

**GOVERNING PARTIES AND INCOME INEQUALITY IN AUSTRALIA (1981-1990),  
THE UNITED KINGDOM (1979-1986) AND CANADA (1971-1981): RATIONAL  
POLICY-MAKING IN PARTY ORGANIZATIONS**

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**THESIS SUBMITTED FOR THE PHD DEGREE  
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### **Abstract**

This study examines the impact of governing parties in changing patterns of income inequality in three liberal democracies with 'Westminster' systems - Australia (1981-1990), the United Kingdom (1979-1986) and Canada (1971-1981). Extensive analysis of the Luxembourg Income Study datasets for these countries and periods suggests that structural factors, such as changes in the market sphere or alterations in the demographic profiles, can account for only a part of the overall inequality trends in these periods. By using income decomposition analyses, this study indicates that government redistributive policies played an important role in changing inequality trends.

Governments in all three countries are single-party operations, and policy responds strongly to partisan processes and considerations. The main question involved in assessing policy changes is therefore why party actors may be willing to increase or decrease income inequality. Applying conventional 'unitary' models of party behaviour (such as the median voter convergence hypothesis) to try and explain decision-making on income inequality also cannot explain these examples. It seems that redistributive policies can only be understood by taking account of the bargaining processes which take place within the organization of the party in power. Explanations of how parties intervene on income inequality should explicitly incorporate the organizational dimension as a key to their behaviour.



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## CHAPTER ONE-INTRODUCTION

It is remarkable that income inequality in Western democracies has been so little discussed (Atkinson, 1994; Danziger and Gottschalk, 1993: 1). Perhaps the marginality of distributive concerns in scholarly work, at least until recently, rested on the relative stability of the size distribution of income in the postwar period. In addition, over the 1950s and 1960s the lower tail of the income distribution decreased slightly, suggesting a slow but steady diffusion of economic well-being. Some scholars regarded the perceived trend towards less income inequality as the by-product of economic liberalism and liberal democracy (Kuznets, 1955; Downs, 1957: 198). It was assumed that spillover effects from economic development and universal suffrage ensured the oblivion of poverty.

From the mid-1970s, however, it was evident that the assumption of growing equality was largely misguided. Research findings showed that the shape of the income distribution exhibited greater dispersion, reflecting a wider gap between rich and poor (Gardiner, 1993; Goodman and Webb, 1994; OECD *Employment Outlook*, 1993). This reversal of inequality trends raised few doubts initially about the fundamental premises. A common first response rested on the anticyclical nature of income inequality, whereby economic downturns inevitably implied wider income differentials (Blank, 1989). The expectation was that as the economy recovered the 'rising tide would lift all boats'.

Yet in the early 1980s despite economic prosperity income inequality in some countries continued to accelerate, casting serious doubts on conventional wisdom. By the late 1980s there was widespread agreement about the distributional changes that had taken place, but the causes of those changes were much less well understood (Atkinson, 1994; Rowntree Foundation, 1995). A vast array of factors could lie behind the changing shape of

the income distribution, including variations in demographic composition, family structure, factor rewards, macroeconomic performance and tax and transfer policies.

The absence of a general model of income inequality explains why research in this area has tended to be exploratory and descriptive (Danziger and Gottschalk, 1993: 9). This tendency is encouraged by progress in sampling techniques and data collection, which pushes researchers to concentrate more on establishing the 'facts' than on exploring the sources of the income distribution (Saunders, 1993a: 353). Sometimes scholars have focused on a smaller number of hypotheses to see whether potential explanations were consistent with the facts.

The study follows this tradition by examining specific changes in labour markets, demographic variables and transfer policies that could have affected inequality trends in Australia (1981-1991), the United Kingdom (1979-1987) and Canada (1971-1981), giving particular attention to the role played by governing parties. One reason for the periodization is the persistence of the same governing party for a relatively long period, which presumably endowed party leaders with sufficient time to formulate and implement transfer programmes. The examination of transfer policies over a period of eight-ten years also allows for some leeway in the time-lags between various policy stages.

This work bridges the political science literature on the redistributive impact of parties and the economic literature on income distribution. It thus follows the view that political analyses are inherently multitheoretical endeavours (Dunleavy and O'Leary, 1987: 336). More specifically, analytical techniques and methods necessary for coping with the analysis of income inequality in a systematic way, are incorporated into the theoretical concerns of political science. The study is therefore intended as a contribution to the emerging literature on the 'new political economy' (Gamble, 1995).

### 1.1 The redistributive impact of governing parties

The central concern of this study is the relationship between governing parties and income redistribution by means of cash benefits. Explanations of the redistributive impact of parties have rested upon partisan theory or vote-maximizing assumptions. Some of the core propositions of these two schools of thought are radically antithetic, portraying a schizophrenic image of party behaviour. On the one hand, the ideology of the party in power is the best predictor for the allocation of redistributive costs and benefits. On the other hand, electoral imperatives dictate variations in transfer policies which in turn affect socially undifferentiated voters.

Despite their differences, these views share fundamental assumptions, including a conception of political parties as 'unitary' actors and the idea of preference-homogeneity among party leaders. In both approaches, moreover, the redistributive impact of parties is demand-driven, implying a passive response of elected representatives to the wishes of their constituencies. Most scholars also believe that redistributive policies aim at improving the relative position of one social class, itself regarded as internally fairly homogeneous. Accordingly, the population is subdivided into distinct classes, defined as lower, middle and upper income groups.

Advances in the theory of political parties, however, suggest that so simple a model may be unsuited to analysing the redistributive impact of parties in a significantly fragmented and heterogeneous society. Traditional theories based either on the ideology of the incumbent, or on vote-maximizing behaviour, cannot in themselves encompass the complexity of the link between governing parties and the distribution of costs and benefits. This complexity can only be fully understood in relation to those processes through which party policies emerge.

Theoretical work on political parties has long argued that parties are not monolithic

entities and are instead more fruitfully conceived of as organizations or arenas in which coalitions of party elites form and dissolve. Actors striving for relative dominance interact with each other in the struggle for power within the party organization (Laver and Schofield, 1990; Luebbert, 1986; Panebianco, 1988). The making and breaking of internal coalitions, each with its own agenda, are considered the driving force of party life. Special forms of bargaining and negotiations continuously evolve during the formulation of redistributive policies. Hence in devising redistributive programmes party leaders may be primarily concerned with gaining and retaining power in their own party, rather than in maximising votes or in pursuing ambiguous and vague ideologies.

These considerations provide excellent reasons to alter the traditional manner in which we have studied the phenomenon of the redistributive impact of governing parties. It seems reasonable to assume that shifting patterns of internal coalitions may generate a dynamic process whereby new dominant factions attempt to translate the gains at the party level also into redistributive gains for their actual or potential supporters. The main question involved in assessing policy changes is therefore how internal conflict and cooperation affect the redistributive process. To answer this question it is necessary to relax some basic assumptions endorsed by conventional views, especially the 'unitary actor' and preference-homogeneity.

An important element uncovered by focusing on the organizational life of political parties is that party factions may be connected to disjointed groups, rather than to social classes regarded as units. In their struggle for relative dominance within the party, elites may strengthen their internal position by tightening or changing their links with specific sub-groups of the population. This view addresses often neglected questions regarding the role of party politics in the formation and protection of social identities. It defines transfer policies as the outcome of distinct factional configurations within the governing party. It points out

that shifting boundaries between intraparty coalitions may affect the formation of privileged and less privileged state-dependent groups.

The argument developed throughout this study places limitations upon the role of electoral and partisan politics in the making of redistributive policies, by stressing that party leaders are first and foremost leaders of large organizations where strategies of conflict management are ubiquitous. Because the interplay between intraparty bargaining dynamics and transfer policies is a largely under-researched area, my purpose is to provide a step forward towards filling a gap in the literature. The main contribution of this study lies in incorporating into the analysis of transfer policies advances in the theory of political parties, especially developments in the theory of party goals, party competition and party organization. Through three case studies, the study highlights the links between bargaining games in the intraparty arena, transfer policies and social security recipients.

## **1.2 The comparative method**

The comparative approach is meant to show that the redistributive impact of strategic games within governing parties is not accidental. The empirical chapters examine inequality trends under three governing parties of different ideological persuasion, the Australian Labour Party (ALP), the British Conservative Party, and the Liberal Party of Canada. As noted earlier, some scholars contend that the position of the incumbent on the ideological space is a good indicator of the government's redistributive choices. Hence exploring the strategies adopted by parties traditionally located on the left, the right or the centre of the ideological *continuum* may shed light on the role played by ideology in the allocation of burdens and benefits.

Focusing on the political systems of Australia, Britain and Canada facilitates the process of comparison because these countries share institutional, religious and some cultural and historical traditions. These similarities should minimize the risk of miscomparing

because they avoid the problem of 'conceptual travelling', that is, the application of concepts to new cases (Sartori, 1984). For instance, concepts suitable for analysing multiparty systems may not be adequate for understanding the politics of two-party systems, and vice-versa. For this reason some authors contend that countries with common traits might be grouped in 'families of nations' (Castles, 1993: 3-32; Collier and Mahon, 1993).

The key institutional features of Australia, Britain and Canada are subsumed in the Westminster model of democracy. In Lijphart's typology of democracies, the essence of this model is the concentration of executive power in the hands of the incumbent which 'wields vast amounts of power to rule' (Lijphart, 1984: 6). In addition, although Westminster democracies are parliamentary systems of government in which the cabinet is dependent on the confidence of the parliament, in reality there is fusion of power in the cabinet. The cabinet dominates parliament because it is composed of the leading members of the majority party in the House of Commons. Unconstrained by the need to stipulate alliances and to cooperate with coalition partners, governing parties can deploy state power for partisan advantage. They are also expected to be the most accountable (Klingemann et al, 1994: 256). Westminster systems thus offer the best institutional environment for exploring the impact of governing parties on transfer policies.

In Westminster democracies the dynamics of electoral competition rests on the principle of 'first past the post'. Single plurality systems erect powerful barriers to entry for new parties and usually trigger bi-polar competition, marked by either two alternating large parties or two alternating blocs. Plurality elections may also yield landslides or large defeats for an incumbent running relatively close to the opposition party.

The third reason for comparing Australia, Britain and Canada is that their welfare states are somewhat similar. Following Esping-Andersen's typology of welfare regimes, we can describe Australia and Canada as archetypical examples of 'liberal' welfare-regimes, in

which means-tested assistance, modest universal transfers, or modest social insurance plans predominate (1990: 26). The evolution of the British welfare state is perhaps best depicted by the 'social-democratic' model of welfare-regimes, where universalism rather than selectivity is the dominant principle. Yet in the past twenty years the strong emphasis on the means-testing of target groups and attacks on the 'culture of dependency' have probably transformed the British welfare state along the lines of the 'liberal' regimes of Canada and Australia. Liberal regimes are centrally concerned with disincentives effects and tend to encourage private insurance.

All the above considerations mean that the choice of the three case-studies is based on the 'most similar system design'. The advantage of this strategy is that it allows a large number of systemic variables to be ignored, under the assumption that they are equal (Przeworski and Teune, 1970; Dogan and Pelassy, 1990: 133-134). It also offers a solution to what Lijphart felicitously defined as the 'many variables small N' dilemma (1971: 368). This problem obtains because comparisons of a limited number of cases prevent mathematical applications of probability theory, thus affecting the plausibility of generalizations. Scholars engaged in regional or in area studies opt for the 'most similar systems design' in order to neutralize a large number of variables.

The dilemma raised by 'many variables small N' may be less problematic if we reduce the number of variables by operating with a parsimonious theory/model (see Collier, 1991). Rational choice theory and game-theoretic models may offer sharp analytical tools in a field where much work is burdened by 'too many variables, too few countries' (Mackie and Marsh, 1995: 180-181). Valuable insights have been offered by comparative research seeking to integrate the complexity of different historical and institutional cases with game-theoretic accounts of strategic behaviour (Scharpf, 1991: 13-15). Arguably, by using rational choice in comparative politics we may avoid one of the major 'methodological defects of rational



choice theorizing that..generate and reinforce a debilitating syndrome in which theories are elaborated and modified in order to save their universalistic claim' (Green and Shapiro, 1994: 6). This study seeks to elude universalistic claims by adopting the 'most similar system design' and by combining the institutional analysis of political parties with rational choice explanations of factional interactions.

### 1.3 The data

Until recently comparisons of income distributions within countries and between countries have been hampered by the lack of comparable income data (Smeeding et al, 1989). As Heidenheimer et al (1990: 10) have noted:

Elementary though it seems one key problem in comparative policy studies is the difficulty of finding truly comparable measurements of the same things in different countries. For example, every major nation produces statistics on the distribution of income. However, income is measured differently in different countries; definitions of household versus individual income are often not the same; methods for estimating the underreporting of income in government statistical surveys vary greatly, and so on.

This drawback in comparative distributional analyses has been partially offset by the release of the Luxembourg Income Study (LIS) microdata sets. The salient feature of the LIS data is that a large number of income and demographic variables have been drawn from national, usually government sponsored, surveys and have been made comparable across the datasets.<sup>1</sup> More confidence can be attributed to the fact that distributional outcomes are not merely the result of changing concepts and definitions imposed on the data.

Advances in data quality coupled with progress in analytical techniques have made

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<sup>1</sup>It should be stressed that complete consistency cannot be assured because in each case the figures were drawn from national studies of income inequality which were not designed for the purpose of international comparison (Saunders, 1994: 202). Comparability in the LIS datasets is achieved *ex-post*.

it easier to identify and monitor trends in inequality. They have contributed to the development of more accurate accounts of how the structure of inequality has been changing and the role of different factors in the process of change. Although there are still formidable difficulties in assessing the overall effect of redistributive policies, the LIS datasets allow comparisons of the take-home pay of population sub-groups, including the aged, low income families, single-parents and the unemployed. In this way we might achieve what Rose describes as an 'underall' view, which aims at throwing some light on the standards of living of 'ordinary people' (1989: 1).

The income information in the surveys is, of course, subject to the problems of non-response and under-reporting, and the reader is cautioned to bear this in mind when interpreting the results (see appendix B). The data are subject to a range of conceptual limitations. No information is available on net imputed rent, or capital gains, even though these are clearly important sources of income. Finally, life-time income might have been a more appropriate indicator of economic well-being than annual income, but such an indicator is beyond the available data and the scope of this work. Because the LIS datasets only provided information on given points in time, a more complete picture required assembling data from official publications, including the governments' expenditure plans, reports of the Department of Social Security, Labour Statistics, OECD historical statistics and other OECD publications on employment and inequality.

The evidence presented in this work cannot prove that party policies affect poverty and inequality. Innumerable intervening variables may alter the direction of redistributive policies during the stage of policy implementation, distorting the intentions of policy makers. In addition, at the current stage of our knowledge policy evaluation in the field of income inequality is highly controversial. However, the statistics on poverty and inequality presented throughout this study indicate that while common forces may be at work in shaping the

distribution of income, there are distinct national experiences. It is this variety in inequality trends which requires a detailed investigation of the driving forces behind national policies (Atkinson, 1994).

#### **1.4 The structure of the study**

The contention that the shape of the distribution of income is changing in some Western democracies needs to be empirically supported. In Chapter Two I analyse inequality trends in ten OECD countries drawing upon twenty-seven LIS datasets spanning a period of twenty years. The chapter provides the international background for a better understanding of the three case studies. Having established that there are distinct national experiences, the chapter points to the role of transfer policies as a key stage in the process of income redistribution. Its main aim, however, is to address some methodological difficulties facing the student of income inequality and to highlight the problems they present for interpreting the evidence.

Chapter Three critically evaluates different theoretical perspectives on the redistributive impact of governing parties. After assessing strengths and limits of established approaches, it suggests that inconsistent evidence supporting those views calls for a theoretical reappraisal of the party-policy link. The chapter argues that advances in the theory of political parties may provide important insights into the analysis of redistributive policies. It focuses on the theory of party goals, which indicates that parties pursue a plurality of aims, rather than just one aim; it draws on mobilization theory, which stresses the role of party leaders in forging electoral coalitions; and most importantly, it centres on the theory regarding party organizations, especially its emphasis on strategic games in the internal arena as a crucial dimension for understanding party policies. The chapter concludes that these advances might be fruitfully employed to unravel some puzzles in the redistributive choices of governing parties.

The chapters on Australia, Britain and Canada are divided into three parts. Each of these chapters begins with a section setting out the socio-political and historical background for an informed examination of the income inequality trend. It then undertakes a detailed analysis of the inequality trend by first presenting results for five inequality indices. It then deepens the understanding of the structure of inequality by exploring demographic and market effects using sophisticated decomposition techniques. The total population is divided into six age-groups and their relative weights and mean incomes are compared and analyzed. The distributional effects of within and between-group inequality are carefully assessed in order to expose the 'optical illusions' discussed in Chapter Two.

Because variations in the size of particular age-groups may have significant implications for aggregate inequality data, I undertake a simulation exercise and consider how measured inequality would have fared if no changes had occurred in the population shares. By using decomposition techniques, we can ask what would have happened to inequality in, say, 1990 if the age structure remained as it was in 1975? Hence we take as given the age (head of household) in 1975 and impose these figures on the income data for 1990. This simulation suggested that variations in the size of age-groups, especially the growing number of elderly, a factor which some authors find significant,<sup>2</sup> had negligible distributional effects.

Decomposition techniques are also employed to analyse the influence of changes in family size and composition. I subdivide the population into six household types: one adult, two adults, three adults, one adult with children, two adults with children and three adults with children. I then disentangle the impact of different concentrations of household types on overall inequality. The expectation is that smaller household sizes should increase

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<sup>2</sup>For a comprehensive review of the literature focusing on the relationship between income inequality and demographic structure see Pestieau (1989).

inequality because they prevent income pooling. The results reflected something different.

The final step in the examination of the structure of income inequality is to assess the role of market income (i.e. original, pre-transfer income). I subdivide the working population into four income classes, one low income category, a very broad middle category, an upper-middle and a very high income category. This categorization is to provide cut-off values of unequal size, so that alterations in the share of market income at the top and at the bottom of the distribution can be more easily detected. Having assessed the role played by market income on the inequality trend, I then evaluate the separate effects of market and transfer income on aggregate inequality, thus paving the way for an examination of the driving forces behind changes in transfer policies.

The second part of the chapters dedicated to the case studies explores the plausibility of some conventional views on the redistributive impact of parties. It describes the pattern of change in macroeconomic variables and transfer policies, and then argues that manipulations of entitlement and eligibility rules are not merely responses to economic cycles. Rather, governing parties actively engage in modifications of those rules. Vote-maximizing explanations are then examined, most notably the median voter hypothesis and the political business cycle. Detailed descriptions of population decile shares of disposable income appear inconsistent with the median voter hypothesis. Similarly, the timing of expansionary and contractionary transfer policies is only partially congruent with the political business cycle. Above all, this section brings to the fore the theoretical lacuna on the party-policy link by highlighting the limits of conventional, demand-driven interpretations.

The third part of each chapter examines transfer policies as the outcome of strategic interaction within the party organization. Following Dowding's suggestion, I analyze power relations between party actors by adopting a two-stage strategy (1991: 53-54). First, I trace the development of the choice situation: How did factions find themselves in this situation?

Were there modifications in the incentive structure that could have affected the bargaining position of party factions? The second stage focuses on bargaining processes between faction leaders over the content of transfer policies.

More specifically, the first stage assesses whether key changes have occurred. These include changes in the selection procedures for party delegates and party leaders and variations in the distribution of decision-making authority between party factions. Hence focusing on the historical development of the choice situation is a preliminary step for understanding the strategic environment and the availability of resources. The second stage highlights a distinct scenario in each case. It pinpoints the impact of specific strategic interactions on transfer policies.

Chapter Four, the Australian case, advances a game-theoretic argument explaining how factional manoeuvring within the Australian Labor Party mitigated the anti-progressive stance of the dominant faction. The pivotal position of the Centre-Left meant it could alter the outcome desired by the dominant Right-wing faction. A bargaining model throws light on the strategic interactions that obtain between the Centre-Left and the Right. This analysis suggested that the redistributive output was also a rational decision. The chapter also develops a compelling game-theoretic model to account for the unions' acquiescence in the ALP's retrenchment of redistributive policies. The key element seemed to be the asymmetry in bargaining power between the unions and the ALP. Taking all of the above factors into account, the interplay within the party organization presents an interesting phenomenon: although the party was dominated by a Right-wing faction, its policies reflected a less radical attitude. Evidence suggests that while inequality grew under Labor, the internal struggle for power limited the potential increase in income inequality.

In Chapter Five the internal dynamics of the British Conservative Party is viewed in terms of what Schelling defines 'implicit' and 'explicit' games. (1980: 21). The chapter then

focuses on the redistributive impact of sequential elections, introduced by modifications of the leadership selection and reselection rules. It argues that during the first Thatcher term the potential threat to the leader altered the direction of transfer policies advocated by the 'dries'. This threat perception in the context of a dynamic process of bargaining accounted for the concessions of the 'dries' both in public expenditure growth and in the level and scope of unemployment benefits. The result was a curious asymmetry in the allocation of redistributive costs and benefits which penalized the unemployed and privileged the elderly. Yet the onslaught against 'the culture of dependency' launched during the second Thatcher term appeared as both cause and consequence of the institutional weakness of the 'wets'. Their eventual demise from the centre of the political scene was accelerated by some organizational features of the Conservative party, especially the traditional cohesion and unity of the parliamentary party.

Chapter Six focuses on transfer policies in Canada under Trudeau between 1971 and 1981. This chapter is particularly innovative for the attention it places on Opposition effects on intra-party bargaining, and consequently on transfer policies. The results differ from the case studies of Australia and Britain in that the role of electoral competition is much stronger. The distinctiveness of the Canadian experience lies in the fact that both the expansion and the contraction of social security benefits are viewed as the outcome of intra- and inter-party competition. Under the Liberal minority government of 1972-1974 expansionary programmes are interpreted as a dominant strategy in inter-party competition. Vote mobilization accounts for electoral effects on income redistribution. Internal conflicts surfaced in the late 1970s when the u-turn from generous to stiffer cash benefits seemingly aimed at pre-empting the leadership threat.

