > 0$, and $b_5 < 0$.

Table 2 presents the final estimation results for the model. Note that a Lagrange multiplier test suggested a problem with either cross-section heteroskedasticity or cross-section correlation. To correct for this, the model was reestimated using the approach formulated by Beck and Katz (1995) which provides panel corrected standard errors. The t-statistics reported in the table are based on this corrective procedure. The overall fit of the model is quite good with nearly 90 percent of the variance in dependent variable accounted for by the specification. Expectations regarding the direction of the effects of the independent variables have generally been met with all but one statistically significant. Let us turn briefly to discuss these effects.

Turning first to the effect of the openness of the national economy to the international system we note that while the estimated effect is positive, as expected, it is not statistically significant. On the other hand, the estimate parameter associated with income per capita suggests that internal economic developments appear to have a powerful impact on the growth of the relative size of the public sector's spending. So, too, do both of the political terms included in the equation. Both electoral participation as well as the structure of the political system (in terms of federalism) have the posited effects and these are clearly statistically significant. Substantively, the effect of higher levels of electoral participation is to increase the overall relative size of public sector spending while federalism acts as a brake on the size of the public sector.

Interpreting the dynamics of such an equation is not completely straightforward given the presence of the lagged endogenous variable but it is not difficult to map out some of the implications of the model and the estimated parameters. We will focus here on the effects of the political variables. We do this by setting all other variables on the right hand side of the equation equal to their mean values and then explore the implications of different values observed within

Table 2

Model of Long-Term

Government Spending Growth

Estimation Results Based on

Pooled Cross Section-Time Series Analysis*

	coefficient (t-statistic)
Lagged Dependent Variable	.73 (7.77)
Income per capita	.41 (2.84)
Openness	.12 (1.57)
Electoral Participation	.07 (2.65)
Federalism	-1.54 (3.08)
constant	1.41 (1.02)
$\overline{R}^2$	.88
n (units=11, time pers=11)	121

* - t-statistics based on panel corrected standard errors

Table 3

Predicted Values of Government Spending as a Percentageof GDP Under Alternative Political Conditions

	Type of Political System	
	Federal	Centralized
Electoral Participation:		
High	26.5	29.2
Low	19.7	22.4

the political data. Specifically, in the case of electoral participation we have used two variants by setting it at (1) the value equal to the mean minus one standard deviation and then (2) the mean value plus one standard deviation. These variations were explored for both federal systems and then centralized systems and the effects simulated over two periods. Note that the mean value of the lagged endogenous variable is equal to approximately 19 percent.

Table 3 provides the predicted values of the endogenous variable (government spending as a percentage of GDP) after two decade periods have been simulated under different political conditions. Very clear and consistent patterns emerge. Recall that the initial value against which these numbers can be compared is 19 percent. Under the most unfavorable conditions for the relative growth of government, i.e, a federal system with low levels of electoral participation, there is only a slight increase in the size of public spending relative to the size of the economy. After two decades, spending would be still be below 20 percent of GDP. Under the most favorable conditions for the growth of government, i.e., a centralized system with high levels of electoral participation, the overall size of the public sector with respect to the economy would have gone from 19 percent to over 29 percent, representing nearly a 50 percent increase in the relative size of the public sector. In sum, the effects of politics on the long-term development of size of public spending relative to the economy appear to be quite powerful.

Recent Developments in Public Spending

Prior to ending this section, it will be useful to provide some more details on the development of public spending over the last four decades or so, since this development will be the focus of attention throughout much of the rest of the paper. A convenient and substantively meaningful way of breaking down public spending is to divide it into 7 specific categories. These categories include the following: (1) social transfers by government to household and non-profit institutions serving households, (2) spending on services and goods for civilian purposes, (3) government subsidies to the economy, (4) public investment, (5) external transfers, (6) military expenditures, and (7) interest on the public debt.

Our focus later is on the first five of these categories. The first category, social transfers, is one of the major components of welfare spending and includes a wide variety of programs, in particular, public pensions and unemployment compensation.

The second category, civilian spending on goods and services, while partially composed of outlays for traditional state functions, such as public safety and regulation, is in most countries an integral part of the welfare state. Large parts of welfare spending do not come in the form of transfers but rather as services and goods provided by the state, such as the provision of health care, child care, education, and so on. As we point out below, these first two categories stand out in the public sector accounts for their sheer size.

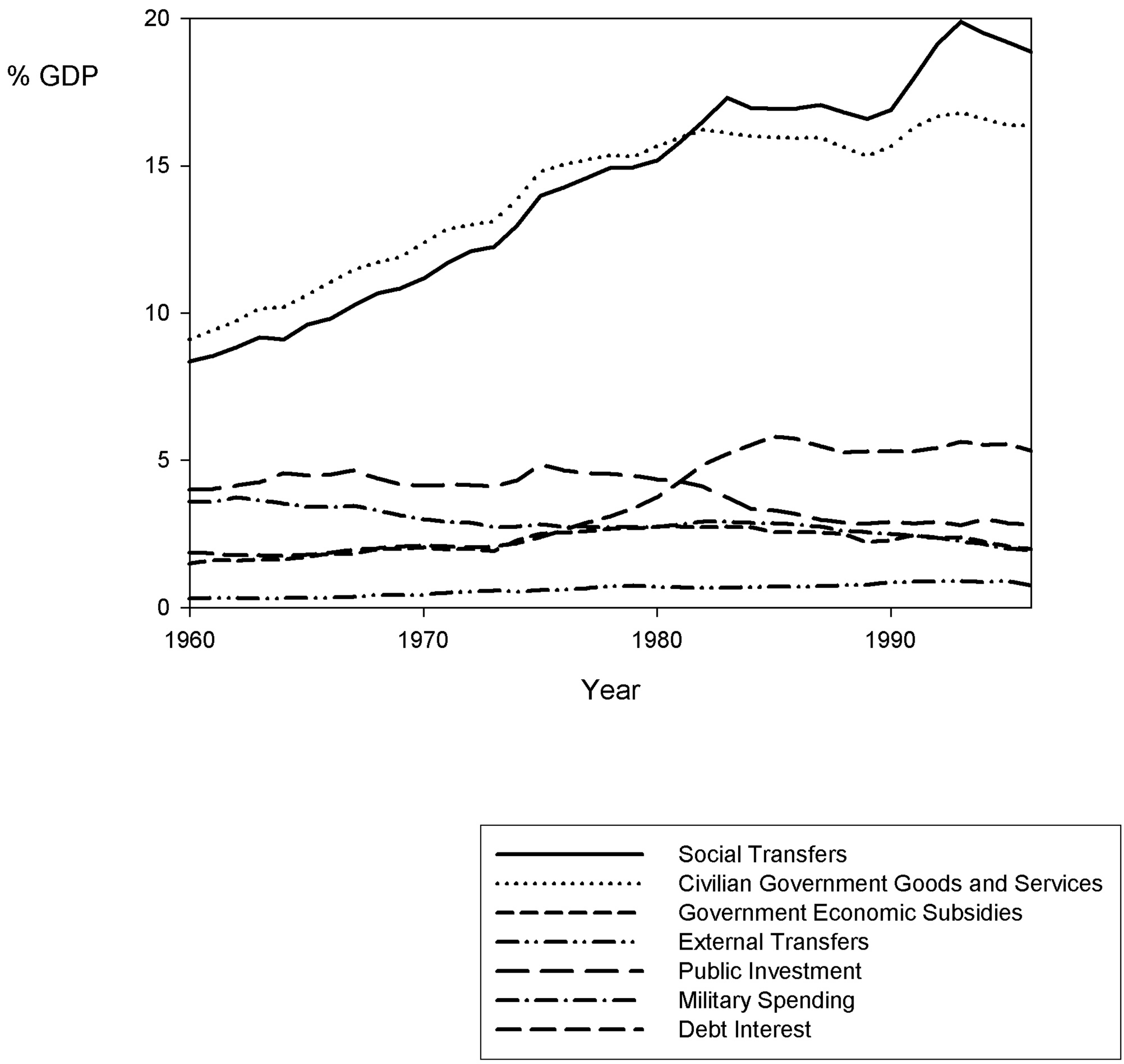
Public spending for the remaining three of the first five categories are aimed at a mix of purposes. Categories 3 includes public transfers to firms in the national economy. Category 4 represents principally investment in public infrastructure and the fifth category includes transfers to actors outside the countries boundaries and involves mainly funds for international organizations and some of the money used in foreign aid programs.

