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**The Political Legacy of Neoconservative Rhetoric and Governance: A
Comparative Study of the Impact of Political Leadership on Consumer
Sentiment in Canada and the United States**

by

Daniel Cohn, B.A.(honours), M.S.Sc.

A dissertation submitted to the Faculty of Graduate Studies and Research
in partial fulfilment of the requirements for the degree of

Doctor of Philosophy

Department of Political Science
Carleton University
Ottawa, Ontario

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**THE POLITICAL LEGACY OF NEO-CONSERVATIVE
RHETORIC AND GOVERNANCE: A COMPARATIVE STUDY OF THE
IMPACT OF POLITICAL LEADERSHIP ON CONSUMER SENTIMENT
IN CANADA AND THE UNITED STATES**

submitted by

Daniel Cohn, B.A. (Hons.), M.S.S.

in partial fulfilment of the requirements
for the degree of Doctor of Philosophy

Chair, Department of Political Science

Thesis Supervisor

External Examiner

Carleton University
August 11, 1998

Abstract

The project asks the question: How would our behaviour change if we took political leaders, such as President Reagan, at their word? Specifically, economists have come to blame the depth and severity of the recession experienced in the United States during the early 1990s on an unexpectedly rapid and powerful decline in consumer confidence levels. This thesis asks whether or not this pessimism was an unintended "legacy" of neoconservative rule. Neoconservative leaders used rhetoric and policy decisions to belittle state capabilities and to encourage entrepreneurial risk-taking. In other words, they set out to foster the maximization of self-interest, the motivation traditionally assumed in economic models. However, psychological research shows that most people are not interest maximizers, but rather, are sufficers and very risk averse. They would consequently see these events as disturbing. It is argued that as a result of neoconservative rule, the risk averse majority of citizens became more sensitive to economic conditions and reacted more severely and more rapidly to economic decline than had been the case in the past. They did not expect government intervention aimed at moderating the downturn. Consumers, therefore, lost confidence in the market sooner and more completely.

This argument is analyzed through a comparative time-series analysis of the relationship between consumer sentiment and macro-economic conditions in the United States (which experienced government under neoconservative leaders during the 1980s) and Canada (which did not). The analysis is conducted in the context of a historical study of state institutions and the nature of welfare state policy making in the two countries. The project emphasizes and explores the important role which health and social programs play as economic confidence builders for the average citizens.

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Special thanks must also be extended to Eric Tanenbaum of Essex University, who assisted me in tracking down and retrieving the data produced by the Comparative Manifestos Project (which is employed in Chapter 6) and to Carolyn Kwan of the Conference Board of Canada, who arranged for the provision of the Canadian consumer sentiment data used in this project at no cost. Wendy Watkins and Kathryn T. Mowat at Carleton's Data Archive helped with the retrieval of data from the Inter-University Consortium for Political Science Research and answered a number of questions that I had concerning various government statistical publications.

In the course of completing any work of a substantial size, an author inevitably talks about the project with a variety of people and if he or she is fortunate, these conversations spark new ideas and provide clues for the surmounting of problems. In this regard, I have been very lucky and wish to acknowledge the input of Jeremy T. Paltiel, Jon H. Pammett, Daniel Osabu-Kle, François Rocher and Miriam C. Smith, as well as past and

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Chapter 1: Introduction

1.1 Introduction

This chapter will develop the basic argument to be pursued in the dissertation as well as the basic methodology which will be employed. In the next section the political movement known as the "new right" will be introduced. This section will also highlight the important role played by neoconservative leaders and ideas in furthering the success of the new right as a political force. Next, a problem that has been noted by some of America's leading economists will be introduced. This problem is the role that consumer sentiment played in causing the recession of the early 1990s. These economists have argued that consumer sentiment declined much more severely during the recession of the early 1990s than was warranted by the initial downturn in the economy and that this unexpected pessimism caused the recession to be far more severe than macro-economic conditions alone could account for.¹ This section concludes by proposing that political factors, specifically the exposure of American consumers to neoconservative leadership during the previous decade, might be able to explain the pessimism exhibited by consumers. This suggestion is further buttressed by a comparison of a series of graphs which depict the relationship between macro-economic conditions and consumer sentiment in Canada (which did not experience neoconservative leadership in the decade preceding the recession) and the United States. These charts indicate that Canadian consumer sentiment remained firmer during the recession, in spite of the fact that Canada's recession was technically more severe than that experienced in the United

¹ Olivier Blanchard, "Consumption and the Recession of 1990-1991," *The American Economic Review*, 83, (1993), 270-274; Robert E. Hall, "Macro Theory and the Recession of 1990-1991," *American Economic Review*, 83, (1993), 275-279.

States.

In section 1.3 this argument is further developed by considering the public policy bundle that most incites the ire of neoconservatives. This policy bundle is the welfare state. This discussion is focused around the concept of decommodification (the delinking of the living standards that we enjoy from the value that our labour commands in the market).² It is suggested in this section that there is a difference in opinion regarding decommodification between neoconservatives and other theorists and political leaders. While others see the welfare state and the decommodification that it produces as beneficial both for individuals and society, neoconservatives believe decommodification to be a barrier to entrepreneurial risk-taking, which they regard as the sole foundation for society's economic progress. Neoconservatives argue that a reduction in decommodification is not only to be preferred, but is essential. Next, consideration is given to the psychological research into risk perceptions that has been produced by Tversky and Kahneman. This research shows that most people are highly risk averse.³

In section 1.4 the implications of these factors are considered. It is suggested that if people are indeed as risk averse as psychological research suggests, then it is perhaps best to follow the lead of Scandinavian rational choice theorists, such as Overbye, when we seek to assess the opinions which mass publics hold about the functions of the welfare state. Overbye argues that, for the most part, mass publics view the welfare state neither

² Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, (Cambridge: Polity Press, 1990), 21-23

³ Amos Tversky and Daniel Kahneman, "The Framing of Decisions and the Psychology of Choices," in Jon Elster, (ed.), *Rational Choice*, (New York: New York University Press, 1986), 123-141.

as a system of entitlements, nor as a system of charity, but rather, as a system of insurance which protects individuals against risks from which they are powerless to protect themselves.⁴ Although neoconservatives believe that they are encouraging entrepreneurial opportunity when they argue for reduced decommodification and believe that this will lead to a stronger economy, they are also telling a highly risk averse population that their world has just become riskier; that their leaders no longer believe in the merits of the welfare state (which the population are here argued to see as a system of insurance). This perception of risk would only be reinforced by the fact that neoconservatives do not argue for restraint of the welfare state due to pragmatic concerns but because they have a strong belief, rooted in ideology, that this is necessary and due to the preference which neoconservative leaders show for addressing the concerns of business over those of individuals. Neoconservatives have argued for and, while in power, sought to create a political-economic social order in which people respond more efficiently to the market. While this has the potential to accelerate growth it also has a second potential impact, to accelerate decline in a time of economic crisis. This is especially the case when we remember the psychological evidence that people are more attuned to preventing loss than seeking out gains.

Consequently, the hypothesis that will be developed in this chapter is that neoconservative leadership causes the average person to believe that the world has

⁴ Einar Overbye, "Explaining Welfare Spending," *Public Choice*, 83, (1995), 313-335. In chapter 3 evidence is presented which shows that the welfare state programs which are the most supported by the public are those that conform either to the insurance metaphor or those that provide opportunity and which would seem to confirm Overbye's argument.

become riskier, and given their risk aversion, this can lead to consumer sentiment becoming more volatile, moving more rapidly downward and in a more pronounced fashion with negative changes in economic circumstances. If this is the case, then it is neoconservative leadership that accounts for the profound pessimism exhibited by American consumers during the recession of the early 1980s. The hypothesis is tested through a comparative study of Canada and the United States. The methodology used to conduct this study is laid out further in Section 1.5. Section 1.6 describes what follows in future chapters

To conclude this introduction, something should be said about policy legacies and policy 'earning among mass publics. In an article which reviewed the literature of policy legacies and policy learning, Pierson notes that virtually all of the literature in the field deals with the way in which the decisions of elites, rather than mass publics, are shaped by these factors. This is the case even though, as Pierson suggests, there are strong reasons to believe that mass publics are even more likely to be influenced by policy legacies and policy learning.⁵ Perhaps it is best to describe the unexpected pessimism which American consumer sentiment exhibited as an unintended "legacy" of neoconservative rhetoric and governance.

1.2 The New Right, Neoconservatives and the Recession of the Early 1990s

One of the most discussed phenomena in contemporary political science has been the revitalization and growing ascendancy of the political discourse of the right, often called

⁵ Paul Pierson, "When Effect Becomes Cause: Policy Feedback and Political Change," *World Politics*, 45, (1993), 597 and 619.

the "new right". M. Patricia Marchak describes the new right as:

An ideology and a political agenda that became popular in the industrial democracies between the mid-1970s and the mid-1980s. It rejects the Keynesian consensus of the post-war era, and extols the virtues of free enterprise and entrepreneurship. It expresses dissatisfaction with democracy, equality, social welfare policies, collective bargaining, and other citizens' rights achieved throughout the previous three decades.⁶

Writing principally about the United States, but presenting an argument that is roughly applicable to other Western nations, Lowi identifies three fairly distinct sub-groups in the new right: the old liberals, populist Christians and neoconservatives.⁷ In important parts of Western Europe, populist nationalism replaces Christianity in the triumvirate.

The first stream of new right thought represents the traditional libertarian right wing of western politics since the second world war. Its proponents draw their inspiration from the political philosophy of thinkers such as Hayek and his circle in Western Europe⁸ and from sources such as William F. Buckley's *National Review* in North America. The old liberals are the modern advocates of the doctrines of unrestrained *laissez faire* economics and near-absolute individual autonomy, which have traditionally been funded and championed by the members of the capitalist ruling class and their corporate alteregos.

The second stream identified by Lowi is a genuinely reactionary and populist

⁶ *The Integrated Circus, The New Right and the Restructuring of Global Markets*, (Montreal: McGill-Queen's Press, 1993), 3.

⁷ Theodore J. Lowi, *The End of the Republican Era*, (Norman, OK: University of Oklahoma Press, 1995).

⁸ Friedrich von Hayek (1899-1992), Austrian-born economist and social thinker. Author of *The Road to Serfdom*, (London: Routledge and Kegan Paul, 1944); *The Constitution of Liberty*, (London: Routledge and Kegan Paul, 1960) as well as many other works.

force. It is a mass-movement of the disillusioned, exhibiting many of the characteristics of Durkheim's anomie and seeking a return to what its adherents believe are the traditional, unifying norms and values of a once peaceful and once virtuous society.⁹ They feel that modern democracy has been used unfairly by some to corrupt society and that, consequently, some reduction of the protection afforded individuals by liberal democratic procedures and norms might be necessary to save and preserve western civilization. Examples of the issues of concern to these populist groups are the ways in which homosexuals have used constitutionally guaranteed rights to circumvent discrimination, services and educational activities that help women to assume personal control over their reproductive systems, and immigration.¹⁰

Wedge between these two groups are the neoconservatives. Once part of the progressive or moderate left-of-centre, the founders of this predominantly intellectual group abandoned the left as it took on a more radical, anti-capitalist (and some would say anti-Western civilization) cast during the 1960s.

⁹ Emile Durkheim, *The Division of Labour in Society*, (London: Collier-Macmillan, 1964).

¹⁰ For a thoughtful consideration of the political goals and ambitions of populist Christianity see, Ralph Reed, *Active Faith: How Christians are Changing the Face of American Politics*, (New York: The Free Press, 1996). Reed argues that almost all successful American social movements--from the abolitionists who fought slavery to the 1960s civil rights movement--have had Christian organizations at their core and tries to place his Christian Coalition in the same category. For a less edifying exposition see Pat Robertson, *New World Order*, (Dallas: Word Books, 1992). Robertson, a televangelist, one-time contender for the Republican Presidential nomination and founder of the Christian Coalition, argues there is a world-wide conspiracy of anti-Christians working to bring down America. Among the best academic works on the politics of populist Christianity is, Clyde Wilcox, *Onward Christian Soldiers? The Religious Right in American Politics*, (Boulder CO: Westview Press, 1996).

Conservatives characteristically look back to a better time when a wrong turn was made, and want somehow to regain or restore what was lost... On this standard, neoconservatism is of recent vintage--a reaction to the wrong turns made in the 1960s and early 1970s. That is, a reaction to wrong turns relating to the Great Society program, to Vietnam, to communism and the Soviet Union, and to associated cultural developments.¹¹

Neoconservatives similarly abandoned the label of "liberal" and the progressive liberalism of Franklin D. Roosevelt, when their colleagues proved unable to expel the "new left" (also called radical left) from their ideological tent.¹² Irving Kristol--who is in many respects one of the prime movers of neoconservatism--wrote the following about the 1960s and the self-discovery which this decade's events provoked in him, his colleagues and his associates in the progressive intellectual movement:

The major event of that period was the student rebellion and the rise of the counterculture, with its messianic expectations and its apocalyptic fears. It certainly took us by surprise, as it did just about everyone else. Suddenly we discovered that we had been cultural conservatives all along. This shock of recognition was to have profound consequences. We were bourgeois types, all of us, but by habit and instinct rather than reflection. Now, we had to decide what we were for, and why. Cool criticism of the prevailing liberal-left orthodoxy was not enough at a time when liberalism itself was crumbling before the resurgent Left... As the New Left and the counterculture began to reshape liberalism--as can be seen by a perusal of *The New York Review of Books* and even *The New Yorker*--and, eventually, to reshape the Democratic party, disenchanted liberals began to find themselves harboring all kinds of conservative instincts and ideas. Something like a "movement" took shape, with *The Public Interest*¹³ at (or near) the center. It never really was a movement, however,

¹¹ Vernon Van Dyke, *Ideology and Political Choice: The Search for Freedom, Justice and Virtue*, (Chatham, NJ: Chatham House, 1995), 221.

¹² Mark Gerson, *The Neoconservative Vision: From the Cold War to the Culture Wars*, (Lanham, MD: Madison Books, 1996), 132-135.

¹³ A journal founded by Kristol and Daniel Bell in 1965 to apply rigorous empirical analysis to social problems and policies, in keeping with Bell's idea that the days of ideology were over and most social debates would in the future be technical

since no organizational efforts were made or even thought of. It would more fairly be described as a current of thought, represented by no more than a few dozen people who were rather more articulate and familiar with ideological controversy than most conservatives at the time.¹⁴

It should be noted that the term neoconservative was not developed by any of the authors commonly associated with the label, or as Kristol would say, "current of thought". In fact it was coined by one of their former colleagues in the progressive liberal movement, as an insult.¹⁵ For a progressive liberal intellectual, possibly the worst pejorative is to refer to someone--or to be referred to--as a "conservative". And not even a genuine one at that, but an artificial or "neo" conservative.

As members of the intelligentsia labels are important to the neoconservatives. As intellectuals, they believe that ideas and terms matter. They believe that words, and the concepts which they trigger in each of our minds, represent a political battlefield. Just as the Swedish Social Democrats insist on clearly differentiating themselves from the other political parties and intellectual movements supporting free-markets by the use of the word "Social" in their title, and from those to their left who would destroy capitalist democracy by the use of the word "Democrats", so the neoconservatives insist that they are no longer liberal. Second, not only do the neoconservatives believe that ideas matter, they also believe that the ideas now dominant among those who use the label of liberal in the United States (and a variety of other titles elsewhere, such as "new left" or

discussions: See for example, *The End of Ideology, and Other Essays*, (New York: The Free Press, 1960). Kristol's contribution was a hefty scepticism regarding the abilities of elites to remake the human condition.

¹⁴ Irving Kristol, *Neoconservatism: The Autobiography of an Idea*, (New York: The Free Press, 1995), 31-32.

¹⁵ Gerson, *The Neoconservative Vision*, 7.

"socialist") are dangerous, imperilling the survival of Western liberal capitalist democracy:

Virtually all neoconservatives have a "declinist" vision of history,... they believe that the West is going to hell in a handbasket not because communism is favored by history but because of liberal, capitalist self-indulgence, loss of character and self-reliance, rejection of authority, and scepticism and relativism toward Western morality, religion, and institutions.¹⁶

This is a vision that is echoed by Margaret Thatcher, when she describes the conditions that she inherited at the start of her tenure as British prime minister:

No theory of government was ever given a fairer test or a more prolonged experiment in a democratic country than democratic socialism received in Britain. Yet it was a miserable failure in every respect...

Another approach was needed--and for international reasons as well as domestic ones. Britain's weakened economic position meant that its international role was bound to be cramped and strained as well...

We developed what might be called the "Suez Syndrome": having previously exaggerated our power, we now exaggerated our impotence...

What made this more dangerous in the late 1970s was that the United States was undergoing a similar crisis of morale following its failure in Vietnam. In fact, the "Vietnam Syndrome" was perhaps more debilitating than its Suez counterpart because it embodied the conviction that the United States was *fortunately* incapable of intervention abroad since such intervention would almost certainly be inimical to morality, the world's poor, or the revolutionary tides of history...

By the late 1970s, the U.S., Britain and our European allies were faced by a Soviet Union in this second aggressive phase. We were neither psychologically, nor militarily, nor economically in shape to resist it.¹⁷

Though by far the smallest of the three groups composing the new right, the

¹⁶ Lowi, *The End of the Republican Era*, 194.

¹⁷ Margaret Thatcher, *The Downing Street Years*, (London: Harper Collins, 1993), 7-9.

neoconservatives are probably the most important, because they serve as a bridge between the two larger groups. Neoconservative intellectuals explain to populists why the obvious enemy, capitalism, is in fact an ally (as the bulwark of Western civilization). Meanwhile, they also explain to the *laissez faire* libertarians the reciprocal reliance of capitalism on traditional Judeo-Christian values.¹⁸ The neoconservatives are also the movement's link to the larger public through their positions in the leading ranks of the western intelligentsia, within academia, government and journalism.¹⁹ While perhaps simplifying the hoops which an idea must go through to become part of the broader public debate, Gerson gives a good illustration as to why the neoconservatives are essential to the new right as a political movement. Their positions in the intelligentsia insures that ideas of which they approve get far more than the fifteen minutes of fame which Warhol promised to everyone and every idea.

The magazines of neoconservatism have--and always have had--low circulations. The circulations of the main neoconservative journals are all under 30,000... They want engaged readers, especially those who have intellectual and political influence... While this example is hypothetical, similar paths have been followed numerous times.

John Doe writes an article on welfare reform and single mothers for *The Public Interest*. William Raspberry of the *Washington Post* devotes a column to it, and a *Wall Street Journal* editorial questions Raspberry's interpretation two days later. George Will is intrigued by the article, devotes a *Newsweek* column to it, and invites Doe to appear on *This Week with David Brinkley*, where Doe is questioned by Will, Brinkley, and Sam Donaldson before a national audience. *The New York Times* condenses the article into an op-ed, and runs it the next Sunday. Pretty soon, Doe receives speaking engagements from around the nation, and is able to

¹⁸ Theodore J. Lowi, *Key Note Speech: New York State Political Science Association Annual Meeting*, (Ithaca, NY: March 29, 1996); Gerson, *The Neoconservative Vision*, 255-258.

¹⁹ Lowi, *The End of the Republican Era*, 193.

explain his insight to thousands of people directly. Public officials from both parties call him for advice, and Doe is invited to testify before Congress. If the timing is right, Doe may receive a phone call from the president of the United States offering a high appointment. After all this, maybe only 10,000 people may have read Doe's article--but his main idea is conveyed in one form or another to millions of others.²⁰

Writing about the United Kingdom's "new Conservatives", Alan W. Swingewood notes a similar means of operation.

[T]his Conservative intellectual formation is both radical and socially integrated, seeking to combine intellectual clarity and rigor with a broad popularizing role communicating with laymen, civil servants, and administrators. Its aim is not to influence policymaking as such but to communicate and engage in a fruitful dialogue with the politically aware, those who frame the context in which policymaking occurs. In this way an interchange occurs between different social worlds--academia, business, administration. In the 1980s it is this intellectual formation that functions as the dominant influence within modern Conservatism.²¹

Growing out of the intellectual movement centred on New York in the 1950s and 1960s, a movement dominated by Jews and Americans of other minority ethnic backgrounds (most of whom came from working class families), neoconservatives also added pluralism and diversity to the new right as it was developing. The "New York Intellectuals" were a concrete demonstration that one need not be from affluent circumstances, a McCarthyite, a racist or a Christian fundamentalist to be a conservative. Their essays, articles, books, speaking tours and television appearances served to demonstrate that the new right is based on ideas, that conservatives are no longer "the stupid party." They gave the new right a universal character which allowed the various

²⁰ *Ibid.*, 5-6.

²¹ "Intellectuals and the Construction of Consensus in Postwar England", in Alain G. Gagnon, (ed.), *Intellectuals in Liberal Democracies: Political Influence and Social Involvement*, (New York: Praeger, 1987), 98.

similar streams of conservative thought developing in the Western world to coalesce and to speak with coherence in a way that the libertarians and the populists could never have accomplished on their own.

During the 1980s politicians employing rhetoric and espousing policy prescriptions developed by the neoconservatives, came to dominate political life in the United States.²² Explanations from many perspectives have been advanced to explain why neoconservatives were so successful in electoral competition during this era.²³ A number of studies have also documented the success and failure of the neoconservatives at realizing their agendas once in power.²⁴ Surprisingly, however, since the ideology came to prominence in political discourse, very little political science research has been

²² For simplicity's sake, these politicians will henceforth be referred to as neoconservative leaders, or neoconservatives, even though "leaders influenced by the works of neoconservatives" would be the most accurate term.

²³ The most common sorts of explanations for the electoral success of neoconservatives include: Changing preferences, people had become disillusioned with progressive liberalism in North America and Social Democracy in Europe. See Kevin Phillips, *The Emerging Republican Majority*, (New York: Random House, 1969), 471: Good timing. The macro-crisis which western society has experienced since the early 1970s opened up electoral possibilities for those who wanted to do politics differently. See John T.S. Keeler, "Opening the Window for Reform: Mandates, Crises and Extraordinary Policy Making," *Comparative Political Studies*, 25, (1993), 433-486: A preference of capitalism. The remaking of right-of-centre parties in the neoconservative mold and their electoral success was the result of a concerted and sustained effort by capitalist actors to create ruling parties sympathetic to their needs in this era of economic crises. See Marchak, *The Integrated Circus*, 9.

²⁴ See for example, Martin Anderson, *Revolution: The Reagan Legacy, Expanded and Updated Edition*, (Stanford, CA: The Hoover Institution Press, 1990); Michael J. Boskin, *Reagan and the Economy: The Successes, Failures and Unfinished Agenda*, (San Francisco: ICS Press, 1987), 259; Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, (Cambridge: Cambridge University Press, 1994), 4-5.

done on the impact which neoconservatism has on the basic economic and political decisions which are made by individuals, such as whether to save or spend and which electoral platforms to endorse. Nor has much work been done on how such decisions taken under the influence of neoconservatism at the individual or micro level aggregate to produce system-level effects. This work aims to explore these issues.

Three basic assumptions--one dealing with human action, the second with government activity and the third with political research--inform the author's thinking on the issues under consideration. These assumptions are:

- 1.) Individuals, in general, are rational. They calculate means to reach ends. However, they are not necessarily interest maximizers in regard to every aspect of their lives. Either they lack interest in certain aspects of their lives or lack resources in time, material, personal processing capacity and information to maximize their interests.²⁵
- 2.) It is most common to measure the impact of government by studying and measuring enacted policies and the consequences that flow from them. We often fail to explore the impact that the rhetoric and symbolic behaviour of politics and policy making might be having on society. Political leaders are highly visible and even if they are not individually respected, their offices generally are. Consequently, it seems that, an effort must be made to gauge the effect of the rhetoric and symbolic behaviour of political leaders when assessing the impact that a government has on society and the individuals who constitute society.
- 3.) While rational actor theories have considerable merit, it is important to try to empirically test for the sources of the actor's perceptions of what would constitute rational action, rather than simply assuming for actors what actions would be

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James G. March and Herbert A. Simon have long argued that rationality is too high a standard to expect humans to meet as individuals. One reason why we form social organizations is to set narrower bounds within which something approaching rational behaviour, which they call "bounded rationality", can occur. See, *Organizations*, (New York: Wiley, 1958), 169-171. Mancur Olson argues that people make rational calculations as to whether or not they will become interested in different aspects of their lives based on the potential for economic payoffs. *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, CN: Yale University Press, 1982), 25-29.

rational.

The usefulness of these premises can be shown by asking a simple question: Assuming limited individual rationality as discussed above, how would our behaviour as individuals be influenced by the rhetoric and actions of our political leaders? For example, how would our behaviour change if we took Ronald Reagan's rhetoric, his symbolic actions and his own interpretations of his behaviour seriously? Asking this question has become more important in the last few years for three reasons:

1.) Studies have shown that there has not been a significant shift rightward in the values of citizens in electorates voting for neoconservative leaders. Thus, parties and candidates espousing neoconservatism have succeeded in spite of their ideology, not because of it. If the electorate shared the values and attitudes expressed by neoconservative leaders then their rhetoric and symbolic behaviour might seem reassuring to the electorate. However, if they do not share their values such rhetoric and behaviour might seem unnerving.²⁶

2.) Studies have also shown, that in general, neoconservative leaders and parties have been less successful than is popularly believed in reversing the pattern of government established during the post-war era in the United States and other Western liberal capitalist democracies. The neoconservatives might have made some changes in the welfare state but they did not dismantle it and by some measures it continued to grow. As well, services for the support of middle-class life still survived fairly much as before.²⁷ However, if electors only heard the

²⁶ See for example, Howard J. Gold, *Hollow Mandates: American Public Opinion and the Conservative Shift*, (Boulder, CO: Westview Press, 1992).

²⁷ Pierson, *Dismantling the Welfare State?*, 4-5; Gold, *Hollow Mandates*, 52-56; Peter Stoyko, *the Use of Summary Indicators to Measure the State's Impact on Income Inequality and Polarization: Time Series Trends in Selected OECD Countries. A Working Paper of the Project on Governance Implications of Labour Market Polarization*, (Ottawa: Statistics Canada, forthcoming), 34; Margaret Weir, "Political Parties and Social Policy Making," in Margaret Weir, (ed.), *The Social Divide: Political Parties and the Future of Activist Government*, (Washington and New York: The Brookings Institute and the Russell Sage Foundation, 1998), 20; Walter Dean Burnham, "The Reagan Heritage," in Gerald M. Pomper, (ed.), *The Election of 1988: Reports and Interpretations*, (Chatham, NJ: Chatham House, 1989), 10.

rhetoric and did not have the means to assess the reality, such restraint as there was might have taken on a symbolic importance for citizens far above the actual impact such policies might have had on the lives of the average citizen.

3.) The American recession of the early 1990s was far more severe than predicted by most professional economists. In retrospect, many have pointed to consumer restraint as the principal cause for the depth and longevity of the downturn.²⁸ It, therefore, seems sensible to ask why consumers ran further and hid longer during these recessions than professional economists felt they would, or in retrospect, believed that they had to?

In short, American economists are beginning to ask if the severity of the early 1990s recession can be attributed to a profound lack of consumer optimism. Consider the charts presented in Figures 1.2.1 through 1.2.4 (found at the end of this chapter). These charts track consumer sentiment in Canada and the United States using an identical instrument, developed by the Conference Boards of Canada and the United States²⁹

²⁸ As late as December 1995 the average forecast according to *The Economist* Survey of Leading Economists was for a modest recession but with all the major economies achieving positive growth for the entire year in spite of the downturn. (December 15, 1990), 99. In fact the American recession did not bottom out until GDP had reached a quarterly decline of 3.2 percent in the fourth quarter of 1990 and both the United States and Canada suffered a total year decline in GDP in 1991 (0.6 percent and 1.8 percent respectively). *OECD Economic Outlook*, 58 (Paris: OECD, December, 1995), *OECD Quarterly National Accounts*. On the role of consumer restraint see, Blanchard, "Consumption and the Recession" 270-274; Robert E. Hall, "Macro Theory and the Recession" 275-279.

²⁹ Conference Board Index of Consumer Confidence and Conference Board of Canada Index of Consumer Attitudes, all rights reserved. Though carrying different names, the only difference between these two indices is that the American data is collected monthly, while the Canadian data is collected quarterly. To adjust for this, the study only employs American data from quarter ending months. Base years for the two indices were also standardized to 1985 (a non-recessionary year). The questions asked of consumers in order to compile the index are as follows: How would you rate the present general business conditions in your area (good, normal, bad)? Six months from now do you think they will be: better, same, worse? What would you say about available jobs in your area right now (plenty, not so many, hard to get)? Six months from now do you think there will be more, same, or fewer (jobs)? How would you guess your total family income will be six months from now (higher, same, lower)? These questions, and

parallel to growth in gross domestic product (GDP) at annual rates per quarter and unemployment (all three of which are seasonally adjusted).³⁰ It will be noted that even though the American recession of the early 1990s was not as severe as that of the early 1980s consumer sentiment was more adversely effected. The drop in sentiment was far more sudden and after a brief recovery it turned down again, this time deeper than at any point in the more severe early 1980s recession. In Canada, where the early 1990s recession was technically more serious than in the United States, consumer sentiment stayed firmer in spite of worse economic conditions, indicating consumer sentiment was less responsible for the Canadian decline.³¹

While it is beyond the scope of a political science paper to identify the causes of recessions, it does seem reasonable to ask if there are any political factors that would

a comparison to those used in the University of Michigan consumer survey can be found in James F. Engel, Roger D. Blackwell and Paul W. Miniard, *Consumer Behavior*, 8th Edition, (Fort Worth, TX: Dryden Press, Harcourt Brace, 1995), 298.

³⁰ GDP figures are based on the OECD volume indices as reported in OECD, *Quarterly National Accounts*, (No.2, 1992), (No.2, 1994), (No.2, 1995), (No.2, 1997) and OECD standardized unemployment, OECD, *Main Economic Indicators: Historical Statistics, Prices, Labour and Wages, 1962-1991*, (Paris: OECD, 1993) and OECD, *Main Economic Indicators*, (January, 1993 - February, 1997). The GDP numbers have been standardized so as to have the same base year as the consumer sentiment data and converted to annual percent change per quarter (i.e they are stated at annual rates). Data reported "at annual rates" indicate the magnitude of the change involved if the growth rate reported for a given time period were to continue for an entire year and allows for comparison of semi-annual and overall annual results. This is probably the most common way in which GDP growth is reported. The conversion formula can be found in OECD, *Economic Outlook*, 39, (May, 1986), 166.

³¹ For a discussion of how truly bad the Canadian recession of the early 1990s was, see Pierre Fortin's 1996 Presidential Address to the Canadian Economics Association, "The Great Canadian Slump," *Canadian Journal of Economics*, 29, (1996), 761-787.

have caused consumer opinion to react so much more violently in the United States than in Canada. This dissertation will argue that the violent reaction which consumer sentiment exhibited in the United States during the recession of the early 1990s was a result of heightened risk aversion among consumers. This heightened state of risk aversion was a result of their having been exposed to neoconservative leadership during the previous decade. Canadian consumers, lacking such conditioning did not react as violently to the shock of the recession.

Rational actor theory holds that individuals try to interpret the information they have about their environment and the intentions of other actors. They then employ this knowledge to tailor their own decisions and behaviour so as to best help them achieve what they believe are their own goals. In fact, the belief that human behaviour is at least somewhat rational is so embedded in post-renaissance thinking as to hardly ever raise questions.³²

It matters little whether the information individuals receive is accurate or inaccurate as long as they believe that it is accurate. It is well known that financial markets move on the most tenuous rumours. In fact, financial markets often move even if the traders themselves do not believe a rumour but believe that others will.³³ Just as market rumours portray a distorted view of economic reality, so political rhetoric can convince citizens to see things as politicians wish them to be seen, which is not

³² Kristen Renwick Monroe, "The Theory of Rational Action: Origins and Usefulness for Political Science," in Kristen Renwick Monroe, (ed.), *The Economic Approach to Politics: A Critical Reassessment of The Theory of Rational Action*, (New York: Harper Collins 1991), 4.

³³ *The New York Times Magazine*, (October 1, 1995), 32-34.

necessarily as they are. A politician's behaviour can also symbolize a possibly distorted view of reality to citizens and/or other politicians. Behaviour by politicians becomes symbolic when it takes on an inferred interpretation in the minds of observers that might or might not accurately portray the beliefs and future intentions of the politician whose behaviour is being analyzed. For example, during the 1992 Republican National Convention considerable platform time was given to populists and evangelical Christian speakers. These speakers called for policies that made the party seem outside of the mainstream. Some commentators have argued that voters saw these speeches as symbolic of President Bush and the Republican Party's future intentions and that this contributed to his defeat.³⁴ This might not have been President Bush's intention when he agreed to give the populists and the evangelical Christians platform time, but he could not control the inference that people drew from his party's behaviour.

Therefore, the proposition is to give serious consideration to the idea that citizens take the rhetoric of politicians and their symbolic actions at face value, as indicators of future policy. Individuals who do so might try to adjust their behaviour so as to minimize the impact of the anticipated policy on their lives, just as the financial traders who take rumours seriously try to adjust their positions in light of the expected consequences of the rumours. Such ideas already have considerable currency within the field of economics. Robert E. Lucas Jr. was awarded the 1995 Nobel Prize in Economics principally in recognition for his modelling of how rational investors take

³⁴ *International Herald Tribune*, (13 August, 1996), 1 and 6.

account of government rhetoric and action in the field of economic policy making.³⁵

As Marchak notes: "One would be foolish to dismiss the power of words, especially words that are assiduously propagated and well funded."³⁶

1.3 Neoconservative Rhetoric and Policy on The Welfare State: Arguing for a Recommodification of Labour

Perhaps an argument as to the possible causes for the difference in the fragility that Canadian and American consumer confidence exhibited in the early 1990s will have more force if we consider the role that is played by the bundle of public policies that most incites the ire of the neoconservatives. This bundle of public policies is the welfare state.

The welfare state provides many services to a Western liberal democratic society and the individuals that constitute such societies. The welfare state is often portrayed as a vehicle for helping individuals to realize their highest abilities and enjoy equal life chances through programs such as universal public education and health care.³⁷ It is also often identified as a vehicle for aiding members of society who suffer misfortune, who are in need or who have reached retirement age through income support programs such as unemployment insurance, workers' compensation schemes, pensions and non-contributory assistance schemes such as social assistance for those who have exhausted

³⁵ Lars E.O. Svensson, "The Scientific Contributions of Robert E. Lucas Jr.," *Scandinavian Journal of Economics*, 98, (1996), 1-10; Stanley Fischer, "Robert Lucas's Nobel Memorial Prize," *Scandinavian Journal of Economics*, 98, (1996), 11-31.

³⁶ Marchak, *The Integrated Circus*, 10-11.

³⁷ Paul Anisef, Norman Okihiro and Carl James, *Losers and Winners: The Pursuit of Equality and Social Justice in Higher Education*, (Toronto: Butterworths, 1982), 1.

all other options. The aim is to aid people so that they can either re-enter productive life or subsist in dignity when their working years are over.³⁸ A third interpretation holds that the role of the welfare state is to protect capitalist democracies from their own shortcomings (for example through counter-cyclical spending designed to prevent downturns in economies from becoming structural crises).³⁹ Further, it is often argued that when the welfare state performs these tasks, it is also helping the capitalist state (whether democratic or not) to promote its legitimacy (which could be disrupted by economic misery) and to be promoting the interests of capital by helping to replenish the productive power of the work force.⁴⁰

The concrete impact that the welfare state is traditionally seen to have on the

³⁸ William Beveridge, *Social Insurance and Allied Services*, (New York: Macmillan Company, By Permission of HM Stationery Office, 1942), 5-19; Will Marshall and Elain Ciulla Kamarck, "Replacing Welfare with Work," in Will Marshall and Martin Schram, (eds.), *Mandate For Change*, (New York: Berkley Books, 1993), 228.

³⁹ *The Economist*, (December 26, 1992 - January 8, 1993), 108-110.

⁴⁰ Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe*, (Ithaca, NY: Cornell University Press, 1985), 47-57; Claus Offe, *Contradictions of the Welfare State* (Cambridge, MA: MIT Press, 1984), 51-53, 268-269; Jane Jenson, "Gender and Reproduction: Or, Babies and the State," *Studies in Political Economy*, 20, (1986), 14-15. It is worth remembering that one of the first advocates of the welfare state was Wilhelmian Germany's prototypical conservative leader Bismarck. His aim was to restore, through state action, the complementary duties of care and loyalty between the upper classes and the labouring classes that had been destroyed by industrialization and German unification. In so doing he hoped to legitimize the German Empire, its industrial capitalist economy and its only quasi-democratic political system. See Sven E. Olsson, Hans Hansen and Ingemar Eriksson, *Social Security in Sweden and Other European Countries--Three Essays: A Report to the Swedish Ministry of Finance's Expert Group for Studies on the Public Sector*, #DS1993:51, (Stockholm: Allmänna Förlaget, 1993), 16-17. Similar Bismarckian motives have also been alleged to have been behind Franklin Delano Roosevelt's "new deal", Michael Lind, *Up From Conservatism: Why the Right is Wrong for America*, (New York: The Free Press, 1996), 242-243.

situation of individuals can best be conceptualized by the word *decommodification*. Commodification, the opposite phenomenon, occurs when two factors coincide. First, a society's economy and division of labour develop to the point where markets, composed of specialist producers, emerge for most of the necessities of life. Therefore, these necessities of life must be purchased with cash (as subsistence and barter become impractical). Second, the majority of individuals earn the bulk of this cash as income from their labour rather than from the ownership of productive property. In this situation labour becomes a commodity, with its value determined by the market just as with any other commodity. The welfare state can decommodify labour, to a certain degree, by loosening the relationship between earned income and the livelihood we each enjoy.⁴¹

The concept of decommodification allows us to understand why the welfare state is controversial. In the view of social democrats, progressives, traditional conservatives (such as Bismarck and Churchill)⁴² and other welfare state supporters, the decommodifi-

⁴¹ Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 21-23; Olsson Hort, et al., *Social Security in Sweden and Other European Countries*, 31-34.

⁴² Traditional conservatives, or "Tories" play little part in the New Right. Their belief in the need to use the state to insure community survival is contradictory to the liberal economic dogma of the New Right. Margaret Thatcher derisively referred to the traditional conservative members of her party, such as Sir Ian Gilmour as "Wets" (an old school children's taunt for those who lack courage). In Canada they are somewhat less derisively called "Red Tories" by their "True Blue" colleagues. Typical of the breed is Dalton Camp, a septuagenarian media pundit and former advisor to three Progressive Conservative prime ministers. In the United States traditional conservatives are popularly referred to as "Rockefeller Republicans" both by themselves and their critics on the Right. Perhaps the most famous traditional conservative in America today is retired general Colin Powell. In France, conservatism, with its anti-revolutionary connotations is rarely discussed. To be conservative is to oppose the Republic. Nevertheless, it is possible to conceive of "Gaullists" with their emphasis on patriotism, community service and national unity, as a traditional conservative

cation of labour is seen as beneficial to the degree that it improves the life chances and opportunities of individuals, shields them from misfortune, illness, helps insure economic security in old age and provides individuals with faith in the established order. Neoconservatives, however, taking up the position of the "old liberals" or the libertarian right, tend to view the easing of the relationship between earned income and livelihood as creating disincentives to work. They see decommodification as discouraging work to the same extent that individuals are freed from the necessity to work. They further argue that decommodification decreases the relative rewards of success (both by making payouts to the losers and through levying taxes on the winners) and that this discourages individuals from engaging in economic risk taking, in other words, entrepreneurship.⁴³ Neoconservatives struck a responsive cord in the psyche of some Americans with this attack on institutions that seem to compromise the American creed that success should be the product of hard work and intelligence on the part of individuals:

Neoconservatives in the United States today echo the liberal voices of the nineteenth century. They stress the economic core of liberalism and remain attached to the moral and political core. Their growing strength derives from disenchantment of many -- in particular the middle classes--with what now seem to be the deficiencies of State controls, public spending, high taxes, and centralized decision making through an ever-growing bureaucracy. But there is also the argument that public spending and public controls undermine the moral initiative of individuals and dull their incentives and inventiveness so that, in the last analysis, productivity and economic growth are undermined. The myth of "rugged individualism", so central to nineteenth century American liberalism, remains remarkably strong. So, too, is the notion that the character and moral fibre of a person can be tested only through competition and individual effort--a

force, with the "Neoliberals" playing the role of New Right.

⁴³ Lowi, *The End of the Republican Era*, 207-208; Lind, *Up From Conservatism*, 156-187.

struggle in which only the best survive.⁴⁴

In other countries, where this ideological tradition of radical liberal individualism is weaker, or absent all together, neoconservatives have made the propagation of this set of beliefs one of their priorities. The Thatcher government in particular came to hold the view that Britain's post-war decline could be blamed, at least in part, on the fact that Britain never produced a genuine bourgeoisie, whose values and accomplishments would set the tone for society. Instead, feelings of *noblesse oblige* (or old Tory sentiments) continued to hamstring the efforts of British capitalists.⁴⁵

The above discussion, however, should not be read in stark, black and white terms. The contesting positions are a great deal more subtle than that. Supporters of the welfare state have always been aware of the danger that decommodification can become a disincentive to work. William Beveridge, one of the founders of the modern welfare state, warned in the 1940s that government intervention in social welfare must not only assist but must also provide "encouragement for voluntary action by each individual to provide more than that minimum [offered by state programs] for himself and his family."⁴⁶ Similarly, neoconservatives acknowledge some government responsibility for the less fortunate in society, if not to provide in total for the needy, then at least to equip them with the necessary tools and values so that they might provide for themselves,

⁴⁴ Roy C. Macridis, *Contemporary Political Ideologies: Movements and Regimes*, Third Edition, (Boston: Little, Brown and Co., 1986), 89.

⁴⁵ Simon Gunn, *Revolution of the Right: Europe's New Conservatives*, (London: Pluto Press, 1989), 39; Ralf Dahrendorf, *The Modern Social Conflict*, (New York: Weidenfeld and Nicolson, 1988), 170.

⁴⁶ Beveridge, *Social Insurance and Allied Services*, 7.

wherever possible.⁴⁷ Nevertheless, it is still clear that the main debate between the modern left and the right over the welfare state is whether or not the benefits of decommodification (protection, human development and opportunity) outweigh the costs (disincentives to work and invest) in any proposed policy or bundle of policies.

The neoconservative vantage point argues that decommodification produced by the welfare state hinders risk-taking by lessening the relative success risk takers can enjoy over non-risk takers and that, therefore, the welfare state must be held tightly in check. This should not be surprising. The benefits of risk-taking are at the very core of the neoconservative rhetoric in favour of entrepreneurial values. Risk-taking is regularly extolled and celebrated in this rhetoric and in the symbolic actions of neoconservative leaders. Ronald Reagan went so far as to credit the risk-taking entrepreneur with being the *true* hero of the cold war.

I met a lot of [entrepreneurs] while I was president, and if ever there was evidence of why Communism failed and capitalism triumphed, it was in the faces of these people. They were the people capitalism was all about. I heard story after story of someone taking an idea to the bank, borrowing, working hard, then experiencing the joy of seeing a business flourish. They were just ordinary Americans who had an idea or a dream or a longing for economic independence, and they had gone after it. They had taken risks, worked, and realized their goals. Not all of them succeeded, but America gave every one of them the opportunity to fulfill their dream...

⁴⁷ Brian Girvin, *The Right in the Twentieth Century: Conservatism and Democracy*, (London: Pinter Publishers, 1994), 211; Thatcher, *The Downing Street Years*, 626-627; Lowi, *The End of the Republican Era*, 207-208. Beyond opportunity creating services such as education, this governmental responsibility to help the less fortunate to provide for themselves can be seen to include such "forced" savings schemes as government pension plans, unemployment insurance and health insurance which compel individuals to save for the future. Such schemes can even include some redistribution as long as they do not go too far. Irving Kristol, *Two Cheers for Capitalism*, (New York: Basic Books, 1978), 212 and 231.

As I have often said, governments don't produce economic growth, people do. What government *can* do is encourage Americans to tap their well of ingenuity and unleash their entrepreneurial spirit, then get out of the way.⁴⁸

Perhaps nothing better demonstrates the importance of risk-taking to the neoconservative vision for a Canadian audience than "The Leap of Faith" in favour of free trade with the United States that Donald Macdonald urged Canadians to make in November 1984.⁴⁹

Neoconservative leaders and thinkers make the argument that relatively enhancing rewards for winners also makes sound sense for society as a whole. Their argument is that, in the long run, such a policy will lead the winners to re-invest their incomes and this will produce the enhanced economic growth which produces a bigger economic pie. Therefore, even though the percentage of the pie allocated to the winners might grow, everyone else eventually gets more as the size of the pie increases and more money is available in total to address society's ills. This is sometimes called "supply-side economics".⁵⁰ This is not the place to argue over whether or not supply-side economics actually works as predicted. What is important at this point is that neoconservatives have promulgated the view that this is how the economy works, and when neoconservatives have been in power, they have attempted to re-arrange economic

⁴⁸ Ronald Reagan, *An American Life*, (New York: Simon and Shuster, 1990), 348-349.

⁴⁹ Chair of the Royal Commission on the Economic Union and Development Prospects for Canada and a former senior cabinet minister in the Liberal Party government of Pierre Trudeau. Macdonald made this comment at a conference nearly a full year before the Commission's final report would be issued and would indeed recommend this leap of faith. *The Globe and Mail*, (September 9, 1995), D3: G. Bruce Doern and Brian W. Tomlin, *Faith and Fear: The Free Trade Story*, (Toronto: Stoddart, 1991), 52-56.

⁵⁰ Robert Lekachman, *Greed Is Not Enough: Reaganomics*, (New York: Pantheon Books, 1982), 12-14.

and social policy in accordance with this theory.⁵¹

The neoconservatives see their critique of the welfare state, their efforts to reduce the decommodification of labour that the welfare state provides and their rhetorical attacks on the inadequacies, incompetence and general efficiency of public organizations, as helping to set a climate favourable to risk-taking entrepreneurs. However, their actions and rhetoric also convey a second message. This message is that the welfare state *cannot and will not* protect against the risks that individuals face.

Buttressing this message that the welfare state cannot and will not protect against the risks that individuals face is the neoconservative attitude towards large capital, and to a certain degree, toward all businesses. Writing in the mid 1970s Charles Lindblom described the *privileged position of business*. He argued that in a society with a large scale capitalist economy, a small group of very powerful business leaders control basic social decisions regarding the priorities and out-puts of the productive process. He then suggests that these business executives are *de facto* if not *de jure* public officials. Even though they are not selected by the democratic process their decisions have society-wide impact, due to the size and importance of their enterprises. Given this, political leaders must cooperate with business to a degree that is not required with other interests. Hence, the so called privileged position of business. He describes business as one very powerful interest among many other, less influential ones. All are legitimate but business gets a more careful hearing. Lindblom argues that, to a certain degree, the problem of

⁵¹ See for example, Jude Wanniski, *The Way the World Works: Revised and Updated Edition*, (New York: Touchstone Books, 1983).

successfully marrying capitalism and democracy boils down to making sure that business receives the necessary hearing but does not displace all the other interests in society. Almost a decade later, Lindblom again dealt with the position of large business, this time during the neoconservative Reagan administration's tenure. This second piece spoke of *the market as prison*. In this essay Lindblom argues that business is no longer seen by policy makers as a vital interest among many others, but as the only legitimate interest that need be considered in governmental decision making.⁵² All other interests are deemed *special interests*, by the neoconservatives. David Laycock brings this home through his discussion of the Canadian Reform Party's position on special interest groups. For the Reformers, it is not only public policy that is at fault for creating a poor business climate in Canada but the Canadian democratic system itself. It is seen as allowing non-business interests to enjoy too easy an access to policy makers, and consequently, Reformers argue that the system dilutes the voice of business in the policy process. Hence, the Reformers believe that it is democracy which must be curbed if policy is to improve.⁵³

Neoconservative political leaders go beyond extolling the merits of risk-taking. They deride the capability of the state to aid individuals (other than capitalists) and try to limit both the ability of non-capitalist groups to petition the state for assistance and the

⁵² Charles E. Lindblom, *Politics and Markets: The World's Political Economic Systems*, (New York: Basic Books, 1977), 170-180; "The Market as Prison," in Thomas Ferguson and Joel Rogers, (eds.), *The Political Economy*, (Amorak, NY: M.E. Sharpe, 1984).

⁵³ David Laycock, "Reforming Canadian Democracy? Institutions and Ideology in the Reform Party Project," *Canadian Journal of Political Science*, 27, (1994), 217-218.

power of the state to answer these requests. Following the intellectual lead of public choice political theorists such as Mancur Olson,⁵⁴ neoconservatives further lecture citizens seeking political redress for their problems that their concerns are not legitimate, portraying them as attempts to produce individual goods (entitlements) and therefore, hindrances to economic efficiency. On the other hand, the interests of business are portrayed as enhancing efficiency (which produces growth) and are, therefore, seen as producing common goods. This allows the interests of business to be depicted as legitimate and creates a justification for giving them precedence. Vincent Della Sala has described such simultaneous attempts to reduce the state capacity for decommodification and to curtail access to public policy making as "the hollowing out" and "hardening" of the state.⁵⁵

While neoconservative leaders might feel that these measures encourage risk-taking, by increasing the rewards available to successful risk-takers, relative to others, there is also another possibility. Hearing this rhetoric about the inefficiencies and unreliability of the state and observing the symbolic behaviour of their leaders (which appear to give preference to the needs of capital over the needs of individuals), all on top of policy decisions that modestly curtail the degree of decommodification provided by the welfare state, might lead average citizens to conclude that the financial transactions which they must engage in to secure their own future prosperity had become riskier and

⁵⁴ *The Rise and Decline of Nations*, 36-79.

⁵⁵ Vincent Della Sala, "Hollowing Out and Hardening the State: European Integration and the Italian Economy," *West European Politics*, 20, (1997), 14-33.

also lead them to discount the ability of the state to offer aid.⁵⁶ Consequently, instead of seeing the greater rewards available to them if they were to take risks and succeed, average citizens might instead conclude that their daily lives had become more risky and they might search for ways to reduce risk, rather than incur more. This possibility is buttressed by considerable psychological and economic research which indicates that most individuals are simply not comfortable making economic decisions in the sort of environment that the neoconservatives seek to promote. While neoconservative leaders equate risk-taking with opportunity for gain, the average person equates risk-taking with danger.⁵⁷ In a path-breaking study of the way we perceive risk, Tversky and Kahneman discovered that the context in which we address risk determines our tolerance of it. Most people fear the risk of loss more heavily than they value the chance of gain. The average person only becomes willing to accept higher risks when the choice is not between the status quo and a reward with risk, but, between a guaranteed loss and a

⁵⁶ *The Globe and Mail*, (10 October, 1995), B13; *The New York Times*, (24 September, 1995), F4.

⁵⁷ Perhaps no political jurisdiction anywhere has taken the principle of risk-taking any further than the Canadian province of Alberta. Not only were social programs retrenched in the mid 1990s, increasing the risks that each individual must run, but the province has also, in effect, linked the money available for public expenditure in every fiscal year to the highly volatile world price of oil. Oil royalties are critical to the province's budget and are of increasing importance as federal subsidies to provincial health and welfare programs decline. Now that the province has a balanced budget law and an act that requires an election before taxes can be raised, any decline in oil revenue means an immediate cut in public spending will automatically result. Even the business columnists of the traditionally right-of-centre *Globe and Mail* recognize that this amount of risk might be disconcerting to the general public. "And that's why folks will continue to keep an eye on resource prices, growing content when they are high and worried when they are not," (10 January, 1996), B4.

chance for gain with the risk of an even greater loss.⁵⁸ In other words, for average citizens risk-taking is not enjoyable and is in fact an act of last resort. They will engage in risk-taking if they must, but they will also look for ways to avoid risky situations. It is just such a motivation which is causing more and more North Americans to play the stockmarket, either directly, or via mutual funds. More and more people are coming to question the reliability of public pensions and the likelihood that they will ever stay long enough with one employer so as to earn a corporate pension. Given the low interest rates available in traditional guaranteed savings schemes and the large sums most investment planners tell people that they will need to retire, many of these people see the stockmarket as the only place they can earn the returns that they will need in retirement. For these investors the choice is not between a chance for gain with risk, but between a guaranteed loss (ending up old and poor) if they do not invest in the market and a chance for gain (an endurable retirement) with an even greater risk of loss (the possibility that all of their retirement savings might be lost).⁵⁹

1.4 The Welfare State as a Producer of Public Goods: The Social Psychological Security Blanket and What Happens When Leaders Threaten to Take It Away

This evidence of concern to protect against losses rather than to seek gains, leads me to believe that, in a sense, the welfare state is a psychological security blanket for society. Far more people are comforted, and perhaps even inspired, by the belief that

⁵⁸ Tversky and Kahneman, "The Framing of Decisions and the Psychology of Choices," 123-141.

⁵⁹ Ted C. Fishman, "The Bull Market in Fear," *Harper's Magazine*, (October, 1995), 55-62.

unemployment insurance and social assistance exist if they need them than will ever file claims. Under the welfare state, one can engage in long-term financial contracts with confidence, such as taking out a mortgage, because of the belief that if a calamity occurs there will be a safety net to tide you over any period of need. Guaranteed minimum pensions and publicly funded health care similarly support the perception of security. In old age there will be some sort of top up to help enable a dignified retirement so that one can afford to spend current income on providing one's children with advantages (such as home computers and travel) and with luxuries (such as hockey equipment) today. When a society has universal health insurance, middle-managers who are considering the possibility of becoming entrepreneurs, need not stop and consider whether renouncing their benefits as employees will jeopardize the safety of their families.

The key to such a reconsideration is to view welfare state programs as insurance schemes rather than as either altruistic charity or as self-interested entitlements.⁶⁰ Under this interpretation, welfare state programs are conceived of as producing a common good. This is the abatement in the perceived financial and physical risks that each and every citizen experiences in his or her daily life but which he or she are powerless to avoid in a market economy. In this sense the welfare state acts as the financial equivalent to the abatement in the perceived physical risk that well functioning police and fire departments provide in the daily life of each and every citizen. Most of us will rarely, if ever, have to call on the police or fire fighters to protect our immediate physical safety. However the presence and efficiency of such forces reassure everyone.

⁶⁰ Overbye, "Explaining Welfare Spending," 313-335.

When neoconservatives attack this well-anchored belief that the state can, and will, reduce the various elements of risk that individuals face in their daily lives, they may well be undermining consumer confidence in the economy and jeopardizing citizen confidence in the future of their societies. Increasing the possibility of relative gain through risk-taking (not genuine gain but gain relative to non-risk takers), while removing or reducing the protection available in the case of failure, forces average individuals to confront higher risk levels than before, but it cannot force them to adapt to them in the ways that the neoconservatives would like. A regular diet of neoconservative propaganda proclaiming the incompetence of the public sector may well increase the perception of risk and danger in the mind of the average individual. Meanwhile, the neoconservative rhetoric which states that business interests are legitimate and other interests are illegitimate would conceivably convince individuals that political action would be incapable of producing solutions to their problems. Consumers faced with this inculcated view of a new riskier world might then be expected to compensate for this new feeling of financial and social danger by trying to reduce exposures to risk wherever possible so as to allocate more money to savings and to be far more cautious as to the economic climate when they do consider making major purchases. Henceforward, I will refer to this feeling of enhanced financial and social danger as *risk aversion*.

This basic disagreement between neoconservative leaders and average citizens as to the merits of risk and the lack of synchronization in beliefs about the costs and benefits produced by welfare state programs, unintentionally induced a heightened sense

of risk aversion in the American public and produced the violent changes in consumer sentiment which economists have pointed to as the cause behind the depth and severity of this crisis.⁶¹ At the start of the 1990s a recession hit the major Anglophone capitalist economies and American consumers, not expecting government help, ran for cover as conditions worsened. In fact, the recession was not particularly severe at first, and social insurance plans did indeed act as shock absorbers because they had not been as badly ravaged by the neoconservative regimes as many citizens believed. Nevertheless, the fear of being unemployed, or of even suffering a decline in income, was magnified by the public's indoctrinated perception that the safety net of the past years would be unavailable. It was this combination of circumstances which guided people. In other words, risk aversion had set in among the population--in fact, had been taught inadvertently to the public--and this caused a deeper pessimism about the state of the economy than was warranted solely by technical economic indicators.

In a 1993 article which reviewed current work on the topic of policy feedbacks or legacies, Pierson notes that most such works focus on the impact which policy legacies have had in shaping the decisions of elites, such as politicians, bureaucrats and the leaders of organized interest groups. He correctly notes that there is very little research on how policies impact on the decisions of mass publics, even though the impact might be considerable.⁶² Pierson further suggests that works which try to explore the phenomenon of policy-learning might also benefit from a shift towards the study of mass

⁶¹ Blanchard, "Consumption and the Recession of 1990-1991," 270-274; Hall, "Macro Theory and the Recession of 1990-1991," 275-279.

⁶² Pierson, "When Effect Becomes Cause," 597.

publics: "For the electorate, policies may produce cues that help them develop political identities, goals, and strategies. While policy-learning arguments see policies as the source of models or analogies for policymakers, what is likely to be important for mass publics is the informational content of policies."⁶³ I would essentially push this argument one step further and argue that, given the limited rationality that people can be expected to possess, it is not public policies themselves which serve as information sources for the mass public, but public policies as described and explained by political leaders.

In sum, my argument is that citizens took the neoconservative rhetoric seriously. They accepted the neoconservative view that the state was inefficient and incompetent and, therefore, they discounted the ability of the state to come to their aid. On top of this pessimism regarding the capacity of the tools of government, citizens did not expect that neoconservative leaders would be willing to assist them anyhow. They took at face value the pronounced ideological dispositions of leaders and their previous symbolic actions which appeared to give even greater than normal preference to the needs of business and large financial interests while simultaneously whittling away at services and benefits provided to average and disadvantaged individuals. The redistribution of taxation burdens away from corporations and the wealthy towards average and lower income families, that occurred in many countries during the 1980s, would have only confirmed such a suspicion, that the state had no interest in the welfare of average

⁶³ *Ibid.*, 619.

families.⁶⁴ Being more risk averse than the economic elites and their political leaders, and not expecting any help from that direction, it should not be surprising that these average citizens felt themselves truly alone in confronting the recession of the early 1990s and responded by expressing the high levels of pessimism about the state of the economy that American economists blamed for the severity of the recession.

In other words, it was not the recession, per se, that caused the unexpectedly severe decline in American consumer sentiment but the previous decade of neoconservative leadership. For nearly a decade, neoconservative leaders argued for, and sought to create (however successfully) a new political-economic social order in which citizens responded more efficiently to the market. While this held out the potential for enhanced and more rapid economic growth, it also held out a second potential implication. This second possibility was for more severe and rapid economic declines. This is especially the case when it is remembered that psychological evidence demonstrates that most people are more interested in protecting themselves against risks than in seeking out gains. The diagram contained in figure 1.4.1 (presented at the end

⁶⁴ Isabella Bakker, "The Politics of Scarcity: Deficits and the Debt", in Michael S. Whittington and Glen Williams (eds.), *Canadian Politics in the 1990s* (Toronto: Nelson, 1995), 74-76; Kevin Phillips, *The Politics of Rich and Poor: Wealth and the American Electorate in the Reagan Aftermath*, (New York: Random House, 1990), 27, 76-91. In fact, Nigel Lawson, Britain's Chancellor of the Exchequer (finance minister) was so concerned about this charge of favouring the well-to-do over average citizens that he timed and planned his tax cuts with an eye to deflecting such criticisms. David Smith, *From Boom to Bust: Trial and Error in British Economic Policy*, (London: Penguin, 1992), 120-122. However, his Prime Minister had no qualms about such a shift in taxation burdens. "The cuts in the basic rate of income tax to 25 pence and the top rates to 40 pence provided a huge boost to incentives, particularly for those talented, internationally mobile people so essential to economic success." Thatcher, *The Downing Street Years*, 674.

of the chapter) depicts the argument that has been developed in this chapter.

1.5 Testing the Hypothesis

As was noted in the second section of this chapter (see figures 1.2.1 to 1.2.4), Canadian consumers seemed to respond less dramatically to the recession than U.S. consumers. From this observation the question arose as to whether or not politics could account for this difference. Afterwards an argument was developed so as to explain how politics, specifically the rhetoric and symbolic behaviour of neoconservative leaders, could cause such a phenomenon and the absence of such leadership could account for the lack of such behaviour. In order to demonstrate the viability of this hypothesis it will be necessary to accomplish two tasks. First, other potentially explanatory factors must either be excluded or incorporated into the argument. Second, the data which produced the pattern observed casually in the above mentioned charts must be more rigorously interrogated so as to verify that the data actually serves to support the hypothesis.

This latter goal will be accomplished by conducting a regression analysis of the relationship between consumer sentiment, as measured by the Conference Board indicator of consumer sentiment, and macro-economic conditions, as measured by change in the growth rate of GDP and the unemployment rate in Canada and the United States⁶⁵ for the time period 1979-1996. This quantitative analysis will be conducted inside of a "comparable-cases"⁶⁶ qualitative study of the two countries which will seek to take

⁶⁵ See notes 29 and 30 for a fuller description of these variables.

⁶⁶ Arend Lijphart, "The Comparable-Cases Strategy in Comparative Research," *Comparative Political Studies*, 8, (1975), 163.

account of the impact of neoconservative rhetoric and governance and to also control for other possible causal factors. Why this approach is necessary can perhaps best be illustrated by considering the problems involved in controlling for extraneous influences and measuring the variables that are assumed to be independent or causal in this project.

The quantitative approach seeks to use mathematical, usually statistical tools, to analyze data and expresses the relationships between the independent and dependent variables in terms of probabilities. Statistical tools are also used to "control" the relationships between the dependent and independent variables as well as other potentially causal variables, so that these can either be demonstrated to be part of the causal process or excluded as extraneous to the process.⁶⁷ In order to use the quantitative method it must be possible to express all the variables relevant to the project in numerical terms.

As this project seeks to deal with historical events, the researcher is somewhat at the mercy of the interests of those who were in a position to collect data at the time these events actually occurred. The project seeks to measure the influence of political factors, specifically the impact of neoconservative rhetoric and governance on consumer sentiment. The object is to assess whether or not consumer sentiment under the influence of these forces responded differently to economic circumstances than it otherwise might have. As discussed earlier, there are readily available sources for public opinion about the state of the economy (consumer sentiment) and also for macro economic conditions.

Unfortunately, there is no data source which allows one to compare people's

⁶⁷ Stanley Lieberson, "Small N's and Big Conclusions: An Examination of the Reasoning in Comparative Studies Based on a Small Number of Cases," *Social Forces*, 70, (1991), 309.

opinions about the state of the economy with their opinions about the degree to which their leaders conform to the neoconservative ideology in their rhetoric and symbolic behaviour. If such a source existed it would be possible to conduct this study at the individual level, comparing each individual respondent's optimism about the economy with their view of their political leaders. As no such source is available the study will have to proceed at the aggregate level.

However, the complexities posed by the research problem get even more severe when it is acknowledged that not only is there not a single data source that combines public opinions about the economy with public opinion about leadership conformity with the neoconservative ideology, but that there is also no separate data source for public opinion about leadership conformity with the neoconservative ideology. Public opinion surveys have generally failed to capture public opinion about differences within the right and left. Instead they have focused on measuring public opinion as to whether or not leaders are part of broader categories. For example, the American Election Studies regularly ask respondents to place themselves and candidates on a seven point scale with "Extreme Liberal" at one end and "Extreme Conservative" at the other. A similar scale with "Extreme Left" and "Extreme Right" at the poles has been used in Canada.⁶⁸ However, as one of the propositions of this project is that there is a difference in

⁶⁸ See for example, Ronald D. Lambert, Steven D. Brown, James E. Curtis, Barry J. Key and John M. Wilson, *The 1984 Canadian National Election Study Codebook, Electronic Version* (1986), accessed via the Carleton University Social Science Data Archive; Warren Miller and the National Election Studies, *American National Election Study, 1988: Pre- and Post-Election Survey Introduction and Codebook*, (Ann Arbor, MI: Inter-University Consortium for Political and Social Research, 1989), 116-120.

behaviour and impact between neoconservative politicians and politicians who are merely to the right-of-centre, such data sources are of little use to this project. Therefore, although the study seeks to measure the impact of neoconservative rhetoric and governance on people's opinions about the economy, it will be necessary to use a measure of neoconservatism that is not based in public opinion but in some other form of evidence. This evidence will be developed through a comparable-cases study of Canada and the United States.

Unlike the quantitative method, which seeks to establish control and assess causality via statistical methods, the comparable-cases strategy achieves this end via "logical" reasoning or control. Cases are selected which are as comparable as possible but which exhibit different outcomes. Those factors which are obviously similar are logically excluded from being causal at the very start of the process and the researcher is, therefore, left to more carefully investigate a smaller number of factors which might not be similar. The cause for the dissimilar outcomes is assumed to be either a relevant factor or a combination of relevant factors⁶⁹ which is present in one case and not in the other.⁷⁰ This approach is usually said to rely on a method of proof formally outlined by the English social philosopher John Stuart Mill and described by him as "the method

⁶⁹ These are referred to as a complex conjunctural variables (as they only become causal when a number of factors coincide or fall into a specific order). Then they are treated as single variables, provided that a theoretically based explanation of their inter-relationship can be provided. Charles C. Ragin, *The Comparative Method: Moving Beyond Qualitative and Quantitative Strategies*, (Berkeley, CA: University of California Press, 1987), 20-26.

⁷⁰ Lijphart, "The Comparable-Cases Strategy in Comparative Research," 163-166.

of differences".⁷¹

Canada and the United States are nearly ideal candidates for such a study as they have a wide range of factors relevant to this project in common. Canada and the United States exist in a similar economic environment. Some authors have even gone so far as to argue that the two countries are essentially political divisions of the same North American economy.⁷² During the 1970s and 1980s the effects of economic globalization have been increasingly felt in both countries. Globalization has come to restrict policy autonomy in both countries to a certain degree. In this period both countries have also experienced substantial financial deregulation (in part as a response to globalization).⁷³ Household indebtedness has also risen sharply and to a similar degree in both Canada and the United States.⁷⁴ This last point is particularly important as some have claimed that the dramatic decline in American consumer sentiment was the

⁷¹ *A System of Logic: Ratiocinative and Inductive: Being a Connected View of the Principles of Evidence and the Methods of Scientific Investigation*, (London: Longmans, [1843] 1965), 256.

⁷² See for example, Glen Williams, "Regions Within Region: Continentalism Ascendant," in Michael S. Whittington and Glen Williams, (eds.), *Canadian Politics in the 1990s*, Fourth Edition, (Toronto: Nelson, 1995), 19.

⁷³ If anything Canada has been more severely impacted by globalization, and has deregulated its financial system faster and farther than has the United States. Keith Banting, George Hobert and Richard Simeon, "Introduction," in Keith Banting, George Hobert and Richard Simeon, (eds.), *Degrees of Freedom: Canada and the United States in a Changing World*, (Montreal: McGill-Queen's University Press, 1997), 10; OECD, *Structural Adjustment and Economic Performance*, (Paris: OECD, 1987); Sarkis J. Khoury, *The Deregulation of the World Financial Markets: Myths, Realities, and Impact*, (New York: Quorum Books, 1990), 171.

⁷⁴ Glen B. Canner, Arthur B. Kennickell and Charles A. Lockett, "Household Sector Borrowing and the Burden of Debt," *Federal Reserve Bulletin*, 81, (1995), 323; OECD, *Economic Surveys 1992-1993, Canada*, (Paris: OECD, 1993), 53.

result of American consumers having become "over-extended" due to excessive borrowing in the 1980s as financial de-regulation made it easier for consumers to gain access to credit. There is also some evidence from the United Kingdom that this indeed can happen.⁷⁵ As the rate of household indebtedness rose similarly in Canada and the United States, this factor can be discarded as a potential cause for the difference in the way that consumer sentiment responded to the recession of the early 1990s. Finally, as was seen in the first part of this chapter (Figures 1.2.1 - 1.2.4) both Canada and the United States tend to follow the same business cycle, although unemployment has tended to be higher in Canada, as have interest rates, until recently.⁷⁶

When social and economic policy is considered, the similarity between the two countries is again apparent. Both Canada and the United States are members of the set of political-economic regimes described by Esping-Andersen as "liberal welfare states". In this regime type "means-tested assistance, modest universal transfers, or modest social insurance plans predominate." This does not mean that the state only serves up poor relief, but that in general, publicly provided welfare programs do not provide a high degree of decommmodification. Consequently, when the liberal welfare state does try to provide services above the minimum, it tends to do so through the encouragement of the private provision of welfare so that such enhancements are linked to the value that the

⁷⁵ Smith, *From Boom to Bust*, 181-204.

⁷⁶ For data on interest rates see the monthly reports of the International Monetary Fund, *International Financial Statistics*, (March, 1980 - March 1997).

market places on our labour.⁷⁷ In both countries there are important variations from the liberal welfare state model and in the methods and programs through which the welfare state works, these differences and their possible impact will be considered in fuller detail in Chapter 5. In the field of economic policy the period under study began with both countries experiencing a similar monetarist thrust, as central bankers sought to squeeze inflation out of both economies. Later, national political leaders in both countries either deliberately (in the United States) or reluctantly (as in Canada) agreed to go along with this strategy.⁷⁸ Both countries also sought to reduce social spending, while both also made their tax systems more regressive.⁷⁹

In terms of political factors, both countries are liberal democracies with very similar political cultures. Although there are differences in the degrees to which Canadians and Americans hold different values, attitudes and beliefs, the differences are relatively small as compared to the differences that exist between other nations.⁸⁰ In

⁷⁷ *The Three Worlds of Welfare Capitalism*, 26-27. Christopher Howard refers to such indirect actions, which are often undertaken through the tax system, as the "Hidden Welfare State". "The Hidden Side of the American Welfare State," *Political Science Quarterly*, 108, (1993), 405.

⁷⁸ N.C. Thomas, "Institutions, Interests and Ideology in Economic Policy, Canada, the United Kingdom and the United States," *Environment and Planning C: Government and Policy*, 12, (1994), 170-171; Ernie Lightman and Allan Irving, "Restructuring Canada's Welfare State," *Journal of Social Policy*, 20, (1991), 77.

⁷⁹ *Ibid.*, 65-88; John O'Connor, "U.S. Social Welfare Policy: The Reagan Record and Legacy," *Journal of Social Policy*, 27, (1998), 37-61. Bakker, "The Politics of Scarcity," 74-76; Phillips, *The Politics of Rich and Poor*, 27 and 76-91.

