1. Introduction

Francis G. Castles

1.1 LOOKING FOR RETRENCHMENT IN THE WRONG PLACE

The rationale of this book is to examine a phenomenon, the scholarly account of which is both extremely puzzling and seriously incomplete. The phenomenon in question is an apparent reversal in the trajectory of public expenditure development in the countries of Western capitalism that has been widely interpreted as going from a phase of expansive growth in the immediate post-war decades to one of marked cutbacks and retrenchment over the past quarter-century. The story as it is commonly told is one of the burgeoning of the public expenditure state as a consequence of total war and the rise of socialist collectivism and its more recent decline in the face of the onslaught of a globalising economy and a reassertion of economic liberalism, with the tipping-point between these two phases of post-war development occurring sometime around the early 1980s. No one is arguing that this reversal of trajectory means that the state is about to disappear entirely, or even that it is likely to return to its former ‘Night Watchman’ role as a mere guarantor of contracts and protector of the ‘King’s peace’. There are, however, scholars from a variety of disciplines and commentators on both Left and Right, who would argue that the policy reforms of recent decades have set in motion a decisive retreat of the post-war interventionist state, and some quite ready to maintain that, in a greater or lesser number of countries, that process is already well under way (see Jessop, 2002; Schuknecht and Tanzi, 2005).

The main terrain for both scholarly and popular debate on the trajectory of public expenditure development since the early 1980s has been the welfare state. That is for several reasons. The growth of the positive state after World War II has been widely construed as being substantially a consequence of the state’s assumption of a much extended role in the fields of income maintenance, health and other caring services, with average social expenditure levels in the 18 countries featuring in the analysis of Chapter 2 of this volume going up from just above 10 per cent of GDP in 1960 to only just below 20 per cent two decades later (see Castles, 2006, Table 2). A not
unnatural corollary of this functionally specific expansion of the role of the state has been the assumption that any reversal in the trend of post-war expenditure development would occur in the area of its most recent growth. Thus it is understandable that the state that has been seen as being under attack and at risk of retrenchment in the present era has been the welfare state. It is no less understandable that it has been the ideological and scholarly defenders of the welfare state who have often been most sensitive to the threat of impending social spending cuts.

The assumption of the inherent reversibility of post-war welfare states has been further reinforced by the thrust of theorising about the forces shaping the trajectory of public expenditure growth over recent decades. Because, in earlier decades, public expenditure growth had been essentially welfare state growth, a previous generation of sociologists and political scientists had seen it as appropriate to identify the forces explaining the growth of the post-war state by focusing on the socio-economic and political antecedents of social expenditure growth (see, amongst many others, Wilensky, 1975; Korpi, 1978; Castles, 1982). Now, in the late 1970s and early 1980s, under circumstances widely interpreted as a ‘crisis’ of excessive public spending (see OECD, 1981), neo-classical economists and their neo-liberal popularisers began to focus on what they saw as the deleterious consequences of high levels of social spending, arguing that big welfare states could not compete in increasingly globalised markets because high levels of ‘non-productive’ state spending constituted a source of economic inefficiency leading to higher prices, reduced economic growth and runaway levels of both unemployment and inflation (for a summary of some of these arguments, see Gough, 1996).

However articulated, the way out of this dilemma of expenditure-induced economic stagnation was seen by those who diagnosed the problem in this manner as being self-evident. In order to restore Western economies to their full economic potential or, indeed, for politicians to win democratic elections in an era in which voting intentions are primarily shaped by economic outcomes, it was necessary to cut back the government expenditure and concomitant taxation of business inputs that served as a shackle on competitiveness in global markets. Moreover, what was necessary was simultaneously seemingly ineluctable, since nations failing to curtail their spending would by the very logic of the argument suffer catastrophic economic or political consequences and, most probably, both. As Margaret Thatcher, the neo-liberal doctrine’s populariser extraordinaire was wont to put it: there simply was ‘No Alternative’.