Figure 1 provides an overview of how these categories of spending (as well as those for military purposes and interest on the public debt) have developed over the period from 1960 to 1996. Presented there are annual average figures of each category's spending as a share of GDP for the 17 OECD countries which will be the focus of our attention in later parts of the paper. As noted above, spending on social welfare, be it transfers or goods and services, take up a very large share of government budgets. In 1960, together these two categories of spending constituted about 17.5 percent of GDP and thereby accounted for nearly 61 percent of all government spending. Unlike most of the other five categories of spending, these two areas have had increasingly larger shares of Gross Domestic Product devoted to them and thereby grew to constitute nearly three quarters of all public spending at the end of the period. By 1996, these two categories combined stood at over 35 percent of GDP.

The other three of the first five categories of spending have generally been residual items within public budgets although, for example, public investment did constitute anywhere from four to five percent of GDP in the first two decades of this time period. Thereafter, however, public investment as a share of GDP has continuously declined to where by 1996 it constituted about two-and-three-quarters percent of GDP. Public subsidies rose from 1960 on to the mid-1980s, going from less than one-and-a-half percent to about two-and-three-quarters percent of GDP. After the mid-eighties, they too declined in terms of their relative size to less than

Trends in Public Spending within the OECD Countries, 1960-1996

Components of General Government Spending as a Percentage of GDP
(Annual Averages for 17 Countries)



two percent of GDP by 1996. The smallest component of the budget, external transfers, has continuously remained below one percent of GDP although they have tended to rise throughout the nearly four decade period.

Finally, military outlays and interest payments have taken two very different trajectories. While military spending as a share of GDP has almost continuously declined over this period, interest payments have since the late 1960s increased in size relative to the economy peaking at 5.8 percent of GDP in 1985 and dropping slightly to 5.3 percent by 1996.

The Growth of Government in the Post-World War II Period: Some Leading Political- Institutional Arguments

Partisanship and Ideology

Standard partisan ideology thesis holds that political parties are engaged in both office-seeking and policy-pursuit (see, e.g., Wittman, 1983). In general, the emphasis is on the latter goal which is held to reflect the preferences of a party's socio-economic constituency, particularly as this is reflected in the size and activities of the state (Hibbs, 1977, 1992). Parties of the left are assumed to be representative of the less-advantaged classes of society who favor a large and active state, particularly one committed to egalitarian forms of redistribution. The constituencies of rightist parties are far more socio-economically advantaged and have exactly the opposite interests in terms of the size and activities of the state. An important variant on the standard perspective sees parties of the center, in particular, Christian Democratic parties, as supportive of at least some aspects of the left agenda, especially with regard to a redistributive state.

Published empirical work has generally been supportive of one or another variant of the partisan thesis. Table 4 provides an overview of some recent work in this area.[17] All of these studies have as their basic premise the idea that governing

17 We should note that a recent effort (Imbeau, et al., 2001) at evaluating the empirical findings in this literature comes to a less sanguine conclusion. However, there are a number of severe problems that pervade this work, for example, excessive reliance on studies using a broad-gauged shotgun approach of simple bivariate tests, unclear specification of what it counts as a "failure", "success ", or "anomaly," and questionable sample selection procedures.

Table 4
Studies on Partisanship and Public Spending

Study	Theoretical Argument	Design Details	Results
Blais, Blake, and Dion (1993)	Standard left-right distinction. The effectiveness of this pursuit is diminished by having a minority status and enhanced by the length of tenure in office.	Pooled, multiple cross-sectional, and multiple time series analyses. 15 OECD countries, 1960-1987. Variety of controls.	Cross-sectional and individual time series analyses provide little support for argument. Pooled analyses results supportive of argument. Partisanship effects not large unless government has majority status and long tenure.
Cusack (1997)	Partisan pursuit of budgetary policies subject to the constraint of reflecting the ideological preferences of the electorate. Standard left-right distinction. Effect holds even in the presence of higher levels of globalization. The lack of governmental coherence encourages log-rolling which leads to higher spending.	Pooled analyses 15 (16) OECD countries for period of 1955-1989 (1961-1989). Variety of controls.	Results supportive of argument. Ideological effects are present and the evidence suggests that governments are particularly attentive to the ideological preferences of voters. While globalization of capital has slowed growth, it does not appear to have greatly diminished partisan effects. In addition, governmental incoherence drives up spending.
De Haan and Sturm (1993)	Standard left-right distinction. The lack of governmental coherence encourages log-rolling which leads to higher spending.	Pooled analysis of 12 EU countries for the period 1980-1989. Variety of controls.	Results support partisan argument but find no support of the governmental coherence argument.
DeHaan and Sturm (1997)	Same as De Haan and Sturm (1997).	Pooled analysis 21 OECD countries for the period 1982-1992. Variety of controls.	The estimated effect of partisanship is in the predicted direction, but the parameter is statistically insignificant. No support for the governmental coherence argument.
Garrett and Lange (1991)	Governing parties, when supported by strong economic actors with similar ideological preferences, pursue budgetary policies consistent with their ideology even in the presence of globalization pressures. Standard left-right distinction.	Cross sectional analyses with 15 OECD countries. Annual averages for period 1974-1987 and change in annual averages between 1968-73 and 1982-87. Variety of controls.	Results supportive of the hypothesis that ideological preference given free rein when government confronted with strong economic actors with same preferences even in the presence of globalization pressures.