⁸⁰ Ronald Inglehart, Neil Nevitte and Miguel Basañez, *The North American Trajectory: Cultural, Economic, and Political Ties among the United States, Canada and Mexico*, (New York: Aldine De Gruyter, 1996), 11-21.

both countries institutional barriers prevent national political leaders from autonomously exercising their will in the fields of social and economic policy. Canadian prime ministers must deal with the concerns and demands of provincial governments (represented by their premiers), cabinet colleagues and once legislation is enacted, see their work become subject to judicial interpretation and review.⁸¹ American presidents also have to deal with a constitutional division of powers between Washington and state governments. While modern presidents have much more control over their cabinet than a Canadian prime minister has, they must instead learn to work with, rather than through, the Congress and must also suffer the review of their actions by a powerful judiciary.⁸² Finally in both countries central bankers are more or less formally autonomous from political interference for the duration of their terms in office once appointed.⁸³

There are indeed some important differences in the nature and structure of

⁸¹ Michael M. Atkinson, "Introduction," in Michael M. Atkinson, (ed.), *Governing Canada: Institutions and Public Policy*, (Toronto: Harcourt Brace and Jovanovich, 1993), 10-12.

⁸² Susan Welch, John Gruhl, Michael Steinman and John Comer, *American Government, Fourth Edition*, (St. Paul: West Publishing Company, 1992), 32-35, Mark A. Peterson, *Legislating Together: The White House and Capital Hill From Eisenhower to Reagan*, (Cambridge, MA: Harvard University Press, 1990), 6-8. The powerlessness of an American cabinet secretary relative to his/her Canadian colleagues is perhaps best represented by the title given by Robert Reich to the memoirs he wrote of his time as President Clinton's Secretary of Labour, *Locked in the Cabinet*, (New York: Vintage Books, 1998).

⁸³ Thomas, "Institutions, Interests and Ideology," 168. Although the Governor of the Bank of Canada can technically be ordered to adjust interest rate policy in accordance with the wishes of the Finance Minister, no minister has given such an order in recent times for fear it would result in the resignation of the Governor and a subsequent run on the currency.

political institutions in the two countries, and these differences and their possible implications will be explored in more detail in Chapter 4. However, the key point is that political institutions produce a similar outcome in both countries in spite of these differences; national leaders are considerably restrained in the autonomy that they can exercise over social and economic policy. Therefore, Chapter 4 will show that it is reasonable to assume that institutional factors are not playing an important causal role in shaping the differences in response that consumer sentiment exhibited to economic conditions in the two countries.

The most important difference between the two countries during the time period under study was that for a substantial amount of this time period, the role of chief political executive in the United States was filled by incumbents who were adherents to the neoconservative ideology, while Canada did not experience such neoconservative leadership at the top of its national political institutions. It is important to pause at this point and consider why we should concentrate on the behaviour and beliefs of merely the chief executive, the president in the United States and the prime minister in Canada. This decision was made because the incumbents in these offices are not only the most powerful political actors in each country but the actors best positioned to convey an understanding of the values and ideology which government wishes to promote to the average person. They are the most visible to the public of all leadership positions so that the incumbent in these offices have the power to set the tone and agenda for political discourse. This power, relative to other political actors has been increased by the emergence of television. The focus on personalities that television promotes has served

to strengthen the position of leaders relative to their party organizations and relative to other elected officials. They are quite literally the face and persona of the state for most individuals.⁸⁴

During the 1980s both Canada and the United States elected governments led by right-of-centre politicians (the Mulroney Progressive Conservatives in Canada and Reagan and Bush Republican administrations in the United States). In Chapter 6 a historical study of the rhetoric and symbolic behaviour of these leaders is presented. The purpose of this chapter is to demonstrate that Reagan and Bush conformed to the neoconservative ideology while Mulroney did not. Such a study could be used to attempt to quantify the degree to which different leaders conformed, or failed to conform, to the neoconservative ideology in their rhetoric and symbolic behaviour. However, such an attempt would be little more reliable than simply accepting a logical form of analysis that, given the evidence, neoconservative leadership was in place in one country and not in the other, during the 1980s. Having used qualitative analysis to assess the potential impact of political factors and to establish that the nature of political leadership was the key difference between the two countries, the dissertation will next turn to a more rigorous explanation of the economic data and its relationship to consumer sentiment.

Quarterly economic and consumer sentiment data have been collected for the time period 1979-1996. Initially, it had been proposed to use the time period 1979-1994.

⁸⁴ David Taras, "Prime Ministers and the Media," in Leslie A. Pal and David Taras, (eds.), *Prime Ministers and Premiers: Political Leadership and Public Policy in Canada*, (Scarborough, ON: Prentice Hall, 1988), 47; Stephen Skowronek, *The Politics that President's Make: Leadership from John Adams to George Bush*, (Cambridge, MA: The Belknap Press of Harvard University Press, 1993), 354.

This period was selected as it allowed for a reasonable period both before and after the recessions of the early 1980s and early 1990s for both countries. However, a preliminary study indicated that there were certain problems associated with the use of this time period. Specifically, there proved to be an insufficient number of time points to assess the impact that the October 1993, election of the Chrétien Liberal government had in Canada. Also, although there were enough time points to perform an analysis that included the transition from the Bush to Clinton administrations in the United States, the Clinton data appeared to suffer from autocorrelation that could not be corrected given the availability of only two years worth of data.⁸⁵ Therefore, the decision was made to lengthen the time period. In order to assess how the relationship changes between the dependent variable of consumer sentiment and the independent economic variables (change in the growth rate of GDP and change in the rate of unemployment) a regression analysis is conducted. Instead of including an independent variable for neoconservatism in the equation, logical control is instead be used to capture the impact of this independent variable. The data is divided into time periods that conform to the terms of office of political leaders and the difference in results that are produced from the regression equations in the different time periods in the two countries is assessed.⁸⁶

Using this method it is shown that the unexpected pessimism of American

⁸⁵ Daniel Cohn, "The Political Legacy of Neoconservative Rhetoric and Governance: Preliminary Results from Canada and the United States," *Canadian Political Science Association Annual Meeting*, (Ottawa: 31 May - 2 June, 1998), 25-32.

⁸⁶ A further discussion of the methodology used in analyzing the data will be given in Chapter 7 where the quantitative analysis and the interpretation of the results takes place.

consumers during the recession of the early 1990s was not an artifact of the recession, per se, but a product of a more general shift in the relationship between consumer sentiment and macro-economic conditions and that this shift first emerged in Ronald Reagan's second term. Given that this shift does not emerge to as large a degree in Canada, and given that the key difference between the two cases is the presence of neoconservative leadership rhetoric and symbolic governance behaviour in the United States and its absence in Canada, the data provide further support for the argument that this shift should be attributed to this factor of neoconservative leadership and the causal process by which this is expected to impact upon consumer sentiment that has been outlined in this chapter.

1.6 What Follows

The next chapter will look more closely at the theoretical issues that must be confronted in a study of this sort through a review of the relevant literature which deals with the nature of democracy, trends in the study of politics and society and the making of economic policy. Chapter three takes a narrower focus, looking at a number of issues concerning the micro-level study of public opinion about the welfare state and whether or not popular opinion about the need for the welfare state and its benefits has changed. If it has, then it is unlikely that the decisions of the neoconservatives would have been as troubling for individuals as this thesis claims. This literature review finds little support for the claim that the public has turned against the welfare state. The chapter goes on to question whether or not it is more appropriate to view the welfare state policy

as redistributive in model building, in that it gives entitlements to some, or, whether it is more appropriate to follow the Scandinavian rational choice theorists who see support for these policies as being founded on a public desire for insurance. The chapter next explores the role which leaders play in conveying information about the welfare state to individuals. It concludes by considering how we evaluate economic performance as citizens by exploring the literature on the relationship between consumer sentiment and politics.

Chapter four provides a closer look at the nature of the political environment and especially the institutional structure of each country's state. This chapter uses the typology and analytical structure developed by R. Kent Weaver and Bert A. Rockman to accomplish this.⁸⁷ Although there are important institutional differences between the two countries this chapter concludes that the key impact of institutions is the same in both countries: they serve to significantly restrict the policy autonomy of national political leaders. In chapter five the nature of the political-economic regimes of Canada and the United States are considered. This topic is approached by using Gøsta Esping-Andersen's model of the liberal welfare state⁸⁸ and by assessing the degree to which each country conforms to the model and the important ways in which each differs.

In chapter six consideration is given to the preferences of the political leaders of each country, as demonstrated through their public pronouncements and symbolic policy

⁸⁷ "Assessing the Effects of Institutions," in R. Kent Weaver and Bert A. Rockman, (eds.), *Do Institutions Matter? Government Capabilities in the United States and Abroad*, (Washington: The Brookings Institute, 1993), 11-35.

⁸⁸ *The Three World of Welfare Capitalism*, 26-27.

behaviour, with regard to social and economic policy. The object of this chapter is to demonstrate that there is a fundamental difference between right-of-centre and neoconservative leaders with regard to the rhetoric and symbolic behaviour that each type of leader employs. The rhetoric and symbolic behaviour of neoconservative leaders, such as Presidents Reagan and Bush is rooted in an ideological understanding of the world and is, therefore, more consistent and pronounced, than that of the merely right-of-centre leaders, such as Canadian Prime Minister Mulroney. As a result, it is argued that consumers subjected to neoconservative rhetoric and governance might become more risk-averse and that this is what caused consumer sentiment in the United States to respond more adversely to the recession of the early 1990s than did consumer sentiment in Canada.

In chapter 7 the quantitative analysis that is developed inside of this comparable-cases strategy is presented and the results are analyzed. While this quantitative test does not conclusively prove the hypothesis of this project, it certainly supports the validity of the hypothesis. Neoconservative leadership seems to have been involved in creating risk aversion which this paper argues produced the more severe decline in consumer sentiment which America experienced during the early 1990s recession (as compared to the recession of the early 1980s). Meanwhile in Canada, which experienced right-of-centre leadership, but not leadership of the neoconservative variety, risk aversion failed to emerge and consumer sentiment responded to the early 1990s recession in a manner much more similar to that which it exhibited in response to the recession of the early 1980s. Chapter 8 forms a conclusion to this project.

Figure 1.2.1 Canada: GDP and Consumer Sentiment

Figure 1.2.2 United States: GDP and Consumer Sentiment

Figure 1.2.3 Canada: Unemployment and Consumer Sentiment

Figure 1.2.4 United States: Unemployment and Consumer Sentiment

Figure 1.4.1 Graphical Depiction of the Argument

Chapter 2: The Literature of Western Liberal Capitalist Democracy

2.1 Introduction

This dissertation deals with the politics of macro-economic policy making and the behaviour of individuals in the Western liberal capitalist democracies. Both these broad and divergent topics have been dealt with in a copious literature. In order to bring some coherence to these two bodies of work, and to position this project within the literature and history of the social sciences, it is proposed to deal with these topics in a more or less synchronized, chronological order and to concentrate on the liberal concept of universalism which I believe is the key factor in allowing capitalism and democracy to coexist.

This exploration starts with a discussion of the development of modern Western liberal capitalist democracy and ends with a reflection on the development of, and retreat from, the Keynesian welfare state. I will make the argument that people use political power in their perceived self-interest and often try to deny political participation to others so as to keep them at a disadvantage. Modern democracy is a relatively new phenomenon. It has rarely, if ever, been freely granted by a ruling group, but rather, has been conceded under pressure. The liberal idea of universal equality, which is necessary for capitalism to exist, tends to undermine autocracy and, consequently, as elites adopt capitalism as their productive technique it becomes increasingly difficult for them to justify non-democratic rule. As a result, once capitalism becomes established, the powerful often must accept that their interests can only be guaranteed by the procedural fairness of the system, rather than their own ability to exercise power. After the initial transition to capitalist production, the economic policy of *laissez faire* gradually

became dominant. This is because it promised a government attitude to economics that was most likely to mimic the universal ethos, even if the effect was to create hardship for many. It was Keynesian economic theory which burst this log jam by demonstrating how and why state action in aid of individuals could produce universal benefit.

The third section of this chapter takes up the narrative in the post-war world. Keynesianism was well on its way to becoming the dominant economic doctrine of Western liberal capitalist democracy. This era witnessed an unprecedented period of economic expansion in the West and some Asian countries. One side development was the introduction of computers into social research and the development of a behavioral approach to social sciences based on mass surveys. These efforts revealed a diversity of opinions and attachments that conflicted with much past research that had assigned interests to classes as a whole, nations or other collectives. It was argued that diversity was a source of strength for the Western liberal capitalist democracies, not a hinderance as pre-behavioral research had often assumed. However, the behavioralists argued that given the need for specialization (as in any modern activity) and also to keep debates reasonable (too many cooks spoil the stew) this diversity of opinion and attachment had to be channelled into the political process through the elite representatives of each opinion or social group. Later research would show that this system failed to allow many voices to be heard and this helped spark a rebellion against the then dominant social science doctrine of pluralist behavioralism. These dissatisfied researchers returned to the study of frameworks and institutions, arguing that certain properties of human behaviour, institutional structure and cultural circumstances prevented the pluralist ideal

of an inclusive democracy from being realized. These critics were not disputing the goal of an inclusive and practical Western liberal capitalist democracy, only the claim that it had been realized by the combination of the political theory of pluralism and Keynesian economics. However, the greatest blow to these two theories was dealt not by academics, but by historical circumstances. Quite simply, things broke down in the 1970s and states ceased to be able to deliver the goods.

The work of social theorist and economist Mancur Olson, who developed a theory of governmental overload based on rational choice theory, and economist Robert Lucas, who developed an economics of rational expectations, appeared to many to have explained the failure of the Keynesian welfare state model. Consequently, the fourth section of this review deals with the era of Olson and Lucas and the new macro-economic orthodoxy of table setting, rather than pump priming, both of which implied a governmental retreat from intervention in society.

2.2 Western Liberal Capitalist Democracy, Birth to the Keynesian Era

Both capitalism and democracy, as understood today, are modern phenomena. It is true that small democratic enclaves have existed since the time of Greek Antiquity and that in ancient India some entrepreneurs conducted business in a manner that would be described as capitalist. However, as Weber pointed out, just because there were individuals who carried on certain practices does not mean that there was democracy or capitalism. What is important is not the existence of an idea but the fact that an idea comes to be a central organizing principle for all activity in a given range of social

activities.¹ It was not until this century that democracy became the basic principle of organized politics.² Similarly capitalism did not become the predominant means of economic production in any nation until the British industrial revolution of the 1800s. This section will first briefly look at what is meant by these two terms of democracy and capitalism and then will explore how democracy crawled through the cracks in society opened by the liberal ideology which was used to justify capitalism.

2.2.1 Democracy

For a concept that most political leaders in the Western world claim to endorse, democracy is very poorly defined. A reader consulting the works of some of the better known authors who deal with the development and operation of democracy and capitalism, (for example, Therborn, Rueschemeyer et al., Held, and Lindblom) will discover that they all have slightly different definitions of what democracy actually is.³ Dahl grew so frustrated with the term that he ceased using it altogether for the discussion

¹ Max Weber, *The Protestant Ethic and the Spirit of Capitalism* in German 1905, Translated by Talcott Parsons, (New York: Charles Schribner and Sons, 1958), 20-21.

² It is worth recalling that even John Stuart Mill, one of the most important of all liberal theorists of the 19th century, felt that no political system could be viable unless the political rights of the working classes were restricted via an unequal franchise. "Considerations on Representative Government," originally 1861, in *On Liberty and Considerations on Representative Government*, edited and with an introduction by R.B. McCallum (Oxford: Basil Blackwell, 1946), 217.

³ Göran Therborn, "The Rule of Capital and the Rise of Democracy," *New Left Review*, 103 (1977), 3-41; Dieterich Rueschemeyer, Evelyn Huber Stephens and John D. Stephens, *Capitalist Development and Democracy*, (Chicago: University of Chicago Press, 1992); David Held, *Models of Democracy*, (Cambridge: Polity Press, 1988); Charles E. Lindblom, *Politics and Markets: The World's Political-Economic Systems*, (New York: Basic Books, 1977).

of real-world political systems. Instead he chose to speak of our modern democratic societies as "polyarchies", societies where a large number rule, a step which Lindblom followed for some portions of his work.⁴ Rueschemeyer et al.'s list of characteristics of a modern democracy focusses on three points: the selection of political leaders, the control these leaders exercise over the state apparatus and the rights that individuals enjoy and which limit the power of the state. Specifically:

1. Procedural democracy is in place (i.e. elections are held regularly in a free and fair manner, all adult citizens are eligible to vote and citizenship is not unduly restricted)
2. The state apparatus is responsible to the elected legislature (and in some systems, such as the United States to the elected head of state as well)
3. The population enjoys the traditional liberal freedoms of political conscience, choice, speech, the freedom of the rule of laws and the equality of the person.⁵

While Rueschemeyer et al. have some reservations about the way in which international pressures can restrict the availability of democracy, they do not accept Therborn's argument that democracy can only exist in a fully autonomous nation state.⁶ Lindblom and Held each offer more details and slightly different lists, however, they agree with the basic structure of the definition offered above. We can perhaps say that all of these authors offer "procedural" definitions of democracy. They all argue that democracy consists of processes for selecting leaders, holding the state accountable to these leaders

⁴ Robert A. Dahl, *Polyarchy: Participation and Opposition*, (New Haven, CN: Yale University Press, 1971); Lindblom, *Politics and Markets*, 132.

⁵ Rueschemeyer et al., *Capitalist Development and Democracy*, 44.

⁶ *Ibid.*, 71.

and for guaranteeing the population certain protections from the state.⁷

All such procedural definitions of democracy lead to one startling conclusion. There was no such thing as a democratic country until the early 1900s, when Norway made the transition to democratic status. In retrospection, most of the countries which were allegedly democratic before this point did not fit our modern conception of democracy, mostly due to severely restricted franchises. For example, in many societies women and minorities were excluded from political participation and serious property restrictions along with un-equal voting rights also persisted well into the 20th century.⁸ These cases are referred to by Therborn as *democratic exclusivist* states and by Rueschemeyer et al. as *restricted democracies*.⁹ Most of the societies that are considered to be democracies did not achieve this status in the sense defined above until after World War II. The country often cited as the ideal-type democracy, the United

⁷ Lindblom, *Politics and Markets*, 133; Held, *Models of Democracy*, 278.

⁸ The constitutions of some democratic states still specify age, birth and property qualification which restrict entry into political offices or which give privileged opportunity to some. However, in most cases these hurdles are so low as to be meaningless for the vast majority of citizens, or the numbers privileged and/or the degree of privilege conferred are so small as to be inconsequential. For example, the Canadian Constitution requires Senators to own or have control of \$CDN 4,000 worth of property (a total which can be reached today by renting even the smallest apartment in any urban area or by owning or leasing an automobile). Some members of the British House of Lords earn their places by birth and some by holding certain offices (such as appointments to the higher courts and leadership roles in the more important religious faiths). However if these "Lords Noble, Judicial and Spiritual" get out of line, the prime minister can ask the Queen to create as many new peers as necessary to give him or her a majority. Finally, only native-born Americans can hold the office of president, although all other offices are open to "naturalized" citizens.

⁹ Therborn, "The Rule of Capital and the Rise of Democracy," 18; Rueschemeyer et al., *Capitalist Development and Democracy*, 44.

States of America, did not make the transition from restricted democracy to genuine democracy until the later half of the 1960s when race finally ceased being a consistent and systematic barrier to the democratic franchise and civil rights.¹⁰ Consequently, any discussion of "long standing" democracies is ludicrous: The most stable and durable of the genuine democracies have been so for less than a century and most have held this status for less than six decades.

Still, there is some merit in Przeworski's suggestion that there is also a standard of sustainability which a political system must demonstrate to be considered democratic. Studying the transition to democracy, Przeworski does not see the proclamation or inauguration of procedural democracy as the decisive moment. Rather, he sees democracy as coming into existence when those with power (be it military, economic or the leadership of sections of the population) accept that democracy is a system in which outcomes are uncertain. That is, while democratic procedures are the best guarantee of everyone's interests being satisfied in general, any single decision or series of decisions might be adverse to anyone's particular interests. "Democracy is a process of subjecting all interests to competition, of institutionalizing uncertainty."¹¹ Ernst Wigforss, the ideological leader of the Swedish Social Democratic Party in the first half of the 20th

¹⁰ Theda Skocpol, *Social Policy in the United States: Future Possibilities in Historical Perspective*, (Princeton, NJ: Princeton University Press, 1995), 31; Therborn, "The Rule of Capital and the Rise of Democracy," 18. This is not meant to imply that racism does not exist in the United States, or any other country, only that steps have been taken to prevent the systematic direct use of racism to deny political participation.

¹¹ Adam Przeworski, "Democracy as a Contingent Outcome of Conflicts," in Jon Elster and Rune Slagstad, (eds.), *Constitutionalism and Democracy*, (Cambridge: Cambridge University Press, 1988), 63.

century, carried this idea even further. He suggested that even when those with power have the potential to get their way using democratic procedures, they still must give heed to the opinions and interests of the potential losers. According to Tilton, Wigforss saw that "[democracy] embodies more than a set of formal relationships; it assumes a distinctive psychological atmosphere."¹² Sartori expressed this idea succinctly by noting that for democracy to be sustainable there has to be a moral commitment among participants to practice politics as "peace-making" rather than as "war". This is because if one practices politics as war for long enough, war is precisely what one gets.¹³

For Wigforss and Sartori, democracy is not just about those with various forms of power accepting that they sometimes will not get what they want, but that this is tolerable, as the existence of procedural fairness is a better guarantee of their interests. It is also about the winners not pushing their advantage so far as to alienate the losers in this competition of interests via a system of institutional uncertainty. If the winners do push their advantage too far, the losers will begin to see the system as one of institutionally certain losses and resort to other means. This discussion of the concept of democracy began by defining the term as a system of procedures for conducting political life. The next idea considered was that not only is democracy a procedure but that for it to succeed, practitioners must also recognize the limits to which they can carry

¹² Quoted in Timothy A. Tilton, "A Swedish Road to Socialism: Ernst Wigforss and the Ideological Foundations of Swedish Social Democracy," *The American Political Science Review*, 73, (1979), 513.

¹³ Giovanni Sartori, *The Theory of Democracy Revisited, Part 1: The Contemporary Debate*, (Chatham, NJ: Chatham House, 1987), 80-81.

their claims. Democracy is not only about playing by the rules it is also about creating an environment where politics as peace-making is perceived as feasible by all (or at least the vast majority). In the language of game theorists, democracy cannot succeed if practitioners see the political process as a zero-sum activity.

2.2.2 Capitalism

As with democracy, the meaning of the term *capitalism* is not self-evident. As noted previously, Weber defined capitalism as an economy in which capitalistic action was the single organizing principle, dominating all forms of economic activity. He defined capitalistic action as more than profit seeking or simple plunder. Rather, he saw it as rational action, involving calculations of risk and opportunity, with the goal of employing resources to produce the greatest possibility of increasing wealth through peaceful exchange.¹⁴ As with the Marxists, Weber saw the dividing line between uncoordinated capitalistic activities and genuinely capitalist societies as being tied to the commodification of labour, the process whereby individuals sell their labour to the owners of productive property for cash wages, which Weber describes as "the rational capitalistic organization of labour."¹⁵

In a major series of essays published in the late 1940s, Maurice Dobb set out to identify the key components of capitalism and the social conditions which announce its existence. One of his central problems was identifying the point at which a society's

¹⁴ Weber, *The Protestant Ethic and the Spirit of Capitalism*, 17-18.

¹⁵ *Ibid.*, 22.

labour could be said to be subjected to a rational capitalistic form of organization, or in Marxist terms, be said to have been commodified. For Dobb, capitalism can only be usefully understood as Marx and Engles understood it, as a "mode of production", a system defined by both its technology and its relations of property ownership.

Marx... sought the essence of Capitalism neither in a spirit of enterprise nor in the use of money to finance a series of exchange transactions with the object of gain, but in a particular mode of production. By mode of production he did not refer merely to the state of technique--to what he termed the state of the productive forces--but to the way in which the means of production were owned and to the social relations between men which resulted from their connections to the process of production. Thus Capitalism was not simply a system of production for the market--a system of commodity production as Marx termed it--but a system under which labour-power had "itself become a commodity".¹⁶

Following on this idea of a mode of production, he identifies the point at which rational capitalist organization of labour occurs as being tied to the technology of production. Specifically the capitalization of technology--the need to amass large pools of capital to build productive property--takes the ability to produce goods out of the hands of most individuals and forces them to seek employment from the owners of this technology. As new technologies replace human activity in more and more areas, even more people are excluded from ownership of productive property and must seek employment so as to earn a living. In other words, Dobb did not see true capitalism emerging until the industrial revolution.

What the industrial revolution represented was a transition from an early and still immature stage of Capitalism, where the pre-capitalist petty mode of production had been penetrated by the influence of capital, subordinated to capital, robbed of its independence as an economic form but not yet completely transformed, to a stage where Capitalism, on the basis of technical change, had achieved its own

¹⁶

Maurice Dobb, *Studies in the Development of Capitalism*, (London: Routledge & Kegan Paul, 1946), 7.

specific production unit of the factory, thereby effecting a final divorce of the producer from his remaining hold on the means of production and establishing a simple and direct relationship between capitalist and wage earner.¹⁷

Not only do the members of the capitalist class own the means of production and employ wage labour but they also control the disposal of profits. As Przeworski points out, the retention of some portion of surplus value (profit) for re-investment is a precondition of economic growth. What is unique to capitalism is that the portion withheld, who it is withheld from, and what it will be used for, are determined by the owners of capital. The owners of capital not only purchase labour and provide employment but also dictate the economic future of society.¹⁸ For Przeworski capitalism can be defined as follows.

Capitalism is a particular form of social organization of production and exchange. Based on an advanced division of labor, capitalism is a system in which production is oriented toward the needs of others, toward exchange. It is therefore a system in which even the people who directly participate in transforming nature into useful products -- the immediate producers -- cannot physically survive on their own. Furthermore, capitalism is a system in which those who do not own the instruments of production must sell their capacity to work. Workers obtain a wage, which is not a title to any part of the specific product which they generate but an abstract medium for acquisition of any goods and services. They must produce profit as a condition of their continued employment.¹⁹

Some authors have come to question the emphasis on ownership which Przeworski and many others include in their definitions of capitalism. They point to the fact that in many instances workers do indeed "own" productive property, either directly in

¹⁷ *Ibid.*, 19.

¹⁸ Adam Przeworski, *Capitalism and Social Democracy*, (Cambridge: Cambridge University Press, 1985), 138.

¹⁹ *Ibid.*, 11.

companies that they work for (through employee share ownership) and in other companies through pension schemes and mutual funds (unit trusts in the United Kingdom). Today in fact, pension funds which act on behalf of labour are among the largest and most important market players in many equity markets. Noting that definitions of capitalism hinge on the relationship between workers and productive property, some students of capitalism, most notably Drucker, have chosen to describe this new situation as a form of socialism.²⁰ Others, such as Enteman, argue that the new situation is neither capitalist nor socialist. Rather, he asserts that the defining characteristic of production, both for the market and for public goods, is managerialism.²¹ More temperate thinkers, such as Kuttner or Minns acknowledge that the ownership of some productive property has been socialized and also acknowledge the power of managers, but refuse to go so far as to say that we no longer live in a capitalist society. Modern capitalism, via those who control, rather than own capital, goes hand-in-hand with widely held share ownership.²² Risk is the reason generally used to explain why investors prefer to diversify their holdings in joint stock companies rather than concentrate them and gain a controlling position.²³ Once enough large companies with widely held shares and relatively low investment risks are established, a new

²⁰ See Peter F. Drucker, *The Unseen Revolution: How Pension Fund Socialism came to America*, (New York: Harper Collins, 1976).

²¹ Willard F. Enteman, *Managerialism: The Emergence of a New Ideology*, (Madison, WI: University of Wisconsin Press, 1993).

²² Robert Kuttner, *Everything for Sale: The Virtues and Limits of Markets*, (New York: Knopf, 1997), 181-182 and 187-188; Richard Minns, "The Social Ownership of Capital," *New Left Review* 219 (1996), 42-43.

²³ Henry Hansmann, *The Ownership of Enterprise*, (Cambridge MA: The Belknap Press of Harvard University Press, 1996), 35-45.

phenomenon emerges, "the stock as commodity." In such a situation, where investors are interested principally in shorter term gains through stock trading, control devolves to a considerable degree to management.²⁴ Another source of management autonomy is the very scale of modern enterprises (which make incredibly complex products and distribute them throughout the world). The American business historian Alfred Chandler describes this management led model of the firm as managerial capitalism. The advent of modern transportation (railways and steam powered ships) and new productive technologies during the late 1800s required industry to adopt a bureaucratic structure so as to harness resources across wide geographic spaces and to undertake the increasingly divergent tasks required for complex industry to function.²⁵

The key point is that control of capital is probably as, if not more, important than simple ownership of capital in our era. Although owners do retain ultimate legal power over their investments, "use control" rests with their management nominees.²⁶ This transformation does not make a system any less capitalistic. Lindblom manages to both identify and finesse this difficulty when he chooses to speak of business executives

- ²⁴ *Ibid.*, 57.

²⁵ "The Emergence of Managerial Capitalism", in Alfred D. Chandler, jr. and Richard S. Tedlow, (eds.), *The Coming of Managerial Capitalism: A Casebook on the History of American Economic Institutions*, (Homewood, IL: Richard D. Irwin, 1985), 396-399.

²⁶ Kristol is very critical of the trend to treat corporate managers as if they were entrepreneurs. He argues that it is a simple misuse of power for executives to award themselves compensation that was once only reserved for genuine entrepreneurs. "I know it will be said that you have to pay a lot of money 'in order to get the best available talent.' But we are all aware it doesn't quite work that way... Who fixes these levels? Why other corporate executives, of course, who are called 'directors'." *Two Cheers for Capitalism*, (New York, Basic Books, 1978), 109-110.

(rather than of capitalists or managers). He also manages to accurately situate the importance of the business executive to modern society by describing top business executive as "quasi-public officials" because of the role that they play in determining the future of entire societies.²⁷ However, even if our economy has not been socialized by mutual investments, it is important to not lose sight of the fact that modern capitalism is indeed a very social undertaking, in that it requires the existence of a large number of norms, customs and public laws to exist and thrive. Contrary to popular myth, the *laissez faire* economy of Victorian Britain and Gilded Age America did not simply appear as though out of nature. It had to be built through political action. At first this political action was revolutionary in character as the liberals fought for reform and later it was produced through state action at the insistence of those wielding political power in the interest of the capitalist class. As Hobhouse notes, liberalism must be understood not as a theoretical position but as a political and social movement in opposition to real world political circumstances, specifically the authoritarianism which was the standard state of affairs in the Western nations before its emergence.²⁸

2.2.3 The Keyhole of Liberalism

"The polyarchies [modern democracies] are not only without exception market systems but specifically are private enterprise systems [capitalist]. What explains this great

²⁷ *Politics and Markets*, 171-172.

²⁸ L.T. (Leonard Trelawny) Hobhouse, *Liberalism; Introduction by Alan P. Grimes*, (Oxford: Oxford University Press, [1911] 1964), 14.

historical fact--the dependence of polyarchies on markets and private enterprise?"²⁹ Answering his own question, Lindblom states that: "The two are historically tied together because in the forms in which they have arisen ... both are manifestations of constitutional liberalism. And it is therefore not polyarchy as a general phenomenon that is tied to markets. It is only polyarchy under liberal constitutional auspices, presumably only one of several alternative possibilities."³⁰

Hobhouse, writing in turn of the century Britain, a time when the gains of liberalism seemed to be under attack from imperialists on the right and socialists on the left, sought to describe liberalism as follows:

Liberalism is the belief that society can safely be founded on [the] self-directing power of the personality, that it is only on this foundation that a true community can be built, and that so established its foundations are so deep and so wide that there is no limit that we can place to the extent of the building. Liberty then becomes not so much a right of the individual as a necessity of society. It rests not on the claim of A to be let alone by B, but on the duty of B to treat A as a rational being.³¹

Liberalism was not opposed to society, it was a principle on which to build society, the simple respect by each for all others' wishes and ability to choose what they themselves see as beneficial. Consequently, liberalism is a universal ideology. It assumes that all are equal and entitled to equal liberty from arbitrary government and an equal, impartial law. This does not mean that legislation cannot favour some, say railroad builders over canal owners, only that government does not create arbitrary burdens and that the law

²⁹ Lindblom, *Politics and Markets*, 162.

³⁰ *Ibid.*, 162.

³¹ As quoted by Alan P. Grimes in his introduction to Hobhouse's *Liberalism*, 8.

should be applied without favour or preference. Once adopted, this basic principle of civil liberty (equality before the law) would force open the door for a much wider liberalism.³²

Przeworski, writing mainly about Western Europe, seems to go further than Lindblom. While Lindblom suggests that modern democracy and capitalism have merely a common historical root, Przeworski implies capitalism is the prior or causal force for the creation of modern democracy. This is because the capitalist class invoked an ideology of universal interest and equality (i.e. liberalism) in its battle to unseat aristocratic authority. Seeming to follow Hobhouse, Przeworski argues that by espousing this form of equal rights, liberals also opened the door for modern democracy as well.³³

The basic principle of a market is that knowing individuals (people who know the value of what they have and what they want) exchange things for other things from other knowing individuals. You have no right to possess anything except through exchange (or through inheritance of things your parents or other ancestors acquired through exchange). If anyone breaks these rules by theft, or, more subtly, by being untruthful in their contracts, there must be the reasonable expectation that the offender will be punished. For this expectation to exist all must be equal before the law. Otherwise the market is unworkable in anything more than a very crude and primitive manner. As with modern democracy, I would argue that for a complex market system such as capitalism to function, the rule of law is not enough. There must also be a spirit of the rule of law

³² Hobhouse, *Liberalism*, 16-17.

³³ Przeworski, *Capitalism and Social Democracy*, 21.

in society, similar to the psychological predisposition to practice democratic politics as "peace-making", which was discussed above. Advanced exchange economies--exchange systems in which almost every item and service that one uses outside the home are commodified--cannot function unless people believe others will behave honestly and honour their contracts. Who would engage in exchange if they knew the likelihood was great that they would be defrauded of their benefits and that they would have little recourse to claim damages or would face such expenses as to make the claim meaningless?³⁴ From legal equality and the spirit of legal equality, it is a short step to equality of political representation.

Perhaps I should stop here to clarify what has been said, or more precisely, what has not been said. It was not said that capitalists necessarily wanted to see universal suffrage. In fact, it seems that many saw it as a threat to their interests and worked against it, at least indirectly by supporting anti-democratic political forces (this theme will be picked up later). For now suffice it to say that most of those in control of capital did not actively promote universal suffrage. However, the ideology that justified their growing economic hegemony in the 1800s, the ideology of universal human opportunity and equality, the ideology which they themselves had used to justify their snatching of social power away from the hands of the aristocracy, could be made to seem hollow so long as its only result was a small increase in the number of people who were politically

³⁴ This question should not be confused with why do people (especially workers) engage in exchange when their rewards are so far out of proportion to their inputs. What is solely being discussed here is whether people would engage in contracts if they knew that their contract would not be honoured and could never be enforced.

enfranchised.

Workers campaigning for the vote and women later on, and racial minorities still later, were not primarily challenging capitalism's supporting ideology. They were challenging those in control of capital to support their own ideology. The alternative for liberal capitalists was to openly admit that their ideology was a sham, simply a justification for the ruling class's privileges, no better than the doctrines of divine right and aristocratic privilege which liberals, when they were a revolutionary movement, had so lustily denounced in generations past.

2.2.4 Property Rights

Perhaps an even more complex problem for liberal philosophers is posed by Bowles and Gintis when they ask why democratic principles should not apply to property? Or to phrase the question another way, why should property be considered private?³⁵ Macpherson also considered this to be a "central problem of liberal-democratic theory" and felt that "liberal-democratic theory has not yet found a way out of this difficulty."³⁶ The problem identified by Bowles and Gintis as well as by Macpherson is that private property in an advanced economy provides a base for those who control it to exercise power out of all proportion to their numbers. This degrades the principles of liberal democracy.

³⁵ Samuel Bowles and Herbert Gintis, *Capitalism and Democracy*, (New York: Basic Books, 1987), 66.

³⁶ C.B. Macpherson, "Liberal Democracy and Property," in C.B. Macpherson, (ed.), *Property: Mainstream and Critical Positions*, (Toronto: University of Toronto Press, 1978), 199-200.

This situation was perhaps not such a problem under the primitive capitalism that thinkers such as Jefferson dealt with. In the period around the beginning of the 1800s mature capitalism did not exist. Instead a nascent form of capitalism held sway, in which independent small producers and farmers were the principal organizers of production and exchange. Subsistence farming still had a role in many lives, as did barter, and of course, slavery. It was a society in transition.³⁷ Most importantly, the division of labour was not particularly advanced and the capital that one had to accumulate in order to change one's status from a wage earner to an owner was not a high barrier, especially in agriculture, where land was available to European males virtually free for the taking.³⁸ The consequences of any individual producer's decisions regarding investment and profits were also relatively private in nature. The production undertaken was carried out privately, and the consequences of decisions regarding production were felt privately. "As late as the 1840s, with very few exceptions owners managed and managers owned."³⁹ Private enterprise in other words was truly private. Today's capitalism, however, is based on a complex, and increasingly globalized, division of labour. Most production is now organized by corporate entities, which can have thousands of "owners", many of which will be other corporate entities or financial institutions, rather

³⁷ *Ibid.*, 47-51; Melvyn Stokes, "Introduction", in Melvyn Stokes and Stephen Conway, (eds.), *The Market Revolution in America: Social, Political and Religious Expression, 1800-1880*, (Charlottesville, VA: University of Virginia Press, 1996), 6-12.

³⁸ In, Gilbert Chinard, (ed.), *The Correspondence of Jefferson and Du Pont De Nemours with an Introduction on Jefferson and the Physiocrats*, (New York: Burt Franklin, 1971), 163.

³⁹ Chandler, "The Emergence of Managerial Capitalism", 396.

than individual proprietors. Most people derive their incomes not from a share in surplus value but from labour exchanged for wages. Consequently, the heads of the larger corporate entities make decisions which literally affect the welfare of thousands of peoples, both workers and investors. They are, as Lindblom suggests, public officials in fact if not in law.⁴⁰

2.2.5 The Democratic Challenge to Property Rights

The emergence of a universalist creed of political equality of the individual supported the ideology of capitalism which tended in turn to promote democratization, conceived as a broadening of the franchise and a sharing, or dispersal, of power. In addition, there was a growing dependence on decisions made by fewer and fewer people in control of private productive property to insure the welfare of the increasing majority of people who earned their income from wage labour. As these two tendencies clashed, property rights, normally taken for granted in liberal theory, became problematized and therefore open to question.

The assault on property rights took two distinct paths, one being revolutionary socialism (later called communism), and the second being various forms of democratic limitation to property rights, examples of which include progressivism in North America and social democracy in Europe. I will not consider revolutionary socialism here, as it repudiated all elements of Western liberal capitalist democracy, seeking to replace it with a wholly new social system. Revolutionary socialism never gained much of a hold in

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Politics and Markets, 171-173.

North America. For the purposes of this project, it is enough to say that in the later years of the 19th century it was an important trend in European working class politics. The break in its momentum came in the 1890s. The recognized leader of the move to "revise" socialism was Eduard Bernstein. Bernstein argued that the fatal crisis of capitalism predicted by Marx and Engels had failed to emerge and was becoming less and less likely every day. Workers, if not profiting from capitalism, clearly were not suffering as much as in the past and were even making some gains in living standards. At the other end of the social spectrum the bourgeois class was shrinking, but as discussed, managerial capitalism had created a new category of middle-class jobs: capitalist-bureaucrats who were well rewarded for their work and who realized that their interests were tied to the new order. Bernstein also saw that liberal democracy was not so empty an idea as socialists had initially supposed. Yes, surely it had been a tool of capitalist interests, but as more working people gained the vote, he saw that it could be used to advance the interests of the masses as well.⁴¹

In North America, where the franchise had been extended to almost all males of European origin for a considerable time, this conclusion, that democracy could be used to tame capitalism, had long been accepted. The leader of America's first successful national confederation of labour unions, Samuel Gompers of the American Federation of Labour, espoused this line for most of his career. The union movement he led for nearly forty years was non-revolutionary and pragmatic. A better day's wages for a day's labor

⁴¹ Eduard Bernstein, *Evolutionary Socialism: with an introduction by Sidney Hook*, translated by Edith C. Harvey, (New York: Schocken, [first English ed. 1909] 1961), xxiv-xxvi.

plus associated benefits were the AFL's primary objectives.⁴² As well, having been part of the one of the first national transition from entrepreneurial to managerial capitalism, American union leaders perhaps were ahead of their European comrades in recognizing the exploitative role played by managers (those who control rather than own capital) in an advanced society. They seemed to understand that while ownership of capital and productive property was important, managerial control over productive property was also a means of class control. In one debate on socialism, Gompers pointed to this factor, asking why the workers should trust state appointed managers any more than they trusted capitalist managers.⁴³

Meanwhile in Europe the democratic franchise continued to grow, either by positive action, or by default. Barrington Moore's analysis of the birth of British democracy presents a good example of the forces which can work in an autocracy to increase the franchise through positive action. If the ruling elite in an autocracy is factionalized, there is always a temptation for one side or the other to tip the scales in its favour by extending the franchise to groups which they expect to favour their cause.⁴⁴ Göran Therborn points to another way in which circumstances can dictate the need to take positive action to expand the franchise: the need to re-enforce or create

⁴² Desmond Morton and Terry Copp, *Working People: An Illustrated History of the Canadian Labour Movement*, (Ottawa: Deneau, 1980), 58.

⁴³ David Brody, *In Labor's Cause: Main Themes of the History of the American Worker*, (New York: Oxford University Press, 1993), 57.

⁴⁴ *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*, (Boston: Beacon Press, 1966), 29-39.

popular support for a state suffering from a lack of legitimacy due to defeat or near defeat in war (e.g. Germany) or after a successful secession from another state (e.g. Norway).⁴⁵ Elsewhere, such as in Sweden, as the economy grew, the property qualifications which disenfranchised the working class and landless agricultural labourers were becoming less and less of a hurdle and these began to fall by the wayside, expanding the franchise by default.⁴⁶

Whether by default or overt action, the franchise was growing throughout Western Europe and the assemblies being elected were enjoying greater power vis-à-vis the executive. This opened new potential for the use of liberal democracy to control liberal capitalism as Bernstein had foresaw. Przeworski claims that once workers, their parties and unions, adopted the strategy of changing society through democratic action they, in effect, signed away any chance they might have had to build real socialism--defined here simply as social ownership of all the major productive property in society. Instead, the objective became a reformed capitalism.⁴⁷ In trying to do this, the working class political actors advocated two projects. The first involved achieving security of economic welfare outside of the labour market for working class families. This is a

⁴⁵ "The Rule of Capital and the Rise of Democracy," 15-28.

⁴⁶ Leif Lewin, *Ideology and Strategy: A Century of Swedish Politics*, (Cambridge: Cambridge University Press, 1988), 70-79.

⁴⁷ Przeworski, *Capitalism and Social Democracy*, 29-38. However, others have argued that this is not the case. See Gøsta Esping-Andersen, *Politics Against Markets: The Social Democratic Road to Power*, (Princeton, NJ: Princeton University Press, 1985), 3-38.

process Esping-Andersen refers to as decommodification.⁴⁸ The other project involved attempts to use what Lindblom calls "oblique authority" to plan the economy.⁴⁹

Direct authority compels a certain response. Oblique authority, however, does not compel, but rather encourages a certain response. Oblique authority is exercised on the assumption that actors will respond logically to changes in environmental conditions which the government deliberately creates. The competition for the votes and/or the loyalty of the increasingly enfranchised working class led even semi-autocratic leaders, such as Bismarck, to champion such policies. In a sense, when governments began to take actions along these lines it amounted to an attempt to side step the messy issue of ownership over productive property. While the calls for such actions indeed may have begun in the working classes and may have been first articulated by workers organizations, social democrats, and progressives, they were soon more generally called for. Those in control of capital, as might be expected, also argued that the state should create decommodification schemes and exercise oblique authority on their behalf as well. Consequently, we have such things as state owned utilities that sell power at a loss to industry and tariffs on imported goods to convince us to buy domestically produced ones. Instead of insuring democratic control over productive property, the state basically undertook to insulate society (not just workers, but capitalists, the whole of the middle classes and even the state itself) from the problematic effects of an undemocratic production system. For capitalists and capitalist managers the choice was between

⁴⁸ Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, (Cambridge: Polity, 1990), 21-23.

⁴⁹ *Politics and Markets*, 23.

yielding some oblique control over investment, and suffering the loss of property through taxation, or trying to defend their position through a coercive state, always a risky proposition. Bowles and Gintis refer to such coercive states as Neo-Hobbesian Liberal States. In this state a liberal capitalist economy is enforced by a state which uses repression to tightly control every other aspect of society. Perhaps Chile under the rule of Pinochet would be the best example of such a situation in modern times.⁵⁰ The great problem with coercion as a solution is of course that once an all powerful state is created there is no guarantee it won't turn against the people who initially encouraged its creation. If those who control capital can be made to put a little water in their wine, workers have a similar justification for trying to seek a compromise. Initially workers' movements and parties began with the notion that democracy was a tool to be used to gain socialism. However, it soon came to be seen as a good in itself.⁵¹ That democracy held enormous appeal for the non-enfranchised cannot be denied. Bowles and Gintis hit the issue fairly close to the mark in their conclusion that:

Where workers' movements have mobilized more than handfuls of isolated militants--as in England in the early nineteenth century, in Germany in the late nineteenth century and early twentieth century, or in Italy or Spain in the twentieth century--their inspiration and their solidarity has been based more on the demand for democracy than for socialism.⁵²

The simple idea expounded by liberals, that all are equally entitled to vote for no other reason than the equality of human worth must have played a role. Clearly some

⁵⁰ *Capitalism and Democracy*, 193.

⁵¹ *Przeworski, Capitalism and Social Democracy*, 15.

⁵² *Capitalism and Democracy*, 62.

explanatory power must be attributed to the force that ideas hold over people's minds. As well, working people must have also been aware of the uses that the capitalists and their managers had made of their possession of the franchise.

The term "*laissez faire* state" is somewhat misleading. For even though the term means "government should refrain from doing" rarely have those in control of capitalism called for this until after the conditions necessary for the growth of large scale modern capitalism had been achieved. For example, the British "Poor Law of 1834" has often been cited as a successful attempt to use oblique authority to create conditions favourable to large scale capitalism. It has not been lost on observers that this change in policy occurred barely two years after the passage of the "Great Reform Act of 1832" which effectively gave the bourgeoisie control of the British House of Commons.⁵³ The poor law is one of the best researched examples of the use of the state's oblique authority in aid of the creation of large scale capitalism, but it is by no means the only one. Senghaas, in his study of industrialization shows how every industrialized nation used tariff policy at first to spur industrialization and later employed the liberalization of tariffs to lower the costs of inputs and to open export markets. The later the nation was in embarking on the road to industrialization the steeper a tariff barrier it built and the longer it lasted.⁵⁴ Karl Polanyi described the active role that the state played in creating the *laissez faire* economy and the advent of oblique authority in its most general and

⁵³ J. Harvey and L. Bather, *The British Constitution*, (London: Macmillan, 1964), 56; Nicholas C. Edsall, *The Anti-Poor Law Movement: 1834-44*, (Manchester: Manchester University Press, 1971), 1-2.

⁵⁴ Dieter Senghaas, *The European Experience: A Historical Critique of Development Theory*, (Oxford: Berg Press, 1985).

absolute terms:

The [eighteen] thirties and forties saw not only an outburst of legislation repealing restrictive regulations, but also an enormous increase in the administrative functions of the state, which was now being endowed with a central bureaucracy able to fulfil the tasks set by the adherents of liberalism... True, legislation could do nothing directly, except by repealing harmful restrictions. But that did not mean that *government* could do nothing, especially indirectly... Of the three things needed for economic success--inclination, knowledge, and power--the private person possessed only inclination. Knowledge and power, Bentham taught, can be administered much cheaper by government than by private persons...

The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. To make Adam Smith's "simple and natural liberty" compatible with the needs of a human society was a most complicated affair... Administrators had to be constantly on the watch to ensure the free working of the system.⁵⁵

It seems reasonable that workers, seeing how capitalists had used parliaments to control state power for their own advantage, also expected to be able to create conditions more favourable to themselves by use of democracy. However, the capitalists and their managers had an initial advantage: the argument that their efforts were aimed at protecting the universal interests of society. The liberal capitalists claimed that science, as uncovered by Smith and Ricardo, had shown that free un-restricted capitalism was in the best interests of society. Those arguing for a limits to capitalism or state intervention that directly benefited non-capitalists were branded as un-scientific, or as the advocates of special interests. Capitalism's claim to be the agent of universal society stems from its role as the organizer of production, both in the assignment of tasks and the allocation of resources, including the surplus value (or profits) created by previous productive

⁵⁵ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Times*, (Boston: Beacon Press, [1944] 1957), 139-140.

efforts.⁵⁶ Thus, when capitalists or their managers asked for assistance from the state, they were asking on behalf of society's wider interests, because it is through capitalist efforts to organize production that new wealth is created. When other classes or groups ask for assistance they are, according to liberal capitalist theory, asking to consume resources that should be devoted to the creation of wealth for society. Consequently, even though workers throughout the Western world won significant reforms and social programs at the turn of the century, in step with the expanding democratic franchise and the measures which were taken to end anti-democratic political corruption, there was always the understanding that while these programs were necessary, they were nonetheless counter to the universal interest of economic growth.

Among the key demands of capitalists since the start of the 1800s was sound money. No person will lend money to another or invest it if they are uncertain of its eventual return. Inflation and the devaluation of currencies are essentially risks to the return of one's money. Even with their property rights formally guaranteed, as well as free trade, liberals still could not be certain of governmental non-interference in their markets. A government, intent on making its exports more attractive and imports more costly can even encourage a fall in the value of its currency, while a populist political leader can encourage inflation, depreciating the debts of borrowers at the expense of the profits of financial institutions (as American President Andrew Jackson did in his second term 1832-36).⁵⁷ The policy solution which early capitalists favoured for preventing

⁵⁶ Przeworski, *Capitalism and Social Democracy*, 139.

⁵⁷ Kenneth W. McNaught, John T. Saywell and John C. Ricker, *Manifest Destiny: A Short History of the United States*, (Toronto: Irwin Publishing, 1980), 87-89.

this problem was the linking of the value of a nation's currency to some external standard such as a stock of precious metal. In other words, the gold standard. The promise that any bank note could eventually be returned to its issuer and be exchanged for metal. The gold standard promised to introduce into money the same *laissez faire* mentality that the liberals had succeeded in introducing into overt policy.⁵⁸ It should be noted that this belief in the importance of the gold standard and sound money for capitalism's welfare was shared by intellectuals of both the left and right. "Belief in the gold standard was the faith of the age...The war between heaven and hell ignored the money issue, leaving capitalists and socialists miraculously united. Where Ricardo and Marx were at one, the nineteenth century knew not doubt."⁵⁹

However, the gold standard placed enormous constraint on the economies of nations. In times of emergency there was inevitably panic as a government's pledge to eventually exchange paper for precious metal came under suspicion. Such panics were most severe in times of war as governments sought to rein in the use of coin so as to build stockpiles of precious metal to reassure foreign trading partners. Even an economy as advanced as Britain's at the start of the first world war was struck by such a panic in August 1914.⁶⁰ Although these sorts of panics were serious enough when they occurred there was a larger problem with the gold standard. Simply put, a government's ability to spend was tied roughly to its existing stocks of precious metals and its immediately

⁵⁸ Polanyi, *The Great Transformation*, 131-132.

⁵⁹ *Ibid.*, 25.

⁶⁰ Lyn Macdonald, *1914*, (London: Michael Joseph, 1987), 207.

expected income. Therefore, when the economy entered a period of decline, government spending had to be pared back as well. Ironically when people most needed government assistance the principle of sound money precluded governments from helping them. In fact it urged government to punish them further. For Polanyi the money issue was just one more example of how the liberal search for a self adjusting (un-regulated) market led to the Depression and quite nearly the destruction of liberal capitalist democracy by the twin threats of fascism and communism.⁶¹

Many academics and politicians of the 1930s recognized that to tighten public budgets in a time of declining economic output was likely an unsound policy. In Sweden the Social Democratic government, which assumed power in 1932, initiated a counter-cyclical programme following both its own pragmatic and humanistic inclinations and the advice of a group of professors from the Stockholm School of Economics led by Gunnar Myrdahl.⁶² In France the short lived Socialist government of Léon Blum also attempted counter-cyclical policies.⁶³ Doubt even existed in the high temple of monetarism, the Economics Department of the University of Chicago, where twelve faculty members

⁶¹ *The Great Transformation*, 223-236.

⁶² Stig Hadenius, Björn Molin and Hans Wieslander, *Sverige efter 1900: En modern politisk historia, II:e upplagan*, (Stockholm: Bonniers, 1988), 119; Gunnar Heckscher, *The Welfare State and Beyond: Success and Problems in Scandinavia*, (Minneapolis: University of Minnesota Press, 1984), 41-52; Jukka Pekkarinen, "Keynesianism and the Scandinavian Models of Economic Policy," in Peter A. Hall, (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations*, (Princeton, NJ: Princeton University Press, 1989), 318-321.

⁶³ Jacques Danos and Marcel Gibelin, *June '36: Class Struggle and the Popular Front in France*, (London: Bookmark, [1952] 1986), 177-178.

wrote to Congress urging a loosening of public finances to fight the Depression.⁶⁴ However, none of these efforts would have had a lasting impact if it were not for the work of John Maynard Keynes. It was Keynes who shattered the hold which classical economic theory and *laissez faire* economics had over society by proposing an alternative theory of the way the economy worked. Keynes showed how universal interests could be furthered not only by addressing the capitalist need for sound money, but also the need of workers and the middle classes for living wages and protection from market excesses.

It would appear that Keynes understood the impact that *The General Theory of Employment, Interest and Money* would have and deliberately intended the work to serve this purpose. *The General Theory* was not a specific policy prescription, nor was it addressed to the general public. Rather, it was designed to provide a theoretical justification and explanation for what many in the economics profession and government well knew--to a certain degree--that their basic theories about how the economy worked were wrong. State intervention in the economy would be essential both to end the Depression and to smooth the business cycle so as to avoid future crises.⁶⁵

While Keynes himself had little to do directly with the creation of the modern welfare state his theory was crucial to its emergence. Hall argues that this was because

⁶⁴ Walter Salant, "The Spread of Keynesian Doctrines and Practices in the United States," in Peter A. Hall, (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations*, (Princeton, NJ: Princeton University Press, 1989), 33-34 and note #16.

⁶⁵ John Maynard Keynes, *The General Theory of Employment, Interest and Money*, (London: Macmillan, 1936), v-vi.

Keynes' theories "placed increasing responsibility for economic performance on the government's shoulders, and [because] his attacks on the priority which classical economics attached to a balanced budget helped to loosen a fiscal constraint that stood in the way of more generous social programs."⁶⁶ However, Przeworski might be closer to the truth when he describes the impact of Keynesianism as at last demonstrating that under liberal capitalism, capitalists were not the sole champion of society's universal economic interests. The state could act strategically and effectively to advance society's general welfare and economic growth by answering the needs of general society and not just those of investors. Workers' demands were as universally beneficial to society as were those of capitalists.

Keynesianism was not only a theory that justified socialist participation in government but, even more fortuitously from the social democratic point of view, it was a theory that suddenly granted a universalistic status to the interests of workers. Earlier, all demands for increased consumption were viewed as inimical to the national interest: higher wages meant lower profits and hence a reduced opportunity for investment and future development. The only conceivable response to crisis was to cut costs of production, that is, wages. This was still the view of the [British] Labour Party in 1929. But in the logic of Keynes' theory higher wages, particularly if the wage fund was increased by raising employment rather than the wage rate... meant an increase of aggregate demand, which implied increased expectations of profit, increased investment, and hence economic stimulation.... Short-term particularistic interests of workers and of other people who consumed most of their income could now be held to coincide with the long-term interest of society as a whole.⁶⁷

Starting in the late eighteenth century, liberalism had gradually and persistently worked to eradicate autocratic and aristocratic rule, first via the creation of civil liberty,

⁶⁶ Peter A. Hall, "Introduction," in Peter A. Hall, (ed.), *The Political Power of Ideas: Keynesianism across Nations*, (Princeton, NJ: Princeton University Press, 1989), 4.

⁶⁷ Przeworski, *Capitalism and Social Democracy*, 36-37.

essential to the protection of contracts, then by the gradual extension of the franchise to an ever-widening population until the idea of a liberal democracy, the rule of the people through law became more or less a reality in many countries of the world by the mid-twentieth century. However, even though empowered, the people were restrained from using this power to address economic concerns by the fear which the prevalent theories of the economy inspired in their own minds. Keynes's work exploded this myth and showed that the concerns of the consumer-worker could also be addressed while furthering the common good, and in fact that their concerns were essential to the furtherance of the common good. In so doing Keynes not only exorcised the ghost of *laissez faire* but also the last vestiges of revolutionary socialism in the Western liberal capitalist democracies. He even tarnished the dream of a gradual evolutionary socialism in the advanced capitalist societies.⁶⁸ There now existed a theory of politics which demonstrated a universal right to political participation and a theory of economics which demonstrated a universal right to benefit (though not equally) from the capitalist economy. More importantly, the public (and even investors) believed it was so, even if they did not understand, believe or read Keynes.⁶⁹ The preconditions of the welfare state had been established.

⁶⁸ C.A.R. Crossland, *The Future of Socialism: Abridged Paperback Edition*, (New York: Shocken Books, 1963), 79.

⁶⁹ Both consumers and investors believed that government had tamed the worst ravages of the business cycle, that government could and would intervene to prevent future depressions and insure an adequate distribution of incomes. See, George Katona, *The Powerful Consumer: Psychological Studies of the American Economy*, (New York: McGraw-Hill, 1960), 174-175; Steven M. Sheffrin, *The Making of Economic Policy: History, Theory, Politics*, (Oxford: Blackwell, 1989), 19.

2.3 The era of the Keynesian Compromise: Popular Economic Participation and Popular Opinion in the Western Liberal Capitalist Democracies

With the acceptance and adoption of Keynesian policies, an important development occurred in the conception of the consumer. Previously consumption had only been dealt with at an individual level. However, with the advent of Keynesianism it became important to understand not just current aggregate demand but aggregate demand in the immediate future. Similarly it had been common until then to treat citizens as primarily members of classes or other social and ethnic groups, rather than as individuals. Coincidentally, just as economic policy required a change and the new found importance of genuine liberal democracy gave a moral impetus to this alteration in perspective, a whole range of tools, both analytical and practical were also at the disposal of the researcher to gauge public opinion due to the invention and increasing sophistication of electronic data processing equipment and the advent of the behavioral revolution in the social sciences.

2.3.1 Behavioralism

Behavioralism⁷⁰ represented both an epistemological and philosophical break with past social research and was thoroughly rooted in the universal egalitarian tradition of Western liberal capitalist democracy. The behaviorist method does not start by imputing motives to individuals based on their social or economic position but rather, begins from the proposition that all people are individuals. They argue that before we can speak of class interests, or any other group concern, be it religion, gender, regional or

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Another term for which is behaviourism.

anything else, it would be best to ask individuals what they think, or observe their behavior first hand, and only then, if we can see clear correlations between social situations and behavior or opinion, should we speak of people in the aggregate. The behavioralists seriously took to heart Hobhouse's dictum that at its root liberalism rests "on the duty of B to treat A as a rational being."⁷¹ Bill and Hardgrave define Behavioralism as follows:

Behavioralism can be defined as the systematic search for ... patterns through the formulation of empirical theory and the technical analysis and verification thereof. Behavioralism involves two basic emphases: "the formulation of concepts, hypotheses and explanations in systematic terms" and "empirical methods of research". The essence of behavioral science is that "all hypotheses be experimentally confirmed by reference to publicly observable changes in behavior."⁷²

Above all, behavioralism introduced a new movement of inductive research. It sought, at least in part, to proceed from evidence to generalization and perhaps to theory rather than from historically-inherited theory to evidence.⁷³ Behavioralists, consequently, came into direct conflict with much of the human inheritance of social knowledge developed in the eighteenth and nineteenth century which had its roots in philosophical

⁷¹ As quoted by Alan P. Grimes in his introduction to Hobhouse's *Liberalism*, 8.

⁷² James A. Bill and Robert L. Hardgrave, jr., *Comparative Politics: The Quest for Theory*, (Lanham, MD: University Press of America, 1981), 15-16.

⁷³ This does not mean that behavioralists totally dismissed the deductive method. In fact the ultimate ambition was to establish the social sciences as traditional deductive nomothetic sciences. However, it was felt that before this could be done, there would have to be a considerable amount of ground clearing, which would remove unsubstantiated theories inherited from the past "unscientific era". See, Bernard Susser, "From Burgess to Behavioralism and Beyond," in Bernard Susser, (ed.), *Approaches to the Study of Politics*, (New York: Macmillan, 1992), 6-8.

and legal study.⁷⁴ Katona highlights this in his discussion of the contrasts between behavioural and traditional economics.

[B]ehavioral economics differs greatly from the procedures of classical economics, which deduces principles of economic behavior from features of human nature assumed to be valid at all times and in all cultures. Behavioral economics also differs from econometric studies, which are commonly begun by setting up general models and then testing derivations from the models by confronting them with statistical data. The results obtained in behavioral studies have sometimes differed greatly from traditional economic insights.⁷⁵

In searching for their answer as to what people are really doing or really thinking the post-war behavioralists had two new tools unavailable to earlier researchers whose efforts were concentrated on elite behaviour (observable in such documents as speeches, legislative votes etc.). The first new tool was the recently developed technique of systematic (or scientific) sample surveying. The second was the advent of electronic data processing which made it possible to bring to bear the power of statistics on large volumes of data in an increasingly economical manner. The most obvious, though not the only, focus of this technological breakthrough was the study of public opinion, both in simple form as in, "what does someone want to buy?" or "who do they want to vote for?" but also in more sophisticated forms, such as "what values does the average teacher hold?" or "what motivates people to save?" The advent of surveying opened a number of new areas to social research as investigators used the tool to explore the motivations of individuals and collectives or "known groups". The employment of statistics, formal

⁷⁴ Roger King, *The State in Modern Society: New Directions in Political Sociology*, (London: Macmillan, 1986), 1-3.

⁷⁵ George Katona, *Essays on Behavioral Economics, with a contribution by James N. Morgan*, (Ann Arbor, MI: University of Michigan Institute for Social Research, 1980), 3-4.

adoption of the systems of logic and methods used in the natural sciences and the expression of results in terms of probabilities led to a new rigour in social research as well.⁷⁶

The first well known practitioner of the art of public opinion surveying was George Gallup who won recognition for his Institute for Public Opinion by correctly forecasting the results of American presidential elections during the 1930s and early 1940s.⁷⁷ Other important pioneers included Paul F. Lazarsfeld, founder of Columbia University's Bureau of Applied Social Research, V.O. Key at the University of Chicago, and the numerous researchers associated with the Institute for Social Research at the University of Michigan.⁷⁸ By the late 1940s the United States Social Sciences Council was sufficiently convinced that the new techniques had reached a threshold of credibility to create a standing committee on political behaviour and to task it with the production of a regular national election study, a survey of voters to be conducted simultaneously with America's bi-annual national elections. The study undertaken by the Institute for Social Research at the University of Michigan has been repeated during every American election since, and the practice was quickly put into place throughout the Western world.

⁷⁶ Lawrence C. Mayer, *Redefining Comparative Politics: Promise Versus Performance*, (Newbury Park, CA: Sage, 1989), 12-23.

⁷⁷ D. Grier Stephenson, jr., Robert J. Bresler, Robert J. Friedrich and Joseph J. Karlesky, *American Government, Second Edition*, (New York: Harper Collins, 1992), 217.

⁷⁸ Charles Y. Glock, "Organizational Innovation for Social Science Research and Training," in Robert K. Merton, James S. Coleman and Peter H. Rossi, (eds.), *Qualitative and Quantitative Social Research: Papers in Honor of Paul F. Lazarsfeld*, (New York: The Free Press, 1979), 23-36; Jacques Thomassen, "Introduction: The Intellectual History of Election Studies", *European Journal of Political Research*, 25, (1994), 239.

mostly by researchers who had visited the Institute and adopted its methods. A major spur to behavioralist research was the creation of the Inter-university Consortium for Political Research in 1957 which created a central, international repository for behavioral data at the University of Michigan. This initiative was reproduced in function when the European Consortium for Political Research was formed. The consortium allows international access to the holdings of various national data archives, sponsors research, publishes *The European Journal of Political Research* and conducts methodology summer schools.⁷⁹

The speed with which the behavioralist approach was adopted as the principal perspective for the study of politics can be seen by the following comment by Heinz Eulau for the introduction to the 1967 volume of the *International Yearbook of Political Behavior Research*.

This is the last volume of the *International Yearbook of Political Behavior Research*. The reason for terminating the series is a very simple one: since it was conceived in the middle fifties, and since the first volume was published in 1961, the need for the enterprise has steadily decreased... The editorial policies of the journals not only welcome but encourage the kind of research that is fertilized by behavioral theories and methods, and the publishers vie with each other in contracting scientific research monographs. The end of this series, then, symbolizes the success of the new beginning in the study of politics.⁸⁰

Part of the success of the new approach can be ascribed to the technical advances made in survey design and the development of algorithms for computer analysis. These

⁷⁹ Warren E. Miller, "An Organizational History of the Intellectual Origins of the American National Election Studies," *European Journal of Political Research*, 25, (1994), 249-251.

⁸⁰ "Preface" in Seymour M. Lipset and Stein Rokkan, (eds.), *Party Systems and Voter Alignments: Cross-National Perspectives, Volume 7, International Yearbook of Political Behavior Research*, (New York: The Free Press, 1967), ix.

developments, when coupled with a renewed concern with methodology, allowed political researchers to claim a significant degree of rigour for their work--allowing them to describe political studies as a science rather than an art.⁸¹ However, perhaps an even more fundamental reason for the success of the technical and quantitative approach can be found in the changes that had been wrought in the liberal capitalist world by the twin traumas of the Depression and the second world war. The first was a new consensus in the Western world on political and economic institutions and ideology. The "big" issues in the study of politics and of society, or at least those that were once considered big, had all apparently been resolved. After the defeat of fascism and the discrediting of the Stalinist variety of communism, there was no longer much serious debate about truly radical alternatives to liberal capitalist democracy.⁸² The dominant question for the majority of Western scholars was how to promote it in the face of other political tendencies in the established liberal democracies and encourage its growth among the

⁸¹ Robert A. Dahl, "The Behavioral Approach in Political Science: Epitaph for a Monument to a Successful Protest," *American Political Science Review*, 55, (1961), 767-768.

⁸² Even the Communist Parties of West Europe (such as in France, Italy and Sweden) had forsworn violent revolution in favour of participation in democratic elections. Although they still opposed the capitalist economy, the methods which they proposed for the elimination of capitalism would become increasingly evolutionary over time. So called "Eurocommunism" (which began to evolve in the 1960s and reached its zenith in the 1970s) would involve an unequivocal repudiation of Leninist "democratic centralism" and a new sense of the need for democracy in all facets of life. Sven E. Olsson, "Swedish Communism Poised Between Old Reds and New Greens," *The Journal of Communist Studies*, 2, (1986), 359-379; Tobias Abse, "Italy: A New Agenda," in Perry Anderson and Patrick Camiller, (eds.), *Mapping the West European Left*, (London: Verso, 1994), 189-232; George Ross and Jane Jenson, "France: Triumph and Tragedy," in Perry Anderson and Patrick Camiller, (eds.), *Mapping the West European Left*, (London: Verso, 1994), 160-170.

remaining authoritarian societies and the new states created by the retreat of colonialism.⁸³ In 1953 Dahl and Lindblom wrote with comfortable assurance that:

It has become increasingly difficult for thoughtful men to find meaningful alternatives posed in the traditional choices between socialism and capitalism, planning and the free market, regulation and laissez faire.

...For all their contributions to our understanding of economic organization, Schumpeter, Hayek, Lipmann, Mises, and a host of socialists or planners like Jay, Beckwith, Lorwin, Landauer, Lange, and Mannheim (to say nothing of the older doctrinaire socialists and communists) are to various degrees enmeshed in the now vanishing tradition of the great "isms".⁸⁴

It is undoubtable that the study of institutions and ideology (the previous mainstay of political research) lost much of their lustre in such circumstances. This did not mean that the behavioralists denied the importance of institutions, as critics would later charge, simply that institutions were taken for granted while not being as central to answering the questions the behavioralists set for themselves.⁸⁵ Almond and Verba made this point when they suggest that it is difficult to interpret survey results without reference to the institutions which set the context of social and political action; "One must integrate into

⁸³ Gabriel A. Almond and Sydney Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations*, (Boston: Little Brown and Company, 1965), 1-5. While some were willing to accept that democracy might not be in the short term future for many of the emerging nations, there were few in the west who believed it should not be the eventual goal. See for example, Seymour M. Lipset, *The First New Nation: The United States in Historical and Comparative Perspective*, (New York: Basic Books, 1963), 13.

⁸⁴ Robert A. Dahl and Charles E. Lindblom, *Politics, Economics and Welfare: Planning and Politico-Economic Systems Resolved into Basic Social Processes*, (New York: Harper & Brothers, 1953), 3.

⁸⁵ For more on this debate see Gabriel A. Almond, "The Return to the State," *American Political Science Review*, 82, (1988), 853-874 and Eric A. Nordlinger, Theodore J. Lowi and Sergio Fabbrini, "The Return to the State: Critiques," *American Political Science Review*, 82, (1988), 875-901.

a study of this sort findings about the general shape of the system, the institutions, the history of their development, and so forth."⁸⁶

2.3.2 The Powerful Consumer, Behavioral Economics and Keynesianism

The behavioral "revolution" was eventually resisted, and it is fair to say that its legacy is viewed with suspicion in economics. This was in part because economics had long before found an alternative route to allow the discipline's transition from a branch of philosophy and history to the status of a science. This was the neo-classical study of marginal utility theory, developed in the late 1800s, complete with its rigorous models and mathematical proofs. However, this progress was achieved at the cost of removing the discipline increasingly from the real world to that of the "all other things being equal" atmosphere of the mathematical equation. Long before the behavioral revolution, economics had moved from being primarily an inductive, to a deductive nomothetic scientific discipline.⁸⁷ Behavioralism threatened to re-introduce the great uncertainty of human agency, thereby disrupting the neatly drawn and calculated models and equations of the discipline.⁸⁸

⁸⁶ *The Civic Culture*, 44.