Chapter Seven reviews the material presented in an explicitly comparative perspective. It argues that demographic and market effects on income inequality can account

for only a part of the overall inequality trend in the three countries. By manipulating eligibility and entitlement rules governing parties played an important role in changing inequality. Differences in the policy actions and reactions of governing parties suggested that a plurality of incentives for income redistribution were at work.

Reasons behind the distribution of cash transfers encompassed both electoral and factional politics. Their respective importance was the product of three key factors: the formation of specific linkages between party factions and social clienteles, the margin of manoeuvre that the distribution of power in the party organization conferred to the leaders, internal repercussions of Opposition effects. Hence viewing governing parties as political systems in miniature opened new avenues to analysing the political constellations that sustained and shaped the distribution of cash benefits in the three countries.



## **CHAPTER TWO -DEMOCRACY AND EQUALITY: EMPIRICAL EVIDENCE AND METHODOLOGICAL QUESTIONS**

Empirical facts are treacherous objects. The subject of income distribution is littered with 'facts' that have ceased to hold or which proved on closer examination to be mere statistical artifacts rather than genuine economic regularities (A.B. Atkinson, 1995: 1).

Many of the arguments advanced in the analysis of income distribution in Australia, the United Kingdom and Canada depend upon evidence drawn from the Luxembourg Income Study datasets. It seems therefore important to address some of the methodological difficulties involved in those studies and to highlight the problems they present for interpreting the evidence. This chapter provides an overview of postwar trends in the size distribution of income in Western democracies, placing the three countries in an international context.

Drawing on the first and second 'wave' of LIS datasets, section one shows that the pattern of inequality trends is not universal but comprises a variety of experiences. The second section argues that the impact of redistributive policies is better understood if social classes and risk categories are conceived as disjointed groups. The third section reviews the empirical evidence on the effects of the tax-transfer system and stresses the progressive role of transfer benefits. The fourth section is concerned with the empirical analysis of poverty, the thorny question of the measurement of income inequality and the ineluctability of value judgements.

### **2.1 POSTWAR TRENDS IN THE SIZE DISTRIBUTION OF INCOME**

During the 1950s and 1960s there was a widespread feeling that industrialized countries were converging towards greater income equality. It was believed that reductions in income

differences would eventually spillover either from economic and technological development or from universal suffrage. Kuznets's (1955) inverted U-relationship between income inequality and economic growth suggested that equality dropped in the early stages of economic growth but grew in more advanced economies as per capita income increased (Lydall, 1979: 205-226).

Faith in the equalizing impact of economic development implied that no social and political forces could hamper the movement towards greater equality. This belief was sustained during the 1960s when industrialized countries apparently reached the second part of Kuznets' s inverted U, and enjoyed high levels of economic well-being. Against this background Obler claimed that the distribution of income presented 'the shape of a diamond with only a small minority of the population mired in poverty and the great majority of the population living on relatively comfortable incomes' (1979: 535). For some political scientists, income groups improved their economic position by availing themselves of the opportunities offered by electoral politics. Downs affirmed that universal suffrage narrowed the gap between rich and poor, because 'the equality of franchise in a democratic society creates a tendency for government action to equalize incomes by redistributing them from a few wealthy persons to many less wealthy ones' (1957: 198). Longitudinal studies suggested that social security benefits enhanced political consensus (Flora and Alber, 1981: 58; Wilensky, 1975: 50-68). Democracy, it was argued, promoted redistribution by improving the opportunities for less privileged groups to have their interests represented. As Przeworski and Sprague wrote, this view rested on the naive persuasion that '[b]arricades were no longer needed when workers could cast ballots: votes were "paper stones" ' (1986: 1). Consequently, the phenomenon of income polarization was perceived as 'an anti-historical trend in industrial-capitalist systems, but .. almost inevitable in every dictatorial regime' (Zamagni,

1981: 43).<sup>1</sup>

If the contention that universal suffrage paved the way for liberation from poverty is correct, we should expect declining inequality trends in western democracies. Table 2.1 provides a picture of inequality trends for those LIS countries which have information stretching back to the mid-1970s. The evidence offers broad support to the convergence

*Table 2.1 Trends in income inequality in 5 OECD countries. Gini coefficients for post/tax-post/transfer adjusted income. \**

Country	mid-1970s	late 1970s/ early 1980s	% change mid-1970s/ early 1980s
United States	34.6	33.0	-4.8
Canada	32.4	31.1	-4.2
United Kingdom	31.9	27.6	-15.5
West Germany	23.9	23.0	-3.9
Sweden	23.2	19.9	-16.5

*Source:* computed by the author from LIS datasets for the United States, 1974, 1979; Canada 1975, 1981; United Kingdom, 1974; 1979; West Germany 1973, 1978; Sweden 1975; 1981.

\*Income is adjusted with the OECD equivalence scale (see section 2.4). Countries are ordered according to the value of the Gini coefficient for the mid-1970s, with the highest value at the top.

hypothesis, since inequality fell between the mid-1970s and the late 1970s/early 1980s in the countries covered. In Sweden, the Gini coefficient for adjusted post/tax post/transfer income dropped from 23.2 percent in 1975 to 19.9 percent in 1981, a percentage change of 16.5 points. Similarly, in the United Kingdom income inequality decreased with Gini falling from 31.9 percent in 1974 to 27.6 percent in 1979, a drop of 15.5 percentage points. In the United States, Canada and West Germany reductions were more modest, but there was a clear trend towards less inequality.

The second wave of LIS datasets assembled between the late 1970s and mid-1980s

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<sup>1</sup>Translated by the author.

fortunately supplies a larger sample of countries. Table 2.2 sets out the Gini coefficients for

*Table 2.2. Gini coefficients in 9 OECD countries for post/tax- post/transfer adjusted income.*

Country	late 1970s early 1980s (%)	mid-1980s (%)	% change 1970s-1980s
Canada	36.0	34.3	-4.7
Israel	33.7	33.0	-2.1
United States	33.0	35.5	+7.0
France	30.8	30.4	-1.3
Australia	30.2	30.9	+2.3
United Kingdom	27.6	34.9	+20.9
Norway	24.9	24.3	-2.5
West Germany	23.0	26.4	+12.8
Sweden	19.9	22.9	+13.1

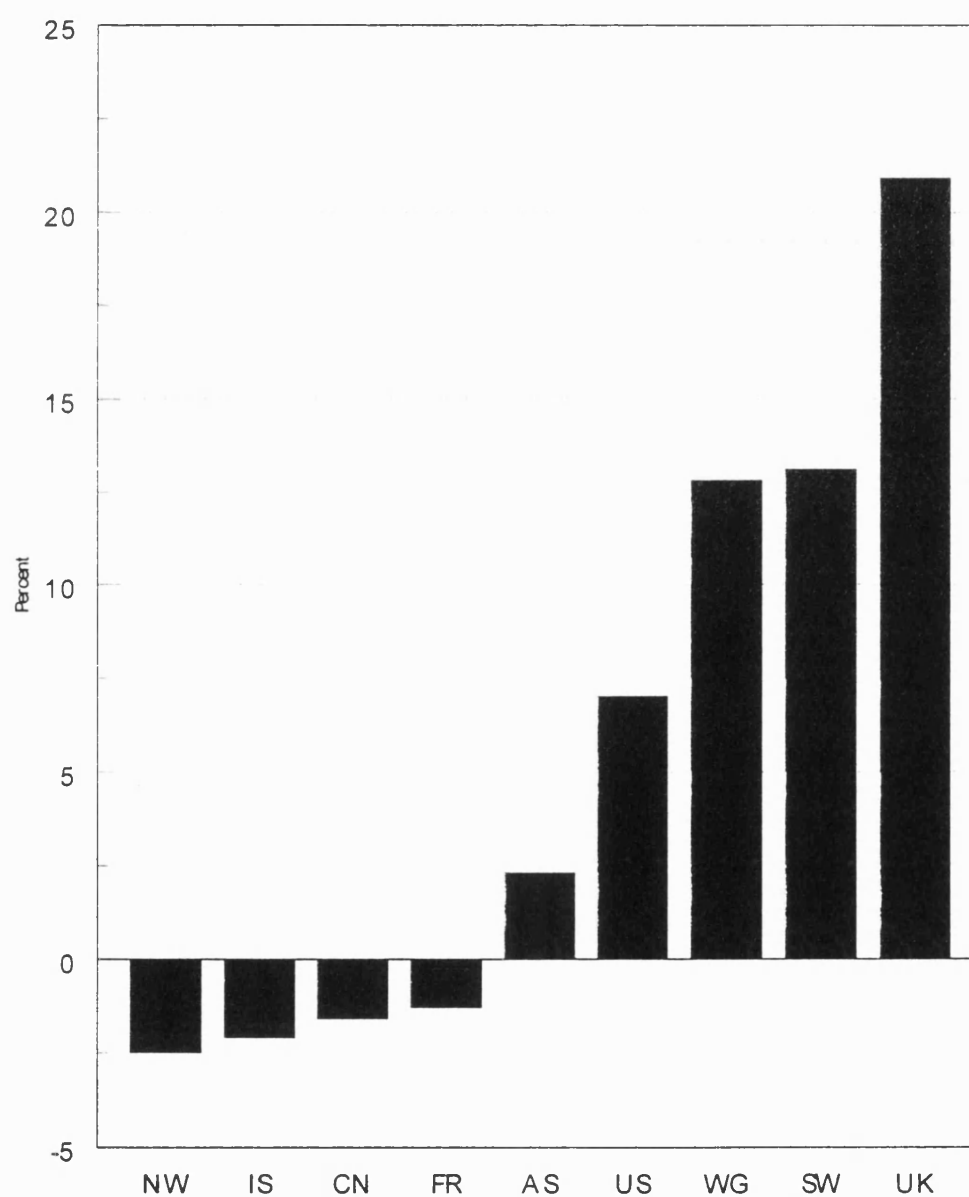
*Source:* computed by the author from LIS datasets for Canada 1975,1981; Israel, 1979,1986; United States 1979, 1986; France 1979, 1984; Australia 1981/82-1989/90; United Kingdom 1979, 1986; Norway 1979, 1986; West Germany 1978, 1984; Sweden 1981, 1987.

nine LIS countries with comparable information for the late 1970s and mid-1980s. It is important to note that the two data points are not the same in each country, and the results need to be interpreted in view of the different macro-economic climate.

Table 2.2. paints a surprisingly different picture from Table 2.1. It reports a wide diversity of experience across countries, with growing inequality in more than half of the sample. The sharpest increase occurred in the United Kingdom where the Gini coefficient rose from 27.6 percent in 1979 to 34.9 percent in 1986, an overall 20.9 percentage change. Considering the fact that income distributions change very slowly this increase must be considered substantial (Fritzell, 1993). In Sweden, the Gini coefficient grew from 19.9 percent in 1981 to 22.9 percent in 1987, an increase of 13.1 percentage points. This inversion in inequality trends was not universal. Figure 2.1 clearly shows that inequality continued to

fall in Norway, Israel, Canada and France, with the percentage drop in Gini ranging from a minimum of -1.3 percent in France to a maximum of -2.5 percent in Norway. The inequality pattern traced in Figure 2.1 is one of sharp rises and modest drops, with an average increase of about 11.2 percent and an average fall of only -1.9 percent. Another way of looking at inequality trends is to disaggregate the population into quantiles. Summary measures may be

Figure 2.1. Percentage change in income inequality in 9 OECD countries (Gini index)



Source: computed by the author from LIS  
Income concept and datapoints as in Table 2.2

unsatisfactory if, following John Rawls (1971), one is solely concerned with the welfare of the least advantaged group. Table 2.3 sets out the percentage share in total adjusted disposable income of the bottom 20 percent of the population compared to the top 20

*Table 2.3. Share in total post/tax-post/transfer adjusted income of bottom 20 percent and top 20 percent of the population in 9 OECD countries.*

Country	bottom 20%		top 20%	
	late 1970s	mid-1980s	late 1970s	mid-1980s
United States	6.2	5.6	39.2	41.0
Canada	6.4	7.6	38.2	38.2
Israel	7.3	7.4	40.8	40.5
Australia	7.7	7.7	37.3	38.1
France	8.2	8.2	39.1	38.9
West Germany	9.1	9.5	37.0	35.9
United Kingdom	9.2	8.0	36.5	38.8
Norway	9.7	9.9	34.4	34.0
Sweden	9.8	9.4	32.4	32.2

*Source:* computed by the author from LIS datasets for United States 1979, 1986; Canada, 1975, 1981; Israel, 1979, 1986; Australia, 1981/82, 1985/86; France 1979, 1984; West Germany 1978, 1984; United Kingdom 1979, 1986; Norway 1979, 1986; Sweden 1981, 1987.

percent. The values confirm the wide variety of experience within OECD countries. In the United States, for instance, the income share of the bottom 20 percent of the population dropped from 6.2 percent in 1979 to 5.6 percent in 1986. At the same time, the income share of the top 20 percent of the population increased from 39.2 percent in 1979 to 41.0 percent in 1986. In this country, as Danziger and Gottschalk argue in *Uneven Tides*, more income was carried over into the pockets of the rich and less into those of the poor (1993: 3-18).

The Swedish trend is less clear cut. The income share of the bottom quantile declined from 9.8 percent in 1981 to 9.4 percent in 1987, but the share of the top 20 percent of the

population fell modestly from 32.4 percent in 1981 to 32.2 percent in 1987. In Israel, Norway and West Germany the least advantaged groups were slightly better off, while in Canada their income share was stable. These computations illustrate that over the 1970s and 1980s inequality trends converged in some countries, diverged in others or remained constant for selected income groups. Hence the general impression gained from the larger sample of LIS datasets calls into question hypotheses based on convergence in income equality.

One reason for the inconsistency between empirical evidence and theoretical explanations is that:

in prosperous times it is easy to forget the importance of power in the making of policy. Social systems appear stable, and the economy works with sufficient regularity that its rules can be modeled as if they functioned without social referent. In difficult economic times this comfortable illusion disintegrates. Patterns unravel, economic models come into conflict, and policy prescriptions diverge. Prosperity blurs a truth that hard times make clearer: the choice made among conflicting policy proposals emerges out of politics. (Gourevitch, 1986: 17)

The economic recessions of the 1970s, in fact, were not tackled in the same ways by all Western democracies (Boltho, 1982: 9-38). Austria and Sweden preferred to stimulate aggregate demand, which generated lower levels of unemployment, whereas West Germany resorted to deflationary policies (Pierson, 1991: 141-178; Scharpf, 1991: 3-16).

Several countries reacted to the economic downturn by slashing spending for antipoverty programmes and social security benefits. Politicians seemed:

to have embraced the conclusion that slow growth and large deficits [were] caused by redistributive programmes. How this proposition - the truth of which has not been proved - became conventional wisdom was left as a mystery. (Danziger and Smolensky, 1985: 262)

Conventional wisdom concealed the fact that redistributive programmes were the product of intensely political choices, because they established who was most worthy of favourable treatment by the political community (Castles and Mitchell, 1993: 115). Ongoing disputes

over matters that may at first seem technical and abstruse, such as old-age pension, indexation, waiting time, are in reality conflicts for redistributive advantages among social groups (Baldwin, 1990: 1-50). As Schumpeter more generally remarked, the budget is the skeleton of the state stripped of all misleading ideologies and this makes it the best starting point for the study of politics (Schumpeter, 1954: 6).

## 2.2 REDISTRIBUTIVE POLICIES AND INCOME INEQUALITY

The key importance ascribed to transfer policies springs from its impact on the *personal* distribution of income, that is, on the living standards of many individuals (Gustafsson and Uusitalo, 1989: 73-95). Yet economics textbooks only discuss the *functional* distribution of income, which is the division of the sources of income by factor shares : income from work and income from capital (rent, dividends and interest). The situation in current economic writing is similar to that described by Gruen over fifteen years ago:

It may appear that analyses of the distribution of income will be intimately connected with policies to redistribute income and to reduce poverty. By and large this is not so. Discussion of the observed distribution of income has mostly concentrated on full-time adult male earnings. Policies to redistribute income, on the other hand, are concerned primarily with family incomes and especially with the relation between family income and need. (Gruen, 1979: 11)

Thus the redistributive role of governmental policies cannot be neglected. The relation between family income and need is defined by entitlement and eligibility rules for the receipt of transfer benefits. As Table 2.4 illustrates, the second most important income source after income from work is that of cash benefits (with the exception of West Germany). In Sweden cash benefits account for almost 30 percent of gross income; in the UK cash benefits are four times the amount of self-employment income. Hence the share of transfer benefits on total



*Table 2.4. Average value of income components as a percentage of average gross income.*

variable	Canada	USA	UK	West Germany	Sweden	Norway
wages or salaries	75.5	75.8	72.0	63.1	64.5	69.9
self-empl. income	4.5	6.7	4.5	16.7	3.7	11.1
property income	7.2	5.8	2.7	1.1	2.7	2.7
occup. pensions	1.8	2.6	2.5	2.3	0.0*	1.2
market incomes	90.1	90.8	81.7	83.3	70.8	84.9
<b>cash benefits</b>	<b>9.1</b>	<b>8.0</b>	<b>17.2</b>	<b>16.5</b>	<b>29.2</b>	<b>14.1</b>

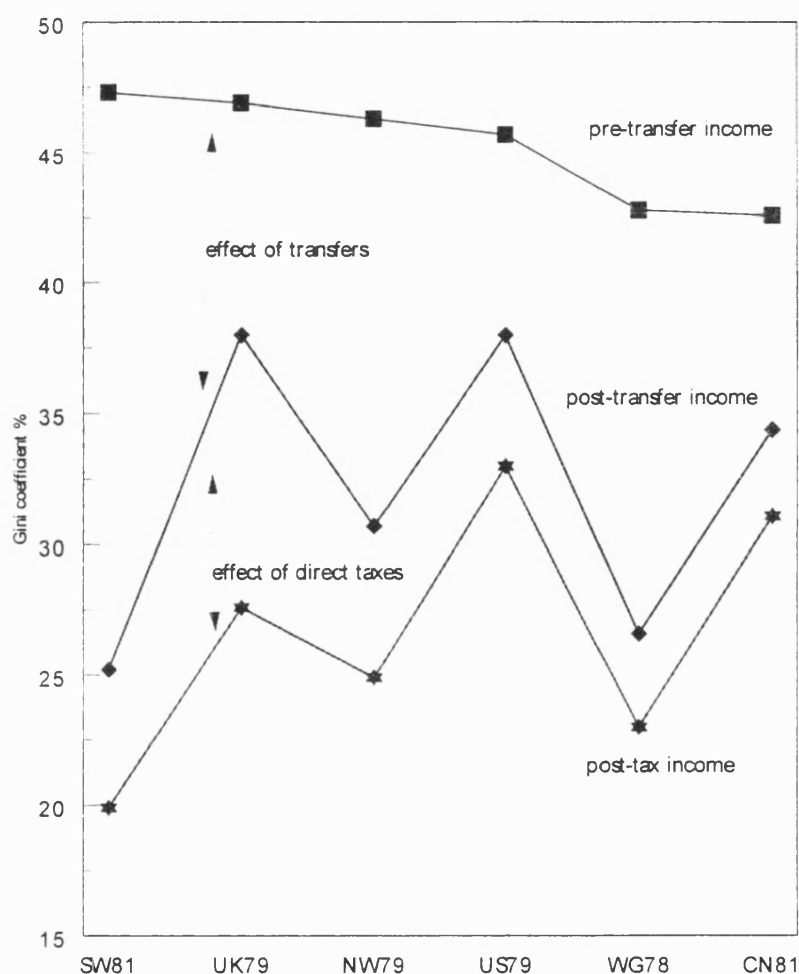
*Source:* computed by the author from LIS. datasets for countries as in Figure 2.2.

\* In the data-collection process occupational pensions in Sweden are treated as part of transfer payments.

household gross income may be quite substantial. This says that transfer income is an intermediate mechanism between market income and take-home pay, adding weight to the contention that the redistributive role of governments is a crucial factor in shaping the size distribution of income (Brandolini, 1992).

Figure 2.2. sets out the Gini coefficients for pre/transfer, post/transfer and post/tax income (only direct taxes) for the same countries of Table 2.4. It is clear that the major recorded redistribution is that associated with cash transfers. The figure illustrates a remarkable redistribution in Sweden where the post/transfer Gini coefficient almost halved. The effect of direct taxes appears more pronounced in the United Kingdom where the drop from pre/transfer to post/transfer Gini was about the same as that between post/transfer and post/tax Gini. The effect of direct taxation was less significant in all the other countries.