Garrett (1995)	Similar to Garrett and Lange (1991) but embedded in a test of two contrasting hypotheses regarding the effects of globalization, namely, the compensatory hypotheses where effects should be stronger, and the efficiency hypothesis where effects are reversed or mixed.	Pooled analyses, 15 OECD countries for the period 1967-1990. Variety of controls.	Results supportive of the hypothesis that ideological preference given free rein when government confronted with strong economic actors with same preferences and that the effects are supportive of the compensatory hypothesis regarding globalization.
Roubini and Sachs (1989)	Governing parties pursue long-run budgetary policy targets consistent with their ideology. Standard left-right distinction. The lack of governmental coherence encourages log-rolling which leads to higher spending targets.	Pooled analysis, 13 OECD countries for the period 1972-1985.	Results supportive of partisan spending targets. Results mixed on coherence of government's effect.
Schmidt (1996)	Left-right dimension not the only ideological element, Christian Democracy supportive of some elements of large government. In addition to ideology, institutional constraints on government diminish its capacity for growth.	Pooled analyses (unbalanced design) with 22 OECD countries for the (maximum) period 1960-1994. Variety of controls.	Results supportive of modified partisan ideology hypothesis. Evidence also supportive of the effects of institutional constraints.
Swank (1988)	Left, and center parties (religious, secular) supportive of large budgets; rightist parties seek to diminish size of government.	Two cross sections of overtime changes in domestic spending. 17 OECD countries (1960-1973; 1973-1980). Variety of controls.	Results generally supportive of positive effects of center parties on spending throughout. The effects of leftist and rightist parties mixed.

parties pursue budgetary policies consistent with their ideologies. Each has embedded this thesis within larger models which attempt to capture other important forces shaping the development of public finances, including exposure to international markets and support from major economic groups within society.

In addition, some work on partisan ideology has also attempted to bring the role of institutions into the explanatory framework. For example, Roubini and Sachs (1989), DeHaan and Sturm (1993), and Cusack (1997) examined the effects of the lack of governmental coherence on spending levels. Schmidt (1996) went further by developing a rich index of institutional constraints and examined the hypothesis that these lower public spending growth. However, all of the work in this field entertaining institutional factors have treated partisan ideology and institutions separately and not in interaction or as conditioning contextual factors.

Institutions

The widening interest in the role of institutions in shaping public policy outcomes is reflected in the production of a number of recent studies linking aspects of legislative institutions to developments in public finance. Unfortunately, most of this work has concentrated on the United States, and relatively little cross-national comparative research has been carried out. This bias has led much of the work, then, to focus on a theoretically based model with some central features that might be questionable in political systems other than the United States, in particular, (a) lack of party discipline and (b) constituency base (single member districts).

There have been two major theoretical thrusts in this literature. The first focuses on a simple structural characteristic, the size of the legislature. It draws on the model of distributive politics developed by Weingast, Shepsle, and Johnson (1981). In this model where the political system is assumed to be geographically divided into a multitude of electoral districts each with its own representative, there is a tendency for spending on distributive programs (projects where spending can be geographically targeted) to be greater than what would be efficient from a welfare point of view. This follows from a number of considerations among which are: such projects concentrate benefits within the district while dispersing the costs across the entire system, and there is little resistance from other legislators if their support for such projects is reciprocated. Out of this log-rolling situation, government budgets will always be larger than the social optimum. As a corollary, the larger

Table 5
Studies on Political Institutions and Public Spending

Study	Theoretical Argument	Design Details	Results
Bradbury and Crain (2001)	"Law of 1/n"; larger size parliaments produce more public spending. In addition, bicameralism through symmetry in power and incongruence in constituency bases dampens the "Law of 1/n" effect.	Pooled Analyses (35 developed and developing countries, mixture of states with unicameral and bicameral legislatures). Basis for selection of sample unclear. Time frame not given. Variety of controls used.	Results support "Law of 1/n" only in case of the lower house. Either no effect by size of upper house, or effect opposite that predicted. Suggest that there is some evidence of dampening effect of bicameralism.
Bradbury and Crain (2002)	Asymmetry in constituency interests across legislative chambers lowers redistributive spending and higher levels of spending of public goods.	Panel Analyses of 49 U.S. states over the period 1994-97. Variety of controls used.	Authors interpret results as supportive of theoretical argument. However, because models specified with non-linear effects and the authors ignore these effects, the results actually contradict the argument.
Crain (1999)	Modified "Law of 1/n" argument where the denominator is weighted by p, a measure of the diversity found within constituencies. The more diversity within constituencies, the lower the spending. In addition, the more diversity across constituencies, the greater the spending.	Panel Analyses of 49 U.S. states over the period 1994-97. Variety of controls used.	Results supportive of argument. Intra-constituency diversity lowers spending, inter-constituency diversity increases spending.
Gilligan and Matusaka (1995)	"Law of 1/n"; larger size parliaments produce more public spending. In addition, partisan effects on spending with left creating higher spending than right.	Panel analyses of 6 yearly observations (every five years, starting in 1960) for 48 U.S. states. Variety of controls used.	Results support "Law of 1/n" only in case of the upper house. Size of lower house has no effect. Effects of partisanship are weak though some indication that the effects may work on the composition of spending.
Gilligan and Matusaka (2001)	"Law of 1/n"; larger size parliaments produce more public spending. Further, two partisan effects expected. Left produces greater spending than right and divided government inhibits log-rolling and thus lowers spending.	Panel analyses of 48 U.S. states for four unevenly timed cross-sections between 1902 and 1942. Variety of controls used.	Results support "Law of 1/n" only in case of the upper house. Either no effects for lower house size or effects opposite predicted. Partisan effects mixed.

Heller (2001)	Where party discipline high, bicameral systems will inhibit log-rolling and credit sharing between parties. Therefore, greater the divergence in partisan compositions of the two chambers of a bicameral system, the lower the government spending and the smaller the deficits.	Pooled analyses with unbalanced design. Longest period is 1965-1997. 9 OECD countries with bicameral systems. Basis for selection of countries unclear. Variety of controls used.	Results support hypothesis that divergence in partisan compositions of bicameral chambers lowers spending (and deficits).
Solano (1983)	Bicameralism, where both chambers possess veto power and have dissimilar constituency bases, lowers government spending relative to unicameral systems and bicameral systems where these traits are absent. Left control of lower house elevates spending levels.	Cross sectional analyses of 18 (16) OECD countries for fiscal year 1968/69. Variety of controls used.	Results support hypothesis about symmetrical and incongruent bicameralism lowering spending levels. No support for partisanship hypothesis.
Thornton and Ulrich (1999)	The smaller the size of legislative constituencies, the greater the monitoring capacity of constituents, the greater the homogeneity of constituencies, the less log-rolling and therefore the lower the level of government spending. In addition, bicameralism acts to depress the level of government spending.	Panel Analyses of 49 U.S. states over the period 1987-91. Variety of controls used.	Results suggest that larger constituency sizes, at least in upper houses, increase government spending. Bicameralism, at least as defined as the relative size of the lower chamber to the upper chamber, decreases government spending.

the number of the constituencies, the smaller the share of the overall costs of project spending in each district, and thus greater the push for higher numbers of projects and levels of spending (the "Law of 1/n").