But this is where the puzzle comes in, because, despite a huge investment in research, virtually all the scholarly studies, which have investigated such claims by addressing comparative evidence of recent social expenditure
development in advanced industrial nations, have come to the conclusion that, despite reductions in the generosity of certain programmes (see Korpi, 2003; Allan and Scruggs, 2004), overall cutbacks in welfare spending have been confined to a very small number of countries. Indeed, evidence from studies of trends right across the OECD make it clear that the overall trend of social expenditure as a percentage of GDP has been modestly upwards since the early 1980s and that global market pressures have played a negligible role compared to domestic factors in shaping cross-national spending differences (see, as representative of a substantial literature, Garrett, 1998; Pierson; 2001, Swank, 2002; Castles, 2004). On the basis of these findings and those of a wide variety of individual country case studies (see, for example, the studies in Kuhnle, 2000; Clasen, 2001; Leibfried, 2001), the consensus of the comparative literature has been that the case for widespread public expenditure retrenchment has been much exaggerated and that, therefore, the arguments for a globalisation-fuelled ‘race-to-the-bottom’ in public spending must be rejected.

The premise from which this volume starts is that, whilst these conclusions may well be valid, they are certainly premature and that, in turn, is because of the incompleteness of the empirical evidence on which they are based. What economic theorising on the likely consequences of economic globalisation and comparative research on the possible ‘dismantling’ or disappearance of the state have in common is that both have focused almost exclusively on propositions concerning and trends characterising the post-war development of social spending. However, construing social expenditure in the manner common to the international agencies (the OECD, ILO and Eurostat), which collect, process and disseminate the relevant data, as the sum of spending on income maintenance programmes, health provision and other caring services, this aggregate of spending currently amounts to only around 50 per cent of total public expenditure across the OECD and, for much of the post-war era, considerably less (see Therborn, 1983; Castles, 2006, Table 5). In other words, social expenditure is only a part of public expenditure and, although becoming markedly more salient during the second half of the twentieth century, and certainly now the largest single functional category of public spending, has never been anything like a predominant part. It therefore follows that what has been happening to social expenditure over recent decades is only part of the story of what has been happening to state expenditure as a whole and to the state as a whole.

To come to well grounded conclusions about the trajectory of the development of the state in recent decades, we need to look beyond social expenditure to other areas of expenditure by the modern state, including the costs of public administration, military defence, public order and safety, education, various aspects of economic affairs and public debt interest payments.
and, indeed, beyond expenditure itself to the expansion or contraction of 
the state’s regulative activities in these areas. Hence the foremost objective 
of the studies making up this volume has been to move beyond the narrow 
confines of social expenditure research with the purpose of ascertaining 
whether, taking developments in other areas of public spending and 
regulation into account, the same conclusions hold: that there has been no 
widespread public expenditure contraction over recent decades and that 
cross-national differences in the reach of the state are largely attributable 
to domestic rather than global pressures. Or, to contextualise that objective 
in terms of the emergent social expenditure-focused problematic of the 
comparative literature from the mid-1970s onwards, the question we seek 
to answer in this book is whether those who have been seeking to identify 
globally induced expenditure retrenchment tendencies over recent decades 
have failed to find them simply because they were looking in the wrong 
place.

1.2 MAPPING THE MISSING DIMENSION

Comparative political economy’s strong tendency to use social expenditure 
development as its effective measure of the reach of the state undoubtedly 
owes much to the particular thrust of theorising concerning the causes and 
consequences of increasing – and, subsequently, decreasing – post-war 
state intervention. It is arguable, however, that those seeking to describe 
the trajectory of statist development during these years did not really have a 
great deal of choice in the matter. This was because, until quite recently, 
social expenditure has been the only really significant functional category 
of spending adequately and routinely reported by international agencies 
and, hence, readily available for comparative analysis; first in the ILO’s 
volumes on *The Cost of Social Security*, reporting expenditure from 
the early 1950s onwards, and used as a data source by all the early com-
parative studies of the determinants of public expenditure outcomes, and 
then in occasional OECD publications culminating in the *OECD Social 
Expenditure Database* (SOCX), reporting disaggregated data for nine 
expenditure programmes for all member countries from 1980 onwards and 
now favoured as the preferred data source for most comparative work in 
this area of spending.

The only other officially validated and functionally defined cross-national 
spending series were to be found in the *UNESCO Statistical Yearbook*, 
reporting expenditures (and personnel levels) in the area of education and 
in the OECD’s *Economic Outlook* database, reporting member states’ levels 
of debt interest repayments, although another series on military spending
was published by the Stockholm International Peace Research Institute (SIPRI) from 1970 onwards. The problem was that even adding together all the available expenditure categories did not generate an adequate evidence base for describing trends across non-social budget areas as a whole. Too much of what was important was missing, most conspicuously spending on the administrative functions of government, on public order and safety, community services and economic affairs. Without a fully reported functional breakdown of public expenditure categories, shifts in the trajectory of spending outside of the social expenditure area remained unknown and, effectively, unknowable: a *terra Australis incognita* or missing dimension of political economy research. Mapping this missing dimension is one of the main purposes of the research reported here.