Figure 2.2 Income inequality in pre-transfer, post-transfer and post-tax income in 6 OECD countries



Source: computed by the author from LIS

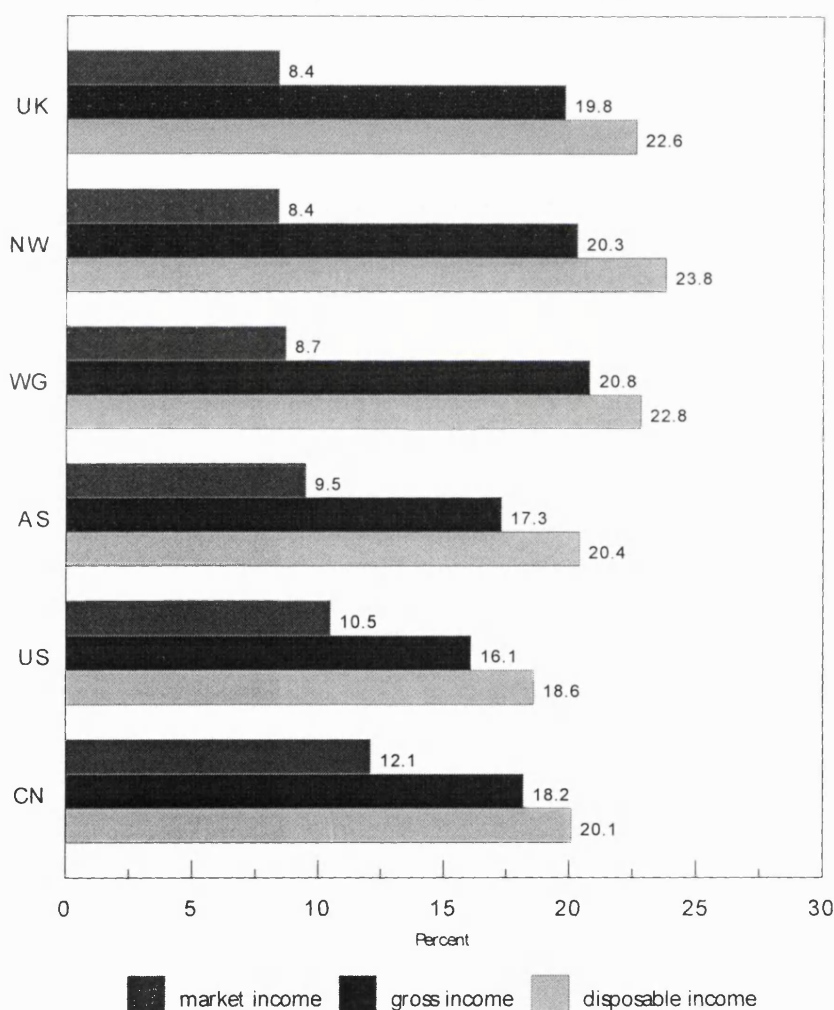
In the United States, the narrow gap between the Gini values for pre/transfer and post/transfer income suggests a less effective redistributive system. West Germany and Canada recorded a lower pre/transfer inequality, further reduced in West Germany by generous cash benefits.

Traditionally, political scientists have examined the redistributive role of governments by looking at total public expenditure (Cusack, 1995). The criticism levelled at this approach is that it neglects the issue of the distribution of government outlays (Ringén, 1987: 168). As Esping-Andersen notes 'by scoring welfare states on spending we assume that all spending counts equally' (1989: 19). To avoid this problem economists often evaluate the impact of

the tax-transfer system by employing the first incidence method which compares the distribution of disposable income (take-home pay) with market income (Dodge, 1975). The difference between the two distributions is regarded as a measure of the redistributive impact of direct transfers and taxes.

We can see the usefulness of the first incidence method by looking at Figure 2.3

Figure 2.3. Percentage share in total market, gross and disposable adjusted income of bottom 40 percent of the population in 6 OECD countries



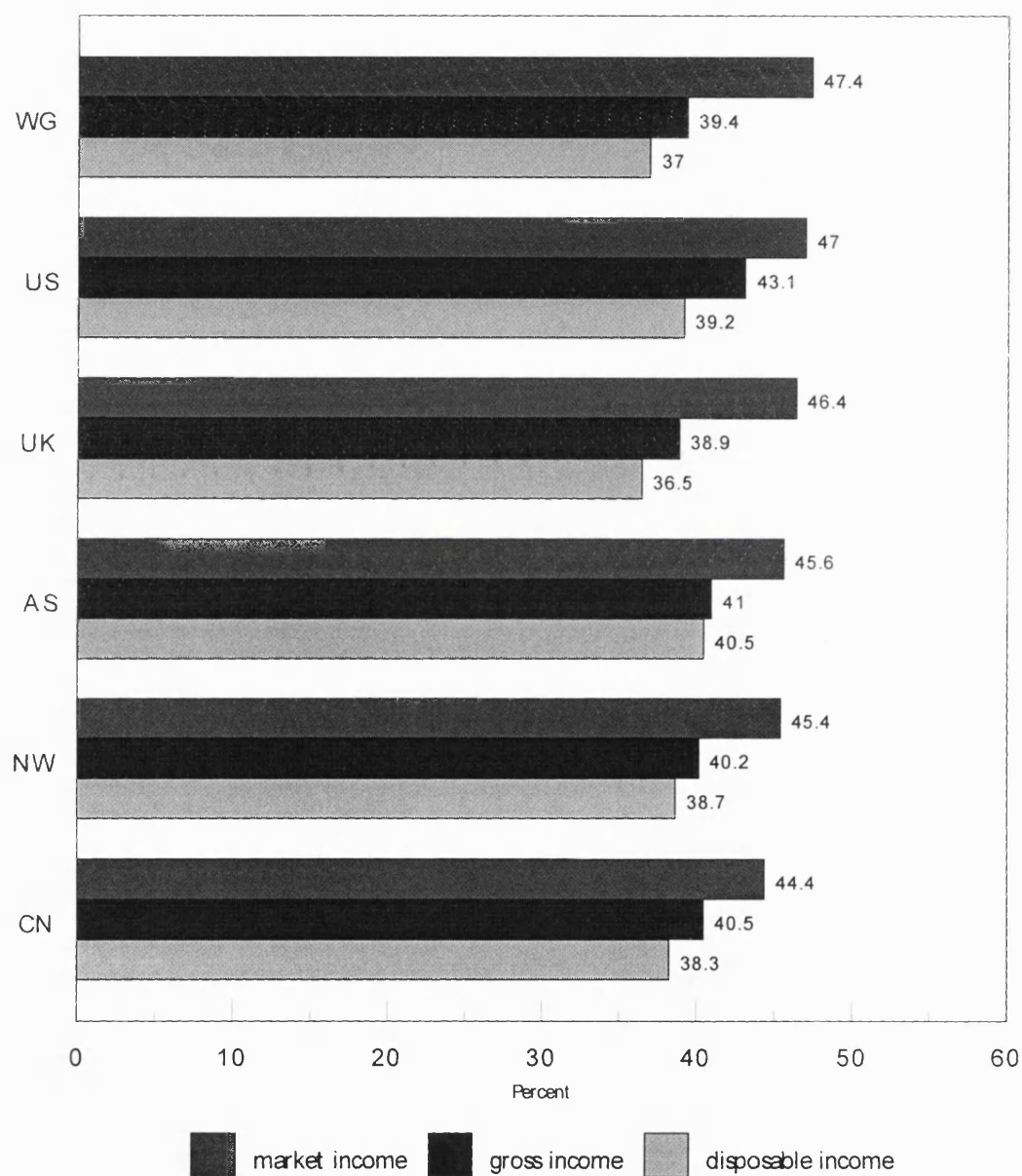
Source: computed by the author from LIS.  
Datapoints as in Figure 2.2.

which illustrates the share of market income and take-home pay accruing to the bottom 40 percent of the population in six LIS countries between the late 1970s and early 1980s. The

data show that the share of disposable income was on average about 11.8 percent higher than that of market income, with a range between 8 percent (in Canada) and 15.4 percent (in Norway). The difference between the two income distributions was substantial in the United Kingdom and in West Germany, where the take-home pay was about 14 percent higher than the market income share. Figure 2.4 presents the results for the upper tail of the distribution in the same countries. It shows that the disposable income accruing to the top quantile of the population was on average 7.8 percent less than their market income share, ranging from 5.1 percent (in Australia) to 10.4 percent (in West Germany). It is worth noting that these findings may be misleading if taken as evidence of the redistributive effects of the tax-transfer system, in that they ignore initial conditions of pre-tax earnings. For instance, the share of market income of the top quantile was 1.8 percentage points lower in Australia than in West Germany. This divergence may indicate that the primary distribution of income (before government intervention) was more equal in the former than in the latter country.

The main drawback of the first incidence method is that it assumes, rather unrealistically, that government intervention does not affect the distribution of market income (van Arnhem and Schotsman, 1982). The implication is that it may overestimate the redistributive impact of the tax-transfer system (Danziger and Smolesky, 1985). Leaving aside the contentious issue of the link between government policies and the primary distribution of income, I will confine the empirical analysis mainly to cash transfers. The reason is that transfer benefits 'address the major social problem of contemporary societies - the poverty remaining after the initial distribution of incomes through the market mechanism' (Castles, 1993: 12).

Figure 2.4. Percentage share in total market, gross and disposable income of top 20 percent of the population in 6 OECD countries



Source: computed by the author from LIS.  
Datapoints as in Figure 2...2.

Numerous empirical studies support the contention that transfer benefits are progressive (Gustaffson and Uusitalo, 1989: 93; Jantti and Danziger, 1992; Saunders, 1994: 44-50). The fiscal incidence literature confirms that, in any given year, social security cash transfers have substantial redistributive effects, both vertically and horizontally (Saunders, 1985). By contrast, comparative research indicates that tax policy has little impact on overall income distribution, with direct taxes being moderately progressive and indirect taxes moderately regressive (Harding, 1993: 179; Ringen, 1987: 174). In addition, the ambiguity of tax incidence and the possibilities of tax avoidance mean that the redistributive effects of tax policy are likely to be very small (Gruen, 1979: 41). For this reason transfer payments offer more reliable opportunities for redistribution and are therefore regarded as 'the main *mechanism* of redistribution' (Ringen, 1987: 175).

The general validity of these findings is sustained by case-studies linking cutbacks in redistributive programmes to growing income inequality. Gramlich et al find that changes in government policies in the USA increased the Gini coefficient by approximately 40 percent over the 1980s (1993: 14). In a similar vein, Johnson and Webb (1988) attribute almost half the rise in inequality in the United Kingdom to changes in the tax-transfer system. Danziger and Smolensky (1985) highlight the fact that modifications in anti-poverty policies contributed to the rise in poverty rates. These results strongly suggest that to understand income inequality one needs to examine the dynamics of redistributive policies.

### **2.3 SOCIAL CLASSES AND SOCIAL SECURITY RECIPIENTS**

Examinations of redistributive policies are often undertaken within a 'class politics' view (Esping-Andersen and Korpi, 1984; Hibbs and Dennis, 1988). There are two variants of the class politics view. One variant is known as the social democratic model, and suggests that

the partisan control of the government is the independent variable; a more strictly 'class politics' view maintains that what matters is not the party in office but the working class pressures to which it is subject (see Castles, 1985: 3). The scenario usually describes coherent class actors striving for redistributive advantages in the form of more generous benefits. The struggle is not always dichotomous between upper and lower income classes. Rather, through 'beneficial involvement' middle classes are regarded as relevant actors in the creation, expansion and dismantling of redistributive programmes (Goodin and Le Grand, 1987: 3-16).

Historically, however, the identity of social security recipients has varied considerably. In the *'Politics of Social Solidarity'* Baldwin argues that beneficiaries are:

first and foremost risk categories that translate only indirectly and variably into the usual definitions of class and social group. Risk categories are actors identified and given interests in common by their shared relations to the means of security, by their stake in or against the redistribution of risk promised by social insurance. (Baldwin, 1990: 11-12)

Although low income classes and risk categories often overlap, the Australian chapter points out the fact that the industrial working class was not a risk-prone group at the time social insurance was developed. If risk categories and social classes are disjointed groups, redistributive costs and benefits might be apportioned between coalitions of groups.

This view shifts the focus *from* the social determinants of redistributive policies to the construction of social identities *by* redistributive policies (Alber, 1983: 121). Several studies have suggested that status and ascriptive (or presumably ascriptive) elements such as age, sex, and ethnic boundaries have come to intersect with class boundaries (Pampel and Williamson, 1989: 167; Janowitz, 1985: 93). The aged, for instance, have been an active political force and the social insurance programmes they most influence comprise a large part of welfare spending. Pensioners have the highest voting rate of all age groups (Hudson and

Binstock, 1985) which explains why politicians have often been reluctant to cut old-age pensions (Moon, 1986).

The general significance of these findings is that the politics of redistributive policies cannot be reduced to social class politics. By reallocating costs and benefits politicians may create new social identities which transcend class-based identities. As Boulding remarked, redistributive policies are 'profoundly concerned with questions of personal identity whereas economic policy centres around exchange or bilateral transfer' (quoted in Titmuss, 1987: 150). Hence this perspective raises important theoretical questions regarding the role of politics in the formation of privileged and less privileged groups.

## **2.4 THE EMPIRICAL ANALYSIS OF POVERTY AND INEQUALITY**

A rigorous analysis of the redistributive impact of parties inevitably addresses a number of long-lasting questions associated with empirical work on poverty and inequality. How sensitive are poverty estimates to where the poverty line is drawn? How confident can we be in the empirical results and how should these results be presented and interpreted? How can we analyse the constituent components of the structure of income inequality? Reduced to their essence, it may appear that these are purely formal problems; yet, although the subject matter of the empirical analysis of poverty and inequality is largely technique, the techniques involved are an essential prerequisite for coping with the analysis of economic problems in a rigorous fashion (Cowell, 1995: 16).

Assessing the redistributive impact of governing parties raises formidable difficulties of data collection, of identification and measurement of poverty, of choices between different principles of equality, etc. (see appendix D). Whilst a comprehensive treatment of all these issues lies beyond the scope of this work, some attention must be paid to methodological problems - not least to evaluate the statistical reliability of my results. Furthermore, in the



empirical analysis I identify demographic and market effects on inequality, I use several inequality indices, and I compare the relative economic position of sub-groups of the population at one datapoint and between different periods. This kind of work raises innumerable statistical problems and soon becomes unmanageable, unless we reduce its complexity with the aid of analytical techniques.

### **Poverty head-count**

Two important aspects of any empirical study of inequality and poverty are what are known as the identification and the aggregation issues (Abul Naga, 1994). The identification problem confronts the decision regarding who is poor, and sometimes it also deals with the question of how poor is that person. It emerges whenever income is not observed or when the data are subject to measurement error (see appendix B).<sup>2</sup> The aggregation problem is concerned with summarizing the individual poverty data into a measure of poverty.

This study deals with the problem of aggregation, comparing poverty between different years, different sub-groups of the population and between different countries. These comparisons are obviously affected by what conception of poverty one has in mind. The literature on poverty typically distinguishes between the absolute and the relative approach to poverty (Abul Naga, 1994). In the absolute approach to poverty, the poverty standard is defined in terms of consumption of specific goods, and is not influenced by the general living standards of the society. It takes into account basic needs for survival, such as nutritional

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The income status of a family may be measured with error because it is systematically under-reported. There is a vast array of reasons why household heads may have an incentive to understate their resources. Some authors believe that families may benefit from welfare programmes when their income is low (Glewwe, 1990). Others maintain that the identification of poverty can be impaired by the existence of market imperfections, such as imperfect information, discrimination, obstacles to trade, and suggest the adoption of multiple indicators of poverty as a solution (Abul Naga, 1994).

requirements, clothing and housing.

The main problem with this approach is that minimum cost diets vary widely among individuals and with the level of development of a society. For this reason I have opted for the relative approach to poverty, which makes explicit the view that poverty standards should reflect changes affecting the general standard of living of a particular society (Korpi, 1980). By adopting the relative approach to poverty, it is possible to evaluate whether governing parties employ cash transfers to adjust social relativities, thus changing the relative economic position of specific sub-groups of the population.

One way of defining relative poverty is in terms of 'economic distance' from a specified average standard. The most widely used economic distance measure is one half of median income. This poverty standard has the advantage of taking directly into account changes in society through changes in median income. The median is probably the best measure of 'average' income because the income distribution is typically skewed to the right. Hence the arithmetic mean would report higher values than the median because it is affected by extreme values.

Summary measures for the analysis of poverty are often presented in the form of head-counts, that is, the proportion of the population below a given poverty line. One major drawback of the head-count is that it is very sensitive to where the poverty line is drawn. Head-counts can vary quite dramatically with a small variation in the poverty line. The most common reason for this sensitivity is the 'clustering' of income units around the poverty line. Clustering effects are problematic for assessing the redistributive impact of governing parties because they may significantly alter the estimates. For example, if we observe that the proportion of the population below 50 percent of median income has dropped in the past ten years, we might be inclined to think that overall poverty has fallen. But if the proportion of the population below 60 percent of the median has remarkably increased, then it is clear that

our previous impression of declining poverty was misguided.

To avoid clustering effects, I have handled the problem by using three poverty lines. In addition to setting the usual poverty line at 50 percent of median income, one line was set slightly lower at 40 percent and another line was set slightly higher, at 60 percent of median income; I then reported poverty rates at each of these levels. This methodological rigour means that a more accurate assessment of the redistributive impact of governing parties is possible. I am able to provide a more comprehensive picture of poverty rates among the population dependent on cash transfers; I am also able to identify and compare movements between poverty lines between different datapoints.

### **Equivalence scales**

Problems of aggregation and reliability emerge from comparisons of economic well-being among households with different 'needs'. A single person with disposable income of £300 per month will, for instance, enjoy a very different level of economic well-being from that of a family with three children but with the same disposable income. It is therefore important for a sound distributional analysis to capture this difference.

In this study I 'equivalize' the income of households with different economic needs by taking into account their size and composition. The 'equivalent income' is the standard of living available to each member of the household unit, assuming income pooling. Cash income is adjusted by the number of equivalent adults in a family in order to construct a measure of the level of economic welfare available to the family. Equivalence scales are valuable tools in assessing the redistributive impact of governing parties because they take into account fundamental differences in need between households. As noted in Chapter One, shifting coalitions of party elites may be connected to shifting coalitions of the state-dependent population. In order to detect the role of transfer policies in shaping alignments

between party factions and categories of welfare recipients (lone-parents, families, elderly etc.), it is crucial to evaluate the level of economic well-being enjoyed by these different groups.

Several *equivalence scales* have been constructed to allow comparisons across households and their members. The use of a particular equivalence scale can greatly influence the distributional analysis of economic welfare within and between societies (Coulter, 1992; Atkinson et al, 1993). Unfortunately, there is no agreement on the appropriate equivalence scale, although research findings show that inequality and poverty results are sensitive to changes in the incorporation of needs (Duclos and Mercader, 1993: 39-40). In this study I adopt the OECD equivalence scale which is one of the most commonly used in developed countries for distributional assessments. This scale was suggested in the 'OECD list of social indicators' (1982) and it distinguishes only between children and adults.

It is clear from the above that studies of income inequality involve several methodological choices: choices of scale relativities, of inequality measures and poverty indicators, of definitions of resources (e.g. money income, expenditures, market income etc.) and the choice of the unit of analysis. The role of these factors is directly or indirectly affected by the use of a particular equivalence scale. This means that while equivalence scales make it possible to take into account differences in economic needs, they only partially remove the sensitivity of distributional results to the choice of the income unit within which resources are shared.

### **Decomposing income inequality**

Because results are sensitive to scale choice, I have tried to strengthen the robustness of my empirical results. This I have done by decomposing aggregate inequality into a series of sub-comparisons of the distributions for specified population groups (e.g. household type, age-

group). 'Comparisons of corresponding within-group inequality terms are independent of the choice of equivalence scale, and so robust conclusions can be derived' (Coulter et al, 1992: 1081). As Cowell put it, a drop in inequality could be an optical illusion if we have not taken into consideration demographic changes, or how income varies between and within different age groups (1995: 130). Alterations to the age structure, such as lower birth rates or the growing number of elderly may affect the distribution of income among individuals ( von Weizsäcker, 1995). Elderly people are overrepresented in lower income groups and therefore the ageing of the population may widen income differentials. By the same token, rising inequality could be the outcome of changing household size and composition. In the post-war period the number of large families steadily declined while the number of single households and lone parents gradually increased. Smaller households may have a negative distributional impact because they prevent income pooling.

To assess the impact of demographic effects on the size distribution of income I decompose distributional comparisons for age-groups and household types into between and within-group comparisons. Disentangling the within-group and between-group inequality components is essential in order to study the structure of inequality and the impact of governing parties: the higher the contribution of the 'between-groups' components, i.e. the stronger the association of the grouping factor with aggregate inequality, the more negligible the distributional role of transfer policies.

Inequality aggregation results can be expressed in simple terms, because total inequality is an additive function of between-group and within-group inequality. The between-group component of inequality is found by assuming that everyone within a group receives that group's mean income: it is independent of redistribution within any of the groups. Within-group inequality is a weighted average of inequality in each sub-group. By using decomposition techniques, I can detect the impact of three main components on the

inequality trend: changes in the size of selected demographic groups (e.g. elderly, young, single households, families, etc.); shifts in the level of inequality within each group; relative variations in the groups' mean incomes.

## 2.5 MEASURING INCOME INEQUALITY

Several methodological choices need to be made when comparing income distributions between and within subgroups of the population, or within and between countries (Atkinson and Micklewright, 1992; van Ginneken and Park, 1984; Lydall, 1979: 119-129). The first choice to be made is related to the concept of income: inequality of what? In the three case studies, I use several income concepts according to the question posed.<sup>3</sup> Market income, for instance, is more appropriate when I discuss market effects on overall inequality. Net cash income, on the other hand, is the most accurate measure available in the LIS datasets for 'spendable income'. This measure includes all income from employment and self-employment, property income, occupational pensions and private cash transfers, as well as other cash income minus direct taxes. A broader definition of income would take into account non-cash transfers, such as social services,<sup>4</sup> as well as indirect taxes, capital gains and imputed rent which are not considered in most national surveys.

The second choice refers to the problem of the time-span, inequality when? The time period adopted affects the measurement of inequality. Life-time income, for instance, reduces the dispersion observed across the population. Since information on life-time income is seldom available I follow the convention among economists to identify the

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<sup>3</sup> Other individual resources, such as health and education, are important in assessing inequality. Their potential distributional impact, however, is outside the scope of this work.

<sup>4</sup> The inclusion of non-cash transfer, however, would not necessarily reduce measured inequality. Le Grand and Winter (1987), for instance, find that almost all expenditure in social services in Britain benefits the better off to a greater extent than the poor.

contribution of age differences on overall inequality by employing income decomposition methods (Jenkins, 1991).