The second focuses on another structural characteristic of legislatures, bicameralism.[18] There are at least three strands of argument here. The first generally assumes that where the budgetary powers of the two houses are comparable, then the costs of log-rolling are greatly increased. These heightened costs result often in one or another house effectively implementing a veto, and this leads to smaller budgets (e.g., Bradbury and Cain, 2001). Heller (1997) develops a similar model where, however, the veto game involved leads to greater rather than lesser spending. In a later paper, Heller (2001) takes a more differentiated approach where his model predicts that in bicameral systems where the two houses have markedly different partisan compositions, the tendency is to produce smaller budgets. An overview of some recent studies that evaluate different arguments about the characteristics of legislatures and government spending is provided in Table 5.

Institutions and Partisanship in Government Spending Decisions

A Model of the Budgetary Process

Drawing on the theoretical work of authors such as Heller and Tsebelis, we posit a simple model of the budgetary process. The basic actors in this model are political parties. The parties themselves are seen as having preferences on which they act. In the budgetary process their preferences reflect their ideology. Parties on the left side of the left-right ideological dimension are assumed to have the following preference ordering: increase spending > no change in spending > decrease spending. The preference ordering of parties on the right is the converse of this, specifically, decrease spending > no change in spending > increase spending.

In cases of governments where there is single party rule, there is no major problem with treating a party as the government actor in this model. The existence of government coalitions poses some ambiguity but we will assume that the

18 This is a part of a broader set of literature on the distribution of power within and across institutions. Some of the central works in this area include the veto-players approach of Tsebelis (1995, 1999, 2001) and work on the separation of powers by Persson, et al. (1997).

willingness to join a coalition means the acceptance of the dominant ideology among the parties member to the coalition. The government coalition's ideology is a composite of the relative strength of the parties in the government and their ideology and for purposes of this model, multi-party coalitions are be treated as a single actor.

A critical element in the decision making process being modelled here is that the exercise of a veto by the government or a majority in a legislative house results in having the status quo as the outcome. If no veto is cast in the process, the result is the policy proposal of the government, a proposal that reflects its ideological preferences. There are potentially three venues where decisions are made. One venue of decision making is within the cabinet and without much problem we can assume that the cabinet has the first move in the budgetary decision process. It can choose to present a budget that proposes an increase in spending or one that proposes a decrease in spending. The second venue is assumed to be the lower house of parliament. The critical actor there is the coalition that constitutes a majority of the seats in that chamber. If that majority grouping is the same as the coalition of parties that constitute the cabinet, one can expect their preferences to be the same as the governments.[19] In that case, the majority coalition will accept the government budget proposal. When, however, the government does not have a majority within this parliamentary house, one can expect that the outcome will be a rejection of the government's proposed budget and the proposal of a budget that goes in the exact opposite direction of the government's proposal. Absent a third decision making venue, specifically an upper house of parliament with powers in the budgetary process, the government has the right to veto the proposal of the opposition coalition. The consequence of this action is a status quo on the budget occurs, that is that there is no change in the size of the budget.

If there is a third venue of decision making, that is an upper house with budgetary authority, similar conditions hold. If the majority's preferences are similar to both the cabinet and the majority in the lower house, it will accept the budgetary proposal of the government. If upper house's majority preferences are different

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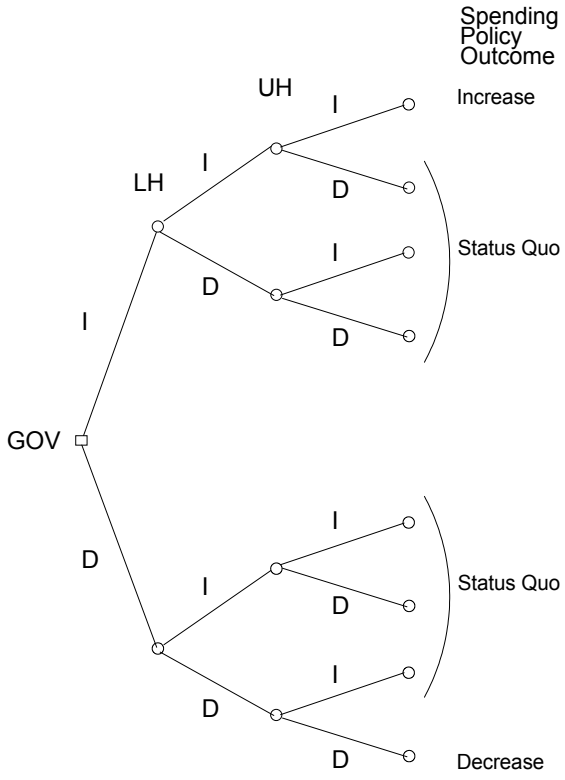
19 Note that in operationalizing the model, we will deal with both this restrictive assumption regarding the conditions that hold with respect to the government's support in a legislative house as well as a less restrictive assumption whereby even minority governments can gain majority support if there are non-governmental parties in that parliamentary house which have an ideology similar to the governments and together with the government hold a majority of seats in that house.

Figure 2

Government and Legislative Houses
in the Production of Spending Policy Outcomes



from either the cabinet or the lower house's majority, it will veto the proposal of that actor with different preferences and propose a budget with the opposite character. Both the cabinet and the lower house have a veto right on this and would exercise it, thereby producing the outcome of a status quo.

Figure 2 presents in schematic and simplified form the decision making process and its potential outcomes. A few words may help clarify how a potential outcome arises. Let us assume that the government coalition has a leftist ideology. It would choose to propose a budget that increases spending, that is it would take the option "I". If the majority in the lower house were also on the left, it would choose to accept the budget proposal of the government, choosing again "I". And if simultaneously, the majority in the upper house had the same ideological preferences as the government and the majority in the lower house, it would again choose "I", which would culminate in an outcome of a budget increase. If, however, the government could not acquire majority support in the upper house, the opposition holding the majority there would choose to veto the proposal of the government and propose that the budget be decreased. This would spur the government or the lower house to veto that proposal and the outcome would be no change in the size of the budget.

Measurement of Partisanship and Institutional Features

To capture the ideological position of a political party we employed data drawn from the Comparative Manifesto Project (CMP).[20] There are two attractive aspects of this data set that make it useful for our purposes. First, it does not rely upon expert judgements which may at times be questionable, but rather depends on actual policy position statements made by the parties themselves.[21] Second, unlike available expert judgement data, there is no assumption of over-time stability in where the party positions itself on policy issues.

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20 Our thanks to Andrea Volkens for generously providing us with data on CMP codings and lower house seats and election results for the political parties in the OECD countries spanning the period from the late 1940s to the mid- to late-1990s.

21 Budge (2000) points out a variety of potentially serious problems with the validity and usefulness of expert judgement codings. Among the more severe is the inherent difficulty of determining the extent to which the coding reflect the experts' beliefs about party intentions as opposed to their assessments of previous behavior of the party. The use of such data becomes problematic, then, when one employs them in analyses of the effects of ideology on party behavior.