We seek to accomplish this mapping exercise by reference to three kinds of data, which, in combination, allow us to provide a fuller account than any previously of the changes taking place in non-social expenditure in Western developed nations over the past quarter-century. Some of this data comes from established cross-national data series, but much of it is only newly available and some of it is generated by new methods. Even so, the information available to us remains incomplete in many details, with deficiencies both in respect of the time-period covered and the number of countries available for comparison. It is, however, we believe, sufficient to permit conclusions concerning the recent trajectory of public expenditure development more nuanced and more firmly grounded in evidence than those preceding them. Moreover, even in areas where the data available to us do not allow us to establish the recent trajectory of expenditure development over a span of more than just a few years – and this is true in the areas of general public services treated in Chapter 4 and public order treated in Chapter 6 – the mapping and analysis these chapters undertake is useful both in establishing the baseline for future expenditure change and in providing an account of some of the more significant factors shaping expenditure levels at the present time. The object of maps is not just to locate where one has come from, but also the starting-point for the route ahead.

The three kinds of data used to map non-social spending in the studies constituting this volume may be characterised as follows.

### 1.2.1 Residual Estimates of Aggregate Core Expenditure

An important source of data this volume uses for mapping the missing dimension of non-social public expenditure could, in principle, have been used in the past, but, in practice, depends for its validity on a belief in the reliability of the information from which it derives, which could not readily...
be assumed before the late 1990s. The technique by which these data are obtained is best described as the estimation of residuals. Its logic rests on the simple accounting identity that the total outlays of general government are definitionally equivalent to the sum of the social plus the non-social expenditures of general government. The availability of cross-national data on total outlays has never been in question, although National Accounts definitions have periodically changed and, as noted above, social expenditure is the one functional category of spending to be available throughout the post-war period. This means that, in principle, it would always have been possible to generate a set of annual estimates of aggregate non-social expenditure by deducting total social expenditure from total outlays for successive years. However, prior to the publication of the first provisional version of the OECD Social Expenditure Database (SOCX) (OECD, 1996), changes in the categorisation of social spending and the unreliability of the national attribution of expenditure items to particular programmes would have made it difficult to believe that the resulting series was more than broadly indicative of trends. The first set of estimates using this technique, with non-social expenditure data reported for the years 1984 and 1997 in 19 OECD countries, was published in an article by this author in 2001 (Castles, 2001). Subsequently, with the aim of sketching the development of public expenditure and its main aggregates over the entire post-war era, and with strong cautionary warnings about the potential unreliability of the estimates so derived, I used pre-SOCX social expenditure data to estimate aggregate non-social expenditure figures for 18 countries for both 1960 and 1970 and, with much greater confidence, because the estimates were derived from SOCX data, for 1980, 1990 and 2001 (Castles, 2006).

It is these latter estimates for the period from 1980 onwards that I use in Chapter 2 of this volume to provide an aggregate overview of the retrenchment hypothesis as it applies to both social and non-social spending aggregates. In that chapter, and subsequently in the remainder of the volume to refer to its findings, the term ‘non-social spending’ is replaced by the term ‘core spending’ (for an alternative usage of the same term to capture a similar, but not identical, residually-derived, expenditure concept, see Hagfors and Saari, 2006). This term is preferred to non-social expenditure, because, although this aggregate is derived as a residual, it is quite inappropriate to view the functional categories of spending of which it is composed as being in some way of lesser significance than spending for social purposes. Core spending is a useful term because it designates the centrality of the functions much of this spending serves. General public services are the sinews of modern democratic government and the maintenance of external defence and public order are tasks of the state much, much older than the provision of mass welfare. Education, not infrequently construed
as a component of the welfare state, is unlikely to become less important in a society ever more reliant on the cultivation of advanced human capital skills. In the immediate post-war decades, government intervention in economic affairs, often involving high levels of public spending, was generally seen as absolutely pivotal to the efficient management of a mixed economy and, although as later chapters in this volume demonstrate in some detail, public expenditure in this area has been declining markedly over recent decades, a state control once underpinned by public spending is now quite frequently secured by regulatory means (see Chapter 10 below).