⁸⁷ Jaan W. Whitehead, "The Forgotten Limits: Reason and Regulation in Economic Theory," in Kristen Renwick Monroe, (ed.), *The Economic Approach to Politics: A Critical Reassessment of the Theory of Rational Action*, (New York: Harper Collins, 1991), 67.

⁸⁸ Burkhard Strumpel, "The Role of Behavioral Research," in Maureen Kallick and James N. Morgan, (eds.), *The 1979 Founders Symposium, The Institute for Social Research: Honoring George Katona*, (Ann Arbor, MI: The University of Michigan, Institute for Social Research, 1980), 54; James Tobin, "Expectations, Attitudes and Economic Behavior," in Maureen Kallick and James N. Morgan, (eds.), *The 1979 Founders Symposium*, (Ann Arbor, MI: The University of Michigan, Institute for Social Research,

One example of this refusal to accept the emphasis of behavioralism on the need for empirical evidence had to do with the issue of uncertainty and long term economic rationality. The presumption of rationality is central to modern economics. A knowing individual is assumed to act in such a way as to maximize the economic utility that they may enjoy. What people consider to be the maximization of their economic utility is assumed to be relatively constant and similar to the preferences and calculations of other rational persons. The problem is that the theory has proved remarkably wrong when compared to real world behavior. In the real world it appears that short-term shifts in the economic environment have as important an impact on the choices we make as do our individual situations. In stock markets we see examples of such responsive behaviour clearly when a decline in the price of one company's stock leads traders to sell the stock of other companies in the same line of business for fear that negative sentiment might attach to the entire industry. It matters little whether the company that the trader owns shares in is doing well, has good profits and a sound business plan. The environment dictates the decision to sell and avoid potential loss, not a "rational" consideration of the balance sheet of each firm.

In the case of consumers, the importance of context to decision making was demonstrated in the immediate post-war years of the late 1940s by the research of University of Michigan economist George Katona.⁸⁹ One of Katona's important

1980), 50.

⁸⁹ Rensis Likert, "Courageous Pioneer: Creating a New Field of Knowledge," in, Burkhard Strumpel, James N. Morgan and Ernest Zahn, (eds.), *Human Behavior in Economic Affairs: Essays in Honor of George Katona*, (Amsterdam: Elsevier, 1972), 8.

findings was that the general economic climate played a halo role in helping people to determine their own economic circumstances, individuals being more likely to see a downturn in income as temporary when the economy itself was enjoying good times.⁹⁰ In other words, the same change in income could have very different ramifications for the aggregated spending patterns of individuals given the climate in which the change occurred. Further complicating the case is the distinction between necessary and luxury consumption. Necessary consumption does not change, being more or less dictated by biology and environment. But luxury consumption is more flexible. People are less likely to borrow to sustain luxury consumption. Yet this too is relative and, in fact, is precisely what an increasing amount of consumption was in the post-war world.⁹¹ Under advanced capitalism a greater percentage of people than ever before became able to earn incomes higher than necessary to meet their basic needs, creating new demands for luxury goods. As these new demands become a more and more important part of the economy (and because demand for them is highly flexible) it becomes more and more reasonable to begin talking about *The Powerful Consumer*⁹² and more and more important to know what consumers are thinking in order to more accurately assess the current state of the economy and its possible future condition.

It was not only the need to understand the new market which made this effort necessary, but also the new Keynesian policy paradigm. If the official dogma was now

⁹⁰ Katona, *The Powerful Consumer*, 150.

⁹¹ Likert, "Courageous Pioneer", 3-4.

⁹² Katona, *The Powerful Consumer*, 10-28.

that the state could intervene to affect the overall state of the economy by injecting liquidity when necessary and withdrawing it when inflation was rising, and if we accept that consumer luxuries represented an increasing share of the economy, then it is little wonder that government officials should be very interested in the state of consumer sentiment and what it portended. Therefore, it is not surprising that the initial experiments in assessing consumer sentiment were noted by the American Federal Reserve Board's research staff. Once the value of the surveys was demonstrated they became close observers of such projects.⁹³ Eventually these early efforts coalesced into the University of Michigan Survey of Consumer Sentiment, and its main product, the Index of Consumer Sentiment, became an important part of the United States Commerce Department's "Leading Economic Indicator" (the American government's best predictor of the future state of the economy).⁹⁴ As the initial post-war prosperity experienced in the United States began to spread among the other Western liberal capitalist democracies, governments and private organizations in other countries soon followed suit and established consumer surveys similar in methodology to the University of Michigan's.

In short, Keynesian economic policies, the welfare state and a never before witnessed rise in human prosperity had made the consumer powerful. Although outside of the economics mainstream at first, behavioral economists demonstrated that they were well within the mainstream of post-war Western liberal capitalist democracy when they

⁹³ Likert, "Courageous Pioneer", 6-8; Katona, *The Powerful Consumer*, viii.

⁹⁴ See, United States of America, Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*.

chose to take the opinions and attitudes of the broad masses of consumers seriously rather than to deduce or impute their thoughts from neo-classical economic theory. Behavioral economics took this attitude forward into other areas of research, such as the motivations of managers in corporations and the constraints workers perceive in their jobs. However, even though behavioralism was accepted into the mainstream in economics it was never to become the dominant force it did in other disciplines such as political science and sociology. In 1980 Katona still found it necessary to warn against the tendency of economists to assume what is "rational" for individuals, without empirical evidence to support their propositions, and against their continuing tendency to treat individuals as all knowing, all seeing, rational decision makers in spite of the relaxed and partial "bounded" understanding of rationality proposed by Simon and empirical researchers.⁹⁵

2.3.3 Studies of Institutions Supportive of Democracy--Elite Pluralism

One of the fundamental questions for the early political behavioralists was how to build democracy and keep it stable. In pursuing this research, the behavioralist tradition produced one of the most significant contributions to the study of modern politics, the concept of pluralism as a beneficial trait for society. This concept promised an understanding of politics as potentially more inclusive or democratic than ever previously theorized.

⁹⁵ Herbert A. Simon, *Administrative Behaviour, Third Edition*, (New York: Macmillan, 1976), 79; James G. March and Herbert A. Simon, *Organizations*, (New York: John Wiley, 1958), 169-171; Katona, *Essays on Behavioral Economics*, 14.

As with the whole idea of behavioralism in the post war world, beneficial pluralism was a concept for modern times. In the fifteenth and sixteenth century the Holy Roman and Spanish empires were split by a series of disputes between local notables and the two Crowns. Afterwards, religion was the glue used to re-integrate the new states created by war and diplomacy.⁹⁶ During the second half of the nineteenth century, the wider franchise, the increasing acceptance of the liberal principle of religious freedom and the economic autonomy of the individual, combined with the industrial revolution's increasing division of labour, greatly weakened the homogeneity of societies. In many instances elites tried to use nationalism as a new glue to hold societies together and to motivate individuals towards collective social action.⁹⁷ Nazism represented the most extreme possible manifestation of nationalism. Some countries would also seek to use ideology as a similarly unifying or totalizing basis for their political culture.

What these movements have in common is the idea that diversity is bad, and that it precludes the unity of purpose that can build social progress and advancement. Pluralism directly confronts this view; arguing that diversity is not just normatively defensible, through liberal philosophy, but is also beneficial to society through the paradoxically stabilizing impact it has on democracies.

One of the fathers of pluralist thought was Durkheim. Looking at the problems created by the socio-economic revolution caused by industrialization during the nineteenth

⁹⁶ See Pieter Geyl, *The Revolt of the Netherlands 1555-1609 and The Netherlands in the Seventeenth Century 1609-1648* (both London: Cassell, 1932 [1988]).

⁹⁷ E.J. Hobsbawm, *Nations and Nationalism Since 1780: Programme, Myth, Reality*, (Cambridge: Cambridge University Press, 1990), 101-130.

century, Durkheim identified a serious decline in what he called moral coherence as the key problem facing society. He thought he saw a solution in his elevation of the principles of liberal individualism to the status of a moral commitment. The result is that individualism, and each and every person's commitment to diversity can itself become a substitute for common social and political values.⁹⁸ The behavioralists built on this philosophical call for pluralism by developing a theory to explain the mechanism through which it led to stability in liberal capitalist democracies. This mechanism that they theorized is the pressure which cross cutting cleavages exert on individuals. The idea can be summarized as follows. Assume a free society with an advanced economy (e.g. liberal capitalist democracy). In such a society any given individual is likely to be a member of many sub-groups. She or he is both an employee and a property owner, tax payer and consumer of public services, member of a religious community and of secular organizations, citizen of a nation state and of sub-national units such as provinces and cities, identifying with both an ethnic heritage and the national culture of the nation state. These cross-cutting cleavages exercise counter-acting pressures, making the individual more interested in working towards consensus than winner-take-all solutions. In other words, the multiple identity citizen is more likely to practice "politics as peace making" rather than "politics as war". Seymour Martin Lipset perhaps best captures the idea:

The evidence available suggests that the chances for stable democracy are enhanced to the extent that social strata, groups and individuals have a number of cross-cutting politically relevant affiliations. To the degree that a significant proportion of the population is pulled among conflicting forces, such groups and

⁹⁸ Anthony Giddens, *Capitalism and Modern Social Theory: An Analysis of the Writings of Marx, Durkheim and Max Weber*, (Cambridge: Cambridge University Press, 1971), 199-201.

individuals have an interest in reducing the intensity of political conflict.⁹⁹

This particular insight, developed through surveying and statistical analysis, perhaps justified most of the behavioral research program. The demonstration that diversity and individuality actually coexisted with stability stood much of our previous thinking about society on its head but was fully in keeping with the post-war era's ethos. Alford takes the sociological idea of pluralism outlined by Lipset and applies it to politics, resulting in the following description of a pluralist political system as one in which:

[P]olitical parties are free to organize and compete for power, and pressure groups and interest groups of many kinds may also compete for influence upon political decision-makers. Voters are not tightly integrated into enclaves of traditionalism which reinforce ancestral political loyalties. Instead, voters change fairly freely from one party to another. Parties must therefore compete for support; they are not guaranteed a reliable national majority, although they can count on many constituencies for consistent support.¹⁰⁰

This passage touches on another important aspect of the theory of democracy accepted by the behaviouralists, the relative inactivity of the citizenry. Parties, pressure groups and interest groups compete for power and influence over the decisions of government and the bureaucracy. Voters and citizens do not undertake much direct political activity, but rather, choose to support the positions advanced by one group of elites or another at a given time for a given purpose. They are consumers of a service produced by a society's elite, the service being called leadership. Voters are not

⁹⁹ Seymour M. Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review*, 53, (1959), 97.

¹⁰⁰ Robert R. Alford, "Class Voting in the Anglo-American Political Systems," in Seymour M. Lipset and Stein Rokkan, (eds.), *Party Systems and Voter Alignments: Cross National Perspectives, Volume Seven: International Yearbook of Political Behavior Research*, (Glencoe, NY: The Free Press, 1967), 71.

supposed to be dedicated members of movements. This position was not developed out of a theoretical vacuum but was also in part the result of behaviorist inquiry. As Dalton points out, the most attractive pre-behavioralist formulations of liberal capitalist democratic theory were based on American civic republicanism and proposed that such a society could not succeed unless the vast majority of the citizenry were educated, informed and active in politics. What the behaviouralists discovered in their surveys of Americans (and later in surveys of citizens in other Western liberal capitalist democracies) was that the average citizen was much less aware of, informed about and active in politics than pre-behavioral theory had thought was necessary for a stable polity. This information, along with retrospective studies of collapsed democracies, would later lead some prominent behaviouralists to argue that in fact the previous theories were wrong and an activist citizenry either undermines democracy or is a symptom of instability. Instead, they proposed that democracy works best when citizens are comfortable enough to restrain their political involvement to selecting among the positions offered in elections and public debates by the different elites.¹⁰¹

The basic argument was that the modern democratic citizen must be both ruler and ruled, he or she "must be active, yet passive; involved, yet not too involved; influential, yet deferential."¹⁰² The combination of pluralism and this new understanding of elites led to a new formulation of the behaviorist democratic theory, elite pluralism. In his study of New Haven Connecticut's political system, Dahl

¹⁰¹ Russell J. Dalton, *Citizen Politics: Public Opinion and Political Parties in Advanced Western Democracies*, Second Edition, (Chatham, NJ: Chatham House, 1996), 2-15.

¹⁰² Almond and Verba, *The Civic Culture*, 343-344.

described the difference between political elites and the citizenry as one of vocation. Those with political power pursue it as a job or as if it were a job. Consequently he describes them as "professionals".¹⁰³ In other words, the separation of elite and citizen is functional in two senses: It occurs as a result of the advanced division of labour by which societies are defined as being modern, and as well, it is also supportive of the stability of liberal capitalist democracy.¹⁰⁴ The separation of elite and citizen is pluralist in that society is still fractured along lines of cross-cutting-cleavages and in that there is no barrier to elites representing different interests and sections of society, but nonetheless it is via elites that representation occurs. As the Canadian sociologist John Porter remarked: "It is not a question of conflicts between the 'ins' and the 'outs', but rather of conflicts between those who are 'in'".¹⁰⁵

This evolved elite model was close to the "workable" model of liberal capitalist democracy propounded by Austrian emigre economist Joseph Schumpeter at the end of World War II. Schumpeter not only found average citizens to be uninterested in politics but believed them to be dangerous to stability when they thought too much about it. He argued that the traditional model of democracy trusted too much to the benevolent

¹⁰³ Robert A. Dahl, *Who Governs? Democracy and Power in an American City*, (New Haven, CN: Yale University Press, 1961), 305-306.

¹⁰⁴ Gabriel Almond and James S. Coleman, "A Functional Approach to Comparative Politics", in Gabriel Almond and James S. Coleman, (eds.), *The Politics of Developing Areas*, (Princeton, NJ: Princeton University Press, 1960); Heinz Eulau, *Micro-Macro Dilemmas in Political Science: Personal Pathways Through Complexity*, (Norman OK: University of Oklahoma Press, 1996), 247-258.

¹⁰⁵ John Porter, *The Vertical Mosaic: An Analysis of Social Class and Power in Canada*, (Toronto: University of Toronto Press, 1965), 27.

goodwill and common sense of the citizen, forgetting that a rational action is simply an act taken in accordance with what the individual believes will best achieve his or her goals. If the goals are different from what the observer has in mind, the actions will also differ.¹⁰⁶ In place of the classical theory of democracy Schumpeter offered "Another Theory of Democracy," which he based on Edmund Burke's interpretation of the role of the Member of Parliament.¹⁰⁷ Schumpeter argued as follows:

It will be remembered that our chief troubles about the classical theory centered in the proposition that "the people" hold a definite and rational opinion about every individual question and that they give effect to this opinion--in a democracy--by choosing "representatives" who will see to it that that opinion is carried out. Thus the selection of the representatives is made secondary to the primary purpose of the democratic arrangement which is to vest the power of deciding political issues in the electorate. Suppose we reverse the roles of these two elements and make the deciding of issues by the electorate secondary to the election of the men who are to do the deciding. To put it differently, we now take the view that the role of the people is to produce a government, or else an intermediate body [such as Parliament] which in turn will produce a national executive or government.¹⁰⁸

The rediscovery and adoption of the Schumpeterian perspective led the behaviouralists into dangerous intellectual terrain. Whereas they had been previously arguing that elite led pluralism was functional in that few but professionals had the necessary time to devote to politics, and that the professionals must be left to decide things sensibly once appointed, Schumpeter's work introduced a new argument: that the people were not capable of deciding things for themselves in a reasonable manner.

¹⁰⁶ Joseph A. Schumpeter, *Capitalism, Socialism and Democracy: Third Edition*, (New York: Harper and Row, 1950), 256-268.

¹⁰⁷ "Speech to the Electors of Bristol, 1774," In L.I. Bredvold and R.G. Ross, (eds.), *The Philosophy of Edmund Burke*, (Ann Arbor, MI: University of Michigan Press, 1960).

¹⁰⁸ *Capitalism, Socialism and Democracy*, 269.

We can see in this section the journey that mainstream behaviouralists took from recognizing the importance of multiple voices to the functioning and stability of liberal capitalist democracy, through the half-way house of the discovery that many in the population were not particularly interested in exercising their voice (and hence the need for elite led pluralism), and thence on to the conclusion that keeping these voices at least partially locked up was the only way in which liberal capitalist democracy could remain stable. The result was that when mass dissatisfaction with things political erupted during the late 1960s and early 1970s those who held this perspective in the behavioralist camp, became tainted as defenders of anti-democratic procedures and leaders.¹⁰⁹ In the next section we will see how other perspectives came to challenge the behavioralist method and its conclusions.

2.3.4 Anti-Behavioralism, Rational Choice, Historical Institutionalism and Culture Studies

Where the mainstream behaviouralists provoked controversy was in advancing from the idea of elite led pluralism as a *possible* force for social stability and elite led pluralism as *possibly* creating the potential for popular influence, to the idea that elite led pluralism *is an essential* ingredient for social stability, and further, that elite led pluralism *fulfilled* the democratic imperative and was the *only* system demonstrated to be capable of doing this. Nothing framed the dispute between behaviouralists and the traditional approaches in political science more aptly than the debate begun by Robert Dahl over the three faces

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Dalton, *Citizen Politics*, 20.

of power.

In the 1950s, Dahl put forward a basic definition of power when he proposed that power is a relationship among people such that "A has power over B to the extent that he can get B to do something that B would not otherwise do."¹¹⁰ As a behavioralist, Dahl insisted that a judgement as to whether power is being exercised can only be made through observation of key decisions. One must observe "A's" influence to say that it has occurred.¹¹¹ Such a notion of defining and researching "power" fit well with the emerging general behaviouralist view that power was much more diffuse in Western liberal capitalist democracies than had been previously supposed.

In a 1962 article, Bachrach and Baratz countered, arguing that behavioralist research gave an incomplete analysis of the exercise of power in a society and the benefit that some derive from its use. They argued that by concentrating on observed behaviour the behaviouralists often missed important events that did not occur. It was suggested that those who favoured and even needed certain actions sometimes lacked the means to get their issues onto the public agenda for political resolution. Conversely other people, it was argued, had so much influence that they were capable of excluding issues from the public agenda that they did not want brought forward. They described this inability to get issues onto the public agenda or to exclude them as *The Second Face of Power*.¹¹²

¹¹⁰ Robert A. Dahl, "The Concept of Power," (originally in Behavioral Science, July 1957), in John H. Kessel, George F. Cole and Robert G. Sedding, (eds.), *Micropolitics: Individual and Group Level Concepts*, (New York: Holt Rinehart and Winston, 1970), 569.

¹¹¹ See The Methodological Appendix in *Who Governs?*, 329-342.

¹¹² Peter Bachrach and Morton S. Baratz, "The Two Faces of Power," *American Political Science Review*, 56, (1962), 947-952.

This concern also introduced new terms if not ideas to the vocabulary of the social science "nonissues", or "non-decision-making" to refer to issues and decision processes excluded from both democratic deliberation and from behavioural analysis by its focus on overt behaviour.¹¹³ Bachrach's and Baratz's work was politically progressive and coincided with, and seemed to justify, a new consideration of the influence that institutions might have on social life, specifically, the study of institutional barriers to the use of political power.

One such work was Mancur Olson's *The Logic of Collective Action*. In this work Olson tries to unravel why some groups which obviously would benefit by taking collective action fail to do so and why some groups (such as labour) find it harder to organize than do others (such as capital). This was important because the theory of behaviour and power developed by the behaviouralists essentially went as follows; in a Western liberal capitalist democracy people are free to seek support, to stand for election, or form groups to address candidates for election or those already in office, so as to deal with any grievances or interests the said group might have. If people do not organize to protect or promote their interests, it can be assumed that they have no common interest, or none so pressing as to demand political remedy.¹¹⁴ Olson argues that the dynamics of large groups are much different from those of small groups. Consequently, the masses (for example, labour, or the poor) often find it harder to

¹¹³ Walter Korpi, "Power Resources Approach vs. Action and Conflict: On Causal and Intentional Explanation in the Study of Power," *Sociological Theory*, 3, (1985), 32.

¹¹⁴ Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups, Revised Edition*, (New York: Schocken Books, 1971), 111-131.

organize than does a much smaller group (such as the managers of companies in a single industry). Specifically, he points to the costs of free riding. The probability that some potential beneficiaries will simply sit back and let others bear the cost is a much steeper barrier to engagement for large groups than for smaller ones. This is because the larger a group, the more diffuse will be the benefits that it wins, the harder it will be to restrict the benefits won to participants who bore the cost of the fight, and the smaller will be the benefits to those who engage, relative to the costs involved in securing them.¹¹⁵

Olson's work offers an institutional explanation as to why some have an easier time in exercising power. They simply find it easier, for knowable rational reasons, to organize than do others. In many instances there is no overt decision to favour the interests of the wealthy over the interests of the poor, simply because the poor can almost never manage to get themselves organized so as to express their interests. Olson's work was one of the pioneering efforts to look at how institutions, in this case, the economics of groups, act to structure social interaction. The subsequent renewed concern with institutions soon split into two branches. One branch, working along lines similar to those pursued by Olson, began to consider institutions as structures that will either frustrate or enhance the ability of actors to realize the goals that are in their rational self-interest. The eventual result of this effort, as well as the work of other pioneers in the field was rational choice theory. Some of these other pioneers included authors such as Buchanan and Tullock (who applied a similar economic analysis to the study of the

origins of constitutional democracy)¹¹⁶, Niskanen (who studied bureaucracies),¹¹⁷ Hirschman (who studied the circumstances that lead people to fight for change in declining organizations or choose to exit),¹¹⁸ and perhaps most famously, Downs (who looked at voting and party systems).¹¹⁹ Often unable to observe first hand the institutional barriers which preferenced actors and issues, the rational choice theorists instead relied upon the building of models of human behaviour that could be tested via mathematical proofs and their goodness of fit with non-behaviourial data, in the method pioneered by classical economists. The result was a new fusion of economic methods and political research.

However, it should not be assumed that the second face of power only worked to the detriment of the disadvantaged or those lacking in control over productive property and capital. Kavanagh argues that the society wide compromise which emerged in post-war Great Britain as to the validity of Keynesian economic policy and the role of the welfare state, effectively barred those who favoured more orthodox economic policies from having their concerns and ideas placed on the public agenda.¹²⁰ As will be seen

¹¹⁶ James M. Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, (Ann Arbor, MI: University of Michigan Press, 1962).

¹¹⁷ William Niskanen, *Bureaucracy and Representative Government*, (Chicago: Aldine, 1971).

¹¹⁸ Albert O. Hirschman, *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*, (Cambridge, MA: Harvard University Press, 1970).

¹¹⁹ Anthony Downs, *An Economic Theory of Democracy*, (New York: Harper and Row, 1957).

¹²⁰ Denis Kavanagh, *Thatcherism and British Politics: The End of Consensus? Second Edition*, (Oxford: Oxford University Press, 1990), 7.

below, this apparent ability of the Western liberal capitalist democracies to grant some recognition to the voices of those who lacked control over capital, was to become a central concern of Marxist social science.

For Western Marxists, the behavioralist era also posed serious challenges. In the 1950s non-mainstream scholars had been ostracized in many countries and official state pressure was brought to bear on publishers to reject the works of those thought to be "unpatriotic". No where was this process more vindictive or chilling than in the United States where the House of Representatives' Un-American Activities Committee officially endorsed the witch hunters.¹²¹ As well, the idea of communism as a viable alternative to liberal capitalist democracy lost much of its lustre due to Stalinism and was further discredited by the Soviet Union's suppression of attempts to move communism towards a less totalitarian model in Hungary and Czechoslovakia. Keynesianism (as discussed above) had meanwhile opened the possibility of taming the most wild fluctuations of the capitalist economy, and further offered a theoretical justification for the welfare state and a modest redistribution of incomes. Finally the behaviouralists had temporarily appeared to demonstrate that popular influence on those in power (if not actual power) was far more widely shared in the liberal capitalist democracies than had ever before been assumed. Consequently, these researchers found themselves asking the opposite question to that posed by Bachrach and Baratz in their *Second Face of Power*. They became interested in studying why the state sometimes seemed to ignore the expressed interests of the so called ruling class and instead sought to meet popular demands. They found

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Ellen Schrecker, *No Ivory Towers: McCarthyism and the University*, (New York: Oxford University Press, 1986)

the answer to their question in the concept of the relative autonomy of the state.

One of the leaders in this effort was Nicos Poulantzas. He argued that the relative autonomy of the state rests on two pillars, the first being the need of capitalism for an ideological justification of compliance and coercion separate from personal power (i.e. the liberal adherence to rule of law), which was previously discussed. The second pillar consists of the cleavages within capitalism itself. Different economic circumstances and patterns of historical development are seen to lead to a unique development of capitalism in each society. Different sub-sections of the capitalist class (for example, financiers, industrialists, merchants, resource producers) are seen as being more important and more powerful in different nations at different times. In Poulantzas's terms these more important sub-sections form a "hegemonic" faction. As a result of struggles between the hegemonic faction and other groups of capitalists, the state achieves some autonomy of action in that it can maneuver between the different groups of capitalists which have different priorities.¹²²

On the surface this might appear to be similar to the behavioralist idea of cleavages leading to stability. However, this is not quite the case. This is because the theory holds that the interests which are recognized are still the interests of capital, the issue being which faction's interests. Other interests benefit when their concerns are in parallel to those of a faction of capital, or when recognizing them does not conflict with the priorities of the hegemonic faction. As the hegemonic faction changes, so does the possibility for non-capitalists to achieve their own objectives. The basic interests of the

¹²²

Nicos Poulantzas, "The Capitalist State: A Reply to Miliband and Laclau," *New Left Review*, 95, (1976), 71-76.

various factions which control capital and all other classes are deductively assumed from traditional Marxist theory (just as rational choice theorists assume what is rational for their subjects). What changes is the ability of each set of actors to realize their goals not the goals themselves.

Although he does not identify himself as a Poulantzian, Ferguson's work on American elections provides a useful illustration. Rational choice theories of elections argue that parties are essentially manufacturers of a consumer good, and consequently seek out and tailor their policies to the wishes of the median voter to maximize their potential income of votes.¹²³ Ferguson, however, argues that in the American electoral system, where spending is essentially unlimited and fund raising is a pre-condition for winning a place in the race, it is more appropriate to see the political parties and individual candidates as entrepreneurs seeking investment. Instead of tailoring their policies to meet the needs of the median voter, they tailor them to meet the needs of the median investor, which in a liberal capitalist democracy means various business interests.

What is doable for the average voter is determined by what is necessary for the dominant business interests. Ferguson argues that this tailoring is the reason why America's major parties usually look alike, and voter turn out is low. Genuine choices are only seen to be offered when a shift occurs in the economy and a new hegemonic faction rises to challenge the interests of the previously dominant interests. A new source of power is translated into politics when one of the two major parties seeks to tap

¹²³See Downs, *An Economic Theory of Democracy*.

the new investors by altering its policy.¹²⁴ The investor sensitive approach tends to place a high premium not just on observed behaviour, but also on the context in which this behaviour occurs, and consequently, requires a much more sensitive analysis of context than is usually offered by either the behaviouralists or the rational choice theorists.

Still another school of social researchers would adopt the "Neo-Marxian" idea of the relative autonomy of the state and their concern with context. However, instead of focussing on the social forces which lead to state autonomy they chose to explore the institutional factors which helped some states to be more autonomous than others.¹²⁵ The historical institutionalists--such as March and Olsen--see institutions as more than the "rule sets" to which they are reduced by rational choice theory, and far more than a fitfully autonomous regulator of capitalist competition as seen by Marxists, or of elite plural competition as seen by the behaviouralists. Rather, historical institutionalists conceive of institutions as living actors in the political process. They are seen to shape the rational goals of other actors. It is also argued that the incumbents of state office possess the unique ability to introduce a new set of goals into policy debates, the interests of the state.¹²⁶ Analysts applying other perspectives do accept that officials might use

¹²⁴ Thomas Ferguson, *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems*, (Chicago: University of Chicago Press, 1995).

¹²⁵ Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, (eds.), *Bringing the State Back In*, (Cambridge: Cambridge University Press, 1985).

¹²⁶ James G. March and Johan P. Olsen, "The New Institutionalism: Organizational Factors in Political Life," *American Political Science Review*, 78, (1984), 738-740.

their positions to further their own interests and concerns. But, they do not routinely attempt to take a broader look to see if surprising decisions, when combined with other decisions, could have been meant to further the interests of the state as a unique entity.¹²⁷

Historical institutionalists argue that the state has a degree of autonomy in its actions, and that this autonomy has varied both with circumstance and the design of state institutions. In the long run this autonomy helps to shape the political culture of a society, suggesting that institutional design is one important variable in shaping not just the political process, i.e., how deals are struck, but also the goals people choose to seek. Consequently, the historical institutionalists, according to Steinmo and Thelen, choose to leave the objective interests of the various actors unspecified until they are revealed by research, instead of relying on models, from which the interests of the various actors are simply deduced. Rather than assuming that each actor perfectly understands and is prepared to act on his or her interests,¹²⁸ they tend to argue for the sort of bounded rationality identified by Simon¹²⁹ and recommended by economists such as Katona.¹³⁰

[Historical institutionalism] should advance situated understandings of rationality.

¹²⁷ Theda Skocpol, "Bringing the State Back in: Current Research", In Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, (eds.), *Bringing the State Back In*, (Cambridge: Cambridge University Press, 1985), 4-5.

¹²⁸ Kathleen Thelen and Sven Steinmo, "Institutionalism in Comparative Politics," in Sven Steinmo, Kathleen Thelen and Frank Longstrech, (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis*, (Cambridge: Cambridge University Press, 1992), 7-8.

¹²⁹ *Administrative Behaviour, Third Edition*, 79; March and Simon, *Organizations*, 169-171

¹³⁰ *Essays on Behavioral Economics*, 14.

an approach that does not so much compete with as incorporate the best features not only of rational choice ... but also of bounded rationality ... Such a course would emphasize that rationality only can be inferred over time; that particular versions make sense only in specific normative and institutional settings which are culturally and structurally thick, not just strategically lean; and that it must link the internal and external environments of persons. A historically institutionalist approach to rationality would be agnostic about whether there really are choices in all "choice" situations and would locate behavior within the rules and practices that constitute regimes. It would have to make room for culture and incorporate identities ordinarily seen as nonrational.¹³¹

Therefore, this method tends to be case specific and qualitative. To achieve the degree of methodological rigour (achieved by the behaviouralists through reliance on observable, quantifiable data and by the rational choice theorists through model building) the historical institutionalists work with small numbers of cases and employ John Stuart Mill's method of agreement and difference.¹³²

Scholars who saw "the second face of power" essentially argued that the elite-led pluralist model of democracy aptly described by the behaviouralists masked a certain unfairness. The rational choice theorists argued that issues of concern to small groups in command of substantial resources were more likely to be addressed (except during elections where the average voter somehow came to the fore): State autonomy Marxists, and others who followed this path such as Ferguson, demonstrated how such small groups could even control this activity. Meanwhile the historical institutionalists shifted the ground and argued, rather, that institutional design served to shape the goals of

¹³¹ Ira Katznelson, "The Doleful Dance of Politics and Policy: Can Historical Institutionalism Make a Difference?" *American Political Science Review*, 92, (1998), 196.

¹³² *A System of Logic: Ratiocinative and Inductive*, (London: Longmans, 1965 [1843]); see for example Theda Skocpol, *State and Social Revolution: A Comparative Analysis of France, Russia and China*, (Cambridge: Cambridge University Press, 1979), 36-37.

individuals. The historical institutionalists were offering at least an addendum (and possibly an alternative) to the theory of how people choose their preferences and which of their preferences to act upon to that which was proposed by the behavioralist model of cross-cutting cleavages or the rational choice and Marxian idea of deductively assumable interests. For example, the American people might *want* public health insurance. However, if it appears unlikely to emerge, due to the many veto points at which groups can block any proposal in America's state institutions, they won't continue to fight for it. Rather, they will *suffice* with some other arrangement, such as improvements to employment linked schemes.¹³³

Lukes offers an even more critical look at power by proposing a third face.¹³⁴ The third face view essentially argues that the most powerful actor is neither A who can get B to do what B otherwise would not do, nor A who can prevent B's concerns from reaching the public agenda, but, rather, A who can prevent B from realizing that he or she has an interest that is different from A's. Lukes' critique essentially focusses upon the issue of cultural control and the role that hegemonic interests in society play in constructing a culture that supports their rule.

Is it not the supreme and most insidious exercise of power to prevent people, to whatever degree, from having grievances by shaping their perceptions, cognitions and preferences in such a way that they accept their role in the existing order of things, either because they can see or imagine no alternative to it, or because they see it as natural and unchangeable, or because they value it as divinely ordained and beneficial? To assume that the absence of grievance equals genuine

¹³³ *The Economist*, (June 25, 1994), 27; Ellen Immergut, *Health Politics: Interests and Institutions in Western Europe*, (Cambridge: Cambridge University Press, 1992), xi-xiv.

¹³⁴ Steven Lukes, *Power: A Radical View*, (London: Macmillan, 1974).

consensus is simply to rule out the possibility of false or manipulated consensus by definitional fiat.¹³⁵

Lukes' position develops out of Gramsci's studies of the role of culture in society.¹³⁶ This understanding is in many ways at the root of both the "Civil Society Movement" and the phenomenon dubbed by American neoconservatives as the "Culture Wars". Claus Offe draws our attention to the linkage between the two, which he sees as the desire to open a space separate from the market and from the political, and in the concern for normative issues and the content of culture.¹³⁷ "This second-order conflict over the *criteria* of goodness of public policy is the key to understanding current conflicts over the proper scope and boundaries of the political."¹³⁸

While re-introducing the moral dimension into the study of politics in the idea of a good society and good behaviour,¹³⁹ some cultural theorists went further, questioning the enlightenment project of rationality and facts. They disputed that one could search for empirically demonstratable knowledge and instead argued for a more, and sometimes completely, subjective understanding of the world. This critique spawned movements such as post-modernism and critical theory. Shapiro and Wendt label such perspectives

¹³⁵ *Ibid.*, 24.

¹³⁶ Antonio Gramsci, *Selections from the Prison Notebooks of Antonio Gramsci*, ed and trans Quintin Hoare and Geoffrey Nowell-Smith, (London: Lawrence and Wishart, 1971).

¹³⁷ "Challenging the Boundaries of Institutional Politics: Social Movements Since the 1960s," in Charles S. Maier, (ed.), *Changing Boundaries of the Political: Essays on the Evolving Balance Between the State and Society, Public and Private in Europe*, (Cambridge: Cambridge University Press, 1987), 64-65.

¹³⁸ *Ibid.*, 65.

¹³⁹ See for example, Allan Bloom, *The Closing of the American Mind*, (New York: Simon & Schuster, 1987).

as "interpretivisms" and identify them as sharing a "resistance to the logical empiricist notion that theories are true insofar as they correspond to facts that exist in the world." They further note that, "this move opened the way for a shift in focus away from the relationship between language and reality toward language *as* reality."¹⁴⁰

The space opened in political dialogue by the development of rational choice analysis, state-autonomy Marxism, historical institutionalism and cultural analysis, encouraged many critics of the status quo on both the left and right, leading to both a "New Left" and a "New Right" in political science. As we have seen, at one level the debate between the contesting schools of research involved a methodological dispute. Those challenging the dominant perspective accused their opponents of either ignoring evidence because it was hard to quantify or impossible to observe. The behaviouralists responded by questioning the logical underpinnings and scientific rigour of the holistic case method as employed by state-autonomy Marxists and historical institutionalists.¹⁴¹ They also made reference to empirical evidence which called into question the utility of the "all other things being equal" economic model (employed by the rational choice theorists) to assess human activity in anything other than very narrow circumstances.¹⁴²

However the behaviouralists saved their most withering attacks for the

¹⁴⁰ Ian Shapiro and Alexander Wendt, "The Difference that Realism Makes: Social Science and the Politics of Consent," *Politics & Society*, 20, (1992), 206.

¹⁴¹ Stanley Lieberman, "Small N's and Big Conclusions: An Examination of the Reasoning in Comparative Studies Based on a Small Number of Cases," *Social Forces*, 70, (1991), 307-320.

¹⁴² Gabriel A. Almond, "Rational Choice Theory and the Social Sciences," in Kristen Renwick Monroe, (ed.), *The Economic Approach to Politics: A Critical Reassessment of the Theory of Rational Action*, (New York: Harper Collins, 1991), 49.

practitioners of approaches which rely on cultural analysis, such as postmodernists and critical theory scholars. Here they are joined by most of the researchers employing the "positivist" or "empiricist" perspectives we have discussed. Positivists recognize that any researcher's cultural and social position *might* lead to bias. Positivists also tend to accept that each individual's interpretation of his or her own actions are valid explanations, for the individual in question. However, this personal validity is not seen as evidence that generalized or aggregated theories of human action are incorrect when they differ from individual narratives. This is because there is a chance that the individual narrative is biased deliberately or through ignorance of salient facts. This stance is perhaps best described as "weak interpretivism". However, positivists cannot abide the insistence of interpretivist scholars that the social world is largely a subjective construct of each individual's own mind, lacking consistent and knowable foundations. This relativistic interpretation suggests that the world is a subjective social construct, and ominously, that researchers inevitably and unavoidably impose their bias and suppress the voice of others when they move outside of their own personal circumstances. This vantage point can perhaps be called "hard interpretivism". The scholar Edward Said makes just such a claim in his critical historiography of Asian studies.¹⁴³ While positivists are willing to accept that scientists (as individuals or even groups and whole disciplines) might oppress others either knowingly or unconsciously, they cannot countenance an argument that science (as an activity) must wholly conform to power relations, and consequently, must

¹⁴³ Edward Said, *Orientalism*, (New York: Vintage Books, 1978), 11.

oppress.¹⁴⁴

Many attempts have been made to bridge the methods impasse in political science (at least among the positivists). For example, Ragin proposes the use of boolean algebra to give rigour to small sample comparative methodologies such as employed by neo-Marxists and historical institutionalists, the rigour that proponents of behavioral research claim that it lacks.¹⁴⁵ Rueschemeyer et al. recommend a hybrid of the behavioral and historical institutionalist methods, essentially returning to Almond and Verba's dictate that behavioral research must properly situate behaviour in its historical context.¹⁴⁶ Meanwhile, Shapiro and Wendt argue for realism and the view that the question posed must indicate the most practical method, rather than letting methods dictate questions.¹⁴⁷

This author finds himself in great sympathy with those who argue for a realistic decision making process in the selection of research methods. If one can ignore the dead end of elite led pluralism, which many behavioralists marched into in the 1960s, there is much to be admired in the emphasis which the behavioralist's methodology places on the individual as the unit of analysis and in their insistence that theories about human behavior must be tested and demonstrable, rather than simply being applied in a

¹⁴⁴ See for example, Ernest Gellner, *Postmodernism, Reason and Religion*, (New York: Routledge, 1992).

¹⁴⁵ Charles C. Ragin, *The Comparative Method: Moving Beyond Qualitative and Quantitative Strategies*, (Berkeley, CA: University of California Press, 1987).

¹⁴⁶ Rueschemeyer et al., *Capitalist Development and Democracy*; Almond and Verba, *The Civic Culture*, 44.

¹⁴⁷ "The Difference that Realism Makes: Social Science and the Politics of Consent."

deductive manner. However, such a pure behavioral strategy cannot be followed in this project as it requires going backwards in time to conduct simultaneous surveys of consumer sentiment and opinions about leadership rhetoric and behaviour. The only option is to use the approach followed by many rational choice scholars of using aggregated scores for the variables that are quantifiable. However, unlike the rational choice and state-autonomy Marxist approach, this project will not assume what is rational behaviour, but rather, will attempt to rely on evidence in forming such propositions, as recommended by the historical institutionalists. While I also wish to take on board the historical institutionalist concern for the ways in which institutions can influence and shape preferences, human agency must also be given its due in this project. This concern is not just normative but is a direct result of the research question. This project is concerned with how citizens reacted to leaders, some of whom attempted to remake opinion and policy. While institutions can surely explain some of their actions, successes and failures, it can not explain how leaders come to either reach goals in spite of institutions or utterly remake their offices and other state institutions altogether. This requires human agency, which might or might not be facilitated by socio-economic conditions, as claimed by the state-autonomy Marxists.

Returning to Shapiro and Wendt's call for methodological pragmatism, Easton identifies this need to search for methods suitable for one's research question as the cause of behavioralism's decline from the dominant methodology in political science. Simply put, the issues that were of concern to the behaviouralists were not considered to be as pressing by the next cohort of researchers. This group was more concerned with creating

a more democratic, egalitarian and humane liberal capitalist democracy at the end of the 1960s than in inquiring into the causes of democratic stability and the micro-foundations of overt behaviour such as voting.¹⁴⁸ What made this call even more pressing was the impending collapse of the "post-war miracle" and the beginning of an era of economic and social crisis for the Western liberal capitalist democracies. To explore this we will now return to the topic of economic policy making.

2.4 Post-Keynesian Economics: From Galbraith to Lucas

With his *General Theory*, Keynes had produced an economic theory which justified state action to protect the interests of workers and consumers as well as those of investors. However, even though this was the general message, it is important to remember the circumstances in which he wrote--those of the Depression--for above all else, Keynes was a practical economist.¹⁴⁹ Keynes essentially argued that in such a situation, governments could safely ignore inflation and concentrate on stimulating the economy by borrowing to create income for individuals. He did not propose the creation of what has become known as the welfare state, although many argued that this idea flowed logically from his general message. The arguments justifying the welfare state that were most closely associated with Keynes' thinking were those which suggested that social

¹⁴⁸ David Easton, "The New Revolution in Political Science," *The American Political Science Review*, 63, (1969), 1051-1061.

¹⁴⁹ Harvey Simms, "What Keynes might Prescribe for our Deficit Ills," *The [Canadian] Financial Post*, (19 February, 1994), S4; Will Hutton, "Will the Real Keynes Come to Our Rescue," *Guardian Weekly*, (24 October, 1993), 21; "The Search for Keynes: Was He a Keynesian?" *The Economist*, (26 December, 1992 - 8 January, 1993), 108-110.

insurance programs which replaced income in a downturn (such as unemployment insurance and other income support schemes), could be used as a system of stabilizers if they were generous enough and universally available.¹⁵⁰ Such programs were theorized to be desirable because they were automatic, requiring no government decision to deploy them in a crisis. It was hoped that their presence could minimize the number of times when government would have to consciously intervene to stimulate the economy. Even economists generally seen as "conservative" such as Arthur Burns acknowledged their effectiveness and efficacy for a modern economy.¹⁵¹

Others argued that the *General Theory* implied much more; "that macroeconomic management requires extension into microeconomic intervention."¹⁵² Not only were crisis interventions and automatic stabilizers necessary to protect the universal interest of society, but so too were programs aimed at helping individual members of society who fall into need; in other words, the welfare state. Consequently, if Keynesian policies had more or less consigned events such as the Depression to history, they posed an entirely new set of problems, by posing the question of how to insure that each and every person enjoyed the benefits of the foretold era of prosperity.

Among the most pressing issues this debate threw up was how to avoid the build

¹⁵⁰ Donald Winch, "Keynes, Keynesianism, and State Intervention," in Peter A. Hall, (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations*, (Princeton, NJ: Princeton University Press, 1989), 107 and 109-110.

¹⁵¹ Burns was Chairman of President Eisenhower's Council of Economic Advisors and President of the American Economics Association, Robert Leeson, "The Political Economy of the Inflation-Unemployment Trade Off," *History of Political Economy*, 29, (1997), 126-128; Sheffrin, *The Making of Economic Policy*, 203.

¹⁵² Winch, "State Intervention," 124.

up of inflationary pressures if the economy is continually working at or near full capacity? Economists such as Burns argued that it could not be done and consequently it was best to see Keynesian policies as Keynes himself had seen them, capable of moderating the business cycle but not of abolishing it. The price to be paid for trying to run at full capacity, he feared, would be a form of "secular" inflation: continuous and persistent inflation, rather than inflation which periodically occurred as a response to changing events.¹⁵³ Economists such as Galbraith thought that full employment and low inflation could only simultaneously be achieved through a return to wartime style government regulation of labour markets and price controls. He was especially concerned with labour market bottlenecks and advocated the creation of a system of retraining schemes to move labour to industries where there were shortages of workers.¹⁵⁴ In fact, this structuralist approach was the route taken by the small European corporatist countries in their post-war economic policy. However, the degree of government intervention required was much smaller than Galbraith had predicted due to the previous development of centralized employer-union bargaining and voluntary corporatism.¹⁵⁵ Larger European countries, such as France and Great Britain, used controls and state enterprises more in line with those recommended by Galbraith, to achieve a similar levels of structural control in the post-war era and through to the late

¹⁵³ Leeson, "The Political Economy of the Inflation-Unemployment Trade-Off," 126-128

¹⁵⁴ *Ibid.*, 131-132.

¹⁵⁵ See Gösta Rehn, "Swedish Active Labor Market Policy: Retrospect and Prospect," *Industrial Relations*, 24, (1985), 62-89.

1970s. However, even then, they never approached the level of planning of the war years, with far more emphasis being placed on oblique authority than direct authority.¹⁵⁶ In their study of British politics, Kavanagh and Morris suggest that this growth in the role of the state--from a benevolent force trying to moderate economic cycles to an active participant--had a certain logic to it.

There was also a certain interdependence in the package of policies. Full employment would ease the demands on the welfare budget and enhance the bargaining position of the unions; provision of welfare was a means of gaining trade union acceptance of wage restraint; state intervention in the economy was important as a means of regulating demand. The ideas of Keynes and Beveridge legitimized a large public sector, state spending, state provision of welfare and active government.¹⁵⁷

Looking towards the 1960 presidential election, a third group of economists working for Democratic candidate John Kennedy (led by Robert Solow and Paul Samuelson) felt that the key for their candidate's success would be a credible policy aimed at achieving both high employment and low inflation, but without the tight government regulation proposed by Galbraith or even the less imposing models adopted in Europe. They first wanted to recommend a major economic stimulus package, but were under challenge to show that they would be as tough on inflation as Republican contender Richard Nixon would be. They found their answer to the problem in the work of A.W. Phillips who had reported an algebraic relationship between unemployment and

¹⁵⁶ Peter A. Hall, "The State and the Market," in Peter A. Hall, Jack Hayward and Howard Machin, (eds.), *Developments in French Politics*, (London: Macmillan, 1990), 171-173; Alfred F. Havinghurst, *Britain in Transition: The Twentieth Century*, (Chicago: University of Chicago Press, 1979), 375-383 and 460-462.

¹⁵⁷ Dennis Kavanagh and Peter Morris, *Consensus Politics, Second Edition: From Attlee to Major*, (Oxford: Blackwell, 1994), 7.

inflation in data from the United Kingdom, the so called Phillips Curve.¹⁵⁸ Solow and Samuelson argued that, because the curve showed how inflation was caused, it also showed how it could be controlled. Consequently a judicious government could adjust taxes and other stimulants to keep the economic performance at any chosen point of the curve.¹⁵⁹

The Kennedy economists proposed to stimulate the economy so as to produce full employment and then to keep the economy from over-inflating through the manipulation of tax policy among other levers. They believed, that as a group, they could go to politicians and have them at will alter taxes and fine tune other measures with impacts on the incomes of Americans. In any democratic political system this seems a dubious proposition. In the United States with its diffused powers and multiple veto points it seems almost ludicrous in hindsight. The Kennedy economists got a stimulus package, which involved tax cuts, but when the time came to raise taxes, they found it hard to convince politicians to follow their advice. Although they proposed that taxes should be raised again as early as 1965 (to prevent war inflation caused by spending on Vietnam) it was not until 1968 that President Johnson and Congress took their advice.¹⁶⁰ The inflationary spiral that the delay provoked led through other events to the shakeup of the entire understanding of academic economics as a public policy tool. It also signaled the

¹⁵⁸ A.W. Phillips, "Relationships between Unemployment and the Rate of Change in Money Wages Rates in the United Kingdom, 1862-1957," *Economica*, 25, (1958), 283-299.

¹⁵⁹ Leeson, "The Political Economy of the Inflation-Unemployment Trade-Off", 140-147.

¹⁶⁰ *Ibid.*, 141.

end of the post-war era and the beginning of a more turbulent time.

This example, perhaps better than any other, demonstrates the trouble that social scientists can engender when they get the ear of decision makers but fail to holistically treat the context in which the cases that they are studying are situated. The economic theory advanced by Solow and Samuelson might have been sound, all other things being equal. However, they failed to take account of political behaviour and institutional factors. Reminiscing about the problems facing policy makers at the start of the 1960s, Senator Daniel Patrick Moynihan notes that the key dilemma was finding issues that needed to be addressed rather than finding the money to address them.¹⁶¹ By the middle of the 1970s the problem would be reversed.

Perhaps the best term to describe the fate that befell the Western liberal capitalist democracies at this time is a macro-crisis. On the basic features and events of the macro-crisis there is little disagreement. The growth rates experienced by the economies of the major Western countries slowed appreciably. At the same time, changes in trade patterns and financial technology made it increasingly difficult for states to control their economies and to extract revenue from them. Finally, the expectations of citizens increased. Combined with slowing growth rates these factors led to even more inflation and also placed new, more complex and sophisticated demands on state services.¹⁶²

¹⁶¹ "The Professionalization of Reform II", *The Public Interest*, 30, (1995), 27-28.

¹⁶² Cox, Robert W., *Production, Power and World Order: Social Forces in the Making of History*, (New York: Columbia University Press 1987), 273-284; Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities*, (New Haven, CN: Yale University Press, 1982); Hans Overbeck, *Global Capitalism and National Decline: The Thatcher Decade*, (London: Unwin Hyman, 1990), 141-175; Michael

Given America's economic and political hegemony, the internationalization of economic relations (organized through trans-national corporations) as well as the role that the consumption of luxury goods had played in the post-war expansion, Marchak chose to label this macro-crisis "The Coca Cola Stall".¹⁶³

Certain finer points should be highlighted beyond the basic description given above. First, there was undoubtedly a policy component to what happened. After America's failed attempt to achieve full employment and consistently low inflation without resort to more fundamental measures aimed at affecting the structure of the economy, such as practiced in Europe and in the face of a domestic economic crisis due to the cost of the Vietnam war in combination with a mounting trade imbalance, President Nixon announced that the United States would no longer serve as the *de facto* anchor for the international monetary system. By eliminating the gold-US dollar fixed exchange rate in August 1971, and then a few months later in 1972 adopting a position that the United States government should not aggressively intervene in foreign exchange markets to defend the dollar, the United States essentially allowed the value of the dollar to float according to the world market's valuation of its worth. Because America is the most important national economy, all other currencies are valued against it. Consequently, regardless of what other national governments might have preferred, their currencies were effectively floated as well. There were undoubtedly sound reasons for

J. Piore and Charles F. Sabel, *The Second Industrial Divide: Possibilities for Prosperity*, (New York: Basic Books, 1984), 3-18.

¹⁶³ M. Patricia Marchak, *The Integrated Circus: The New Right and The Restructuring of Global Markets*, (Montreal: McGill-Queen's Press, 1991), 71-92.

this move and many economists, and foreign governments as well, cheered the news. However, when the first oil crisis hit, as a result of the Arab Embargo of 1973 and subsequent price hikes, the world was still learning to deal with the new system, and it must have added to the confusion.¹⁶⁴ As the decade progressed, things went from disturbing to worse. A new term emerged in political economy, "stagflation", meaning declining economic activity (including employment) coupled with rising inflation.¹⁶⁵

Consequently, as governments throughout the world were scrambling to deal with the popularly perceived deficiencies in their democratic condition, as demonstrated by the protests of the late 1960s and early 1970s, the election of an avowedly separatist government in Quebec in 1976 (which claimed French speaking Quebecers could never be treated fairly inside Canada) and political scandals in the United States and other countries (for example, the defence contract bribery cases in the Netherlands and Japan), they at the same time faced an economic challenge. Some dealt with both the political and economic issues better than others (or at least appeared to be dealing with them better than others). This differential led to a new focus in political science, that of explaining why some of the Western liberal capitalist democracies appeared better equipped than others to deal with change. By the early 1980s there was a body of work which argued that some countries were adapting better due to the fact that interests in society were more tightly organized than in others, and, consequently, it was possible for

¹⁶⁴ Marchak, *Integrated Circus*, 79; Michael Loriaux, *France after Hegemony: International change and Financial Reform* (Ithaca, NY: Cornell University Press, 1991), 18-34.

¹⁶⁵ James Tobin, "Inflation," in Douglas Greenwald, (ed.), *Encyclopedia of Economics*, (New York: McGraw-Hill, 1982), 518.

negotiators to strike society-wide bargains that would be honored, and also for negotiators to be more generous to their opponents, allowing for politics as peace-making. Consociationalism, consensual democracy, democratic corporatism and tripartism became hot concepts.¹⁶⁶ Other observers cautioned that these interest-bridging institutions were the result of deep seated historical, economic, and political institutional circumstances and that they would be difficult to reproduce elsewhere.¹⁶⁷ Still other observers looked principally to the design features of political institutions. They explored whether or not some institutions created a climate for efficiently ordering and dealing with demands as the key to allowing for the necessary adaptability.¹⁶⁸ Meanwhile, others explored the different ramifications of different institutions, means of organization and forms of behaviour for different groups within society as change

¹⁶⁶ See for example, Arned Lijphart, *Democracy in Plural Societies*, (New Haven, CN: Yale University Press, 1977) and Philippe C. Schmitter, "Interest Intermediation and Regime Governability in Contemporary Western Europe and North America," in Suzanne D. Berger, (ed.), *Organizing Interests in Western Europe: Pluralism, Corporatism and the Transformation of Politics*, (Cambridge: Cambridge University Press, 1981), 287-330.

¹⁶⁷ See for example, Leo Panitch, "Corporatism in Canada?" in Richard Shultz, Orest M. Kruhlak and John C. Terry, (eds.), *The Canadian Political Process, Third Edition*, (Toronto: Holt, Rinehart and Winston, 1979), 67-69 and Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe*, (Ithaca, NY: Cornell University Press, 1985), 205-211.

¹⁶⁸ See for example, Kenneth Dyson and Stephen Wilks, (eds.), *Industrial Crisis: A Comparative Study of the State and Industry*, (New York: Saint Martin's Press, 1983); Peter A. Hall, "Policy Innovation and the Structure of the State: The Politics-Administration Nexus in France and Britain," *Annals of the American Academy of Politics and Social Science*, 466, (1983), 43-59; Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, (Stanford, CA: Stanford University Press, 1982), R. Kent Weaver and Albert Rockman, *Do Institutions Matter? Government Capabilities in the United States and Abroad*, (Washington: The Brookings Institute, 1993).

occurred.¹⁶⁹

Another group of scholars, however, moved in a different direction; these authors argued that the issue was not so much a question of economic change and demands for democratic accountability being handled better by some institutions than by others, but, rather, that some countries faced an overload of demands that no set of institutions could possibly handle. Central among such scholars is Mancur Olson. Olson argues that overload is not necessarily the result of a specific historical context, but rather becomes inevitable as any political-economic regime matures. His argument is an extension of the rational choice theory of pressure groups which he developed in the 1960s. In developing his general theory he explains why America and Britain have failed to match the productivity growth achieved in other Western economies in the post war era.

Olson begins with the basic behavioralist finding that average citizens have little interest in politics, but for apathy substitutes rationality as the motive behind their lack of participation. These inactive citizens know that they can not benefit proportionally to their own inputs to politics. Therefore, interest groups, which seek the good of their members rather than that of society as a whole, dominate the political process, and, if truly successful, they can even convince individuals that their special interests benefit society as a whole. Olson finds all organized interests are to blame, but that the small oligarchic groups, such as those comprising the economic elites and large corporate lobbies, are often the worst offenders, as it is easier for them to organize. As a society

¹⁶⁹

See for example, John H. Goldthorpe, (ed.) *Order and Conflict in Contemporary Capitalism*, (Oxford: Oxford University Press, 1984) .

democratizes, more and more large membership, or popular groups, gain access to decision making sites. Such groups tend to slow decision making in the face of economic change. This is because these groups often find it hard to reach consensus, and given that only one or two issues hold them together, it is also hard for them to bargain with other groups in the way that elite groups can bargain. Hence, Germany, Japan, France and Italy, which emerged from the war with their elite interests popularly discredited (and thus to a considerable extent excluded from politics) and their popular organizations destroyed, found it easier to produce growth as they could adjust and modernize more quickly than could the countries that survived the war with their social leadership largely intact such as Britain and the United States.¹⁷⁰

The elite pluralism of the behaviouralists had argued that diversity was a strength and led to stability in Western liberal capitalist democracy, even if the voices that resulted from this diversity had to be moderated through elite representation in the political process. Competing theorists who earlier had challenged the behaviouralists, did not dispute the pluralist ideal of a democratic society, so much as they disputed the implicit claim that society as it existed in the 1960s represented it. The critics urged reformulations of the behavioralists' theories so as to identify and overcome barriers to inclusion, the better to allow society to reach the ideal. In contrast, the government overload perspective denies that diversity is a strength in politics, and instead argues for a retreat so that government will only deal with issues of universal interest. Glazer's analysis of the Reagan administration's view of the role of government highlights this.

The only beneficiary group of the past two decades that did not need to tremble was the aged. Everyone else was put on pretty clear notice--the poor, the blacks, the Hispanic Americans, the handicapped, the college students, the beneficiaries of strong environmental and consumer protection. None of these groups could be in doubt as to where the new administration, if it came to office, would stand...

This ideology was against confidence in the capacity of a central human wisdom, expressed in government, to plan for and manage the economy and to solve the problems of the poor and the unfortunates of a complex industrial society. Admittedly, no ideology can escape the reality that governments are now--and have been, since at least the Great Depression--held responsible for the general state of the economy. But this ideology, opposing Keynesian fine-tuning and "social engineering" (leave aside that no administration could escape from both--but I speak of its thrust), said it would strike out on a new course in which human wisdom as embodied in government would recognize its limitations and the arrogance involved in any central directing center dealing with the economic and social problems of a complex society.¹⁷¹

Kavanagh notes that a similar reasoning lay behind Prime Minister Thatcher's belief that the role of the British State had to be radically curtailed.¹⁷²

Yet if the government was to forgo its role as driver of the economic bus, constantly managing the accelerator and brakes, and revert to an earlier role of economic road builder, making it possible for others to drive, it would need a new theory of how the economy worked. Many observers had begun to understand the need for such a new explanation of economic phenomena, and thus the emergence of the government overload perspective made the search seem even more pressing.

One of the basic problems associated with attempts at stimulating the economy in times of economic decline has already been discussed, this being the inability to take

¹⁷¹ Nathan Glazer, *The Limits of Social Policy*, (Cambridge, MA: Harvard University Press, 1988), 36-37.

¹⁷² Kavanagh, *Thatcherism*, 12-14.

timely steps so that the stimulus will have the correct effect and encourage growth, rather than being too late, or lasting too long, and thereby encouraging inflation. By the 1970s some researchers began to report that each time a stimulus was resorted to in countries lacking strong structural controls (or quasi controls such as those created by corporatism), the stimulus seemed to take more effort, produce less employment and cost more in terms of future inflation. By the end of the 1970s, the combination of increasing trade internationalization and freer foreign exchange markets also acted to reduce the effectiveness that even those countries with strong structural controls could achieve when they employed Keynesian type stimulation,¹⁷³ generalizing the situation noted above. Allowing excess oil costs to inflate away and the using of monetary policy to revive growth did not produced any permanent gains in employment in the 1970s, only higher inflation.¹⁷⁴ Just as the government overload thesis seemed to recommend a retreat of the state, so did the economic dilemma of stagflation. What was still required, however, was an economic theory which could explain why ignoring the interests of the largest number in the short term and privileging the holders of capital would in the long run produce a universal good.

Such a theory was provided by Robert E. Lucas and for it he would later win a Nobel Prize. Lucas's research began with the problem of the Phillips curve. His basic

¹⁷³ Wolfgang Streeck and Phillippe C. Schmitter, "From National Corporatism to Transnational Pluralism: Organized Interests in the Single European Market," in Wolfgang Streeck (ed.), *Social Institutions and Economic Performance: Industrial Relations in Advanced Capitalist Economies*, (London: Sage, 1992).

¹⁷⁴ David Smith, *From Boom to Bust: Trial and Error in British Economic Policy*, (London: Penguin, 1992), 11; Lars E. O. Svensson, "The Scientific Contributions of Robert E. Lucas jr.," *Scandinavian Journal of Economics*, 98, (1996), 5.

insight was that investors were not just rational in the present, but in their anticipation of the future as well. By incorporating a prediction function into the previous models he was able to explain the tendency for the Phillips curve to shift,¹⁷⁵ and in so doing he created a "rational expectations" revolution in economics.¹⁷⁶

The rational expectations hypothesis is best described as the consistent application of the hypothesis of rational behavior to individuals' and firms' behavior in genuinely dynamic situations, with uncertainty about the future, imperfect information and costly information gathering. The hypothesis does not imply that all agents have the same information, or that all agents know the "true" economic model; it simply means that agents use available information in the best way and collect further information only if the expected benefits exceed the cost.¹⁷⁷

He would later apply this insight to create a model of economic behaviour which took into account an expectation of economic conditions created by on going evaluations of government economic policy. He essentially argued that individuals evaluate the future performance of government based on its immediate and past behavior as well as its pronounced dispositions. An investor who expects a government to allow inflation in the future, because it advocates using inflation to stimulate employment, will demand a higher interest rate to compensate for this potential risk. Consequently, in every cycle the price that investors will demand for the use of their money will go up, until stagflation eventually occurs. In other words, Lucas suggested that the choice in the 1970s was not between different proportions of inflation and employment (as predicted

¹⁷⁵ Robert E. Lucas, "Expectations and the Neutrality of Money," *Journal of Economic Theory*, 4, (1972), 103-124.

¹⁷⁶ Stanley Fischer, "Robert Lucas's Nobel Memorial Prize," *Scandinavian Journal of Economics*, 98, (1996), 11.

¹⁷⁷ Svensson, "The Scientific Contributions of Robert E. Lucas, Jr.," 2-3.

by the Phillips curve) but between unemployment with high inflation or with low inflation.¹⁷⁸ Lucas's main policy finding was "that economists do not have the expertise to give policy advice beyond that implied by the most general economic principles, which should be embodied in stable policy rules."¹⁷⁹ In other words, trying to manage the economy through state intervention is generally a waste of time and resources. Even trying to improve the economy by reducing state intervention might be a futile exercise, as rational private actors will perhaps take actions to counter any benefit that might be produced. Such a course, however, is at least less wasteful of public resources. Thurrow describes the rational expectations position as follows:

The Rational-expectationist path leads us to be extremely pessimistic about our ability to do anything. For the latter school, government intervention might be desired because society would like to alleviate economic pain, but intervention is not useful, since it cannot cure the pain even if implemented. In other words, there are real economic problems, but there are no economic solutions. The government cannot do anything to help the economy because the economy is already doing as well as it can. Resign yourself to the fact that the best possible performance may be a rather poor performance.¹⁸⁰

It is important to stop here and point out what Lucas showed and what he did not. It is perhaps easiest to explain this by comparing his work with that of the behavioral economists. By directly measuring consumer opinions via surveys, Katona concluded that under different circumstances consumers interpret their objective economic positions

¹⁷⁸ Robert E. Lucas, "Econometric Policy Evaluation: A Critique," in K. Brunner and A. Meltzer, (eds.), *The Phillips Curve and Labor Markets*, (Amsterdam: North-Holland, 1975).

¹⁷⁹ Fischer, "Robert Lucas's Nobel Memorial Prize," 22.

¹⁸⁰ Lester C. Thurow, *Dangerous Currents: The State of Economics*, (New York: Random House, 1983), 143-144.

differently.¹⁸¹ In contrast, Lucas created a general model of behaviour (for all actors), irrespective of any circumstances other than those specified in his model, to explain how actors should interpret their circumstances if they are rational (defined as wishing to maximize their economic interests) under all circumstances. Its power, as with Keynes's work, was in its heuristic value. As with Keynes, Lucas offered a clear explanation of what was happening that corresponded to some of the already deduced theories of economics and built further on them.

Rational-expectations economists did not theorize that reducing the economic role of the state, or refusing to take counter-cyclical actions would benefit the economy (in fact they find it hard to accept that *any* policy can have *any* benefits).¹⁸² However, Lucas's conclusion that Keynesian intervention and welfare state policies could have no long term benefits provided justification for a policy change that many decision makers already felt was necessary. For the previous four decades, decisions to create an expansive welfare state were taken on the basis of Keynes work, even if, as was noted previously, Keynes had never directly advocated this. Now decisions to advocate a reversal of course would be made based on Lucas's work, even if Lucas did not directly recommend this. Based on their recent experiences, many policy makers felt they were pouring money down the drain when they tried to follow Keynesian policy recommendations. Declining economic growth rates, and the internationalization of finances was making it harder to raise revenue and appeared to point to the need to make

¹⁸¹ Katona, *The Powerful Consumer*, 150.

¹⁸² Thurrow describes rational-expectations economists as "nihilistic", in that they tend to believe that "nothing affects nothing," *Dangerous Currents*, 155.

spending cuts. The stage was already set for a change in policy direction. Lucas's work simply made such policies more justifiable from a theoretical standpoint.

2.5 Conclusions

As the 1970s turned into the 1980s there was an emerging theory of politics based on rational choice theory which suggested the state was over-generous and that its activities had been over-extended. Meanwhile, economics had produced a persuasive theory which showed why retrenching the state, limiting its activities and denying some interests, was economically sound policy. The link between universal interest and assisting those in need created by Keynesian economic theory had, in turn, been shattered as thoroughly by Lucas's work as Keynes's had shattered *laissez faire*. Historically it announced another power shift in the political economy of the Western capitalist liberal democracies: those controlling capital once again had their interests validated as being more significant than those of all others in society. With policy in disarray, decision makers began to move away from attempts at stimulation, and intervention in general, and began seeking ways to reduce the over-burdening of the state that had been described by authors such as Olson. To a certain degree, advocates from both the left and the right accept both these decisions as necessary and have worked out their own reasons for doing so. Jessop has described the resulting transition as moving from the "Keynesian Welfare State" which serves to protect democratic society from the vagaries of liberal capitalism to a "Schumpeterian Workfare State" which seeks to protect capitalism from the vagaries of

liberal democracy.¹⁸³

Writing about the previous revolution in economics, Will Hutton had the following to say about Keynes and his work and what Keynes would have done to confront the apparent economic malaise of the early 1990s.¹⁸⁴

Internationally, Keynes would want to regulate the capital markets and find a way to make the European exchange rate mechanism work; he would be travelling around the world trying to marshal support for the former Soviet Union and Eastern Europe.

...Keynes being Keynes he would have access to Bill Clinton, [Japanese Prime Minister] Hosokawa and Yeltsin. His books and pamphlets would sell world-wide.

But we do not have such a man--nor is one on the horizon. Yet the least we can do is to understand what he stood for and why. Part of his effectiveness was that he was able to terrorise the establishment with the prospect of communism as the consequence of not following his recommendations; but that terror has gone. Until our elite can be frightened, it will cling on to its destructive nostrums. But from where is that fear to come?¹⁸⁵

In this chapter I have tried to suggest that in part Hutton is correct. The balance of power has shifted so that those who control capital have regained a substantial degree of the power that they lost to popular forces in the Depression and during the post-war reconstruction. However, as to the non-emergence of a new Keynes, he is wrong. One

¹⁸³ Bob Jessop, "Towards a Schumpeterian Workfare State? Preliminary Remarks on Post-Fordist Political Economy," *Studies in Political Economy*, 40, (1993), 7-39. See also Daniel Cohn, "Creating Crises and Avoiding Blame: The Politics of Public Service Reform and the New Public Management in Great Britain and the United States," *Administration and Society*, 29, (1997), 584-616.

¹⁸⁴ Incidentally, the industry of speculating as to "what Keynes would do today," appears itself to have a business cycle, expanding and contracting in inverse relationship with the state of the economy.

¹⁸⁵ Will Hutton, "Will the Real Keynes Come to Our Rescue?" 21.

has arrived. Yet Hutton and many other progressives do not like his message because it tends to justify the transference of power. As does Hutton, one wonders what possible threat could emerge to shake the confidence of political leaders that they can ignore popular and moral demands to use state power to address the concerns of those who lack control over capital. Such a question cannot be answered completely because just as stagflation required more than one cause, so such a future crisis will be the result of complex conjunctural causality. However, the present research is very much aimed at explaining one potential source of such an eventual crisis, the undermining of confidence in the state's capacity to moderate the economic climate.

Turning to the topic of methodologies, the above concurrence seemed to herald the triumph of the economic model of analysis and of formal model building as the dominant trends in political science, not because it was necessarily a better way to the truth, but because it appeared to offer a better way to attack the problem in question. However, this methodology is based on assumptions about how people should act, rather than on observations of how they do behave when considering their political and economic options. In other words it lacks a base in observed behavior. Specifically, it is based on a return to the assumption that a narrow and aggressive economic rationality drives all individuals. Second, it generally lacks a perspective on how institutions can reorder and reshape, and in fact, change what people deem to be rational. The next chapter will review the literature dealing with economics as an issue in electoral politics and the impact of economics on personal choices, using it to try to fill in these blanks. This will allow us to see whether this line of thinking confirms or detracts from the

conclusions of the authors who employ the mathematical model building approach.

Chapter 3: The Welfare State and the Political Economy of Confidence

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3.1 Introduction

In the previous chapter an attempt was made to situate this project within the general history of liberal capitalist democracy and economic policy making as well as within the study of these two topics. In this chapter a more narrow focus will be taken. Specifically, in the first section of the chapter consideration will be given to the literature dealing with the popularity of the welfare state, different welfare state programs and the problems individual citizens face when trying to establish the efficacy and effectiveness of different welfare services and programs. The second part of the chapter explores the literature which deals with the impact of political variables on the economic confidence of citizens.

The first section points to three ideas: that public opinion is mixed over the welfare state, with publics offering more support to programs that seem to benefit either everyone or those persons who deserve support, often not even seeing these projects as "welfare". The second fact is that the services most valued by the public are those that are either described by the "insurance" metaphor or which provide future opportunity (such as education) rather than entitlements and those services described by the "charity" metaphor. Finally, as in most "insurance" industries, the public likely relies quite heavily on their "agents" for expert advice. In this case the role of agent is filled by political leaders.