Our codings for participation in the government are based on data drawn from Woldendorp, et al. (2000).[22] Share of cabinet seats are taken as representative of the relative strength of the party in government. Share of seats in lower house of the legislature, in turn, are taken as representative of the relative strength of the party in that institution. The information on the lower house partisan composition is based on a data set developed by Andrea Volkens (2001). Note that both data sets contained some misclassifications and ambiguities (particularly the Woldendorp, et al. data set) which we corrected and clarified through various sources, in particular articles or special issues of the *European Journal of Political Research*.

In general, measurement of the strength of parties in upper houses of the legislature are based on the same logic: relative share of seats with in that institution. The structure of the German Bundesrat is quite peculiar and a special set of rules were used there.[23] Data on the partisan composition of upper houses of national legislatures have not been brought together in any cross-national data set and so we developed our own and relied on an extensive set of national sources to bring together such information.

Information on the ideological positions of individual parties and their cabinet strengths were combined to produce a partisan center of gravity index for the government. This is simply the sum of the weight of each party (its relative share of cabinet seats) times the ideological position of the party on the CMP's "RILE"

22 Our thanks to Jaap Woldendorp for providing information to help clarify many of the party names listed in Woldendorp, et al. (2000).

23 The delegates to the Bundesrat do not have individual votes. Each state's Bundesrat delegation acts as a bloc and effectively represents the governing coalition of their state. In assessing the strength of the Federal government's cabinet coalition in this legislative venue, we adopted the following rule. Lander delegations are treated as supporters of the Federal government (1) if their Land has a governing coalition composed of the same parties as the Federal cabinet, (2) or if the dominant party in the Land governing coalition is the same as the dominant party in the Federal cabinet.

index (i.e., position on the left-right dimension).[24] While theoretically the center of gravity index can vary from -100 ("far left") to +100 ("far right"), we chose to collapse the measure into a simple two-valued measure with those cabinets scoring below 0 classified as "left" and those scoring above 0 classified as "right". An overview of the distribution of left and right governments across the sample of 17 countries for the period from 1961 through 1995 is provided in Table 6.[25]

In the table we see that across the 17 countries the left has dominated in terms of the number of years it has held government power. Particularly notable are the Nordic countries where in three out of four countries (Finland, Norway, and Sweden) the left was in power during more than three-quarters of the thirty five year period. However, this dominance is not uniform across the sample and in a number of countries the pattern is reversed as can be seen clearly in the cases of France, the United Kingdom, the United States, and (just barely) in Australia. In all four of these countries, the right has held the reins of government longer than the left.

Two different versions for the basis of support for government in legislative houses will be examined. These can be described as a strict majority rule and a loose majority rule. The strict version holds that support for government in a legislative house is confined to members of the parties that constitute the government. If a government is to pass a budgetary bill through a legislative venue, its coalition must hold the majority of the seats in that house. The loose majority rule assumes that governments can attract support for its budgetary proposals from parties outside of its coalition if there are non-governmental parties in the legislative house on the same side of the ideological scale as the government itself. Even if the government coalition does not control a majority of seats in the house, if the number of seats

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24 The RILE index is a composite of twenty four salience measures of policy positions based on the categorical system of the CMP project. It reflects the degree two which the party's electoral manifesto emphasizes either left or right policy positions. For details on this measure, see Budge (2001) and Budge, et al. (2001).

We have used this center of gravity index previously (Cusack, 1997, 1999, 2001) basing ideological positions of party on the expert codings produced by Frank Castles and Peter Mair (1984). The index itself was suggested by Gross and Sigelman (1984) in a paper on measuring aspects of party systems.

25 Note that is was sometimes the case that a country had more than one government in a year. We chose to treat the government that held power the longest in that year as the government of that year.

Table 6

Political Orientation of Governments,

1961 through 1995

	Number of Years With: Left Governments	Right Governments
Australia	17	18
Austria	24	11
Belgium	19	16
Canada	19	16
Denmark	20	15
Finland	27	8
France	10	25
Germany	25	10
Ireland	27	8
Italy	22	13
Japan	23	12
Netherlands	26	9
Norway	31	4
Sweden	30	5
Switzerland	22	13
United Kingdom	14	21
United States	12	23
totals	368	227
(%)	61.8	38.2

* -- Simple Left-Right dichotomy. Based on CMP/Wolldendorp data using Center of Gravity Index and then classifying as either Left or Right

Table 7

Existence and Importance of Upper House

	Upper House Exists	Importance: Lijphardt	Heller
Australia	Yes	Yes	Yes
Austria	Yes	No	No
Belgium	Yes	Yes	Yes
Canada	Yes	Yes	Yes
Denmark	No	--	--
Finland	No	--	--
France	Yes	Yes	No
Germany	Yes	Yes	Yes[1]
Ireland	Yes	No	No
Italy	Yes	Yes	Yes
Japan	Yes	Yes	No
Netherlands	Yes	Yes	Yes
Norway	No	--	--
Sweden	Until 1970	Yes[2]	No[2]
Switzerland	Yes	Yes	Yes
United Kingdom	Yes	No	No
United States	Yes	Yes	Yes[3]

Lijphardt's (1999) coding is based on symmetry and congruence between two houses.
Heller's (1997) coding based on whether upper house has power in budgetary decisions
Notes:
1 -- While Heller treats the Bundesrat as unimportant, we have chosen to consider it important.
2 -- During time of existence.
3 -- Heller does not explicitly code the US Senate.

it controls added together with the number of seats controlled by non-governmental parties on the same side of the ideological scale as itself constitute a majority, then government will succeed in getting its budgetary proposals through that house.

We proceed under the assumption that all legislative lower houses have the potential to veto a government's budgetary proposals. This would have the consequence of producing a status quo, or no change in the budget. In order to assure success in this legislative venue, a government therefore needs majority support there. The acceptance of a government's budget by the lower house will occur under a strict majority rule only when the government's coalition actually possesses the majority of seats in that house. In some systems, as we noted above, the government is required to obtain support for its budget in the second legislative house as well. Again, under a strict majority rule it also needs to possess a majority of seats in this venue. Increasing the potential number of veto players, this can the have the effect of making any policy change even more difficult to achieve.

Table 7 provides an overview of the situation with respect to the structure of the legislative systems in our sample of 17 countries. Three of these countries (Denmark, Finland, and Norway) were unicameral systems throughout and Sweden changed from a bicameral to a unicameral system in 1970. The importance of the second house in these bicameral systems varies, however. Lijphardt (1999), for example, argues that "symmetry" in power and democratic legitimacy as well as "congruence" in methods of election are critical factors in determining the degree to which the second chamber in a bicameral system is important in the legislative process. Fundamentally, the more symmetric and the less congruent the two house are, the greater the importance of the upper house. Using these criteria, he codes eleven of the countries as having at least "medium-strength" bicameralism. With his codings then among the bicameral systems, only Austria, Ireland and the United Kingdom do not have important second legislative chambers. Heller's (1997) classification of the importance of upper houses differs from Lijphart's and is based on the role the second chamber plays in budgetary legislation. He treats far fewer second chambers as important and we chose to use his scheme, slightly modified, in dealing with the second chambers of national legislative systems.