The use of residually derived core expenditure estimates in Chapter 2 is vital to the architecture of our account of the trajectory of recent public expenditure change in two important ways. First, they make it possible to identify core expenditure developments in a far greater number of countries from an earlier date than could be obtained by any other means, with, as already noted above, some capacity to describe broadly indicative trends in core spending from 1960 onwards and the means of generating reasonably reliable estimates for most OECD countries from 1980 onwards. In contrast, the data on functional categories of spending we go on to describe in the next section are only available for a comparably large number of countries from the mid-1990s onwards. However, most accounts of public expenditure reversal and retrenchment locate the origins of such changes in a period well before such functional data are available for more than a quite limited range of countries, so that, without this residual mapping technique, it would be impossible to say whether these accounts applied in the area of core spending or not.

Second, the availability of estimates of core spending allows us to contrast developments in social and non-social areas of spending after 1980, to ask whether they were moving to the beat of a single drum and to identify factors accounting for changes in the balance between these types of expenditure over time and in different countries. It is not the intention of this introduction to provide a detailed account of findings which emerge more comprehensibly from the detailed analysis of later chapters, but it is worth making clear that the post-1980 trajectories of social and core expenditure were quite different. Chapter 2 confirms the findings of the comparative social expenditure literature, that cuts in welfare spending as a percentage of GDP were few and far between after 1980, but demonstrates no less clearly that a contraction in core spending was the OECD norm. This marked contrast between types of spending aggregate does not necessarily mean that a globalisation-induced ‘race-to-the-bottom’ missing in the social expenditure arena is present in the arena of core spending, but it does quite definitely mean that comparing and contrasting what was occurring in the areas of social and core spending provides us with a basis for
elaborating a different and a fuller account of how the state has been weathering the changes of the past quarter-century than is currently available in a literature which focuses on social expenditure alone. Later chapters in this volume, like that earlier social expenditure research, also concentrate on particular categories of spending, and so are equally constrained in what they can tell us about the forces leading to change in the relative salience of different types of expenditure (although see the analysis of trade-offs against military expenditure in Chapter 5). Chapter 2 is, therefore, the main place in this book to look for a discussion of the factors shaping the dynamic of public expenditure change as a whole.

1.2.2 A Functional Breakdown of Government Expenditure: The COFOG Data

The newly available data used in this volume derive from a data classification originally elaborated in the 1960s as part of a revised system of National Accounts (SNA68), which were only sporadically reported by a quite limited group of nations in the 1970s and 1980s, and for which data for a reasonably large subset of the advanced industrial nations for dates commencing in the early to mid-1990s are only now being reported by Eurostat and the OECD. This data classification is known as the Classification of the Functions of Government and is almost universally referred to by its acronym, COFOG. COFOG provides a complete breakdown of general government expenditure into functional spending categories. Prior to the 1990s, there were 14 categories. Now there are ten elaborated as follows: general public services; defence; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion; education; and social protection. Health plus social protection spending are together closely equivalent, although not quite identical, to total social expenditure as measured in SOCX. It therefore follows that the sum of the remaining functions together is substantially equivalent to what we here describe as core expenditure.

Chapter 3 of this volume, by Neil Fraser and Paul Norris, discusses the evolution of the COFOG data set, reproduces and discusses data from the only study to bring together available COFOG-based data for the 1970s and 1980s (Oxley and Martin, 1991) and collects and provides a preliminary analysis of the COFOG data now available for the 1990s and the early years of the 2000s. This chapter has several important functions for the research undertaken in this volume and research in the area of comparative political economy in the future. First, it provides a summary of what we currently know about trends in the development of the separate functional categories.
of spending in the 1980s and 1990s for the countries reporting such data. These trends are summarised in Tables 3.1 and 3.3 and it is worth glancing ahead to these tables to dispel any notion that expenditure change in different spending areas was in any single direction during these decades. Second, the authors of the chapter use these functional spending data to provide an empirical check on the accuracy of the core spending estimates of Chapter 2, a test from which these estimates escape largely, although not wholly, unscathed. This reinforces our confidence in the broad thrust of the findings reported in Chapter 2. Third, the data collected by this chapter on functional spending in 14 countries from 1990, 18 from 1995 and 19 from 2002 onwards (see Appendix 3B of Chapter 3) constitute a solid starting-point for future comparative analysis along the lines of that which has become increasingly common and increasingly sophisticated in the area of social spending over the past three decades. Even if these data by themselves allow us only to discern quite recent trends, combined with data for later years, which international agencies now seem committed to providing on a routine basis, they offer the prospect and possibility of a substantial extension of comparative public expenditure analysis beyond its present largely social expenditure focus.