A second set of questions is related to the thorny issue of whether one can unambiguously say that one distribution is more equal than another. The construction of inequality indices involves value judgements that are not necessarily desirable (Atkinson, 1989; Cowell, 1995: 60-65, see appendix D). Some indices, for instance, are bottom-sensitive, that is, transfers to lower income groups yield larger effects on the index. Others are top-sensitive which means that their value increases if upper income groups are worse off. Thus the differing sensitivity of each index may reflect different rank orderings. Table 2.5 sets out the ranking of 10 OECD countries according to the bottom-sensitive Theil index. The

*Table 2.5. Ranking of 10 OECD countries according to the bottom sensitive Theil Index. (Household post/tax-post/transfer adjusted income).*

Country*	THEIL INDEX
United States	.213
France	.179
Italy	.166
United Kingdom	.165
Australia	.161
Canada	.158
Netherlands	.157
West Germany	.135
Sweden	.100
Norway	.098

*Source:* Computed by the author from LIS. \* The countries datasets are the following: US, 1986; Australia, 1985-86; Italy 1986; Canada, 1981; France 1984; United Kingdom 1986; Netherlands 1983; West Germany, 1984; Sweden, 1987; Norway 1986.

table shows that in the mid-1980s the United States was the most unequal country, followed by France and Italy; West Germany and the Scandinavian countries were the most equal, with

much lower Theil values. The United Kingdom, Australia and Canada were located in the middle of the ranking.

Table 2.6 sets out the inequality ranking among these 10 OECD countries when inequality is measured by the Gini coefficient, which is a middle (modal)-sensitive index. Some countries change their position quite dramatically, including Australia which moves from fifth position in Table 2.5 to second in Table 2.6; Canada also shifts from the sixth to the fourth position. Hence the distribution of income in both countries appears less

*Table 2.6. Ranking of 10 OECD countries according to the middle- sensitive Gini coefficient.*

Country	GINI INDEX
United States	.355
Australia	.309
Italy	.307
Canada	.306
France	.304
United Kingdom	.303
Netherlands	.294
West Germany	.264
Norway	.243
Sweden	.229

*Source:* Computed by the author from LIS.  
Country datasets and income concept are those in Table 2.5.

equal when inequality is measured by the Gini coefficient. The differences between Table 2.5 and Table 2.6 derive from the construction of the inequality measures: the Theil index is bottom-sensitive and the Gini coefficient is sensitive to transfers at the mode of the distribution. Assuming that modal-income groups overlap with middle-income groups, the latter fall behind when Gini is higher; in contrast, the poor are worse off when Theil increases.



In order to provide a more complete picture of the sensitivity of inequality indices used in the three countries, Table 2.7 sets out the values for a top-sensitive measure, the Coefficient of Variation. The first point to note about this table is the remarkable

*Table 2.7. Ranking of 10 OECD countries according to the top sensitive Coefficient of Variation.*

Country	COEFFICIENT OF VARIATION
France	1.48
Italy	.744
West Germany	.729
United States	.699
United Kingdom	.647
Canada	.625
Australia	.599
Sweden	.570
Netherlands	.546
Norway	.443

*Source:* Computed by the author from LIS.  
Country datasets and income concept as in Table 2.5.

change in the rank ordering. France ranked fifth when inequality was measured with the Gini coefficient but now ranks first, replacing the United States as the most unequal country. West Germany undergoes a similar, albeit less dramatic, shift in the ranking. According to the values of the Coefficient of Variation, the living standards of upper income groups slipped in France and West Germany. Other countries, such as Canada and the Netherlands, maintained a stable position in the middle, while the Scandinavian countries invariably were the most equal countries.

The examples above highlight the limits and the risks of choosing only one summary measure of inequality because it inevitably embeds views regarding distributional justice. The answer given by Atkinson to this problem was to 'seek to parameterise differences of

judgment, giving numerical measures of the degree of inequality conditional on the choice of a parameter which incorporated the distributional judgment' (Atkinson, 1989: 29). The inequality aversion parameter (epsilon) of the Atkinson index increases the bottom-sensitivity of the index when  $\epsilon \geq 1$  (Atkinson, 1970).

Table 2.8 displays two rankings of 10 OECD countries produced by altering the numerical value of epsilon. The most striking result is the discrepancy between the two rank orderings for Australia, which depict her as one of the most equal countries when  $\epsilon=.5$ , and as one of the most unequal when  $\epsilon=1.5$ . Since higher values for epsilon emphasize transfers to lower income groups, this result probably means that less privileged groups were worse off in Australia than in other OECD countries. Italy changed its ranking in the opposite

*Table 2.8. Ranking of 10 OECD countries for two-aversion parameters of the Atkinson Index.*

Country*	ATKINSON INDEX%		Country
	$\epsilon=.5$	$\epsilon= 1.5$	
United States	12.6	99.1	Australia
Netherlands	10.7	96.4	Netherlands
France	10.3	94.4	United States
Italy	9.7	91.4	France
Norway	9.2	87.9	United Kingdom
Sweden	9.0	76.4	Canada
United Kingdom	8.7	31.6	Sweden
Canada	8.3	25.0	Italy
Australia	8.2	24.3	Norway
West Germany	8.1	16.1	West Germany

*Source:* Computed by the author from LIS.

\* The countries datasets and the income concept are the same as in Table 2.5.

direction, moving from the fourth position when  $\epsilon=.5$  to the eighth position when  $\epsilon=1.5$ ,

suggesting that the living standards of poor groups were slipping.

Fortunately for the other OECD countries the results are robust. Norway and West Germany are consistently at the bottom of the inequality ranking while France and the United Kingdom are stable in the middle range positions. Since results are sensitive to methodological choices, a carefully chosen small set of inequality measures is necessary. A reasonable choice is to use one bottom-sensitive index, another middle-sensitive and the third top-sensitive (Cowell, 1995: 54-65). If all measures agree on a comparison of two or more income distributions we can then be moderately sure of the results. If they disagree no unambiguous ranking is possible.

## **Conclusions**

Tracing income inequality trends over the 1970s and 1980s in 9 OECD countries illustrates that hypotheses based on convergence towards greater income equality are based on shaky foundations. Evidence from the LIS microdata sets suggests that Western democracies have undergone a variety of experiences, with inequality rising in some countries and falling in others. These results warn against the risk of making any generalization about the world-wide pattern of change in inequality trends. By examining the separate components of total income, it was possible to highlight the role of national policies in the distribution of income. Transfer benefits were clearly an intermediate mechanism between market income and take-home pay. Hence my findings support the contention that while 'common economic forces have undoubtedly been at work, we have also to look at national factors, and particularly national policies, in seeking an explanation of changes in inequality' (Atkinson, 1993: 23).

The methodological difficulties addressed in this chapter underscore the fact that some problems have no easy answer. As Le Grand writes, 'perhaps the most that can be expected from researchers in the area is that they show an awareness of the problems

concerned, and of the extent to which those problems might limit their analyses' (1987: 31). My analysis suggests, however, that despite their limits results can be robust: Irrespective of the inequality index employed, the Scandinavian countries invariably ranked as most equal while the United States often ranked as most unequal. The robustness of these findings is reassuring, and I can be relatively confident that my work is based on reliable estimates. Because empirical analyses hold explanatory power only if embedded in theoretical frameworks, in the next chapter I assess different theoretical perspectives on the incentives for income redistribution in a liberal democracy.

## **CHAPTER THREE-POLITICAL PARTIES AND INCOME REDISTRIBUTION: THEORETICAL PERSPECTIVES**

The essence of politics is redistribution, and political conflicts centre on matters of distribution.

Karl Brunner

### **3.1 POLITICAL PARTIES AND REDISTRIBUTIVE POLICIES: ESTABLISHED APPROACHES**

What are the incentives for income redistribution in a liberal democracy? At two rather distant ends of the spectrum stand interpretations based on rational choice theory and political sociology. For the former, political parties redistribute income to maximize votes, for the latter, parties have contrasting distributive goals that are consistent with the interests of their core constituencies. This chapter reviews established theories on the redistributive impact of parties. It then highlights their strengths and limitations by drawing upon the developing literature on party goals, party competition and party organizations. Recent advances in the theory of political parties suggest that focusing on the internal arena may shed some light on the driving forces behind redistributive policies.

Traditionally, there has been a tension in the literature on the redistributive impact of parties between two separate schools of thought, apparently unable to communicate with each other. There is assumed to be a fundamental conflict between the view centred on the role of a party as vote-maximizer and the view based on the role of a party as a representative of social interests. The two approaches have been espoused, respectively, by rational choice

theorists and political sociologists (Ware, 1996: 8-10; Rabinowitz and MacDonald, 1989).

### **3.1.1 Rational choice explanations of redistributive policies**

Rational choice theorists endorsing Downsian analyses believe that voters have specific preferences on redistributive policies, and that they select parties which are closest to their position in the policy space (Denters, 1993). In plurality-rule systems, if the frequency distribution of voters is single peaked, vote-maximising parties adopt policies close to the median voter (Downs, 1957: 114-122; Enelow and Hinich, 1984: 8-14).<sup>1</sup> Parties alter their position in the electoral space to capture the maximum number of voters and therefore one should not expect that parties alternating in power formulate distinctive redistributive policies. On the assumption that median voters and median income groups overlap, this view posits that middle classes benefit from redistributive efforts (Tullock, 1983: 102-106). Along these lines many scholars have conducted studies focusing on the median voter as the key to understanding the politics of income redistribution (Bishop et al, 1991; Colburn, 1990; Lindbeck and Weibull, 1987; Scully and Slottje, 1989).

For other rational choice theorists variations in redistributive policies are triggered by the timing of elections. The 'key economic element in the electoral-economic cycle is real disposable income' (Tufte, 1978: 29). The political business cycle, therefore, best explains the impact of vote-maximizing parties on transfer benefits (Nordhaus, 1975; Griffin and Leicht, 1986). The model assumes that parties manipulate instruments of budgetary policies, such as taxation and expenditure, to achieve short-term electoral benefits. The political business cycle is typically characterized by spending cuts early in the term, followed by

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<sup>1</sup> Vote-maximising parties will not implement redistributive policies aimed at capturing the median voter if: a) there are multiple issue dimensions; b) there is a single dimension, but the frequency distribution of voters is double-peaked and alienation/abstentions are significant (Lindbeck and Weibull, 1987); c) there is a single dimension but differential alienation/abstention across two parties; d) there are more than three parties and easy entry for new parties.

generous redistributive policies later in the term. The pattern is expected to recur cyclically, with parties deferring the costs of pre-election increases in the level of transfer benefits until after the election.

To many political scientists, vote-maximizing explanations of policy-making are unwarranted because they place unrealistic demands on both party leaders and voters. Scarce information on what actually influences voting suggests that party leaders necessarily rely on ideological assumptions about the nature of the electorate (Budge, 1994). Incomplete information, coupled with mobility between income classes that has been induced by social programmes and market forces, means the 'median voter is never entirely certain about his future position in the income distribution' (Bishop et al, 1991: 53). This conclusion is also reached by Rabinowitz and MacDonald (1989), who posit that voters have diffuse preferences over certain directions, rather than an ordered set of preferences along the policy space. Seen in this light, ideology becomes a 'natural basis for action' (Roemer, 1994: 327).

The definition of parties as vote-maximizing teams begs the question of what defines a given party and what determines its boundaries. It also side-steps issues related to the birth and diffusion of parties. In particular, vote-maximizing explanations leave unanswered the question of why some voters identify with one party instead of another (Campbell et al 1960; Pizzorno, 1983).

### **3.1.2 Political sociology explanations of redistributive policies**

Political sociologists address some of the weaknesses of rational choice theory. Parties are conceived as agents representing deep-rooted social cleavages in the electoral arena (class, religion, ethnicity, agrarian) (Lipset and Rokkan, 1967: 1-65). These cleavages reflect the interests of well-defined social groups and trace the electoral boundaries of political parties. Party strategy is directed towards garnering support within a given constituency and, through

a process of integration, towards the protection of that constituency from rival parties. For political sociologists parties emerge to express and manage social cleavages through the political process. The key element for the development of political parties is therefore the existence of solidarity between and among social groups.

Against this background, it is not surprising that political sociologists concerned with the redistributive impact of parties primarily focus on socio-economic cleavages. A typical assumption is that 'parties have contrasting income distribution goals that are consistent with the locations of their core constituencies in the hierarchy of income classes' (Hibbs and Dennis, 1988: 469). Lower income-classes, which make up the core constituency of left-wing parties, have greater exposure to rising unemployment and normally bear a disproportionate share of the social costs of economic recessions. Their relative position in the income distribution is therefore improved by a generous system of social security. For this reason '[v]ertical redistribution and the oblivation of poverty...are goals which one might expect would distinguish the social policy stance of parties and groups ostensibly espousing lower-class interests' (Castles and Mitchell, 1993: 116). Research findings reinforce the contention that income redistribution is a governmental response to the divergent priorities of the parties' core constituencies (Brown, 1995; Dryzek, 1978). These works suggest that redistributive struggles are inherently 'zero sum' games, with one social class getting what the other one loses.

At first sight, the conventional views on the redistributive impact of parties summarized above appear incompatible. On the one hand, party leaders are portrayed as selfish and amoral vote-seekers, redistributing income in order to expand their share of votes. On the other hand, the redistributive policies of left-wing and right-wing parties seem sharply differentiated, with Conservative parties exacerbating income differences and Socialist parties levelling them. These facts, since they seem to be anomalies within both the



rational choice and sociological perspectives, can be a starting point for reassessing the redistributive role of political parties.

### 3.1.3 Empirical evidence or theoretical question?

Some authors have questioned *tout court* the influence of parties on the redistributive process (Boyne, 1995; Cutright, 1966; Hoggart, 1987; Jackman, 1980). One of the reasons is that structural imperatives, both national and international, economic and bureaucratic, limit the margin of manoeuvre of political leaders (Rose, 1974: 139-170; Hall, 1986: 231-234). Parties alternating in power seem to yield marginal and incremental/decremental changes in redistributive policies.

The alleged interchangeability of governing parties has stimulated a flurry of intellectual activity around the question *Does Politics Matter?* (von Beyme, 1985; Rose, 1984; Sharpe and Newton, 1984). 'Visions and realities' (Castles and Wildenmann, 1986) of party government have even led scholars to wonder *Where is the Party?* (Kriehbel, 1993). Much has been written on the crisis and decline of parties as relevant actors in the policy-making process (Sainsbury, 1990; Selle and Svasand, 1991). In the mid-1970s, neocorporatist arrangements seemed to supersede parties in some countries (Schmitter, 1974), while in others parties surrendered under the burden of governmental 'overload' (see Birch, 1984; Brittan, 1975). Apparently brushed aside by direct links between interests groups and public administration, parties have ostensibly failed to meet the demands of democratic societies. Yet the emphasis on the failure of parties may be largely misconceived (Katz and Mair, 1995; Ward, 1993). Perhaps unrealistic hopes on the policy-making impact of parties have sparked deep dissatisfaction among policy analysts (Calise, 1990: 13). If this is the case, then one should really allude to crises of expectations rather than crises of parties. In fact, despite

assertions to the contrary, Katz and Mair find that:

there is little real evidence to suggest that the age of party has waned. On the contrary, while in some respects parties are less powerful than before - enjoying in the main, less intense partisan loyalties, lower proportions of adherents, less distinctive political identities - in other respects their position has strengthened, not least as a result of the increased resources that the state (the parties in the state) places at their disposal. (1995: 25)

A further consideration is that discussions of party decline have prompted remarkably few re-examinations of the nature of parties (Ware, 1985: 6). Arguably, if research on party government generates inconsistent results, it is less a problem of lack of evidence and more a question of an adequate theoretical framework (Blondel, 1995; Cansino, 1995).<sup>2</sup> Following this line of reasoning, Lindbeck and Weibull observe 'that the driving forces behind government-induced redistributions of income and wealth are still not well understood' (1987: 273). Therefore, before dismissing the redistributive impact of parties as a non-issue an effort might be made to develop a better theoretical understanding of the ways in which competition and party politics shape these policies (Denters, 1993).

### 3.2 RECENT DEVELOPMENTS IN THE THEORY OF POLITICAL PARTIES

While the traditional views on the redistributive impact of parties have proceeded along the above lines, two very different approaches to the study of party behaviour developed under the headings of party goals and party organization. The primary contribution of these lines of research is to extend the framework used to examine political parties, by integrating earlier results. These developments have been compounded by advances in the analysis of party competition which question the basic assumptions underpinning Downsian demand-driven models.

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<sup>2</sup> The *International Political Science Review* has recently devoted an entire issue to the theoretical lacuna on the topic of party government (see volume 16, 1995).

The literature on party goals has recently highlighted the fact that parties pursue a plurality of aims (Harmel and Janda 1994; Strøm 1990). Most studies find that vote-seeking and policy-seeking behaviour are not mutually exclusive (Budge and Keman, 1990: 26-31; Laver and Schofield, 1990: 36-39; Schwarz, 1994; Wittman, 1983). On the contrary, there is clear evidence that political parties seek multiple aims in their struggle for power (Schlesinger, 1991: 135-149).

Scholars of party politics have also reconsidered the teachings of the 'founding fathers' of the discipline, who maintained that a preliminary step for understanding party behaviour was to analyse their organizational core: strategic interaction within the party organization was just as important as external strategies and competition. Finally, the emergence and diffusion of New Right ideologies in the 1980s has probably caused scholars to search for reformulations of Downsian analyses which downplay the role of ideology. The general thrust of these developments is that party politics is more articulated than it is often believed.

### **3.2.1 Party goals**

The existence of a plurality of aims raises the question of how parties choose between conflicting goals. Working class interests, for instance, cannot be fully represented when left-wing parties expand their share of votes to include middle class votes (Przeworski and Sprague, 1986: 55-56). Egalitarian objectives may be thwarted by vote-maximizing behaviour. More generally, if ideologies are tied to social classes and political parties try to appeal and attract voters from different social strata, the ideological dimension is inevitably blurred (Kirchheimer, 1966). The implication is that either reasons exist for undertaking one course of action instead of another, or alternatives must be equivalent.

A solution is to posit a 'trade-off frontier' between the achievement of one objective

against another. Strøm declares that 'a theory of competitive political parties requires an understanding of the interrelations and *trade-offs* between different objectives' (1989: 570). Likewise, Budge and Laver contend that '[w]hen we consider policy and office payoffs simultaneously, it is clear that policy concessions may be compensated by portfolios, or vice versa, in one of a number of possible ways' (1986: 498).

The idea of trade-offs between goals is compelling, but it does raise some empirical problems. For instance, although trade-offs entail no goal being subordinate to another, Budge and Laver claim that '[s]uch subordination is, however, an implicit but fundamental consequence of the role that the theories typically accord to some form of "winning" criterion' (1986: 498). A few illustrations may suffice to substantiate this claim. Perhaps the best known example is Downs's dictum that 'parties formulate policies in order to win elections, rather than win elections in order to formulate policies' (Downs, 1957: 27- 28); others find that parties are policy-seekers and win elections to implement their programmes (Budge, 1994; Klingemann et al, 1994: 27-30); yet others contend that 'leaders...want to be party leaders first, and to gain government power second' (Dunleavy and Husbands, 1985: 38-39). It is evident that party goals are generally perceived to be of unequal significance. As Harmel and Janda affirm, '[t]hough all parties have numerous goals, each party has a 'primary goal' (1994: 265). The essence of this criticism is that party actors necessarily operate within a system of priorities. Thus a substantial literature challenges the view that trade-offs are applicable to all goals.

There are at least two reasons adduced for the subordination of goals. First, it is highly plausible that party leaders have a 'salience ranking' in their choices (Robertson, 1976). The assumption that two policy dimensions, such as taxes and expenditure, are ranked in the same order of importance is often unrealistic (Taylor, 1970). Newly available evidence from the Comparative Manifesto Project, for instance, suggests that the most salient goal for party

leaders is maintaining the allegiance of their followers (Klingemann et al, 1994: 246-247).

The second reason is found in decision theory and refers to the cognitive limitations of the human mind (Simon, 1957: 241-260). Because of imperfect information and bounded rationality '[t]he situation is searched for alternatives that are related to the main [goal] and the alternatives are evaluated in terms of it' (Lindenberg, 1988: 45). In setting priorities to their strategies, decision-makers resort to one particular goal. The combined effect of cognitive limits and salience ranking explains why '[a]lmost everyone who has seriously thought about the objectives in a complex problem has come up with some sort of hierarchy of objectives' (Keeney and Raiffa, 1993: 41).

Recognizing that party leaders pursue multiple goals within a system of priorities is a step towards bridging the gap between conventional views on the redistributive impact of parties. As discussed in Section One, in those views redistributive policies stem from either vote-seeking or policy-seeking behaviour. This dichotomy seems now misleading since the literature has established that parties adopt a plurality of aims.

It is also worth noting, though not explicitly discussed in the literature, that rational choice theorists have often been concerned with short-term benefits,<sup>3</sup> while political sociologists have focused on long-term loyalties. Inconsistent evidence on the redistributive impact of parties may simply reflect the tension between short-term and long-term benefits. It follows that the bifurcation on party behaviour rests on narrow conceptions of party goals (D'Alimonte, 1991; Marsh, 1991).

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<sup>3</sup> It is only fair to point out that since the mid-1980s rational choice theorists have attempted to overcome the limits inherent in short-run frameworks by elaborating models on repeated games or centred on the role of reputation (see Axelrod, 1984; Tsebelis 1990).

### 3.2.2 Party competition

The idea that different party goals are compatible is also sustained by Rabinowitz and MacDonald in the 'directional' model of party competition (1989). These authors assume that voters have a diffuse understanding of policies and then argue that vote-seeking parties will offer clear policy alternatives. Convergence to the centre of the policy space may not be important because voters are attracted to candidates who are on the same side of an issue as they are. Thus the key role played by ideology in interparty competition is reaffirmed (Budge, 1994).

Directional theory disputes the role of Euclidean distance in voting behaviour and throws light on why redistributive policies may differ when parties alternate in power. However, it endorses the assumption of exogenous preferences and hence of demand-driven strategies. Consequently, like other theories discussed so far, the directional model would be unable to answer a fundamental question: When are party leaders prepared to accept the trade-off between the government's budget constraint and social security contributions? All these theories therefore suffer from the same weakness. One reaction to this weakness is to argue that it is not really a weakness at all: income redistribution is a response to exogenous factors, such as the location of voters in the electoral space or the interests of the party's core constituency. Political parties are conceived as inputs that mechanically link the demands of society to redistributive outputs.