Table 8 presents the policy outcomes that one would have expected using the strict majority rule. Let us first examine the situation between the government and the lower house. Whereas nearly 62 percent of the years in this sample saw the

Table 8
Expected Policy Outcomes Using Strict Majority Rule
In Different Institutional Contexts

	Expected Policy Outcomes as a Consequence of Alignment of Ideology and Strength Between Government and the Lower House of Parliament			Expected Policy Outcomes as a Consequence of Alignment of Ideology and Strength Between Government and All Relevant Parliamentary Institutions		
	Left	Status Quo	Right	Left	Status Quo	Right
Australia	17	0	18	6	14	15
Austria	24	0	11	24	0	11
Belgium	19	0	16	19	3	13
Canada	16	4	15	15	12	8
Denmark	2	28	5	2	28	5
Finland	26	2	7	26	2	7
France	5	8	22	5	8	22
Germany	25	0	10	15	13	7
Ireland	26	5	4	26	5	4
Italy	22	4	9	22	4	9
Japan	23	3	9	23	3	9
Netherlands	26	0	9	26	0	9
Norway	31	1	3	31	1	3
Sweden	17	16	2	17	16	2
Switzerland	22	0	13	4	18	13
United Kingdom	13	1	21	13	1	21
United States	12	20	3	12	20	3
Total	326	92	177	286	148	161
%	54.8	15.5	29.7	48.1	24.9	27.1

Table 9
Expected Policy Outcomes Using Loose Majority Rule
In Different Institutional Contexts

	Expected Policy Outcomes as a Consequence of Alignment of Ideology and Strength Between Government and the Lower House of Parliament			Expected Policy Outcomes as a Consequence of Alignment of Ideology and Strength Between Government and All Relevant Parliamentary Institutions		
	Left	Status Quo	Right	Left	Status Quo	Right
Australia	17	0	18	10	8	17
Austria	24	0	11	24	0	11
Belgium	19	0	16	19	0	16
Canada	19	1	15	18	9	8
Denmark	16	11	8	16	11	8
Finland	23	5	7	23	5	7
France	10	0	25	10	0	25
Germany	25	0	10	18	8	9
Ireland	27	1	7	27	1	7
Italy	22	3	10	22	4	9
Japan	23	0	12	23	0	12
Netherlands	26	0	9	26	0	9
Norway	31	1	3	31	1	3
Sweden	30	0	5	30	0	5
Switzerland	22	0	13	22	0	13
United Kingdom	13	1	21	13	1	21
United States	12	20	3	12	20	3
Total	359	43	193	344	68	183
%	60.3	7.2	32.4	57.8	11.4	30.8

presence of left governments, the number of years that one would have expected the lower house of the legislature to have accepted proposals to increase the budget stands at around 55 percent. And while 38 percent of the years saw right wing governments, there were less than 30 percent of the years in which one would have expected agreement to decrease public spending. In over 15 percent of the years, government and the majority in the lower house were on different sides of the ideological scale and one would have expected this to culminate in no change in the budget. Three countries stand out in particular here. These are Denmark, Sweden, and the United States. In the case of Denmark, minority governments were the rule and in 28 of the years, the government did not have its own majority in the lower house. And while Sweden clearly was dominated by left wing governments, the position of these governments was, under the strict majority rule, rather weak with nearly half of the years seeing government without its own majority in the lower house. A mirror image of this is to be seen in the case of the United States. While right wing governments were in power for nearly two-thirds of the period, there were only three years in which they had majority support in the lower house. In 20 years these governments were confined to a minority position in that legislative house.

Taking into account important second chambers acts to considerably widen the chances of a status quo outcome on budgetary policy. This can be seen in the second set of columns in Table 8. Nearly one-quarter of all years would be expected to have seen no alteration in the size of the budget. Dramatically affected by bringing this consideration into account are Australia, Canada, Germany, and Switzerland. Overall, now less than half of the country-year combinations should have seen increases in budget size and slightly more than a quarter should have seen right wing governments managing to cut buck on the size of public spending.

Table 9 brings into relief the expected budgetary outcomes given ideological preferences of governments, institutional configurations, and the parliamentary situation with respect to majorities using the loose majority rule. As one might anticipate, the lower hurdle represented by this rule generally alters the profile of expected outcomes. Examining only the last set of columns in this table which take into account not only the ideological position of the government, the situation in the lower house and the situation in the upper house (where that chamber plays an

important role in budgetary situations), the share of years that one would have expected a status quo outcome is reduced to slightly more than 11 percent, a dramatic reduction relative to the outcomes expected under the strict majority rule.

Econometric Model and Estimation Results

We have seen what sort of model-based expectations one would have in light of the ideological positions of governments and the parliamentary situations these governments have confronted in these countries. It is appropriate now to integrate our theoretical expectations into a larger model that controls for other influences that shape budgetary outcomes. In addition to a political-institutional variable, we include three other terms in the model to be estimated. The assumption here is that in the short term there is a large measure of automaticity involved in the realization of outlays in governmental spending program that occur regardless of decisions made within the budgetary process. The first two terms are meant to embody the effects of inertia and previous commitments in major areas of the budget. They effectively capture short term and non-discretionary elements of budgetary outcomes. The third term represents the effects of unanticipated economic performance.

The first reflects the combined impact of changes in size of the pool of recipients of government income transfers to households and existing levels of "generosity" in such programs. Income transfers to households, as noted earlier, represent a major component of government spending and while the target populations are fixed in legislation, flows into and out of this population are difficult to anticipate precisely. These fluctuations can cause the budget to increase or decrease independent of a government's ideological preferences and the outcome of the budgetary decision making process.[26] This variable has been operationalized as the product of (1) the preceding level of transfer program generosity (which is measured by the ratio of the previous level of transfer spending (expressed as a percentage of GDP) to the previous level of sum of the retired and unemployed

26 This core of this idea stems from Wilensky's (1978) work on the welfare state and from a set of interesting studies put out by the OECD in the early 1980s dealing with health, education and social welfare spending.

(expressed as a percentage of total population) and (2) the change in the relative size of the sum the retired and unemployed. The expectation with regard to the parameter on this variable is that should be positive and close to a value of 1.

The other non-discretionary term deals with a second large element of governmental budgets, spending on civilian goods and services. Again, the idea here is that there is a significant amount of inertia involved in spending on this major category. Other things being equal, governments will attempt to provide the same level of goods and services as in the previous year. Since, however, the costs of these provisions, given their service-intensive character, are likely to be changing (and in an unfavorable direction), the previous year's outlays (again, as a percentage of GDP) will need to be adjusted to take into account relative price changes.[27] Again, the expectation with regard to the parameter on this variable is that should it be positive and close to a value of 1.