In the second section consideration will be given to the literature on the relationship between the perceptions that individuals hold about the economy and about politics. This literature can be divided into two segments: those works which seek to

identify the way that the individual's perceptions and expectations about the economy influences political preferences and those works which seek to identify the way in which politics influence perceptions and expectations about the economy. While it is clear that the latter section of the literature is of more immediate salience to this project than the former, it is still necessary to consider the role that economic opinions play in shaping political preferences as this literature contains important evidence about how individual understandings of the status and future of the economy are shaped. One particular point that resonates throughout this literature is that objective economic conditions (for example, growth in gross domestic product or the unemployment rate) only partially explain the opinions which individual citizens hold about the economy.¹ Consequently, it is necessary to consider the role which non-economic variables play in shaping these opinions, as this thesis seeks to do.

3.2 Public Opinion and the Welfare State

One of the most characteristic *clichés* heard both from neoconservative pundits and political leaders alike, is that the public has turned against the welfare state. No less of an authority than the Speaker of America's House of Representatives assures us that this

¹ Michael B. MacKuen, Robert S. Erikson and James A. Stimson, "Peasants or Bankers? The American Electorate and the U.S. Economy," *American Political Science Review*, 86, (1992), 600-602; David Sanders, David Marsh and Hugh Ward, "The Electoral Impact of Press Coverage of the British Economy, 1979-87," *British Journal of Political Science*, 23, (1993), 206-209; Brandon Haller and Helmut Norpoth, "Let the Good Times Roll: The Economic Expectations of U.S. Voters," *American Journal of Political Science*, 38, (1994), 644-648; Harold D. Clarke, Jonathan Rapkin and Marianne C. Stewart, "A President Out of Work: A Note on the Political Economy of Presidential Approval in the Bush Years," *British Journal of Political Science*, 24, (1994), 535-561.

is the case.

My optimism [regarding America's future] is based on the simple belief that we have seen enough of the decay and failure of the welfare state to be ready to restore our historic principles. Older Americans who grew up with the certainty and convictions of World War II and the Cold War are eager for a rebirth of American values. Baby boomers who grew up with the counterculture are now sober and mature enough to see that many of its principles simply don't work. Younger Americans from Generation X on down--know from personal experience that a culture of violence, ignorance, and government debt poses a severe threat to their future. When more people below the age of thirty believe in UFOs than believe that their Social Security pensions will be waiting for them when they retire, you know we are ready for a change in course.²

As with most of these pronouncements, the Speaker's words leave us questioning what precisely he means by the term welfare state? For example, if the young have had enough of the "decay" wrought by the welfare state why should they expect a pension from it? Academics, such as Wilensky, define the welfare state as; "government protected minimum standards of income, nutrition, health, housing, and education, assured to every citizen as a political right, not as charity."³ The Speaker creates the impression that for him--and other neoconservative commentators--the term has been reduced to a shorthand for anything they dislike in society:

"No civilization can survive for long with twelve-year-olds having babies, fifteen-year-olds killing one another, seventeen-year-olds dying of AIDS, and eighteen-year-olds-getting diplomas they can't read. Yet every night on the local news, you and I watch the welfare state undermining our society. The vast majority of Americans (96 percent by one recent poll) is ready to admit that the welfare state has failed. They have lost faith that government can improve the lot of the poor and want their children educated in core American values. We simply must

² Newt Gingrich, *To Renew America*, (New York: Harper Collins, 1995), 5-6.

³ Harold, L. Wilensky, *The Welfare State and Equality*, (Berkeley, CA: University of California Press, 1975), 1.

abandon the welfare state and move to an opportunity society."⁴

The Speaker continues to explain how restoring America's fiscal rectitude will save Medicare and Social Security (programs which academics generally see as cornerstones of the American welfare state).

We must be honest about the cost of government programs and balance the federal budget. Medicare will be in serious financial trouble by 1996 and will start going bankrupt by 2002. If the federal budget remains in deficit, the Treasury will not be able to repay the notes in the Social Security Trust Fund and the baby boomers will see their retirement pensions evaporate... If you are a senior citizen, you need fiscal honesty so we can save Medicare. If you are a baby boomer, you need fiscal honesty so you can have Social Security when you retire.⁵

In short, the Speaker uses the need to save Medicare and Social Security as his justification for balancing America's books. Even though academics generally consider Medicare and Social Security to be two of the cornerstones of the American welfare state, it seems that the Speaker does not include these programs in his conception of the term. This liberty with the use of the term "welfare state" is at the root of one of the great puzzles of public opinion: if people are so opposed to the welfare state, why is it so difficult to retrench it? The answer is that people do not see the welfare state as a single program or project but as a basket of services and programs that are, at best, only loosely related. In other words, although the term welfare state has meaning in the discussions of academics and the rhetoric of politicians, it is not a term which figures in the thoughts of other citizens. Second, people seem to have more sympathy for "those

⁴ Gingrich, *To Renew America*, 8-9.

⁵ *Ibid.*, 9-10.

in need" than for programs designed to help "those in need".⁶

3.2.1 Who Loves the Welfare State? Evidence from Great Britain and the United States

This contradiction, which has been illustrated above, was explored in two major studies by Taylor-Gooby (in Great Britain) and by Gold (in the United States).⁷ Taylor-Gooby's study starts by reviewing the literature concerning a "crisis in the welfare state" which has been accumulating since the mid-1970s. From here he sets out to demonstrate that the problems in the welfare state stem from a basic contradiction in capitalism; it is necessary to make some provisions for market failure, yet to do so, runs against the grain of capitalist thinking. He argues that this contradiction leads to public ambivalence with regard to the welfare state. People see the need for the welfare state, especially when it is embodied in programs that they themselves benefit from (in that these programs are superior to possible market provision on a cost/benefit basis). However, they cannot completely accept the idea of social provision as absolute, especially when they see benefits going to people whom they believe to be "undeserving" or slackers.⁸

- The strong popular support for the heartland of the welfare state, the big-spending mass services which are highly favoured across the population, is readily related to the consistent mass commodity interest in the provision of those services. Just as generalized attitudinal support for the welfare state as a whole relates more

⁶ Elim Papadakis, "Public Opinion, Public Policy and the Welfare State", *Political Studies*, 40, (1992), 27-28.

⁷ Peter Taylor-Gooby, *Public Opinion, Ideology and State Welfare*, (London: Routledge & Kegan Paul, 1985); Howard J. Gold, *Hollow Mandates: American Public Opinion and the Conservative Shift*, (Boulder, CO: Westview Press, 1992).

⁸ Taylor-Gooby, *Public Opinion, Ideology and State Welfare*, 51-52.

strongly to ideas about value for money... so judgments about favoured services relate to ideas about need. This pattern contrasts with the minority unfavoured services which people are less likely to need and less likely to be prepared to pay taxes to support. In general, support for the welfare state is a matter of self-interest defined by the dominant ideology of a society in which desired goods are bought and sold.⁹

One of his most important findings is that this ambivalence is well entrenched and has changed very little over time. He argues that it was codified in Britain's welfare programs by a division of benefits into universal programs and means tested ones. Neoconservative politicians in Great Britain neither capitalized on a change of opinion in this area, nor did they lead one.¹⁰

Gold identifies a similar pattern of beliefs in the United States. Taking a broader perspective, Gold investigates the foundations for the success of American politicians employing what he describes as New Conservative rhetoric and advocating New Conservative policy. Specifically, he is interested in exploring whether or not "the shift to the right" among America's political leaders (in both major parties) was a response to a popular shift in beliefs.¹¹ In conducting this exploration he focuses on shifts in public opinion regarding the four themes which he sees as central to the New Conservative critique of the post-War order. These themes are the role of government, social welfare, race relations and socio-cultural issues.¹²

In his analysis he finds little evidence to support the idea that Americans have

⁹ *Ibid.*, 113.

¹⁰ *Ibid.*, 93-94,

¹¹ *Hollow Mandates*, 8, 70.

¹² *Ibid.*, 12-21.

become more conservative. In order to avoid the criticism that the disproportionate degree to which African-Americans hold left-of-centre values and views is swaying his results, Gold chooses to test his argument by looking solely at data collected from Americans of European ancestry.¹³ The only area he found support for the idea of a more conservative tenor in public opinion was in the area of criminal policy. Here American attitudes seemed to clearly harden on the right of the ideological spectrum. In other areas, the attitudes which Americans held at the start of the 1970s, they continued to hold throughout the Reagan presidency. This includes white American opinion on the welfare state.¹⁴

In fact, white American opinions actually began moving back to the left during the Reagan presidency as a wave of resistance emerged to his policies. This can be seen most clearly in white American attitudes to the least liked of all programs, Aid to Families with Dependent Children, popularly called "welfare" in America. In 1980 only 11 percent of Americans felt that more should be spent on welfare, by 1988 this figure had nearly doubled to 21 percent. Similarly, in 1980 when the newly elected President Reagan promised to get government off of America's back, only 21 percent of white Americans felt that "government was not too powerful," by 1984 this had climbed to 40 percent.¹⁵ A similar reaction in the wake of Margaret Thatcher's attempts to restrain

¹³ *Ibid.*, 99.

¹⁴ *Ibid.*, 73-89.

¹⁵ *Ibid.*, 87-88; For all Americans the percentage in favour of more spending on welfare reached 38 percent in 1990. Terry J. Royed and Stephen A. Borrelli, "Political Parties and Public Policy: Social Welfare Policy from Carter to Bush," *Polity*, 29, (1997), 547.

social spending can be seen in Great Britain, as demonstrated by the following figures from Britain's national post-election surveys show.

Table 3.2.1 British National Election Study: Government Expenditure to Get Rid of Poverty

	Oct 74	1979	1984	1987	1992
Should be done	87.0	83.5	85.7	87.9	92.8
Does not matter	6.4	7.9	3.1	4.6	2.4
Should not be done	6.6	8.6	11.2	7.5	4.8
Total	100.0	100.0	100.0	100.0	100.0
N. of Respondents	2228	1775	3704	3711	2809

Table 3.2.2 British National Election Study: Welfare Benefits Have...

	Oct 74	1979	1984	1987	1992
Gone too far	34.0	50.1	19.5	24.8	16.6
Are about right	43.1	32.9	51.1	40.3	37.5
Not gone far enough	23.0	17.0	29.4	34.9	45.9
Total	100.0	100.0	100.0	100.0	100.0
N. of Respondents	2209	1812	3753	3643	2672

(Source: Ivor Crewe, Neil Day and Anthony Fox, *The British Electorate, 1963-1992: A Compendium of Data from the British Election Studies*, [Cambridge, UK: Cambridge University Press, 1995], 379)

As an aside, in Canada support for spending on social programs to assist the poor remained consistent, and much stronger than in the United States throughout the 1980s. Support for insurance type programs (pensions and health insurance) as well as spending

on education also remained at previous high levels.¹⁶ Moving into the 1990s, support for all state intervention slackened among the Canadian elites in the 1990s. However, such support remained strong among other Canadians.¹⁷ Interestingly, although there was an increase in the number of Canadians who thought that welfare (sic. social assistance) spending was too high between the late 1980s and mid-1990s, public opinion remained fairly stable as to the necessity of welfare. The percentage which agreed with the statement; "most people who receive money from welfare could get along without it if they really tried", dropped from 35 percent to 20 percent. Those disagreeing with the statement totally remained at 35 percent and the percentage which felt that some recipients might be able to get by, but others really need help, increased from 26 percent to 40 percent.¹⁸ Therefore, it would seem that while Canadians might have felt social spending was too high, they were not necessarily any more willing than in the past to blame the recipients for this situation.

So then, how does Gold explain the success of American politicians employing new conservative rhetoric and policy preferences? He argues that the neoconservatives succeed in spite of their ideology, not because of it. Ronald Reagan and other Republican leaders gave the impression of knowing what they were doing during the 1980s--the impression of having a coherent plan that lacked the contradictory nature of

¹⁶ Robert Y. Shapiro and John T. Young, "Public Opinion and the Welfare State: The United States in Comparative Perspective," *Political Science Quarterly*, 104, (1989), 59-89.

¹⁷ *Globe and Mail*, (25 February, 1995) A1-A6.

¹⁸ Gallup Canada Inc. *The Gallup Poll*, (Toronto: Gallup Canada Inc., 31 March, 1994), 4.

the Democratic party's policies. Instead of offering an alternate plan, the Democrats (beginning with President Carter) foundered and left the leadership field clear to the neoconservatives in the Republican party. The result was a "defacto" conservatism, not a conservatism of beliefs.¹⁹ This defacto conservatism creates an apparent ambivalence toward the welfare state which is similar to that identified earlier by Taylor-Gooby in Great Britain: ardent support for the programs that voters can clearly see self-interest in and a more luke-warm reaction to other programs. Americans did not adopt a more conservative view point nor did they turn against the welfare state (if anything their support for it grew, even for its least loved programs), but they did accept a conservative blue-print as the only feasible one in the 1980s, in part because there was no credible alternative plan on offer.

Further support for this interpretation is offered by a 1994 survey of public opinion which was commissioned by five major non-partisan American research centres and was jointly executed by two different polling firms (one Democrat affiliated and the other Republican). The survey showed that while many Americans accept the right's critique of the income support programs such as Aid to Families with Dependent Children, they do not accept its solutions. If anything, the American people would favour spending more on "welfare" if spending more would lead to helping people off the poor rolls. Especially popular are services such as publicly provided daycare, which are seen as making it easier for single parents to hold jobs.²⁰ In other words, they

¹⁹ Gold, *Hollow Mandates*, 109-110.

²⁰ Geoffrey Garin, Guy Molyneux and Linda DiVall, "Public Attitudes Toward Welfare Reform," *Social Policy*, (Winter, 1994), 44-49.

wished to see AFDC transformed from an entitlement to a form of rehabilitation insurance, moving people temporarily unable to work back into work. This ambivalence, when combined with the difference in support for different programs, creates a complex nexus of public opinion. This complexity is increased even further in the United States where racism also appears to play a role in shaping public support for the different programs.²¹

Both Taylor-Gooby and Gold argue that support for the welfare state is a matter of self-interest. Taylor-Gooby argues for a direct linkage between self-interest and support for the welfare state. Gold, however, sees the linkage as being indirect. While Americans wanted a more active government they acquiesced in accepting Reagan because there appeared to be no viable alternatives on offer. Further, the pattern of support for different programs in the American welfare state parallels the self-interest identified by Taylor-Gooby in Great Britain. In both countries it is the programs identified as insurance schemes and as promoting self-reliance (such as education) rather than as entitlements, which are the most widely popular. Further, we have seen evidence that even the least liked programs have the potential to become more popular if they appeared to be more like insurance, serving to repair and rehabilitate.

The insurance metaphor has been at the core of conceptions of the welfare state since its very beginnings. When Bismarck created the first nation-wide contributory schemes for social protection in the 1880s they were social insurance schemes. One of

²¹ Martin Gilens, "Racial Attitudes and Opposition to Welfare," *Journal of Politics*, 57, (1995), 994-1014 and "'Race Coding' and White Opposition to Welfare," *American Political Science Review*, 90, (1996), 593-604.

his aims was to differentiate the worker who fell into poverty from the "unworthy" poor, by offering superior benefits to the former when they were out of work.²² Similarly in Britain, the study which launched the post-war expansion of the welfare state was officially titled *Social Insurance and Allied Services*.²³ Likewise in Canada, the personal identification number issued to all those who are gainfully employed, and by which records for taxation and federal welfare state benefits are maintained, is referred to as a "Social Insurance Number". Lately, the refocussing on the welfare state as a form of insurance has had a profound effect on the study of social programs and has re-invigorated the rational choice approach to the study of the welfare state.

3.2.2 Rational Choice and the Welfare State as Insurance

Within rational choice literature a debate has been waging for several years as to whether or not welfare state programs should be viewed as the result of altruism or as a system of self-interested benefits. The most common approach is to explain welfare state programs as a form of "rent-seeking" among beneficiaries of these programs and the public service. However, public support for the idea of helping those in need, if not actual programs (which was noted above), has led others to argue for a more altruistic

²² Sven E. Olsson, Hans Hansen and Ingemar Eriksson, *Social Security in Sweden and Other European Countries--Three Essays* (Ds 1993:51), (Stockholm: The Ministry of Finance in cooperation with Allmänna Förlaget, 1993), 16-19.

²³ The report's popular name, derived from that of its principal author is: *The Beveridge Report*.

or solidaristic understanding of support for welfare state programs.²⁴

Overbye finds serious problems with both approaches. He points out that the advocates of self-interest are essentially arguing that among the most powerful constituencies in the Western democracies are the dispossessed, disabled, elderly and unemployed. Some rational choice scholars have tried to address this problem by arguing that the real actors in the expansion of the welfare state have not been those in need but the bureaucrats who have built lucrative roles for themselves via the construction of the welfare state. But Overbye also finds this unconvincing, as it raises the question as to why welfare state bureaucrats have been more successful at pushing the expansion of their programs than bureaucrats in other issue areas.²⁵

Overbye sees equally troubling problems with the altruist perspective. For example, if we are altruistic, why do we seem to differentiate as to degrees of need and to favour helping some more than others (for example, the aged over the unemployed). Second, he correctly points out that it is hard to argue that tolerance of compulsory taxation (on which the welfare state rests) is altruistic rather than sufficing behaviour.

²⁴ Einar Overbye, "Explaining Welfare Spending", *Public Choice*, 83, (1995), 315-317. On the side of rent seeking see, William Niskanen, *Bureaucracy and Representative Government*, (Chicago: Aldine, 1971), Gordon Tullock, *Economics of Income Redistribution*, (Boston: Kluwer Nijhoff, 1983), Gary Cox and Matthew McCubbins, "Electoral Politics as a Redistributive Game," *Journal of Politics*, 48, (1996), 370-389. On the side of altruism see, Gary Becker, "A Theory of Social Interaction," in Gary Becker, (ed.), *The Economic Approach to Human Behavior*, (Chicago: University of Chicago Press, 1976), G. Brennan and L. Lomasky, *Democracy and Decision: The Pure Theory of Electoral Preference*, (Cambridge: Cambridge University Press, 1993), Avinash Dixit and John Londregan, "Ideology, Tactics, and Efficiency in Redistributive Politics," (Princeton Economics Department, Unpublished, August, 1997).

²⁵ "Explaining Welfare Spending," 314-315.

It is simply easier to pay than to fight. Another approach is to argue that it is the political elite which is altruistic rather than the masses. However, if this is the case, should not non-altruists find it easy to topple them at election-time? Finally, Overbye asks whether it is feasible to argue that the rapid post-War growth of the welfare state is the result of societies becoming more altruistic through the course of this century.²⁶

Overbye suggests that the crux of the problem lies in the fact that those arguing for a self-interested understanding of why we, as individuals, support the welfare state, as well as those arguing for an altruistic understanding, both appear wedded to the idea that the welfare state policies are redistributive. Following Mueller,²⁷ Overbye instead argues for consideration of the welfare state as a system of insurance, rather than as a system of redistribution.

Mueller's observation provides the starting point for my argument. Rather than to regard welfare expenditure as the policy outcomes of *redistributional* demands (be they self-oriented or other-oriented), I shall argue that welfare expenditures may be regarded as stemming from *insurance* demands among various *risk categories* in the electorate, bent at satisfying their demand for insurance in a situation in which various types of *market failures* may prevent them from obtaining insurance through private channels, plus an interest on behalf of higher-risk groups with regard to various social risk in *shifting their insurance costs* towards lower-risk groups.²⁸

Overbye's two innovations are to include the idea of risk aversion in his model and the idea that there are multiple risk categories and insurance needs which can only be met if public law compels all to insure through the state, as markets cannot value or

²⁶ *Ibid.*, 315-316.

²⁷ Dennis Mueller, *Public Choice II*, (Cambridge: Cambridge University Press, 1989), 449.

²⁸ *Ibid.*, 317.

cope with the possible interdependency of welfare risks.²⁹ We have already dealt with risk aversion earlier in this thesis. This is the idea that most people fear the risks of losses far more than they value the possibilities of gains, only preferring to accept the risk of losses in pursuit of gain when a loss is guaranteed even if no attempt at gain is made.³⁰ As a result Overbye concludes that "perhaps safety (bringing risks under control) rather than redistribution is the major (implicit) goal of the voters of the 'welfare state'."³¹ In these circumstances, support for the welfare state is more understandable. The median voter is risk-averse, this leads him/her to value insurance more than the benefits its purchase causes said median voter to forgo. Second, the possibility of market failure, given the complexity of the risks being insured against, leads them to favour public insurance even though this implies accepting the need to finance the risks of those in higher risk groups. The differing generosity of various programs is explained, according to Overbye, by the degree to which risk is "normally distributed" in each category of need. For example, we will all get old and will all likely get sick sometimes. Most of us will have children who will need educating. But fewer of us will need unemployment insurance, and then some are more likely to be unemployed than are others. Overbye argues that when we can foresee need of a program with near certainty, the greater the role rent-seeking plays in our support for the program. Because we will all get old, old age insurance is not insurance at all, it's a risk-free bet. However, when

²⁹ *Ibid.*, 318-321.

³⁰ Amos Treversky and Daniel Kahneman, "The Framing of Decisions and the Psychology of Choices," in Jon Elster, (ed.), *Rational Choice*, (New York: New York University Press, 1986), 123-141

³¹ Overbye, "Explaining Welfare Spending," 318.

it is a matter of probability as to whether or not we will need the services in question, the greater the influence of risk-aversion in determining the level of provision which each individual will support. For example, some people do become unemployed and loss of income is a serious problem. However, not everyone is as likely to become unemployed and even among people who are equally likely to become unemployed, the thought of losing income will trouble some more than others.³²

The major problem with Overbye's essay is simply that he presents little in the way of evidence, referring to the work as "exploratory". However, the article still presents us with a powerful reconciliation of how self-interest and altruism can coexist in the motives of individuals in making decisions about the welfare state. If the low risk individuals accept the need to pay for the higher risk individuals in order to keep the unified public system of provision intact, this is because their goal is personal safety, not value for money. Altruism is a by-product of this need.

In an earlier article, which also deals with the welfare state as a system of insurance, Dryzek and Goodin also develop this idea, that the welfare state is a product of uncertainty and a desire to insure against incalculable risks. However, whereas Overbye looks at the uncertainty that is natural in everyday life, Dryzek and Goodin point to a larger notion of uncertainty, this being the future nature of society. They emphasize the sheer uncertainty of risks as a causal factor explaining the genesis of the post-war welfare state.³³ They suggest that the welfare state was a child of the

³² *Ibid.*, 322-324.

³³ John Dryzek and Robert E. Goodin, "Risk-Sharing and Social Justice: The Motivational Foundations of the Post-War Welfare State," *British Journal of Political Science*, 16, (1986), 7.

uncertain times. "Our thesis, then, is that the pervasive uncertainty of wartime led to new popular demand for risk-spreading and broke down old barriers to it and that this provided a powerful (if only a partial) explanation for the dramatic post-war upsurge in welfare states."³⁴ They test this idea by considering the changing composition of public spending in the years before and after the war and the degree to which universal programs acquired their share of public spending in this period. However, the authors limit their idea of "gross uncertainty" to the narrow period of the later war years and the years immediately following the war (up to 1950). They suggest that this is reflected in the declining role of universalism in British welfare state programs as one moves further away from the war years. "The wartime consensus, as reflected in Beveridge, was a product of the very special circumstances of the war. One would not expect it to persist with full force long into the post-war period."³⁵ What is interesting, and missing from their study, is an analysis of which programs remained universal and whether or not this is related to the uncertainty that surrounds needs for these services. Second, there appears to be no particular reason why other periods of profound crisis, such as the profound economic dislocation of the 1970s could not cause further bouts of gross uncertainty.

Milner has also dealt with the welfare state as a system of insurance, rather than as a system of distribution. His specific concern is the Social Democratic Welfare State (SDWS), as typified by the Swedish welfare state. He defines the SDWS as "a modern

³⁴ *Ibid.*, 11.

³⁵ *Ibid.*, 21.

industrial society characterized by democratic institutional arrangements leading to relatively egalitarian outcomes."³⁶ Milner asks what conditions would have to pertain so as to make it rational for the individual to favour such a system of public programs. What he is looking for are the micro-foundations of the SDWS and he searches for them in the macro-institutions of society. He argues that social-democratic corporatism created the necessary levels of trust and reliability to allow Scandinavians to choose to act as a society and create the SDWS.³⁷ This idea, that there has to be a feasibility to plans for social welfare, re-enforces some of Gold's findings. It will be recalled that Gold has argued that the American people chose Reagan, not because they liked his program, but because, at the time, it appeared the only viable program on offer. In other words, it was the better of two bad choices.³⁸

These three selections from the rational choice literature offer a valuable list of considerations that must be taken into account in any explanation as to why people would want social welfare spending and feel deprived if it appeared that social welfare programs were in jeopardy. All start from the idea that social welfare is best described as insurance rather than as programs of distribution. Overbye hypothesizes the risk-averseness of the median-voter and combines this with the complexity of social risks and possibility of market failure to explain why voters will tolerate paying higher costs so as to create universal programs that also cover those at greater risk. Dryzek and Goodin

³⁶ Henry Milner, "The Welfare State as Rational Choice: Social Democracy in a Post-Socialist World," *Scandinavian Political Studies*, 19, (1996), 151.

³⁷ *Ibid.*, 151-152.

³⁸ Gold, *Hollow Mandates*, 109-110.

point further to the idea of "gross uncertainty", arguing that it is not just personal risk levels which must be considered but the risk of each society's future as well. However, they limit this uncertainty to a narrow historical epoch (the post-war era) although it is feasible that such gross uncertainty could re-emerge in any period of profound crisis. Finally, Milner includes consideration of macro-institutions as builders of reliability, forcing us to consider the degree to which different states might be seen as more or less reliable as insurance carriers.

What must now be asked is the following: If these are the issues that influence the value people attach to the welfare state as a system of insurance, how do they learn about its ability to protect against gross uncertainty and its reliability as an insurance carrier? To explore this we must look at the role intermediaries play in conveying information about insurance products and specifically, consider the role that political leaders play as the insurance agents of the welfare state.

3.2.3 Political Leaders as the Insurance Agents of the Welfare State

One of the most important defects in virtually all markets is a deficiency of knowledge. There are very few true markets, in part, because there are very few instances where sellers and buyers have "perfect" knowledge of the value and quality of the products on offer, as well as the prices that buyers are willing to pay for them. The interaction occurring between professional traders in well-regulated securities, currencies and commodities exchanges, is the example of an activity that comes closest to the ideal of a true market because the assumption of perfect knowledge is not as far fetched as in

other activities. The combination of the extensive information resources available to each actor and rules which seek to prevent actors from hiding information, or acting on improperly obtained information, make it reasonable to assume that, in principle, all actors have the same information and that said information is more or less complete, i.e., perfect knowledge exists.³⁹

Maynes deals with the impact of this information problem on consumer decisions. He argues that information deficiency is a key reason why consumers have macro-power, in that their decisions (in aggregate) can upset the paths of whole industries and even economies, but relatively slight micro-power, in that their individual decisions rarely effect the destiny of individual businesses. To demonstrate this lack of information he relates the results of a study on insurance premiums. In the study researchers found that the difference in prices for insurance varied by as much as three times the cost of the lowest priced reliable carrier for identical policies. In other words, some consumers

³⁹

One result of this increasingly perfect knowledge in financial markets is the growing popularity and success of "index" funds and products. As market knowledge approaches perfection it becomes increasingly difficult for money managers to get a leg up on the competition as everyone has the same information at the same time. In such a situation the best investment is simply to mimic the "index": the collection of securities by which the average performance of the market is measured. If at the end of the day everyone is going to be average, the only way a manager can beat the market is to try to "time it" (move money in and out of the market in anticipation of macro-economic events, i.e. fortune telling) or by taking on investments carrying more risk than the ones comprising the index. Both strategies can work, sometimes, but not for ever and over the long run everyone still ends up average. Consequently, returns to investors tend to depend more and more on costs, and active, living managers are far more expensive than are the computer programs which manage index funds. In the United States few money managers have been able to beat the returns on the S&P 500 index over recent years. In other, less perfect markets, managers fare better but their performance is rapidly deteriorating as technology and firmer regulation erode knowledge imperfections.

were paying as much as three times more than others for an identical product. Maynes confesses that this is not surprising as:

Unhappily, to calculate the true "price of protection" with any accuracy, one must be a hardworking student of insurance, endowed with considerable mathematical ability, possessed of considerable data-collecting and computer time, and ready to make fairly strong assumptions. With this explanation it should come as no surprise that consumers are not able to ascertain the lowest price and hence that this market does not work well.⁴⁰

Advances in wealth and reduced transportation costs have opened whole new fields of consumption to most individuals in the Western liberal capitalist democracies, allowing them access to competing products from all over the world. However, these same factors which have structurally improved markets, have also increased the cost of obtaining information on prospective purchases of material goods. Consequently, it is even dubious if the consumer of basic goods has both perfect information about them and the ability to act on it.⁴¹ This difficulty in obtaining all the necessary comparative product information and in acting on it, means that the price system does not effectively reward or punish producers in many cases.⁴²

Incidentally, Hirschman has pointed out that imperfect information actually benefits the economic system, as too efficient a market might make advanced capitalism

⁴⁰ E. Scott Maynes, "The Power of the Consumer," in Burkhard Strumpel, James N. Morgan and Ernest Zahn, (eds.), *Human Behavior in Economic Affairs: Essays in Honor of George Katona*, (Amsterdam: Elsevier Scientific, 1972), 409.

⁴¹ Maynes does not even bother to discuss the fun house like environment of preferences which advertising seeks to promote.

⁴² Maynes, "The Power of the Consumer," 413.

impossible.⁴³ Take the automobile industry as an example. If a firm makes cars that are less than ideal and they fail to lose customers, the firm might not improve. If the firm loses all of its customers over a short period (which would happen if all customers had perfect information and were willing to act on it) it will have no chance to improve, given that it takes two to three years to design new models and bring them into production. However, if the firm loses some of its customers (those who have better information and are willing to act on it) and retain some, the firm has a chance to assess the problems in its products and to take corrective actions.

If we can accept that the more complex the product on offer, the more unreasonable it is to expect consumers to have perfect knowledge of the product, then it soon becomes obvious that in the fields of health, welfare, education, and other social services, consumers will most likely be acting with a knowledge deficit. It is for this reason that we seek agents when we must engage complex services such as the purchase of financial products (for example insurance or pensions). This knowledge deficit is also the source of the professional power of service providers such as physicians and lawyers. When we don't really understand what is happening, we must rely to a considerable degree on the judgment of others who act on our behalf, our agents. The list of people and organizations that seek to act as our agents in daily life is boundless and growing. Beyond the traditional professionals, (lawyers, accountants, physicians, insurance brokers) and traditional organizations (trade unions, professional and industrial

⁴³ Albert O. Hirschman, *Exit Voice and Loyalty: Responses to Decline in Firms, Organizations, and States*, (Cambridge, MA: Harvard University Press, 1970), 24-25.

associations, community groups and religions), people and organizations are stepping forward to act as our agents in an ever increasing range of activities. The duties contracted to these new agents run from the serious (such as the growing ranks of higher-education consultants who help parents and students select the best schools for their individual needs),⁴⁴ to the merely convenient (such as personal shoppers, who for a few dollars will relieve you of the task of selecting holiday presents for your family and friends).

At the macro-level our political leaders are also agents and it is to a consideration of their role in shaping our preferences for different welfare state policies, and our impressions as to what sort of protection that these policies can offer, that we now turn.

Blondel suggests that we can best come to grips with the behavior of political leaders if we begin by recognizing that leadership is the result of agency (human decisions to take action that might be influenced by personal characteristics), structure and historical situation. Blondel suggests that agency is the initiator of action and structure determines how actions will most likely be carried out, while historical situation establishes the range of issues that leaders can choose to act on. It is the personal characteristics and idiosyncrasies of leaders which shape their goals but the structure of the political institutions that they inhabit which sets them on their course towards accomplishing these objectives.⁴⁵ For example, a national leader may wish to act in a policy area that is constitutionally assigned to the sub-national level of government and

⁴⁴ See, *Money*, (September, 1997), 96-173.

⁴⁵ Jean Blondel, *Political Leadership: Towards a General Analysis*, (Newbury Park, CA: Sage, 1987), 5.

which the current socio-economic climate has caused to become problematic. Consequently, he or she cannot directly create programs in this area without going through the time consuming and always contentious task of amending the constitution. Therefore, such a leader might instead propose the creation of subsidies to sub-national governments, so as to encourage them to create their own programs in this area which serve to meet the goals of the national leader. In the real world, a process such as this led to the creation of Canada's system of federally subsidized provincial health insurance plans.⁴⁶ However, Blondel also cautions the reader that the two forms of influence are also intertwined to a certain degree, that separating the power of the leader from the power of his or her office is a difficult task.⁴⁷ In making this observation, Blondel draws on Weber's work on the sources of legitimacy for authority.⁴⁸ Weber suggests that there are three sources of legitimacy for authority: tradition, legal-rationality, and charisma. The first two are rooted in the culture and structure of society, the third in the nature of the person.

The term "charisma" shall be understood to refer to an *extraordinary* quality of a person, regardless of whether this quality is actual, alleged, or presumed. "Charismatic authority," hence, shall refer to a rule over men, whether predominantly external or predominantly internal, to which the governed submit because of their belief in the extraordinary quality of the specific *person*. The magical sorcerer, the prophet, the leader of hunting and booty expeditions, the warrior chieftain, the so-called "Caesarist" ruler, and, under certain conditions,

⁴⁶ Daniel Cohn, "The Canada Health and Social Transfer: Transferring Resources or Moral Authority Between Levels of Government?" in Patrick Fafard and Douglas Brown, (eds.), *Canada: The State of the Federation 1996*, (Kingston, ON: Queen's University Institute of Intergovernmental Relations, 1996), 168.

⁴⁷ *Political Leadership*, 5.

⁴⁸ *Ibid.*, 49-62.

the personal head of a party are such types of rulers for their disciples, followings, enlisted troops, parties, et cetera. The legitimacy of their rule rests on the belief in and the devotion to the extraordinary, which is valued because it goes beyond the normal human qualities, and which was originally valued as supernatural. The legitimacy of charismatic rule thus rests upon the belief in magical powers, revelations and hero worship. The source of these beliefs is the "proving" of the charismatic quality through miracles, through victories and other successes, that is, through the welfare of the governed... Charismatic rule is not managed according to general norms, either traditional or rational, but, in principle, according to concrete revelations and inspirations, and in this sense, charismatic authority is "irrational." It is "revolutionary" in the sense of not being bound to the existing order.⁴⁹

Charismatic authority allows the leader to supersede and expand the powers of his or her position, to rule beyond tradition and the law and to reshape the institutions that future leaders will have at their disposal.

Other authors have argued that beyond shaping means, institutions can also shape goals. For example, Katzenstein has suggested that the emergence of democratic corporatist institutions in countries such as Sweden and Switzerland in the 1930s, was the result of broad support for the institutions of democracy among political, business and labour leaders and their desire to preserve democracy in the face of threats from both the right and the left. Later as the tradition of corporatist bargaining grew, leaders began to express different preferences, advocating different goals as a result of their cooperative experiences.⁵⁰

Jones, taking up the structure versus agency debate, asks what are the sources of

⁴⁹ Max Weber, "The Social Psychology of the World's Religions," in H.H. Gerth and C.Wright Mills, (eds.), *From Max Weber: Essays in Sociology*, (New York: Oxford University Press, 1958), 295-296.

⁵⁰ Peter J. Katzenstein, *Small States in World Markets, Industrial Policy in Europe*, (Ithaca, NY: Cornell University Press, 1985).

leadership preferences. In exploring this he focuses on the tensions between democracy and capitalism, arguing that leadership in the Western liberal capitalist democracies is very much about balancing the demands made by these two bases of support, which are essential to the maintenance of all such states.⁵¹ The choices leaders make will be conditioned by: historical circumstance, political institutions, cultural understandings, and the leader's own individual character. Jones goes on to develop a taxonomy of political leaders based on the way in which they respond to the different pressures, whether they are susceptible to the constraints of the economic structure or the urge to act as an agent, whether they are accountable to their followers or act with disregard to the will of the electorate.⁵²

Table 3.2.3 Types of Leaders

	<i>Accountable</i>	<i>Unaccountable</i>
<i>Structure</i>	Delegate	Lackey
<i>Agent</i>	Trustee	Entrepreneur

(Source: Bryan D. Jones, "Causation, Constraint, and Political Leadership," in Bryan D. Jones, (ed.), *Leadership and Politics: New Perspectives in Political Science*, [Lawrence, KA: University of Kansas Press, 1989], 7.)

When confronting social change, Jones suggests that the different types of leaders will respond in different manners, within the limits set by political institutions, cultural contexts and historical possibility.

One might expect the delegate to reflect economic change through his followers;

⁵¹ Much as I have argued in Chapter 2.

⁵² Bryan D. Jones, "Causation, Constraint, and Political Leadership, in Bryan D. Jones, (ed.), *Leadership and Politics: New Perspectives in Political Science*, (Lawrence, KA: University of Kansas Press, 1989), 5-7.

the trustee to be sensitive to elements of change that are not necessarily demanded by economic followers; the lackey to be responsive only to demands of non-constituency-based economic elites; the entrepreneur to be free of either type of constraint and therefore less predictable.⁵³

Jones use this taxonomy to highlight both the usefulness and deficiencies of studies of political leadership which begin from the assumption of what he refers to as a Newtonian view of society. The most obvious of the theories which spring from this view of social interaction is the idea of interest maximization as the governing law of human behaviour.

Jones continues by arguing that the prevailing method of studying leadership in the discipline of political science is to begin from the Downsian economic model of electoral politics, assuming that each politician is a vote maximizer eager to construct a policy platform (or to live up to such a platform once in office) so as to win--and to hold on to--power (i.e. the delegate). Others, who have chosen to highlight the role of pressure groups have instead argued that elected officials respond to pressure from these sources instead, being eager to capture their support for impending campaigns (i.e. the lackey). Still others have argued that both voters and interests influence the behaviour of political leaders (i.e. the trustee). What all of these accounts have in common is their mechanical or "Newtonian" structure of argument. Society exerts pressures on leaders who respond in a way that can be calculated based on the vectors and magnitudes of the forces applied.⁵⁴

While Jones acknowledges the useful explanatory power encompassed by the various Newtonian perspectives, he finds that they ignore the degree of ambiguity which

⁵³ *Ibid.*, 7.

⁵⁴ *Ibid.*, 8-9.

is present in almost all political debate. As the relationship between goals and policies capable of achieving them is not clearly evident in many situations, there is considerable potential for political leaders to either mislead or less cynically, to re-direct the requests of their supporters, both in the electorate and in pressure groups. Finally, part of the political leader's job is not just to help the community to realize its preferences but to also tell the community what its preferences should be.

The key difference is that preferences in politics are less directly connected to goals than are those in economics, so that actors can more easily persuade others that a policy relates to their ends in politics. Put differently, in economics, preferences change only exogenously (e.g., through new technologies), whereas in politics, preferences can also change endogenously (e.g., through persuasion).⁵⁵

Once we accept that goals are not self-revealing to individuals, but may be induced; and that although some goals may be obvious, individuals may need assistance in determining how to realize them; the potential for a more active model of leadership (i.e. the entrepreneur) becomes feasible.⁵⁶

Political leaders use their rhetoric to encourage and discourage different opinions about the impact and implications of current--and potential future--state policies, as well as to garner support for efforts to modify these policies. When they produce legislation which alters the shape and the range of social products that are on offer through the welfare state and the terms on which these products are available, they are also sending signals to their citizenry which could alter their individual calculations of needs and

⁵⁵ *Ibid.*, 9-10.

⁵⁶ *Ibid.*, 10-11.

available protection.⁵⁷ Like all good agents they must spur their audiences to take some form of action and their claims as to direction must appear viable. This is noted by Jackson and Jackson when they choose to distinguish leaders from office-holders by "the leader's ability to mobilize followers and bring about viable change."⁵⁸

It is through the public discussion of issues, the articulation of the relationship between the current state of policy and the current state of historical circumstance, the normative values that should be promoted and the viability--or lack thereof--of policy alternatives, that leaders set the agenda for politics in each society. Leaders cannot make history but they can offer explanations of it (of varying degrees of plausibility for different audiences) and based on their explanations offer possible alternatives for future policy (again of varying degrees of plausibility for different audiences). Consequently, as does Jones, Reich sees political leaders as being able to do more than just respond to the opinions of the citizenry. They also have the ability to be actively involved in shaping opinion and in forging it into a movement to produce action.

The responsibility of government leaders is not only to make and implement decisions responsive to public wants. A greater challenge is to engage the public in an ongoing dialogue over what problems should be addressed, what is at stake in such decisions, and how to strengthen the public's capacities to deal with similar problems in the future.⁵⁹

⁵⁷ Paul Pierson, "When effect Becomes Cause: Policy Feedback and Political Change," *World Politics*, 45, (1993), 606 and 619-620.

⁵⁸ Robert J. Jackson and Doreen Jackson, *Stand Up for Canada: Leadership and the Canadian Political Crisis*, (Scarborough, ON: Prentice-Hall, 1992), 107.

⁵⁹ Robert B. Reich, "Introduction," in Robert B. Reich, (ed.), *The Power of Public Ideas*, (Cambridge, MA: Harvard University Press, 1988), 6.

When political actors exercise a leadership role in the area of health and social welfare policy they, in effect, become the insurance agents of the welfare state. They direct the citizenry to consider what is of importance in the policy area, which current policies are of value and which need replacement, what they should be looking for in new policies, the possibility of obtaining the different types of protection that are desired and the costs that will have to be paid to get this protection.

Up to this point we have been discussing the *intended* consequences of leadership rhetoric and action. A political office-holder sees a problem, he or she then attempts to use rhetoric so as to convince people that there is a problem, as well as to shape the understanding that citizens have of the causes of the situation and the necessity to act. The office-holder then must demonstrate that the course of action that he or she prefers is feasible and will rectify the problem. When political leaders do this in the field of health and social welfare policies, they become the insurance agents of the welfare state. But what are the possibilities for unintended consequences? If we are willing to accept the idea that leaders need not necessarily behave in a "Newtonian" fashion, acting as directed by the sum of social forces exerted upon them, why must we assume that citizens respond to leadership in a "Newtonian" fashion?

Accepting the proposition that leaders influence people does not lead automatically to the position that this influence will be towards the sorts of opinions and behavior that the leaders wish to promote, or, that there will also not be unintended influences along with the intended ones. How will citizens react when their leaders, the insurance agents of the welfare state, use neoconservative rhetoric, and further, choose to govern in a

manner which is at least symbolically in agreement with this rhetoric. Will voters think and behave as their leaders wish them to, accepting that a more risky society is also one filled with greater opportunity to act entrepreneurially and in which they can potentially earn higher rewards? Or, will they be anxious, believing that the coverage and guarantees they had come to expect are diminishing and soon will be no longer available?

Consider the situation of a home owner who wants to purchase flood insurance and who is told by their insurance agent that this product is no longer available. The agent might tell the home owner that this is no big loss, as the premiums were steep and the companies offering the insurance were rather unstable. The hypothetical insurance agent might further suggest that the home owner can get far better returns in the stock market for her premium dollar. The agent might advise her to invest the money she would spend on insurance premiums and over the long run, all other things being equal, she will have a substantial nest-egg and be able to cover any damage that some future flood might cause to her home. The home-owner might agree with all this. The home-owner might also stop asking for flood insurance (why bother if the insurance agent says it is no longer available) and she might even take her insurance agent's advice and invest in the stock market. However, the home-owner might not stop fearing floods and might even become more anxious about them, especially if one year the stock market turns down in the early spring, just as the rivers start rising. Similarly, citizens might not stop fearing economic dislocation simply because their leaders claim to be providing more opportunity for success to risk-takers relative to non-risk-takers as this enhanced success can be taken away and the price of this potential for increased success was the erosion

of minimum protection levels.

At the start of this chapter, the discussion focused on public opinion about the welfare state in two countries that experienced neoconservative leadership in the 1980s; the United Kingdom and the United States. Evidence was presented which suggests that public opinion about the welfare state has not changed very much, programs associated with the insurance metaphor remained widely popular and programs associated with the charity metaphor, remained less so, although even these appear to have become more popular as neoconservative leaders inspired a wave of protest to their designs. Building on the support for welfare programs that was noted in this section, the discussion then moved on to consider rational choice studies which begin from the premise that popular support, and demand for, welfare state programs is a product of the public's concern to be insured, rather than to gain distributive benefits. It was noted that one flaw in such discussions of the welfare state as insurance, was the assumption that individuals had enough time and information to make rational autonomous choices. I have suggested that one solution for this deficiency is to look for agents who might be able to simplify these choices and then moved on to analyze the role of political leaders as the insurance agents of the welfare state. Finally, the discussion considered what might be the possible ramifications of being told by one's insurance agent that the form of coverage which one wishes to have is no longer available. I have argued that the impact of such a discovery can not be assumed by social researchers but must be demonstrated, as this study is attempting to do.

3.3 Does Politics Influence Consumer Sentiment?

It is popularly accepted that economic conditions are among the most important factors which voters consider when deciding whether to endorse an incumbent government or to replace it with a new one. Political candidates believe this to be true. Legend has it that throughout the 1992 presidential election, candidate Bill Clinton had a note posted over his desk which read: "It's the economy Stupid!" The press certainly believes this to be the case and political science has come to accept the conclusion also. "It is rare to find such consensus on a key premise shared by journalists, political scientists, politicians, and the public. This premise has acquired the status of a "prior," to use Bayesian language; it serves as a reliable guide for empirical explorations."⁶⁰ The problem is that although a linkage has been generally assumed to exist it has proved harder to demonstrate and explain in a theoretically convincing manner. Attempted explanations have proved controversial and conflicting theories abound. Consequently, much of the literature is also devoted to explaining the lack of a parsimonious and, relatively speaking, universally applicable explanation.⁶¹

Kuhn has noted that when one of the central theories of a scientific paradigm fails to offer an answer for an obvious problem, and this dilemma persists for a time, the

⁶⁰ Helmut Norpoth and Tom Yantek, "Macroeconomic Conditions and Fluctuations of Presidential Popularity: The Question of Lagged Effects," *American Journal of Political Science*, 27, (1983), 786.

⁶¹ William L. Miller, "Studying How the Economy Affects Public Attitudes and Behavior: Problems and Prospects," in Harold D. Clarke, Marianne C. Stewart, and Gary Zuk, (eds.), *Economic Decline and Political Change: Canada, Great Britain, the United States*, (Pittsburgh: University of Pittsburgh Press, 1989), 143 and 166.

seeking of an answer to the dilemma will become a central focus of the discipline.⁶²

This has certainly become the case in the study of elections and public opinion, where the search for an explanation for the influence of economic conditions on political preferences has taken on something of the nature of a quest for the holy grail.⁶³

Within this debate, a growing interest has emerged in the use of consumer sentiment indicators. This interest is being spurred by the mounting evidence that objective economic conditions alone do not account for the opinions which individuals hold about the current state of the economy and its future prospects. Consequently, a consensus is forming that objective economic conditions cannot alone explain voting.

⁶² Thomas S. Kuhn, *The Structure of Scientific Revolutions, Second Edition, Enlarged*, (Chicago: University of Chicago Press, 1970), 82-83

⁶³ Some of the key protagonists in the search have included, V.O. Key, *The Responsible Electorate: Rationality and Presidential Voting*, (New York: Vintage Books, 1968); Donald R. Kinder and D. Roderick Kiewiet, "Economic Discontent and Political Behavior: The Role of Personal Grievance and Collective Economic Judgements in Congressional Voting," *American Journal of Political Science*, 24, (1979), 495-527; Morris P. Fiorina, *Retrospective Voting in American National Elections*, (New Haven, CN: Yale University Press, 1981); James E. Alt and K. Alec Chrystal, *Political Economics*, (Brighton, UK: Wheatsheaf, 1983); Kirsten R. Monroe and Lynda Erickson, "The Economy and Political Support: The Canadian Case," *Journal of Politics*, 48 (1986), 616-647; Michael S. Lewis-Beck, *Economics and Elections: The Major Western Democracies*, (Ann Arbor, MI: University of Michigan Press, 1991); Helmut Norpoth, *Confidence Regained: Economics, Mrs. Thatcher and the British Voter*, (Ann Arbor, MI: University of Michigan Press, 1992); Harold D. Clarke, Euel W. Elliott, William Mishler, Marianne C. Stewart, Paul F. Whiteley and Gary Zuk, *Controversies in Political Economy*, (Boulder, CO: Westview Press, 1993); Richard Nadeau and Andre Blais, "Explaining Election Outcomes in Canada: Economy and Politics," *Canadian Journal of Political Science*, 26, (1993), 775-790; G. Bingham Powell and Guy D. Whitten, "A Cross-National Analysis of Economic Voting: Taking Account of Political Context," *American Journal of Political Science*, 37, (1993), 391-414; Alexander C. Pacek and Benjamin Radcliff, "Economic Voting and the Welfare State: A Cross-National Analysis," *Journal of Politics*, 57, (1995), 44-61; Simon Price and David Sanders, "Economic Expectations and Voting Intentions in the UK, 1979-87: A Pooled Cross-section Approach," *Political Studies*, 43, (1995), 451-471

Other factors, along with objective economic conditions, play a role in shaping people's perceptions of economic conditions and the electorate then translates these perceptions into political preferences.⁶⁴ This section will begin by looking at four studies which illustrate this. These studies also highlight the importance of considering all aspects of consumer sentiment, that is, opinions regarding both the future state and present condition of the general economy as well as one's personal economic situation and the role that long-term political factors (such as a long standing commitment to Keynesian counter-cyclical policies) play in providing a floor for consumer sentiment in times of economic decline. Next I will consider the results of a study by Pacek and Radcliff. These authors conclude that the more developed a welfare state is, the less likely it is that short-term economic conditions will influence vote. This suggests that the welfare state makes voters feel more economically secure and implies that changes to the scope of the welfare state can influence feelings of economic security.⁶⁵ However, Pacek and Radcliff do not analyze consumer sentiment, but rather infer their conclusion by comparing popularity of governments with aggregate economic data. Given these research results, it is reasonable to ask how politics impact on the views individuals hold about the current state of the economy and its future prospects. Consequently, the next step will be to examine two studies which pose this question. A limit on the usefulness

⁶⁴ MacKuen, Erikson and Stimson, "Peasants or Bankers?" 600-602; Sanders, Marsh and Ward, "The Electoral Impact of Press Coverage of the British Economy," 206-209; Haller and Norpoth, "Let the Good Times Roll," 644-648; Clarke, Rapkin and Stewart, "A President out of Work: A Note on the Political Economy of Presidential Approval in the Bush Years," *British Journal of Political Science*, 24, (1994), 535-561.

⁶⁵ "Economic Voting and the Welfare State," 57-59.

of these studies for my purposes is that they try to fit fluctuations in sentiment to specific political acts, rather than to long range trends in leadership rhetoric and behaviour (which is the aim of this thesis). However, the authors do show that it is indeed feasible to measure the impact of politics on consumer views of the economy, using indices of consumer sentiment as a dependent variable.⁶⁶

3.3.1 Using Consumer Confidence Indicators to Help Predict Political Support

In 1992 Mackuen, Erikson and Stimson published a study which claimed to show that American voters are, as a group, very economically sophisticated. They allege that the American voter's behaviour is most analogous to that of a group of bankers in that they tend to refrain from either punishing or rewarding past behaviour but instead, cast their support for candidates who hold the potential to improve the future state of affairs. Second, they suggest that Americans, as with bankers, do not expect their government to take care of them personally but to instead effectively manage the general economy, which is seen as the best way to insure all have a shot at prosperity. This is at odds with the commonly assumed model, which Mackuen et al., describe as being analogous to the behaviour of peasants. In the traditional model the voters are seen as being concerned with their own immediate personal economic situation not with the future prospects of the general economy (so called pocket-book voting). In other words the traditional model

⁶⁶ James E. Alt, "Ambiguous Intervention: The Role of Government Action in Public Evaluation of the Economy," in Helmut Norpoth, Michael S. Lewis-Beck and Jean-Dominique Lafay, (eds.), *Economics and Politics: The Calculus of Support*, (Ann Arbor, MI: University of Michigan Press, 1991), 239-263; Jef Vuchelen, "Political Events and Consumer Confidence in Belgium," *Journal of Economic Psychology*, 16, (1995), 563-579.

sees voters as looking backwards not forwards.

Mackuen et al. draw this conclusion by considering the relationship between the various components of the Consumer Sentiment Index (CSI), which was developed by the University of Michigan's Survey Research Center, and presidential popularity. They begin their analysis by considering whether or not the CSI is simply a proxy for objective economic conditions at the time of measurement and whether or not these conditions alone can account for presidential popularity. They find that there is a relationship between the objective economy and presidential popularity. But they also find that the relationship between presidential popularity and the CSI is much stronger, indicating that object economic conditions flow through sentiments and that sentiments have an impact on presidential popularity that is separate from the underlying circumstances that cause them. Further, this appears to indicate that sentiment about the economy is not solely caused by the objective condition of the economy.⁶⁷

They next proceed to disaggregate the components of the CSI and try to determine which have the greatest impact on presidential popularity. They conclude that the key factor is economic expectations about the general economy (described as future business conditions in the CSI as opposed to the individual's expectations for their own personal economic condition). Their analysis shows that:

Clearly, the reason presidential approval responds to the economy is that presidential approval responds to economic expectations. Controlling for Business Expectations [expectations of future business conditions], no other measure of economic sentiment directly affects [presidential] Approval. Economic conditions affect presidential popularity only to the extent that

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"Peasants or Bankers," 602.

economic conditions alter expectations of the economic future.⁶⁸

In trying to explain this apparent sophistication of public opinion, the authors suggest that it is a result of agency, specifically on the part of the business media. The implication is that the voters are neither peasant or banker. However, they do have access, through the media, to plenty of information which is contextualized by people who think like bankers. Consequently, the authors suggest that it is media reporting--about what government behaviour and the current economic climate portend for the future--which provides the portion of consumer expectations about the future state of the general economy that cannot be accounted for by the underlying economic conditions. It is important to emphasize that MacKuen, Erikson and Stimson are not saying that journalists alone are shifting public opinion about the economy, rather, it is the opinions of all political actors, including journalists, conveyed *through* the media, that encourage the public to think like bankers.⁶⁹

The authors recognize that their conclusions have radical implications both for political science and for public actors. Taking the latter first, this analysis would seem to indicate that there is little room for political manipulation of the economy for short-term political gain. If a political leader tries to make things better closer to election time, the electorate (which has been exposed to sophisticated economic analysis in the media) may see that this will endanger the future state of the general economy (in the long term) and choose to punish the incumbent. This view is also in line with Lucas's

⁶⁸ *Ibid.*, 603.

⁶⁹ *Ibid.*, 604

rational expectations model of economic behaviour, which says that individuals are forward thinking, and consequently, governments which try to intervene in the economy will not succeed as individuals will take precautionary actions to protect their own economic interests.⁷⁰ Second, they suggest that part of the reason why political science has been unable to unravel the link between electoral support and economic conditions is because research has traditionally concentrated on past performance, rather than future potential and that further development of the forward looking approach is the most promising route of investigation.⁷¹

Dealing with British data, Sanders, Marsh and Ward were able to confirm MacKuen, Erikson and Stimson's finding that the media exerts an influence on the economic expectations of individuals. This study sought to explore the bias which Britain's daily print media is said to demonstrate in favour of the Conservative party and whether or not this alleged bias exerts an influence over the British electorate. They concluded that in general, economic coverage tended to be unbiased except in the run-up to elections when some daily papers took on a slant. Second, the authors found that although the print media's coverage did not correlate with popular support it did show some relationship to changes in consumer expectations about the economy, leading the authors to believe that consumer sentiment is the result both of objective conditions and

⁷⁰ Robert E. Lucas, "Econometric Policy Evaluation: A Critique," in K. Runner and A. Meltzer, (eds.), *The Phillips Curve and Labor Markets*, (Amsterdam: North-Holland, 1975).

⁷¹ MacKuer., Erikson and Stimson, "Peasants or Bankers?" 606-607.

other factors, including exposure to the media.⁷²

Unlike the Mackuen Erikson and Stimson study,⁷³ Sanders Marsh and Ward did not attempt to assess the way in which consumer sentiment translates into political support. Instead, they plugged their results into a model of the influence of consumer sentiment on political support, which they had previously published elsewhere.⁷⁴ In 1995 Price and Sanders published an update of this model. As with the MacKuen, Erikson and Stimson study in the United States, Price and Sanders find that the most influential and consistent economic factor in determining British party support is prospective opinions about the general economy, with less important, though still significant roles being played by consumer opinions about their own personal prospective economic situation, retrospective judgements about the state of the economy and their own personal economic situation, as well as objective economic conditions.⁷⁵ Unlike many other political science models, this particular one not only allows for an explanation of previous actions but also for predictions of future events. Using this model, Sanders successfully predicted both the surprising come-from-behind win of the British Conservatives in 1992 and the magnitude of the defeat that they were facing in

⁷² "The Electoral Impact of Press Coverage of the British Economy," 175-210.

⁷³ "Peasants or Bankers".

⁷⁴ David Marsh, Hugh Ward and David Sanders, "Modelling Government Popularity in Britain, 1979-1987: A Disaggregated Approach," in Ivor Crewe and Pippi Norris, (eds.), *British Parties and Elections Yearbook*, (London: Simon & Shuster, 1991).

⁷⁵ Simon Price and David Sanders, "Economic Expectations and Voting Intentions in the UK, 1979-1987: A Pooled Cross-section Approach," *Political Studies*, 43, (1995), 470.

1997.⁷⁶

MacKuen, Erikson and Stimson's claim that consumer perceptions about the future state of the general economy are so important as to outweigh all other economic variables, including voters perceptions of their own individual economic future and their beliefs about the current economic circumstances impinged the validity of a large body of previous work. Their direct linking of these findings to the rational expectations model of economic decisions, and that model's claim that governments cannot alleviate economic distress but only cause more by straying from economic orthodoxy, meant that a challenge to their results was inevitable. This challenge came from Clarke, Rapkin and Stewart. Their goal was simply to assess whether or not the model developed by MacKuen, Erikson and Stimson could explain President George Bush's popularity cycle and eventual electoral demise.⁷⁷

Clarke, Rapkin and Stewart find that all four forms of consumer perception about the state of the economy and its future (personal economic circumstances and prospects, as well as general economic conditions and prospects) impacted on Bush's popularity, as did objective economic circumstances and political context as well. For example, the theory of issue-priority suggests that given different issue-priorities, different parties will gain in popularity. In Bush's term, unemployment became a major issue and inflation

⁷⁶ David Sanders, "Forecasting Political Preferences and Election Outcomes in the UK: Experiences, Problems and Prospects for the Next General Election," *Electoral Studies*, 14, (1995), 251-272. In the article Sanders suggested that the Tory vote could fall as low as 31.5%; in reality it hit 31.4%.

⁷⁷ "A President out of Work: A Note on the Political Economy of Presidential Approval in the Bush Years," 535-561.

dropped off the agenda. As Republicans are generally seen by American voters as being less competent in dealing with unemployment than Democrats, the theory holds that the rise in priority given to this issue should lead to enhanced Democratic support. Similarly, although the public generally attribute greater competency in dealing with tax issues to Republicans, Bush's over-confident promise not to raise taxes ("read my lips: no new taxes") and his subsequent reversal, took this issue out of play.⁷⁸ Their analysis not only calls into question the results of MacKuen, Erikson and Stimson's study, but also the support which it lends to the rational expectations theory of economic motivation.⁷⁹

Halder and Norpoth have also attempted to untangle this problem. They suggest that the disparity in the findings in previous studies might be due to the fact that people make decisions and predictions about economic circumstances by using different rules in different contexts. They test this by seeing whether the expectations which Americans hold about future economic conditions (as reported by the CSI and other measures) conform to what would be predicted by either the rational expectations model of economic decision making or the adaptive expectations model. This model holds that people take, in part, a retrospective view, and then update their future forecasts by adding in new factors that they personally come to experience. As noted previously, the rational expectations model is purely forward looking. In only one instance, popular predictions of inflation, could they find even marginal support for either theory. In this

⁷⁸ *Ibid.*, 546.

⁷⁹ "Peasants or Bankers?"

case it seemed people used adaptive expectations to predict inflation, basing their predictions on current conditions plus or minus their previous errors. This is somewhat ironic because the whole rational expectations movement is based on the theory that people will anticipate the inflation implicit in government programs and demand a higher interest rate when governments try to stimulate the economy. It would thus appear that average people behave differently from bankers.⁸⁰

The authors conclude that people do not behave as either theory would predict, nor do consumer expectations about the future simply reflect objective economic circumstances. Instead they come to conclude that economic expectations differ given the context of events and time. Here they refer to the previous works of Katona and other specialists in consumer psychology, who have found that consumer sentiment is shaped both by affective feelings and learning, rather than by purely rational expectations, concrete observations or emotions.⁸¹ Such works have argued that people respond differently to economic conditions and news depending on whether times are good or bad. When times are good people tend to foresee a brighter future but also to be very sensitive to news which can, based on passed experience, lead to economic decline in good times. They find it easy to become acclimatized to good times, but also tend to expect bad news after too good a spell "After a long spell of nice weather, a tiny storm cloud is more telling than the otherwise bright horizon." However, when they are bad, people tend to believe that things will improve rather quickly and likely will not get

⁸⁰ "Let the Good Times Roll," 631, 637 and 646-647.

⁸¹ George Katona, *Psychological Economics*, (New York: Elsevier, 1975).

worse. This view that the worst is over, is in part based on past experience that a 1930s style collapse will not happen because governments act to prevent them.⁸² In other words, the authors are suggesting that long term political factors impact on consumer confidence and that post-war public policy has built a floor under it.

The public believes that government will take effective steps to avoid such economic catastrophes although it may not be able to deliver eternal prosperity. The popular wisdom can be distilled into the twin rules that all good times must come to an end sometime, but that bad times are over quickly. The latter belief can be seen as an automatic stabilizer for economic expectations in the face of bad times.⁸³

The authors note that this asymmetrical view does not produce so much of a model of how consumers form their opinions about the future but "a changeable cast of characters." They then construct a statistical test to try to validate this notion of asymmetry in consumer opinion given context. This test measures the speed with which predictions of positive and negative times revert to the mean forecast. If the theory is correct, positive predictions should last longer before declining to the mean, while negative forecasts should rise quickly to the mean. The test easily confirms the asymmetrical view of consumer behaviour which takes account of context.⁸⁴

- Three of the four studies discussed in this subsection demonstrate that factors other than those present in the objective economy influence consumer expectations.⁸⁵

⁸² Haller and Norpoth, "Let the Good Times Roll," 644.

⁸³ *Ibid.*, 644.

⁸⁴ *Ibid.*, 646.

⁸⁵ MacKuen, Erikson and Stimson, "Peasants or Bankers?" 600-601 and 603-604; Sanders, Marsh and Ward, "The Electoral Impact of Press Coverage," 208; Haller and Norpoth, "Let the Good Time Roll," 636 and 646-648.

The fourth has no opinion on the topic.⁸⁶ One of the studies, MacKuen et al., suggests that the only economic variable that matters for a leader's approval rating is consumer expectations about the future state of the general economy. This leads them to speculate that the rational expectations model of the economy is valid for the population in aggregate, that they behave more like "bankers" than "peasants". This would also tend to lend credence to those theorists who believe that government intervention to alter current economic conditions is wrong, in this case, because the government will not get any credit for it, but rather will be blamed by the public for potentially harming the future.⁸⁷

This last finding, however, is disputed by Clarke, Rapkin and Stewart, who show that it cannot be sustained over a short time segment (the Bush Presidency), where current economic conditions (such as unemployment) hurt Bush, both because objective conditions were bad and because Republicans lack credibility on this issue.⁸⁸ Evidence from Britain also shows that although expectations about the general state of the economy are important, they are not the whole story in predicting the popularity of the government.⁸⁹ Finally Haller and Norpoth show how these apparently contradictory findings can simultaneously be valid by attacking the validity of prevalent models of economic decision making. Their asymmetrical model suggests that while people do

⁸⁶ Clarke, Rapkin and Stewart, "A President Out of Work."

⁸⁷ "Peasants or Bankers," 606-607.

⁸⁸ "A President Out of Work," 546.

⁸⁹ Price and Sanders, "Economic Expectations and Voting Intentions in the UK," 470-471.

indeed tend to focus on the future (hence the importance of expectations about the future state of the general economy for government popularity), they also have a sincere belief that governments will act to prevent short term declines from becoming catastrophes. They demonstrate that governments can reap rewards by intervening in the economy and that the public might punish a government that appears to have trouble coping with downturns that last too long, such as the Bush administration's lack of credibility on unemployment.⁹⁰ The following three findings are all highly useful to this study:

- that public opinion about the economy is not solely formed by reference to objective economic conditions,

- that all the components of the Consumer Sentiment Index (CSI) (expectations about personal economic conditions and the future state of the general economy as well as opinion about current personal economic status and the current status of the general economy) are important in predicting the popularity of governments,

- and that popular belief that there is a political guarantee to prevent catastrophe forms a floor for consumer sentiment in bad times.

The first finding points to the general viability of this project. If consumer sentiment were no more than a simple reflection of the objective state of the economy with no other causal variables, the present project would not be viable. The second finding leads this author to believe that segmenting indices of consumer sentiment would be an unproductive strategy for this project. While expectations about the future state of the general economy appear to be more important than the other components in predicting government popularity, the other components still exert some causal influence. If considerations of current conditions influence something as long range as who to vote

⁹⁰ "Let the Good Times Roll," 648.

for at some unspecified election date, then they surely influence immediate decisions as to whether to save or spend today. The third finding essentially underlines the immediate relevancy of this dissertation. If citizens really believe that a political guarantee on the state of the economy exists, to the effect that the government will intervene to prevent declines from becoming catastrophes, how will neoconservative rhetoric and governance impact on this belief? If it weakens it, does this factor impact on confidence itself? The above discussion would lead one to suspect that if it does, the impact would be viewed in times of economic decline. If the assumed floor under the economy were to appear weakened, we might expect consumer confidence to fall further and faster. This would continue at least until people saw that the world was not coming to an end and then, we might expect the recovery of confidence to be slower as people would not anticipate government action to speed the recovery.

3.3.2 The Role of Politics and Policy in Determining Economic Confidence

In this section we turn to studies which have attempted to assess the impact which politics and policy have on the economic confidence of citizens. First, consideration will be given to an article written by Pacek and Radcliff.⁹¹ This study indirectly indicates that welfare state development has an effect on the importance which citizens place on short-term economic fluctuations and consequently, convinces this author that a study which directly assesses the impact of welfare state reform on the economic confidence of consumers is more than warranted. Second, this section will review two articles which

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"Economic Voting and the Welfare State," 44-61.

seek to directly measure the impact of political events on consumer confidence using indices of consumer sentiment as dependent variables.⁹² Even though they look at the impact of specific events on consumer confidence, rather than looking at how the cumulative weight of the rhetoric and policies of a specific leader/leaders might influence consumer sentiment, they are still important to consider here. First, they demonstrate the feasibility of using consumer sentiment as a dependent variable. Second, they point to political events which can move consumer confidence in the short-term.⁹³ As with the authors considered in the section immediately above, Pacek and Radcliff have been motivated by the search for the holy grail of election studies, a link between economics and voting. Their particular point of departure is to note that the impact which short-term economic conditions have on electoral outcomes varies considerably from country to country. They propose that one factor which could influence the degree to which voters take short-term economic factors into account when voting is the degree to which they impact on their lives. The authors then argue that because one purpose of the institutional welfare state is to protect individuals from economic fluctuations, the more developed a society's welfare state is, the weaker should be the link between short-term economic conditions and election outcomes.⁹⁴

Pacek and Radcliff then proceeded to test this idea in a study of seventeen

⁹² Alt, "Ambiguous Intervention," 239-263; Vuchelen, "Political Events and Consumer Confidence in Belgium," 563-579.

⁹³ If not properly identified and taken account of, these sorts of events could possibly obstruct attempts to do a before and after study if they were to occur in one of the measurement periods.

⁹⁴ "Economic Voting and the Welfare State," 45-47.

countries. They find that citizens in countries with institutionalized welfare states, those countries with high levels of welfare state spending (Denmark, Germany, Italy and Sweden) were less likely to vote out incumbents when general economic conditions declined over the short-term (measured as negative change in election year per capita national income) than were citizens in other countries, exhibiting what they refer to as "marginal welfare states," those countries with low to moderate levels of welfare state spending (Australia, Canada, Finland, Greece, Ireland, Japan, New Zealand, Portugal, Spain, the United Kingdom and the United States). However, there was no difference in the willingness of electorates to punish incumbents when economic conditions turned bad over the long-term. The authors took this to imply that when social protection was generous, voters were willing to cut their leaders some slack over short-term economic disturbances. Meanwhile, voters in countries with less generous programs were likely to be more vindictive.⁹⁵ Their point is that the existence of generous and stably funded welfare state programs provide a degree of economic confidence, which offset the effects of short-term economic crises.

- In true welfare states, the populace appears to have created a system whereby they have removed short-term economic performance as the major electoral issue. They thus do not need to hold public officers to the same economic standards as in marginal welfare states, for much the same reason that citizens with overdraft protection need not pay the same meticulous attention to balancing their checkbooks as do those lacking it. In this way, the existence of the welfare state is itself a kind of standing accountability--a way of assuring material well-being--which makes an American-style electoral obsession with the economy unnecessary.⁹⁶

⁹⁵ *Ibid.*, 53-46.

⁹⁶ *Ibid.*, 58.

This study has certain limits. First, as was discussed in the introduction to this sub-section, the linkage which the authors draw between the economic confidence of individuals and policy is indirect. Voters in more developed welfare states appear to take less account of short-term economic conditions when they vote, which would indicate that these short-term conditions are of less concern to them. This would lead one to believe that welfare state development has an impact on the economic confidence of individuals.