Recently, demand-driven models of party behaviour have come under attack for neglecting the independence of parties in coping with changes to their environment (Deschouwer, 1992). Party leaders do not merely articulate social cleavages, but instead actively engage in defining those cleavages. Drawing upon evidence from seven European countries and 37 political parties, Iversen finds that 'the emergence of new political cleavages (conflicts over political issues) cannot be reduced to the study of the emergence of new social

cleavages (divisions in people's life experiences)' (1994: 174). His conclusions add weight to the suggestion that parties may mould the demands of social groups. Parties are not merely vote-takers, but act as vote-makers by shaping the choices of the electorate (Dunleavy, 1991: 105-111). In a similar vein, Przeworski and Sprague have forcefully argued that 'collective identity, group solidarity, and political commitment are continually transformed - shaped, destroyed, and molded anew - as a result of conflicts' in the course of which political parties strive to impose a particular form of organization upon the life of society (1986: 8).

Social cleavages are salient in any society only to the extent that political parties mobilize the groups affected by those cleavages. These findings corroborate research on electoral behaviour which indicates that electoral movement is positively correlated with political mobilization (Corbetta et al, 1988: 305-334; Huckfeld and Sprague 1992); when parties mobilize voters electoral turnout is higher (Patterson and Caldeira, 1988; Frendreis et al, 1990). Political parties are thus viewed as autonomous actors who can manipulate policies to forge collective identities.

This formulation may exaggerate the ease with which the electorate can be swayed by party leaders (Iversen, 1994). Stigler (1970), for instance, draws attention to Director's Law of income redistribution which states that middle classes have historically benefitted from income redistribution by strategically repositioning themselves in different voting coalitions. In the nineteenth century when only excises and real property were feasible bases of taxation, the distribution of tax revenues by income class would be relatively regressive; as taxation became proportional and expenditure consisted of universal benefits, the potential rewards from redistribution rose for the lower income classes. 'In the long run the middle classes may have been beneficiaries of this process because they were in coalition with the rich in the nineteenth century, and are entering into coalition with the poor today' (Stigler, 1970: 9). The general significance of Director's Law is that the coalition of voters forming

the majority can differ dramatically. Since 'different fiscal programs would be preferred by different income classes, .. the program to be chosen must represent a compromise' (1970: 7). We may deduce, therefore, that governing parties could alter the redistribution of costs and benefits to mould different coalitions of voters.

At the same time, viewing parties as autonomous actors does little to clarify the issue of trade-offs, considered earlier, between the budget constraint and social security contributions. Rather, it shifts the debate from demand-side factors to supply-side factors, leaving open the matter of trade-offs. Perhaps more fundamentally, it raises the question of what limits the margin of freedom of party leaders.

### 3.2.3 Party Organizations

One way to resolve the question is spelled out in the literature that views the party as an organization. Introduced in the pioneering studies of Michels (1959) and Ostrogorski (1902), and expanded in the early postwar works of Duverger (1959) and Neumann (1956), the conception of parties *qua* organizations has recently come back into the limelight (Harmel and Janda, 1994; Katz and Mair, 1994; Panebianco, 1988; Schwartz, 1990). These developments have been sparked off by:

a new recognition that what parties do within the broader arena is determined not merely by the conditions they find there, but also, and perhaps most significantly, by what they have been doing - and how they have been doing it - in the relative privacy of their homes. (Lawson, 1990: 108)

The core idea of this literature is that a party is a political system in miniature, where the making and breaking of coalitions between factional leaders is 'the driving force of party life' (Katz and Mair, 1992: 12). The implication is that 'there is little we can understand and discuss as long as the assumption remains that the party underworld is all alike, all made of



one and the same stuff' (Sartori, 1976: 106). This view challenges conventional approaches based on unitary models of party behaviour. Most rational choice theorists and political sociologists conceived of parties as monolithic entities striving for success in the electoral arena. The justification for this approach is that simplicity is necessary in order to make the world intelligible (Laver and Schofield, 1990: 15-35). But the best rejoinder to this argument is as follows. It holds if, and only if, by adding new variables the explanatory power of our results is not significantly enhanced.

Puzzles in party behaviour have prompted some analysts to reconsider the heuristic value of unitary models. There seems to be a growing awareness, especially among rational choice theorists accustomed to the unitary assumption, that a disaggregated view of political parties may yield fruitful results. Laver and Shepsle, for instance, consider the general area of intraparty politics :

to be one of the most exciting and underdeveloped in the entire literature, since it generates the potential to provide some motivation for the actions of political parties, hitherto unrealistically seen by most theorists as anthropomorphic unitary actor. (Laver and Shepsle, 1995: 120)

If these observations are correct, the scholarly search for the driving forces behind party behaviour seems to have missed a substantial portion of that phenomenon.

The personalization of the party, implied by views of parties as policy-seekers or vote-seekers, rules out important questions such as, What is the range of strategies that intraparty elites can play? and, Is the mobilization of resources a response to the actual or expected bargaining position of intraparty players? The crucial point is that the unitary assumption treats as *parametric* what is instead *strategic*, that is, it takes as given intraparty bargaining processes. It ignores the fact that party actors are like Riker's (1986: 52-65) 'herestheticians', who strategically invent new policies to exploit underlying dissensions or to head off internal

opposition (Nagel, 1993); it hampers the analysis of internal networks of coalitions which constantly exchange the resources necessary for the fulfilment of their tasks (Schwartz, 1990: 9-15); and it requires that artificial assumptions be made about preference homogeneity within parties (Laver and Shepsle, 1990: 506). In a nutshell, the unitary assumption precludes the study of power relations within the party.

Leaving aside the debate on the definitions of power, suffice it to note that scholars of party organization have endorsed a concept of power in the tradition of social exchange theory, where power is considered a 'relation of unequal exchange' (Blau, 1956: 173-141; Crozier and Friedberg, 1980: 145-174; Panebianco, 1988: 21-25). A relational concept of power, however, raises the question of what is exchanged, of what the resources of power are. Scholars of party politics use Crozier's (1964: 145-150) concept of 'zones of organizational uncertainty' to identify the resources of power. As a concept in organization theory, a 'zone of uncertainty' relates to a vital activity that can jeopardize the survival of the organization, thus creating uncertainty. Studying the resources of power within party organizations involves focusing upon unpredictable areas of organizational activity (Panebianco, 1988: 33-36; Mair, 1994). Accordingly, the crucial resources of power in party organizations are essentially four: recruitment and selection, financing, decision-making authority, and the distribution of incentives.

It is worth stressing that a conceptualization of power only in terms of resources is insufficient (Barry 1989: 226-229). There must also be the desire to use the resources and the willingness to bear the costs of using them. Despite these limitations, I agree with the contention that 'the best starting point for the study of the relative power of groups in society is an examination of their resources, given the rules of the game they are playing' (Dowding, 1991: 77). The way power resources are controlled within the party deeply affects the margin of manoeuvrability of party leaders (Laver and Shepsle, 1990: 502). Different decision-

making regimes within party organizations constrain the manner in which party actors take and enforce strategic decisions.

The typical distinction is between centralization and decentralization of control (Duverger, 1959: 52). In centralized parties, such as the British Conservative Party, the leadership is endowed with effective decision-making authority; funding flows directly to the centre and the election of the party leader is monopolized by the parliamentary party. The concentration of power at the top drastically limits the prerogatives of the extraparliamentary wing. By contrast, decentralization bestows the factions with autonomous control over at least some 'zones of uncertainty'. More specifically, decision making authority is usually dispersed between the party sub-units, and activists play a prominent role in the selection of the parliamentary party.

What emerges from this discussion is that the difference in the way power is distributed within the party is a key to bargaining relations. Much of bargaining theory is merged with game theory (Binmore, 1992: 167-216). The main contribution of game theory is its logical rigour which helps in highlighting the problems of cooperation and in exploring the strategies that change the payoffs; it cannot, however, constitute a free-standing explanation because it takes strategic opportunities as given (Ward, 1995: 19-20); therefore, it does not shed light on how bargaining costs are altered by the complexity of different organizational settings (North, 1990: 27-35). To encompass this complexity I submit that game theory should be integrated with organization theory.<sup>4</sup>

These remarks lead to the endorsement of a concept of party organizations as 'politically negotiated orders' (Bacharach and Lawler, 1980: 1). The value of this concept lies in its focus on *organizational slack*, that is, the use of discretionary power between organizational actors (Cyert and March, 1992: 41-44). Organizational slack entails that

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<sup>4</sup> For an early attempt at integrating organization theory and game theory see Peaucelle (1969).

information may be hidden or its disclosure postponed; rules may be changed or not applied; communication and coordination may be hindered or facilitated.<sup>5</sup> The consequence is that conflicting goals, including participation and cooperation in government coalitions, preservation of policy preferences, stipulation of alliances etc., must first be reconciled within the party (Belloni and Beller, 1978; Gillespie et al, 1995).

In the light of these considerations, theorists of party organizations have pushed the argument on party goals one stage further by noting that leaders are 'motivated above all by a desire to remain party leaders' (Luebbert, 1986: 46). There seems to be little doubt that controlling the internal arena takes precedence over any other party goal (Mair and Katz, 1992; Panebianco, 1988: 33-44). Innumerable examples show that battles over party platforms are often acrimonious because the outcome stands as symbolic evidence of who controls the party, rather than as a guideline for the making of public policy (Ware, 1987: 125-126). Since the outcome of party platforms reflects the equilibrium of power within the party, it follows that changes in the internal balance of power may alter party policy. Harmel and Janda aptly remark that:

if rival factions differ strongly on the 'basics' of the party's identity, strategy or organization, then displacement of one faction (or coalition of factions) as 'dominant' by another would create a circumstance under which party change - at least on the dimension(s) of greatest dispute - would be possible if not likely. (Harmel and Janda, 1994: 267)

What this means is that bargaining games within the party in power may shed light on the party-policy link. The implication is that governing parties may level or exacerbate income differences irrespective of, on the one hand, the ideology and the social class bases of the

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<sup>5</sup> The key role played by organizational slack in the internal dynamics of organizations is also acknowledged in recent work on the organization of the firm, see Hart (1989).

party in power, or, on the other hand, the frequency distribution of the electorate and the timing of elections. Hence the redistributive impact of parties may be affected by intra-elite competition and therefore be indeterminate.<sup>6</sup>

### **3.3 THE PARTY 'UNDERWORLD' AND REDISTRIBUTIVE POLICIES**

Previous explorations of the party underworld have proved invaluable in detecting the party-policy link. The relative strength of factions in the legislative or executive arena may be a crucial factor in shaping public policy making (De Winter, 1989; Laver and Shepsle, 1990). In Ireland, for instance, Sinnott (1986) found that intraparty politics influenced several policy areas such as capital taxation, abortion and divorce. In a similar vein, Posner (1977) argued that foreign economic policy in post-war Italy was characterized by improvisation and personalism because internal wrangling prevented Christian-Democratic leaders from elaborating coherent policies.

Most scholars of party politics highlight the importance of two organizational 'faces', the leaders and the activists (Graham, 1993: 244-254; Katz and Mair, 1992). A complete description of the internal dynamics of parties must therefore take into account both the horizontal channels of influence among organizational leaders and the vertical channels between leaders and followers.

#### **3.3.1 Intra-elite relations**

Horizontal interactions between party elites are usually considered games of position, power and status (Shubik, 1984 : 655). Not surprisingly, the bulk of recent rational choice research concentrates on bargaining between party elites, especially between members of national

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<sup>6</sup> A similar conclusion is reached by Frolich and Oppenheimer (1984), but in their model this is a consequence of vote-maximizing behaviour.

legislatures (Cox and McCubbins, 1994; Weingast and Marshall, 1988). Empirical research indicates that rivalries between factional leaders are a most powerful source of internal conflict (Cole, 1989; Maor, 1995).

Intra-elite games are often non-cooperative because each faction is trying to maintain or expand its power to the disadvantage of other factions. In order to operationalize the strategies devised by party leaders, I integrate the following concepts which up until now have been treated separately. Preference-accommodating and preference-shaping strategies, introduced by rational choice theorists (Dunleavy, 1991: 128-136), are combined with 'defensive' and 'offensive' strategies, described by political sociologists (Katz and Mair, 1992: 9). Preference-accommodating strategies, which assume voters' preferences are fixed, are similar to defensive strategies, which aim at guarding the interests of the party's core constituency. I operationalize these strategies by associating them to the maintenance of social relativities, that is, the protection of the relative social and economic position of social groups. By contrast, preference-shaping strategies are akin to offensive strategies, which aim at broadening the electoral appeal; operationally, they both attempt at adjusting social relativities, that is, governing parties intervene to alter the relative position of target groups.

The first point to note is that disaggregating the party throws light on the possibility that one faction may opt for maintaining social relativities, while another prefers to adjust social relativities (Schwartz, 1994). This approach highlights the fact that party elites may have more than one policy position. It thus enables one to detect the links between different factions and different segments of society. Party leaders, for example, may appeal to different income groups, by cutting taxes on one income group, while offering more generous social security benefits to another group.

Another important point is that faction leaders have to consider not only which redistributive proposal maximizes electoral support but also which proposal fosters enduring

internal alliances. The implication is that the 'income redistribution game which is zero-sum from the point of view of citizens need not be zero-sum from the point of view of elected representatives' (Frolich and Oppenheimer, 1984: 130). In party organizations, in fact, power games are not zero-sum, though benefits are often asymmetrical with one side gaining more than the other (Panebianco, 1988: 22).

If party leaders endeavour to pre-empt internal competition by outmanoeuvring their rivals, it follows that a change or a credible threat to their leadership will affect either the type or direction of redistributive policies. There is no lack of evidence to show that factions make concessions to rival factions only when they are under threat (Zuckerman, 1979: 137-163).

### **3.3.2 Elite-activist relations**

The discussion so far has been concerned with horizontal channels of influence. Most accounts of intra-party politics, however, centre around the leader-activist relationship. The vast majority of parties in liberal democracies require voluntary labour to conduct a variety of activities. Most of this work is provided by activists who join parties because they believe in a cause. For this reason leaders must induce followers to cooperate by distributing ideological and solidaristic incentives (Ware, 1992; Whiteley et al, 1993). Activists, moreover, may affect the selection of leaders. A recent illustration is provided by the leadership contest in the British Conservative Party in July 1995. The decision of the right-winger John Redwood to fight for the leadership raised concerns about the solidity of Major's support within the party. Jeremy Hanley, then party chairman, warned Conservative MPs that Major's re-election reflected the wishes of the party constituencies. In his words, '[i]f MPs forget who sent them there, then they forget one of the most basic rules of politics. They were all selected by people who work very hard for the party.' As the *Guardian* editorialist continued '[t]he unstated warning is that any more messing around by dissidents would lead

to deselection' (*Guardian*, 5 July, 1995: 3).

Research on leader-activist relations usually depict leaders as vote seekers and activists as policy-seekers, more committed to ideological or purposive goals<sup>7</sup> (Aldrich, 1983; Erikson et al 1989; Robertson, 1976: 32). 'The general rule is that rank-and-file, more concerned with ideology and less in line for the other spoils of office, tend to resent..policy compromises..' (Laver and Schofield, 1990: 24). The strategies adopted are sometimes a function of voters' sensitivity to variations in policy (Davis et al, 1970). A volatile electorate magnifies the role of marginal or undecided voters, urging activists to engage in offensive strategies, such as adjusting social relativities. If, by contrast, the electoral arena is stable, or 'frozen' by the structure of cleavages, maintaining social relativities may be preferred.

One can see the potentially disruptive effect of this diversity with a 'sequential elections' example (Aranson and Ordeshook, 1972). Sequential elections obtain because in order to gain office, leaders must win more than one election, for instance intraparty elections, conventions, primaries and national elections. A typical dilemma of party leaders is to capture the median voter without alienating the median activist (Aldrich, 1989; Coleman, 1971). Page believes that one of the best illustrations of this dilemma was the electoral campaign of Barry Goldwater, 'the very issue stands which brought forth his core of activists [were] likely to alienate much of the general public' (1978: 119). Sequential elections exemplify the dilemma of party leaders when the wishes of party activists differ from those of the wider electorate.

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<sup>7</sup> There is a lively debate in the literature on May's 'Law of Curvilinear Disparity' which asserts that activists are more radical than party elites (May, 1973). For an excellent review see Kitschelt (1989). For a recent reappraisal and empirical refutation with reference to the British case, see Norris, 1995.



### 3.3.3 Party competition, internal rivalry and redistributive policies

Disaggregating the party into horizontal and vertical channels of influence indicates that party leaders simultaneously strive for both power and the distribution of ideological incentives. One of the advantages of viewing parties as organizations is to reconcile the opposition 'between party as a tool and party as a faith' portrayed by rational choice analysts and political sociologists (Pomper, 1992: 148). Organizations, in fact, 'are for the most part mixed-motive settings. In other words parties have tentatively consented both to cooperate and compete. It is through the bargaining process that parties resolve the competition versus cooperation dilemma' (Bacharach, 1983: 361).

Of course, party organizations can sometimes act as cohesive teams resembling unitary actors. The history of party politics offers compelling evidence that external threats may cement internal cohesion. It is well-documented, for example, that Bismark's anti-socialist laws were crucial in the development of oligarchical control within the German Social Democratic Party (Roth, 1979). In representative democracies, moreover, it is generally believed that when electoral competition intensifies, internal wrangling wanes (Berry and Canon 1993). 'Once partisans focus on the general election, the interparty competition redefines the race and helps to mend intraparty factions and divisiveness dissipates' (Atkeson, 1993: 275). Hence viewing parties as organizations does not vitiate conventional models *in toto*; it only places limitations upon them by suggesting 'that the components of competition are far more complex than such simple minded tests' (Davis et al 1972: 442-43). For Robertson this complexity impairs the heuristic value of Downsian spatial models because, as they are set up, there are no costs attached to competitive behaviour (1976: 138).

Changes in the electoral arena, such as the availability and credibility of outside

options, may impinge on the outcome of bargaining games within the party. One of the potential costs of interparty competition is therefore a threat to the internal balance of organizational power (Mair, 1994). For this reason '[o]ne should 'keep well in mind that 'the *outer* moves of a party - the inter-party competition - are also a function of its *inner* moves, that is, of intra-party competition' (Sartori, 1976: 347). Party actors are constantly confronted with the need to maintain, stipulate, or redefine alliances with their partners or with sectors of the electorate.

Disaggregating the political party into sub-units indicates that the payoffs gained in multiple arenas are not as interchangeable as often believed. Rather, payoffs in the internal arena carry more weight because they are linked to the equilibrium of power within the party. This conclusion reinforces the contention that party leaders can either level or exacerbate income differences to improve or secure their own position within the party. The central hypothesis of this dissertation is that party leaders respond to the redistributive demands of their traditional supporters if the dominant faction is not replaced by another faction or challenged by an external or internal threat. To mitigate threats to its position, the dominant faction may devise strategies aimed at moulding new social identities by manipulating entitlement and eligibility rules.

## Conclusions

Scholarly work on the incentives for income redistribution in a liberal democracy has produced fundamentally different interpretations. The main theoretical division within this field is drawn between those who seek sociological explanations on the one hand, and those who focus on instrumental rationality and strategic moves of parties on the other. The difference between the two camps rests on the emphasis placed on questions of identification and self-interested, egoistic behaviour. Their similarities lie in the endorsement of the unitary

actor model and preference- homogeneity among party leaders.

The central problem for sociological accounts remains their disregard of non-societal cleavages; their approach contains no acknowledgment of elite-induced conflicts. This perspective reflects a general tendency in post-war political science 'to see the causal links between society and polity as running from the former to the latter, rather than the other way round' (March and Olsen, 1984: 735). Established rational choice models fall prey to a similar difficulty. The independent role of political parties in the redistributive process cannot be adequately addressed by prevailing demand-driven models. If governing parties are vote-takers, their moves are inevitably dictated by exogenous factors.

Supply-side explanations in many ways complement and integrate established approaches by suggesting that the driving forces behind income redistribution may be endogenous to the redistributive process. Governing parties may try to persuade voters to support new redistributive programmes. Yet a central difficulty remains. Assessing whether redistributive policies are demand or supply driven does not explain why governing parties accept trade-offs between social security benefits and budget constraints. One way to address this issue is by identifying the linkages between party factions and different groups of welfare recipients. The apportionment of redistributive costs and benefits can also be viewed as the outcome of bargaining between party factions. This analytical step, however, requires moving beyond unitary models, and endorsing a conception of parties as complex organizations. In this way redistributive policies appear as the product of variable sum games which factions play in multiple arenas - with priority given to internal payoffs.

In the next three chapters I analyse income distribution and redistribution in Australia, the United Kingdom and Canada. Their aim is to bring together valuable insights about the personal distribution of income offered by economics and political science. There I apply the methods and the theories examined and summarized so far.

## CHAPTER FOUR-RISING INEQUALITY UNDER BOB HAWKE, 1981-1990

Ahead of us lay the polemical exercise of persuading the Labor Party to abandon the tired certitude of an earlier age and to prepare for the future.