Finally, Chapter 3 is important because it is the primary source of data for some of the later chapters in this volume. This is particularly true of Chapter 4 by Richard Parry, which uses COFOG data on general public services spending to derive a more refined category of state overhead spending, and Chapter 6 by Paul Norris, which uses COFOG public order and safety data (as well as separate sources of data on spending on policing and prisons) as a basis for identifying the factors shaping this sometimes controversial function of the modern state. Chapter 8 on economic affairs spending by Herbert Obinger and Reimut Zohlnhöfer also starts out by using COFOG numbers, but then shifts its attention to an OECD series on subsidies to industry reporting over a much longer time-period. It should be noted, however, that some chapters for which COFOG data are available for the 1990s rely instead on other expenditure series (see below) and that there are COFOG categories – including environmental protection, housing and community affairs and recreation, culture and religious affairs – where average levels of spending are too low (for figures, see Appendix 3B) and the categorisation of spending too disparate to warrant separate chapters. There remain serious problems in the categorisation of the environmental protection series (see discussion in Chapter 3), but one suspects that, in future, this will become a highly significant and much expanded category of spending throughout the industrialised world.

The chapters on the state overhead budget and public order spending represent one extreme of the analytical endeavour in this volume, with a
focus, in some ways, as much exploratory as analytical. Because the COFOG-based data sets they largely rely on provide information for a reasonably large number of countries only for a brief span of years from the mid-1990s onwards, these chapters obtain relatively weak leverage on the question of whether the functional areas of spending they discuss have experienced a major reversal in recent decades, although the evidence they provide for the years for which data are available is of a steady-state or, possibly even, a modestly increasing trajectory of spending. Interestingly, too, these are the only areas of spending discussed in this volume where strong convergence effects are not observed, but whether this is because the time-span of the spending observed in these chapters is too short or too recent or because trends in these areas are shaped by a different dynamic from that governing other spending areas is impossible to tell. Data availability problems notwithstanding, however, these chapters are, in some ways, the most pioneering of all the contributions to this volume, since they seek to explore areas of expenditure never before subject to cross-national analysis. Why countries differ in the size of their state overhead expenditure is a question that potentially unlocks a whole series of issues pertaining to levels and trends of the cost of administering particular political systems. Why countries differ in their responses to criminal justice issues is not a new question, but one never before explored using public expenditure data. The answers to these questions given by Chapters 4 and 6 for the period at and around the turn of the millennium, together with a continuing flow of the relevant COFOG data for later years, will most certainly be of assistance to scholars seeking to identify the dynamic of spending in these areas in later comparative research.

1.2.3 Existing Data Series

Apart from Chapters 4 and 6, the remaining chapters in this volume reporting on functional categories of spending, and the further and final chapter discussing regulatory intervention in economic affairs, all rely on existing series reporting data back to the 1980s or even earlier. Chapter 5, by Tom Cusack, uses the long available SIPRI data set as its primary source on military spending. Chapter 7, by Manfred Schmidt, on trends in educational spending, uses the OECD’s Education at a Glance series as its main source and reports data going back to the mid-1970s. As noted previously, Herbert Obinger and Reimut Zohlnhöfer’s Chapter 8 discussion of spending on economic affairs starts out by using COFOG data for the 1990s, but bases its main analysis on an OECD series reporting levels of industrial subsidies in member countries since 1980. Uwe Wagschal’s Chapter 9 discussion of the factors determining levels and changes in debt interest repayments
bases its findings on figures available for member countries from the OECD Economic Outlook database in some cases going back to the 1970s. Finally, Nico Siegel’s analysis of economic regulation in Chapter 10 makes use of series on the extent and character of product market regulation and employment protection legislation emanating from OECD research published only quite recently but reporting data over a period of two or more decades.