Nevertheless, it does suggest that the present study is indeed on a fruitful track. It appears more than reasonable to ask whether or not neoconservative rhetoric and policy decisions with regard to the welfare state could cause a collapse in consumer confidence. Second, measuring welfare state development by spending alone is also problematic. Much of the literature on welfare state development argues that *how* money is spent is either of equal importance to, or of more importance than, the absolute amount, in determining the level of welfare state development. Such literature gives primacy to rules of entitlement, the quality of services, the autonomy of recipients, and breadth of life-conditions that are covered, rather than to raw spending totals.⁹⁷ Consequently, if, as this study proposes, we are to consider the role which leadership rhetoric and policy decisions about the welfare state play in shaping consumer confidence, it will be necessary to take a much more detailed approach, rather than merely noting threats to

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See, Walter Korpi, "Power, Politics and State Autonomy in the Development of Social Citizenship: Social Rights During Sickness in Eighteen OECD Countries Since 1930," *American Sociological Review*, 54, (1989), 309-328; Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, (Cambridge: Polity Press, 1990), 18-21; Sven E. Olsson, *Social Policy and Welfare State in Sweden*, (Lund, SE: Arkiv, 1990), 17-19; Diane Sainsbury, *Gender Equality and Welfare States*, (Cambridge: Cambridge University Press, 1996), 9-46.

cut programs and cuts which were actually implemented.

In a 1991 essay, Alt sets out to explore the impact of government decisions on British consumer sentiment for the time period 1970-1977. He proposes that government actions should have an impact separate from economic conditions on the state of consumer opinion. Government action is conceived of as a form of information for citizens, directing their attention to certain issues and to proposed policies for dealing with them.⁹⁸ For example, the public learns that conditions such as inflation are problematic, not just through rising prices, but also through government pronouncements on the topic and the enactment of policies aimed at curbing inflation. In order to test this theory he looks at six variables chosen to measure the state of the economy, (unemployment, inflation, short-term work, the minimum bank interest rate, the pound-dollar-exchange rate and change in real incomes) and four categories of government action, (budget speeches, the imposition of incomes policies, international crisis negotiation, and industrial disputes in which government was a participant).⁹⁹

In general Alt finds more support for the idea that government action influences perceptions of the current state of the economy than for the idea that it can influence expectations as to what will happen to the economy in the future. While the economic indicators all had significant impacts on opinions about the economy, the government actions had an impact only on perceptions of the current state of the economy and only at certain time-points. It was the most dramatic changes or events which were found to

⁹⁸ Alt, "Ambiguous Government," 240-244.

⁹⁹ *Ibid.*, 248-249.

bring about the biggest changes in consumer perceptions of the state of the economy. The economic event with the largest impact was the disturbance caused by the October 1973 Oil embargo, while government actions with a long range and unpredictable impact, such as the decision to join the European Common Market, and to negotiate a stabilization pact with the IMF were the most influential policy decisions.¹⁰⁰ In other cases the impact of government action appeared to be contradictory to its purposes. For example, a budget aimed at encouraging reflation appears to have confirmed people's fears that the economy was in recession: why else would a government try such a policy course? Similarly a deflationary budget seems to have encouraged confidence about the present economy: if times were not good, why would the government tighten fiscal and monetary policy? However, these events had little impact on consumer sentiment about future conditions.¹⁰¹

Alt's work gives substance to the proposition with which section 3.2 ended. It is unreasonable to assume *a priori* that citizens will respond as intended to the rhetoric and policy decisions of their leaders, rather than in some other manner. Second, Alt's general finding that political events tend to have a short-term impact on consumer sentiment, affecting their perceptions of the present state of the economy, must caution us to search for political events which could be impacting on consumer sentiment during the periods under study. These events could cause changes in consumer sentiment that either mask, or make a fortuitous and spurious contribution to, the impact of the

¹⁰⁰ *Ibid.*, 260.

¹⁰¹ *Ibid.*, 254 and 261.

independent variable that I will seek to assess, the rhetoric and policy decisions of neoconservative leaders. Third, Alt's study should also serve to warn against the impact which international events might be having on consumer confidence during the periods under study. Specifically, the Gulf War occurred during the American and Canadian recessions of the early 1990s. However, the Cold War also ended, with the November 11, 1990 Paris Treaty.

Vuchelen conducted a study similar to Alt's using data from Belgium for the time period 1973-1993. His study explored the possibility that changes in government (either through planned or unplanned elections or an inter-election change in coalition partners) could lead to changes in consumer confidence. An interesting aspect of his study is his acceptance that political institutions shape the impact that different events might have.

For example, he points out that elections in a stable two party system might have a different impact on consumer confidence, both in terms of magnitude and duration, than an election in a multiparty system where the vote is often only the first step to forming a government and in which lengthy negotiations might also be involved. He reasons that such elections would create more instability, and consequently elections would have a greater impact on consumer sentiment in countries with multiparty political systems. However, on the other hand, he also points out that a change in government might have less impact in such a regime than in a two party system. This is because in such a multiparty system there are often indispensable parties--parties that are large and which command key positions in the country's ideological spectrum such that it is impossible to form a government without their participation. When such parties exist (as

they do in Belgium) coalition building begins with the indispensable parties and then the leaders of these parties add smaller parties on their wings. Therefore, there is only a marginal difference between a centre-left and a centre-right government in countries such as Belgium. Consequently, along with structure, Vuchelen suggests that we also must take account of the historical context of the political events that we are observing in assessing their likely impact on consumer confidence.¹⁰²

This study indicates consumer confidence responds differently given the cause of governmental change. Inter-election government changes or the calling of expected elections (regardless of who wins) led to statistically significant drops in consumer confidence. In the case of unexpected elections, confidence was affected marginally if the election and change of government occurred in the same quarter. However, if the two events occur in different quarters, confidence is seen to increase with the formation of the new government. Vuchelen explains these differences using the following logic. In a multiparty system a change of government before the end of its natural life is usually the result of coalition instability. A change without an election might mean more instability to follow. However, unexpected elections lead people to believe that they will be granted a surprisingly quick release from an ineffective government. In other words, an unexpected election gives people hope to believe that things might get better soon. Elections at the end of a parliament's natural life, however, do nothing but cause uncertainty in a multiparty system as even a slight change in public sentiment can unhinge a coalition. In other words, regularly scheduled elections cause people to feel

¹⁰² Vuchelen, "Political Events and Consumer Confidence in Belgium," 567-568.

the future will be uncertain and might get worse.

Vuchelen finds that in all cases where government changes, the speed with which consumer sentiment changes seems to increase, as the lag which he found between change in Belgium's economic indicators and change in sentiment shortens in a statistically significant manner. This confirms his suspicion that in a multiparty system such as Belgium's, the population sees only marginal differences between centre-left and centre-right coalitions. The ideological composition of governments had little impact on consumer confidence. None of the ideological combinations observed in the time period produced a significant impact on consumer sentiment.¹⁰³

The results of the study suggest that I must exercise caution in assigning any difference in consumer reaction solely to the ideological outlook of the dominant political leaders during the 1980s. It would appear that the shape of the political system and the context of politics both play a role in determining the economic messages that citizens receive from the politics about the state of the economy. Care will have to be taken to give consideration to the role that elections or other changes of government might play in influencing consumer confidence during the periods under study.

3.4 Conclusions

In the previous chapter a review of literature dealing with the relationship between capitalist economies and democracy was presented. In this chapter this issue was again visited but from the perspective of the individual voter. The chapter began by reviewing

¹⁰³

Ibid., 576-577.

why discussions of the welfare state can be confusing, the term having become a catch-all phrase of political punditry, rather than a well defined concept of academic dialogue. The chapter then proceeded to look at who loves the welfare state and why. Evidence was presented that support for the welfare state has remained stable in spite of the success of political leaders and parties using neoconservative rhetoric and proposing policies based on this ideology's understanding of the world. Specifically it was noted that support has remained particularly strong for policies that seem to be represented by the insurance metaphor and for education, rather than those policies which seem to aid those who are deemed as non-contributors or slackers. However, even in the case of the most disliked programs, such as general welfare assistance, the public seems to be willing to offer support if the programs can be somehow reformed to better reflect the insurance metaphor.

Next the chapter discussed the problems that rational choice analysis has faced in trying to model support for the welfare state, using both the self-interest and the altruism perspectives. It then moved on to consider the growing number of studies that have begun to explore the welfare state as a program of insurance rather than as either distributive benefits demanded by self-interest or as charity produced by pure altruism. It was suggested that if the public does indeed support the welfare state programs due to an individual level desire for insurance, then it is feasible to ask how changes in their insurance schemes would impact on other areas of their economic lives. Finally in this section an attempt was made to look at the literature dealing with political leadership so as to make the following case: if the welfare state is to be conceived of as a bundle of

insurance programs, then political leaders should be seen as the insurance agents of the welfare state, with the public learning about what sort of coverage they have, at least in part, from their rhetoric and actions. It was also noted that just because the public learns about the quality and extent of their insurance coverage from their political leaders, it does not necessary follow that they will draw the same conclusions from this information as their leaders have drawn nor will they necessarily behave as their leaders would like.

The next section of the chapter turned to a consideration of the literature which explores the linkages between consumer sentiment and politics. Unable to clearly find the link between economic conditions and political support, students of public opinion and elections have begun turning to the use of indicators of consumer sentiment, rather than just objective economic measures, in creating models of political support with promising results. These studies seem to indicate that opinions about the economy and its future state are separate from objective economic conditions and are open to influence by other factors, such as politics. Further, they seem to show that people remain optimistic in a slump, at least in part, because they believe that there is an implicit government guarantee against allowing slumps to become catastrophes similar to the Depression. These findings offer encouragement to this study. They hold out the potential of finding a link between the behaviour and rhetoric of neoconservative leaders and consumer sentiment. They also highlight the salience of the research question and offer a mechanism to illustrate how neoconservative rhetoric and governance styles might translate into a deepened recession. An extended period of neoconservative rhetoric and governance might have eroded confidence in the guarantee which the public once

assumed that Western liberal capitalist democratic government offered against economic catastrophes, the promise to act before recessions become depressions. A perceived weakening of this guarantee might allow consumer confidence to fall lower than it otherwise would have and thereby deepen the recession. The studies discussed in this section also seem to indicate that all the components of the consumer sentiment indices are important to predicting political support. Consequently, disaggregating them will probably not offer any pay off for this project.

The final section began by considering a study which demonstrated that short-term economic conditions have a weaker impact on electoral outcomes when welfare states are more fully developed. The authors hypothesized that this is because the more advanced the welfare state, the less people would be concerned with short-term economic conditions. This study seems to offer indirect support for the thesis being advanced here, that if the public feels the welfare state is being undermined, their confidence in the economy might fall. However, this is only indirect support and the measure of welfare state development which was selected by these authors, public expenditures on welfare state programs, is also somewhat weak. Again, this study suggests that I might be on the right track. There is enough evidence to make it seem plausible that the welfare state can influence consumer confidence, though this must be tested directly.

Finally this chapter reviewed two studies which explored the impact of politics on economic confidence using indices of consumer sentiment as dependent variables. These studies pointed out both the feasibility of using these sorts of measures as dependent variables and a few factors which this project will have to take into account.

Specifically these studies demonstrated that political events (domestic and international) can have both short and longer-term impacts on consumer confidence. As this project is attempting to demonstrate that a decade of neoconservative rhetoric and governance had a negative impact on consumer sentiment, caution will have to be exercised so that account is taken of events which could simultaneously be impacting on sentiment, such as international disturbances and changes of government. Furthermore, the impact of these events might be strengthened or weakened by the shape of a society's political institutions. Consequently, account must also be taken of these structures.

Chapter 4: Canadian and American Political Institutions, Differences, Similarities and Impact

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4.1 Introduction: The Re-emergence of Institutional Analysis

As discussed in Chapter 2, institutional analysis has enjoyed something of a renaissance in the last 20 years. Research on institutions faded into the background during the behaviouralist revolution of the 1950s and 1960s. For many of the behaviouralists, institutions were often nothing more than empty theaters, only animated by the behaviour of individuals and groups who came to these settings to socially and politically interact. Traditional Marxists were equally unconcerned about institutions. They believed that the institutions of Western liberal democratic politics were the simple instrumental products of ruling class power and were, therefore, incapable of serving any purpose other than the reproduction of capitalist productive relations.

In the late 1960s and early 1970s both camps began to reconsider their positions and began to make room in their explanations for the impact of institutions. Soon, however, others began to put forward theories in which institutions played a leading role as causal variables. The first half of the 1980s saw the publication of a number of works which took on board this renewed interest in institutions. Many of these studies dealt with the nature and the role of the state in shaping the preferences and decisions of social actors as well as state elites and the consequences of this for public policy.¹

¹ See for example, Suzanne D. Berger, (ed.), *Organizing Interests in Western Europe: Pluralism, Corporatism, and the Transformation of Politics*, (Cambridge: Cambridge University Press, 1981); Peter Evans, Dietrich Rueschemeyer and Theda Skocpol, (eds.), *Bringing the State Back In*, (Cambridge: Cambridge University Press, 1985); Eric A. Nordlinger, *On the Autonomy of the Democratic State*, (Cambridge, MA: Harvard University Press, 1981).

It is the author's view that political institutions act as mediating variables. They do not create policies but they create channels that make it more likely for some policies to be enacted than others. Differing political institutions also create hurdles of differing height that governments must overcome when they wish to make policy.² Atkinson summarizes the impact of political institutions when he writes that, "[w]e can think of something relatively constant (institutions) 'causing' something relatively variable (policy) only if we understand that institutions supply decision processes, which in turn, have persistent effects on policy."³ Consequently, if citizens are rational (as this investigation assumes), and aware of these channels and barriers, they will not only take account of the rhetoric and symbolic behaviour of their leaders but also discount them to the degree that they believe political institutions will either facilitate or hinder attempts to translate a leader's documented views into governance.

A rhetorical attack on the merits of public pension plans by a neoconservative national leader, or, a government proposal to reduce benefits, might be more deeply discounted by an American or a Canadian audience than a British one. The American audience would recognize that the checks and balances in their political system would make it difficult for the rhetoric to be turned into policy decisions or for the proposal to be adopted completely intact. To quote one popular text book on American politics and

² Ellen M. Immergut, *Health Politics: Interests and Institutions in Western Europe*, (Cambridge: Cambridge University Press, 1992), 7 and 24-26.

³ Michael, M. Atkinson, "Public Policy and New Institutionalism," in Michael M. Atkinson, (ed.), *Governing Canada: Institutions and Public Policy* (Toronto: Harcourt Brace Jovanovich, 1993), 23.

government: "The advantage always seems to lie with those who would delay, deflect, or derail."⁴ The Canadian audience might reach a similar conclusion, recognizing that a major component of the pension system, the Canada Pension Plan, is a joint federal-provincial responsibility, and that Canadian intergovernmental bargaining is frequently complicated and slowed by regionalism, constitutional grievances and the partisan needs of the federal and various provincial governments.⁵ On the other hand, the British audience would realize that the combination of a unitary state and a parliamentary system of government offers very few barriers to the will of a prime minister provided that their cabinet is united behind them and provided that they can command a majority of the members of parliament, which is usually the case in modern Britain.⁶ Therefore, the British audience might be less likely to discount a rhetorical attack on pension benefits. Yet, even then, the audience might demonstrate some skepticism as other factors might still upset the plans of even a strong willed prime minister such as a Margaret Thatcher.

⁴ D. Grier Stephenson, Jr., Robert J. Bresler, Robert J. Friedrich and Joseph J. Karlesky, *American Government, Second Edition*, (New York: Harper Collins, 1992), 41.

⁵ *Toronto Star*, (15 April, 1996), B5; J. Stefan Dupré, "The Workability of Executive Federalism in Canada," in Herman Bakvis and William M. Chandler, (eds.), *Federalism and the Role of the State*, (Toronto: University of Toronto Press, 1987), 243-249; Daniel Cohn, "The Canada Health and Social Transfer: Transferring Resources or Moral Authority Between Levels of Government?" in Patrick Fafard and Douglas M. Brown, (eds.), *Canada: The State of the Federation, 1996*, (Kingston, ON: Queen's University Institute for Intergovernmental Relations, 1996), 180-182.

⁶ Christopher Hood and Oliver James, "The Central Executive," in Patrick Dunleavy, Andrew Gamble, Ian Holliday and Gillian Peele, (eds.), *Developments in British Politics, Fifth Edition*, (New York: St. Martin's Press, 1997), 177-183. Richard Rose, "Prime Ministers in Parliamentary Democracies," *West European Politics*, 14, (1991), 9.

"A significant concentration of political authority is not a sufficient condition for dramatic reform, but it seems to be a necessary one."⁷

One reason the audience might demonstrate some skepticism is because these channels and hurdles not only vary by country but also to a considerable extent by issue area.⁸ For example, Canadians might totally discount a provincial leader's rhetorical attacks on universal health care because they are aware that eliminating the program would be very difficult given the role played in this policy field by both the federal government and the autonomous quasi-governments of the health care sector, such as the College of Physicians and Surgeons. However, such rhetoric might sound like a more credible threat to them if it were aimed at other programs, such as university education, where the federal government plays a far less active role and quasi-governments are non-existent.

According to Weaver and Rockman there are three important sets of institutional factors which must be addressed in a comparative analysis that wishes to take account of the impact of political institutions:

- Whether or not the countries have presidential or parliamentary political systems.
- The regime type that characterizes party competition and government formation. In the case of parliamentary systems the question is whether a majority in the legislature is most often the result of coalitions, one party government, two or one party dominance. In the case of presidential systems, the issue is whether or not

⁷ Paul Pierson and Miriam C. Smith, "Bourgeois Revolutions? The Policy Consequences of Resurgent Conservatism," *Comparative Political Studies*, 25, (1993), 489.

⁸ William D. Coleman and Grace Skogstad, "Policy Communities and Policy Networks: A Structural Approach," in William D. Coleman and Grace Skogstad, (eds.), *Policy Communities and Public Policy in Canada: A Structural Approach*, (Mississauga, ON: Copp Clark Pitman, 1990), 15.

one party tends to simultaneously control the legislature and presidency or whether "cohabitation" is the norm.

-The final set of institutional factors that they identify refers to the centralization of political power and the capacity of actors to wield this power, which can be affected by such factors as federalism, judicial review of policy based on entrenched constitutional rights, bicameralism and the existence of previous policies that can restrict the freedom of action of current political actors (i.e. policy legacies).⁹

Pierson warns that a simple consideration of institutional factors is not enough.

One must also take account of the policies involved (as noted above) also, whether or not the goal being sought by political leaders is policy expansion or retrenchment. This is because institutions might produce different effects given different leadership objectives.¹⁰ This chapter will examine the political institutions of Canada and the United States using Weaver and Rockman's strategy and keeping Pierson's observation in mind. It will be argued that although there are indeed important institutional differences between Canada and the United States, the net effect of these institutional arrangements is nevertheless fairly similar, at least as far as is of concern to this project. The structure of political institutions in the two countries equally limit the autonomy that national leaders--the American president and the Canadian prime minister--can expect to exercise if their goal is the retrenching of economic, health and welfare policy. In the United States the key factor in limiting the president's policy making autonomy is the Congress. However,

⁹ R. Kent Weaver and Bert A. Rockman, "Assessing the Effects of Institutions," in R. Kent Weaver and Bert A. Rockman, (eds.), *Do Institutions Matter? Government Capabilities in the United States and Abroad*, (Washington: The Brookings Institution, 1993), 11-35.

¹⁰ Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, (Cambridge: Cambridge University Press, 1994).

given the antipathy that the Southern congressional delegations and state leaders have historically shown to the welfare state, Congress is not as steep a barrier as it is often portrayed to be when the topic is welfare retrenchment. Meanwhile in Canada, federalism plays an equally important role in limiting the policy making autonomy of prime ministers in these fields. As will be shown below, much of Canada's welfare state is the joint responsibility of the federal and provincial governments. However, many programs are within the direct control of the federal government. Such programs include unemployment insurance, and the size and scope of federal transfers to the provinces which help pay for the welfare state. Yet, in reality, the fragility of Canada's national unity is such that, in fact, no decision can be made by any federal government without a careful consideration of the implications for federal-provincial relations. As well, unlike in the United States, the political leaders of the poorer regions of the country and the parliamentary delegations that these regions send to Ottawa are under intense pressure from their electors to defend welfare state spending. These environmental factors serve to equalize the level of institutional resistance that national leaders seeking to retrench the welfare state would face in the United States and Canada. Both nation's leaders face significant barriers, but in the case of the United States they are not as steep as a one-dimensional reading of the division of powers system would predict and in Canada they are steeper than a simple one-dimensional reading of the parliamentary system would predict.

4.2 Differing Political Systems: Presidential and Parliamentary

One of the basic features of any political system is whether the executive power is held by an individual or group of individuals responsible to the legislature (parliamentary systems) or by an individual who enjoys an electoral mandate separate from that of the legislature (presidential systems). A third possibility is a dual arrangement, where certain policy areas are in the purview of the directly elected President and others are in the purview of the Prime Minister, who is responsible to the legislature (as is the case in France).¹¹ The United States is often used as the proto-typical model of a presidential political system, while Canada is often seen as a derivative of the purely parliamentary model that has its origins in Great Britain and is sometimes called "the Westminster Model."¹² In fact, the very first paragraph of the Preamble to Canada's constitution states that it is the express desire of Canadians to have "a Constitution similar in Principle to that of the United Kingdom."¹³

This difference between parliamentary and presidential structure is commonly assumed to be an important factor for explaining the dynamics of the political process in any country, and the resultant policies. The common assumption is that a prime minister

¹¹ Howard Machin, "Political Leadership," in Peter A. Hall, Jack Hayward and Howard Machin, (eds.), *Developments in French Politics*, (London: Macmillan, 1990), 95-113.

¹² Robert J. Jackson and Doreen Jackson, *Comparative Government: An Introduction to Political Science, Second Edition*, (Scarborough, ON: Prentice Hall, 1997), 216-217; Alex Gagnich, Lawrence Graham, Jorgen Rasmussen and Taketsugu Tsurutani, *Politics and Government, Second Edition*, (Chatham, NJ: Chatham House, 1987), 1-49.

¹³ Once called the *British North America Act*, since 1982 this document has been titled *The Constitution Act of 1867*.

and his or her cabinet colleagues, controlling a legislative majority, can take decisions, even tough and unpopular decisions, and shepherd them through the legislature in a more expedient manner than can a president, due to the party discipline that is imposed by the parliamentary system. Meanwhile, presidents must work with the legislature rather than through it.¹⁴ American and Canadian national political institutions seem to conform to the above patterns. Writing about the role of the Canadian prime minister Aucoin notes:

The prime minister has no equal within this structure of government. There are constitutional limits on the powers of the prime minister, as well as practical political limits on what a prime minister can do unilaterally. But, even within these bounds, a Canadian prime minister has powers that are not exceeded in any other democratic regime.¹⁵

On the other side of the border, the presidency of the United States might be the most powerful political office in the world, yet as Peterson reminds us, it also coexists with the most powerful legislature.

While the presidency of the modern era is certainly a different and vastly more powerful institution than the presidency of the last century, the same is true of Congress. Both have extended their range of political and policy involvement beyond the wildest imaginations of even so strong an advocate of the nation-state as Alexander Hamilton... Both institutions, in a sense, simultaneously enjoyed an expanding scope of authority. In addition, the concentration on confrontational institutional power ignores the representative, policy making, and oversight roles performed by Congress as it both formulates its own

¹⁴ Weaver and Rockman, "Assessing the Effects of Institutions", 11-12; David M. Olson and Ronald E. Weber, "The U.S. Congress and National Executive," in David M. Olson and C.E.S. Franks, (eds.), *Representation and Policy Formulation in Federal Systems: Canada and the United States*, (Berkeley, CA: Institute of Governmental Studies, 1993), 76

¹⁵ Peter Aucoin, "Prime Ministerial Leadership: Position, Power, and Politics," in Maureen Mancuso, Richard G. Price and Ronald Wagenberg, *Leaders and Leadership in Canada*, (Toronto: Oxford University Press, 1994), 99.

legislative responses to policy issues and deliberates those suggested by the president.¹⁶

Comparing the American and Canadian national political systems, Taras and Pal describe the difference in the concentration of power that the two systems allow as "glaring."¹⁷ To understand why this difference in the concentration of power is important it is necessary to consider the concept of veto points.

A veto point is a point in the political process where uncertainty reigns. It is a point where those opposed to governmental action can intervene to defeat such actions. It is also a barrier to the exercise of authority that a government must overcome in order to act.¹⁸ The concentration of power in the Canadian national political system makes it virtually impossible for those opposed to (or in favour of) a given action to intervene, once the cabinet decides to either proceed and introduces a bill, or, once it dismisses a potential course of action. The government *is* the government because it holds the confidence of the majority in the House of Commons. Should a major piece of legislation be defeated on a vote in the House after being introduced by the government it could indicate that the House had lost confidence in the government and trigger its resignation and, potentially, a new election. Therefore, when members of the governing party choose to vote against government legislation, they are not only

¹⁶ Mark A. Peterson, *Legislating Together: The White House and Capitol Hill from Eisenhower to Reagan*, (Cambridge, MA: Harvard University Press, 1990), 10.

¹⁷ Leslie A. Pal and David Taras, "Introduction," in Leslie A. Pal and David Taras, (eds.), *Prime Ministers and Premiers: Political Leadership and Public Policy in Canada*, (Scarborough, ON: Prentice Hall, 1988), xv.

¹⁸ Ellen Immergut, *Health Politics*, 8 and 26-32.

placing the government in jeopardy but also their own seats. As a result, although the government might withdraw and/or amend its own bills, or even let its bills die on the order paper, it rarely countenances their defeat. On average 80 percent of all legislation introduced by the government eventually becomes law.¹⁹ Consequently, the only real veto point is in the pre-legislative phase when bureaucrats are preparing policy options for their ministers and ministers are debating their preferred courses within the cabinet. Once the cabinet reaches a decision and the prime minister assents, the room for debate is not completely eliminated, but it is exceedingly narrow.

In the United States there are a multitude of veto points built into the legislative system. To begin with the president, unlike the prime minister, does not control the legislative agenda. The American president plays a much more ambiguous role in the legislative process than does the Canadian prime minister. To a certain degree each president is left to define his own role. Some, such as Lyndon Johnson, have been active legislators. These presidents advocate for or against bills on a daily basis and see it as their duty to have an opinion on almost every issue. Others, such as Dwight Eisenhower, have preferred to be less involved in the process. These presidents restrict their interest to a small handful of bills which they consider to be crucial to their presidency, often refusing to take a position on other important bills until the final

¹⁹ Robert J. Jackson and Doreen Jackson, *Politics in Canada: Culture, Institutions, Behaviour and Public Policy*, Third Edition, (Scarborough, ON: Prentice Hall, 1994), 345-346; C.E.S. Franks and David M. Olson, "Representation and the Policy Process in Federal Systems: Introduction," in David M. Olson and C.E.S. Franks, (eds.), *Representation and Policy Formation in Federal Systems: Canada and the United States*, (Berkeley, CA: Institute of Governmental Studies, 1993), 14.

form, or near final form, begins to emerge in the Congress. Other presidents have fallen somewhere in between.²⁰

Second, unlike in the parliamentary system, the president does not have to maintain the confidence of the legislature to stay in power. Instead elections are held at regular intervals regardless of the outcome in the legislative session. As the defeat of any one bill will not bring about fresh elections those opposed can vote against a bill without putting their seat in immediate jeopardy in a snap election. This makes American legislators susceptible to other pressures such as the particular interests of their constituents or the concerns of pressure groups.²¹ Even if one house passes a bill, the other might defeat it or pass a similar bill in a different form. In these cases a conference committee of the two houses must iron out the differences and re-submit their compromise to their respective chambers. Finally, the bill which emerges from this process might so displease the president as to provoke a veto, which nullifies all the previous work unless two-thirds of both chambers vote to over-ride the veto.²² As a result, lobbying for and against legislation occurs in the pre-legislative, legislative and post-legislative phases, at the bureaucratic and administration levels, as well as among

²⁰ Peterson, *Legislating Together*, 234-267. This sort of presidential fence-sitting is precisely what happened with the August, 1996 reform of the major social assistance programs in the United States. President Clinton was ambivalent throughout the drafting and legislative debate, promising to keep an open mind but reminding people he had already vetoed similar proposals. After the final form of the bill began to take shape and after an allegedly heated cabinet debate, President Clinton announced he would support it. *New York Times*, (1 August, 1996), 1 and 22.

²¹ Franks and Olson, "Representation and Policy Formation," 14.

²² Stephenson, et. al., *American Government*, 444-452 and 484-485.

the leadership and members of both chambers of the legislature as veto points are present at all these levels and can be actuated by a wide variety of actors within the political system. Given the multitude of veto points it should be harder for a national leader to steer legislation through the American system than the Canadian system which presents fewer veto points for those who wish to influence policy.

One of the most commonly used examples to demonstrate the role of Congress in limiting the policy autonomy of the president is the “New Deal” legislation brought forward by President Franklin Delano Roosevelt to deal with the economic and social dislocation caused by the Depression. As discussed in Chapter 2, no president faced a better climate for state expansion than Roosevelt did. The previous political-economic order was in tatters, the *laissez faire* policies of his opponents were discredited in the public eye and a highly respected economist, Keynes, further buttressed this view by producing a viable theoretical argument as to why the public was right and the previous views of experts were wrong.²³ Furthermore, a new set of business interests had emerged to challenge the hegemony of the previously dominant group. The new and growing interests--based in high-value-added manufacturing and finance--needed a prosperous working-class so as to provide a market for their products. The previously hegemonic group which they were replacing--based in lower value added primary manufacturing, resource extraction and agriculture--was more susceptible to competition

²³ John Maynard Keynes, *The General Theory of Employment, Interest and Money*, (London: Macmillan, 1936).

and wanted no part of an expansionist state, the taxation it would require or the higher wages that its decommodificative powers might support.²⁴

Nevertheless, Roosevelt still had to fight to get his legislation through the Congress. "The most significant political leader in twentieth-century America, Roosevelt repeatedly went down to personal defeat, leaving others to compose an order of their own out of the wreckage of his much grander ambitions."²⁵ Among the most important compromises forced on Roosevelt was the need to tie most benefits in the new welfare state to employment status. Once the new industries accepted the legitimacy of unions, and the Supreme Court upheld the legitimacy of *the Wagner-Connery Act* (which mandated a National Labour Board to insure "fair" labour practices), the stage was set for a minimalist liberal welfare state. The welfare state would provide a minimal floor. Almost all other welfare services would be provided through employment benefits, won through collective bargaining, and would be tax deductible to the employer or purchased by individuals in the private market. The Southern Democrats who controlled the committees of Congress blocked all other efforts.²⁶ Even to get this much, it appears that the President had to promise his own

²⁴ Thomas Ferguson, *Golden Rule: The Investment Theory of Party Competition and the Logic of Money Driven Political Systems*, (Chicago: University of Chicago Press, 1995), 79-86 and 113-172.

²⁵ Stephen Skowronek, *The Politics Presidents Make: Leadership from John Adams to George Bush*, (Cambridge, MA: The Belknap Press of Harvard University Press, 1993), 294.

²⁶ *Ibid.*, 316-317; Linda Faye Williams, "Race and the Politics of Social Policy," in Margaret Weir, (ed.), *The Social Divide: Political Parties and the Future of Activist Government*, (Washington and New York: The Brookings Institute and the Russell Sage Foundation, 1998), 419-421.

party that he would not press the issue of civil rights in the South. The net result was that to a considerable degree the non-unionized labour force of the South benefited least from the new deal and African-American Southerners were even more excluded from its benefits.

However, while differences clearly exist in the legislative processes and the theoretical concentration of power, what such differences mean in the concrete world is more debatable. First, a lot depends on the character of the leader who takes control of these institutions. Individuals can skillfully manage even the most diffuse policy systems to produce results. Presidents Lyndon Johnson and Jimmy Carter both had the same institutions to work with, yet Johnson was far more effective at getting his legislation through the Congress, ruling in an almost prime ministerial manner.²⁷

Second, there is the issue of what the leader wishes to accomplish and when he or she comes to power in the history of his or her society. Not all leaders wish to make revolutionary changes, challenging an existing policy regime and replacing it with a new political-economic order. Some see their mission as being the consolidation of a past leader's victories or the healing of wounds left from these past battles. David Mervin speaks of these leaders as "Guardians".²⁸ Finally, some leaders come to power

²⁷ David R. Mayhew, *Divided We Govern: Party Control, Lawmaking and Investigations, 1946-1990*, (New Haven, CN: Yale University Press, 1991), 90. Not only did he manage to shepherd a large quantity of legislation through the Congress but much of it was quite controversial. Such controversial items included, the Civil Rights Act of 1964, the Voters' Right Act of 1965 and the last major expansion of American social policy, collectively referred to as "the Great Society" program.

²⁸ David Mervin, *George Bush and the Guardianship Presidency*, (New York: St. Martin's, 1996), 8-9.

at times which seem to necessitate strong and determined action and others when such action would be actively resisted by the majority. Skowronek notes that national leaders, *a priori*, have power. What national leaders do not necessarily have is the authority to use this power.²⁹ To a considerable degree he sees this authority as being created by the successes and failures of the current policy regime, in other words context or historical circumstances.

Leadership opportunities hinge on whether the governing commitments embodied in previously established institutional arrangements are resilient or vulnerable. Do those commitments claim formidable political, organizational, and ideological support? Do they offer credible solutions or guides to solutions to the problems of the day? Or have they in the course of events become open to attack as failed and irrelevant responses to the nation's problems? Have the old solutions themselves become the problem? The more resilient received commitments are, the more authoritative the affiliated leader will be in his determination to continue or complete the work, and the more problematic the determination of opposition leaders to reverse course and challenge basic governing arrangements. Conversely, the more vulnerable received commitments are, the more authoritative the opposition leader will be in his determination to displace basic governing arrangements, and the more problematic the determination of the affiliated leader to continue.³⁰

Keeler also notes this opportunity factor, arguing that at certain times events coincide to open up the policy process, allowing leaders and governments to pursue "dramatic and wide-ranging developments on the political and social scene." He describes these coincidences as "macro-windows" in the policy process. In a study of France, the United Kingdom and the United States, Keeler shows that these windows are created by

²⁹ Skowronek, *The Politics Presidents Make*, 17-32.

³⁰ *Ibid.*, 36

the winning of a substantial electoral majority and the presence of a severe crisis in the government's first months in office.³¹

The view that the parliamentary system allows for greater concentrations of power and policy autonomy for national political leaders than does a presidential system also rests on certain assumptions about the other components of the political system. First, it is assumed that the party system in the parliamentary democracy regularly delivers up majority governments. If the leader must rely on a minority or a coalition, considerable inter-party bargaining will be required and the prime minister's policy autonomy will be lost. Second, it assumes that either party discipline fails to emerge in the legislature of the presidential democracy, so that the legislature (composed of self-interested autonomous members) is always in opposition to the president, or that the legislature is usually in control of a disciplined party opposed to the president and his or her party. Further, the prediction that the parliamentary system will demonstrate greater policy making efficiency assumes that the legislature is the only structure in the political system capable of constraining the will of the prime minister. While this last condition might be a reasonable assumption in the British Westminster system, it is more problematic in the Canadian derivation of the model where Parliament exists in a federal structure and also must confront an increasingly active judiciary equipped with the power to constitutionally review legislation. These matters will be more fully discussed in subsequent sections.

³¹ John T.S. Keeler, "Opening the Window for Reform: Mandates, Crises, and Extraordinary Policy-Making," *Comparative Political Studies*, 25, (1993), 436.

4.3 Party System Regime Types

As noted above, it is somewhat unrealistic to assume that all prime ministers will have unrestrained power or that all presidents will face either a hostile legislature, with enough constitutional power to thwart them, or one made up of individual opportunists. In order to take account of this, Weaver and Rockman identify a variable that they call "regime type". Regime type is constructed through a combination of the previous variable (the nature of the executive) and the nature of the party system; multiparty, two dominant parties or one dominant party, in parliamentary systems; and whether or not the president and legislature are typically of the same party in presidential systems.³²

The importance of this variable is that when a party can rule alone, it faces fewer barriers to the enactment of its agenda. For example, in a parliamentary system where there are two dominant parties, leaders expect to be able to rule in such a way. Similarly, in presidential systems in which one-party rule dominates, the president as head of his or her party tends to assume control over the legislative party, dissolving the supposed separation of powers. This is certainly what happened in France prior to the 1986 election (which for the first time returned a legislature in which the opposition to the president possessed a majority).³³ The main barrier that party leaders face in their quest

³² Rockman and Weaver, "Assessing the Effects of Institutions", 19-20.

³³ Howard Machin, "Political Leadership," 105. Throughout much of his political career François Mitterrand opposed this sort of fusion of powers, first as one of the few leading politicians who campaigned against acceptance of the Constitution of the Fifth Republic and later as an opposition leader in the National Assembly. He argued that under De Gaulle and Pompidou the Prime Minister of France had become responsible to the President, rather than the legislature. Therefore it should have been no

for power in such majoritarian parliamentary and presidential systems is the other dominant party. Therefore, they have less inclination to compromise and a vested interest in being very aggressive in their critiques of the other party (both while in opposition and while in power). In such situations politics is literally a game with a winning and losing side at every election and there is little worry about needing to reach working agreements with the other party (or parties) once the election is over.

On the other hand, in a parliamentary multiparty system, or a presidential system in which the legislature is frequently in control of a party other than that of the president, leaders must learn to compromise and conciliate because there is a strong likelihood that the leaders of the parties will have to work together after the election. In these cases elections are not so much about which party wins or losses but about the terms of debate and the powers each party will possess once government begins sitting again. In a single party system one party is of such dominance as to exclude all other parties, not only from government but also from relevance, for long stretches. In this situation inter-party politics is no longer a game but a facade and the real debates and deliberations occur within the dominant party's caucus and conferences.

- In order to determine whether or not a parliamentary country exhibits a two dominant party, multiparty or single dominant party regime we will use a combination of two measurements: Effective number of parliamentary parties and the index of majority

surprise that he proved willing to work with an opposition controlled legislature rather than seeking to thwart its every step when the first such body was elected in the middle of his first term of office. Joseph P. Morray, *Grand Disillusion: François Mitterrand and the French Left*, (Westport, CN: Praeger, 1997), 29; François Mitterrand, *The Wheat and the Chaff*, (London: Widenfeld and Nicholson, 1982), 50.

governance. There are several ways in which we could try to determine the number of political parties in a political system. One way would be to simply count the number of parties obtaining seats in each parliament and then take the average score. However, some parties are so small that even when they combine with other small parties they rarely have any impact on the political process.

The effective number of parliamentary parties measurement tries to compensate for this by taking account of the size of each party's contingent relative to the other parties.³⁴ If all the parties win an equal number of seats the effective number of parties would equal the number of parties that gained representation in the legislature. This number decreases as the relevance of parties diminishes. For example, between 1975 and 1990 the effective number of parties in Sweden was 3.5 even though 6 parties gained seats in the Parliament during this era. This indicates that although Sweden indeed has a multiparty system its behaviour should not be as fragmented as the raw number of parties would indicate and in fact this has been the case. During this period government has rested in the hands of either the Social Democrats (nine years) or a coalition of three right-of-centre parties (six years).³⁵

The second measure that we will use is the index of majority governance. This is simply the percentage of governments that are the product of a one party majority in the

³⁴ The formula for this measure is $N_e = 1/\sum s_i^2$, Where N_e is the effective number of parliamentary parties and s_i is the percentage of all available seats won by a party in the time period. Markku Laakso and Taagepera Rein, "Effective Number of Parties: A Measure with Application to West Europe," *Comparative Political Studies*, 12, (1979), 3-27.

³⁵ Daniel Cohn, *Reforming Health Care in Canada and Sweden: 1975-1990*, (Stockholm, SE: IGS-Stockholm University, 1992), 40-41

legislature. Here again the results are intuitive and easy to interpret. The Netherlands has a score of 0.00, as it has never had a single party majority government in the post war era, while the United Kingdom has a score of 0.92, as virtually every government it has had in the post-war era has been supported by a single party majority.

Lijphart provides scorings for twenty seven countries on both of these measures for the time period 1945-90. According to his calculations the effective number of parties in Canada's federal Parliament is 2.37 while the index of majority governance is 0.60.³⁶ These numbers make intuitive sense as Canadian governments are more often than not majorities, although not as frequent as the British incidence of majorities. Second, only two parties have been called upon to form governments in the post-war era, the Liberals and the Progressive Conservatives, though at times they have had to rely on the support of relatively large third parties to maintain power. If we only look at the sessions of Parliament that sat during the time period of this study (1979-1996) these numbers change, and the changes are magnified as a result of the 1993 election. Using these figures³⁷ the index of majority governance is 0.80 (four of five elections produced majority governments) and the effective number of parties also rises to 2.87. This is an interesting result as the two measures now conflict. While the index of majority governance says that parties should expect to form majority governments (there is in fact

³⁶ Arend Lijphart, *Electoral Systems and Party Systems*, (Oxford, UK: Oxford University Press, 1994), 160-162.

³⁷ The figures that these calculations are based on are found in Jackson and Jackson, *Politics in Canada*, 498.

a 4 in 5 chance of doing so) the effective number of parties measure tells us that party system is more like a multi-party system, than a two party system.

To understand this we have to consider what happened in the 1993 election. Essentially, one of Canada's two major parties, the Progressive Conservative (PC) party, fragmented into three separate parties, The Reform Party, The Bloc Québécois and a rump of the older party. Based primarily in Western Canada, the Reform Party was formed in response to Western concerns that the PC government of former Prime Minister Mulroney was ignoring the concerns of that region. Elsewhere in Canada the Reform Party appeals to the ideologically committed right. It is as close to a neoconservative party as Canada has had, with its attempt to create a coalition of "old liberals" on the libertarian, pro-capitalist right and "populist conservatives" in the guise of both religious fundamentalism and regional alienation.³⁸ The Bloc Québécois is committed to working towards the separation of Quebec from Canada via democratic means within Quebec. It was formed when a group of Quebec nationalists MPs abandoned the PC caucus after the failure of Prime Minister Mulroney's attempt to gain increased cultural autonomy for Quebec in the Canadian constitution.³⁹ Finally a rump of the old PC party continues to soldier on as a pragmatic, non-ideologically motivated, right-of-centre party.

³⁸ Trevor Harrison, *Of Passionate Intensity: Right-Wing Populism and the Reform Party of Canada*, (Toronto: University of Toronto Press, 1995).

³⁹ André Bernard, "The Bloc Québécois," in Alan Frizzell, Jon H. Pammett and Anthony Westell, (eds.), *The Canadian General Election of 1993*, (Ottawa: Carleton University Press, 1994), 79-83.

However, it still seems reasonable to classify Canada as having a parliamentary two dominant party regime (for the purposes of this project) as during the period under study a majority government existed for all but nine months of the period. Second, although the effective number of parties has risen and is now closer to 3 than 2, it is still under 3, which is quite a remarkable result when one considers that during the period under study six parties have held seats in the House of Commons. In fact, during the 1993-1997 Parliament only three of the five parties holding seats were large enough (12 seats or more) to earn "official party" status. Historically, Canadian politicians have come to expect that a majority government is the norm, unlike in other countries where long experience of minority government has created different, more consensual, forms of behaviour. Yet one cannot ignore the rise of regionalist factions within the PC party. This is because the need to control the fragmentation of his party surely reduced the policy autonomy available to Prime Minister Mulroney in the last years of his second term of office. It would seem that the Canadian party system is in transition. It is possible that some future prime minister will have to confront the reality of ruling over a House of Commons from which no majority will be formable, as the electorate will have become so fragmented as to have no interest in returning one. The April 1998 election in Nova Scotia (which returned a legislature split among 19 Liberals, 19 New Democrats and 14 Progressive Conservatives) might indicate that just such a future is on the way. However, it was not in place during the period under study in this project.

In the case of presidential systems the most important question is not the number of parties in the legislature but whether the presidency and the legislature regularly fall

under the control of the same party or coalition of parties. This will be referred to as “one-party rule” and I will follow the French terminology by describing the opposite situation (where the presidency and legislature are in control of opposing parties) as “cohabitation”.

Table 4.3.2 Cohabitation and Congruence in the United States, 1945-1996

Years	President	Congress	Majority Party in House	Majority Party in Senate	One Party Rule/ Cohabitation
1945-53	Truman (Dem)	79th 80th 81st 82nd	Dem Rep Dem Dem	Dem Rep Dem Dem	Cohabitation
1953-61	Eisenhower (Rep)	83rd 84th 85th 86th	Rep Dem Dem Dem	Rep Dem Dem Dem	Cohabitation Cohabitation Cohabitation
1961-63	Kennedy (Dem)	87th	Dem	Dem	
1963-69	Johnson (Dem)	88th 89th 90th	Dem Dem Dem	Dem Dem Dem	
1969-74	Nixon (Rep)	91st 92nd 93rd	Dem Dem Dem	Dem Dem Dem	Cohabitation Cohabitation Cohabitation
1974-77	Ford (Rep)	94th	Dem	Dem	Cohabitation
1977-81	Carter (Dem)	95th 96th	Dem Dem	Dem Dem	
1981-88	Reagan (Rep)	97th 98th 99th 100th	Dem Dem Dem Dem	Rep Rep Rep Dem	Semi-Cohabitation Semi-Cohabitation Semi-Cohabitation Cohabitation
1989-92	Bush (Rep)	101st 102nd	Dem Dem	Dem Dem	Cohabitation Cohabitation
1993-96	Clinton	103rd 104th	Dem Rep	Dem Rep	Cohabitation

(Source for 1945-1989 data: Susan Welch, John Gruhl, Micahel Steinman and John Comer, *American Government, Fourth Edition*, [St. Paul: West Publishing, 1992], cover overleaf)

In the United States during the post-war era, instances of one-party rule and cohabitation have been fairly evenly split. During the 26 sessions of Congress noted above, one-party rule has occurred in 11 of the 26 sessions (or 42 % of the time). Cohabitation or semi-cohabitation (where only one house of Congress is in control of the opposition party) has

occurred in 15 of the 26 sessions (or 58% of the time). In recent times, however, cohabitation has been far more common. If we only consider the period of this study, only two of the nine sessions of Congress have demonstrated one-party rule. In the case of the United States, this factor, the incidence of cohabitation, is of increasing importance in that the other traditional barrier to presidential power, the lack of party cohesion in the two houses of Congress, has been disappearing over the past twenty years. It is perhaps a stretch to call the new found cohesion an increase in "party discipline." This is because the phenomenon is more the result of an increase in the ideological consensus within the Republican and Democratic caucuses and polarization between them, rather than the result of coercion by party leaders.⁴⁰

It would seem that the first assumptions on which the difference in effectiveness of presidential and parliamentary systems is based were met. The Canadian party system produced the necessary majorities to allow for prime-ministerial rule, while the American presidential system proved to be significantly fragmented, with presidents in the time period 1979-1996, more often than not, having to co-habitate with a Congress at least partially under the control of the opposition party.

⁴⁰ John Ferejohn, "A Tale of Two Congresses: Social Policy in the Clinton Years," in Margaret Weir, (ed.), *The Social Divide: Political Parties and the Future of Activist Government*, (Washington and New York: The Brookings Institute and the Russell Sage Foundation, 1998), 52-53; Russell L. Riley, "Party Government and the Contract with America," *PS Political Science and Politics*, 28, (1995), 706-707.

4.4 Other Institutional Structures that Serve as Barriers to the Exercise of Power

There are a wide variety of other factors that can also serve as institutional barriers to the exercise of political power. Weaver and Rockman identify three groups of factors that can act in this manner. The first are broad institutional factors other than the division of power between executives and legislatures. The most obvious example of this situation is federalism. Another example is the ability of judges to review legislative actions for their compatibility with the nation's constitution.

The second group of factors noted by Weaver and Rockman are features of the legislative branch that limit the concentration of power, such as rules that require qualified majorities in a wide number of matters or an upper chamber of the legislature that is more than a symbolic rubber stamp.

The third group of factors that they note are features of the environment in which politics occurs and the legacies created by past policies (such policy legacies will be discussed in the next chapter). For example, economic regionalism takes on new salience when it is combined with demographic factors such as ethnic, religious and linguistic division as it is in Belgium, Canada, Finland, Spain, Switzerland and the United Kingdom.⁴¹

For Weaver and Rockman these three groups of factors are an “everything else” sort of category and this can be seen by the scheme they use to describe the influence of institutions on politics. The nature of the political system (parliamentary or presidential) is described as the “first tier” of institutional influences on government and its capacities

⁴¹ Weaver and Rockman, “Assessing the Effects of Institutions,” 30–31.

to act. The party regime structure and the politics of elections is seen as a "second tier", while the influence of the factors we are discussing in this section are described as a "third tier" of institutional influences on government and its capacities to act.⁴² Looking at Weaver and Rockman's list of third level factors, it becomes clear that the most important third level factors are most often to be found in the first group of institutional characteristics that they identify, those factors that either divide the sovereignty of the state (such as federalism) or grant part of this sovereignty to other bodies not accessible to national politicians, such as is done by the institution of judicial review, or the appointment of autonomous officials, such as central bankers.

In the case of Canada this is certainly the case. Federalism is the single most important institutional check on the power of the Canadian prime minister.

Celebrated by its admirers as a means of preserving local preferences while pursuing national objectives, federalism has played havoc with the conventional ideas of political sovereignty that animate Westminster-style parliamentarism. The British parliamentary tradition does not contemplate divided sovereignty, let alone the de facto sharing of powers that has come to characterize contemporary [Canadian] federal institutions.⁴³

Canada is not just a federal state it is also, in a sense, a federal society. While one can debate which came first--the federal framework, or, the society which feels as much, and sometimes more attachment, to its provincial community and institutions than to those which serve the country as a whole--the fact that this is the case in modern

⁴² *Ibid.*

⁴³ Michael M. Atkinson, "Introduction," in Michael M. Atkinson, (ed.), *Governing Canada: Institutions and Public Policy*, (Toronto: Harcourt Brace and Jovanovich, 1993), 11.

Canada is hard to deny.⁴⁴ The power of the federal society even exercises its sway over the prime minister's construction of his or her cabinet and the government's decision making process. It is now expected that the prime minister will have a representative in their cabinet from every province. These lieutenants (and in the case of smaller provinces, regional lieutenants) are expected to insure that their provinces' particular interests are adequately addressed within the government.⁴⁵

Accentuating the federal nature of Canada are organizational, constitutional and social factors. Organizationally Canadian provinces are privileged to a certain degree over subnational levels of government and social organization in other countries by their size and number. As there are only ten (and two territories) each can exercise more influence than in a polity with a larger number of divisions, such as the 50 states present in the United States. This is perhaps a small point but this author believes it has been somewhat overlooked. The fact that there are 50 states makes it easier for the American president to ignore state governors, as taking them into the national deliberative process as individuals is impossible. The twelve provincial and territorial premiers are harder to ignore as it is indeed feasible for a committee of thirteen to meet regularly and work collectively.⁴⁶

⁴⁴ For a review of this debate see, Donald V. Smiley, *The Federal Condition in Canada*, (Toronto: McGraw Hill Ryerson, 1987), 3-9.

⁴⁵ Herman Bakvis and David MacDonald, "The Canadian Cabinet: Organization, Decision-Rules and Policy Impact," in Michael M. Atkinson, (ed.), *Governing Canada: Institutions and Public Policy*, (Toronto: Harcourt Brace and Jovanovich, 1993), 61.

⁴⁶ Richard Simeon and Elaine Willis, "Democracy and Performance: Governance in Canada and the United States," in Keith Banting, George Hober and Richard Simeon, (eds.), *Degrees of Freedom: Canada and the United States in a Changing World*, (Montreal: McGill-Queen's University Press, 1997), 175.

More important in creating the important role of Canadian federalism as a brake on the decision making autonomy of the prime minister in the fields of economic and social policy is the nature of Canada's constitution and the interpretations of it that have been rendered by the judiciary. The drafters of the constitution sought to grant provinces control over most matters of a "purely local nature," as well as issues relating to civil life. Financially, their incomes were to be tightly restricted and limited to the raising of direct taxes only and what royalties could be extracted from the natural resources under their control.⁴⁷ The object of granting the provinces powers over issues relating to civil life was to allow the French and catholic majority in the new province of Quebec to enjoy a different form of civil law, (based in French jurisprudence rather than the English common law) as well as a much greater degree of freedom and self-determination over the matters that were assumed to be necessary for the continuance of the minority culture. While other politicians had different motives for favouring confederation, for the leaders of Quebec this was the key point, the plan offered the best prospects for maintaining a unique and viable society in the province.⁴⁸

⁴⁷ *Constitution Act of 1867, Section 92.* At the time the natural resources industry in Canada consisted of timber and fur and most of the fur in the original provinces had been exhausted. Later, with the development of mineral and especially petroleum reserves, as well as the entry of British Columbia with its forestry industry, the wealth associated with these rights would grow and grant some of the provinces a new form of income that allowed some of them considerable autonomy from the federal purse. See the discussions of the various provincial economies included in Rand Dyck, *Provincial Politics in Canada, Second Edition*, (Toronto: Prentice Hall, 1991).

⁴⁸ A.I. Sliver, *The French Canadian Idea of Confederation, 1864-1900*, (Toronto: University of Toronto Press, 1982), 34 and 219; Robert C. Vipond, "1787 and 1867: The Federal Principle and Canadian Confederation Reconsidered," *Canadian Journal of Political Science*, 22, (1989), 6-9; W.L. Morton, *The Critical Years: The*

Meanwhile the federal government was provided with an unlimited fund-raising power, control over national economic institutions such as money, banking, and some forms of insurance, plus interprovincial commerce, railways, navigable waterways and international affairs. Finally, it was the intention of the drafters to make the federal government superior to the provinces and they gave the federal government the power to veto provincial legislation, declare works that were otherwise under provincial jurisdiction to be of national importance (and, therefore, a federal concern), as well as the residual power.⁴⁹

Regardless of what was written in the constitution, the judiciary used its discretion to interpret the document in a manner that gave the provinces a role as equal partners in the Canadian political process.⁵⁰ For example, the federal residual power was only usable if the courts agreed that something was not covered in the written division of powers. However, the courts so widely extended the province's jurisdiction over contracts and civil life so as to make it a new residual power, placing many policy areas not contemplated in 1867, but which we now associate with the modern welfare state, firmly under provincial jurisdiction. Areas so ruled to be under provincial jurisdiction

Union of British North America, 1857-1873, (Toronto: McClelland and Stewart, 1964), 150-1 and 176-177.

⁴⁹ *The Constitution Act of 1867*, Sections 55, 90, 91 and 92.10(c).

⁵⁰ Alan Cairns, "The Judicial Committee and its Critics," *Canadian Journal of Political Science*, 4, (1971); Richard Simeon and Ian Robinson, *State, Society and the Development of Canadian Federalism: Volume 71 of the Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada*, (Toronto: University of Toronto Press, 1990), 52-53.

included health care, workers sickness and unemployment insurance, and pensions.⁵¹

When this was combined with their clearly itemized roles in education and poor relief, as well as provincial control over the securities industry, a unilateral federal role in the making of social and economic policy was precluded. Some have argued that this restriction of the federal residual power was a result of the judiciary's desire to restrict the role of government. As the federal government appeared eager to expand the role of the state in the economy, the pre-second world war judiciary sought to restrict its role. As Canada at the time had no formal bill of rights, the only option for a conservative judiciary was to place any matter where the federal government appeared ready to act in the control of the provinces. Others argue that the courts were simply acknowledging a sociological fact: regardless of what the constitution said, Canada was a highly fragmented, geographically separated and federal country.⁵²

This created something of a dilemma in that even though provinces had considerable authority to make policy they lacked the revenue raising capacity, given their strictly limited taxation powers. As a result almost all of Canada's welfare state programs are joint endeavours. Some were created after the provinces agreed to constitutional amendments giving the federal government new powers (such as unemployment insurance).⁵³ However, most involve closer partnerships such as joint-cost programs

⁵¹ Martha Fletcher, "Judicial Review and the Division of Powers in Canada," in J. Peter Meekison, (ed.), *Canadian Federalism: Myth or Reality*, (Toronto: Methuen, 1968), 140-158; Keith Banting, *The Welfare State and Canadian Federalism, Second Edition*, (Montreal: McGill-Queen's University Press, 1987), 47-48.

⁵² Rand Dyck, *Canadian Politics: Critical Approaches*, (Toronto: Nelson, 1993), 360-361.

⁵³ *Constitution Act of 1867*, Section 91 (2a) added in 1940.

where the federal government offered subsidies to the provinces which created various welfare state programs such as health insurance.⁵⁴ The political history of federalism in the forty years spanning 1930 to the late 1960s is very much the story of how federal and provincial leaders dealt with this dilemma inherited from the judiciary. They developed many innovative methods for dealing with this situation and a method of cooperation unique in the world of modern states which has been dubbed "executive federalism." Executive federalism involved a process of negotiations between the ministers representing both federal and provincial levels of government. It was necessary because of the division of powers, it worked because those involved had the power to force whatever deals were reached through their legislatures.⁵⁵ Eventually, however, the system could not substitute for a wholesale constitutional adjustment and may have even aggravated the need for such an adjustment.⁵⁶ From the late 1960s until today, federal provincial policy cooperation has had to take a back seat to the search for a way to resolve the constitutional inadequacies felt to exist in Canada. As a result the intergovernmental coordination necessary for the creation of policy in many socio-economic fields has become even more difficult to achieve.⁵⁷ Once provinces made the linkage between general constitutional change and day-to-day joint-policy-making,

⁵⁴ Simeon and Robinson, *State, Society and the Development of Canadian Federalism*, 148-150.

⁵⁵ Smiley, *The Federal Condition in Canada*, 83.

⁵⁶ Richard Simeon, *Federal-Provincial Diplomacy: The Making of Recent Policy in Canada*, (Toronto: University of Toronto Press, 1972), 88-89.

⁵⁷ Smiley, *The Federal Condition in Canada*, 125.

periodically refusing to participate in policy-making to force constitutional dialogue, federalism became an even more important barrier to the policy-making autonomy of prime ministers.

Other divisions of sovereignty present in the Canadian political system that can be considered as serious limitations on the policy autonomy of a prime minister are judicial review and the autonomy of the Bank of Canada. As discussed above judicial review has always been an important fact in Canadian federalism, in that judicial interpretation was crucial for determining the powers allocated to the federal and provincial states. Recently, however, judicial review has become even more salient with the addition of *The Charter of Rights and Freedoms* to the Canadian constitution in April 1982. Judges who had previously wished to prevent state action could only do so by somehow constructing a legal argument that the proposed action actually was in the domain of powers granted to the other level of government. Since 1982, however, they can specifically rule that actions which they find objectionable violate an enumerated right and are, therefore, not valid.⁵⁸

During the 1950s and early 1960s a series of public disputes regarding monetary policy between the minister of finance and the governor of the Bank of Canada led to the resignation of the governor of the time, James Coyne. His replacement, Louis

⁵⁸ In some cases, where an act is found to violate Sections 2 or 7 to 15 the government involved can use the so called "notwithstanding clause," (Section 33 of the Charter) to sustain the act in spite of the violation for a period of five years which can be renewed continually. David Milne, "Canada's Constitutional Odyssey," in Michael S. Whittington and Glen Williams (eds.), *Canadian Politics in the 1990s, Third Edition*, (Toronto: Nelson, 1990), 326-329.

Rasminsky, attempted to clarify his position and establish some autonomy for his office by publicly declaring that although the finance minister indeed possessed the ability to order the Bank of Canada to change its policy, the governor also had the obligation to resign if he found himself in disagreement with such a directive. The 1967 revision of the legislation governing the Bank of Canada's operations further strengthened the governor's office by requiring any such directives from the finance minister to be made publicly and presented to Parliament.⁵⁹ As a result, the governor enjoys considerable autonomy as long as he or she has the confidence of financial markets. In such circumstances, any attempt to politically interfere in the Bank's monetary policy would involve a messy public debate that would destroy market confidence in the Canadian currency.

Further accentuating the power of Canadian federalism as a barrier to the policy-making autonomy of prime ministers has been the environmental factor of Quebec development. Rapid political and social development has occurred in Quebec since the early 1960s. Up until this point Quebec's francophone population had undoubtedly been both a socially and economically disadvantaged minority in Canada.⁶⁰ The Lesage government (1960-1966), and every Quebec government since, has pursued policies aimed at empowering the majority French population of the province through the use of

⁵⁹ Gordon R. Sparks, "The Theory and Practice of Monetary Policy in Canada: 1945-1983," in John Sargent, (ed.), *Fiscal and Monetary Policy: Volume 21 of the Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada*, (Toronto: University of Toronto Press, 1986), 122-123 and 132-133.

⁶⁰ Dyck, *Provincial Politics in Canada*, 216-217; Graham Fraser, *PQ: René Lévesque and the Parti Québécois in Power*, (Toronto: Macmillan, 1984), 27, 28, 35.

the provincial state. Given the relationship seen between control of the state and the retaking of control over the province's destiny, it was inevitable that compromises over the sharing of control over socio-economic policy with the federal government would become increasingly distasteful to Quebec's leaders. There can be little doubt that Quebec has been successful at using the provincial state to advance the economic development of the province and to achieve the social advancement of the francophone majority in the province to equality with their anglophone neighbours within the province and outside it.⁶¹

While Quebec was the first province to aggressively embark on "province building" it was not the only one to do so, and to a certain degree, all of the provinces followed in its wake. Those with large natural resource bases, such as Alberta and British Columbia, went further and faster, though not as far as Quebec, in demanding new powers and new autonomy from Ottawa.⁶² In the early 1990s Ontario, the wealthiest, most economically developed and largest province, joined the fray demanding "fair shares federalism." Ontario's grievances were multi-fold but centred on the claim that Ottawa had arbitrarily and unjustly altered its transfer payments for social policy to harm the province and that the zero-inflation policy of the Bank of Canada, when combined with the federal government's fiscal squeeze was driving up the dollar and

⁶¹ John F. Helliwell, "Canada's Economic and Social Union: Past, Prospects and Proposals," in John E. Trent, Robert Young and Guy Lachapelle, (eds.), *Québec-Canada: What is the Path Ahead?/ Nouveaux Sentiers vers L'Avenir*, (Ottawa: University of Ottawa Press, 1996), 192-193.

⁶² Simeon and Robinson, *State, Society and the Development of Canadian Federalism*, 225-249.

destroying the province's industrial base, which depended on exports to the United States.⁶³

It was noted previously that the Quebec proponents of Confederation favoured the plan as it provided the maximum feasible autonomy for the province with the minimum possible outside interference. As a result of the recent socio-economic development in the province some have begun to consider if this is still the case, or, whether the development of Quebec has now reached the point where the province can go it alone in the world. Separation is now a viable option for many in the province (as demonstrated by the two close defeats for separation in the referendums of 1980s and 1995). As a result of province building exercises across Canada and the rise of feasible separation in Quebec, all prime ministers since the late 1960s have been compelled to consider the impact that any proposed policy innovations might have, not just on federal-provincial harmony, but on national unity.

None of the third tier factors outlined by Weaver and Rockman are as important to constraining the policy-making autonomy of the American president in the area of welfare state restraint as federalism is for constraining the Canadian prime minister. However, they still exist to some degree. One of the most important is the Supreme Court of the United States of America. *The Constitution of the United States of America (the U.S. Constitution)* was written in 1787. Soon after the adoption of *the U.S. Constitution* a series of ten amendments were added to the document, the last being

⁶³ Thomas J. Courchene with Colin R. Telmer, *From Heartland to North American Region State: The Social, Fiscal and Federal Evolution of Ontario*, (Toronto: University of Toronto Centre for Public Management, 1998), 122-168.

adopted in 1792. These ten amendments are collectively referred to as *The Bill of Rights*.

This was the last time that large scale amendment of *The U.S. Constitution* occurred.⁶⁴

Since then only 17 other amendments have been enacted, the most notable, such as the thirteenth, fifteenth and nineteenth, extended the democratic community to include all adults regardless of race or sex, while the fourteenth made Washington the guarantor of such rights by empowering it to take action against any state or public agent which contravened them. The last amendment, the twenty-seventh, adopted in 1992, prevents any Congress from voting itself a pay raise, requiring an election to intercede between the vote and the enactment of the raise.⁶⁵ Given its longevity and relative success, *The Bill of Rights*, and the *U.S. Constitution* in general, both have a legitimacy and level of popular respect not available to Canada's much newer *Charter of Rights and Freedoms*. This is especially the case when we remember that a sizable proportion of the population and one provincial government (Quebec) see this fundamental statement of rights as an invasion of legalism into the proper responsibilities of provincial legislatures.⁶⁶

⁶⁴ Richard B. Bernstein with Kym S. Rice, *Are We to be a Nation? The Making of the Constitution*, (Boston: Harvard University Press in Cooperation with the New York Public Library, 1987), 271-272.

⁶⁵ Milton C. Cummings, Jr. and David Wise, *Democracy Under Pressure: An Introduction to the American Political System: Seventh Edition*, (New York: Harcourt Brace and Jovanovich, 1993), 55-56. The 27th Amendment was initially proposed by James Madison in 1789 but lay dormant for two hundred years until a series of corruption scandals at the start of the 1990s caused its revival.

⁶⁶ Carolyn, J. Tuohy, *Policy and Politics in Canada: Institutional Ambivalence*, (Philadelphia: Temple University Press, 1992), 74; Donald V. Smiley, "A Dangerous Deed: The Constitution Act of 1982," in Keith Banting and Richard Simeon, (eds.), *And No One Cheered: Federalism, Democracy and the Constitution Act*, (Toronto: Methuen, 1983), 78; François Rocher, "Québec's Historical Agenda," in Duncan Cameron and Miriam Smith, (eds.), *Constitutional Politics: The Canadian Forum Book on the Federal Constitutional Proposals, 1991-92*, (Toronto: James Lorimer and Company, 1992), 33-34.

Yet, the one thing not mentioned anywhere in *the U.S. Constitution* is the idea that the judiciary can nullify legislation or reverse government actions that it finds to be in violation of the constitution. Unlike Canada's *Charter of Rights and Freedoms* which specifically says that those who believe that their rights have been infringed can apply to the judiciary for remedy, the process of judicial review had to be read into *the U.S. Constitution* by Chief Justice John Marshall in 1803.⁶⁷ From then until the 1930s the American judiciary aggressively sought to prevent the expansion of government by ruling that various policies (which would have been precursors to the American welfare state) violated the rights of individuals, or as in the Canadian case, were actually beyond the powers granted to the central government and that such activities were governed by the powers designated to state control.⁶⁸

After rejecting many of President Franklin Delano Roosevelt's statutes for economic reconstruction during the Depression (the "New Deal"), the tenor of the United States Supreme Court changed and in the post-war era it began to find grounds for supporting both the increased economic intervention of the state and the pre-eminent role

⁶⁷ *The Canadian Charter of Rights and Freedoms*, Section 24; Samuel Eliot Morison, *The Oxford History of the American People*, (New York: Oxford University Press, 1965), 362-363.

⁶⁸ One example of this was the income tax. Without adequate resources an interventionist government is impossible and this is precisely what the Supreme Court sought to deny Washington when they ruled that a federal tax based on income of individual citizens was unconstitutional. Such a tax did not become legal until the enactment of the sixteenth amendment in 1913. Canada enacted federal income taxes in 1916 at the height of the first world war. Robert Craig Brown and Ramsay Cook, *Canada: 1896-1921, A Nation Transformed*, (Toronto: McClelland and Stewart, 1974), 233-234.

of Washington in such matters.⁶⁹ This period of activism has come to be associated with the jurisprudence of Chief Justice Earl Warren (appointed by President Eisenhower in 1953).⁷⁰ However, such decisions were not automatic, and after the succession of Warren Burger to the office of Chief Justice (in 1969), the Supreme Court began to narrow the limits of activist government and also began to demonstrate a desire to roll back the power of the Washington while re-expanding the autonomy of the states. This course has been continued by the court presided over by his successor, William Rehnquist (appointed by Ronald Reagan in 1986). Nevertheless, and even though President Reagan carefully vetted his candidates for the top court for conformity to his neoconservative views, the Rehnquist court has proved to be as independent in its rulings as any other previous court.⁷¹ Given this autonomy which the Supreme Court displays in its rulings, it must be

⁶⁹ Carl Brent Swisher, "The Supreme Court in Transition," in Alfred Haines Cope and Fred Krinsky, (eds.), *Franklin D. Roosevelt and the Supreme Court*, (Boston: D.C. Heath, 1952); Christopher Manfredi, "The Judicialization of Politics: Rights and Public Policy in Canada and the United States," in Keith Banting, George Hoberg and Richard Simeon, (eds.), *Degrees of Freedom: Canada and the United States in a Changing World*, (Montreal: McGill-Queen's University Press, 1997), 313-314.

⁷⁰ Ed Cray, *Chief Justice: A Biography of Earl Warren* (New York: Simon and Shuster, 1997).

⁷¹ David R. Berman, *State and Local Politics*, Sixth Edition, (Dubuque, IA: William C. Brown, 1991), 54; Richard Hodder-Williams, "Constitutional and Judicial Politics," in Andrew Adonis and Tim Hames, (eds.), *Conservative Revolutions? The Thatcher and Reagan Decade in Perspective*, (Manchester: University of Manchester Press, 1994), 57-59; New York Times Magazine, (6 October, 1996), 64-68; D.M. O'Brien, "The Rehnquist Court and Federal Preemption: In Search of a Theory," *Publius: The Journal of Federalism*, 23, (1993), 15-31; T.R. Hensley, "Membership Change and Voting Change: An Analysis of the Rehnquist Court 1986-1991 Terms," *Political Research Quarterly*, 48, (1995), 837-856.

seen as an important brake on the policy autonomy of presidents regardless of their ideological predispositions.

The autonomy enjoyed by America's central bank, The Federal Reserve Board (the Fed), is also an important third tier institutional factor that limits the policy autonomy of presidents. The chair and other members of the Fed's board are appointed by the president subject to confirmation in the Senate (as with all senior presidential appointments). Once appointed, the removal of a member--let alone the chair--would, as in Canada, be difficult if the official in question enjoyed the confidence of the global financial markets. Unlike in Canada, there is no formal mechanism whereby a president or his treasury secretary can transmit policy advice to the Fed. While it is sometimes argued that presidents can exercise considerable influence over the Fed through their choice of appointments, Keech and Morris find that such influence is more limited than is popularly believed.⁷² One example that helps to illustrate the independence of the central bank is President Carter's experience with the Fed. The chairman whom Carter himself appointed, Paul Volker, set out so aggressively to crush inflation as to undermine Carter's own re-election chances.⁷³ Occasionally, public squabbles erupt where administration officials, advisors, and occasionally presidents themselves question the sensibility of Fed actions or assumptions. At one point the Reagan administration even appeared to threaten a legislative change to limit the independence of the Fed. However, this came to naught

⁷² William R. Keech and Irwin L. Morris, "Appointments, Presidential Power, and the Federal Reserve," *Journal of Macroeconomics*, 19, (1997), 253-267.