Government budgets are plans. Spending decisions are made for a future period for which expectations are held with respect to a variety of economic conditions, including the overall level of economic activity. Therefore, if government's expectations about where the economy will be at t+1 are wrong, then any previously set level of expenditures will reflect a relative weight in the economy different from that which had been planned. In order to capture this obvious but nonetheless important consideration in government spending dynamics, a term is introduced into the model that reflects discrepancies between plausible expectations about economic activity and the reality of the situation. The variable meant to capture this phenomenon, UG, is simply a function of recent growth rate performance relative to the actual growth rate in the economy; specifically it is operationalized as the average growth rate for the three previous years minus the current growth rate.[28] A positive (negative) score indicates that growth was lower (higher) than might have been expected based on recent trends. With lower than anticipated growth (UG>0),

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27 See, e.g., Baumol (1967) and Beck (1985). The variable is operationalized in the following way:.

$$\Delta GC_t = \left(\frac{RPG_t}{RPG_{t-1}} * GC_{t-1} \right) - GC_{t-1}$$

where *RPG* is the ratio of the government price index to the overall GDP price index and *GC* is government outlays on goods and services.

28 Roubini and Sachs (1989) originally suggested this index in their work on public deficits.

planned outlays will necessarily be a higher share of actual GDP than had been anticipated, and vice versa. Therefore, the expectation is that the sign on the parameter for UG should be positive.

Bringing these three factors together with political-institutional considerations based on the model outlined above, we have estimated the following equation:

$$\Delta GX_{i,t} = a_2 + b_6 \Delta TC_{i,t} + b_7 \Delta GC_{i,t} + b_8 UG_{i,t} + b_9 POLINST_{i,t-1} + e_{2,i,t}$$

Two terms remain to be precisely defined here. The first is the dependent variable, change in government spending ($\Delta GX_{i,t}$). Recalling our discussion in the second section of this paper, there are two operationalizations of this variable. The first of these deals with all government spending, net of military outlays and debt management spending, expressed as a percentage of Gross Domestic Product. This variable includes changes in the five remaining general categories of government outlays: social welfare transfers, outlays for goods and services in the civilian sector, public subsidies, external transfers, and public capital investment. The second operationalization of this variable incorporates changes in only two of these five and is composed of social welfare transfers and spending on civilian goods and services (again, expressed as a percentage of GDP). As noted previously, these two spending items have constituted a large and ever increasing share of government spending and represented, on average, over 35 percent of GDP by 1996.

This then leaves the political institutional term to be specified. Here we will examine four alternative formulations, each one representative of a different assumption regarding the effects of political institutional constraints on budgetary outcomes. These four alternatives vary according to assumptions regarding the importance of the second chamber in budgetary decisions and the nature of support for a government in a legislative venue. Thus, the first alternative is based on the assumption that a government own-majority in the lower house is sufficient to assure that government's ideological preferences are expressed in the budgetary outcome, regardless of the existence of a second legislative chamber. The second variant holds that some national legislatures have important second legislative chambers and that a government needs to have majority of seats controlled by the parties in the government coalition within both houses. The third variant assumes that the support for the government in the lower house is sufficient and that this support need not necessarily come from only government parties in that chamber, but may come

as well from non-governmental parties on the same side of the ideological divide. The fourth, and final, variant holds that support for government budgetary preferences is necessary in both legislative chambers in some systems but that the support need not come only from the governing parties' legislators, but will also come legislators in non-governmental parties that are on the same side of the legislative divide. Given the way in which the basic measure of ideology has been coded, that is with leftist preferred outcomes coded as -1, rightist preferred outcomes defined as +1, and status quo outcomes defined as 0, our expectation with respect to the parameter on any political institutional variable, regardless of the specific hypothesis being tested, is that it will be negative.

Tables 10 and 11 contain the results from the estimation efforts based on a pooled cross section-time series design. Using data on 17 countries over the period from 1962 through 1996, there are 595 observations employed in each estimation. In Table 10, the results are reported where the dependent variable is based on the broad definition of government spending, the one that includes five of the seven categories that exhaust the definition of total government spending. Table 11's results correspond to the operationalization of government spending as including the two largest categories combined (social transfers and civilian goods and services). The first and second columns correspond to the cases where parliament plays a role and where government must possess its own majority either in the lower house (column I) or in both relevant legislative houses (column II). Columns III and IV deal with the specifications based on the assumption that the loose majority rule holds (i.e., the coalition of government parties does need not be in the majority if there are non-governmental parties that share its ideology and are of sufficient strength to provide a majority in the legislative venue). III corresponds to the case where it is assumed that the lower house is the only important legislative venue and IV deals with the assumption that some bicameral systems have second houses that play an important role in the budgetary process.

Across both tables we can see that the model does a reasonably good job in capturing both the cross sectional and cross temporal variations in changes in government spending as a percentage of gross domestic product. The adjusted R^2's range from .45 to .50, which, for a first difference model, is quite respectable. The expectations regarding the parameter estimates on the control variables are generally born out. With regard to the program inertia variables, one sees that growth in the

Table 10
Estimation Results for Pooled Cross Section-Time Series
Analysis of Model Using Total Spending (Less Military Outlays and
Interest Payments)

	Strict Majority Rule		Loose Majority Rule	
	I	II	III	IV
Change in Transfer Program Costs	.684 (5.55)	.687 (5.56)	.681 (5.55)	.679 (5.53)
Change in Civilian Services Costs	1.770 (9.92)	1.771 (9.89)	1.781 (9.96)	1.777 (9.95)
Unanticipated Economic Performance	.220 (10.43)	.221 (10.40)	.219 (10.30)	.219 (10.31)
Government and Lower House	-.097 (-1.99)		-.103 (2.24)	
Government and All Relevant Parliamentary Institutions		-.082 (1.56)		-.108 (2.30)
Constant	.036 (0.50)	.041 (0.58)	.030 (0.41)	.030 (0.41)
$\overline{R}^2$	.46	.45	.46	.46

The t-statistics (reported within parentheses) are based on panel corrected standard errors.
There are 595 observations in the sample based on a cross section of 17 countries and 35 years.

Table 11
Estimation Results for Pooled Cross Section-Time Series
Analysis of Model Using Social Transfers and Civilian Services Spending

	Strict Majority Rule		Loose Majority Rule	
	II	III	IV	V
Change in Transfer Program Costs	.856 (8.61)	.859 (8.62)	.853 (8.68)	.851 (8.68)
Change in Civilian Services Costs	1.238 (8.94)	1.236 (8.91)	1.243 (9.00)	1.239 (8.99)
Unanticipated Economic Performance	.182 (10.43)	.182 (10.43)	.180 (10.38)	.180 (10.40)
Government and Lower House	-.071 (-1.78)		-.091 (2.41)	
Government and All Relevant Parliamentary Institutions		-.065 (1.54)		-.097 (2.51)
Constant	.095 (1.75)	.099 (1.81)	.087 (1.61)	.087 (1.62)
$\overline{R}^2$	.49	.49	.50	.50

The t-statistics (reported within parentheses) are based on panel corrected standard errors.
There are 595 observations in the sample based on a cross section of 17 countries and 35 years.

welfare state clientele and upward changes in the costs of providing the same level of services act to push up government spending levels. In addition, unexpected economic growth performance acts to elevate the weight of the public sector when growth is off the path of the recent trajectory and to lower that weight as current growth exceeds recent performance. We should note that with respect to the parameters on the changes in program costs variables, the expectations are more closely met in the restricted version of the dependent variable. This is an outcome that one might anticipate given that they are more tightly tied to this variable than to the broader version of the dependent variable.