Earlier we noted that adding all the existing series of non-social functional spending data together could not produce anything like a realistic series on total non-social or ‘core’ spending because data on so many categories were missing. However, what these data series going back to the 1980s or earlier can tell us is what has happened to particular categories of spending over a substantially longer span of years than is available from the COFOG data. This means that we can not only contrast the growth of aggregate social spending over the past quarter-century with the decline in aggregate core spending over the same period, but also identify in which categories of core spending the most significant cutbacks occurred and whether they occurred in the 1980s or 1990s. While Chapters 4 and 6 offer tentative, but necessarily period-constrained, evidence of a lack of systematic retrenchment in state overhead and public order spending, Chapters 5, 7 and 8 locate quite generalised cutbacks in spending on defence, education and industrial subsidies taking place either over the period as a whole or, in the case of defence, since around 1990. Chapter 10 identifies similar downward trends in market-restricting product market regulation and temporary employment protection legislation, while Chapter 9 reports a rather different pattern of a sharp increase in debt repayment expenditure in the 1980s and early 1990s and a no less rapid decline in the decade thereafter.

Taken together, the three kinds of data examined in this volume provide us with a picture of the past quarter-century’s trajectory of public spending which, rather than having a missing dimension, is multidimensional in character. This is a picture with clear implications for the proper assessment of the supposed phenomenon of a generalised public expenditure reversal commencing some time in the 1980s. Some categories of spending (primarily social expenditure comprising the COFOG categories of social protection and health) have expanded, while others (as described above) have declined. COFOG-based evidence for the 1990s demonstrates no clear trend in either state overhead or public order spending and the data overview in Table 3.4 of Chapter 3 of the COFOG categories of spending not separately reported in this volume are suggestive of a similar conclusion. Moreover, the analysis of aggregate spending in Chapter 2 demonstrates that, over the period as a whole, average increases in social expenditure outweighed aggregate cuts in core spending, so that average
levels of OECD total outlays were actually somewhat higher in 2001 than they had been in 1980.

This is a body of evidence that makes it extremely difficult to accept the proposition that any widespread reversal in the developmental trend of public spending took place during these years. Using expenditure as a percentage of GDP as our measuring rod, it is clear that no retrenchment occurred in either aggregate social spending or total outlays and that the most that might reasonably be claimed is that recent decades have witnessed a trend towards core expenditure retrenchment. Even then, however, there must be caveats. The notion of retrenchment sits rather uneasily with cutbacks, which, in many countries, in the 1990s at least, were largely constituted by declining debt interest payments rather than a reduced provision of services and by reductions in military spending made possible by the ‘peace dividend’ resulting from the end of the Cold War. Retrenchment is a term usually employed with negative connotations and these were developments largely welcomed by Western mass publics. Moreover, the shift in the overall balance of public spending from core to social spending that occurred in these years might simply be seen as the continuation of the long-run post-war trend towards an increased salience of welfare state spending, with the only significant difference from the past the fact that it was taking place under circumstances of fiscally constrained total expenditure. On the other hand, there clearly were new departures, conspicuous amongst them the fact that the undoubtedly major cutbacks occurring in economic affairs spending were accompanied by a no lesser transformation in the field of economic regulation. Arguably, then, what was new and systemic in these years was a shift away from state intervention in economic affairs of a kind consonant with the neo-liberal doctrines of the era: a retrenchment not of the core, but of one of its most significant components.

1.3 ACCOUNTING FOR CORE EXPENDITURE DEVELOPMENT

Such conclusions and speculations are as far as we can reasonably go on the basis of a description of trends in expenditure development. To take the discussion further requires us to locate the factors shaping these trends. Clearly the argument for retrenchment of greater or lesser proportions would be much strengthened by the identification of a factor leading to cutbacks in expenditure and regulation across a broad front, with globalisation obviously the front-runner in the scholarly literature. That is not, however, the only reason for moving beyond a description of expenditure trends to a search for their determinants. The very fact of the recognition
of the multidimensional character of public spending patterns immediately poses questions concerning the factors shaping patterns of change in different spending domains. In principle, such questions are of precisely the same nature as those addressed by a generation of researchers seeking to establish the determinants of changes in social expenditure over the past three or more decades. The studies constituting this volume seek to extend this kind of analysis to the categories of public expenditure constituting core spending for two reasons. One is that that is necessary to complete our investigation of whether the cutbacks in these areas can legitimately be seen as aspects of a coherent process of core expenditure retrenchment. The other is that we wish to demonstrate the possibility of broadening the focus of comparative political economy research beyond a single dimension to embrace the whole of public expenditure development and, indeed, beyond public expenditure as such to other phenomena, such as economic and other forms of regulation, which define the reach of the modern state. In this final section of the introduction and, once again, without any detailed summary of individual chapter findings, we identify some of the more general conclusions that emerge from our analysis of the determinants of the different core spending categories treated in this volume and note their implications for the idea of a concerted cutback across the entire area of core spending or, at least, across more than just one or two spending areas.