Bob Hawke (1994: 252)

### 4.1 POLITICAL BACKGROUND

In 1983 the Australian Labor Party (ALP) returned to office after a lengthy period in opposition. Under the leadership of Bob Hawke the party succeeded in winning four consecutive elections, breaking the historical pattern of short-term Labor governments followed by long-term Liberal-National (former Country) Party coalitions. When Labor took office Australia was undergoing dramatic economic and social changes. The economy had been struck by the most severe recession since the 1930s. Inflationary pressures were mounting and unemployment was soaring. Adverse terms of trade meant the budget deficit in 1983 reached almost \$4.5 billion compared with an estimate of less than \$1.7 billion.<sup>1</sup>

A significant determinant of Australia's vulnerability was the structure of her trade: a small economy dependent on a narrow range of exports (Castles, 1988: 36-60; Gregory, 1991: 103-123). As the price of raw materials plummeted in the late 1970s, Australia registered large monthly current accounts deficits which precipitated the AS\$ depreciation in February/March 1985. The perceived economic imperatives were to improve international

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<sup>1</sup>The true estimate of the deficit had been suppressed by the outgoing Fraser Government. This was an important element in subsequent elections, since the ALP were able to recast themselves as the party of fiscal responsibility.

competitiveness, restructure the Australian industry, and deregulate the financial market (Fagan and Bryan, 1991: 11; Halevi and Kriesler, 1993: 3-14; Kearney, 1993: 25-33). Hawke wrote in the *Labor Times* that 'restructuring the economy - creating a more competitive, diversified, productive and export-oriented Australian economy - is the only sure way towards lower unemployment and higher living standards' (*Labor Times*, 1983: 2). A crucial step in this direction was to forge an industrial relations system more flexible to the demands of international markets (Thomas, 1991: 37). For this reason the Hawke government pursued an incomes policy, the so-called Accord, which provided widespread consensus among business pressure groups and trade unions (Singleton, 1990: 121-154).

The general thrust of these developments was to reduce the size and scope of government intervention. In the words of the Federal Treasurer, Paul Keating:

the logic of our economic policies leads to an expectation of smaller government as a proportion of the economy over future years...Australia's need for budgetary restraint in the years ahead occurs precisely because the private sector is expected to expand solidly. Public stimulus in this context is not only unnecessary; it would be positively harmful to the prospect of sustained growth. (Keating, 1985: 20)

Sound economic management apparently required cutbacks in welfare spending, despite available evidence suggesting that the social security system improved equality by providing income support to the lowest income households (Harding, 1984). Over the 1980s government spending fell by over 4 percentage points of GDP and social security outlays declined. The slowdown in spending was partly a consequence of economic developments, most significantly a growth in employment that was impressive by international standards. The trend was reinforced, however, by redistributive policies directed specifically at cutting spending by improving the targeting of income support payments (Saunders, 1991).

Entitlement for social security benefits in Australia has been conditioned by the

private means of those eligible (Saunders, 1994: 21-33). The selectivity of the social security system was one component of the strategy of 'domestic defence' which distinguished Australia from other capitalist states from as early as the beginning of this century (Castles, 1988: 91-108). Domestic defence involved strong regulative intervention to protect labor, such as full employment policy, restrictive immigration, industrial protection and an arbitration system. The early mobilization of the working class led to compulsory conciliation and arbitration of industrial disputes, which aimed at protecting living standards by achieving a minimum wage (Castles, 1985: 83). Consequently, unemployment benefits have been funded from general revenue and have not been related to the claimants' previous earnings. A potential difficulty with a non-contributory scheme is that it may have less legitimacy than unemployment insurance, because there is no explicit perception of the employees having 'earned' their benefit through their years in the labour force (Cass, 1988: 37).

An important implication of the strategy of 'domestic defence' is that cash transfers have been of secondary or residual importance in securing social policy objectives, in sharp contrast to the social democratic concern for universal welfare (Beilharz, 1994: 82; Manning, 1995). Comparative research on the welfare state indicates that the Australian social security system is one of the most selective in the western industrialized world (Mitchell, 1991: 187-190; Saunders, 1991). Australia has typically been depicted as a 'laggard' in the expansion of the Welfare State because it has one of the lowest expenditures in transfer benefits amongst OECD countries (Esping-Andersen, 1990: 74-76). Trends in government outlays, however, may conceal that Australia enjoyed high levels of employment and a young demographic profile. These factors contributed to the development of a wealthy and relatively egalitarian society (Castles, 1988: 30-33).

Like most industrialized countries, it was not until the 1970s that Australia underwent

deep socio-economic changes. The decline of the traditional family of wage-earning father, non-earning mother and dependent children affected the distribution of income. Higher rates of marital breakdown, for instance, increased the number of one-parent families (Gibson, 1990: 180). In addition, double-digit inflation meant low income families had seen the erosion of the real value of the family support programmes which led to substantial increases in the level of child poverty (Whiteford, 1986). As a result the coverage of social security programmes steadily improved.

The expansion of social security outlays was also a reaction to significant change in the rate, duration as well as distribution of unemployment. In 1975 only 19 percent of unemployment beneficiaries received benefit for more than 6 months, by 1985 this proportion had increased to 53 percent and 35 percent of beneficiaries had been in benefit for over 1 year (Cass, 1986: 5). In 1975 there were 161,000 people in receipt of unemployment benefit, comprising 2.6 percent of the labour force. By 1985 the number of beneficiaries was 561,000 comprising 7.8 percent of the labour force.

Labor, therefore, came to power with a sharp increase in welfare dependency; yet one of the most significant features of the Hawke government's approach to social security policy has been greater targeting of those most in need. Table 4.1 shows that while the number of social security beneficiaries grew until the early 1980s, the advent of Labor to power coincided with a reversal of the trend. Between 1983 and 1989 the recipients of old-age pension declined by 4 percent and family allowance recipients dropped by 10.6 percent. These facts seem to raise doubts about claims of 'creeping universalism' in the Australian welfare state (Goodin and Le Grand, 1987: 108-126).

Cutbacks in government outlays were justified on the basis that resources had to be diverted to 'productive' rather than 'unproductive' sectors. The new creed of the Hawke-Keating alliance was that socially protective activities hindered 'wealth production'. As

4.1. Trends in the number of social security beneficiaries (Thousands)  
Australia, 1975-1989.

Year ended 30 June	old-age pension	invalid pension	sole parents benefits*	UB**	special benefit	sickness benefit	family allowance
1975	1097	197	36	160	5	25	n.a.
1977	1205	246	50	250	8	33	2051
1979	1292	275	62	312e	13e	32e	2059
1981	1347	279	106	314	18	49e	2092
1983	1390	277	140	635	20	64	2155
1984	1358	307	153	584	18	62	2179
1985	1331	335	168	561	18	63	2191
1986	1324	357	176	569	18	65	2153
1987	1322	379	179	550	19	70	2136
1988	1328	388	182	475	22	75	1948
1989	1334	402	188	390	25	78	1927

Source: Australian Department of Social Security, Annual Report 1988-1989, various tables.

\* supporting parent's benefit was replaced by sole parent's pension in March 1989. Figures do not include benefits from March to June 1989.

\*\* UB= unemployment benefit

a) includes numbers in receipt of job search allowance introduced in 1987.

e) estimate.

Hawke wrote in his memoirs, 'Keating shared my desire for a modern, relevant party committed to economic growth rather than merely more equitable shares of a diminished cake' (Hawke, 1994: 235). The policies implemented, such as the incomes policy, aimed at benefitting those involved in relations of production. For this reason some analysts believe that Labor's redistributive policies over the 1980s were consistent with the ALP tradition, and should be considered largely in pragmatic terms (Head, 1985; Manning, 1995; Mishra, 1990: 79-92; Singleton, 1990: 3-10). Since the ALP had never been a revolutionary party, its policies were not 'constrained by the politics of the past' (Piven, 1991: 12).



A different view holds that the overall direction of Labor social security policies in the 1980s challenged the philosophical underpinnings of the ALP platform and principles (Beilharz, 1994: 179-206; Sharp and O'Leary, 1991, ix). The Labor governments under Curtin and Chifley introduced social security policies that were an advance on those of their conservative predecessors and devoted an increased proportion of government expenditure to them (Johnson, 1989: 101). Under Curtin and Chifley several important measures were introduced, such as child endowment in 1941 and the widows' pension in 1942. When Labor came back to power in 1972, the Whitlam government expanded income support for the poor and progressively abolished the means test for persons over 70 years-old (Bryson, 1988: 492).

These developments buttress the contention that Labor traditionally aimed for more social and economic equality and favoured a method of more effective social control over the dynamics of the economy to achieve these aims (Elliott, 1986; Jeansch, 1983: 171; Maddox, 1989: 161-179). To some authors the emphasis on targeting and selectivity appeared a retreat from social equity and social reform (Elliott, 1986: 134; Gibson, 1990: 180-203). Hawke stressed in his memoirs that '[t]he world of Ben Chifley was not... the world of the 1980s' (1994: 252). By the late 1980s virtually all income support payments in Australia were subject to means tests, with the main exception being the invalidity pension to blind individuals (Saunders, 1991: 305).

For others the key to understand Labor's redistributive policies rests on the dynamics of party competition, rather than on free market principles (Jaensch, 1983: 74-100; Duncan, 1989). With respect to party competition, Australia is perhaps the best example of:

non-plurality majoritarian systems [which] are quite similar to plurality systems except that they tend to create two blocs (strong coalitions) of parties instead of a two party system, and parliamentary majorities for one of the blocs rather than for one party. This seems to be especially true for Australia. (Lijphart, 1994: 143)

The Australian party system has officially three government parties, comprising the right of centre Liberals, the primarily agrarian National Party and the left of centre Labor Party. Competition, however, is bipolar because the National Party has competed against Labor in virtually permanent alliance with the Liberals. The National Party is a small party with its main base in Queensland and the rural parts of Victoria and South Australia. The programmes of the National Party have a narrow set of concerns and thus it can hardly be regarded as a serious contender for power without the Liberals.

During the 1980s these two blocs contested three general elections, the first on 5 March 1983, the second on 1 December 1984, and the third on 11 July 1987. Whether the market economy or party competition were the driving forces behind income redistribution can only be assessed after a close examination of inequality trends.

#### **4.2 TRENDS IN INCOME INEQUALITY**

Before investigating inequality trends it is important to note that the processes generating and redistributing income in Australia have several unique features as compared with those of other OECD countries (Saunders, 1993b). The most relevant factors are the incomes policy, a social security system financed from general revenue and paying flat-rate means-tested benefits<sup>2</sup>, and a tax system which relies heavily on personal income taxation but raises total revenue in relation to GDP which is low by international standards. During the 1970s, comparative research on income distribution showed that the Gini index for Australia was consistently amongst the lowest of the countries studied (see Gruen, 1979: 10-15). The

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<sup>2</sup> Means-tested benefits are used either to decide whether a person should be exempted or refunded from a charge or to allocate income maintenance benefits, such as supplementary benefits. Universal benefits are provided at the same level to all who qualify.

international trends reported in Chapter One, however, suggest that in the 1980s Australia fared less well, finding itself in the middle of the inequality ranking.

International trends, however, rely on one or two data points, leaving unanswered many questions regarding the nature and the changes taking place in the distribution of income in each country. For this reason Table 4.2. describes the inequality trend in Australia

*Table 4.2. Trends in Income Inequality in Australia, 1981/82-1989/90.  
(Adjusted household post/tax-post/transfer income).*

YEAR	ATKINSON		CV	GINI	THEIL
	$\epsilon=.5$	$\epsilon=1.5$			
1981/82	.792	.776	.561	.302	.150
1985/86	.823	.812	.599	.309	.161
1989/90	.901	.850	.653	.322	.178
percentage change					
1981/82-1985/86	3.9	4.2	6.7	2.3	7.3
1985/86-1989/90	9.8	4.7	9.6	4.2	10.5

Source: computed by the author from LIS. Income is adjusted with the OECD equivalence scale.

over the 1980s according to five inequality indices. Table 4.2. shows that whichever index is used there is less equality in 1989/90 than 1981/82, the most substantial changes occurring in the second half of the decade from 1985 to 1989.

These results corroborate recent works analysing information on the distribution of income in Australia (Lombard, 1991; Gregory, 1993). Saunders's longitudinal study covering a period from 1942 to 1989-90 shows that the magnitude of the trend towards increased income inequality in the 1980s is substantial in a longer run context (1993b: 361). In

addition, the distribution of wealth was increasingly concentrated. Eaton and Stilwell (1993: 3) find that the 'prosperity of the wealthiest Australians during this period was truly spectacular'. These findings reinforce the contention that '[f]amiliar generalizations about Australia's unique 'egalitarianism' seem strangely irrelevant to the factual picture' (Connell, 1991: 147). In a comment reported by the British press, the former Australian Liberal Prime Minister, Malcom Fraser, observed that:

At the beginning of the decade the top 1 percent of the population owned as much as the bottom 10 percent. Now that 1 percent owns as much as the bottom 20 percent. What an epitaph for a Labour government, for any government. (*Guardian*, 20 December 1991)

Fraser seemed to believe that growing income disparity between rich and poor was the outcome of Labor redistributive policies. The validity of this statement can only be assessed after investigating other potential sources of inequality, including demographic and market effects. A variety of factors not directly connected to government policies may have influenced the distribution of household income. For example, the age structure of the population or the household composition may affect the distribution of income by changing the number of people in different income-groups. Other factors, such as wage-differentials, affect income *per se*.

#### **4.2.1 Demographic effects**

The most significant demographic change over the 1970s and 1980s in Australia was the ageing of the population and the slowdown in birth rates (Cass, 1988; Gibson, 1990; Saunders, 1993b). These demographic trends altered aggregate distribution and this may have given the appearance that inequality increased if measured with unsophisticated techniques (Harding and Landt, 1992). In order to assess the contribution of the age structure to total

inequality we need to evaluate trends within and between age groups. However, not all inequality indices are decomposable into sub-groups of the population. To analyse structural changes I adopt the Generalized Entropy Index with  $\theta=.5$  because it is ordinally equivalent to the Atkinson Index with  $\epsilon=.5$ , which I have used as a summary measure, but it is much easier to decompose.

Table 4.3 sets out the results of income decomposition methods which disaggregate the contribution to total inequality of changes within and between age groups. It is evident that the age effect is stable throughout the 1980s which means that the ageing of the population had almost no distributional impact. By contrast, changes in within-group

*Table 4.3. Contributions of changes within and between age groups to the trend in total inequality in adjusted post/tax-post/transfer income. Australia 1981/82-1989/90.  
(Inequality Index: Generalized Entropy Index  $\theta=.5$ ).*

Year	Total inequality	Within group inequality	Age effect (between group inequality)
1981/82	39.1	14.3	24.7
1985/86	39.4	14.8	24.6
1989/90	41.5	16.0	24.3

Source: computed by the author from LIS.

inequality significantly affected changes in aggregate inequality, implying that other factors had important distributional effects.

The second step in the age decomposition analysis is to consider how inequality would have changed had there been no modifications in the population shares. Table 4.4 reports the actual values of the inequality index and its hypothetical values with fixed population shares. The first simulation combines population shares of 1981/82 with the

income figures of 1985/86 and 1989/90 and shows that aggregate inequality increased slightly from 39.5 to 39.7 in 1985/86 and from 41.5 to 41.7 in 1989/90. Inequality also grew when I combined the population shares of 1985/86 with the income figures of 1989/90.

Reversing the simulation and combining the population shares of 1989/90 with the income figures for 1981/82 yielded a marginally lower index. These findings are reassuring for the robustness of our previous results. Between-group inequality during the 1980s was stable, with hypothetical values very close and in some cases the same as actual values. By contrast, within-group inequality was higher in the second half of the decade for both actual and hypothetical values. The general significance of the age-decomposition analysis is that inequality in Australia during the 1980s was not affected by changes in the age structure.

*Table 4.4. Age decomposition of inequality in adjusted post/tax-post/ transfer income. Australia 1981/82-1989/90 (Inequality Index: Generalized Entropy Index with  $\theta = .5$ ).*

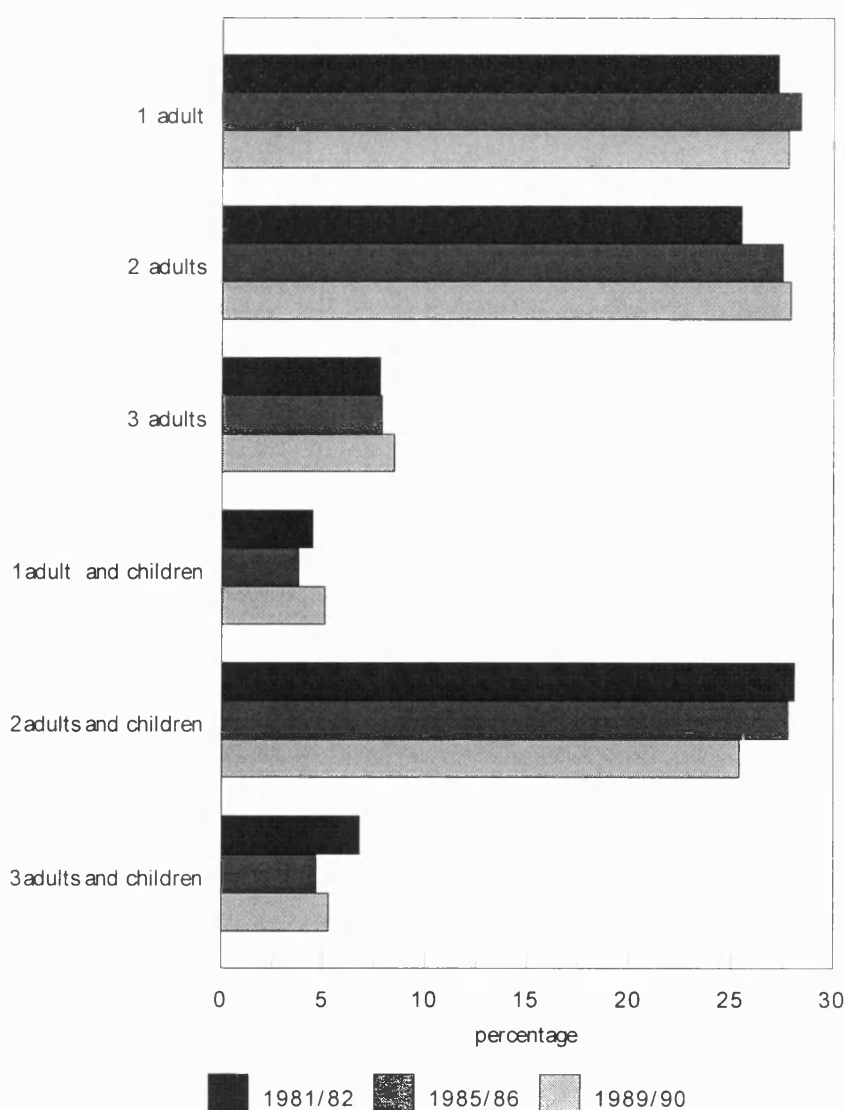
Year	Actual values%	Hypothetical values with fixed population shares%		
		1981/82	1985/86	1989/90
Total inequality				
1981/82	39.1	39.1	38.3	38.8
1985/86	39.5	39.7	39.5	39.4
1989/90	41.5	41.7	41.6	41.5
Between-group inequality				
1981/82	24.7	24.7	24.6	24.6
1985/86	24.6	24.8	24.6	24.7
1989/90	24.6	24.7	24.6	24.6
Within-group inequality				
1981/82	14.3	14.3	14.2	14.2
1985/86	14.8	14.9	14.8	14.7
1989/90	16.8	17.0	16.9	16.8

*Source:* computed by the author from LIS.

Explanations of aggregate inequality founded on the ageing of the population are therefore called into question.

The demographic structure, however, may affect aggregate inequality also when household size and composition change. The trend towards smaller households in Australia may give the mistaken impression that inequality has increased because they prevent income pooling. Figure 4.1 shows that the proportion of the population that was living in households comprising childless adults grew over the 1980s. The proportion of households headed by

Figure 4.1 Distribution of the population by household type. Australia 1981/82-1989/90



Source: computed by the author from LIS

a single parent declined in the mid-1980s but grew again in the third period. This suggests that the economic recession had a profound impact on the possibility of single parents raising children. One area of sharp decline was in the 'representative' household comprising two adults with children. Table 4.5 presents the results of inequality decomposition when the grouping variable is household size. The growing proportion of smaller household sizes had a slight impact on inequality, as revealed by the growth in the values of the Generalized Entropy Index for between-household inequality from 24.0 in 1981/82 to 24.9 in 1989/90. The strongest influence lies in the growth of within household inequality from 15.1 in 1981/82 to 16.6 in 1989/90. This suggests that the trend towards smaller households had a

*Table 4.5. Contribution of inequality trends within and between different household sizes in total inequality. Adjusted post-tax-post/transfer income. Australia 1981/82-1989/90. (Inequality Index: Generalized Entropy Index with  $\theta = .5$ ).*

Year	Total Inequality	Within-household inequality	Between-household inequality
1981/82	39.1	15.1	24.0
1985/86	39.5	14.9	24.6
1989/90	41.5	16.6	24.9

*Source:* computed by the author from LIS.

negligible effect on aggregate inequality. The main conclusion that can be drawn from the decomposition analysis is that the distributional impact of changes in the demographic sphere was remarkably low. The proportion of aggregate inequality attributable to 'between-group' inequality was not very significant.



#### 4.2.2 Market effects

For most economists the major source of inequality stems from the market sphere because wage differentials shape the income distribution (Jenkins, 1991; Gregory, 1993; Saunders, 1993b). When trying to pinpoint the location of changes in a distribution, summary measures like the Gini coefficient or the Generalized Entropy Index are not adequate. For this purpose I follow Fritzell's (1993) suggestion of using a descriptive categorization and I adopt the categories he defines.

An in-depth study of market-related differentials is of course outside the scope of this work. I will simply glance over some explanations concerning the pre/tax-pre/transfers income distribution by focusing on families with a household head aged 20-64. The interesting aspect is whether the growing inequality was affected by changes in the lower or upper part of the earnings distribution (or both). The income classes are the following:

1. Market income less than 50 percent of the median;
2. Market income equal to or greater than 50 percent but less than 150 percent of the median;
3. Market income equal to or greater than 150 percent but less than 200 percent of the median;
4. Market income equal to or greater than 200 percent of the median.

The cut-off values of the income classes do not give classes of equal size but there is one category for very low market incomes, a very broad middle category and two well-off categories.