⁷³ William C. Berman, *America's Right Turn: From Nixon to Bush*, (Baltimore, MD: Johns Hopkins University Press, 1994), 56-57.

and the Fed continued to exercise its authority in an independent manner, even hiking interest rates when President Reagan least wanted them raised, at the height of his 1984 re-election bid.⁷⁴ While it is impossible to suggest that such outbursts have no impact whatsoever on the decisions of the Fed, Krause finds that internal influences, such as the views of the Chair and professional reports, are far more important influences in determining the outcome of policy debates.⁷⁵

Another aspect of third tier institutional factors that limit policy autonomy are legislative rules. When considering the United States it is clear that policy autonomy is not only restricted by the fact that there is a sharing of powers between executive (president) and legislature (Congress) but by the rules that apply within the Congress and most especially in the upper house, the Senate. Unlike many other countries, the United States Senate is expected to replicate the legislative and oversight functions of the lower chamber. As well, it is also supposed to vet and confirm presidential appointments and international treaties.⁷⁶ When one considers that the Senate is roughly one quarter the

⁷⁴ Steven M. Sheffrin, *The Making of Economic Policy*, (Oxford: Blackwell, 1989), 175-185.

⁷⁵ George A. Krause, "Federal Reserve Policy Decision-Making: Political and Bureaucratic Influences," *American Journal of Political Science*, 38 (1994), 124-144.

⁷⁶ In many other Western liberal capitalist democracies upper-houses are either houses of "cautious pause" or they have powers that are different and less arduous from the lower house. For example, in Canada and the United Kingdom, the members of the upper houses are not elected. As a result, although they have the formal power to block legislation, they rarely do so as they lack public legitimacy. More often than not they are satisfied with the extraction of amendments. In other countries, such as Germany, the Senate is primarily a constitutional guarantor. The German upper house can only exercise a sustainable veto over matters with implications for German federalism. Further restricting its power, the definition of matters which fall within this category has been somewhat narrowed by recent decisions of the German Constitutional Court. In France the

size of the House of Representatives (100 members versus 435), this represents an enormous amount of work for senators. On top of this, senators must also perform the duty of state representation both in Washington and at home. In many cases (especially when the other party controls the state house and/or governorship) a senator ends up as their party's ranking politician in his or her state and this imposes still more burdens on the senator's time. Consequently, the Senate imposes restraint simply because of the limited time that is available to most senators. Former Majority Leader Bob Dole described this problem of finding time to get legislative work done while still leaving time for all the other duties of senators as "one of the greatest frustrations I had."⁷⁷

Beyond such time pressures, the Senate can also serve as a barrier to effective government action when individual senators, or groups of senators, choose to creatively use the rules of the chamber so as to prevent its operation. The most famous, though by no means the only, such tactic is the filibuster. A filibuster ensues when a senator, or group of senators, refuse to yield the floor and stage a talk-in, preventing all other business from being brought to the floor. It is based in the principle of unlimited debate, which was formally established in the Senate rules in 1856. In 1917, with America on the verge of entry into the First World War, the rules were amended to allow a written petition signed by 16 senators to cause a temporary break in the debate. After such a

President can decide to remove the veto powers of the Senate by giving the National Assembly the final say on any bill. Jeannett Money and George Tsebelis, "Cicero's Puzzle: Upper House Power in Comparative Perspective," *International Political Science Review*, 13, (1992), 39; David P. Conradt, *The German Polity, Fifth Edition*, (New York: Longman, 1993), 142-144.

⁷⁷ Quoted in Samuel C. Patterson, "Party Leadership in the U.S. Senate," *Legislative Studies Quarterly*, 14, (1989), 403.

petition reaches the chair a vote is called on whether or not to force closure. If the petition is approved by a qualified majority "cloture" is said to exist and a time limit is set on the remainder of the debate. It now takes a three-fifths majority (or 60 senators) to force cloture. In the 1970s a compromise of sorts was reached on filibustering. Two legislative tracks were created in the Senate, an AM and a PM track. When a filibuster ensues the legislation in question can, by unanimous consent, be attached to the AM calendar, while all other legislation is transferred to the PM calendar. As a result, there are now two categories of filibusters, full scale and partial filibusters. Why would protesting senators agree to only a partial filibuster? Given the time pressures involved in the Senate, even closing the Senate floor by half can wreck serious havoc and so the partial filibuster is a less dramatic but still serious method of protest. At the same time it still allows the most essential business to continue, minimizing the hostility that non-participating senators feel for the protesters.⁷⁸

As noted above, there are considerable time pressures on senators. Consequently, the leaders of the Senate try to reduce blockages wherever feasible. One instrument that they use are "unanimous consent agreements." Under such agreements the chamber unanimously agrees to conduct debate on a given piece of legislation according to a specific time-table, eliminating the possibility of either deliberate or circumstantial delay. Such agreements also often outlaw non-relevant amendments (or riders), so as to both prevent delay and also the potential hijacking of legislation. When senators rise to

⁷⁸ Catherine Fisk and Erwin Chemerinsky, "The Filibuster," *Stanford Law Review*, 49, (1997), 184, 190, 198 and 201.

oppose such an agreement it is taken as a sign that they are willing to invoke a filibuster unless their concerns are addressed. Consequently, senators need not even go to the trouble of filibustering to filibuster, they can significantly impair the work of the chamber just by refusing to agree to the schedule of debate prepared by the leaders or by refusing to accept the limits imposed on amendments to a given bill. Depending on the observer's vantage point, filibusters are either rare or increasing, but filibusters are still not everyday occurrences.⁷⁹

One reason for this relative rarity is because filibustering, and even threats to filibuster, are very overt and sometimes provocative gestures that can backfire by helping to rally public opposition to the protesting senator's views. An example of this was the lengthy filibuster that President Johnson's civil rights legislation provoked in 1964. The filibuster had been a traditional tactic used by Southern senators to prevent the passage of legislation that would allow Washington to exercise its powers under the fourteenth amendment to guarantee respect for civil rights.⁸⁰

The filibuster against the Civil Rights Act of 1964 was unequalled in length and notoriety; it tied up the Senate for seventy-four days. News coverage of it was also unprecedented: CBS News had Roger Mudd report on the progress of the filibuster from the steps of the Capitol during every newscast... The visibility of the filibuster was important in stirring up voter outrage against Southern intransigence on civil rights.⁸¹

⁷⁹ Steven S. Smith and Marcus Flathman, "Managing the Senate Floor: Complex Unanimous Consent Agreements Since the 1950s," *Legislative Studies Quarterly*, 14 (1989), 351; Fisk and Chemerinsky, "The Filibuster," 182-183.

⁸⁰ *Ibid.*, 199.

⁸¹ *Ibid.*, 199-200.

There are also less obvious procedural tactics that senators can employ if they wish to prevent action on a given topic that are nearly as effective. One such tactic is to request a “hold” from the Senate leaders. Holds originated in the time pressures of the Senate. As a courtesy to other senators, the majority leaders began the practice of placing legislation on hold if scheduling precluded an interested member from being present or if a senator wished for time to work his or her concerns into a unanimous consent agreement. The return assumption was that the senator in question would agree to a unanimous consent agreement if but for these difficulties. In other words, the senator was not trying to sabotage the bill, just to insure their own participation. However, once the principle was established, senators began to take this courtesy as a procedural right and the use of holds has grown as a result. In fact pressure groups, economic interests and other actors now regularly solicit senators to place holds on bills that they object to. Unlike filibustering and objections to unanimous consent agreements, holds have the benefit of being unofficial actions and are treated as confidential correspondence between the majority leader and the requesting member.⁸² Consequently, the public is never likely to discover who in the Senate is obstructing a particular bill when a hold is employed. These handful of examples: the filibuster, the partial filibuster, the threat to filibuster, the obstruction of unanimous consent agreements, and the hold barely scratch the surface of the tactics that senators can deploy to prevent the passage of a bill which they object to. Similar delay and obstruction can be used in other areas of the Senate’s

⁸² Steven S. Smith, *Call to Order: Floor Politics in the House and Senate*, (Washington: The Brookings Institute, 1989), 110-113.

responsibility. For example, if the chair of a committee wants to make a point to the White House they will simply stop scheduling confirmation hearings for the executive appointees who fall under their jurisdiction. Clearly, the Senate's own rules must be considered as an important barrier to the policy making autonomy of presidents.

Finally, in the area of third tier institutional factors are the so called environmental factors. While there are numerous such factors, it is perhaps worthwhile to focus on one in particular as it has had an important ramification in all of America's social and economic policies. This is the legacy of the race based economy of the Southern states. During this century a high-wage industrial economy developed in the northern United States. Capitalists made money, for the most part, by selling their products (and the products made from their products) to their own workers. As their principal market was their own workers, these capitalists also had an interest in insuring that their incomes were maintained in case of illness, injury or retirement and in insuring that government intervened to moderate the business cycle so as to insure a steady rate of profit producing consumption.⁸³ In the Southern states a low wage economy persisted. Capitalists made money, for the most part, by selling their products (and the products made from their products) to workers in other parts of the country and the world. As such they had little interest in either paying their workers well or in seeing the development of a welfare state that would help maintain incomes and consumption.

⁸³ This relationship between consumption, production and the welfare state has been dubbed "Fordism" by Marxist Political-Economists. See, Alain Lipietz, *Mirages and Miracles: The Crises of Global Fordism*, (London: Verso Books, 1987), 29-46.

Compounding the situation was the racial basis of this Southern economy, in which many of the lowest income workers were excluded from political and social participation by state sanctioned racial exclusion. This low wage economy created a situation where the political elite aligned with an entrenched capitalist elite (the so called bourbon class) which opposed the welfare state. The racial exclusion of many citizens removed much of the political pressure that politicians in other parts of the country would have felt if they had taken a similar stance.⁸⁴ As the slave belt transformed itself into the sun belt of the later part of this century, its main appeals to capitalists were the low wages, minimal protective statutes and even lower local taxes that Southern states promoted. The migrant white workers who followed these jobs into the South lacked the local connections necessary to be politically active and were consequently integrated into the system as successfully as the indigenous population had been.⁸⁵ The result has been that the poorest states in the United States, states that should benefit most from increased federal (and state) social spending and economic intervention, have been the most politically opposed to it.⁸⁶

⁸⁴ Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain, and the United States," in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, (eds.), *Bringing the State Back In*, (Cambridge: Cambridge University Press, 1985), 144-145.

⁸⁵ Michael Lind, *Up From Conservatism: Why the Right is Wrong for America*, (New York: The Free Press, 1996), 121-137.

⁸⁶ John Myles and Paul Pierson, "Friedman's Revenge: The Reform of 'Liberal' Welfare States in Canada and the United States," *Politics and Society*, 25, (1997), 460.

In Canada, where a predominantly low wage economy still exists in many provinces, social fragmentation is less obvious. In the case of Quebec, the disadvantaged formed a majority within the province and in the 1960s began to use the state to redress their inferior position in society. In Saskatchewan, Canada's most rural province, the dominant political party (the New Democratic Party, previously called the Cooperative Commonwealth Federation) is a product of agrarian socialism that has its roots in the family farms that still dominate the provincial agriculture scene.⁸⁷ In other provinces, such as New Brunswick and Nova Scotia, where a Southern-style capitalist elite has emerged, political leaders are less likely to so adamantly oppose welfare state programs. This is because these politicians must balance the concerns of capital against the demands of working class voters, who, unlike the working class in the Southern United States, are both enfranchised and politically active.⁸⁸

⁸⁷ Dyck, *Provincial Politics in Canada*, 238-269, 424-426 and 444-463. One of the better histories of the CCF's rise is contained in Seymour Martin Lipset, *Agrarian Socialism: The Cooperative Commonwealth Federation in Saskatchewan, A Study in Political Sociology, Updated Edition*, (New York: Anchor Books, 1968).

⁸⁸ Keith Banting, "The Social Policy Divide: The Welfare State in Canada and the United States," in Keith Banting, George Hoberg and Richard Simeon, (eds.), *Degrees of Freedom: Canada and the United States in a Changing World*, (Montreal: McGill-Queen's University Press, 1997), 279. Those who doubt this should consider the fate of recent Members of Parliament from the Maritime region. In the June 1997 election, Maritime voters cut the local Liberal caucus by two-thirds, reducing it from 31 to 11 members. Even the region's two most powerful cabinet ministers were ousted by previously unknown contenders. The Liberal ministers and MPs were blamed by their constituents for their part in the Chrétien government's cuts to the unemployment insurance program and reduced transfer payments to the regions provincial governments and suffered the consequences. *Toronto Star*, (3 June, 1997), B3 and B5.

4.5 Conclusions

The following table outlines in a schematic form the various institutional factors discussed in this chapter. The discussion above served to demonstrate that although Weaver and Rockman give precedence in institutional explanation to whether or not a country is a parliamentary or presidential democracy, in the case of Canada the most important institutional barrier to the autonomy of the prime minister is to be found in the federal nature of Canada, which is a third-tier factor.

Federalism is particularly important as a barrier to the autonomy of the prime minister, in part, because at the national level Canada is a typical example of the two dominant party parliamentary regime. There are no other truly insurmountable barriers to primeministerial power in either the first tier, given the impotence of the upper chamber and the centralization of power that the Westminster style Parliament produces, or in the second tier, given the regularity with which the Canadian party system has produced majority governments. Other divisions of sovereignty including judicial review and the autonomy of the central bank are important but not so important as federalism. This is because Canada is not just a political federation but a federal society, that is, a society in which some of the most significant socio-political cleavages align along the lines that demarcate subnational political units. These cleavages are so severe in the case of Quebec as to threaten the continued unity of the country. Consequently, even when the federal government has the constitutional authority to act alone, it still must consider provincial sentiment. When a governing party fails to heed these concerns it can exacerbate national disharmonies and imperil the political survival of its own members.

Table 4.5.1 Institutional Factors in Canada and the United States Arranged according to Weaver and Rockman's System of Institutional Analysis⁸⁹

	First-Tier	Second-Tier	Third-Tier		
Country	Presidential or Parliamentary	Party Regime Type	Divisions of Sovereignty	Legislative Limits to Power Concentration	Environmental Factors
Canada	Parliamentary	2-Dominant	Federation Judicial Review Autonomous Central Bank	None	Regionalism Magnified by Language in which the Underprivileged are Represented
U.S.A.	Presidential	Co-habitation	Federation Judicial Review Autonomous Central Bank	Senate Debate Rules	Economic Inequality Magnified by Race in which the Underprivileged are not Represented

In the United States the key barrier to the policy autonomy of presidents are the two chambers of the legislature, which are not under the direction of the executive as is the case in either a two dominant party parliamentary regime or a presidential system in which one party rule is relatively common. The role of the Congress as a barrier to policy autonomy is accentuated by the rules governing conduct in the Senate. These rules, when creatively deployed, can allow even a small minority to bring the entire operation of the chamber to a complete stop. Although this is uncommon--because the potential reprisals, both from voters and alienated colleagues, could be severe--threats to

⁸⁹ Weaver and Rockman, "Assessing the Effects of Institutions," 1-41.

invoke such paralysis can often secure concessions for the aggrieved members. As in Canada, the divisions of autonomy present in the third tier are also important factors, but nowhere near as important as this basic truth of American politics; presidents can not direct the legislative output of the central government. They can influence it, but they cannot shape it in the way that a prime minister can. As noted above, even the most prime ministerial of all recent presidents, Lyndon Johnson, had to endure lengthy filibusters when Southern senators felt he was moving too far on civil rights.

Finally, there are clearly differences in environmental factors in Canada and the United States. Specifically, given the hesitancy of Southern politicians to endorse welfare state policies or state economic intervention, the poorest regions of the United States have failed to demand policies from which they themselves would be the prime beneficiaries. The net impact of this is to somewhat reduce the role of Congress as a barrier to welfare state retrenchment. In Canada regional tensions are much more pronounced and one province's relationship with the federal government is so precarious as to be considered a threat to national survival. When this is combined with the fact that provincial politicians in the less prosperous regions and provincial delegations to the national Parliament are expected by their electors to defend welfare state spending, federalism serves to increase the barriers against welfare state retrenchment. The net result of this is that both the national leaders of Canada and the United States face roughly equal, but different, barriers to the exercise of policy-making autonomy. Based on the evidence introduced in this chapter it would appear equally rational for an American or Canadian citizen to assume that institutional barriers would inhibit attempts by their leaders to reduce the

decommodificative power of either welfare state, regardless of the rhetoric that such leaders employ.

Chapter 5: The Canadian and American Liberal Welfare States

5.1 Introduction

In this chapter the focus will be on the Canadian and American welfare states. They will be discussed primarily as variants of the "liberal welfare state regime" identified and described by Esping-Andersen.¹ This chapter is mainly descriptive. The next section discusses the liberal welfare state regime, its properties and how it varies from the other welfare state regimes identified and described by Esping-Andersen. Next the specific features of the Canadian and American welfare states and their development will be discussed up to the beginning of the time period under study in this project (1979). The emphasis in this portion of the paper will be on describing the development of the programs and economic policies in each welfare state as variants of the liberal welfare state regime. The chapter then proceeds to describe the key changes that were made in the American and Canadian welfare states during the period under study with particular emphasis on those changes that occurred before the recession of the early 1990s. The chapter concludes by noting that both states essentially left the decade of the 1980s as they began it, as liberal welfare states. However, during the 1980s differences began to emerge between the Canadian and American variants of the liberal welfare states. These differences are seen as small but significant, both for the poor whose lives were most immediately effected by the changes and for the majority of the population who are not poor, but, who are assumed to be risk averse and who, it is hypothesized by this project, see the welfare state as providing collective insurance against economic dislocation.

¹ Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, (Cambridge: Polity Press, 1990).

5.2 The Three Worlds of Welfare

Gøsta Esping-Andersen's book *The Three Worlds of Welfare Capitalism* has been recognized as one of the most important works in the field of comparative social research, even by those who do not necessarily agree with his conclusions or views. The three worlds typology of welfare state regimes is now recognized as one of the most important, if not the dominant, comparative typologies in welfare state research.² Esping-Andersen argues that the true impact of welfare states can best be understood by looking at the results that welfare states produce in terms of the decommodificative power of social rights and the level of socio-economic stratification that are promoted. These are determined by the structures of the programs themselves which are the product of each nation's historical evolution.³

His research identifies three clusters of nations which he labels as possessing different welfare state regime types. The first is the liberal welfare state, which is grounded in an economic and individualistic understanding of society. It is typified by many means-tested, low-benefit programs, in which the rules of eligibility are strict and processes of stigmatization are attached to application, a relatively low level of benefits in the few programs which are universal in nature, and significant positive (subsidies and tax expenditures) and negative (lack of coverage) encouragements to private welfare

² Francis G. Castles, "Comparing the Australian and Scandinavian Welfare States," *Scandinavian Political Studies*, 17, (1994), 35; Gregg M. Olsen, "Locating the Canadian Welfare State: Family Policy and Health Care in Canada, Sweden and the United States," *Canadian Journal of Sociology*, 19, (1994), 1.

³ *The Three Worlds of Welfare Capitalism*, 9-26. As discussed in Chapter 1; decommodification is the delinking of life chances and living conditions from the wages that we earn in the capitalist labour market.

provision. The decommodificative powers of the liberal welfare state are relatively low. It is not designed to offer an alternative system of provision to the market economy or to alter the social stratification produced by the market. Rather, it complements the market economy and is designed to offer a minimum protection to those who cannot take part in the market economy.

The second welfare state regime is the conservative type. Here the grounding is in national identity and citizenship. Consequently, universalism of entitlement tends to dominate over means-testing. Market provision is also less important in the conservative welfare state. However, the conservative welfare state also contains the notions of duty, order, and social place, and consequently, it tries to preserve, rather than reduce, status differences. The result is that although there are more universal programs, the emphasis is on social-insurance type plans (which pay benefits in proportion to contributions and offer little in the way of redistribution). The conservative welfare state offers some decommodification to citizens. However, its main objective is not to set up an alternative economic power to that of the market, but, to protect the social order from weakening at the hand of market forces.

The third welfare state regime is the social democratic type. As with the conservative type, this model is also grounded in a notion of citizenship. However, it is not grounded in conservative notions of duty, order and social place, but, in the social democratic notion of universal human equality. Therefore, it does not seek to maintain socio-economic status differences, but rather, to eliminate them. Consequently, there are few means tested programs and it offers a large number of high quality universal

programs based on the principle of social citizenship, not one's contributions, as in the status maintaining social insurance model. The goal of the social democratic welfare state is to alter market outcomes through the use of state power. It therefore aims to promote a high level of decommodification so that an individual's life chances and living conditions are determined to as small a degree as is feasible by market forces. Sweden and the other Scandinavian welfare states are examples of the social democratic welfare state regime, while Austria, France and Germany serve as examples of the conservative type. Canada the United States and Australia are examples of Esping-Andersen's liberal welfare state regime.⁴

Esping-Andersen's three worlds approach has been criticized by some authors. First are those that claim Esping-Andersen has placed countries in a given category when said countries actually belong in other categories or that his typology fails to allow a clear categorization of important countries.⁵ Some, such as Castles, suggest that this is a result of erroneous assumptions which create an internal bias in his methodology.⁶ Olsen disputes the evidence used by Esping-Andersen, suggesting that he has concentrated on income maintenance programs and inadequately addressed the issue of public services, such as health, education and housing.⁷ Others dispute the usefulness

⁴ *Ibid.*, 26-29.

⁵ Diane Sainsbury, *Gender Equality and Welfare States*, (Cambridge: Cambridge University Press, 1996), 12-13.

⁶ "Comparing the Australian and Scandinavian Welfare States," 37.

⁷ "Locating the Canadian Welfare State," 5.

of ideal-types in the comparative study of welfare states altogether.⁸ Finally, feminist researchers have come to question the utility of the three worlds approach for either explaining or addressing the problems associated with gender in welfare state research.⁹

While these critiques are valid, especially the one launched from the feminist perspective, they are not relevant to the uses to which Esping-Andersen's typology is being put in this project. The objective of introducing this typology is to establish a basis from which the American and Canadian welfare state can be compared. It is fully recognized that Esping-Andersen's three welfare state regimes are ideal-types, and that in the real world countries vary from ideal-types. Yet, even among those who have sought to clarify his discussion of Canada and the United States as liberal welfare states, most do not deny that the two countries are more similar to each other than to other western liberal capitalist democracies. Both Olsen and Tuohy identify Canada's universally available provincial health insurance plans as an important difference between the countries.¹⁰ Myles focuses on the degree to which the two systems are "transfer intensive."¹¹ More generally, Banting identifies three general continuums on which

⁸ See for example, Maureen Baker, *Canadian Family Policy: Cross-National Comparisons*, (Toronto: University of Toronto Press, 1995), 15.

⁹ See for example, Sainsbury, *Gender Equality and Welfare States*, 36-37.

¹⁰ Olsen, "Locating the Canadian Welfare State," 15-17; Carolyn Tuohy, "Social Policy: Two Worlds," in Michael M. Atkinson, (ed.), *Governing Canada: Institutions and Public Policy*, (Toronto: Harcourt Brace and Jovanovich, 1993), 275-276.

¹¹ John Myles, *When Markets Fail: Social Welfare in Canada and the United States*, (Geneva: United Nations Research Institute for Social Development, June 1995), 6.

difference exist (comprehensiveness, transfers to the poor and redistributive impact).¹²

In the next section the works of these authors, and others, will be used to more fully develop a description of each country's variant of the liberal welfare state.

5.3 The U.S. Variant of the Liberal Welfare State Regime, Circa 1979

The foundations for both the American and Canadian variants of the liberal welfare state regime were laid in the 1930s. Although social policies had been developed in both countries prior to this era,¹³ it was during this period that a fundamental change occurred in society's understanding of state intervention. As noted in Chapter 2, prior to the decade of the 1930s, programs such as basic pensions, work place accident insurance and poor relief had been seen as undesirable, but occasionally necessary, violations of the principles of capitalism. This was because these programs were seen as allocating resources to special non-universal interests so as to promote private consumption rather than growth producing free-market investment, which was seen as producing universal benefits. However, during the 1930s the work of Keynes helped

¹² Keith Banting, "The Social Policy Divide: The Welfare State in Canada and the United States," in Keith Banting, George Hoberg and Richard Simeon, (eds.), *Degrees of Freedom: Canada and the United States in a Changing World*, (Montreal: McGill-Queen's University Press, 1997), 268-271.

¹³ Theda Skocpol notes that by the beginning of the 20th century, universal education and civil war pensions and poor relief were already well established, *Social Policy in the United States: Future Possibilities in Historical Perspective*, (Princeton, NJ: Princeton University Press, 1994), 12-13; In Canada, education was also equally well established, provision for universal education having been made in the Canadian Constitution Act of 1867. Similarly well established were schemes such as workers compensation and poor relief, while the end of the First World War created a new federal welfare clientele, the war veteran. Keith Banting, *The Welfare State and Canadian Federalism, Second Edition*, (Montreal: McGill-Queen's University Press, 1987), 47-48.

cause a revision of this attitude.¹⁴ His work explained theoretically how addressing the needs of workers and average families for consumption could produce an equally valuable collective good, a moderation in the fluctuation in the business cycle. As a result, state intervention, especially counter-cyclical spending and social programs, which addressed the needs of the non-capital controlling classes for stable earnings, began to be seen as universally beneficial to the economy, not an unfortunate, politically imposed deformity to aid special interests. This opened the door to the modern welfare state.

The welfare state policy that was set in motion by President Franklin Delano Roosevelt, "the New Deal," had three components emergency measures to relieve the most dire, immediate needs of the American people (programs that would fall away as recovery ensued, such as the National Recovery Administration);¹⁵ workplace reform to create a more even balance between labour and capital (typified by *the Wagner-Connery Act* and *the Fair Labour-Standards Act*);¹⁶ and a group of permanent social

¹⁴ John Maynard Keynes, *The General Theory of Employment, Interest and Money*, (London: Macmillan, 1936).

¹⁵ The NRA and the other "alphabet agencies" would eventually run afoul of both the Supreme Court and the limited state capacity of the society that would try to implement them. However, by the time the Court had invalidated them, many thought that the worst of the Depression was behind the country. Theda Skocpol, "State Capacity and Economic Intervention in the Early 'New Deal'," *Political Science Quarterly*, 97, (1982), 255-278; Leonard Marsh, *Report on Social Security for Canada, With a New Introduction by the Author*, (Toronto: University of Toronto Press, [1943], 1975), xv and note 6; Carl Brent Swisher, "The Supreme Court in Transition," in Alfred Haines Cope and Fred Krinsky, (eds.), *Franklin D. Roosevelt and the Supreme Court*, (Boston: D.C. Heath and Company, 1952), 2-13.

¹⁶ *The Wagner-Connery Act* established the National Labour Relations Board to regulate labour relations and insure fair labour practices. *The Fair Labour Act* established the minimum wage at 40 cents per hour and the maximum work week at 40 hours. Samuel Eliot Morison, *The Oxford History of the American People*, (New York: Oxford University Press, 1965), 978-979.

policies that would aim to insure that such a downward spiral could never happen again and that individuals who fell into need would be supported (*the Social Security Act*). Social Security created joint federal-state programs for contributory unemployment insurance and a means-tested social assistance program, "Aid to Dependent Children" (later Aid to Families with Dependent Children). It also created a contributory pension (what has now become known as social security) with mandatory payments by all employed Americans (except for agricultural labourers and the "self employed") and graduated benefits based on income.¹⁷ Glazer notes that:

The entire social security program had a certain symmetry, and it was expected that all contingencies had been accounted for: social security retirement and disability benefits would take care of the aged and their families, as well as those families in which the head did not reach retirement age because of death or disability; unemployment insurance would take care of families in spells of unemployment; and those women and children in situations where there was no working male connected to the labour market would get welfare assistance.¹⁸

Some have seen the symmetry noted by Glazer extending beyond the three programs included in social security to encompass the whole New Deal order and the American political economy. America during the 1930s was a society in transition, from an agricultural and primary industries economy to an advanced industrial-financial economy based in personal consumption. For the new industries, primarily concentrated in the north-east and mid-west, the New Deal meant labour peace and an impartial umpire (the Labour Relations Board) which would eliminate the most excessive union practices, such as the sit down strikes which occupied many factories in the 1930s.

¹⁷ Skocpol, *Social Policy in the United States*, 13-15.

¹⁸ Nathan Glazer, *The Limits of Social Policy*, (Cambridge, MA: Harvard University Press, 1988), 21.

Keynesian demand management and the new social programs also meant a revival in domestic consumption, on which their businesses were based, as well as a guarantee against future downturns ever again being as severe. For workers, the New Deal meant a federal guarantee of the right to organize, guaranteed pensions and unemployment insurance as well as minimal workplace regulation. Other demands could be met through bargaining. For the middle-classes the guarantee of federal funds for state social assistance relieved an important burden from local taxpayers, while the National Recovery Administration and other alphabet agencies' make work projects put people back to work and helped restore commerce. For the Northern legislators in Congress, state politicians and the Roosevelt administration, the New Deal seemed close to being a consensus policy for their financial supporters and voters.¹⁹

The other part of the New Deal coalition was the congressional delegation from the South. The South was dominated by the older primary production and agricultural economy. The legacy of slavery meant that the working classes were fractured and this relieved southern legislators and state politicians from the pressure of having to take equal account of capitalist and non-capitalist concerns.²⁰ For these business leaders, who were concerned not with creating a stable consumer base, but with keeping wages

¹⁹ Thomas Ferguson, *Golden Rule: The Investment Theory of Party Competition and the Logic of Money Driven Political Systems*, (Chicago: University of Chicago Press, 1995), 79-88 and 113-172.

²⁰ Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain, and the United States," in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, (eds.), *Bringing the State Back In*, (Cambridge: Cambridge University Press, 1985), 144-145.

down, the New Deal was acceptable, provided that there was state authority over the scale of benefits payable under the unemployment insurance and social assistance components of the scheme and as long as agricultural labourers were mainly excluded from coverage by the contributory unemployment insurance and the pension as well.²¹ In return for the Southern Democratic caucus's acceptance of this bargain it appears that President Roosevelt agreed not to press the issue of civil rights for African-Americans in the South.²² While he insisted that there should be no formal barriers to prevent African-Americans who were qualified from receiving the benefits of the new social programs,²³ the plans themselves were so structured as to insure that they had minimal impact on the lives of Southern workers and African-Americans in particular.

It can be argued that there was a "New Deal for Blacks." But, it was a carefully circumscribed New Deal, as first the Depression and then World War II required the president to deal on a daily basis with the power of the South in Congress. Franklin Roosevelt may have been sympathetic to black political rights; but the cost of alienating the southern bloc en masse by raising such issues was simply too high, relative to the benefits that would be yielded to the president and his allies.²⁴

America had two economies and it would have two distinct social policies.

During the industrial boom spurred by the second world war, American labour

²¹ Skocpol, *Social Policy in the United States*, 218-219.

²² Linda Faye Williams, "Race and the Politics of Social Policy," in Margaret Weir, (ed.), *The Social Divide: Political Parties and the Future of Activist Government*, (Washington and New York: The Brookings Institute and The Russell Sage Foundation, 1988), 419-421.

²³ Mark Stern, "The Democratic Presidency and Voting Rights in the Second Reconstruction," in Laurence W. Moreland, Robert P. Steed and Tod A. Baker, *Blacks in Southern Politics*, (Westport, CN: Praeger, 1987), 50.

²⁴ *Ibid.*, 51.

used its new-found powers under *The Wagner-Connery Act*, to extract concessions from employers. Many of these gains were made in the area of paid benefits. Eager to avoid wage inflation, the wartime planners imposed tight control on wage increases, but left more flexibility in the area of benefits. As well, many benefits were tax deductible to the employer and helped them avoid wartime super-taxes on excess profits. After the war, labour made fair benefits an equal cry to fair wages in its campaigns.²⁵ Industrialization also drew many Southern African-Americans away from agriculture to the better paying jobs in the factories of the new economy in the North, Midwest and West-coast states²⁶ and with these new jobs into the welfare state.

The above discussion is important, as it both highlights one of the key fissures in American politics and also explains the next great wave of social policy innovation, Lyndon Johnson's "Great Society" and the war on poverty. The New Deal succeeded in part because American labour forced the new economy employers to provide a welfare state beyond the minimum. Meanwhile the post-war era witnessed a boom in economic growth unknown in modern economic history. Even conservative economists of the era admitted that social programs were providing a form of automatic stabilization which contributed to the unprecedented expansion.²⁷ One of the foremost students of U.S.

²⁵ Cathie Jo Martin, "Inviting Business to the Party: The Corporate Response to Social Policy," in Margaret Weir, (ed.), *The Social Divide: Political Parties and the Future of Activist Government*, (Washington and New York: The Brookings Institute and the Russell Sage Foundation, 1998), 232-233; Myles, *When Markets Fail*, 5.

²⁶ Stern, "The Democratic Presidency and Voting Rights," 51.

²⁷ Steven M. Sheffrin, *The Making of Economic Policy*, (Oxford: Blackwell, 1989), 203.

social and economic policy, Senator Daniel Patrick Moynihan, describes the change in the American economy as "stunning: so much that it has gone almost unnoticed. The wild gyrations of a capitalist economy gave way to a sequence of more or less uniform business cycles in which the economy grew and then did not grow, with only one significant decline."²⁸ Marxist political-economists have described this inter-related system of mass-production and mass-consumption in which state intervention (i.e. the welfare state) was employed both to moderate the business cycle and keep consumption high, regardless of economic conditions, as "Fordism" and this period as Fordism's "Golden age."²⁹ So stunning was the success that policy makers in the early 1960s faced a new problem, revenues were running into federal coffers so swiftly that Washington either had to create new programs to redistribute the funds or enact tax cuts, otherwise a surplus so massive as to be unhealthy for the economy would build up.³⁰ While it is common to describe welfare states as a result of market failure, the liberal welfare state was in fact the result of the market's success.³¹ Once labour was empowered through *The Wagner-Connery Act*, and once employers were given a nudge from the government in the form of wartime price controls and favourable tax treatment, the market responded and delivered the surpluses necessary to finance the welfare services that Americans needed.

²⁸ "The Professionalization of Reform II," *The Public Interest*, 30, (1995), 28-29.

²⁹ Alain Lipietz, *Mirages and Miracles: The Crises of Global Fordism*, (London: Verso, 1987), 29-41.

³⁰ Moynihan, "The Professionalization of Reform II," 28-29.

³¹ Myles, *When Markets Fail*, 1.

To a certain degree the "Great Society" was aimed at bringing those Americans who were excluded from the first incarnation of the liberal welfare state regime--those who were chronically unemployed, worked in the old economy and especially African-Americans--into the social protection and economic expansion of the welfare state.³² Glazer describes the Great Society's main objective as "...an effort to expand those residual programs addressed to the poor who could not take advantage of the contributory programs and to devise new ones."³³ Among the new programs was a health care package composed of two new policies; medicare, a health insurance scheme for the elderly which would be supported by a tax on employment earnings; and medicaid, which provided health insurance for those on social assistance.³⁴ However, the main emphasis of the Great Society was on preventing poverty by improving chances for individual opportunity through such schemes as Head Start (a pre-school program for the disadvantaged), education grants, employment training, public health grants and community action programs.³⁵ The emphasis of much of the Great Society plan was on local action and free market employment. In this regard, *The Civil Rights Act of 1964* and *The Voter Rights Act of 1965* were as important as *The Wagner-Connery Act* was to the New Deal. If the poor were to be helped, then they had to be politically important. If the unemployed were to become economically self-reliant then discrimination in the economy had to be curtailed.

³² Skocpol, *Social Policy in the United States*, 209-210.

³³ *The Limits of Social Policy*, 170

³⁴ *Ibid.*, 21.

³⁵ Myles, *When Markets Fail*, 6.

Even at the height of President Johnson's "war on poverty," market based outcomes were still at the core of the American welfare state. The programs aimed at making the poor employable and rebuilding the market potential of poor communities were relegated to a subsidiary role³⁶ and the economists of the Kennedy and Johnson administration sought to increase employment through the management of fiscal levers alone. As noted in Chapter 2, this one-sided policy led to an economic calamity with the economists discovering that it was easier to lower taxes when times are bad than to convince politicians to raise them when they are good.³⁷

Given the liberal welfare state objective of encouraging individuals to provide for their own welfare through market exchange, it should be little surprise that the American rendition relies heavily on tax expenditures. While the components of the welfare state that required either direct government funding or mandatory contributions from employees and employers were built in two great waves, the New Deal and the Great Society, tax expenditures to encourage private welfare provision have been added piecemeal to the income tax since it was first introduced in 1913. The initial income tax of 1913 included such important tax-expenditures as a deduction for interest paid on

³⁶ As Daniel Patrick Moynihan points out, this was in part a result of a poor political choice to try to do the Great Society on the cheap and also of conflicting views about what the program should accomplish, economic renewal or political empowerment. This set the program up not only for failure but as an ignition switch for the antagonisms brewing in many communities and the ultimate decision to discard active measures to enhance employability and the market viability of communities. *Maximum Feasible Misunderstanding: Community Action in the War on Poverty*, (New York: The Free Press, 1969), 94-99, 134-139 and 150-152.

³⁷ Myles, *When Markets Fail*, 5-6; Skocpol, *Social Policy in the United States*, 216-218.

home mortgages and local property taxes. In the 1920s corporations received the right to deduct payments made to provide employee pensions and this was expanded over the next thirty years to cover almost all employer provided welfare benefits and insurance. Even after the welfare state's second great building phase in the 1960s additional tax-expenditures were created. Among the later tax-expenditures the most important were the 1975 Earned Income Tax Credit (EITC), which provides what is essentially a federal wage subsidy for the working poor, and Individual Retirement Accounts, which are tax deductible and tax sheltered retirement investment accounts.³⁸ Most of these programs are of prime benefit to the better off in society as one must first have an income to spend or a steady job to benefit from tax expenditures. Second, one of the perverse impacts of tax expenditures, unless they are tightly controlled, is that they generally reward the wealthiest at a greater rate, as these people have the highest taxes and the most to gain by reducing their taxable income.³⁹

By the middle of the 1970s, when the EITC was introduced, the American liberal welfare state was essentially completed. For the majority there was employment supported welfare and self-provided welfare encouraged by tax expenditures to corporate patrons and individual families. For those who became temporarily unemployed or who

³⁸ Christopher Howard, "The Hidden American Welfare State," *Political Science Quarterly*, 108, (1993), 421-422.

³⁹ For example, the deductibility of mortgage interest offsets about 13% of a \$75,000 mortgage for an American family with an income of \$45,000 per year but 35% of the cost of a \$360,000 mortgage for a family with an income of \$500,000 per year. Citizens for Tax Justice, "Personal Tax Expenditures," *The Hidden Entitlements*, (Washington: Citizens for Tax Justice, 1996), electronic version accessed at http://www.ctj.org/hid_ent/part-3/part3-1.htm.

reached retirement age private welfare was supplemented by benefits from the three big contributory social insurance programs, unemployment insurance, old age security, and medicare. For those not regularly employed there were residual benefits such as social assistance, the medicaid health insurance plan, a special residual pension for the impoverished elderly, as well as the remnants of the Great Society programs aimed at making the poor more employable and their neighbourhoods more livable. The residual programs carried great stigma and part of this was actually encouraged by the administrators who ran the contributory schemes. Fearful of public scorn for state provision and eager to encourage membership in *The Social Security Act's* contributory plans, these public officials deliberately set out to create a myth of self-provision around the programs in their charge.⁴⁰ Later, the racial division of American society would further exacerbate this stigma as the benefit of the newer Great Society programs and the older residual programs became characterized as an issue of racial inferiority.⁴¹ It was this stigma, originating in multiple sources, that would leave these programs open to restraint while the tax subsidized and contributory plans remained strong during the 1980 and 1990s.

5.4 The Canadian Variant of the Liberal Welfare State Regime, Circa 1979

Events in Canada followed a different course. This was in part a result of policy choices made by Canadian politicians, slow industrialization in Canada, and also a result of the

⁴⁰ Skocpol, *Social Policy in the United States*, 212-213.

⁴¹ Martin Gilens, "'Race Coding' and White Opposition to Welfare," *American Political Science Review*, 90, (1996), 593-604.

unique constitutional environment in which Canadian politics is conducted. However, as will be seen below, although constitutional politics were often blamed for a delay in Canadian welfare state development, such issues were often more of an excuse for doing little, than an actual cause of this delay. When governments and business decided that Canada needed a modern welfare state, constitutional issues were resolved.

As discussed in the previous chapter, a series of judicial interpretations of Canada's constitution left Canada's federal and provincial politicians with a dilemma as they contemplated the need for welfare state programs: The provinces had most of the authority in the field, but were restricted in the revenue that they could raise; meanwhile, the federal state was cash rich but lacked authority to create the needed programs.⁴² This dilemma was confirmed when the Conservative party government of R.B. Bennett proposed a series of programs to deal with the Depression in Canada. The impact of the crisis was as severe in Canada as in the United States. Initially the government tried to cope with the strain that unemployment and farm failures were placing on municipal welfare by setting up relief work programs alone. In 1932 most of the camps were placed under the supervision of the Defence Department. The camps were an adequate short-term solution to unemployment. The workers were given meaningful work and the country received valuable infrastructure. However, as the life of the camps stretched into their third year they became increasingly like prisons, especially as it became clear

⁴² Martha Fletcher, "Judicial Review and the Division of Powers in Canada," in J. Peter Meekison, (ed.), *Canadian Federalism: Myth or Reality*, (Toronto: Methuen, 1968), 140-158; Keith Banting, *The Welfare State and Canadian Federalism, Second Edition*, (Montreal: McGill-Queen's University Press, 1987), 47-48.

to the workers that the government felt the camps alone were a sufficient response to the Depression. In 1935 some of the camps in Western Canada rebelled and the workers started a cross-country trek to Ottawa to demand better conditions and more permanent social reforms. The On To Ottawa Trek was halted with considerable violence and one death in Regina on Dominion Day (July 1, now called Canada Day) by the Mounted Police. The Trek leaders, many of whom were communists, were arrested and the men were ordered back to the camps.⁴³

The "Dominion Day Bloodbath" in Regina gave further impetus to the adoption of Bennett's own social reforms, which were patterned closely on Roosevelt's and introduced just before the Trek. As in the United States, the government promised unemployment insurance, a minimum wage and maximum work hours law, farm price supports via a new system of agricultural marketing-boards (which had been first proposed the year before), and eventually health insurance and pensions. The government also tried to spur home construction by offering subsidies to mortgages.⁴⁴ However, Bennett and his Conservatives lost the federal election of that year and the new Liberal government of W.L. Mackenzie King was left to carry out the Bennett plan. Mackenzie King, never one to act quickly, appointed a commission to study the whole

⁴³ Desmond Morton and Terry Copp, *Working People: An Illustrated History of the Canadian Labour Movement, Revised Edition*, (Ottawa: Deneau, 1984), 147-148. A participant's account of the Trek is preserved in Ronald Liversedge, *Recollections of the On To Ottawa Trek*, (Toronto: McClelland and Stewart, Carleton Library Series, 1973).

⁴⁴ Alvin Finkle, "Origins of the Welfare State in Canada," in Leo Panitch, (ed.), *The Canadian State: Political Economy and Political Power*, (Toronto: University of Toronto Press, 1977), 351-353. The descendant of this first mortgage program was the Canada Housing and Mortgage Corporation.

matter. The commission, influenced by the same new economy capitalist forces as those which backed the Roosevelt New Deal in the northern states, essentially recommended that the Bennett plan be not only implemented, but expanded. The Prime Minister, whose Liberal government was reliant on supporters rooted in the older resource economy, was suspicious of the commission's perspective on the problem. He was further restrained by concern that the plan would spark regional tensions by invading provincial responsibilities. Therefore, MacKenzie King chose mainly to ignore the commission's recommendations.⁴⁵

The government itself asked the judiciary to decide if the federal government had the powers to carry out the Bennett New Deal. The Supreme Court of Canada approved most of the plan, only the farm marketing-boards were ruled to be beyond the federal government's assigned powers. However, this decision was appealed to the Judicial Committee of the Privy Council in London and the high court of the British Empire reversed the Supreme Court of Canada, ruling that the entire program (except for the mortgage lending support) was *ultra vires*, beyond the powers of the federal state and, therefore, disallowed. The MacKenzie King government did not want to carry out the Bennett New Deal but feared the uprising that would ensue if it revoked it. Therefore, they decided to let the courts crush it.⁴⁶ This judicial defeat not only got the government off of the hook but also confirmed and reinforced the division of powers dilemma. Now there could be no doubt, the provinces had the dominant constitutional

⁴⁵ *Ibid.*, 356-357.

⁴⁶ John Herd Thompson and Allen Seager, *Canada 1922-1939: Decades of Discord*, (Toronto: McClelland and Stewart, 1985), 281-282.

role in health and social policy matters. This left Canada where it had started the decade, in depression and with underfunded provincial and municipal authorities responsible for social policy, the labour market, and poverty relief. In the matter of labour relations, it also meant that Canada would have no over-riding reforms such as those created by *The Wagner-Connery Act* and *The Fair Labour Standards Act* in the United States.⁴⁷ The absence of such federal standards was a serious impediment to unions and consequently, also an impediment to the creation of private provision as the core of the modern welfare state. Unions would have to win the right to effectively represent workers, province by province.

The second world war broke the deadlock that had been reached in all of these fields. This was in part because it restored the labour market and gave unions a new power to demand private health and welfare benefits similar to those now reaching American workers and also because the rapid industrialization finally tipped the political scales in favour of the new advanced industrial economy and away from the older primary manufacturing and resources sectors. After the war the newly built industries were turned to civilian production. Just as in the United States a decade earlier, Canadian capitalists were now increasingly making their profits by selling goods and services to their own workers,⁴⁸ and this meant that counter-cyclical economic management and social policies that insured consumption stability were more and more in the interests of Canadian capital. Banting highlights the impact of the changing

⁴⁷ Morton and Copp, *Working People*, 160.

⁴⁸ Donald Creighton, *The Forked Road: Canada 1939-1957*, (Toronto: McClelland and Stewart, 1976), 118 and 122.

circumstances when he notes that:

The culpability of Canadian federalism during the 1930s was often greatly overplayed. A host of other forces also dictated the slow pace of social development during the interwar years: Canada was still undergoing the transition from an agricultural to an industrial economy; the unionization and political mobilization of an urban workforce was only beginning; left-wing protest was still laying down its foundations in the form of the Cooperative Commonwealth Federation (CCF); Keynesian thinking had not yet cracked the hold of conservative financial orthodoxy over the thinking of government and business elites. As these forces came more fully into play after the Second World War, constitutional roadblocks that had seemed insurmountable during the 1930s proved much less formidable.⁴⁹

Along side of these economic developments and social pressures, there were also political and psychological forces building up and increasingly compelling change. In the war years a feeling began to develop in Canada that the country's social policies had failed to keep pace with the modern world. Many came to believe that although federalism might be a difficulty, it could not be allowed to stand in the way of social progress, especially when our two principal allies were using social progress, in part, to justify the largest military struggle in the history of humankind. As one of the founders of Canada's welfare state noted, social policy was no longer just a good idea, it had become a war aim.⁵⁰

With the start of the war the MacKenzie King Liberals, and especially the Prime Minister himself, began to reconsider their opposition to the reforms first proposed by R.B. Bennett. Most notably, the Royal Commission on Federal Provincial Relations (which MacKenzie King had appointed to explore the dilemma of federal-provincial

⁴⁹ Banting, *The Welfare State and Canadian Federalism*, 59.

⁵⁰ Marsh, *Report on Social Security for Canada*, xvi.

economic relations) showed that there was significant support for unemployment insurance among most segments of the economy and that the provinces were not as opposed to federal leadership as they had previously been supposed to be. As well, 1940 provided a positive political climate in that a militantly nationalist provincial government had been defeated in Quebec and replaced with a government decidedly more friendly to Ottawa. As a result, the federal government proposed and received provincial consent for a constitutional amendment to transfer responsibility for unemployment insurance to the federal government. In 1941 unemployment insurance was introduced as a federal program funded in part by mandatory contributions from employers and employees.⁵¹ One further wartime social policy development was a minimal family allowance, payable to all families with children, which was introduced near the end of the war. The federal government had the power to implement this program as it was a direct payment, a gift, from the federal Parliament to all families, rather than either an insurance scheme or a social program.⁵² It has been suggested that the benefit was an attempt by economic planners to curb wage inflation that was expected to set in with the ending of wartime controls.⁵³ However, the creation of other programs would have to wait for the conclusion of the war.

In the matter of labour relations the war brought a more organized and rule based system of industrial dispute settlement. At the outset of the war the federal government,

⁵¹ Finkel, "Origins of the Welfare State in Canada," 359.

⁵² Banting, *The Welfare State and Canadian Federalism*, 52-53 and 77-78.

⁵³ Baker, *Canadian Family Policies*, 128.

interested in labour peace and efficient production, used its emergency powers to recognize the right to unionize and the right to collectively bargain over wages and working conditions. In 1944 it reconfirmed this right and also created a national board to hear and settle disputes over unionization.⁵⁴ Anticipating the end of the emergency war powers of the federal government, and perhaps fearing chaos, the more industrialized provinces took up these powers through the creation of provincial boards and the others followed suit.⁵⁵ The result of these changes, as well as the restructuring of the economy, was that working Canadians were now in a position to bargain for both wage increases and social benefits that would go a long way towards creating the foundation of a liberal welfare state.

Post-war social reconstruction was the topic of a series of committees established by the bureaucracy in Ottawa. The work of these committees was synthesized in a 1943 report prepared by social scientist Leonard Marsh. The chapter headings, "Employment," "The Universal Risks, Sickness, Invalidity, Old Age," "Family Needs," give an indication of the scope of the social policy that the planners were devising for post-war Canada.⁵⁶ The plan was paralleled by a proposal to continue the sole federal control of income tax and succession dues with the payment of allowances to the provinces. This had first been proposed by the Royal Commission on Dominion Provincial Financial Relations and had been adopted as a wartime emergency measure.

⁵⁴ Morton and Copp, *Working People*, 171 and 184.

⁵⁵ Carolyn Tuohy, *Politics and Policy in Canada: Institutionalized Ambivalence*, (Philadelphia: Temple University Press, 1992), 164.

⁵⁶ *Report on Social Security for Canada*, v-vi.

The rationale behind the continuance of this fiscal centralization was that it was necessary for the federal authorities to properly manage economic demand so as to insure adequate employment, which was seen as being the prime source of welfare. Together the social and economic proposals represented a powerful rendition of the Keynesian policy paradigm.⁵⁷

However, with the war over, the plan could not be imposed by federal fiat, it would require the agreement of the provinces. The Prime Minister received cabinet approval for the program in the first week of August, 1945 and the first meeting to discuss the plan with the provinces would be the Dominion-Provincial Conference on Reconstruction a week later.⁵⁸ The meeting was something of a shock for the premiers and other provincial representatives.

The provincial representatives must have sat back in a daze while the federal planners lifted one curtain after another on the vast panorama of the Canadian future. It was impossible, after a day-and-a-half of uninterrupted listening, to grasp the complexity of the whole; but, despite the bewildering detail, one fact emerged with startling clarity. The conference was professedly not a constitutional conference; but there could not be the slightest doubt that the acceptance of the federal proposals would result in a revolutionary change in the Canadian constitution. A monopoly of all the great modern taxes would enable the federal government to control the entire economy and to set the standard of health and social welfare for the entire population. It was the greatest advance ever yet planned towards the centralized administration of all phases and aspects of the Canadian life. The provincial representatives were stunned. Their one clear thought was that they must not accept the federal proposals at once. They

⁵⁷ Richard Simeon and Ian Robinson, *State, Society, and the Development of Canadian Federalism, Volume 71 of the Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada*, (Toronto: University of Toronto Press, 1990), 108-109; Robert J. Jackson and Doreen Jackson, *Politics in Canada: Culture, Institutions, Behaviour and Public Policy, Third Edition*, (Scarborough, ON: Prentice Hall, 1994).

⁵⁸ Creighton, *The Forked Road*, 107.

made a series of brief, perfunctory speeches and demanded time for study.⁵⁹

After the conference a number of proposals and counter-proposals were exchanged over the following year. Eventually Ontario and Quebec scuttled the talks. To describe the the Marsh Report as a failure, however, is not necessarily correct. This is because the history of Canadian social policy over the next twenty-five years is essentially the story of how programs aimed at realizing the goals of the Marsh Report were adopted, one by one, through federal-provincial bargaining.⁶⁰ Yet, there was one important result of this delay which Tuohy noted in her analysis of Canadian health insurance policy (although it is equally true in other policy areas as well). The Marsh report reflected the state of the art in social thinking at the time of its release and that thinking was decidedly social democratic. The delay and piecemeal creation of the Canadian welfare state allowed the employer paid benefits first offered widely during the war and other privately financed welfare schemes to take hold. Given their success, and the growing prosperity funded by the post-war boom, when public schemes were developed they reflected the liberal welfare state norms of residuality and private provision more than they might otherwise have if adopted right after the war.⁶¹

Among the most important policies created by federal-provincial bargaining was a 1951 constitutional amendment which empowered the federal government to create

⁵⁹ *Ibid.*, 109.

⁶⁰ Simeon and Robinson, *State, Society and the Development of Canadian Federalism*, 112-113; Banting, *The Welfare State and Canadian Federalism*, 68-69.

⁶¹ Carolyn Tuohy, "Social Policy: Two Worlds," in Michael M. Atkinson, (ed.), *Governing Canada: Institutions and Public Policy*, (Toronto: Harcourt Brace and Jovanovich, 1993), 278-279.

pension schemes, provided that these did not supersede any provincial plans in this policy area. This paved the way for the creation of Old Age Security, a flat-rate universal pension.⁶² The fact that provinces can opt out of these cooperative schemes gives them considerable power over the design of pensions. This amendment also allowed for the Canada Pension Plan (CPP), a contributory, salary related scheme, in 1964. At this time Quebec used its power to supersede the federal plan and created its own plan, although it has identical contribution rates, terms of eligibility and benefits.⁶³

The 1951 amendment proved to be the last time that a power was constitutionally transferred to the federal government. Most of the other welfare state components were created by what have become known as shared cost programs. Essentially the federal government offered a subsidy to any province that was willing to provide social programs that conformed to the requirements of a federally designed mandate. The federal government had used such grants to encourage the provinces to provide social assistance to the elderly in 1927. No provincial government was compelled to take the money, if it felt that the creation of such programs was contrary to its province's interests. Quebec, in fact, refused to accept some of the larger federal grants on offer during the 1950s. In 1951 grants were offered to fund services and pensions for the blind, in 1954 post-secondary education and benefits for the disabled. In 1956 a residual social assistance scheme was offered for those not covered by other benefits. In 1957 the

⁶² Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, 148.

⁶³ Richard Simeon, *Federal Provincial Diplomacy: The Making of Recent Policy in Canada*, (Toronto: University of Toronto Press, 1972), 43-65.

federal government offered a similar subsidy to provinces that created health insurance to cover hospital care. This was expanded in 1966 to include physician bills.⁶⁴ At about the same time as the completion of health insurance, 1966, the various grants developed in the 1950s to subsidize the provincial provision of residual welfare were streamlined into one transfer, the Canada Assistance Plan (CAP).

It should be stressed that the room for provincial variation in all of these shared-cost programs was quite substantial and the CAP increased this even further. For example, the CAP grant was only conditional on the provinces following three rules: All Canadians were eligible to apply, all those deemed eligible (by each province's own standards) had to be helped and each province was required to establish a review process to which those denied help had the right to appeal. In the case of health insurance such fundamental issues as whether or not premiums would be charged and the levels at which providers would be paid, were left up to the provinces to decide. In fact, there was not even a requirement that all citizens be covered, only that all citizens be eligible to join.⁶⁵ It should also be noted that a lot of things are not covered under health insurance. Among universal public health insurance plans, Canada's is by far the least comprehensive, excluding dental care and prescription drugs, although provinces could

⁶⁴ Simeon and Robinson, *State Society, and the Development of Canadian Federalism*, 48-150; Tuohy, *Policy and Politics in Canada*, 111-112.

⁶⁵ Tuohy, "Social Policy: Two Worlds," 291, Daniel Cohn, "The Canada Health and Social Transfer: Transferring Resources or Moral Authority Between Levels of Government?" in Patrick Fafard and Douglas Brown, *Canada: The State of the Federation, 1996*, (Kingston, ON: Queen's University Institute for Intergovernmental Relations, 1996), 169-171. Most provincial health insurance plans began as premium based schemes. Almost all are now funded by payroll taxes and out of provincial general revenues.

provide these for the poor and elderly and receive 50 percent federal reimbursement under the CAP. Historically only about 75 percent of Canadian health care costs have been covered by the public provision as opposed to about 90 percent in a country such as Sweden.⁶⁶ In the same year that the CAP was introduced, the federal government also introduced a new means-tested seniors benefit, the Guaranteed Income Supplement. Initially intended as a short-term measure to cover those who would retire before accumulating the necessary contributions to earn the CPP, the GIS not only has become a permanent feature of the retirement system, but has both been made more generous and also supplemented by further provincial grants in most provinces.⁶⁷

Another important strand in the Canadian welfare state is a program for revenue sharing which is designed to raise the income of poorer provinces. Introduced in the late 1950s and strengthened in the following decade, these federal equalization payments to the poorer provinces are important for insuring that welfare state services are available to all Canadians on a relatively equal basis. Individual transfers such as the CAP also included equalization features to assist the poorer provinces in meeting their portion of the shared costs involved.⁶⁸

Unlike events in the United States, the end of the 1960s did not signal the end of welfare state building in Canada. During this decade there were major improvements in

⁶⁶ Daniel Cohn, *Reforming Health Care in Canada and Sweden, 1975-1990*, (Stockholm: Stockholm University International Graduate School, 1992), 49; "The Canada Health and Social Transfer," 170-171.

⁶⁷ Banting, *The Welfare State and Canadian Federalism*, 13-14.

⁶⁸ Simeon and Robinson, *State, Society and the Development of Canadian Federalism*, 197-198.

social programs. The first was the 1971 changes in the unemployment insurance plan which among other things created paid maternity leave.⁶⁹ However, many of the improvements in the plan were rolled back as the decade progressed through the imposition of longer job tenure before eligibility was earned and the introduction of waiting periods of unpaid unemployment as well as the reduction of supplementary benefits to those workers with dependents. Regional variation was also introduced. This made it easier for workers in the economically less advantaged provinces to access the system.⁷⁰ The second notable expansion was the introduction of Registered Retirement Savings Plans (RRSP) in 1973. These are private pension savings and investment accounts. Contributions are 100 percent deductible and grow tax free until withdrawal. As with most tax expenditure based welfare programs, the RRSP is mainly of use to the middle and upper income groups, as one must have the disposable income to take advantage of it.⁷¹ A third significant plan introduced in the 1970s was the 1978 Refundable Child Tax Credit, which unlike other tax expenditures provided benefits even if families owed no income tax.⁷²

Reviewing the explosion in social programs in the 1960s and 1970s Drache argues that the rebuilding of the Canadian welfare state in this period was a result of Quebec's political development. Quebec's government had essentially opted out of the twentieth

⁶⁹ Payments are at the same rate as unemployment benefits (now 57% of earnings with no payment for the first two weeks). Baker, *Canadian Family Policies*, 161-163.

⁷⁰ Banting, *The Welfare State and Canadian Federalism*, 189.

⁷¹ *Ibid.*, 24-25.

⁷² Ernie Lightman and Allan Irving, "Restructuring Canada's Welfare State," *Journal of Social Policy*, 20, (1991), 72.

century prior to the 1960s. When given the choice of accepting federal conditions or foregoing support for the development of its welfare state programs, Quebec chose to forego the cash as its leaders had little interest in social development.⁷³ With the arrival of provincial politicians who were intent on using the state to modernize society in the 1960s, Quebec demanded its share of the federal largesse but refused the previous terms. To avoid crisis the programs were redesigned so as to allow even greater provincial control. At the same time a bidding war developed between the two levels of government, with Quebec in the lead, as to which could be more progressive. This also spurred welfare state growth.⁷⁴

In the 1970s oilshocks and inflation led federal and provincial leaders to search for ways in which spending on health and welfare programs could be restrained. Much of their attention focused on health care. It was argued that savings could be extracted without reducing health outcomes by focusing more on primary and preventative care, (keeping people healthy) and thereby creating future savings in more expensive curative care (treating people when they are sick). As well, it was also argued that the health insurance schemes of the time prevented cost savings by too tightly specifying the form of delivery. In 1977 these concerns resulted in a re-negotiation of the transfers for both

⁷³ Among the most important programs which Quebec declined to participate in during the 1950s were the federal shared cost programs for post-secondary education and hospital based health care (*The Hospital and Diagnostic Services Act of 1957*), Simeon and Robinson, *State Society and the Development of Canadian Federalism*, 148-149.

⁷⁴ Daniel Drache, "The Eye of the Hurricane: Globalization and Social Policy Reform," in Daniel Drache and Andrew Ranachan, (eds.), *Warm Hearts, Cold Country: Fiscal and Social Policy Reform in Canada*, (Ottawa and Toronto: Caledon Institute of Social Policy and York University Robarts Centre for Canadian Studies, 1995), 34-37.

health and post-secondary education. These were rolled into one joint transfer--commonly called Established Programs Financing (EPF). The new deal ended the open-ended federal promise to pay 50 percent of the costs of provincial health and education. Instead, provinces were to receive a block grant which was based on a per capita formula and equivalent to the old 50 percent federal share of costs in the first year. The grants would increase with growth in population and also with growth in gross domestic product, rather than inflation, so as to reflect Canada's ability to pay rather than price increases. In return, the provinces were given the leeway that they had requested to make changes in health and education programs so as to reduce costs. For example, the list of covered health services was replaced with a statement that all medically necessary services should be provided. If the provinces succeeded in restraining costs they were entitled to keep any surpluses and deploy them as they saw fit. If they failed to keep costs below growth in the grant, they were responsible for the shortfall, forcing their contribution to health and education above the previous level of 50 percent.⁷⁵

At this point the liberal welfare state was as well established in Canada as in the United States. The principal source for securing welfare was supposed to be the market. In fact, private pensions are more important to Canadian retirement income than they are to Americans.⁷⁶ As well, there were mandatory contributory insurance schemes to provide salary-linked unemployment benefits and pensions. Basic health insurance was nearly universally available and paid for by a mixture of federal subsidies, payroll taxes,

⁷⁵ Cohn, "The Canada Health and Social Transfer," 171-172.

⁷⁶ Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 70.

individual premiums and general provincial revenue. This was supplemented for most by employment related schemes. Universal flat rate pensions, family allowances, and the Refundable Child Tax Credit were funded from general federal revenues and residual social assistance was provided by the provinces with the help of federal subsidies under the CAP. At the broader level, regional equality was promoted by the equalization payment. In conformity with the liberal welfare state regime type, the universal benefits available to Canadians were very meager. In the case of the OAS this was confirmed by the need to create the GIS to supplement the income of seniors whose only retirement income was the universal pension. Health insurance, which is often seen as the Cadillac of the Canadian welfare state program fleet, does not cover such important services as dental care and pharmaceutical products for most Canadians, and as a result, most Canadians are also covered by supplemental private schemes.

The fact that the Canadian state plays a larger role in providing welfare than does the American state is explainable by a number of factors, most importantly the place of Canada in the international economy. Canada, as with all smaller countries, has always had to rely more on government action to achieve important national objectives than have larger countries, both because of a lack of capital and because smaller countries lack a sufficient domestic market and are, consequently, more susceptible to trade pressures. In the late 1800s this meant substantial public subsidies and grants were offered to those who were willing to build needed public works, such as the Canadian Pacific Railway. In the second half of this century it meant substantial public involvement in creating needed social infrastructure, in other words, the welfare state. Second, Canada's greater

dependence than the United States on the old primary industry and resource extraction economy meant that many Canadians, as with the workers in the U.S. South, were more vulnerable to cyclical unemployment and tended to earn lower wages (a situation which still persists although the per/capita income gap between Canada and the United States is closing). However, unlike in the United States, those in disadvantaged regions are politically empowered. Not all regions are equally vulnerable to this sort of cyclical dislocation and the equalization payments play an important role in the structure of national unity.⁷⁷ Consequently, it can be argued, somewhat functionally, that Canada has more public involvement in its rendition of the liberal welfare state because it needs more public involvement to make the welfare state feasible. In this sense it is possible that social assistance carries less stigma for its recipients in Canada than in the United States because the need for state assistance is more pronounced in all aspects of the Canadian political economy. Furthermore, in Canada social assistance never became associated with a racial cleavage as it did in the United States.

5.5 The American Variant of the Liberal Welfare State Regime, Circa 1990

O'Conner notes that Ronald Reagan's first budget, in 1981, made several small but

⁷⁷ Banting, "The Social Policy Divide: The Welfare State in Canada and the United States," 272; Wallace Clement, *The Challenge of Class Analysis*, (Ottawa: Carleton University Press, 1988), 69-104; John F. Helliwell, "Canada's Economic and Social Union: Past, Prospects and Proposals," in John E. Trent, Robert Young and Guy Lachapelle, *Québec-Canada: What is the Path Ahead? / Nouveaux Sentiers Vers L'Avenir*, (Ottawa: University of Ottawa Press, 1996), 192-193; Donald V. Smiley, *The Federal Condition in Canada*, (Toronto: McGraw Hill Ryerson, 1987), 170-171; In fact, the equalization payments were considered so important that they were constitutionally enshrined with the Constitution Act of 1982, section 36.

important changes in American social policies, most of which served to make it harder to qualify for social assistance. These changes were expected to reduce spending on Aid to Families with Dependent Children, the main social assistance scheme, by 33 percent. Plans were also introduced to make it harder to qualify for supplemental social insurance, a plan which pays additional benefits to the disabled poor. This was expected to produce savings of 12.5 percent in previous spending within this program.

For those still eligible for help, the main reduction in benefits was perhaps a provision allowing (though not compelling) states to count federal food stamps and housing subsidies as part of a family's entitlement. Other social spending cuts included a 40 percent cut in housing assistance and an increase in the percentage of income that tenants were to contribute from 25 to 30 percent; an 18 percent cut in energy assistance, which provides grants to pay for heat and electricity for the poor; a roughly 31 percent cut in funding for school meal programs; an approximately 14 percent reduction in spending on food stamps; a small reduction (under 1 percent) in federal support for state unemployment insurance programs via the elimination of a program to extend benefits in times of high unemployment; an approximately 6 percent cut in funding to the states for medicaid; the elimination of a scheme which funded public jobs with state and local agencies for the poor and a reduction in job training funds. This budget also introduced Americans to workfare, although few states took up the offer as the rules were difficult to administer.⁷⁸ It is difficult to tell how much money was actually saved as a result

⁷⁸ John O'Connor, "US Social Welfare Policy: The Reagan Record and Legacy," *Journal of Social Policy*, 27, (1998), 38-43; Frances Fox Piven and Richard A. Cloward, *The New Class War: Reagan's Attack on the Welfare State and Its Consequences*, (New York: Pantheon, 1982), 16-18.

of the 1981 budget. The major savings were anticipated to result from a reduction in the numbers eligible for social assistance. However, the cuts were implemented in the middle of the early 1980s recession. Consequently, and in spite of the stricter eligibility requirements, welfare rolls swelled as did social spending.⁷⁹

The fact that these changes were enacted during the recession of the early 1980s, the worst since the 1930s, also points to another important change in the American welfare state. Keynesian demand management had been abandoned. Cutting federal outlays to the poor in the midst of a recession is precisely the opposite of what a traditional Keynesian policy would have prescribed. At the U.S. Federal Reserve, the Keynesian orthodoxy had also been dismissed. The prime goal was the suppression of inflation.⁸⁰

The next major social policy restraint project undertaken by the Reagan administration was its social security reform of 1983 which ended up being more of a tax increase than a benefit cut. A payroll-tax increase for both employers and employees was implemented and compulsory coverage was extended to the employees of once exempt non-profit organizations. On the benefit side, inflation adjustments were pushed back to the calendar year from the fiscal-year-end for a one-time saving and the formula was adjusted to make cost-of-living increases the lower of either prices or wages. A new

⁷⁹ O'Connor, "U.S. Social Welfare Policy," 43.

⁸⁰ Paul Boothe and Douglas Purvis, "Macroeconomic Policy in Canada and the United States: Independence, Transmission and Effectiveness," in Keith Banting, George Hoberg and Richard Simeon, (eds.), *Degrees of Freedom: Canada and the United States in a Changing World*, (Montreal: McGill-Queen's University Press, 1997), 215.

formula was also introduced to lower benefits for those working only a few years before retirement and the benefits for delaying retirement beyond 65 were increased.⁸¹ At the same time the cost of federal subsidies to private welfare continued to mount. One example was the increased generosity of the tax break available to those holding Individual Retirement Accounts. This one change reduced federal income by \$10 billion a year until the tax reform of 1986.⁸² The impact of tax expenditures (aimed at promoting private welfare and other purposes as well) on the federal budget can best be illustrated by the following table. By 1986 the United States was spending more on tax expenditure programs than it was taking in through both the corporate and personal income tax combined.

Table 5.5.1 The Cost of Tax Expenditures to the Federal Treasury

Year	Corporate Tax Expenditures as % of Corporate Income Tax	Personal Tax Expenditures as % of Personal Income Tax	Total Tax Expenditures as % of Total Income Tax
1970	34	36	36
1980	72	60	62
1986	201	85	103

(Source: Citizens For Tax Justice, *The Hidden Entitlements*, (Washington: Citizens for Tax Justice, 1996), electronic version, http://www.ctj.org/hid_ent/part-1/part1.htm)

Even after the Reagan tax reform of 1986, which was at least in part inspired by the need to close the vast array of loopholes in the U.S. tax code, the scope and value

⁸¹ O'Connor, "U.S. Social Welfare Policy," 43-45.

⁸² Citizen's For Tax Justice, "Part I An Overview," *The Hidden Entitlements*, (Washington: Citizens For Tax Justice, 1996), electronic version, http://www.ctj.org/hid_ent/part-1/part1.htm

of tax expenditures in the American liberal welfare state was still substantial. In fiscal year 1991, direct federal spending on welfare state programs was estimated to total \$589.7 billion. Tax expenditures for equivalent welfare state purposes totalled \$309.4 billion. Most striking is the difference in spending on housing. Direct federal support for housing totalled \$32.9 billion. Tax expenditures (mostly in the form of mortgage interest deductions from personal income tax) amounted to \$74.2 billion.⁸³

The difference in treatment accorded to the different programs cannot but appear striking. As Skocpol notes, there are two distinct tiers of welfare state programs in the United States, one for the poor (based in tightly controlled residual means tested programs) and a more generous one for the middle and upper classes (based in the contributory schemes and private provision). Almost all the cuts in social spending came out of the 18 percent of the federal budget devoted to programs for low-income public assistance. The much larger Social Security Pension and Medicare plans went nearly untouched⁸⁴ as did the tax expenditures for the middle and upper classes.