A first important point to note is that the analyses in the chapters that follow neither employ an identical statistical technique nor explore anything like an identical array of hypotheses to account for expenditure and regulatory variation. On the methodological front, what is common to all these studies is the use of some kind of multivariate method, allowing the identification of a variety of influences on expenditure or regulatory development, but the precise technique employed differs. Some chapters contextualise their multivariate modelling through extensive prior bivariate analysis and one of these relies on what is described as an ‘easily accessible substitute for a classical regression-based multivariate explanation’. Other chapters report ‘best-fit’ equations and still others provide a variety of iterations of their models, testing the explanatory power of different combinations of variables. The chapter on military spending, precisely because it rests on the longest and strongest body of data, uses pooled time-series methods, while the remaining chapters bow to the realities of a situation in which the data required are only now becoming available and base much of their analysis on relatively small-n cross-sections of, typically, 18 to 20 countries. This latter technique has many problems of which the authors are well aware. Here, given the inadequacies of the data discussed throughout the volume, the only alternative would be to abandon cross-national analysis altogether.
In respect of hypothesis testing, the authors have not followed any self-imposed party line. All came to their chapters with an awareness of the twin objectives of this study – to assess whether the category of spending they were considering was subject to retrenchment pressures and to open up that category of spending to comparative political economy analysis – but the balance between the objectives was necessarily partly a function of the availability of data, so that, for instance, those utilising COFOG data alone were unable to speak meaningfully to the issue of retrenchment tendencies manifested much before the early to mid-1990s. In any case, the apparently conflicting demands of examining factors supposedly common across all expenditure areas and of locating factors theoretically specific to particular spending areas were always going to be resolved in favour of the latter, since without the fullest possible specification of the cross-national variance through area-specific variables, the impact of common factors could not be properly ascertained. The result is a multiplicity of models constituted of many and diverse variables, with just a few factors (often themselves differently specified in different chapters) common to most chapters in the volume. These common factors include tests for the presence of expenditure convergence, partisanship and trade dependency effects, the latter variable serving, as elsewhere in the literature, as a measure of susceptibility to global economic pressures.

A summary presentation of our findings in respect of these three factors serves as a taster for what is to come and as a set of headline conclusions on which need to be superimposed the complex detail that can only come from addressing the argument and modelling of particular chapters.

● Outcomes convergence  Much the strongest common finding of this volume is of a convergence of outcomes in most Western industrialised countries. This applies both to the social and core expenditure aggregates and to the majority of functional categories making up core expenditure as well as to the realm of economic regulation. The exceptions – state overhead and public order spending – are exceptions not because of contrary evidence, but because of a lack of data to establish trajectories of spending over more than just a few years. In many cases, the catch-up (or catch-down) coefficients reported in this volume are extraordinarily strong, by themselves accounting for half or more of cross-national variation in the period under review. What this tells us is that, although countries were becoming much more alike in respect of each separate category of spending, change was not occurring in the kind of uniform direction presupposed by a ‘race-to-the-bottom’ scenario. One obvious source of a compressed distribution of spending applying across many categories of expenditure was
the fact that the countries of the New Southern Europe, which in 1980 had only recently emerged as fully-fledged democratic systems, increased their public spending virtually right across the board. At the same time, however, there were conspicuous high spenders in particular areas that, over the course of the 1980s and 1990s, came back to the pack. Dramatic instances include Canada in the area of educational spending, Portugal and Norway in the area of total economy subsidies, the Netherlands in respect of aggregate social expenditure and both Belgium and Ireland in respect of aggregate core spending. No less dramatic cuts in product market regulation took place in Belgium and Japan and in temporary employment protection in Sweden and Italy. It is possible, although not considered in the scholarly literature, that widespread cutbacks of this nature could represent a kind of attenuated retrenchment process, with countries cutting back not so much on total spending, but on classes of expenditure where a previous trajectory of development had left them substantially out of kilter with significant others.