As mentioned in section one, during the Labor decade wages were regulated by the Accord. The agreement was sustained by strong personal links between members of the Cabinet and the Australian Council of Trade Unions (ACTU). Prime Minister Bob Hawke was ACTU president from 1967 to 1980 and Ralph Willis, Labor Minister of Employment and Industrial Relations, was also a former ACTU official. The reforming ideas of Hawke

and Keating were shared by the ACTU new men, Kelty, the head of the ACTU and his associate, Simon Crean (Gruen and Grattan, 1993: 111-134).

The economics of the Accord was in sharp contrast to the previous monetarist and 'restrictionist' experiment of the Fraser Liberal government (Stutchbury, 1990: 55). It guaranteed wage restraint by the ACTU in exchange for increases in the social wage and commitment to tax reform to achieve greater vertical and horizontal equity. Its main achievement was the reduction in long-term unemployment, which had been a major concern in the mid-1980s (Flatau et al, 1991: 135-161). One of the central tenets of the Accord was improved support for low income groups. As the document stated:

The parties have reached the agreement that the objectives of such an approach should be to protect the living standards of Australians including wage and salary earners and non-income earning groups. (*Statement of the Accord*, 1983: 5)

Thus underpinning the Accord were redistributive concerns flagrantly defied by Hawke's social security reforms. The partners agreed on 'the equitable redistribution of income as well as basic economic objectives' and pursued the aim 'to foster social equity by striving to improve the relative position of the most disadvantaged' (Statement of the Accord, 1983: 6/24).

Contrary to these expectations, Table 4.6 shows that over the 1980s the proportion of the population with net income below 40 percent of the median grew from 17.3 percent to 18.9 percent, an overall increase of 1.6 percent. The table also confirms our previous findings that poverty mainly increased in the second half of the 1980s when the economy was booming. These figures support the contention that by dismantling important aspects

*Table 4.6. Proportion of the population with gross and net adjusted income below different poverty lines. Australia 1981/82-1989/1990.*

year	income	1981/82	1985/86	1989/90	percentage change		
					81/82-85/86	85/86-89/90	81/82-89/90
Gross Income	< 40%	18.6	18.3	18.6	- .3	+ .3	0.0
	< 50%	25.5	25.9	25.7	+ .4	- .2	+ .2
	< 60%	30.1	31.5	31.2	+1.5	- .3	+1.1
Net Income	< 40%	17.3	17.3	18.9	0.0	+1.6	+1.6
	< 50%	24.9	25.9	26.3	+1.0	+ .4	+1.4
	< 60%	31.2	32.9	32.7	+1.7	- .2	+1.5

*Source:* Computed by the author from LIS

of the welfare system, Labor 'treated redistribution questions in an unsophisticated way, as a byproduct of growth' (Jennet and Stewart, 1990: 9).

In principle the Accord should have restrained wage dispersion. Figure 4.2 shows, however, that over the 1980s the distribution of market income was more spread away from the middle. The proportion of households earning between 50 and 150 percent of median market income declined by 3.8 percent from 1981/82 to 1989/90. The falling number of workers with middle range incomes was associated with growth in the lower and upper tails of the distribution. The proportion of households earning less than 50 percent of the median grew by 1.7 percent, while those earning over 200 percent of the median increased by 1.8 percent.

Market income inequality was therefore a significant factor in the trend towards wider income differentials. As in other industrialized countries, income polarization reflected the phenomenon of the shrinking middle, a fact which produces disequalizing effects on the distribution of income (Duncan et al 1991; see OECD Employment Outlook, 1994).<sup>3</sup> It is worth noting, however, that while the pattern of Australian wage growth is not unique, the Accord may have had more noticeable effects on other areas, such as combating unemployment (Dowrick, 1991: 137).

#### **4.2.3 The distributional impact of transfer income**

Leaving aside the important issue of whether trends in market income are genuinely independent of governments' actions (van Arnhem and Schotsman, 1982), we may address the issue of the relative influence of market income and transfer income on aggregate inequality. By contrast to the problem of decomposition by population subgroups there are relatively few inequality measures which can be conveniently broken down by income component (see Appendix D). The squared coefficient of variation in equation 1.1, allows to decompose the total change in inequality into changes arising from each income component. The direct effect of each income component is measured by deriving the partial derivatives from equation 1.1; their indirect effect is measured by the correlation coefficient ( $\rho$ ). This decomposition illustrates that increases in transfer income inequality will affect total inequality not only through the increase in transfer income inequality but also if transfers become more dependent on market income, as expressed by the correlation

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<sup>3</sup> Wolfson (1993) has pointed out that income polarization and income inequality are two different concepts. The population included in analyses of income polarization is not representative of the whole population because it comprises of only the labour force and in most studies, the male labour force. It also goes without saying that the share of the population with middle level incomes going up or down partly depends on how 'middle' is defined.

coefficient.

In equation 1.1 total inequality is a weighted sum of market income inequality ( $C_m$  = coefficient of variation of market income) and transfer income inequality ( $C_t$  = coefficient of variation of transfer income),  $\lambda$  is the share of market income to total income:

$$1.1 \quad C^2 = \lambda^2 C_m^2 + (1-\lambda)^2 C_t^2 + 2\lambda(1-\lambda) C_m C_t \rho$$

We first substitute the values reported in Table 4.7 and differentiate with respect to  $C_m$ . The

*Table 4.7. Income Decomposition. Values for the Coefficient of Variation of Market Income ( $C_m$ ), Transfer Income ( $C_t$ ) and the correlation coefficient ( $\rho$ ). Australia 1981-1990. (Gross Income)*

variable	1981/82	1985/86	1989/90
$C_m$	0.88	0.84	1.005
$C_t$	1.42	1.38	1.63
$\lambda$	0.87	0.9	0.88
Pearson's coefficient ( $\rho$ )	-0.4376*	-0.4154*	-0.3969*
*signif.LE. 01 two-tailed			

Source: computed by the author from LIS.

results of these computations are set out in the first row of Table 4.8. Their substantive meaning is that market income inequality had a stronger distributional impact in the late 1980s, reflecting the process of income polarization discussed in section 4.2.2. We then differentiate with respect to  $C_t$ , the coefficient of variation of transfer income. The results are set out in Table 4.8 and show that transfer income inequality exerted a stronger impact in the mid-1980s. One of the reasons is presumably the persistence of higher unemployment rates

*Table 4.8. Results of partial derivatives from equation 1.1. Australia 1981/1989*

partial derivative	1981/82	1985/86	1989/90
$dC/dC_m$	0.84	0.88	0.85
$dC/dC_t$	0.82	0.89	0.83

*Source:* computed by the author.

combined with more stringent eligibility and entitlement rules. The decomposition analysis points out that transfer income inequality played an important role in aggregate inequality, which means that variations in social security benefits had important effects on inequality trends.

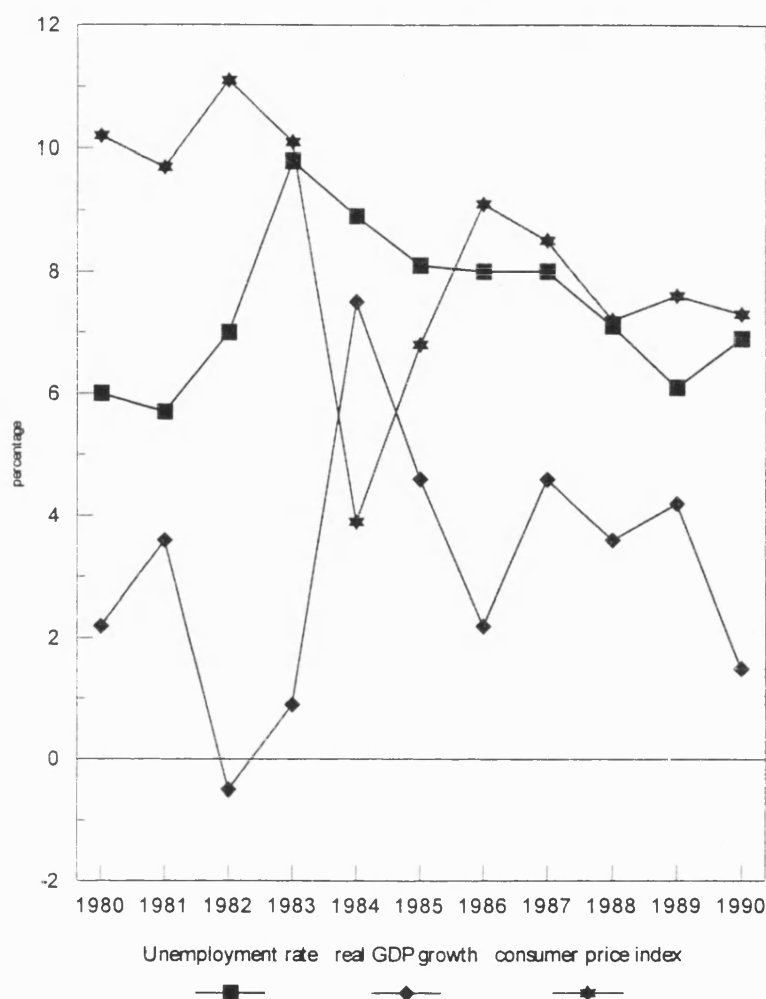
### **4.3 EXPLAINING CHANGES IN TRANSFER POLICIES: ECONOMIC CYCLES AND ELECTORAL POLITICS**

In earlier sections I have mentioned that one of the most noticeable difference between Australia and other OECD countries is that international trade is only a small fraction of economic activity. This aspect of Australian trade may lead to the conclusion that international fluctuations have little or no effect on its domestic economic cycles. Yet Australian export prices fluctuate more than export prices in other OECD countries because they consist chiefly of raw materials, such as rural and mineral products (Gregory, 1991: 103). Labor's macroeconomic policy over the 1980s must be viewed against Australian vulnerability in international trade, the deterioration of the terms of trade in the early to mid-1980s, and the massive budget deficit it produced.

### 4.3.1 Macroeconomic cycles

Any account of redistributive policies in Australia must therefore be qualified by reference to macroeconomic variables. Some analysts claim that reductions in government outlays were triggered by economic imperatives, which led Hawke to place redistribution of wealth second to wealth production (Duncan, 1989: 20). Figure 4.3 illustrates that the dramatic drop in real GDP growth in the early 1980s was associated with sharp rises in unemployment and inflation rates. Growing inequality in the mid-1980s might have been a consequence of the economic depression, corroborating hypotheses on the anticyclical nature of inequality. From the mid-1980s onwards, however, a world wide economic recovery was under way and Australia gained from favourable terms of trade. Figure 4.3 shows an impressive surge in real Gross Domestic Product growth in the mid-1980s, rising employment rates and a relative slowdown in inflation. By 1987 these developments, coupled with draconian spending cuts, meant that government expenditure was heading back towards the level that had prevailed in the early 1970s, before Whitlam's expansionary policies (Parkin and Bade, 1990: 628-629). Positive prospects of economic growth after the mid-1980s were not accompanied by expansionary redistributive programmes. On the contrary the 'Hawke government..became one of the most fiscally conservative governments that Australia has had' (Parkin and Bade, 1990: 637). Note that tight fiscal policy was not a consequence of Labor's flirtation with monetarism. In the mid-1980s the Reserve bank abandoned monetary targeting because structural changes in the demand for M3 made interpreting the growth rate of that, or any other monetary aggregate, too difficult (Parkin and Bade, 1990: 633). In the wake of deregulation and financial innovations, monetary aggregates became unreliable indicators of

Figure 4.3. Trends in unemployment rate, real GDP growth and consumer price index.  
Australia 1980-1990



Source: OECD Historical Statistics, 1977-1990

the money supply. The abandonment of monetary targeting was a conscious decision not to use the money supply as an instrument to curb inflation (Argy, 1992: 202).

If one endorses the New Right belief in 'trickle down' effects, economic recovery should have been accompanied by lower levels of income inequality. According to the results presented in the previous section, however, between 1985 and 1989 all inequality indices rose. This discrepancy is rather puzzling since Figure 4.3. clearly illustrates that the main macroeconomic indicators were improving between 1986 and 1989. These facts suggest that macroeconomic variables cannot be considered the determinants of income inequality in the second half of the decade.



### 4.3.2 Electoral politics: median voter and political business cycles

A widespread interpretation of Labor's redistributive policies rests on the dynamics of electoral competition. Demand-side explanations suggest Labor's redistributive policies aimed at winning middle class votes, located at the centre of the ideological space. It is well-documented that the ALP made inroads into the Australian middle class since the late 1960s (Hughes, 1994; Maddox, 1989: 94-137). Labor concentrated its efforts in appealing to the suburban middle class not only to win more votes but also to redress the bias associated with malapportionment. Arguably, Labor's major electoral drawbacks were the over-representation of rural districts combined with the vote-seat distortion resulting from the geographical concentration of its electorate (Gudgin and Taylor, 1979: 166-167).

For some authors, the 'middle-classing' of Australian politics had structural roots. Drawing on Przeworski and Sprague's thesis (1986) that socialism cannot be attained in liberal democracies, Duncan (1989) maintains that vote maximization led Labor leaders to abandoning socialist principles. Others believe that the transformation of Labor into a catch-all party reflected the decline of blue-collar workers and the growing number of white-collar workers (Jaensch, 1989: 46-58).

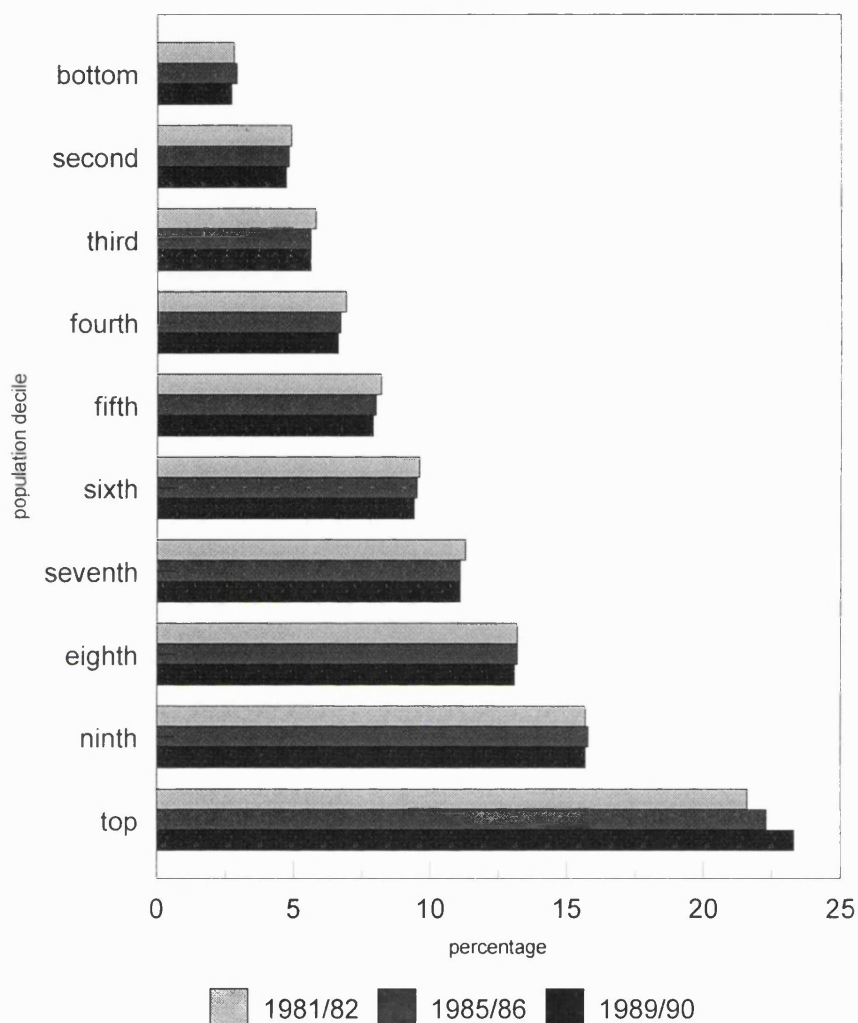
Spatial proximity may also stem from the mechanics of the electoral law. A well-known feature of Australian politics is that a majority of seats is regarded as safe for one party or another. In the 1980s a seat was 'safe' if a swing of over 10 percent was needed to lose it; it was 'fairly safe' if the swing was between 6 to 10 percent, and 'marginal' if it was less than 6 percent (Wright, 1986: 130). Some psephological explanations suggest that Australian parties converge to the centre because they feel confident about the votes of their core constituency. The relative stability of the electoral arena combined with compulsory voting means that 'parties seek support among the 'swinging' voters, and this has added to the

impetus of both Labor and non-Labor to spread to the 'centre' of politics in Australia' (Bean and Butler, 1991: 98).

Hypotheses based on centripetal competition would lend support to the view that redistributive policies mainly benefitted middle income classes. The expectation is that higher shares of disposable income accrued to the median income decile. Figure 4.4 shows the disposable income share of population deciles between 1981/82 and 1989/90. It is clear that households in the middle deciles lost between .2 percent to .3 percent of their disposable income from 1981/82 to 1989/90. Although this is a slight decline, it runs contrary to expectations. It is worth noting that the largest absolute changes occurred at the top, where income increased by 1.7 percentage points. The relative lowering of living standards for the middle income classes suggests that the 'middle-classing' of Australia is not as unquestionable as often assumed (see also Manning, 1992: 17).

A different view holds that associations between voting behaviour and redistributive policies may be related to the timing of elections. In Australia there is a three-year electoral cycle and this should be taken into account when interpreting the evidence. A detailed examination of social security policies suggests that some changes were compatible with the predictions of the political business cycle. In the 1984 Budget, for instance, the Labor government accepted the unions' proposal of a tax cut of \$7.60 a week for incomes between \$12,000 and \$25,081. According to the LIS dataset of 1985/86 median gross income was \$21,650. Since most unionized workers were employed in skilled jobs, they presumably earned between \$12,000 and median income. These figures, therefore, support the contention

Figure 4.4 Decile percentage income share. Australia 1981/82-1989/90.  
Adjusted post-tax/post-transfer income.



Source: computed by the author from LIS

that 'the tax cuts were blatantly tailored to favour the ACTU's constituency' (Carew, 1992: 83).

Before the general election of 1984, indexation was restored for the single adult rate. In line with the predictions of the PBC, the Labor government promised to eradicate child poverty during the electoral campaign of 1987 to shore up its traditional working class support (Warhurst, 1988). Since the decline in living standards was perceived to be connected to cuts in government outlays, Brian Howe, the Minister of Social Security, announced a

'family package' aimed at protecting the needy. For Hawke the new family package ensured that '[b]y 1990, no Australian child will be living in poverty' (Hawke, 1994: 403). The package was to cost \$405 million in a full year. Of this \$234 million was to be spent on a family allowance supplement of \$22 per week to be paid to mothers from 1 November 1987. An additional teenage (13-15 years) supplement of \$6 per week was to be paid from 24 December (\$69 million). The Family Plan was well-received by both welfare lobbies and Labor's voters at large (Simms, 1988: 435)

Apart from some generous benefits being introduced before elections, other restrictions were enacted after elections. One year after the 1983 election, unemployment benefits for those aged 18 to 20 were excluded from full indexation. An asset test for those aged 25 and over was introduced which operated alongside the normal income test. The waiting period for school leavers to apply for benefits was extended from six to thirteen weeks soon after the 1987 election. The Women's Electoral Lobby noted a range of measures which discriminated against women (Simms, 1987). The government reduced to 15 the maximum age for children to enable the parent to qualify for allowances. In addition, the means testing of the family allowance 'hurt women because it had always been a payment to the 'purse' not the 'wallet' (Simms, 1988: 431).

Throughout the 1970s women had been more likely to support non-Labor parties. During the electoral campaign of 1983 Labor strategists stressed women's issues and were rewarded with electoral gains for the Labor Party (Burgmann, 1993: 273). Yet the emphasis on gender issues had practically disappeared after the next election in 1984 (Simms, 1993: 30). Stiffer entitlement rules which penalized women re-opened the traditional gender-gap in Labor's support (MacAllister and Ascui, 1988: 227-228; Jupp and Sawyer, 1994: 14).

If these facts appear to corroborate the predictions of the PBC, other modifications were in stark contrast to the model. Most striking was Hawke's announcement of the asset

test for pensioners during the 1984 election campaign policy speech (McAllister and Moore, 1991: 20). The Australian McNair Anderson exit poll reported that pensioners concerned with the assets test contributed to the swing against the government of 1.4 percent (Galligan, 1985b: 177). One year before the election of 1987 the government announced the 'harshest budget for decades' (*Guardian*, 20 August 1986). The British press commented that Australia:

[had] a socialist government doing things which Thatcherism has never ventured, like deferring pension increases, abolishing student grants and introducing identity cards to counter tax and social fraud.. all these measures [were] to be imposed simultaneously. (*Guardian*, 20 August, 1986: 5)

A few months before the election of 1987, the government introduced work tests which tightened provisions by increasing review and surveillance of both eligibility and entitlement rules (Cass, 1988). It is reasonable to assume that changing bureaucratic procedures may 'be a more politically acceptable way of restricting scope than direct (and transparent) legislative changes to eligibility criteria' (Saunders 1991: 113). What is important here, however, is not so much the form of the changes, but rather their timing. Introducing these modifications before the election of 1987 is incongruent with political business cycle explanations of variations in redistributive policies

Furthermore, in the run-up to that election, the Federal Treasurer, Paul Keating announced the so called 'mini-budget' which estimated that \$400 million was taken off social welfare spending. The measures included tighter eligibility criteria for pensions, the abolition of unemployment benefits for 16 and 17 year-olds, and means testing family allowances (Galligan, 1986; Stutchbury, 1990: 70). An important point is that welfare benefits are usually targeted at the poor groups whereas taxation policy is often targeted at the rich (Bryson, 1988: 496-498). Although this work is not centrally concerned with taxation policy,

it should be noted that between 1975 and 1982 wages and salaries increased by 98.8 per cent and the tax paid on these income sources increased by 148.1 percent. By contrast, income from rent, dividends and unincorporated enterprises rose more quickly, by 125.4 per cent, but the tax paid on it rose only by 73.6 percent (Bryson, 1988: 496). The change in the balance was mostly because the wealthier sections of the population were favoured with a network of tax exemptions. It is remarkable that Labor did not substantially alter the balance during the 1980s.