Let us turn now and examine the results with respect to the various political institutional terms employed across the different model specifications. While all of the parameter estimates associated with the political institutional terms are in the predicted direction, it is clear that those estimated under the strict majority rule assumption either border on or fail to meet conventionally accepted levels of statistical significance. This is not the case with respect to the parameters associated with the two variants on the loose majority rule assumption. Both of these, regardless of the dependent variable involved in the model specification, have parameters that take on the predicted sign and are statistically significant.

In the short term, then, we observe that there is support for the argument that ideological preferences of a governing coalition affect budgetary outcomes if the legislative institutional context where it needs to gain agreement is favorably disposed to those ideological preferences. Left governments that find majorities in the relevant legislative houses that are themselves on the left side of the political spectrum can bring about increases in public outlays.[29] Left governments not so well positioned, that is, those confronted with a majority in one, or another, or both relevant legislative houses, which has an opposing ideological preference, can only achieve the same level of spending that held previously, all else being equal. Similarly for right-wing governments. They can bring about a lowering of public spending levels when they have a favorable legislative situation, one where they can achieve majorities either on their own or in conjunction with non-government parties

29 This is so either because the governing parties have a majority of seats or because the number of seats they have in conjunction with the seats held by parties of the same ideological hue constitute a majority.

that share a position on the same side of the ideological spectrum. They, too, will achieve as their best outcome no change in spending when they do not have the required majority(ies).

Admittedly, the magnitude of the parameter on the political institutional term is small in each of the estimated equations.[30] But this size reflects only the short-term impact and does not describe the full and long-term consequences of giving the ideological preferences of government free rein. These short term effects work themselves into the next budget building up such factors as the prevailing level of generosity in social transfer programs or the level of civilian goods and services provided by the state. By so doing, dominance by a government of one ideological hue or another over the long term will have far greater impact that described by the parameter estimates reported here.

Conclusion

One of the hallmarks of the twentieth century was the widespread propensity for government to increase its role and size inside national economies. If one can infer from the general pattern observed among what today constitute many of the OECD countries, the tendency has been for government to double its size relative to the economy every 50 years or so. We have been able to show how politics has affected the course of this development over the long term. In addition, we have paid particular attention to political-institutional factors and how these help shape decisions on public spending in the short term. More specifically, we have presented a model that brings to bear both the ideological preferences of governing parties and the institutional context in which government must operate. This model highlights the importance of having a favorable institutional context for the successful achievement of government's preferred policy outcome, be it an expansion or a contraction of the size of the budget. Absent such an environment, governments are constrained to accepting the status quo.

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30 We should note that the absolute sizes of these parameters may be rooted in the decision to operationalize the ideological term as a binary variable. Similarly, the use of the RILE scale might be questioned. Composed as it is of so many items seemingly irrelevant to the question of the size of the public sector, it might prove useful to explore a more refined measure of ideology containing fewer of the categories employed in constructing RILE and only those with the greatest relevance for public spending.

Appendix

Notes and Sources to Table 1

Data from 1950 onwards are based principally on my calculations drawn principally from OECD sources, but also include information from national reports or studies as well as Nutter's data compendium. The Australian 1950 figure comes from the *United Nations National Accounts Statistics Yearbook*, 1964.

Prior to 1950 the Austrian data are from Neck and Schneider (1986). Note that prior to World War I the data refer to "Cisleithania," the Austrian part of the Habsburg Monarchy and include only current spending. Missing data problems required the use of the 1924 value for 1920 and the 1936 value for 1938. The Belgium value for 1938 is from Tanzi and Schuknecht (1995). Prior to 1950 the Canadian data derive from two sources: Rosenfeld (1973) and Bird (1970). The former is the source for the data from 1870 to 1920. The 1930 and 1938 (which is actually for 1937) figures derive from the latter source. Pre-1950 data for Denmark are from Flora, et al. (1983). For period prior to 1950 French data are from Andre and Delorme (1978). Note that the figure for 1870 is actually the 1872 value, the nearest data point available, and the 1910 datum is actually the 1909 value. Most of the pre-1950 German data are from Flora, et al (1983). However, the value for 1910 is from Mann (1993) and that for 1920 is from Tanzi and Schuknecht (1995). Pre-1950 data for Ireland are from Flora, et al (1983). The pre-1950 data for Italy are drawn from Brosio and Marchese (n.d.). With the exception of 1870, the Japanese government spending and national accounts figures for this period come from Emi (1972). Note that the total government spending values are taken from Table A-6. The 1870 figure for Japan is taken from Tanzi and Schuknecht (1995). For the Netherlands the values for 1870, 1910 and 1920 are from Tanzi and Schuknecht (1995). Dutch data for 1930 and 1938 are from Flora, et al (1983). Pre-1950 data for Norway are from Flora, et al (1983). Note that the 1950 figure for Portugal is actually from 1953 and comes from the *United National Accounts Statistics Yearbook*, 1964. Pre-1950 data for Spain are from Tanzi and Schuknecht (1995). In the case of Sweden the value for 1870 is from Tanzi and Schuknecht (1995) while those for 1910 through 1938 are from Flora, et al (1983). Switzerland's pre-1950 data are from Flora, et al (1983). Note that the base for the values from 1880 through 1900 were given in the source as NDP. They have been adjusted to approximate GDP as the base. Swiss data for 1950 onwards from various issues of the OECD Economic Survey, Switzerland. United Kingdom data for prior to 1950 are from Flora, et al (1983).

With respect to the United States note that before 1950, the base is GNP and not GDP. Data for the United States for the years 1850 through 1910 come from Mann (1993). Government data for 1920 come from Musgrave and Culbertson (1953) while that for 1930 and 1938 are from Tax Foundation (1989). GNP data for the years prior to 1950 are taken from Romer (1989) and Tax Foundation (1989).

Some other estimates for a number of countries and years are provided below.

Japan: Alternative values to those provided in table.

Source:	1880	1890	1900	1910	1920	1930	1938
Maddison (1984)	9.0			8.2 (1913)			
Tanzi and Schuknecht (1995)				9.3 (1913)	14.8		25.4 (1937)

Switzerland: Note as well that Tani and Schuknect (1995) provide very different estimates for the pre-1950 period:

1910	1920	1938
2.7 (1913)	4.6	6.1 (1937)

United States: Other estimates for the years prior to 1950 include the following:

Source:	1870	1880	1890	1900	1910	1920	1930	1938
Musgrave and Culbertson (1953)			6.4	7.2	7.1			
Maddison (1984)					8.0 (1913)		10.1 (1929)	18.5 (1939)
Tanzi and Schuknecht (1995)	3.9				1.8 (1913)	7.0		8.6 (1937)

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