Nevertheless, the cuts did not cripple the residual programs and in President Reagan's second term some of the funds leached out of low-income support programs found their way back into the budget. In 1985 food stamp eligibility was expanded.⁸⁵ The Reagan administration also took action through the tax code, expanding and increasing the value of the Earned Income Tax Credit (EITC) in 1986. This was a social

⁸³ Howard, "The Hidden Side of the American Welfare State," 415.

⁸⁴ Skocpol, *Social Policy in the United States*, 214.

⁸⁵ Terry J. Royed and Stephen A. Borrelli, "Political Parties and Public Policy: Social Welfare Policy from Carter to Bush," *Polity*, 29, (1997), 553.

policy that both the Left and the Right could agree on. According to the Right, the EITC encouraged work by letting the poor keep more of their earnings. According to the Left, the EITC served to reverse some of the decline in the tax system's progressivity. Myles and Pierson suggest that this has made the EITC something of a darling of the budget process, with disagreements on other measures being resolved by a boost in the EITC.⁸⁰

Another piece of "win-win" legislation was *The 1988 Family Support Act*. This legislation sought to increase incentives to work and to encourage the maintenance of family ties. A compromise resolution which won support from the moderates in both parties, the act was more about administrative change and creating work incentives than budget cuts. First, the act empowered states to garnishee wages of absentee parents to ensure child support. It also increased funding for special education and training of recipients, as well as for their children, and included a plan to enhance child care. As well, the act also contained one important expansion in eligibility for AFDC. The previously optional provision allowing states to provide social assistance to two parent families was made mandatory. When it was an option only 27 states had offered benefits to these families. Benefits were increased by slightly raising the "earned income disregard" (the amount recipients can earn before incurring benefit cuts) from \$75 to \$90 and also by modestly increasing the childcare deduction from earned income. Finally, the act made provision so that those recipients who found work were allowed to continue

⁸⁰ John Myles and Paul Pierson, "Friedman's Revenge: The Reform of 'Liberal' Welfare States in Canada and the United States," *Politics and Society*, 25 (1997), 462.

their medicaid enrolment for up to a year.⁸⁷

The Bush administration did even less in terms of welfare state retrenchment. Bush allowed a cautious restoration of funding for some programs, just as was done in Reagan's second term, but in general, simply tried to maintain the status quo.⁸⁸ At the end of President Reagan's term of office American social spending was 27 percent higher than it was in 1978 (in inflation adjusted terms). By the end of President Bush's term it was 56.8 percent higher.⁸⁹

Comparing the Reagan social policy legacy with that of the Thatcher government, Pierson notes that both leaders came across similar stumbling blocks that prevented them from seriously reforming social assistance. Both claimed to want to turn welfare from a "trap" into a scheme which made people ready to participate in the economy. However, this would cost more, not less money, and require the creation of a whole new group of programs and bureaucrats. Therefore, both turned to straight spending cuts in the old programs, claiming that harsher poverty would motivate the poor to adopt a more appropriate work ethic. However, there were limits to how far leaders could take this agenda, even when there was a heavy stigma attached to social assistance and its recipients (as was the case in the United States). This was because social assistance was

⁸⁷ Royed and Borrelli, "Political Parties and Public Policy," 553; O'Connor, "U.S. Social Welfare Policy," 46-48

⁸⁸ Royed and Borrelli, "Political Parties and Public Policy," 553-554; David Mervin, *George Bush and the Guardianship Presidency*, (New York: St. Martin's Press, 1996), 205-206; Myles and Pierson, *Friedman's Revenge*, 462.

⁸⁹ Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment*, (Cambridge: Cambridge University Press, 1994), 144.

already a marginal program in both countries, given that they possessed liberal welfare states. As a result, there was no way to hide the truth that cutting social assistance caused hardship, especially in a time of economic turmoil.⁹⁰ This opened both Reagan and Thatcher to criticism over the "fairness issue". As was seen in Chapter 3, public opinion shifted markedly in both Great Britain and the United States during the 1980s. Social assistance cuts produced something of a backlash in public opinion. The numbers who felt social assistance programs were too generous fell appreciably after only a modest amount of restraint. People were willing to see the poor share the burden, but not to see them carrying the load all by themselves. The liberal welfare state appeared to have become entrenched in the American psyche.

5.6 The Canadian Variant of the Liberal Welfare State Regime, Circa 1990

The 1980s began with Canada facing a constitutional crisis. Quebec's Parti Québécois government, led by René Lévesque, launched its long promised referendum on "sovereignty association," (i.e. declaring Quebec to be a sovereign nation state but afterwards seeking some sort of cooperative economic and political arrangement with Canada).⁹¹ Consequently, the first priority of the new Trudeau government was to win the referendum, not to deal with Canada's mounting economic problems. In doing so, Trudeau promised Quebec that a "No" vote would give him the necessary clout to force

⁹⁰ *Ibid.*, 126-128.

⁹¹ One of the better English language accounts of the Referendum campaign is contained in Graham Fraser, *PQ: René Lévesque and the Parti Québécois in Power*, (Toronto: Macmillan, 1984).

the other provinces to accept meaningful change in the Canadian constitution.⁹²

Trudeau did indeed produce meaningful change, however, most of the changes, especially the amending formula (which required the assent of seven provinces representing 50 percent of the population for most changes) and the guarantee of minority language rights in the *Charter of Rights and Freedoms*, were viewed in Quebec (by both federalists and sovereigntists alike) as detrimental to their provincial interest. When the package was adopted over Quebec's objections, Premier Lévesque refused to play any further role in process. This refusal of Quebec to "sign" the new constitution has left an important question mark over Canada's politics ever since. Quebec's leaders argued that they had been lied to in 1980 and, therefore, retained the legitimate right to declare sovereignty at some future date, after some future election or referendum.⁹³ This simmering hostility only further contributed to the difficulties always present in Canadian federal provincial relations and further complicated the decisions facing national leaders as they confronted the need to make social policy reforms.

The most important spending restraint undertaken by the 1980-1984 Trudeau government was its "6 and 5" program to limit inflation. During 1983 and 1984 the government limited spending increases to 6 percent and 5 percent respectively. This involved among other things, an arbitrary and unilateral change to the Established

⁹² *Ibid.*, 227.

⁹³ *Ibid.*, 228. Donald V. Smiley, "A Dangerous Deed: The Constitution Act of 1982," in Keith Banting and Richard Simeon, (eds.), *And No One Cheered: Federalism, Democracy and the Constitution Act*, (Toronto; Methuen, 1983), 74-95.

Programs Financing (EPF) transfers to the provinces which had been negotiated in 1977.⁹⁴ Another important change was a new mechanism added to the Equalization Payments in 1982 which placed an absolute ceiling on yearly increases so as to protect the federal treasury from rapid jumps in these payments.⁹⁵ Just before the 1984 election the government also introduced *The Canada Health Act* (CHA). On the administrative side, the CHA rolled the previous separate regulations for hospital and physician care insurance into one law. As well, it also eliminated the right of physicians to charge co-payments to patients for their services. Co-payments (or extra-billing) had long been available to physicians in Canadian health insurance laws. Before the early 1980s few took advantage of the privilege. However, as the provinces began to restrain spending under the EPF, many more physicians began to see co-payments as a way to maintain income in spite of provincial cuts. For the provincial treasurers, co-payments provided an easy solution to their problem of controlling spending. For the health policy makers and provincial ministers of health, they appeared to be a major threat to universal access. Therefore, while provincial premiers and treasurers denounced the CHA as an invasion of their control over health care, their colleagues in the various provincial health

⁹⁴ Odette Madore, *The Canada health and Social Transfer: Operation and Possible Repercussions on the Health Care Sector, Current Issue Review 95-2E, Library of Parliament Research Branch*, (Ottawa: Minister o Supply and Service, 1995), 2.

⁹⁵ T. Russell Robinson, "Canadian Fiscal Arrangements in the 1990s: A Federalist's Perspective," *Policy Options/Options Politiques*, 14, (December 1993), 51. For a detailed discussion of the formula used to calculate equalization see, Thomas J. Courchene, *Social Canada in the Millennium: Reform Imperatives and Restructuring Principles*, (Toronto: C.D. Howe Institute, 1994), 89-108.

ministries quietly celebrated the federal action.⁹⁶

Whereas the Reagan administration in the United States clearly announced its disapproval of the Keynesian economic policy paradigm, the Trudeau government in Canada was less certain that the policy had completely outlived its usefulness. Inflation had to be controlled, but not at the expense of all else. The Trudeau view was that government had to target its spending more strategically, not totally abandon economic intervention.⁹⁷ This was in contrast to the view at the Bank of Canada, which was growing increasingly alarmed with the rate of inflation in Canada. In choosing to fight inflation, the Bank's hand was, in part, forced by the events occurring in the United States. With ever higher interest rates being applied to curb inflation by Canada's closest neighbour and largest trading partner, the value of the Canadian dollar began to drop as investors found more value in holding American assets.⁹⁸ Forced to raise interest rates, the Bank perhaps sought to make a virtue of necessity and use the chance to also influence the rate of inflation in Canada. As a result, Canada passed through the recession of the early 1980s without the sort of double squeeze being placed on lower income families that was applied in the United States. Nevertheless, the recession still imposed considerable hardship. Unemployment jumped appreciably in 1982, (rising to

⁹⁶ Cohn, "The Canada Health and Social Transfer," 172-173.

⁹⁷ Stephen McBride, *Not Working: State, Unemployment, and Neo-Conservatism in Canada*, (Toronto: University of Toronto Press, 1992), 86.

⁹⁸ Gordon R. Sparks, "The Theory and Practice of Monetary Policy in Canada: 1945-83," in John Sargent (ed.), *Fiscal and Monetary Policy: Volume 21 of the Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada*, (Toronto: University of Toronto Press, 1986), 139-147.

11.0 percent from 7.5 percent the year before) and the rate has never returned to its pre-recession level.⁹⁹ As Banting noted, small differences are indeed important, especially for people living at the margins. However, in spite of Canada's modestly more generous welfare state,¹⁰⁰ during the early 1980s new charitable agencies nevertheless began to appear across the country. Soup kitchens and food banks were community responses to the failure of the Canadian liberal welfare state to prevent greater and greater numbers of citizens from falling into poverty.¹⁰¹

The general election of September 1984 returned a majority Progressive Conservative government under the leadership of Brian Mulroney. In the Mulroney government's first budget his finance minister, Michael Wilson, proposed the partial de-indexation of both Family Allowances and Old Age Security (OAS). In both cases indexation was only to apply on the portion of increases above 3 percent. In other words, 4 percent inflation would produce only a 1 percent rise in benefits (or a 3 percent fall in real benefit levels). Intense public opposition forced the government to back away from the cuts to OAS, but it nevertheless implemented the changes in the Family Allowance.¹⁰² However, the first Mulroney government also introduced important benefit improvements for the means-tested programs covered by the CAP. These

⁹⁹ OECD, *Main Economic Indicators: Historical Statistics, Prices, Labour and Wages, 1962-1991*, (Paris: OECD, 1993), OECD, *Main Economic Indicators*, (January, 1993 - February, 1997).

¹⁰⁰ "The Social Policy Divide: The Welfare State in Canada and the United States," 268.

¹⁰¹ Banting, *The Welfare State and Canadian Federalism*, 189.

¹⁰² Lightman and Irving, "Restructuring Canada's Welfare State," 73.

improvements included a federal commitment to reimburse the provinces for a greater range of employment training and child care services so as to help move recipients into the labour market.¹⁰³ The Mulroney government also continued the Trudeau government's policy of restraining growth in transfers to the provinces, (although not reducing them). In fiscal 1986-1987 the government changed the economic growth component of the EPF formula to growth in GDP minus 2 percent, although the provinces continued to receive the component of the increase based on population growth.¹⁰⁴

Finally, the Mulroney government also enacted a major series of tax reforms in 1987. As in the United States, tax expenditures had grown considerably. Therefore, one main purpose of the new code was to close many of these loopholes. As in the United States, Canada also lowered top rates and reduced the number of tax brackets from ten to three.¹⁰⁵ However, one important difference between the two countries was that whereas the Reagan administration successfully pushed Congress to implement bracket indexation in its first budget in 1981, the Mulroney government partially removed this inflation protection in fiscal 1985-1986.¹⁰⁶ Consequently, every year more and more Canadians were pushed by inflation into the next tax bracket. The reduction in the number of tax brackets, when combined with their partial de-indexation, continued the

¹⁰³ Banting, *The Welfare State and Canadian Federalism*, 192.

¹⁰⁴ Madore, *The Canada Health and Social Transfer*, 3-5.

¹⁰⁵ Lightman and Irving, "Restructuring Canada's Welfare State," 73-74.

¹⁰⁶ Tuohy, *Policy and Politics in Canada*, 253-254 note 7.

long established Canadian trend of shifting the tax burden towards the middle of the income distribution and away from both the lower and upper levels.¹⁰⁷

In Prime Minister Mulroney's second term, his government again revisited the welfare state. The deficit was continuing to grow. However, the government also remembered the discontent that their previous attempts to restrict social policy expenditures had caused. Consequently, the Mulroney government tried to balance overall spending reductions with enhanced benefits for the less well off (or at least no cuts in spending on this group) in most of the restraint initiatives that it pursued. One example of this strategy was the "clawing-back" of OAS and Family Allowance benefits in 1989. The government imposed a special tax on these universal benefits so as to gradually phase out the amount a family received from them at high income levels. For example, the OAS clawback kicked in at individual incomes above \$51,765 and all benefits disappeared at incomes equal to \$89,000. However, these levels were subject to an escalator of inflation minus 3 percent. Therefore, overtime, most middle class recipients would also be cut out of the programs. In 1993 the Mulroney government completely eliminated the Family Allowance using part of the savings to enhance the benefits available to lower income families through the Refundable Child Tax Credit.¹⁰⁸

¹⁰⁷ Arndt Vermaeten, Irwin W. Gillespie and Frank Vermaeten, "Who Paid the Taxes in Canada, 1951-1988," *Canadian Public Policy*, 21, (1995), 317-343.

¹⁰⁸ Myles and Pierson, "Friedman's Revenge," 457; Tuohy, "Social Policy: Two Worlds," 295. While the change was undoubtedly beneficial to those families lower down the income distribution it was not necessarily beneficial to the lowest income families. One important study found that the interaction between the new child tax credit and other policies produced few benefits for the poorest families and that the prime beneficiaries of the change were lower-middle income families. Frances R. Woolley, Arndt Vermaeten and

Finally, there is the case of the Goods and Service Tax. In 1991 the federal government began levying a 7 percent sales tax on most products at all stages of commerce. To offset the burden of this new expense on lower income Canadians, the government also introduced a new refundable tax credit at the same time, the GST Rebate.¹⁰⁹

Such concern by the government to appear to focus cuts on those who could afford them was not just pursued with regard to individuals, but also with regard to provinces as well. The most obvious example was the so-called "cap on the CAP," which after 1989-1990 limited growth in CAP payments to the three wealthiest provinces (Alberta, British Columbia and Ontario) to 5 percent per year. Payments to the other seven provinces continued as before at 50 percent of provincial expenditures for covered social assistance programs.¹¹⁰ In the area of unemployment insurance, the government increased premiums significantly for both employees and employers and reduced benefits as well.¹¹¹ However, the regional differentiation of eligibility conditions was maintained so that workers in the less economically developed provinces continued to receive easier access to the plan.¹¹² The equalization program was not subject to any new reductions, however the ceiling imposed in the Trudeau era significantly bit into the

Judith J. Marshall, "Ending Universality: The Case of Child Benefits," *Canadian Public Policy*, 22, (1996).

¹⁰⁹ Courchene, *Social Canada in the Millennium*, 353.

¹¹⁰ Madore, *The Canada Health and Social Transfer*, 3-5.

¹¹¹ McBride, *Not Working*, 177-178.

¹¹² Tuohy, "Social Policy Two Worlds," 294; Courchene, *Social Canada in the Millennium*, 58-66.

growth of payments during the late 1980s.¹¹³ One notable exception to this approach was the EPF grant. This program was cut across the board by removing the GDP growth component of the formula altogether. As a result, payments under this plan only increased with population, turning EPF into a flat-rate per capita grant.¹¹⁴

During Mulroney's second term there was also something of a hardening in monetary policy. In 1987, Mulroney named John Crowe to the post of Governor of the Bank of Canada. The new governor not only endorsed the previous emphasis on price stability, but tightened the definition of what that meant. Henceforward, the goal was not to slow inflation but to end it.¹¹⁵ When this was combined with the fiscal pressure being applied through the combined impact of tax increases and program spending cuts, the result was a powerful squeeze on the economy.¹¹⁶ Williams has blamed this belief in "sound money" for many of the job losses and plant closing that followed the implementation of the Canada-U.S. Free Trade Agreement in 1989, consequences which economic nationalists have tended to blame on the deal itself.¹¹⁷

Commenting on Mulroney's stewardship of the Canadian liberal welfare state up

¹¹³ Robinson, "Canadian Fiscal Arrangements," 51.

¹¹⁴ Madore, *The Canada Health and Social Transfer*, 3-5.

¹¹⁵ John Crowe, *Notes for Remarks to the Canadian Club, Toronto, Ontario Monday April 6th, 1987*, (Ottawa: Bank of Canada, 1987) and, *Notes for a Luncheon Address at the Annual Meeting of the Canadian Economics Association, University of Windsor, Saturday, 4 June, 1988*, (Ottawa: Bank of Canada, 1988).

¹¹⁶ Clarence L. Barber, "Monetary and Fiscal Policy in the 1980s," in Robert C. Allen and Gideon Rosenbluth, (eds.), *False Promises: The Failure of Conservative Economics*, (Vancouver: New Star Books, 1992).

¹¹⁷ Glen Williams, *Not for Export: The International Competitiveness of Canadian Manufacturing, Third Edition*, (Toronto: McClelland and Stewart, 1994), 170-171.

until 1991, Lightman and Irving compared Canada's social policy community to "Chicken Little" waiting to see when the sky would fall in. It never really did, even in Mulroney's second term.¹¹⁸ As was the case with the United States, Canada actually entered the 1990s spending more on social programs than it was at the start of the 1980s, whether measured in terms of constant dollars or percent of GDP. In terms of constant dollars, social spending in Canada increased by roughly 75 percent between 1980 and 1993. In terms of percent of GDP it increased by a more modest but still substantial 33 percent.¹¹⁹

5.7 Conclusions

Comparing the American and Canadian liberal welfare state regimes as they existed in the early 1990s, Myles argues that the main difference between the two was the degree to which Canadians developed a system of universal social transfers to supplement wages as opposed to reliance on salary linked social insurance and residual means-tested programs. When this is combined with more generous benefit levels for those on social assistance and easier eligibility standards, Canada is seen as providing a somewhat more equitable treatment of the poor.¹²⁰ As Banting notes, the differences between the two systems might be small in an international perspective, but small differences matter a

¹¹⁸ "Restructuring Canada's Welfare State," 81.

¹¹⁹ Drache, "The Eye of the Hurricane," 38-39.

¹²⁰ *When Markets Fail*, 3-8.

great deal to people living on the margins of the economy.¹²¹

Much of this difference is a result of changes that occurred in the 1980s. These changes were more the result of restructuring in the general economy than in welfare policy per se. Simply put, Americans, with their greater reliance on employment linked schemes and private provision, were more susceptible to the job dislocation and restructuring of this era. The Canadian system, which is less reliant on employment linked schemes, offered more protection under these circumstances. As well, when regions experienced large job losses the provincial equalization program compensated these regions by providing even further support.¹²² By contrast in the United States, where there were only very limited fiscal transfers to poorer states, and even these were curtailed by the Reagan administration,¹²³ the job losses of the decade helped to create a downward pressure on residual programs, as states cut their benefit rates to meet their lower incomes and in their desire to keep taxes low so as to attract investors. Consequently, Myles sees the American variant of the liberal welfare state as having

¹²¹ "The Social Policy Divide: The Welfare State in Canada and the United States," 268.

¹²² Incidentally, this caused a considerable amount of friction between the Mulroney federal government and Ontario in the early 1990s. The recession when combined with the restructuring impact of the Canada-U.S. Trade deal and the Bank of Canada's zero inflation policy caused a collapse in the provincial economy. When Ontario applied for a one time stabilization payment the federal government only paid the province a fraction of the amount that it felt it was entitled to. Thomas J. Courchene and Colin R. Telmer, *From Heartland to North American Region State: The Social, Fiscal and Federal Evolution of Ontario*, (Toronto: University of Toronto Centre for Public Management, 1998), 140 and 145-150.

¹²³ Alice Rivlin, *Reviving the American Dream: The Economy, the States, and the Federal Government*, (Washington: The Brookings Institute, 1992), 101-102.

created "fiscal competition" between the states, to the detriment of lower-income Americans.¹²⁴ In essence, the compromises made to gain the support of the southern congressional delegation for the New Deal set the stage for the events of the 1980s. As sun-belt states attracted business executives eager to maintain profit margins in spite of international competition through reduced labour and tax costs, politicians in other states either eagerly, or with regret, found it necessary to cut their own social spending.¹²⁵ This perhaps explains how so much difference could be caused during the 1980s, even though governments in both Canada and the United States essentially left social policy unchanged in the decade.

However, these opinions consider the issue of welfare state retrenchment from the perspective of the poor, not the majority. If the understanding of the social motivations for support of the welfare state outlined in Chapter 1 and further developed in Chapter 3 are correct, then the consequences of these changes for consumer sentiment could be profound. For the majority this modest restraint could have been seen as a symbolic confirmation of the rhetoric and ideology of their political leaders. Here the important differences between the Mulroney government's reforms and the Reagan spending cuts was that much of the burden of the Mulroney restraint program fell on the majority of Canadians who were securely employed and earning middle-class incomes in the most prosperous parts of the country. This difference, although the changes were modest in both cases, confirmed for Americans that their leaders were serious about revoking the

¹²⁴ Myles, *When Markets Fail*, 13-14.

¹²⁵ *Ibid.*, 14-15; Michael Lind, *Up from Conservatism: Why the Right is Wrong for America* (New York: Free Press, 1996), 121-137.

state role in protecting their lifestyles. For Canadians the message was the exact opposite, that if they fell into need there would still be state support to fall back on to. If the majority of people are risk averse, and see the welfare state not as systems of entitlements or charity, but, as producing a public good few if any can purchase as individuals, insurance against economic dislocation (even modest restraint targeted at those least able to afford it) could heighten feelings of risk aversion.

It should be noted that these differences might prove temporary. In the October 1993 election the PC government was defeated and replaced by a new Liberal government under Prime Minister Jean Chrétien. Chrétien, contrary to popular expectations, introduced an even harsher social policy than that pursued by the previous government. The budget introduced by the Liberal government in the spring of 1995 cut program expenditures to the lowest level of any federal government since 1951.¹²⁶ Among the most important changes was the introduction of the Canada Health and Social Transfer (CHST). The CHST rolled the old CAP and EPF payments into a new grant and at the same time removed approximately 2.5 billion from what payments would have been in the first year (fiscal 1996-97) and 4.5 billion in the second year (fiscal 1997-98). The rules governing social programs funded by federal grants were also changed. Provinces are no longer required to assist all of the poor who qualify and, further, there is no longer a requirement that provinces provide an appeal process for those denied

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Daniel Drache and Andrew Ranachan, "Introduction," in Daniel Drache and Andrew Ranachan, (eds.), *Warm Heart, Cold Country: Fiscal and Social Policy Reform in Canada*, (Ottawa and Toronto: Caledon Institute of Social Policy and the York University Robarts Centre for Canadian Studies, 1995), 2.

help.¹²⁷ Provinces such as Ontario have used this autonomy to introduce programs such as workfare and to aggressively prune the welfare roles.¹²⁸ By rolling the two programs together the Liberals also gave provincial politicians the leeway to use the entire grant as they saw fit, no longer requiring CAP money to be spent on social programs for the poor, elderly and disabled.¹²⁹ It would appear that this is precisely what has happened as provinces have aggressively cut into social assistance to maintain the health care system. On top of this, it would appear that Ontario's pledge to cut provincial taxes by 30 percent has kicked off a round of competitive tax cuts. The net result has been the sort of race to the bottom that Myles had so recently hypothesized that Canada had thus far managed to avoid.¹³⁰

At the level of assistance to individuals, the unemployment insurance program has also been overhauled. The main result of the changes has been to increase the premium base by requiring part-time workers to pay into the scheme but to make it harder for the marginally employed (those working steadily at less than 34 hours a week) to qualify for

¹²⁷ Cohn, "The Canada Health and Social Transfer," 175.

¹²⁸ *Globe and Mail*, (22, July 1995), A1; *Globe and Mail*, (24 August, 1995), A1; *Globe and Mail*, (28 May, 1996), A2A; *Ottawa Citizen*, (13 April, 1996), A5.

¹²⁹ Ken Battle and Sherri Torjman, "How Finance Reformed Social Policy," in Daniel Drache and Andrew Ranachan, (eds.), *Warm Hearts, Cold Country: Fiscal and Social Policy Reform in Canada*, (Ottawa and Toronto: The Caledon Institute of Social Policy and the York University Robarts Centre for Canadian Studies, 1995), 408-409.

¹³⁰ It is certainly more than coincidence that every province in Canada cut social assistance payments in 1996. *Percentage Change in Welfare Benefits in Canada, by Province/Territory, Between 1986 and 1996 (in constant 1996 dollars)*, (Ottawa: Canadian Council on Social Development, 1997), electronic document at http://www.ccsd.ca/98/fs_96wel.htm

benefits. Although almost all employees must now pay premiums into the system, the Canadian Council on Social Development estimates that fewer than 50 percent of those who became unemployed actually qualified for benefits before the reform and that the reforms would make the situation worse. The reforms further affected workers at the margins of the economy by enacting a reduction in benefits for those who apply more than once for benefits.¹³¹ As a result, the unemployment insurance system now perversely serves to transfer income from the least economically secure families to those with steady work and higher incomes who find themselves temporarily out of work.

Meanwhile in the United States the Clinton administration has continued on the path pioneered by their Republican predecessors. This has meant strengthening the entitlements of those holding relatively stable jobs. One way this was done has been through the imposition of tighter regulation on private welfare suppliers, such as health care insurers (for example, the law requiring insurers to cover 48 hours of post maternity hospital care).¹³² The Clinton administration has also tried to increase the rewards available from work, relative to social assistance, by increasing the national minimum wage (which at US\$5.15 is now equal to, or higher, than the minimum wage in most Canadian provinces) and the Earned Income Tax Credit (EITC). Meanwhile President Clinton agreed with Republican plans to make social assistance even more residual.

¹³¹ Canadian Council on Social Development, *Executive Summary: CCSD Response to Bill C-12: An Act Respecting Employment Insurance in Canada*, (Ottawa: Canadian Council on Social Development, 1996), electronic version at <http://www.ccsd.ca/uism.html>

¹³² E. Declerq and D. Simmes, "The Politics of Drive-Through Deliveries: Putting Early Post-Partum Discharge on the Legislative Agenda," *Milbank Quarterly*, 75, (1997), 175-203.

Clinton "largely sacrificed welfare reform to his other domestic priorities especially deficit reduction and health-care reform."¹³³ The August 1996 social assistance reforms have severely limited the right to help, limiting entitlement to two consecutive years and five years in a lifetime. As well, as in Canada, the law gives states a new level of control over the plan, making it easier for them to exclude people from assistance.¹³⁴ Most dramatic have been the cuts to housing benefits for the poor. The 1996 reforms set the increase in families who would be eligible for federal housing assistance at zero (as opposed to the worst year of the Reagan administration when assistance for 40,000 additional families was authorized).¹³⁵ Consequently, during the middle years of the 1990s the two countries have again begun converging towards a common version of the liberal welfare state, this time at an even more residual level for the less advantaged.

¹³³ Paul J. Quirk and Joseph Hinchliffe, "Domestic Policy: The Trials of a Centrist Democrat," in Colin Campbell and Bert A. Rockman, (eds.), *The Clinton Presidency: First Appraisals*, (Chatham, NJ: Chatham House, 1996), 280.

¹³⁴ Margaret Weir, "Wages and Jobs: What is the Public Role," in Margaret Weir, (ed.), *The Social Divide: Political Parties and the Future of Activist Government*, (Washington and New York: The Brookings Institute and the Russell Sage Foundation, 1998), 294-295; R. Kent Weaver, "Ending Welfare as We Know it," in Margaret Weir, (ed.), *The Social Divide: Political Parties and the Future of Activist Government*, (Washington and New York: The Brookings Institute and the Russell Sage Foundation, 1998), 361-416.

¹³⁵ *New York Times Magazine*, (20 October, 1996), 52.

Chapter 6: The Rhetoric and Symbolic Behaviour of Leadership, A Comparison

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6.1 Introduction

In the first chapter it was suggested that the difference between neoconservative leaders and other leaders who attempted to restrain social spending and provide more incentives to entrepreneurship in the 1980s was the motivation behind such decisions. President Reagan was not a pragmatic politician when dealing with these issues. He was a fervent believer in the benefits of free markets and the evils of state provision. Other politicians, such as Canadian Prime Minister Brian Mulroney, only proposed such policies in a pragmatic manner, either because there appeared to be clear benefits to such moves or little room for an alternative course of action.¹ Collin James differentiates the two groups by labelling the former as *market libertarians* and the later, more pragmatic politicians as *market liberals*.² Consequently, the rhetoric and symbolic behaviour that the two groups of leaders used to explain, justify and advocate for their policies was quite different. This thesis suggests that it is not so much the policies pursued in each country, but the policies combined with the arguments and symbolic behaviour behind them which influenced public opinion. Leadership arguments and symbolic behaviour set the context in which people interpret government policy and, therefore, help shape the impact that such policies will have on citizen confidence.

¹ Francis G. Castles, "The Dynamics of Policy Change: What Happened to the English-Speaking Nations in the 1980s," *European Journal of Political Research*, 18, (1990), 495-497.

² "The Rise and Decline of Market Liberals in the Labour Party," in M. Clark, (ed.), *The Labour Party after 75 years*, (Wellington, NZ: Victoria University Department of Politics, 1992), 16-18.

As will be seen, even while Reagan attacked the foundations of the Keynesian Welfare State, he told Americans that they should be grateful for such a deliverance from governmental protection, what Mrs. Thatcher referred to as the "nanny state".³ He directly denied the basic assumption of the Keynesian welfare state, that helping those in need (either directly or by moderating the business cycle) creates a universal public good, a stable economic environment. Instead, adopting the outlook of Lucasian economics and Olson's overloaded state, Reagan saw such actions as only producing individual benefits for special interests, and in the longer term, both inflation and a corrosion of the American national character. On the other hand, Prime Minister Mulroney was more circumspect in justifying his chosen course of action. He used rhetoric and symbolic policy to demonstrate that restraint and economic liberalization policies were necessary, or even desirable, to cope with specific circumstances that challenged the capacity of the state's autonomy. Mulroney suggested that the problem was not the Keynesian welfare state, per se, but the extreme to which it had been taken by his predecessors in the Liberal Party, especially Prime Minister Trudeau. The goal was to make capitalism work better so as to better support the necessary welfare state.⁴

This thesis suggests that this difference in emphasis would lead American citizens to believe that in the event of a downturn, they would truly be all on their own, while

³ Dennis Kavanagh, *Thatcherism and British Politics: The End of Consensus? Second Edition*, (Oxford: Oxford University Press, 1990), 10.

⁴ Sylvia Bashevkin, "Losing Common Ground: Feminists, Conservatives and Public Policy in Canada during the Mulroney Years," *Canadian Journal of Political Science*, 29, (1996), 216-219;

Canadian citizens would continue to anticipate state action to moderate such downturns, and in the last resort, that there would still be social assistance policies to turn to for help. As was noted in Chapter 3, it has long been suspected that the public belief that such guarantees exist (even if they do not in fact exist), places a floor under consumer sentiment, preventing sentiment from falling too deeply during economic crises and consequently, helping to reduce the severity of such crises by keeping consumers in the market.⁵ Therefore, an unintended legacy of neoconservative rhetoric and governance might have been the unexpectedly rapid and severe loss of consumer confidence to which many leading economists now attribute the depth of the early 1990s American recession.⁶

The following sections will more carefully explore the rhetoric and symbolic behaviour of the leaders in question and to a certain extent, the rhetoric and symbolic behaviour of their predecessors and successors. There is always a risk in such a review that the author will selectively choose and read historical material so as to produce an interpretation more supportive of the proposed hypothesis.⁷ In order to provide modest protection against such a selective reading, it is proposed to make use of the data

⁵ George Katona, *The Powerful Consumer: Psychological Studies of the American Economy*, (New York: McGraw-Hill, 1960), 174-175; Brandon Haller and Helmut Norpoth, "Let the Good Times Roll: Economic Expectations of U.S. Voters," *American Journal of Political Science*, 38, (1994), 644.

⁶ See for example, Olivier Blanchard, "Consumption and the Recession of 1990-1991," *The American Economic Review*, 83, (1993), 270-274 and Robert E. Hall, "Macro Theory and the Recession of 1990-1991," *American Economic Review*, 83, (1993), 275-279.

⁷ For a discussion of this problem see Ian S. Lustick, "History, Historiography, and Political Science: Multiple Historical Records and the Problem of Selection Bias," *American Political Science Review*, 90, (1996), 605-618.

produced by the Comparative Manifestos Project⁸ alongside of the qualitative review. The Comparative Manifestos Project collected the primary campaign documents issued by each of the major political parties in twenty countries between 1945 and 1988. The documents were then read and each sentence was coded as referring to one of 54 thematic topics.⁹ This material can be used to show how the emphasis of party platforms change. For the purpose of this analysis two indicators were created from the basic data, *Welfare State Positive* (which is an additive measure of positive statements about components of the welfare state) and *Free Enterprise Positive* (which is an additive measure of positive statements about the components of the free enterprise economy).¹⁰ However, there are also some limitations to this material. The series ends in 1988, and therefore, only covers a portion of the time period of interest. Second, the Comparative

⁸ Dataset CMPr3, *Programmatic Profiles of Political Parties in 20 Countries, 1945-1988, Third Updated Edition*, (Author A. Volkens), Comparative Manifestos Project, Science Center Berlin, Research Unit on Institutions and Social Change (Director H.D. Klingemann) in cooperation with the Manifesto Research Group (Chairman I. Budge).

⁹ Hans-Dieter Klingemann, Richard I. Hofferbert and Ian Budge, (with Hans Keman, Torbjorn Bergman, François Pétry and Kaare Strom), *Parties, Policies and Democracy*, (Boulder, CO: Westview Press, 1994), 36-38.

¹⁰ The categories of statements included in the *Welfare State Positive* indicator include; Support for the need to regulate capitalism, support for Keynesianism, Support for measures which would increase social justice, Support for the expansion of the welfare state or increased welfare state spending, Calls to increase education spending, Advocating the need to help the economic underprivileged, Advocating the need to help the demographically underprivileged.

The categories of statements included in the *Free Enterprise Positive* indicator include; Support for increased individual freedom and the need to protect such freedom, Encouragement of free enterprise, or the need to further promote it, Support for the use of economic incentives to encourage entrepreneurship, Support for economic orthodoxy, Support for limiting or reducing welfare state spending, Support for Traditional Morality, Support for the Middle Class.

Manifestos Project only looked at official campaign documents. It did not consider radio, television or print media paid advertising, campaign speeches, interviews with journalists, news stories about the campaigns, or third party material. Finally, although such quantitative material can show changes in themes used in campaign material, it can say nothing about the tone or stridency of such material. This can only be revealed through qualitative analysis. Nevertheless, such data is invaluable as it gives us a chance to see if "conventional wisdom" about the attitudes of political leaders has any basis in fact.

6.2 The United States, The Reagan Revolution and the Guardian President

More than any recent American President, Ronald Reagan took office with a strong sense of the agenda that he wished to accomplish and how he would go about carrying it out. He wanted to reorient Washington by reducing the federal state's role in America's domestic affairs and by simultaneously strengthening the Federal state's foreign policy position through a more aggressive diplomacy and military expansion.¹¹ These goals were based in a firm belief in the doctrines of neoconservatism. As with the group of writers and social scientists who are most associated with the development of neoconservatism, the so called "New York Intellectuals" (for example, Irving Kristol, Midge Decter, Norman Podhoretz, Michael Novack and Nathan Glazer), Ronald Reagan had begun his political life as a Roosevelt liberal (part of the progressive centre-left).

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Ross K. Baker, "Outlook for the Reagan Administration," in Marlene Michels Pomper, (ed.), *The Election of 1980: Reports and Interpretations*, (Chatham, NJ: Chatham House, 1980), 142-144.

Gradually, however, the same issues which had alienated the New York Intellectuals from American liberalism, also alienated Reagan.¹² As with the New York Intellectuals, what little faith Reagan had left in American liberalism--and the ability of government intervention to help remake society--was destroyed by the counter-culture and anti-war movements which swept the country during the second half of the 1960s.¹³ Incidentally, this theme, that Reagan had started out as a Democrat and became a Republican because he felt abandoned by his former party, was a standard theme in his 1984 re-election campaign.¹⁴ Although President Bush lacked the evangelical zeal of Ronald Reagan, he had nearly as strong an adherence to these ideas. If Reagan saw himself as leading a revolution, Bush saw his mandate as being to consolidate and institutionalize the new regime. In the words of presidential scholar David Mervin, George Bush was a *Guardian President*.¹⁵

A 1996 study of advocacy group rankings of Republican presidents showed that Reagan and Bush were considered by these groups to be the most conservative

¹² Ronald Reagan and Richard C. Hubler, *Where's the Rest of Me? Ronald Reagan Tells His Own Story*, (New York: Dell, 1965), 190-194, 336-341; Ronald Reagan, *Speaking My Mind: Selected Speeches*, (New York: Simon and Shuster, 1989), 23.

¹³ Ronald Reagan, "Speech at an Eisenhower College Fundraiser, Washington, D.C., October 14, 1969", *Speaking My Mind*, 39-45; Ronald Reagan, *An American Life: The Autobiography of Ronald Reagan*, (New York: Simon and Shuster, 1990), 147-154, 179-182.

¹⁴ Ronald Reagan, "Remarks on Accepting the Republican Nomination, Dallas, Texas, August 23, 1984," *Speaking My Mind*, 213-214; Ronald Reagan, "Remarks at a Rally in Fairfield, Connecticut, October 26, 1984," *Speaking My Mind*, 236, 240.

¹⁵ *George Bush and the Guardian Presidency*, (New York: St. Martin's Press, 1996), 28-37.

Republican presidents of the post-war era.¹⁶ While the Comparative Manifestos Project data do not totally confirm this analysis, they do show that Presidents Reagan and Bush continued a general shift to the right among American political leaders.¹⁷ The graphs contained in figures 6.2.1 and 6.2.2 (presented at the end of the chapter) depict the scores for the Welfare State Positive and Free Enterprise Positive indicators as derived from each President's party platform. The first graph shows a steady and relatively consistent decline in positive comments about the welfare state and the need to help the disadvantaged. The second graph shows a more abrupt break with the past. The Reagan and Bush platforms were far stronger in support of the free enterprise economy and its supporting norms and morals than those employed by any successful presidential candidate since Eisenhower. However, to properly understand the implications of these charts we must go beyond the raw numbers and look at the style and urgency of the rhetoric that was used by President Reagan to express these ideas.

Throughout his tenure, Ronald Reagan waged a war not only on government programs he particularly disliked but on the legitimacy of government action to influence the economy and assist people in general. In other words, the welfare state was President Reagan's public enemy number one. "At the root of all the economic ills, Reagan identified the federal government. Accordingly, [his] economic rhetoric reduced

¹⁶ Andrew J. Taylor, "The Ideological Development of the Modern Republican President," *Presidential Studies Quarterly*, 26, (1996), 374-379.

¹⁷ A trend noted elsewhere. See for example, Howard Gold, *Hollow Mandates: American Public Opinion and the Conservative Shift*, (Boulder, CO: Westview Press); William C. Berman, *America's Right Turn: From Nixon to Bush*, (Baltimore MD: Johns Hopkins University Press, 1994).

complex problems to a simplified drama whereby the virtuous people fought a bad government."¹⁸

Presidents, arguably, have three major speech making venues with which to make known the doctrines and ideological propositions to which they subscribe and for explaining how their policy agenda flows from these ideas. These occasions are; their acceptance speech at their party's nominating conference, their inauguration address, and their annual State of the Union message to Congress. Of these, the most important is probably their first inaugural address. It was this stage that President Kennedy used to tell Americans that the principal aim of his administration would be to re-engage individual Americans, especially the post-war generation of young Americans, in a patriotic partnership with government to make their world a better place. He did this with one sentence: "Ask not what your country can do for you--ask what you can do for your country."¹⁹ Similarly, President Reagan used the inaugural stage to lay out the guiding principle of his new administration. There was little about the current problems of America that could be solved by state action. The era of a growing welfare state was over. If Americans wanted a better world they could and should build it for their own benefit as free individuals, without the help or advice of Washington. He also conveyed this message with one sentence: "Government is not the solution to our problems;

¹⁸ Amos Kiewe and Davis L. Houck, *A Shining City on a Hill: Ronald Reagan's Economic Rhetoric, 1951-1989*, (New York: Praeger, 1991), 217.

¹⁹ Quoted in, Samuel Eliot Morrison, *The Oxford History of the American People*, (New York: Oxford University Press, 1965), 1110.

government is the problem."²⁰

Expanding on this idea, the new president told the assembled crowd and national television audience:

If we look to answer as to why for so many years we achieved so much, prospered as no other people on earth, it was because here in this land we unleashed the energy and individual genius of man to a greater extent than has ever been done before. Freedom and the dignity of the individual have been more available and assured here than in any other place on earth...

It is no coincidence that our present troubles parallel and are proportionate to the intervention and intrusion in our lives that result from unnecessary and excessive growth of government.²¹

In contrast, President Reagan saw the solution to America's problems in the work ethic and business sense of individual Americans.

Those who say that we're in a time when there are no heroes, they just don't know where to look. You can see heroes every day going in and out of factory gates. Others, a handful in number, produce enough food to feed all of us and then the world beyond. You meet heroes across a counter, and they're on both sides of that counter. There are entrepreneurs with faith in themselves and faith in an idea who create new jobs, new wealth and opportunity. They're individuals and families whose taxes support the government and whose voluntary gifts support church, charity, culture, art and education. Their patriotism is quiet, but deep. Their values sustain our national life.²²

Four years later, the re-elected President picked up on these themes in his second inaugural address, but made the moral lesson more explicit. Reagan tells his audience that it was not just a mere accident which had created America's decline in the 1960s and 1970s, but a failing of character. A failing of character not just of America's leaders but

²⁰ Ronald Reagan, "Inaugural Address," reproduced in Reagan, *Speaking My Mind*, 61.

²¹ *Ibid.*, 62-63.

²² *Ibid.*, 63.

of its people too.

Four years ago I spoke to you of a new beginning, and we have accomplished that. But in another sense, our new beginning is a continuation of that beginning created two centuries ago when, for the first time in history, government, the people said, was not our master. It is our servant; its only power that which we, the people, allow it to have.

That system has never failed us. But for a time we failed the system. We asked things of government that government was not equipped to give. We yielded authority to the national government that properly belonged to states or to local governments or to the people themselves. We allowed taxes and inflation to rob us of our earnings and savings and watched the great industrial machine that had made us the most productive people on earth slow down and the number of unemployed increase.²³

Consequently, hope for the future lay in a renewal of character and a new resolve among individuals to live the American dream. This dream was built on prosperity achieved through capitalist economic growth and a rigorously limited role for the state, especially the most impersonal and inaccessible of all American state institutions, the federal government.

By 1980 we knew it was time to renew our faith, to strive with all our strength toward the ultimate in individual freedom consistent with an orderly society.

We believed then and now [that] there are no limits to growth and human progress when men and women are free to follow their dreams...

Well, with heart and hand, let us stand as one today: one people under God determined that our future shall be worthy of our past. As we do, we must not repeat the well-intentioned errors of our past. We must never again abuse the trust of working men and women by sending their earnings on a futile chase after the spiralling demands of a bloated federal establishment. You elected us in 1980 to end this prescription for disaster. And I don't believe you reelected us in 1984

²³ Ronald Reagan, "Second Inaugural Address," reprinted in Marlene Michels Pomper (ed.), *The Election of 1984: Reports and Interpretations*, (Chatham, NJ: Chatham House, 1984), 185-186.

to reverse course.

... Freedom and incentives unleash the drive and entrepreneurial genius that are the core of human progress. We have begun to increase the rewards for work, savings, and investment; reduce the increase in the cost and size of government and its interference in people's lives.²⁴

Unfortunately, between President Reagan's first inaugural address and that which followed his reelection, the recession of 1981-82 occurred. It proved to be the single worst American economic crisis since the Depression and led to widespread impoverishment. Economic disruptions are not unusual (although this was a large one by any account). What made the early 1980s recession unique was that, for the first time in America's post-war history, the government took no overt action to either mitigate the swing in the business cycle or to create new programs in response to falling incomes and growing impoverishment.²⁵ If anything, government made things worse (as discussed in Chapter 5) by modestly reducing social programs (which further curtailed the spending of lower income Americans). The Reagan tax cuts did little to help the economy in the short-term. In the long-term its consequences were worse. The tax cut, which primarily benefited Americans with the highest incomes, was neither paid for by increased future revenues or spending cuts. Secondly, this was not a cyclical decision, in other words a temporary tax cut to stimulate growth, but rather, a permanent reduction in the revenue raising power of the state. Therefore, the imbalance continued long after the crisis had passed and this caused the U.S. federal deficit to grow rapidly. As a result, the

²⁴ *Ibid.*, 187.

²⁵ Gold, *Hollow Mandates*, 55-56.

American central bank, the Federal Reserve, was forced to implement an even higher interest rate policy than its own monetarist sentiments dictated, just to keep inflation in check. This further damaged the general economy while benefiting the affluent who held bonds.²⁶

Ronald Reagan understood that the economic crisis was a real cause of hardship for many Americans and that his policies did not alleviate the pain in the short-term. However, even in retrospect, he believed that the pain had been worth it in the long-term, that America was a stronger nation and Americans were eventually better off as a result of this suffering.

This was indeed a very bleak time for many Americans. But sometimes, as my mother said, troubles carry with them the seeds of something better. These were difficult years, but their hardships forced American industry to take a look at itself, and to become leaner, more efficient, more competitive. And thanks to provisions in the tax bills, business had new incentives to invest in the future and make their workers more productive.²⁷

Symbolic of everything which Ronald Reagan stood for were his efforts to change the American income tax system, by working to cut taxes in his first term and by making the system of taxation far less progressive in his second. The tax cut was the heart of his entire economic agenda in his first term. He pursued this cut with such passion not just because he thought American tax rates were too high, but because he sincerely

²⁶ Kevin Phillips, *The Politics of Rich and Poor: Wealth and the American Electorate in the Reagan Aftermath*, (New York: Random House, 1990), 53, 75, 90, 110; David M. Gordon, Thomas E. Wiesskopf and Samuel Bowles, "Right-wing economics in the 1980s: The Anatomy of Failure," in Michael A. Bernstein and David E. Adler, (eds.), *Understanding American Economic Decline*, (Cambridge: Cambridge University Press, 1994), 262-271.

²⁷ Reagan, *An American Life*, 346.

believed that it was the only way that he could force a long-term roll back in state interventionism. In his own words, President Reagan set out to "starve" the state.

I have always thought of government as a kind of organism with an insatiable appetite for money, whose natural state is to grow forever unless you do something to starve it. Cutting taxes, I wanted not only to stimulate the economy but to curb the growth of government and reduce its intrusion into the economic life of the country.²⁸

The tax cut, he believed, would spur activity and have the added benefit of keeping government on a short leash. If he had to run the highest deficits in American history he was little concerned, confiding to his diary that he would rather be criticized for high deficits than for reneging on his promise to cut taxes.²⁹ In fact, the President and his advisors reasoned that high deficits might be necessary so as to convince Congress that domestic spending had to be cut.³⁰ Besides, deficits were good for bond holders, overwhelmingly a Republican constituency. Not only would the wealthy benefit from a stream of interest from the federal government, they would get a tax cut on their profits as well.³¹

For those further down the income ladder, however, the results were far less satisfactory. Although Congress would later dig in its heels and refuse most of President Reagan's proposals to cut social spending, it did accommodate many of the social spending cuts proposed in his first budget. As was described in greater detail in the

²⁸ *An American Life*, 232.

²⁹ *Ibid.*, 315.

³⁰ See for example, Paul C. Roberts, *The Supply Side Revolution*, (Cambridge, MA: Harvard University Press, 1984), 173.

³¹ Phillips, *The Politics of Rich and Poor*, 102-100.

previous chapter, the cuts were overwhelmingly to programs that assist the poor and left universal contributory programs and those targeted chiefly at the middle classes largely untouched.³² The net result of these changes was to put a two-income family jointly earning \$40,000 - \$80,000 ahead by \$2,910. Meanwhile, a single income family earning under \$10,000 was set back by a net loss of \$390. The tax reform of 1986 further decreased the redistributive power of the welfare state by reducing the number of tax brackets and lowering the highest tax rates. In general, the impact of Reagan's tax policy was to let the rich keep more of their wealth and cut the living standards of the poor. Between 1977 and 1988 the effective federal tax rate for the poorest tenth of Americans increased by 1.6 percent and fell by 1.7 percent for the wealthiest tenth. For the wealthiest one percent of Americans, tax rates declined by 6 percent.³³

President Reagan sought to use rhetoric and symbolic actions to convince Americans that in an economic crisis they should look to their own resources. He believed that government was incapable of short-term economic management, except at the cost of long-term damage to the economy. Similarly he believed that using the state to specifically help the poor to improve their living standards had equally damaging consequences, both for the character of the individuals in need and also for the economic health of the nation. The best thing that the government could aim for was to create a

³² Joshua Cohen and Joel Rogers, "Reaganism after Reagan," *Socialist Register*, 1988, 396; Frances Fox Piven and Richard A. Cloward, *The New Class War: Reagan's Attack on the Welfare State and Its Consequences*, (New York: Pantheon Books, 1982), 15-21; John O'Connor, "U.S. Social Welfare Policy: The Reagan Record and Legacy," *Journal of Social Policy*, 27, (1998), 37-61.

³³ Phillips, *The Politics of Rich and Poor*, 83-87.

favourable business climate of low inflation and even lower taxes and regulations, which President Reagan believed would take care of poverty by creating jobs. If any of his fellow citizens doubted this, the above noted response to the early 1980s recession should have served to end these doubts. Nevertheless, Americans were to get a further reminder of how the new economy should work with the inauguration of President Bush. The new president essentially picked up where his predecessor left off; there had been a great re-birth in America, but some had not benefited. However, government could do little for them except urge others to help them to help themselves. To do more would jeopardize the very re-birth of the American spirit and character that had so benefited the vast majority. Furthermore, even if it had been morally justified to help, government was increasingly unable to do so because of the mounting deficit and national debt (a result of the previous president's tax cuts and attempts to starve the state). Government assistance was as powerful an addiction for a society as any street drugs and a president had to insure that it was used sparingly.

My friends, we have work to do. There are the homeless, lost and roaming. There are the children who have nothing--no love, no normalcy. There are those who cannot free themselves of enslavement to whatever addiction--drugs, welfare, the demoralization that rules the slums...

The old solution, the old way, was to think that public money alone could end these problems. But we have learned that that is not so. And in any case, our funds are low. We have a deficit to bring down. We have more will than wallet; but will is what we need.

We will make the hard choices, looking at what we have, perhaps allocating it differently, making our decisions based on honest need and prudent safety. And then we will do the wisest thing of all: We will turn to the only resource we have that in times of need always grows: the goodness and the courage of the

American people.³⁴

When America plunged into its next recession, in 1990, Bush and his top economic advisors did not believe that government could nor should do anything to help. As the crisis worsened in 1991 and recovery seemed illusive, other administration officials and Republicans warned him that even if he could not help, he had to be seen as trying to help.³⁵ President Bush did try to use the opportunity to advocate for a capital gains tax cut, which would mainly benefit the top end of the income spectrum. Even when Democrats offered counter proposals, they were all of the "cut taxes" nature; the Reagan neoconservative ideology was now hegemonic in American politics.³⁶ The frustration that this elite level consensus on the role of the state caused for other Americans can be seen by the following quotation from the 1991 year-end edition of *Newsweek*. Commenting on the Bush administration's hesitancy to take counter-cyclical action, and the support that such a stand commanded among the members of the Federal Reserve Board and high-finance circles, the following was written.

As Bush's people freely conceded, any action might be too little too late; a remedy offered now might not pass Congress before next spring, when it might touch off another round of inflation or prove counterproductive, scaring the money markets and choking off a recovery. Economic wisdom stood conventional advice on its head: **DON'T JUST DO SOMETHING; STAND THERE.** [emphasis in the original]³⁷

³⁴ George Bush, "Inaugural Address," reprinted in Gerald M. Pomper (ed.), *The Election of 1988: Reports and Interpretations*, (Chatham, NJ: Chatham House, 1988), 209.

³⁵ Richard W. Waterman, "Storm Clouds on the Political Horizon: George Bush at the Dawn of the 1992 Presidential Election," *Presidential Studies Quarterly*, 26, (1996), 340-341.

³⁶ *Newsweek* (4 November, 1991), 21.

³⁷ *Newsweek*, (30 December, 1991), 13.

Lowi has described the Reagan theory of the state as one of negation. President Reagan had assembled a coalition of "old" liberals (libertarians), religious fundamentalists and neoconservatives based on the ideas and rhetoric developed by the latter group. Unfortunately, this was a coalition of people who dislike compromise. Consequently, the only thing that they could agree on was the badness of government. There was no positive program, save to make the President strong enough so as to carry out this roll-back of the national state.³⁸ Unfortunately, in 1990-1991, the American people needed to know that whatever else might happen, there was a powerful national government that could reach out and make things better. A government that had a positive program for solving society's problems. However, the rhetoric of the past decade had specifically told them that such an institution did not exist, nor ever again could such a policy solution exist. The dominant and hegemonic American political ideology was now "don't just do something, stand there."

6.3 Canada, Trudeau, Mulroney and Attempts at Social Conciliation

Presidents Reagan and Bush were hesitant to change course when their policies caused widespread hardship because their decisions were rooted in a system of beliefs about the nature of society and the role that the state should play in it, in other words, their actions were rooted in ideology as well as in interest. Canadian Prime Minister Brian Mulroney, however, was a far more pragmatic politician. In many respects his case is the most controversial as the term neoconservative has been considerably abused in Canada's

³⁸ Theodore J. Lowi, *The End of the Republican Era*, (Norman OK: University of Oklahoma Press, 1995), 190, 198-204.

political discourse.

This project has used the term "neoconservative" to characterize a group of intellectuals who abandoned the progressive centre-left in the 1960s and 1970s and who have stood at the centre of the New Right coalition. These intellectuals developed a body of literature and rhetorical arguments which served to explain to populist religious conservatives why capitalism is an essential support for Judeo-Christian values, and to the "old" libertarian liberals why Judeo-Christian values are essential for the survival of capitalism.³⁹ As well, this project has also used the term to describe the politicians who make use of neoconservative arguments in their rhetoric and symbolic behaviour. However, some in Canada have used the term as substitute for the term *right-of-centre*.⁴⁰ Consequently, while labelling a Margaret Thatcher or a Ronald Reagan as neoconservatives and a François Mitterrand as not a neoconservative would raise little question, some explanation is necessary to show why Canadian Prime Minister Brian Mulroney was not a neoconservative and why he in fact was a pragmatic right-of-centre leader, a market-liberal, rather than a market-libertarian.

³⁹ Ibid., 193-194; Theodore J. Lowi, *Key Note Speech: New York State Political Science Association Annual Meeting*, (Ithaca, NY: 29 March, 1996); Mark Gerson, *The Neoconservative Vision: From the Cold War to the Culture Wars*, (Lanham, MD: Madison Books, 1996), 132-135.

⁴⁰ It sometimes appears that this is how Stephen McBride uses the term. This is most apparent when he writes about the favour that affirmative action programs have found with some neoconservative governments as an inexpensive, symbolic action, which shows that such governments care about the condition of the underprivileged. *Not Working: State, Unemployment, and Neo-Conservatism in Canada*, (Toronto: University of Toronto Press, 1992), 144-145. A genuine neoconservative would never accept the legitimacy of any law that offered rewards through any process other than the achievement of the individual.

Prime Minister Mulroney's pragmatism was demonstrated throughout his career in politics beginning with his first attempt to win the leadership of the Progressive Conservative (PC) party in 1976. At that time he ran as a pure pragmatist, as the consensus candidate, the candidate who could carry both the left and right of the party. Consequently, he brought very little in the way of policy to the conference but a lot of glitz. The conference instead selected Joe Clark (who would briefly serve as Prime Minister in 1979-80). In defeat Mulroney discovered that his strategy was flawed, in that it was based on appealing to the center of the party and the party's political operatives, who were more concerned with electability than with the ideology of candidates. However, among the delegates ideas mattered and it was the right which was in the majority in the party, even if among the general electorate it was the center.⁴¹ This was not a mistake that Mulroney would make again. When he made his second attempt for the PC party leadership he would develop policies that would, to a certain degree, appeal to the right of the party, but explain them as sound pragmatic solutions rather than as ideological products so as to maintain his electoral viability with the general public. His opportunity came with the 1980 defeat of the Clark PC government after barely nine months in office. Dissatisfaction with Clark's leadership was apparent within the party and in 1982 Mulroney began a campaign to unseat him. The campaign began with a cross-Canada speaking tour, ostensibly to support the fund-raising efforts of a number of PC constituency associations. These speeches formed the basis for a subsequent book, in which the future Prime Minister promised his readers that: "Those who read this book

⁴¹ John Sawatsky, *Mulroney: The Politics of Ambition*, (Toronto: Macfarlane, Walter and Ross, 1991), 287 and 401.

will be under no illusion as to where I stand."⁴² Gaining the party leadership would require a pragmatic move to the right, but winning the general election and governing afterwards, would require flexibility in the other direction. Even a casual reading of his speeches and writings leads one to draw the conclusion that Mulroney was still a pragmatist searching for social consensus.

The first dinner speech was held in Ottawa on 22 April, 1982 and Mulroney's organizers insured that there was a national media audience in attendance. The speech was the sole topic of the next morning's editorial in *the Globe & Mail*. Among the most important issues covered were the need to increase Canadian productivity and to curtail the indexing of wages and benefits to inflation. Instead Mulroney argued that they must be tied to productivity increases. How was this to be done? Mulroney proposed a national tripartite commission of big business, big unions and big government. The editors of *the Globe & Mail*, reported approvingly that:

[Mulroney] would establish a National Tripartite Productivity Commission of labour, management and government, to agree 'on a fair manner in which productivity increases can be measured according to industry sector.'...

- The productivity commission would recommend to the Minister of Finance changes in taxes 'to ensure that measurable improvements in productivity are rewarded.' Productivity bargaining would be established in different sectors to serve as a model...

He would have Canadian industry 'devise programs based on Japan's employment guarantee, industrial tenure, productivity bonuses, seniority salary differentials, job enrichment or job rotation programs within work teams, ongoing employee re-training programs and relocation assistance'... to convince the Canadian workers that they have much to gain when productivity rises.

⁴² Brian Mulroney, *Where I Stand*, (Toronto: McClelland and Stewart, 1983), 7.

We have talked about [productivity]. It is time we started to do something about it. Mr. Mulroney has pointed the way.⁴³

In a companion article which reported on the speech, *The Globe & Mail* observed that:

"The speech was skilfully tailored to a Tory audience, calling for fewer give-away programs and more incentives for hard work, and decrying 'the tragic process of the Swedenizing of Canada.'"⁴⁴ Of course, what Mulroney had in fact proposed was precisely the "Swedenizing of Canada" as the productivity measures described above are precisely how Swedish industrial relations were conducted up until that country's system of democratic corporatism began to break down in the second half of the 1980s.⁴⁵

Furthermore, although Mulroney wanted to get inflation under control, he did not necessarily believe that doing so would require governments to give up on all efforts at moderating the flows of the business cycle. In short, Mulroney claimed to be a Keynesian.

Most of us still believe that economic stabilization is a legitimate, even necessary, role of a national government. To put it in its simplest, Keynesian terms, public-sector investment and stimulus can help the economy through the troughs of the economic cycle when private economic expansion is temporarily slowed and depressed. But a government can play that stimulative role during an economic downturn only if it has some fiscal room for manoeuvre. And it can only have that room if it does not exhaust its financial capacity during relatively good economic times when there is no need--and no justification--for public stimulus of the economy.

Some commentators would have us believe that this elementary form of

⁴³ (23 April, 1982), 6.

⁴⁴ *Ibid.*, 8.

⁴⁵ Hugh Heclo and Henrik Madsen, *Policy and Politics in Sweden: Principled Pragmatism*, (Philadelphia: Temple University Press, 1987), 109-135; Göran Ahrne and Wallace Clement, "A New Regime? Class Representation within the Swedish State," *Economic and Industrial Democracy*, 13, (1992), 455-479.

Keynesian economics just up and died one day. They are wrong. Keynesian economics has been smothered by the Trudeau [Liberal] government in one of the cruellest acts of economic infanticide in recorded history. Regardless of economic circumstances, regardless of economic need, despite any elementary rule of fiscal prudence, the government continued to spend and to spend and to spend--thereby destroying its own capacity to act as a vital stabilizing force in the Canadian economy.

How can the government stabilize anything when it builds up a \$10 billion deficit before a recession?⁴⁶

When he took office, Mulroney would indeed recommend spending cuts, but as he argues here they would not be recommended using the same rationale as Reagan or Bush. Instead, Mulroney proposed to rein in expenditures in preparation for the next downturn when it was hoped that such frugality would leave Canada with a freer hand. In other words, Mulroney believed that government should meddle in the economy. He suggests that there is more to economic policy than keeping inflation at bay and taxes low so as to stimulate entrepreneurship.

This attempt by Mulroney and his PC party to follow a dual track, promoting a free enterprise society and maintaining an important governmental role in the economy and in people's lives can be seen in the charts contained in figures 6.3.1 and 6.3.2 (presented at the end of this chapter) which depict the scores for our two measures drawn from the Comparative Manifestos Project data sets. While the PC manifestos drawn up during Mulroney's leadership scored higher than the last successful Liberal leader (Prime Minister Trudeau) on the Free Enterprise Positive indicator (FREEPOS), his manifestos did not score higher than either the manifestos of the previous PC leader (Prime Minister Clark) or Trudeau's 1974 material. Second, Mulroney's 1984 and 1988 manifestos also

⁴⁶ Mulroney, *Where I Stand*, 45.

scored higher on the Welfare State Positive indicator (WSPOS) than did Trudeau's Liberals in 1980. Whereas the Reagan and Bush manifestos represented something of a break from their country's past campaign rhetoric, the Mulroney Manifestos appear to be well within the norm of past campaigns.

Once elected Prime Minister Mulroney continued his search for consensus among economic actors. His government's first move on the economy was a policy statement read to the House of Commons, shortly after the election, by Finance Minister Michael Wilson on 8 November, 1984. The speech highlighted the government's intention to reduce the national deficit, fight inflation and more generally review the operations of government and curtail programs and regulations that inhibited economic growth and entrepreneurship.⁴⁷ However, those who saw the economic statement as the final word on the government's policy were incorrect. Concerned about the controversy the statement provoked, Mulroney convened a national economic conference, held in March 1985. The conference brought policy experts, corporate and union leaders as well as representatives of civil society and social movements from all areas of the country to Ottawa for a discussion on how to accomplish low inflation and job growth.⁴⁸ The government's first full budget announced that the flat rate and universally provided Old Age Security (OAS) and Family Allowance would be partially de-indexed. Usually a budget is seen as the litmus test of a government's credibility. Only rarely are budget

⁴⁷ Ministry of Finance, *A New Direction for Economic Renewal*, (Ottawa: 1984).

⁴⁸ David J. Bercuson, Jack Granatstein and W.R. Young, *Sacred Trust: Brian Mulroney and the Conservative Party in Power*, (Toronto: Doubleday Canada, 1986), 39.

measures discarded once they are formally announced. However, even then, Mulroney was amiable to change and consultation. After a storm of protest, the de-indexing of OAS was reversed, although the government carried out its partial de-indexing of the Family Allowance.⁴⁹

There can be little doubt that Prime Minister Mulroney did introduce policies which served to roll back the power of Canada's federal state and which gave capitalists a freer hand in the economy (some of the more important changes are discussed in Chapter 5). What is disputed here is that he did this as a result of a deep belief in neoconservative ideology. We have already seen that the reason he professed spending restraint was not to reduce the power of the state to intervene in the economy, but to preserve this power for when it would be truly needed, an economic downturn. In sum, Prime Minister Mulroney was a pragmatic politician not an ideologue.⁵⁰ Savoie perhaps best captures Mulroney's personal leadership style by noting that "he was much more at home cutting a deal than pressing for an ideology or a set agenda."⁵¹ Bashevkin has identified the following as four of Mulroney's most important objectives in government: his party's partisan health, reducing the perceived excessive interventionism of the Trudeau era, and reconciling francophone Quebecers to the Constitution as well as

⁴⁹ Carolyn Tuohy, "Social Policy: Two Worlds," in Michael M. Atkinson, (ed.), *Governing Canada: Institutions and Public Policy*, (Toronto: Harcourt Brace and Jovanovich, 1993), 294-295.

⁵⁰ Bercuson et al., *Sacred Trust* 5; Sawatsky, *Mulroney*, 471; Ernie Lightman and Allan Irving, "Restructuring Canada's Welfare State," *Journal of Social Policy*, 20 (1991), 66.

⁵¹ Donald J. Savoie, *Thatcher, Reagan, Mulroney: In Search of a New Bureaucracy*, (Toronto: University of Toronto Press, 1994), 271.

alleviating other regional tensions.⁵² While the first objective speaks for itself and is perfectly in keeping with the idea of a pragmatic regime the other three objectives need further discussion as they help explain why a pragmatic market liberal, such as Mulroney, would attempt to roll back the federal state, even though he had no particular commitment to the neoconservative ideology which inspired the Reagan and Bush regimes.

In discussing the tensions which existed in the Canadian federation in the late 1980s, Donald Smiley wrote that:

It is almost impossible to exaggerate the personal influence of Pierre Trudeau with his penchant for debating even the most particularized matters within the framework of generalized concepts about the nature of the Canadian Confederation and his demonstrated capacity to keep federal questions at or near the top of the Canadian political agenda.⁵³

Re-elected in February 1980, after a brief, nine month stint in opposition, Prime Minister Trudeau's Liberal government began a major series of policy initiatives on several fronts. Included in the plan was what came to be known as the National Energy Program (NEP). The plan, which essentially amounted to an integrated industrial plan for the resource sector, was greatly resented in the principal petroleum producing provinces. For the provincial governments of Western Canada the NEP appeared to tax their provincial resources to fund exploration in the Arctic and offshore (where royalties would go to the federal government) and industrial development in central Canada.⁵⁴ For the

⁵² "Losing Common Ground," 216-219.

⁵³ *The Federal Condition in Canada*, (Toronto: McGraw Hill, 1987), 97.

⁵⁴ Peter Leslie, *Federal State, National Economy*, (Toronto: University of Toronto Press, 1987), 10.

multinational corporations which dominate the world oil markets, the NEP was an apparent state intrusion into their freedom to make economically rational, market-based decisions. Eventually, the American government would also object, as it was felt that the NEP was not only an infringement on trade, but a positive threat to American economic security.⁵⁵ The plan gradually collapsed under its own weight as world oil prices dropped and the amount of money extracted from oil taxes could no longer fund the other portions of the program. The Liberals also proved willing to sacrifice some components of the NEP to win the support of Western premiers for their constitutional reform initiative. It fell to Mulroney to give the NEP a decent burial, along with the Foreign Investment Review Agency (FIRA), which he did as much to patch up regional tensions and relations with the United States as to suit any economic doctrine.⁵⁶

Prime Minister Mulroney seems to have agreed with Smiley's conclusion; that in a country with an economy as regionalized as Canada's, any overt interventionist strategy (such as the NEP) was bound to favour some regions over others, and that the leaders of provinces not benefiting from a specific policy would object and thereby create regional tensions.⁵⁷ General help might be provided to different regions which were not keeping up to the rest of the country, but no master plan was possible.

It is noteworthy that even when Mulroney was speaking to an audience which might appreciate a little bit of neoconservative--or even libertarian--economic rhetoric,

⁵⁵ G. Bruce Doern and Brian W. Tomlin, *Faith and Fear: The Free Trade Story*, (Toronto: Stoddart, 1991), 17.

⁵⁶ Smiley, *The Federal Condition in Canada*, 182-185; Doern and Tomlin, *Faith and Fear*, 5.

⁵⁷ Smiley, *The Federal Condition in Canada*, 94.

such as that gathered to hear him at the University of Chicago, Mulroney declined. Instead he once again pointed to the need to promote regional harmony as the motivation behind his scrapping of the more interventionist of the Trudeau policies.

At its best, Canadian federalism is sensitive both to national goals and regional circumstances. It is accommodating. It is flexible. It is creative. It achieves much good.

Our federalism has rewarded us richly in the past; it will do so in the future.

That is just one sound reason why the new Government had to rewrite the National Energy Program of our predecessors... We want our Canadian energy sector to be, not a source of political and regional conflict, but of national economic growth and development. We believe our new policies now make this possible.

One of our earliest initiatives was to do away with the Federal Investment Review Agency. We brought in a new Investment Canada act with a positive mandate to encourage new investment, from domestic and foreign sources while recognizing the special nature of the cultural sectors of our economy.

These measures have helped restore a more positive climate to federal-provincial relations in Canada.⁵⁸

In the same speech the Prime Minister told his American audience that although he wanted better economic relations with the United States, he was not a market libertarian. The government would still behave in an interventionist matter, when and where it felt such action would prove beneficial.⁵⁹ In fact, throughout his nearly nine years as Canada's prime minister, regardless of the audience, Mulroney stuck to his belief that a strong economy could coexist with pragmatic state action which intervened to make things better for those not successful in the economy or those lacking the

⁵⁸ Brian Mulroney, *Address to the University of Chicago and the Times Speaker's Forum, 4 December, 1985* (Ottawa: Minister of Supply and Service, 1985), 2-3.