- Party Control Still Matters  
  A key argument from a previous generation of social expenditure studies was that the partisan complexion of government was a major factor shaping the growth of spending and a key plank of theorising around the sources of social expenditure retrenchment is that the old partisan divide no longer makes a great deal of difference (Huber and Stephens, 2001; Green-Pedersen, 2002; Kittel and Obinger, 2003). It is a natural extrapolation from the social to the core expenditure area to hypothesise that partisanship may once have influenced other categories of spending as it did social expenditure and that this effect may also have disappeared with the passing of time. The first part of that hypothesis is confirmed in this study more strongly than the second part, with the aggregates of social and core spending strongly and positively shaped by prior Left incumbency at the beginning of the period and still noticeably, if perhaps less strongly so, at the end of the period. Partisanship is also shown to influence nearly all of the separate categories of spending in some way in one time-period or another (military expenditure is the big exception), although change effects are often harder to discern than level effects and the Left is not always a predictor of higher levels of spending. That depends on the policy area in question. Studies in this volume show that expenditure on prisons and the size of the budget deficit were both higher in countries in which Right cabinet incumbency was greatest. Thus cross-national differences in patterns of partisan incumbency remain a significant factor accounting for the absence of any single direction of public expenditure
development in the countries of advanced capitalism over the past quarter of a century.

- The evidence on globalisation In the literature on social expenditure, the effects of trade dependency are contested. Early studies (Cameron, 1978; Katzenstein, 1985) suggested that countries faced with external vulnerability tended to spend more to protect their citizens. Globalisation theorists argue that, under present economic circumstances, this logic is reversed and that, the more a country is exposed to the world economy, the more it will be required by market imperatives to cut back on spending and taxing that constitute a burden on export competitiveness (again, see Gough, 1996). In this book on changing patterns of core expenditure, every chapter except that on public order spending seeks to identify the effects of trade dependency as measured by a country’s level of imports plus exports as a percentage of GDP, and some chapters further test for globalisation effects by examining the impact of trade flows. The vast majority of these tests yield wholly negligible coefficients. In fact, only one of the chapters on particular categories of core spending reports a negative and significant finding and that is in the rather unlikely area of military spending. The finding ceases to be significant, however, when expenditure convergence is controlled for and, arguably, therefore, may be regarded as spurious. The only other negative trade dependency effect is reported in Chapter 2 and relates to change in aggregate core spending minus net debt repayment expenditure in the 1980s. This is an ostensibly important finding because it suggests that core spending as a whole declined more strongly in countries more exposed to world market forces and that, therefore, globalisation factors may have been implicated in what we earlier identified as the nearest thing to a broad-based retrenchment tendency encountered at any point in this analysis. However, because aggregate core spending at the beginning of the period was actually quite significantly higher in countries with exposed economies and because at the end of the period there is no sign that it was significantly lower, Chapter 2 interprets the finding for the 1980s less as evidence of a systemic globalisation effect than of a one-off fiscal adjustment by countries whose earlier high levels of spending had left them dangerously overexposed in an uncertain economic climate.

So the evidence for globalisation-induced cutbacks in expenditure turns out to be as weak as the evidence for a dramatic reversal of trajectory across most categories of spending. Not only has the state not disappeared, but the main account offered for that phenomenon fails nearly all the tests
asked of it. Nevertheless, as this book shows very clearly, there were categories of public spending that were cut during these years and, in some instances, so severely as to amount, in the words of one these chapters, to ‘a real race to the bottom’. Rather than looking to sweeping theories accounting for expenditure cuts in general, the very fact that different spending categories manifest quite different patterns of growth and decline suggests a need to analyse each area in its own right. That, of course, is precisely what the substantive chapters of this book attempt to do and in a far more nuanced way than can possibly be captured in a summary introduction. For the present, our mapping of the multidimensional aspects of the modern state suggests that we should be wary of generalised trends and generalised conclusions. It may be, however, that what we learn of the factors shaping these diverse areas of spending will ultimately make it possible to identify more complex patterns of change and causation than identified in the present literature. However, whether that is the case or not, measurement and analysis of a multidimensional universe will certainly tell us far more about what has been happening to the state over the past quarter-century than can possibly be learned by continuing to insist on looking for retrenchment in the wrong place.

REFERENCES