⁵⁹ *Ibid.*, 6.

resources to get into the game. This was the message which he delivered to his PC Party's General Meeting in March 1986, another body which he had reason to believe would appreciate a more ideologically pure message. It will be remembered that while running for the leadership of the party, Mulroney discovered that most of the party delegates were ideologically further right than he was.⁶⁰ He nevertheless told the assembled delegates that the Progressive Conservative, "vision of Canada is based on four pillars of democracy: national reconciliation; economic renewal; social justice and constructive internationalism."⁶¹ Similarly, he told the Canadian Chamber of Commerce that being in favour of a free market economy did not mean his government would shun intervention in the name of ideological purity. Yes the government was selling some crown-corporations that were associated with expired policies or fulfilled objectives. However, this did not mean that the federal government was getting out of the economic development business. "Both a national railway and the national broadcasting service were initiatives of Conservative governments. Conservative governments have always used the state for nation building, and wherever it is called for, we will not hesitate to participate in the economy."⁶²

- Prime Minister Mulroney's inherent pragmatism is perhaps best demonstrated by

⁶⁰ Sawatsky, *Mulroney*, 401.

⁶¹ Brian Mulroney, *Notes for an Address to the General Meeting of the Progressive Conservative Association of Canada, Montreal, Quebec, 14 March, 1986*, (Ottawa: Minister of Supply and Service, 1986), 4.

⁶² Brian Mulroney, *Notes for an Address Before the Canadian Chamber of Commerce, Vancouver, British Columbia, 14 September, 1986*, (Ottawa: Minister of Supply and Services, 1986), 8.

his most significant policy initiative, the Canada-United States Free Trade Agreement. When he took office, Mulroney had not intended to make trade the centrepiece of his policy agenda. However, when the Royal Commission on the Economic Union and Development Prospects for Canada (headed by former Liberal cabinet minister Donald MacDonald) recommended that Canada try to reach some such accord, the opportunity must have looked too good to pass up.⁶³ First, the decision appeared to have a consensual component to it; had it not been recommended by a prominent Liberal and been endorsed by policy papers prepared by top civil servants who themselves were widely assumed to be Liberals? Second, the initiative appeared to have partisan advantages. Three key constituencies within the PC party favoured the plan, Westerners who felt the few remaining tariffs favoured Ontario, the business community which was becoming increasingly concerned about protectionism in the United States and the new internationally oriented state and private sector elites of Quebec.⁶⁴

However, even after the Prime Minister had decided to go after a trade deal with the United States, he was still not willing to burn his bridges with the opponents of the proposed arrangement. Just as when he introduced his new approach to economic policy in 1984-85, he once again issued an invitation to all sections of Canadian economic life to come forward and participate in consultations regarding the initiative.⁶⁵ When he addressed the nation about the trade initiative he did not speak about the necessity to

⁶³ Doern and Tomlin, *Faith and Fear*, 30.

⁶⁴ Glen Williams, *Not for Export: The International Competitiveness of Canadian Manufacturing, Third Edition*, (Toronto: McClelland and Stewart, 1994), 156-157.

⁶⁵ *Ibid.*, 234.

strengthen capitalism, as a Thatcher would, or the need to promote freedom from government through free trade, as would a Reagan. The free trade initiative was a simple pragmatic program aimed at addressing real world problems, it was about jobs and protecting Canada's exports.

Those vital markets are in peril. Everyday, it becomes more difficult to defend our interests and access to American markets. There is a door of protectionism that is closing on us. But there remains an occasion of opportunity...

Canadians have every right and reason to ask, what's in these talks for us? The answer is more jobs and greater prosperity. If there is any doubt in that regard, there will be no deal.⁶⁶

Perhaps, the policy most telling symbolic of the Prime Minister's lack of adherence to the neoconservative ideology were the choices that he made when, in his second term, further spending cuts were needed to contain Canada's deficits. In a 1989 speech he told Canadians that he was not cutting the deficit due to some quest for a minimal state but to preserve the power of the state for the most important tasks. "We don't increase taxes and cut government spending simply because we are ideologically disposed to do so. But, investment in our own future... cannot be afforded if we go on borrowing just to pay the interest on the national debt."⁶⁷

When cutting the budget the Mulroney government, for the most part, protected the interests of the disadvantaged. The government did not appear to believe that it was necessary to attack decommmodification to encourage entrepreneurship, that helping the

⁶⁶ Brian Mulroney, *Notes for an Address to the Nation on the Trade Initiative*, Ottawa, Ontario, 16 June, 1986 (Ottawa: Minister of Supply and Services, 1986), 2-4.

⁶⁷ Brian Mulroney, *An Address on the Occasion of the World Economic Forum*, Ottawa, Ontario, 14 June, 1989, (Ottawa: Minister of Supply and Services, 1989).

poor penalized others through higher taxation, or that the unemployed or disadvantaged were somehow responsible for their own situation. One example of this belief in the merits of redistribution was the tightening of eligibility requirements in the Unemployment Insurance Plan. These changes inevitably had a negative impact on those at the margins of the economy. However, one thing that was not changed was the variable eligibility for assistance based on region. In other words, those residing in poorer regions of the country continued to have easier access to benefits than those in more prosperous regions.⁶⁸

Another example of this was the so called "cap on the CAP". The Canada Assistance Plan (CAP) provided federal support for social assistance programs (and some health programs for the chronically ill) to provinces.⁶⁹ The plan reimbursed provinces for fifty percent of their costs involved in providing such programs. In the 1989/90 fiscal year the Mulroney government "capped" the CAP payments to the wealthiest provinces (Ontario, British Columbia and Alberta) by placing a five percent annual growth ceiling on them, while leaving the growth in grants to other provinces uncontrolled.⁷⁰ Some saw this decision as not being a politically prudent move, as Ontario alone accounts for nearly one-third of the seats in the House of Commons, while

⁶⁸ Tuohy, "Social Policy: Two Worlds," 295-296.

⁶⁹ In 1995 the Liberal government of Jean Chrétien merged the CAP with federal grants to pay for health care and education. The new grant was named the Canada Health and Social Transfer.

⁷⁰ Oddette Madore, *The Canada Health and Social Transfer: Operation and Possible Repercussions on the Health Care Sector, Current Issue Review 95-2E, Library of Parliament Research Branch*, (Ottawa: Minister of Supply and Services, 1995), 3-5.

Alberta was the base of the PC party's support in Western Canada.⁷¹ However, it did serve to somewhat protect federal transfers to the less advantaged regions. A final example of this attitude was the elimination of the universal flat rate family allowance. Instead of simply eliminating the benefit, the government used some of the savings to increase the value of Refundable Child Tax Credit, a program more clearly targeted at those families with lower incomes.⁷²

These decisions to offer decommodificative support to poorer regions and individuals fly directly in the face of neoconservative ideology. The essence of all these messages was that although the government favoured reduced spending and economic liberalization, these choices were being made for pragmatic purposes; the Mulroney government was still interested in helping. Citizens viewing these decisions could take away the message that as the government was pragmatic it would surely choose to help, if once again the country fell into a major economic crisis.

To a certain degree Brian Mulroney lived up to this reassuring message. One indicator of this is the change which took place in after-tax income inequality in Canada. During the 1980s and early 1990s, the after-tax and transfers income distribution (as

⁷¹ Thomas J. Courchene with Colin R. Telmer, *From Heartland to North American Region State: The Social Fiscal and Federal Evolution of Ontario*, (Toronto: University of Toronto Centre for Public Management, 1998), 145-150. In the case of Alberta, it will be remembered that the Reform Party made one of their key campaign promises in 1993 a more equal treatment of the provinces in terms of federal transfers and subsidies. David Laycock, "Reforming Canadian Democracy? Institutions and Ideology in the Reform Party Project," *Canadian Journal of Political Science*, 27, (1994), 224-225.

⁷² John Myles and Paul Pierson, "Friedman's Revenge: The Reform of "Liberal" Welfare States in Canada and the United States," *Politics and Society*, 25, (1997), 445.

measured by the Gini Coefficient) became slightly more equal, unlike the United States where the trend was toward increased after-tax and transfer income inequality.⁷³ However, in general, he did not. He never managed to restore Canada's finances so as to fight the next recession as he had promised. Even if he had managed to establish this room to manoeuvre, it is debatable if he would have acted to stimulate the economy. Although Mulroney might have thought of himself as a Keynesian, his finance minister, Michael Wilson, and the Governor of the Bank of Canada, John Crowe, who Mulroney himself had appointed in 1987, were both convinced monetarists.⁷⁴ Their goal was not lower inflation but zero inflation and they exerted increasing pressure from both the fiscal and monetary sides of the economy.⁷⁵ Even economists at the nation's leading financial institution, the Royal Bank, came to blame this quest for sound money for the severity of Canada's recession in the early 1990s.⁷⁶ No one was more assertive in propagating this argument than Pierre Fortin, who used the occasion of his Presidential Address to the Canadian Economics Association to make the case. "The flat profile of real public spending and the depression of interest-sensitive demand components leave only one

⁷³ Peter Stoyko, *The Use of Summary Indicators to Measure the State's Impact on Income Inequality and Polarization: Time Series Trends in Select OECD Countries: A Working Paper for The Project on Governance Implications of Labour Market Polarization*, (Ottawa: Statistics Canada, 1997), 42-59.

⁷⁴ Williams, *Not for Export*, 170-171; John Crowe, *Notes for Remarks to the Canadian Club, Toronto, Ontario, Monday April 6th, 1987*, (Ottawa: Bank of Canada, 1987).

⁷⁵ Clarence L. Barber, "Monetary and Fiscal Policy in the 1980s," in Robert C. Allen and Gideon Rosenbluth, (eds.), *False Promises: The Failure of Conservative Economics*, (Vancouver: New Star Books, 1992).

⁷⁶ *Globe and Mail*, (27 May, 1995), A1.

satisfactory explanation of the slump: old-fashioned monetary contraction and induced fiscal contraction."⁷⁷ In spite of a recession worse in scope than that in the United States, in spite of his previous advocacy of Keynesianism, Canada's overall economic policy during the recession was perhaps more restrictive than America's.⁷⁸ Yet, as will be seen in the next chapter, in spite of this more aggressive campaign against inflation and more restrictive budgetary attack on spending, consumer sentiment paradoxically stayed firmer in Canada than in the United States.

6.4 Conclusions

In this chapter the rhetoric used by leaders in Canada and the United States was explored. The rhetoric and symbolic behaviour exhibited by American Presidents Reagan and Bush when dealing with economic matters and the role of the state in society showed them to be not only proponents of the neoconservative ideology, but true believers in its veracity. It was also shown that although he argued for restraint, Canadian Prime Minister Mulroney can not be described as an adherent of this ideology. In fact his acceptance and justification for restraint was more rooted in pragmatism than in any ideological commitments. In James's terminology Mulroney was a market liberal rather

⁷⁷ Pierre Fortin, "The Great Canadian Slump," *Canadian Journal of Economics*, 29 (1996), 783.

⁷⁸ This restraint was probably driven more by the government's fear of the growing support among its Western voters and grass-roots organizers for the Reform Party than by any ideological commitment. Trevor Harrison, *Of Passionate Intensity: Right-Wing Populism and the Reform Party of Canada*, (Toronto: University of Toronto Press, 1995), 187-189.

than a market libertarian.⁷⁹

This difference in motivations has important consequences. Citizens considering the actions of a leader who claims to be ideologically motivated would be less likely to expect this leader to change course if circumstances change, as the leader claims that their actions are not rooted in short-term considerations but larger, more permanent philosophical ones. Similarly, citizens experiencing such leadership would be less likely to expect that their leaders would maintain programs that conflicted with their ideology for simple partisan considerations. Consequently, citizens of neoconservative led countries would be unlikely to expect their leaders to take action to protect them in an economic decline or, in the longer term, support the continuance of welfare state programs which partially decommodify life. One would expect citizens in these countries to react more violently to changes in economic circumstances.

⁷⁹

James, "The Rise and Decline of Market Liberals in the Labour Party," 16-18.

Figure 6.2.1 United States: Welfare State Positive

Democrats (black) Republicans (white)

Figure 6.2.2 United States: Free Enterprise Positive
 Democrats (black) Republicans (white)

Figure 6.3.1 Canada: Welfare State Positive
 Liberals (black) Progressive Conservatives (white)

Figure 6.3.2 Canada: Free Enterprise Positive
 Liberals (black) Progressive Conservatives (white)

Chapter 7: Quantitative Analysis

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7.1 Introduction

In the introductory chapter a problem was introduced. This problem was the observation made by American economists that the severity of the recession experienced in that country during the early 1990s could be attributed to a profound lack of consumer optimism: a lack of optimism that was unwarranted by macro-economic conditions. It was further noted that when Canadian and American consumer sentiment was compared, Canadian sentiment seemed to stay firmer, even though Canada experienced worse macro-economic conditions than those found in the United States. From this observation an argument was developed that this difference could be blamed on the fact that the United States experienced neoconservative leadership in the decade preceding the recession and Canada did not and that this led American consumers to be more risk averse. It is this heightened risk aversion which it is suggested caused American consumer sentiment to drop so unexpectedly and severely during the early 1990s recession. The previous chapters have presented a qualitative comparable-cases study which supports this argument by demonstrating that the key difference between Canada and the United States during the period in question was this difference in the nature of the leadership experienced in the two countries--the fact that the United States experienced neoconservative leadership during the 1980s and Canada did not. However, as was discussed in the introductory chapter, to further establish the validity of the argument, it is necessary to more rigorously evaluate the data from which the hypothesis of this dissertation was devised. While the patterns portrayed in figures 1.2.1 through 1.2.4 are impressive, such visibly observed patterns are not as powerful as those that are

also confirmed through statistical analysis. This more rigorous evaluation will be presented in this chapter. The object is to establish whether or not the changes noted in the pattern of the relationship between consumer sentiment and macro-economic conditions are meaningful and can be documented statistically. If so, this would buttress the argument of the dissertation.

This examination will involve a comparative time-series regression analysis of the relationship between consumer sentiment and macro-economic factors. Canada and the United States are very useful cases for this test as there are a large number of similarities between the countries. Some have even argued that Canada and the United States are essentially political divisions of the same North American economy.¹ Both Canada and the United States experienced substantial financial deregulation during the 1970s and 1980s and household indebtedness rose sharply in both countries.² Economically the key differences between the two countries during the 1980s and 1990s have been Canada's higher unemployment and, until recently, higher interest rates³ which should discourage

¹ See for example, Glen Williams, "Regions Within Region: Continentalism Ascendant," in Glen Williams and Michael S. Whittington, (eds.), *Canadian Politics in the 1990s*, Fourth Edition, (Toronto: Nelson, 1995), 19.

² OECD, *Structural Adjustment and Economic Performance*, (Paris: OECD, 1987); Sarkis J. Khoury, *The Deregulation of the World Financial Markets: Myths, Realities, and Impact*, (New York: Quorum Books, 1990), 171. Glen B. Canner, Arthur B. Kennickell and Charles A. Lockett, "Household Sector Borrowing and the Burden of Debt," *Federal Reserve Bulletin*, 81, (1995), 323; OECD, *Economic Surveys 1992-1993, Canada*, (Paris: OECD, 1993), 53.

³ OECD, *Main Economic Indicators: Historical Statistics, Prices, Labour and Wages, 1962-1991*, (Paris: OECD, 1993); OECD, *Main Economic Indicators*, (January, 1993 - February 1997); IMF, *International Financial Statistics*, (March, 1980 - March 1997).

consumer sentiment. Yet, as was seen in Chapter 1, Canadian consumer confidence remained firmer during the recession in the early 1990s than did American consumer confidence (even though the recession was more severe in Canada). How can this difference be explained?

In terms of political factors, both countries are liberal democracies with very similar political cultures. Although there are differences in the degree to which Canadians and Americans hold different values, attitudes and beliefs, the differences are relatively small as compared to the differences that exist between other nations.⁴ The political structures of Canada and the United States were discussed in Chapter 4. While it is commonly assumed that prime-ministerial polities present fewer barriers to the making of policy than division-of-power systems, this was shown to not necessarily be the case due to the complexity of other institutional influences and environmental factors. Specifically, in the area of welfare state retrenchment it was shown that Canadian federalism presents as important a barrier to the policy making autonomy of prime ministers as the American Congress presents to the policy making autonomy of that country's presidents. Both Canada and the United States are federations, however historical circumstances and constitutional factors have served to make Canadian premiers far more important national actors than their gubernatorial counterparts in the United States. Similarly, in the United States these same factors have served to make individual members of both the federal and state legislatures far more important than their Canadian

⁴ Ronald Inglehart, Neil Nevitte and Miguel Basañez, *The North American Trajectory: Cultural, Economic, and Political Ties among the United States, Canada and Mexico*. New York: Aldine De Gruyter, 1996.

colleagues in Parliament and the provincial assemblies. The rules of debate in the upper chamber of the American Congress, the Senate, were also seen in Chapter 4 to be a particularly important barrier to the policy making autonomy of presidents. In both countries autonomous judiciaries, empowered to interpret their respective constitutions and to review legislation, also play a role in restricting the policy making autonomy of national leaders as do the central banks. Environmental factors also influence this balance created by political structures. In Canada's recent history regional pressures have usually contributed to the building of welfare state programs and their maintenance while in the United States they have tended to inhibit their creation and encourage their dismantlement. In sum, in both countries there are important political institutional checks on the power of national leaders. Canadian prime ministers must learn to work with the premiers and American presidents must similarly learn to work with Congress. In both Canada and the United States rational citizens contemplating the rhetoric and symbolic behaviour of their leaders would at least partially discount the possibility that such rhetoric could be realized in its most extreme form due to these institutional barriers.

In Chapter 5 the welfare state regimes in Canada and the United States were explored. It was shown that both Canada and the United States are variants of the liberal welfare state. Canada's welfare state relies somewhat less on market provision than the stereotypical, or ideal-case, liberal welfare state. This was shown to not be unusual as all aspects of Canadian life have been more influenced by state action than life has been in the United States. This reliance on the state is in part due to the following factors:

Canada is a smaller country, the Canadian economy is more exposed to international economic forces, and state intervention in the Canadian economy has been pursued to counteract the tensions imperilling the unity of the country. However, both countries experienced some restraint in social policy spending and the official adoption of monetarist economic assumptions in the 1980s. Given Canada's greater dependence on state action, in all aspects of public life, this restraint might even be argued to be more disturbing to Canadian psyches than it would be to Americans. In terms of policy, what differed was that to a certain degree, the Canadian government of Brian Mulroney tried to at least partially protect spending on programs that are targeted at the poor and federal transfers to the less advantaged provinces while enacting restraint. In the United States the Reagan administration specifically targeted these programs for restraint while leaving programs of importance to the middle and upper classes relatively untouched. Although both countries were spending more on social programs at the end of the 1980s than they were at the start of the decade, these cuts would serve as symbolic actions reinforcing citizen opinions about their leaders and their intentions.

In Chapter 6 the rhetoric of Presidents Reagan and Bush and Prime Minister Mulroney was discussed. It was shown that the two American presidents both employed the rhetoric of neoconservatism to justify their chosen policy courses, while Mulroney explained his decisions as pragmatic policy choices. Americans would not only see their government cutting spending, but cutting spending aimed at those most in need. On top of this, while Mulroney argued that the decisions he was making were necessary so as to preserve the autonomy of the state to act in the future, so as to maintain national unity

or to serve some other pragmatic purposes with Keynesian theory either explicit or somewhere in the background, Bush and Reagan clearly explained that the decisions that they were making were based in ideology, a belief that government should not intervene to re-adjust market outcomes. They believed this not only because they felt that such actions were unworkable, damaging the general economy in the long term, but also because they felt that such actions damaged the moral fibre of the nation. If indeed the majority are risk averse, and if indeed citizens see the welfare state as a form of insurance (as was argued in Chapter 3) then these actions would reassure Canadians that even though cuts were being made, there would still be assistance if they needed it. The impact in the United States would have been the exact opposite. Such leadership would serve to heighten the public's sense of risk aversion and increase the speed and volatility with which consumer sentiment would respond to any negative economic circumstances. This project has suggested that this is the answer to the question as to why Canadian consumer sentiment remained firmer than American consumer sentiment during the early 1990s recession.

7.2 A Quantitative Examination of the Data

This section describes the general methods used to quantitatively examine the data. Further details are contained in Appendix A of this dissertation. First quarterly macro economic data were collected from published sources for both countries for the period 1979-1994. This period was selected as it allowed for a period before and after each major recession. Next attempts were made to model the trend for the Conference Board

and Conference Board of Canada's consumer sentiment indices with this data.⁵

All of the index variables (those economic statistics in which data are expressed as a proportion of the figures recorded in the base year) were adjusted so as to have the same base year, 1985. This year was chosen, in part, because much of the data already had this base year, but more importantly, it was a year in which both Canada and the United States experienced reasonable economic growth and declining unemployment.⁶ Selecting base years in which the two countries were not in the same part of the business cycle could lend substantial distortion to the study.

It was found that a reasonable explanation for the trend of consumer sentiment in the two countries could be constructed by regression with consumer sentiment (seasonally adjusted) dependent on the two following independent variables: growth rate in gross domestic product (GDP), seasonally adjusted and expressed at annual rates, and the unemployment rate (OECD standard definition, seasonally adjusted).⁷ The data series

⁵ Copyright and all rights reserved by the Conference Board and Conference Board of Canada. U.S. data for the period 1980-1994 can be found in, U.S. Department of Commerce, *Survey of Current Business*, 74 (November, 1994), C42 and 75 (February, 1995), C4; post June 1995 figures are only available from the Conference Board Business Cycle Indicators Data Base. The Canadian data was provided courtesy of Ms. Carolyn Kwan at the Conference Board of Canada. As noted in Chapter 1. These indicators have different names. The U.S. indicator is titled "the Index of Consumer Confidence," while the Canadian indicator is "the Index of Consumer Attitudes." However, the two are methodologically identical, with the following exception, the Canadian data is collected every quarter, while the U.S. data is collected monthly. This was corrected by only using the U.S. data from quarter ending months. For more information on independent variable see Appendix A.

⁶ See Charts 1.2.1 thru 1.2.4 at the conclusion of Chapter 1.

⁷ Quarterly figures for change in the growth rate of gross domestic product are based on the OECD Volume indices as reported in OECD, *Quarterly National Accounts*, (No.2, 1992), 194, (No.2, 1994), 232, (No.2, 1995), 252, (No.2, 1997), 260. Quarterly unemployment rates are those reported in OECD, *Main*

were first divided into two halves, 1979-1986 and 1987-1994. This was done so as to see if there was some meaningful change in the relationship between the independent variables and consumer sentiment between the two halves of the time period. If there had been no meaningful change with the data simply divided into before and after style groups, it would have been pointless to refine the analysis any further. These two periods were selected as they allowed for lead time before both the recession of the early 1980s and that of the early 1990s for both countries as well as a reasonable amount of time after each crisis. As will be seen below, this first analysis provides encouragement for a further refinement of the testing process. Next, the data were divided into groups according to each leader's elected terms and again analyzed.

However, this next step proved problematic as the initial period selected for analysis (1979-1994) did not provide enough time points to adequately test the relationship between consumer sentiment and macro-economic conditions in Canada during the tenure of the Chrétien Liberal government which succeeded the Progressive Conservatives in September 1993. The results produced for the Clinton administration also proved ambiguous, leaving the researcher to wonder if adding further time points might clarify the situation. Consequently, at this point it was decided to add further data to the analysis for this portion of the test. By including the data for 1995-1996 it was possible to analyze 17 time points for the Clinton administration and 13 time points for the Chrétien government.

Economic Indicators: Historical Statistics, Prices, Labour and Wages, 1962-1991, (Paris: OECD, 1993) and OECD, Main Economic Indicators, (January, 1993 - February, 1997). For more information on the dependent variables see Appendix A.

Before reporting the results an important caveat must be noted: Because there is no specific quantitative expression of neoconservatism and non-neoconservatism included in the following analysis, one cannot say that neoconservative leadership is "x" percent correlated with change in consumer sentiment. Some may ask, therefore, what purpose is served by this analysis. What this test does is increase our confidence that the patterns observed in the graphs presented in Chapter 1 are indeed meaningful. As the hypothesis developed in this project is based on an assumption that the patterns are meaningful, such a positive result can only enhance our confidence in the validity of the argument.

7.3 Results and Analysis

In most time series data autocorrelation is a serious problem. This is because the values for each time point usually depend to a considerable degree on the values for the previous time point. Consequently, the errors produced using time series data tend not to be scattered randomly, but instead, build on themselves and create a false, and most often optimistic, impression of the strength of the relationship between the dependent and independent variables. Therefore, it is necessary to carefully assess the results produced by regression involving such time series for the autocorrelation affect. The most common test for this affect is the Durbin Watson statistic.⁸ Autocorrelation was detected in all but one of the computer runs. Therefore, the procedures were re-run using the Prais-Winsten technique, a derivation of the regular regression technique that can control

⁸ Charles W. Ostrom, Jr., *Time Series Analysis Regression Techniques*, Second Edition, (Newbury Park, CA: Sage, 1990), 27-29.

for autocorrelation. Each group of cases can be run through the Prais-Winsten process repeatedly so as to remove greater and greater amounts of the autocorrelation affect. Each run is called an iteration. However, with each iteration the strength of correlation is also usually diminished. Therefore, it is common to cut off the process before all possibility of autocorrelation is removed. In the following analysis autocorrelation has been controlled to the degree that there is no significant chance that the results are still autocorrelated or until the feasible number of iterations has been run, even if the results are still potentially autocorrelated.⁹ In these cases warning is given that the results are inconclusive as there is still a significant chance that they are exhibiting autocorrelation.¹⁰

Table 7.3.1 shows that during the second time period (1987-94) Canadian consumer sentiment was somewhat more associated with conditions in the economy than it was in the first period (1979-86). However, even in the second time period the level

⁹ For more on the Prais-Winsten regression technique and its application see Appendix A. The Durbin-Watson Statistic (DW) is fairly complex to interpret. As with many statistics, it has different critical values based on the number of cases and number of independent variables involved. However, the DW also has lower (d_l) and upper (d_u) thresholds. The decision rule is that if the DW value falls between d_u and $4 - d_u$, then there is no significant chance of autocorrelation (either positive or negative). If the DW value falls between d_l and d_u , the test is inconclusive; there is the potential for positive autocorrelation. If the DW value is greater than $4 - d_u$ but less than $4 - d_l$, the test is also inconclusive; there is the potential for negative autocorrelation. Values under d_l indicate positive autocorrelation. Values over $4 - d_l$ indicate negative autocorrelation. Ostrom, *Time Series Analysis*, 28-29.

¹⁰ Based on the significance levels calculated by N.E. Savin and Kenneth J. White, "The Durbin-Watson Test for Serial Correlation with Extreme Sample Sizes or Many Regressors," *Econometrica*, 45, (1977), 1992-1995 and reproduced in *SPSS/PC+ Trends*, E13-E14.

of association is still only modest. The independent variables can only explain about 39 percent of the change in the Conference Board of Canada's index. If one considers the regression coefficients, B , it will be seen that every one percent increase in growth rate of gross domestic product (GDP) predicts an increase in consumer sentiment of 1.4 units. Every one percent rise in unemployment is predicted to produce a decline of almost three units in consumer sentiment. *Beta* indicates the standardized regression coefficients. As variables are measured in different units it is difficult to directly compare their causal impact on the dependent variable. The standardization process makes this sort of direct comparison possible. What the results in this column tell us is that the growth rate of GDP is somewhat more important for causing a predicted level of the consumer sentiment index than is unemployment, given that the relative ratio between the two variables is .545:-.384.

However, if we consider the results reported under the heading *SE B* for each variable we find reasons to express caution, for not only are the results modest, they also present a great deal of error. *SE B* is the standard error for the regression coefficient. As can be seen, the errors are fairly large given the coefficients reported. Nevertheless the results are significant and there is little chance that they are the product of autocorrelation.

Table 7.3.1 Consumer Sentiment Indices, GDP and UE, 1979-1986 and 1987-1994

Term	N	Adj R ²	Durbin-Watson	B GDP / Beta GDP (SE B GDP)	B UE / Beta UE (SE B UE)	B Constant (SE B CON)
Canada 1979-86	32	.055	1.544 [^]	.586 / .383* (.268)	-.328 / -.033 (1.722)	93.003** (16.759)
Canada 1987-94	32	.388	1.418 ⁻	1.431 / .545** (.369)	-2.939 / -.384** (1.076)	110.554** (10.280)
U.S.A. 1979-86	32	.394	1.592 ⁻	1.377 / .482** (.399)	-6.102 / -.484** (1.765)	129.049** (13.527)
U.S.A 1987-94	32	.742	1.835 ⁻	2.876 / .314** (.835)	-25.170 / -.828** (2.775)	236.628** (17.148)

[^] Inconclusive (results might still suffer from autocorrelation)

⁻ Conclusive (no significant chance of autocorrelation)

* Significant at .05 level

** Significant at .01 level

For the American case, even in the 1979-1986 time period, where one would assume neoconservative conditioning was only playing a minor role, consumer sentiment was far more associated with economic conditions than consumer sentiment was in Canada, even during the second Canadian time period. The regression coefficients indicate that each one percent increase in unemployment will produce slightly more than a six unit drop in consumer sentiment, while a one percent increase in the growth rate of GDP produces a nearly 1.4 unit increase in consumer confidence. Based on these numbers, it is perhaps best to assume that American consumer sentiment has always been more tightly associated with economic conditions than consumer sentiment in Canada has been. Keeping this in mind, it is best to interpret any change that might occur between

this first time period and the 1987-1994 time period with a certain amount of conservatism.

However, it is apparent that even a conservative interpretation of the change must conclude that a fundamental alteration has occurred in the process by which American consumer sentiment is formed. The results above show a much stronger relationship between an increase in the growth rate of GDP, the unemployment rate and consumer sentiment. Just as Canadian consumers came to be more attuned to the changes in the economy during the 1980s so did Americans, with the independent variables explaining 74.2 percent of the change in the consumer sentiment index.

To understand the magnitude of the change that occurred in the United States we must again consider the regression coefficients. Most notable is the change in the regression coefficient for the unemployment rate. In this time period a single percent increase in unemployment is predicted to produce a substantial 25 unit drop in consumer sentiment (a twenty unit drop is often seen as indicating that a recession might be imminent). Next consider the change that has occurred in the relationship between the *Beta* scores for the two independent variables. In the first time period the relationship was roughly equal (.482:-.484). This would lead one to believe that a change in the growth rate of GDP was as important in determining consumer sentiment as was change in the unemployment rate. However, in the second time period the ratio changes to a more lopsided (.314:-.828), indicating that change in the unemployment rate is now a more predominant factor in establishing the level of the consumer sentiment index. Finally, the numbers reported under the *SE B* heading also reveal important changes.

Ideally the score reported here would drop, indicating not only that the magnitude of the association increased but also that there is less dispersion of actual scores around the line of best fit. Unfortunately this did not happen. However, the relationship between the magnitude of the regression coefficient for GDP and its standardized error remained relatively constant in the two time periods while the relationship between the magnitude of the coefficient for the unemployment rate and its standardized error declined considerably. Given the size of the change in the regression coefficients, the lack of a decline in the scores for *SE B* should not preclude us from concluding that there has been an important change in the relationship between the dependent and independent variables in the second time period. Even though Americans were exposed to the same general economic circumstances as Canadians, the same wave of deregulations the same run up of household debt and the same government spending restraint, American consumer sentiment came to be far more sensitive to unemployment than sentiment in Canada. What was different between the two countries was the character of their leadership and the way in which these leaders explained the changes that were occurring to their respective publics. In the next table the data for the two countries are divided into time periods that correspond to the terms of office for the different political leaders.

Unfortunately, there proved to be an insufficient numbers of cases to provide a meaningful analysis of the Chrétien period. Similarly, a casual glance at the table shows that there were problems with the two half terms (Carter 1979-1980 and Clinton 1992-1994) included in the American portion of the table. It is indeed possible that these terms would have produced more meaningful results if data had been used for the full

term of each president. This is especially the case with Clinton where a very strong negative correlation appears between unemployment and consumer sentiment. It was decided that with more cases, the *DW* score needed to rule out any significant chance of autocorrelation might fall. As first reported, the results as to autocorrelation for the Clinton term are inconclusive, neither failing nor passing the test. The relatively large standardized error of the regression coefficient of unemployment (when compared to the results from the Bush term) is also problematic. It was decided that this might also decline if more cases were added. Therefore, the data set for this portion of the analysis was expanded to include the years 1995-1996 and the tests were re-run so as to provide full coverage of the Clinton first term (and one quarter of his second term as the election is in the final quarter of the year). This expansion also allows the analysis of 13 time points for the Chrétien government in Canada (which represents all but two quarters of this government's first term). The results for this expanded analysis are included in Table 7.3.3. It seemed less important to add time points at the front end of the study, as the results for the Carter half term seemed to hold out less promise of improvement if more cases were added.

When the Canadian data are disaggregated into terms of office, all significant relationships between unemployment and the consumer sentiment indicator disappear. In Mulroney's second term there is still a modest relationship between an increase in the growth rate of GDP and improving consumer sentiment. There is an insignificant chance that this relationship is the result of autocorrelation. A similarly modest relationship in the Trudeau era might be the product of autocorrelation as the *DW* test is inconclusive.

The American case provides an interesting contrast. Most startling on first appearance are the scores for the Bush term. In this period a one percent increase in the growth rate of GDP correlates with a nearly four unit rise in consumer sentiment, while a one percent increase in the unemployment rate correlates with a 25 unit drop in consumer sentiment. In many respects, a comparison of the Bush term and the second Mulroney term provide a similar picture, with fewer observations, than the second part of the Table 7.3.1. This comparison indicates that something fundamental changed in the United States but does not really tell us what. A more complete answer can be had by beginning with the difference in the results between President Reagan's first term and his second term.

In the Reagan first term, as in the portion of the Carter era analyzed, the relationship between consumer sentiment and the independent variables is fairly weak. Neither unemployment nor growth in GDP are significantly associated with change in consumer sentiment. This changed in the Reagan second term. There is no significant chance that the results for this term are being produced by autocorrelation and now unemployment is negatively associated with change in the consumer sentiment indicator (at the .01 level). Now consider the relationship between the results for the Reagan second term and the Bush term. Specifically, consider the difference in the ratio between the *Beta* coefficients for the growth rate in GDP and the rate of unemployment. The ratio in the Reagan second term is $-.122:-.813$. The disparity in size is not unexpected, as it will be recalled that growth in GDP was not significantly associated with change in GDP. Therefore, even though these two variables explain 53.7 percent of the change in

the consumer sentiment index, most of this impact is the result of correlation with the unemployment rate. In the Bush term the ratio between the *Beta* scores for growth in GDP and the unemployment rate is reported as .321:-.866 . These two variables explain 84.7 percent of the change in consumer sentiment during the Bush era. In other words, the contribution of unemployment to the combined impact of two independent variables hardly increased at all in the Bush term. The increase in the power of explanation appears to be mainly the result of an improved score for the growth rate of GDP. Similarly if we look at the change in *SE B* scores we can see that there was a increase in the Bush term, indicating a slightly larger degree of error in the scores reported in the Bush era.

Table 7.3.2 Consumer Sentiment Indices, GDP and UE, By Term of Office, 1979-94

Term	N	Adj R ²	Durbin-Watson	B GDP / Beta GDP (SE B GDP)	B UE / Beta UE (SE B UE)	B Constant (SE B CON)
Trudeau ^f 1979-84	22	.063	1.479 [^]	.719 / .443* (.343)	-.234 / -.026 (1.894)	87.269** (18.743)
Mulroney 1984-88	17	-.069	1.918 ⁻	.233 / .224 (.268)	-1.122 / -.294 (.988)	110.641** (9.377)
Mulroney 1988-93 ^f	20	.394	1.566 ⁻	1.319 / .494* (.519)	-2.171 / -.397 (1.065)	100.927** (10.235)
Carter 1979-80	7	.635	1.587 [^]	2.00 / .618 (.976)	-6.689 / -.395 (5.096)	126.798* (31.812)
Reagan 1980-84	16	.131	1.538 [^]	.331 / .748 (.442)	-7.838 / -.509 (3.714)	145.298** (31.326)
Reagan 1984-88	16	.537	1.651 ⁻	-.525 / -.122 (.781)	-10.354 / -.813** (2.304)	170.759** (15.820)
Bush 1988-92	16	.847	1.996 ⁻	3.840 / .321** (1.210)	-25.237 / -.866** (2.853)	235.360** (17.376)
Clinton 1992-94	9	.613	1.613 [^]	3.240 / .423 (1.738)	-18.300 / -.665* (6.241)	185.768** (42.742)

[^] Inconclusive (results might still suffer from autocorrelation)

⁻ Conclusive (no significant chance of autocorrelation)

* Significant at .05 level

** Significant at .01 level

^f Trudeau term Includes three quarters representing Clark (Progressive Conservative) government (1979-80) and one quarter representing the Turner (Liberal) government (1984). Mulroney second term includes two quarters representing Campbell (Progressive Conservative) government

We should pause and consider this result. The period between 1984 and 1988 were very good years, the Reagan boom was at its peak, the economy was growing, unemployment was falling, and to quote the key advertising slogan from President

Reagan's 1984 re-election campaign, "it is [was] morning again in America."¹¹ Yet, Americans appear to have taken little long-term comfort from this. It would appear that all eyes were on the unemployment numbers. With a ten to one ratio even a modest increase in unemployment has the potential to wreck consumer confidence and with it the economy. The extreme results of the Bush era could just be a continuation of this new wariness under more extreme circumstances. The real transition occurred during Ronald Reagan's watch.

As noted previously, there were problems associated with the time period 1979-1994 and it was, therefore, decided to expand this portion of the analysis to also include the years 1995-1996. Table 7.3.3 reports these results. At the same time the analysis of the second half of the time period was also expanded to include these two years and the results for each country during this new period 1987-1996 is also reported in Table 7.3.3.

¹¹ Quoted in, Gerald M. Pomper, "The Presidential Election," in Marlene Michels Pomper (ed.), *The Election of 1984: Reports and Interpretations*, (Chatham, NJ: Chatham House, 1985), 72.

Table 7.3.3 Consumer Sentiment Indices, GDP and UE, 1987-96 and by Term of Office

Years/Term	N	Adj R ²	Durbin-Watson	B GDP / Beta GDP (SEB GDP)	B UE / Beta UE (SEB UE)	B Constant (SEB CON)
Canada 1987-96	40	.389	1.464 ⁻	1.494 / .555** (.337)	-2.931 / -.353** (1.040)	109.371** (9.947)
U.S. 1987-96	40	.718	1.771 ⁻	1.865 / .252** (.631)	-24.825 / -.838** (2.521)	236.868** (15.196)
Chrétien 1993-96	13	.387	1.861 ⁻	1.372 / .706 (.574)	.389 / .044 (2.617)	73.681** (25.071)
Clinton 1992-96	17	.768	1.521 [^]	.780 / .139 (.688)	-23.631 / -.916** (3.154)	230.324** (18.858)

[^] Inconclusive (results might still suffer from autocorrelation)

⁻ Conclusive (no significant chance of autocorrelation)

* Significant at .05 level

** Significant at .01 level

When the results for Canada and the United States during the time period 1987-1996 are compared to the results previously discussed for the period 1987-1994, the major conclusion that one can draw is that very little has been changed by adding the extra two years (other than the constant). Similarly, the Chrétien term in Canada produced no significant association between the independent and dependent variables. The basic problem with the results for the Clinton term still persists in that the *DW* statistic is still below the threshold at which we can say that there is no significant chance of autocorrelation influencing the results. However, the negative association between the unemployment rate and consumer sentiment not only persisted with the addition of extra time points but increased. The standard error of the regression coefficient for the unemployment rate also went down markedly (from 6.241 to 3.154). Given that the

higher number is based on more time points and a lower standard error, it should be accepted as the more reliable indicator of the relationship between the unemployment rate and consumer sentiment in the Clinton first term. Even keeping in mind the potential for autocorrelation this is a sobering result as consumer sentiment still exhibits a strong inverse association with changes in the unemployment rate. This is in spite of the adding eight additional time points drawn from a period of strong economic recovery to the analysis.

The lack of any significant relationship between changes in the growth rate of GDP and consumer sentiment and the persistence of a correlation similar to that reported in the Bush years between the unemployment rate and consumer sentiment, seems to indicate that the increased negative correlation between the unemployment rate and consumer sentiment, which was first noticed in the Reagan term, did not temporarily strengthen in the Bush term (due to adverse economic circumstances) but increased on a more permanent basis. The linkage between American consumer sentiment and economic conditions clearly strengthened over the time period covered by the study.

Meanwhile in Canada, what little relationship did emerge between consumer sentiment and the independent variables in the Mulroney term seems to have been filtered out by the Chrétien experience. The weak correlation that was observed between Canadian consumer sentiment and the growth rate in GDP and the negative correlation with the unemployment rate for the years 1987-1994, is incrementally strengthened by adding the additional eight time points. However, it is still not a robust enough relationship to yield significant correlations when only based on a small number of cases

such as found in any one prime minister's term. The lack of significant relationships between unemployment and the consumer sentiment index in any of the time periods delineating the terms of office of the three Canadian prime ministers and the strong relationships exhibited in the second Reagan term and every term afterwards seems to confirm the first analysis that something fundamental happened to the relationship between economic variables and consumer sentiment in the United States during the 1980s. Consumer sentiment became much more strongly correlated to economic circumstances, especially to changes in the unemployment rate. This change most likely occurred during Ronald Reagan's presidency.

7.4 Conclusions

This chapter set out to present a quantitative test that would establish whether or not the changes noted in the pattern of the relationship between consumer sentiment and macro-economic conditions were meaningful. If so this would buttress the hypothesis of this project; that exposure to the rhetoric and governance provided by neoconservative leaders would cause consumers to become more risk averse than they might otherwise have been and that this could explain the profound lack of consumer sentiment exhibited by Americans during the recession of the early 1990s. It was decided to test this argument by comparing Canada and the United States, two countries that have a great deal in common in terms of political, social and economic factors. It was shown that although there were important differences in the two countries with regard to these factors, these differences should have resulted in Canadians becoming more risk averse

than Americans. The one major difference that existed between the countries is that Americans experienced 12 years of neoconservative leadership during the Reagan and Bush presidencies. The test presented above confirmed that the patterns visually observed in the introductory chapter are indeed meaningful. American consumer sentiment became much more strongly correlated to macro-economic conditions, especially changes in the unemployment rate, during the period under study. There was only a modest increase in the correlation between consumer sentiment and macro-economic variables in the Canadian data. As the hypothesis of this dissertation is that neoconservative leadership leads to heightened risk aversion among the public which would make consumer sentiment more volatile and susceptible to decline, this strengthening correlation between consumer sentiment and macro-economic conditions, especially unemployment rates, in the United States would seem to lend further credibility to the hypothesis.

Chapter 8: Conclusion

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8.1 Conclusions

This project began by considering the structure of the new right and the important role played by neoconservative actors and ideas in holding this political coalition together in the United States. Next, the general attitude of neoconservatives to the welfare state was discussed and illustrated by a consideration of the idea of decommodification. That is, the idea that the welfare state can--to some degree--delink the standard of living that we each enjoy from the value that is placed on our labour in the market. It was argued that although neoconservatives can accept some welfare state programs they are deeply concerned about decommodification and seek to limit it wherever possible. Such limitation of decommodification is seen as enhancing the rewards available to risk takers, relative to non-risk takers, and is therefore seen as beneficial to society by the neoconservatives as a spur to entrepreneurship.¹ However, the thesis argued that, on the contrary, most individuals are not comfortable with risk-taking and that the limiting (or reducing) of decommodification might equally have the effect of heightening the degree of risk aversion among the general public.²

Historical analysis of the rhetoric and symbolic behaviour of American presidents Ronald Reagan and George Bush was presented and this was compared to the rhetoric

¹ See for example, Theodore, J. Lowi, *The End of the Republican Era*, (Norman, OK: University of Oklahoma Press, 1995), 207-208; Michael Lind, *Up from Conservatism: Why the Right is Wrong for America*, (New York: The Free Press, 1996), 156-187; Irving Kristol, *Two Cheers for Capitalism*, (New York: Basic Books, 1978), 212 and 231.

² See for example, Amos Tversky and Daniel Kahneman, "The Framing of Decisions and the Psychology of Choices," in Jon Elster, (ed.), *Rational Choice*, (New York: New York University Press, 1986).

and symbolic behaviour of right-of-centre Canadian Prime Minister Brian Mulroney. It was shown that while both Reagan and Bush denigrated the ability of government to help individuals and equated requests for help by the population with moral weakness, Mulroney's rhetoric and symbolic behaviour continued to hold out the possibility that government could and would help to protect individuals and society from economic dislocation (see Chapter 6). In a quantitative analysis, presented in Chapter 7, it was shown that during the 1980s something fundamental changed in the way that American consumer sentiment is formed. Consumer sentiment became much more tightly correlated to economic circumstances, especially the unemployment rate. In the later part of the 1980s a similar, but far more modest, change occurred in the way in which Canadian consumer sentiment is formed.³ Therefore, I have argued that this increasing correlation between American consumer sentiment and macro-economic conditions is, in fact, a symptom of a greatly increased risk aversion among the American public and a result of the neoconservative leadership which the United States experienced in the 1980s and early 1990s.

Pierson likewise argues that there are strong reasons to believe that mass publics are likely to be influenced by policy legacies and policy learning.⁴ Perhaps Americans "learned" something about their leaders via their rhetoric and policy choices in the

³ The impact of unemployment proved insignificant when the data was disaggregated into time periods corresponding to the individual terms of office of Canadian prime ministers, while the impact of the growth rate of gross domestic product only remained significantly correlated with changes in consumer sentiment in the second Mulroney term.

⁴ Paul Pierson, "When Effect Becomes Cause: Policy Feedback and Political Change," *World Politics*, 45, (1993), 597 and 619.

recession of the early 1980s, the worst since the Depression. While accepting that the recession had produced considerable suffering, President Reagan refused to alter his policies so as to provide help. Afterwards he expressed no remorse about his decision nor doubts that any other leader should act differently in the future.⁵ In terms of active policy decisions, under Reagan taxes were cut to the benefit of the prosperous and the only real spending restraint worsened the condition of the already severely disadvantaged. But for the vast majority of Americans the welfare state continued as before.⁶ However, Reagan's rhetoric would portray the cuts as being more severe and aimed to stigmatize those who asked for help.

Moving back to Chapter 2, here the relationship between economic policy making and democracy was explored. It was pointed out that in the post-war era an ideal of universal equality of the individual came to dominate thinking in the social sciences and also in public life and that this was reflected in policy making. In socio-political theory, this revolution was represented by the theory of pluralism, which argued that rather than being a source of problems, a society drew strength and stability from its differences. Therefore, pluralists argued that it was important to work towards including all of the

⁵ See for example, Ronald Reagan, *An American Life*, (New York: Simon and Shuster, 1990), 346.

⁶ Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, (Cambridge: Cambridge University Press, 1994), 4-5; Kevin Phillips, *The Politics of Rich and Poor: Wealth and the American Electorate in the Reagan Aftermath*, (New York: Random House, 1990); Margaret Weir, "Political Parties and Social Policy Making," in Margaret Weir, (ed.), *The Social Divide: Political Parties and the Future of Activist Government*, (Washington and New York: The Brookings Institute and the Russell Sage Foundation, 1998), 20; Theda Skocpol, *Social Policy in the United States: Future Possibilities in Historical Perspective*, (Princeton, NJ: Princeton University Press), 214.

leaders of the major segments of society in the democratic political-decision-making process.⁷ In economics this ideal found expression in Keynesianism.⁸ This theory seemed to demonstrate that public intervention in the economy did not just benefit individual special (or private) interests, but created a platform of economic stability from which all benefited. Helping those in need, through social programs or moderating the business cycle, therefore, was seen as creating a universal benefit. It was this insight which allowed for the creation of integrated, whole-society encompassing, welfare states. Before Keynes's work, social spending and attempts to moderate the business cycle were seen as deforming the economy, although sometimes necessary.⁹ However, by the 1950s the Keynesian Welfare State paradigm became more or less hegemonic. Even prominent conservative economists of the post-war era, such as Arthur M. Burns, accepted that social programs (such as unemployment insurance) created a system of automatic stabilizers (pumping money into the economy in times of decline and removing it as expansion ensued) that was beneficial to the entire society.¹⁰ The public (as well as

⁷ See for example, Seymour M. Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review*, 53, (1959), 97; Robert R. Alford, "Class Voting in the Anglo-American Political Systems," in Seymour M. Lipset and Stein Rokkan, (eds.), *Party Systems and Voter Alignments; Cross National Perspectives, Volume 7: International Yearbook of Political Behavior Research*, (Glencoe, NY: The Free Press, 1967), 71.

⁸ John Maynard Keynes, *The General Theory of Employment, Interest and Money*, (London: Macmillan, 1936).

⁹ Adam Przeworski, *Capitalism and Social Democracy*, (Cambridge: Cambridge University Press, 1985), 36-37.

¹⁰ Burns was Chairman of President Eisenhower's Council of Economic Advisors and also President of the American Economics Association in 1959. He was known as something of a "hawk" on inflation. Robert Leeson, "The Political Economy of the Inflation-Unemployment Trade-Off," *History of Political Economy*, 29, (1997), 126-128; Steven M. Sheffrin, *The Making*

decision makers in private industry), came to put their faith in the belief that calamities such as the 1930s Depression would never happen again because government had figured out how to prevent them and had the resolve to insure that they would never happen again. Social scientists came to believe that even if no such implicit guarantee existed, the fact that people believed that there was just such a promise served as a sort of psychological floor supporting consumer sentiment--preventing it from dropping as far or as fast as it otherwise might in a period of economic decline.¹¹

However, as was also noted in Chapter 2, due to a variety of coincident factors--some of which might have been avoided, and some of which were beyond control--the Keynesian system broke down in the early 1970s. Just as politicians who had recommended spending in an economic downturn before Keynes's *General Theory* made such ideas respectable had to contend with complaints that their recommendations were "unsound," so politicians in the 1970s who wished to retrench spending had to contend with similar complaints. Once again, however, social science came to the rescue of politicians. Olson, and other authors writing from the government overload perspective, began arguing for a more closed, less inclusive political system. Refuting much of the post-war tradition of democratic pluralism, these authors purported to show why it was now, in fact, detrimental to the political system to allow as wide a variety of interests as

of Economic Policy, (Oxford: Blackwell, 1989), 18-19 and 203.

¹¹ George Katona, *The Powerful Consumer: Psychological Studies of the American Economy*, (New York: McGraw-Hill, 1960), 174-175; Sheffrin, *The Making of Economic Policy*, 19; Brandon Haller and Helmut Norpoth, "Let the Good Times Roll: The Economic Expectations of U.S. Voters," *American Journal of Political Science*, 38, (1994), 644.

is possible to have access to the political-decision-making process. It was argued that so many tasks had been assigned to government and so many groups were now demanding to be heard, that the process of decision making had become bogged down. In an era of fiscal crisis, such as the 1970s and 1980s, this meant that efforts to effect necessary and rapid change could only be achieved by closing down the access to the political system that non-business groups had managed to achieve.¹² Rhetorically, neoconservatives tried to convince the public that this exclusion was necessary as the excluded groups (unlike the advocates of business) did not have as their objective the universal good of society, but rather, were only interested in promoting their own "special interests,"¹³ that is government spending on the needs of individuals and families. The objective of neoconservatives was to restore the undivided attention which government had previously paid to the concerns of business in the pre-Keynesian, pre-second world war era so as to promote the recommodification of labour.¹⁴ However,

¹² See for example, Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, (New Haven, CN: Yale University Press, 1982). David Laycock describes the development of this critique of modern pluralist democracy in the Canadian Reform Party, "Reforming Canadian Democracy? Institutions and Ideology in the Reform Party Project," *Canadian Journal of Political Science*, 27, (1994), 243-245.

¹³ Sylvia Bashevkin, *Women on the Defensive: Living through Conservative Times*, (Toronto: University of Toronto Press, 1998), 115; Nathan Glazer, *The Limits of Social Policy*, (Cambridge, MA: Harvard University Press, 1988), 36-37.

¹⁴ Frances Fox Piven and Richard A. Cloward, *The New Class War: Reagan's Attack on the Welfare State and Its Consequences*, (New York: Pantheon, 1982), 125-150; David M. Gordon, Thomas E. Weisskopf and Samuel Bowles, "Right-Wing Economics in the 1980s: The Anatomy of Failure," in Michael A. Bernstein and David E. Adler, (eds.), *Understanding American Economic Decline*, (Cambridge: Cambridge University Press, 1994), 244-245; William C. Berman, *America's Right Turn: From Nixon to Bush*, (Baltimore: Johns Hopkins University Press, 1994), 98.

in trying to do so, they ran into an imposing problem. Fifty years previously Keynes had demonstrated that helping individuals and non-business interests was, in fact, beneficial to society as a whole. In other words, Keynes had shown how the welfare state could serve to promote the universal good of society. In order to promote their old view of a more limited participation in democratic political decision making and a recommodification of labour, the neoconservatives needed a new economic theory.

Robert Lucas would give the neoconservatives just such a theory. Lucas had developed an economic theory which explained why economic intervention was at best a stopgap with severe long-term consequences and at worst, a pointless exercise. His theory started with only a slight revision of traditional economic models. Lucas asked what would happen if instead of taking account of only the assumed present interests of economic actors, their future expectations were also included. The resulting models seemed to explain the failure of Keynesianism in the 1970s. Lucas argued that if economic actors expect governments to intervene in the economy, those who stand to lose will take actions to protect their interests. In the case of money lenders and bond holders in a Keynesian economy, this means such professional investors and financial managers must demand a higher interest rate than is warranted by economic conditions in a slump--as it is assumed that the government will increase spending and risk inflation to restart growth--rather than let the interest rate that they charge for money decline so as to attract new borrowers, which is what should happen in a recessionary economy when money available for loan exceeds demand. When growth resumed, these lenders would have to charge even higher interest rates still, given the even greater risk of inflation in a

growing economy. Therefore, it was argued, every Keynesian stimulation would produce higher and higher interest rates, until finally, stagflation would result (simultaneously high interest rates, growing unemployment, and declining growth).¹⁵ Here was the economic theory that the neoconservatives needed.

Although we have no direct evidence that Ronald Reagan read the works of any of the authors associated with the history of socio-political and economic thought outlined above, the neoconservative rhetoric which he used to explain his policy to the American people conformed to the analysis. As was shown in Chapter 6, not only did he believe that it was infeasible to help those in economic need either directly, or by moderating the economic cycle, he believed it was unsound policy. Further, as a neoconservative, he had reservations about the ramifications which intervention would have for the moral health of America. Reagan not only believed that such policies were poor economics, he also believed that it was poor social policy as it weakened the national fibre of entrepreneurial risk-taking on which America was built. President Bush added an even firmer moral tone. The poor were the inadvertent addicts of a flawed and too permissive social policy and needed to be re-educated by market forces so as to assume responsibility for their own lives.

In sum, Presidents Reagan and Bush argued for a political-economic social order in which individuals would be more exposed to markets and more responsive to economic forces. They believed that this would encourage entrepreneurial risk-taking and lead to

¹⁵ Robert E. Lucas, "Econometric Policy Evaluation: A Critique," in K. Brunner and A. Meltzer (eds.), *The Phillips Curve and Labor Markets*, (Amsterdam: North-Holland, 1975); Stanley Fischer, "Robert Lucas's Nobel Memorial Prize," *Scandinavian Journal of Economics*, 98, (1996), 22.

enhanced and more rapid economic growth. This might indeed be a plausible theory and in good economic times it might produce the anticipated results. However, if people are to become more responsive to economic forces, they will not only respond more completely and strongly to positive economic signals, but will also respond more completely and strongly to negative ones. The first problem with the neoconservative economic program was that it neglected to consider the fact that economies do not always get better, sometimes they get worse. If people are encouraged to become more responsive to economic signals they will react more responsively in whatever direction the market indicates and this will not only lead to stronger growth but more severe declines. Second, the neoconservatives neglected, or were unaware of, the psychological evidence that people are, for the most part, risk averse, rather than risk seekers.¹⁶ In other words, people are likely to respond asymmetrically to economic news, being less encouraged by good news and overly frightened by the first sign of bad news.¹⁷ This means that the benefits of encouraging people to be more responsive to economic signals might end up being outweighed by the costs, as people will respond even more fully and rapidly to bad news than to good news.

In Chapter 3 it was shown that people show the most support for welfare state programs that correspond to either the insurance metaphor (those programs which appear

¹⁶ Tversky and Kahneman, "The Framing of Decisions."

¹⁷ This perhaps explains one of the puzzles of public opinion surveying about the state of the economy: Why do people regularly overestimate the unemployment rate which is likely to exist in the future even though they more accurately predict other components of the future economic situation? See for example, Pami Dua and David J. Smyth, "Survey Evidence on Excessive Public Pessimism about the Future Behavior of Unemployment," *Public Opinion Quarterly*, 57 (1993), 566-574.

to protect individuals and families from unavoidable risks) or opportunity creating metaphor (those which offer individuals and families the opportunity to improve their own situation).¹⁸ Research was also presented which indicated that welfare state programs can reduce people's concern over short term economic events.¹⁹ Consequently, it was decided to follow the example of Scandinavian rational choice theorists, such as Overbye, who conceptualize the welfare state not as a system of entitlements, nor as a system of charity, but as a collective insurance system that protects individuals against risks from which they cannot protect themselves.²⁰ Exposing people more completely to market forces, or even threatening to expose them further to market forces, by bringing into question the decommodificative power of the welfare state and the popularly assumed guarantee that government will come to the aid of individuals (and the entire economy), might encourage some positive risk-taking. Some individuals will undoubtedly see new opportunities and plunge in headlong. Others will undoubtedly take new risks because they feel that they have no other choice if they are to secure their future.²¹ However, a continual diet of neoconservative rhetoric and symbolic governance behaviour will also convince most people that their world has become riskier and this will even further generalize risk averse behaviour. I have argued in this

¹⁸ See for example, Geoffrey Garin, Guy Molyneux and Linda Divall, "Public Attitudes Toward Welfare Reform," *Social Policy*, (Winter, 1994), 44-49.

¹⁹ Alexander C. Pacek and Benjamin Radcliff, "Economic Voting and the Welfare State: A Cross-National Analysis," *Journal of Politics*, 7, (1995), 44-61.

²⁰ Einar Overbye, "Explaining Welfare Spending," *Public Choice*, 83, (1995), 313-335.

²¹ Ted C. Fishman, "The Bull Market in Fear," *Harper's Magazine*, (October, 1995), 55-62.

dissertation that as a result of the latter process, consumer sentiment became more tightly correlated to economic conditions, especially negative conditions.

In summary, returning to the theme of policy legacies and policy learning among mass publics, it is important to point out that there is no particular reason why mass publics should "learn" the lessons that leaders intend them to learn from their rhetoric and behaviour. Nor is there any reason why mass publics should act on these lessons in the way that the leaders would want them to act. Leaders can make people accept a riskier world, but they cannot make them enjoy it.

One of the most prescient comments made about the Reagan legacy was perhaps that of Walter Dean Burnham. Reflecting back on the Reagan era and considering the prospects for the Bush presidency, Burnham wrote the following:

Assuming that these transformations [fashioned by Ronald Reagan] have not brought us to the recession-free promised land, sooner or later a significant general economic downturn will occur under these literally unprecedented policy conditions--quite possibly during the Bush era. Reagan's legacy of the unprecedented makes predictions exceptionally difficult. But in the short run, the economic mix has been a politician's dream.²²

It would now appear that we can say that Burnham's concerns were well founded. This dissertation has argued that the political legacy of neoconservative rhetoric and governance was most likely a heightened degree of risk aversion among Americans which, when a downturn in the economy occurred, produced the profound lack of consumer optimism which economists later came to blame for turning what should have

²²

Walter Dean Burnham, "The Reagan Heritage," in Gerald M. Pomper, (ed.), *The Election of 1988: Reports and Interpretations*, (Chatham, NJ: Chatham House, 1988), 10.

been a minor slump into a major crisis.²³ In Canada, which experienced right-of-centre leadership, rather than neoconservative leadership, risk aversion failed to increase. As a result, consumer sentiment remained firmer in the face of a more severe economic crisis, perhaps preventing a bad recession from becoming even worse.

8.2 On Canada and the Future

It seems important to make an observation about Canada and the future which is indicated by this project. The fact that consumer sentiment remained firmer during the last recession does not mean that Canada is immune from the sort of economic collapse--likely inspired by heightened risk aversion among consumers--which occurred in the United States. As was noted in the conclusion of Chapter 5, the Canadian variant of the liberal welfare state is beginning to more closely resemble the American model. Most ominously, the decline in federal transfers to the provinces seems to have triggered a sort of "race to the bottom" in social policy among the provinces, similar to the competition among American states that Myles blames for the flaws in the American welfare state's treatment of low income families.²⁴ Also, as was seen in Chapter 5, Canada no longer subscribes to the Keynesian belief that downturns can be moderated by government action. At the height of the recession of the early 1990s, the government and Bank of

²³ Olivier Blanchard, "Consumption and the Recession of 1990-1991," *American Economic Review*, 83, (1993), 270-274; Robert E. Hall, "Macro Theory and the Recession of 1990-1991," *American Economic Review*, 83, (1993), 275-279.

²⁴ See John Myles, *When Markets Fail: Social Welfare in Canada and the United States*, (Geneva: United Nations Research Institute for Social Development, June 1995).

Canada seemed to place more emphasis on fighting inflation than on ending the recession. The Bank of Canada pursued the tightest monetary policy seen in a generation while the federal government applied a fiscal squeeze through tax increases and spending restraint. Even those who are usually assumed to appreciate a rigorous monetary policy came to question the wisdom of such stringent monetarism. Among these critics were the economists at the Royal Bank (Canada's largest financial institution) and the president of the Canadian Economics Association, who chose to make the castigation of Canada's over-ambitious monetarism the topic for his Presidential Address at the Association's annual meeting.²⁵

The only factor from the equation that appears to have produced heightened risk aversion in the United States which is still missing in Canada is a national leader who not only implements such a policy, but who makes the call for such a policy a central component of his or her publicly pronounced vision as to what the ideal socio-political order would look like and who symbolically focuses cuts not on broad spending, but on the programs narrowly targeted at the poor. As was seen in Chapter 5, such leaders clearly control Canadian governments at the provincial level. Furthermore, it is possible, given the greater control that provincial leaders now have over welfare state policy in an increasingly decentralized Canada, that the next recession might be exacerbated by risk aversion enhanced declines in consumer sentiment in specific provinces. In aggregate this could produce a similar effect to that which was created by the Bush and Reagan

²⁵ *Globe and Mail*, (27 May, 1995), A1; Pierre Fortin, "The Great Canadian Slump," *Canadian Journal of Economics*, 29, (1996), 761-787.

presidencies in the United States.

8.3 Future Research

In terms of future research, this project holds out the potential for application to other countries, such as France, Germany and the United Kingdom in the European Union, where a long established system of consumer sentiment indicators is in place.²⁶ Another interesting question produced by this project arises from the relationship between risk aversion and citizen choices over tax rates and other government policies. It is possible that the wave of protests over tax rates among the middle class, that was witnessed in Canada during the mid 1990s, might be a demand for greater social protection and welfare state services. Such voters might be saying, "if I cannot have social protection against the risks I face in my life, please return some of my tax money so I can protect myself." Finally, attention should be drawn to the apparent persistence of heightened risk aversion once it sets in. As will be recalled, the strong correlation between increased unemployment rates and declining consumer confidence persisted all through the Clinton first term, in spite of a powerful economic recovery in 1995-1996. This would indicate that in future American recessions, risk aversion inspired declines in consumer sentiment will again increase the magnitude of these crises. Now that risk aversion has set in among Americans, removing it, I believe, will require positive and sustained action to restore public confidence that there is a government guarantee against

²⁶ Conducted under the auspices of the European Union's Commission, Directorate General II (Economic and Financial Affairs), the results of these consumer surveys are reported in *The European Economy: Supplement B (Business and Consumer Survey Results)*.

economic dislocation. It would appear that it required only one decade of neoconservative leadership to destroy American belief in such a guarantee and the consumer confidence that it inspired during the entire post-war era. Given the expected long-range duration of the phenomenon it seems reasonable to refer to it as a political legacy of neoconservative rhetoric and governance.

Appendix A

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A.1 Introduction

This appendix reports more fully on the technical issues involved in the analysis presented in Chapter 7.

A.2 The Variables and Structure of Cases

The dependent variable employed in the tests in Chapter 7 is consumer sentiment. The two independent variables are change in the growth rate of gross domestic product (GDP) and the unemployment rate. A case is represented as a time point. The time points used correspond to the financial quarters of the calendar year. Therefore, there are four cases per calendar year for each country in the analysis.

A.3 Operationalizations

The measure of consumer sentiment for the United States is "The Index of Consumer Confidence" produced by the Conference Board (copyright, all rights reserved by the Conference Board). This index was chosen because the Conference Board of Canada produces an identical indicator for Canada, "The Index of Consumer Attitudes" (copyright, all rights reserved by the Conference Board of Canada). However, the Canadian data is collected every quarter, while the U.S. data is collected monthly. This was corrected by using only the U.S. data from quarter-ending months. The base year of the Canadian index was also adjusted to 1985 to match the base year of the U.S. index. The five questions asked of consumers to produce the indices are as follows:

How would you rate the present general business conditions in your area (good, normal, bad)?

Six months from now do you think they will be (better, same, worse)?

What would you say about available jobs in your area right now (plenty, not so many, hard to get)?

Six months from now do you think there will be (more, same, or fewer) jobs?

How would you guess your total family income will be six months from now (higher, same, lower)?¹

The U.S. data for the period 1980-1994 can be found in volumes 74 and 75 of the U.S. Department of Commerce publication, *Survey of Current Business*, (November, 1994 and February, 1995), pages C42 and C4 respectively. Post June 1995 figures are only available from the Conference Board Business Cycle Indicators Data Base. The Canadian data was provided courtesy of Ms. Carolyn Kwan at the Conference Board of Canada.

Figures for quarterly change in the growth rate of GDP are based on the OECD Volume indices as reported in OECD, *Quarterly National Accounts*, (No.2, 1992), 194, (No.2, 1994), 232, (No.2, 1995), 252, (No.2, 1997), 260. These indices of GDP volume allow for cross national comparisons of change in GDP irrespective of money values. As the base years of the volume indices change from time to time it was necessary to adjust some of the data to create a common base year of 1985. Reporting GDP as percentage change at annual rates is probably the most common way in which such figures are reported. The formula for converting this data to quarterly percent

¹ A comparison of the questions used in the Conference Board indicator and the indicator produced by the University of Michigan's Survey Research Center and a graphical depiction of how the two track economic conditions can be found in James F. Engel, Roger D. Blackwell and Paul W. Miniard, *Consumer Behavior*, 8th Edition, (Fort Worth, TX: Dryden Press, Harcourt Brace, 1995), 298.

change at annual rates is $[(X_{t+1}/X_t)^4 - 1] * 100$. For converting data to other periods, such as semi-annual percent change at annual rates, one simply changes the exponent outside of the parenthesis to the desired periodicity. For example, in the case of semi-annual change the appropriate exponent would be 2.² Unemployment rates for each quarter in Canada and the United States are those reported in OECD, *Main Economic Indicators: Historical Statistics, Prices, Labour and Wages, 1962-1991*, (Paris: OECD, 1993) and OECD, *Main Economic Indicators*, (January, 1993 - February, 1997). All data was seasonally adjusted by the providing agencies and published as such.

In the second part of the analysis an attempt is made to compare the relationships between the dependent and independent variables during the terms of office of different political leaders. An incumbent's term of office is stipulated to include the entire period between elections. If an election occurs in mid quarter, the quarter is attributed to the term of the new leader or the subsequent term of an incumbent leader continuing in office. In the case of Canada, three prime ministers served relatively short terms of office: Joe Clark (June, 1979 - February, 1980), John Turner (June, 1984 - September, 1984) and Kim Campbell (June, 1993 - October, 1993). Furthermore, during the first quarter of the year 1979 Canada was led by Pierre Trudeau. Given the decision to use quarterly data (as that is the unit in which the Canadian consumer sentiment material is available) there were insufficient cases available to analyze these periods separately. Instead of discarding the data for these periods it was decided to include them in the terms of the political leader with whom these brief interludes were most closely

² OECD, *Economic Outlook*, 39 (May, 1986), 166.

associated. Therefore, The Trudeau term (pre-June, 1979), the Clark, and Turner periods were added to Trudeau's 1980-1984 term of office. The Campbell period was added to the end of Brian Mulroney's second term of office.

A.4 Technical Procedures

The analysis of the data was conducted using the *SPSS* statistical software package. Time series data such as that employed in this project are very susceptible to autocorrelation. The Prais-Winsten technique is a derivation of the normal "Ordinary Least Square" (OLS) regression process that can be used if autocorrelation is detected in the data. It is described as an "Estimated Generalized Least Square" (EGLS) regression process. The technique involves estimating the parameters of the disturbance in the data, and, after estimating corrections to them, proceeding with a modified OLS regression.

Key benefits of the Prais-Winsten technique are that it allows for the inclusion of the first time point in the analysis (unlike some EGLS techniques) and that it is iterative.³ Given the small number of cases available in the second stage of the analysis--where the relationships between the variables for each leader's term(s) of office are compared--keeping one additional case per analysis was judged to be an attractive option. The process is described as iterative in that it proceeds with its corrective functions in steps until a "convergence criterion" is reached. The default criterion in *SPSS* is the degree that each iteration produces a result which is equal to or less than 0.001 units (in

³ Charles W. Ostrom, Jr. *Time Series Analysis Regression Techniques, Second Edition*, (Newbury Park, CA: Sage, 1990), 34-35.

this case the Durbin-Watson statistic) different from the results produced by the previous iteration. The software can run any chosen number of iterations, but the default is to stop after the above mentioned criterion is reached or a maximum of ten runs has been completed.⁴ This is important as each iteration not only removes some autocorrelation but also usually reduces the reported strength of association first observed between the dependent and independent variables as well as the significance of these associations. An iterative process allows the researcher to observe the trade-off produced at each step between the removal of autocorrelation and deterioration of the reported association. The iterations are generally stopped before ten runs are completed on two grounds:

there is no statistically significant chance that autocorrelation is still present even if the convergence criterion is not yet reached; or,

the convergence criterion is reached, even if autocorrelation is still present.

In the present analysis only one of the tests proceeded to the full ten iterations. In cases where there is still a statistical possibility that autocorrelation is present, a warning is given that the reported relationships between the variables might still be the product of autocorrelation rather than a "true" relationship.

⁴ *SPSS/PC+ Trends*, (Chicago: SPSS Inc., 1990), C14-C15 and C88.

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