All in all, the development of social security policies over the 1980s reveals inconsistent evidence supporting the PBC. This conclusion is reinforced by time series analyses of Australian fiscal policies which show that associations between elections and transfer policies often yield unexpected signs (Swank, 1992). The implication is that political actors may rely on strategic priorities that demand-driven, vote-maximizing explanations neglect.

#### **4.3.3 Opposition effects**

One priority might have been the hastening of the process of 'modernization' within the ALP, which significantly shifted Labor's redistributive policies to the right of the ideological spectrum. Spatial repositioning was facilitated by the weakness of electoral rivals. Labor's unpopular redistributive policies carried low risks in the mid-1980s because the Opposition was in a shambles (Adams, 1987; Warhurst, 1988: 35). Tensions between the Liberal and National Party, stemming from the desire of the National Party to go its own way, prevented the Coalition partners from forging a credible alliance against Labor (Jennet, 1987). 'The Liberals were battling to keep the more traditional Nationals on side' (Simms, 1988: 433). Internal wrangling culminated in a further loss of support. During the electoral campaign of 1984 it 'failed to impress even its usual media supporter' (Galligan, 1985b: 175).

The national Liberal Party came increasingly under attack from several state branches. Joh Bjelke-Petersen, the belligerent premier of Queensland and staunch supporter of single-rate taxation, launched a fierce campaign against prominent Liberals, such as Senator Peter Baume, Ian Macphee and Max Burr (Jennett, 1987: 102). Disputes about the leadership succession racked the Liberals from 1983 onwards. Andrew Peacock, the Liberal leader who replaced Fraser in 1983, had to hand on the leadership to John Howard in 1985, but returned to his position in 1989 after Howard was ousted. Internal wrangling fuelled disunity and disharmony (Kuhn, 1989).

The disputes pushed the Liberal Party further to the Right of the ideological *continuum*, providing Labor with margins of discretion previously unknown. Defining discretion as the range of potential policies that can be selected (Steunenberg, 1995), the Liberal shift equipped Labor with a new set of feasible policies.

#### **4.4 FROM VOTE-SEEKING TO POLICY-SEEKING**

Most statements about Labor's social security policies have focused on their electoral significance and have given little or no attention to the party's own decision-making process in affecting those policies. Consequently, social policy analysts have usually underestimated a fundamental process of internal realignment unparalleled in Labor history, which saw the once dominant left-wing faction displaced by the right-wing faction. Left-wing groups had fuelled Whitlam's redistributive policies but were delivered a hammer blow by the scale of Labor's defeat in 1975 (McAllister, 1992: 124). Right-wingers gained influence after Labor returned in opposition at the end of 1975 (Lloyd, 1983: 247). The ensuing electoral débâcles of 1977 and 1980 led to an internal backlash against the Left which culminated in the right-wing push to secure the leadership of the Labor party for Bob Hawke. Right-wingers eventually succeeded in controlling the leadership by replacing Bill Hayden, who was

supported by the Left, with Hawke in 1983. The change of leadership from Hayden to Hawke marked the last severing of ties with Whitlam's government (Jaensch, 1988: 82). As Weller recalls 'Hawke was an avowed enemy of the Left faction' (1984: 63).

Alterations in the balance of power between Left and Right had momentous consequences for Labor's redistributive policies. The differences in the social policy aims of the two factions were fairly sharp (Wheelwright, 1983: 55). Right-wingers endorsed free market principles, neo-classical economics and the minimalist state. Hawke, for instance, believed the Left was 'simply out of touch with the realities of the nation and of the world in which we lived' (Hawke, 1994: 102). Keating's biographer, Edna Carew, recounts that the Federal Treasurer was concerned 'with "making the pie bigger" not squabbling about who was getting what size slice' (1991: 58). By contrast, left-wing Laborites valued the socially protective activities of the government and believed in social reform and income redistribution.

The Right wished to 'modernize' the ALP by reshaping its aims and identity. As mentioned in Chapter One, redistributive policies are chiefly concerned with issues of identity; hence moulding the party's identity also meant changing Labor's redistributive goals. Despite these developments, it is surprising that, with few exceptions, national factionalism in the ALP has often been a neglected area (Lloyd and Swan, 1987: 100).

#### **4.4.1 National factions and redistributive policies**

The development of a national system of factions is considered to be one of the distinguishing features of the Labor decade, and 'the most transcendental source of enduring change' in the ALP (Lloyd and Swan, 1987: 108; McAllister, 1992). To understand the significance of the internal realignment for redistributive policies a brief summary of the events which led to the formation of national factions is in order.



Historically, the power of the Federal Parliamentary Labor Party (FPLP) had stemmed from a double source of legitimacy. On the one hand, the ALP was created by the industrial labour movement to be its political wing; on the other, non-unionized individuals could join the party through direct subscriptions. In the formal rules of the ALP, it was the extraparlimentary wing which claimed supreme authority in the party (Warhurst, 1983:17). This authority rested on the fact that funding for the ALP derived from affiliation fees. Unions, moreover, were affiliated directly to the state branches and controlled 50 to 60 percent of the votes for the preselection of parliamentary candidates. Since the membership of parliamentary bodies was and continues to be determined largely by those who control preselection in safe seats, it follows that '[w]ho controls pre-selection wields power' (Jaensch, 1983: 5). State branches, therefore, have always controlled two vital resources: the flow of funds to the national party organization and pre-selection procedures. From the late 1960s, however, the ALP has steadily become a party where power is concentrated within the federal parliamentary organization and the National Executive, at the expense of state branches. 'The general scenario is one of a Party historically rooted in its State Branches becoming a national party' (Manning, 1995: 11).

The centralization process culminated in the early 1980s with a fundamental institutional change. Proportional representation for the election of state delegates to national decision-making bodies was introduced at the Melbourne Conference in 1981 (Warhurst, 1988). The new electoral procedure endowed the major factions with a significant basic representation and sanctioned a transfer of power to the larger states, New South Wales and Victoria (Lloyd, 1983: 234; O'Connell, 1991: 150). This development strengthened the power of the national organization with respect to state organizations because it abolished the equal representation of state branches at the federal level (Lloyd and Swan, 1987; Stokes, 1983: 158). The impact on the ALP was dramatic.

Cross-state alliances developed and a national system of factions emerged. Power shifted significantly 'from the so-called <machine> itself largely controlled by unions, to a <system> of factions' (Manning, 1995: 12).<sup>4</sup> Other explanations for the rise of national factions rest on their ability to absorb potentially destabilizing internal conflicts after a period of dramatic social and economic change (McAllister, 1991: 218). For others, the reshaping of the internal topography of the ALP stemmed from the rapid decline in the blue-collar percentage of the workforce and the continuing increase in white-collar employment (Burchell and Mathews, 1991: 11). Structural changes in the labour market affected the strength of trade unions, which were traditionally linked to the Left and the Right.

These modifications paved the way for the emergence of the Centre-Left faction, chiefly supported by individual members. The Centre-Left quickly became a coherent and influential grouping that controlled a quarter of the parliamentary party and a third of the Cabinet. Among its prominent members were Cabinet Ministers Hayden, Young and Walsh, Health Minister Blewett and Senator Cook. This new faction had a crucial role to play in caucus and in the party organization in balancing the traditional Right and Left, based in New South Wales and Victoria. Most importantly, the formation of the Centre-Left seems to have evolved also out of redistributive concerns (Maddox, 1988: 9-20). Support for this view is offered by the programmatic commitments of the new faction. According to its manifesto :

The Centre Left is committed to democratic socialist principles. As such, its distinguishing characteristics are the pre-eminence it gives to social, economic and political equality, *the emphasis on achieving this through redistributive programs..* (quoted in Galligan, 1984b: 299, my emphasis)

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<sup>4</sup> Formalized factions came to prominence in the states of Victoria and New South Wales in the 1950s and 1960s (Jupp, 1983; Wheelwright, 1983). However, organized national factions only emerged after Labor took office in 1983 (Bean and McAllister, 1988).

Thus the question of income redistribution played an important role in the changing topography of the ALP.

The formation of the Centre-Left was a catalyst for factional development. By the mid-1980s three national factions could be clearly discerned. The National Right<sup>5</sup> led by Bob Hawke, and other prominent leaders of the New South Wales branch such as Paul Keating, Robert Ray and Graham Richardson. The Right was ideologically committed to the free market economy and the minimalist state. At the other ideological extreme, the Socialist Left controlled by Brian Howe, Gerry Hand and Bruce Childs emphasized the socialist objectives of the ALP and rejected the capitalist system. Between these two positions, the Centre Left led by Bill Hayden, Peter Cook and Rosemary Crowley, appealed to socio-economic equality through democratic means. As Lloyd and Swan claimed:

real power in the ALP now lies in Faction Caucuses where faction delegates take key decisions on how they will vote and what they will do within the formal organs of the ALP-Parliament, Conference, Executive, Pre-Selection machinery. (Lloyd and Swan, 1987: 103)

National factions were parties in miniature with a fee-paying membership, regular conferences and elected party officials. Party and political offices were apportioned to particular factions in accordance with their strength (Bean and McAllister, 1989: 80). All factions to some extent represented a particular ideological position within the party, 'but this was corrupted enormously by the exigencies of power politics, patronage and feudal empire-building' (Burchell and Mathews, 1991: 15).

The distribution of power between the three factions was institutionalized in a 'hierarchy of states within a state' which mirrored the place of the respective factions in the

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<sup>5</sup> Formally the National Right is called Centre Unity but in practice it is referred to as National Right.

second Hawke Government (Pusey, 1991: 106). In a process akin to the political 'colonization' of the public administration in Italy under the Christian-Democracy, the Labor government subjected the Civil Service to strong political control. The ministers representative of the Right faction controlled the 'central agencies', the Department of the Prime Minister and Cabinet Finance and the Treasury. At the other end of the spectrum, the ministers of the Left held the less strong programme and service departments. Ministers of the Centre-Left faction controlled the 'market' departments, the Department of Finance, and the four departments of Trade, Resources and Energy, Primary Industry, and Industry, Technology and Commerce (Pusey, 1991: 76-110).

The basis of power of the three factions lay in their control of specific state branches, which provided membership and funding to the party organization. The Right had been traditionally represented in New South Wales, the largest state in the federation, and had been strongly supported by the Australian Workers' Union (AWU) (Hagan and Turner, 1991). The surge in unionized workers during the 1970s in NSW was an important determinant in the rise and strength of the Right (Wheelwright, 1983: 35). The Left, by contrast, had mainly developed in Victoria, where Bob Hawke pursued his political career (Stokes, 1983: 132-142). The predominance of the Right and Left in NSW and Victoria meant that the Centre Left could only penetrate smaller states such as Queensland, South Australia, Tasmania and Western Australia. This suggests that in Australia the centre-periphery cleavage was fought from within rather than between the parties (Parkin and Marshall, 1993: 18-39).

The picture that emerged was that of three strategic groups within the party competing against each other as parties would in the political system. The Right steadily improved its strategic position in the key national organs of Parliamentary Caucus, Conference and Executive (McAllister, 1991). By the mid-1980s it became the most numerous group with 40 percent of parliamentary members against the Left's 35 percent. In the 1987 federal

election 25 percent more Right-wing candidates were electorally successful than the candidates of the Left (Bean and McAllister, 1989: 89). Table 4.9 illustrates that part of the Right's success rested on the growing strength of the New South Wales (NSW) state-branch. The table traces the development of membership recruitment over the 1980s in each state branch. What is immediately apparent from Table 4.9 is that crosscutting trends developed in membership recruitment. Between 1984 and 1986 membership increased by 5.8 percent in NSW while it declined by 3.7 percent in Victoria. Membership dropped in South Australia and West Australia and slightly improved in ACT and Northern Territories. Hence NSW was the state-branch with the fastest growing membership.

*Table 4.9 ALP state-branch membership 1978-1986.*

State	1978	1980	1984	1986	absolute change '84-'86
NSW	34.0	38.5	33.2	39.0	+5.8
Victoria	24.6	25.0	24.7	21.0	-3.7
Qld	13.0	10.5	13.0	14.0	+1.0
SA	12.4	12.5	13.7	10.3	-3.4
WA	7.0	7.0	10.2	9.0	-1.2
Tasmania	7.0	3.0	2.0	3.0	+1.0
ACT	na	1.0	1.0	2.0	+1.0
NT	na	.7	.7	.7	0.0
total*	100	100	100	100	-
n	49,850	51,948	58,620	55,610	- 3,010

*Source:* computed by the author from ALP membership data published in Ward, I. (1989: 166).

\* Percentages may not add to total because of rounding off.

Legend: NSW= New South Wales; Qld= Queensland; SA= South Australia; WA= West Australia; ACT= Australia Capital Territories; NT= Northern territories.

#### 4.4.2 Moulding the party identity

The growing strength of NSW meant that by the early 1980s Right-wingers had displaced Left-wingers in most of the party's policy committees (Wheelwright, 1983: 47-40). This displacement was a momentous shift in the balance of power within the ALP because it triggered a transformation of the party identity. Like the recent abandonment of Clause IV by the British Labour Party, the ALP leaders pressed for modifications of the 'Objective'-the statement of Labor's policy aims first drafted in 1890. The pressure for change mounted at the Annual Conference held in Melbourne in 1981. The debate centred on whether the ALP should be committed to extensive nationalization and collective ownership if elected to power, or whether 'democratic socialization of industry, distribution, production and exchange' should be undertaken to the *extent necessary* to eliminate exploitation' (Lloyd, 1983: 244). The Conference eventually endorsed the idea of undertaking the socialization of the means of production only 'if necessary' with 28 votes in favour and 22 against (Lloyd, 1983: 254).

This transformation represented a critical step in the evolution of the ALP identity because the Objective was a symbol of what the ALP stood for, both for Laborites of many generations and for their political rivals. Most importantly, 'the Objective was essentially an intra-party statement, the product of discussion and compromises within the party, important as an expression of the party to the party' (Jaensch, 1989: 87). As mentioned in Chapter Three, changes of the party platforms are often acrimonious because the outcome stands as symbolic evidence of who controls the party. Modifications to the 'Objective' reflected a new balance of power within the party. The Right effectively controlled most ALP policy committees (Wheelwright, 1983: 47).

Against this background, reformulations of Labor's social policy signalled that Labor was embarking on a new course. To reinforce this perception it was necessary to mould a new party image by brushing away the legacy of the previous Labor government. An editorialist of the *Economist* noted that '[a] central part of Keating's strategy has been to lay the ghost of former minister Mr Gough Whitlam' (*The Economist*, 8 October, 1988). For Warhurst the Whitlam experience 'influenced the Labor's party approach to a range of electoral, procedural and policy matters (1994 : 1). Hawke confirms this point by stressing that:

Labor's years of ambitious bidding for government from the Opposition benches followed by the profligacy of the Whitlam years had given it a reputation for financial recklessness. From the beginning we were determined to eradicate this perception. This meant that many of our moves would be unpopular. (Hawke, 1994: 293)

Unpopular moves included cutbacks in welfare spending to reconstruct Labor's reputation, against the ramshackle image of the 1970s. As Hawke recalls in his memoirs, the stiffening of eligibility rules was an integral part of this strategy, despite its electoral price:

In 1984 our resolution to clamp down on middle-class welfare caused a furore; this centred on our decision to apply an assets test to pensions and to impose an income test on pensioners over seventy years of age. *We pressed on with this reform despite electoral misgivings in our own ranks.* Some colleagues wanted to abandon the move when the heat was turned up. I refused to budge because it was intrinsically correct. (Hawke 1994: 293, my emphasis)

Cutbacks in welfare spending were 'intrinsically correct' because the formation of a new party identity involved shedding the old ideological baggage and distributing new symbolic incentives. The ALP National Secretary, Bob Hogg, recently asserted that 'there has been a number of..symbols that have been removed or changed' (Hogg, 1991: 54). Some Labor

supporters deeply resented the loss of traditional symbols. 'To attack the ideology is to assail the foundations of the party itself' (Maddox, 1989: 8). The main reason is that:

ideology may be used as a weapon, or as a means of intra-party control...one of its main purposes is to build up an image of a party not only in the minds of the voters but in the minds of the party members...And it is from this intraparty component, and to it, that statements of ideology emerge and are directed. (Jaensch, 1983: 190 and 194)

Traditional ideological wording, such as 'the democratic socialization of industry', were replaced with appreciations of the private sector; in Keating's words '[p]roperly functioning, the market mechanism is a powerful engine of economic growth... competition can facilitate the transformation to a structure that encourages growth. The benefits of the market economy are therefore widely appreciated by this government' (Keating, 1985: 20). Hawke shared Keating's preference for free market solutions and deregulation; their partnership mitigated the traditional hostility of the Confederation of Australian Industry (CAI) for the Labor government (McEachern, 1986: 23). The collaboration between Labor leaders and the business community signalled a break with the past.

The emphasis on the private sector provided a sense of purpose to the young Laborites who were coming to the fore supporting free market principles and neo-classical economics (McAllister and Ascui, 1988: 220; Galligan, 1985a: 203). For Bob Hogg, boosting the number of individual members was necessary for the success of the party: In his words '..if we are to stay viable as a political organization, we have to be broadly representative in our membership, both through union affiliations and direct membership' (Hogg, 1991: 55-56). Hogg's account, however, seems to overlook some of the reasons behind the individual membership drive:

there was more to the membership drive than increasing the amounts of funds available and locking more people into active support for the party, especially during election campaigns. The drive also had the aim of countering the increasing control of the organization of the party by the Left, essentially through its traditional



base in the union movement, but increasingly through take-over of sub-branches.  
(Jaensch, 1989: 48)

Thus, while the position of the Left in key national organs was deteriorating it still retained considerable control in the state branches. Right-wingers attempted to shield themselves from potential Left-wing challenges also by moulding the party identity in a way which was more appealing to individual members. Strengthening the role of individual members in the party organization was tantamount to weaken the influence of state branches and trade unions - and therefore of the Left faction.

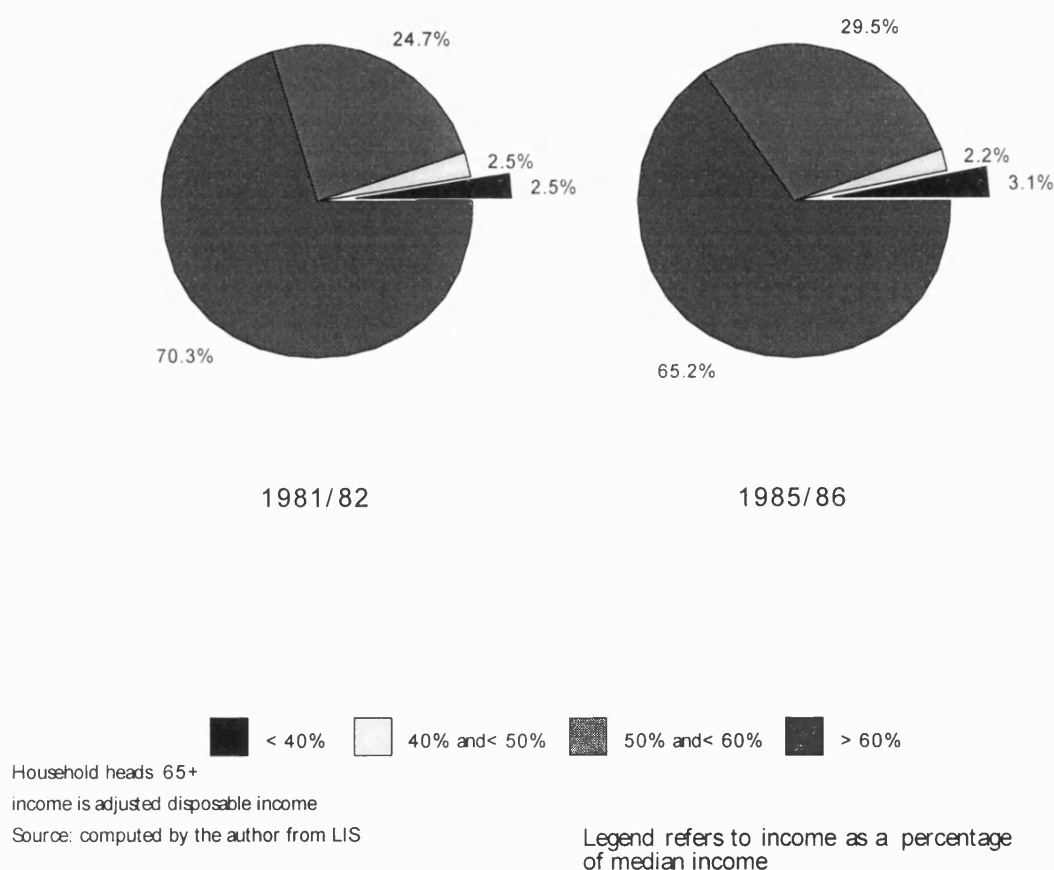
In the light of the above, it is clear that the dynamics of power within the ALP are a key to understanding Labor's redistributive policies. Specific policy initiatives were undertaken on key client groups such as pensioners and low income families, traditionally linked to the Left (Jennet and Stewart, 1990: 9). Since 1983, for instance, there was increased targeting of income maintenance on the aged pension through the re-introduction of the income test for those over 70 years old and the re-introduction in 1985 of the assets tests (both abolished by the Whitlam government). As a result, the election of 1984 returned Labor to power with a reduced majority, although many disgruntled voters might have returned to the ALP through the second preferences of minor parties (Galligan, 1985b).<sup>6</sup>

Figure 4.5 shows that between 1981/82 and 1985/86 the proportion of poor pensioners increased significantly. Although most empirical studies of poverty use the OECD

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<sup>6</sup> The alternative vote requires voters to rank alternative candidates in order of preference, 1,2,3 etc. If no majority is secured on the first count the candidate with the lowest number of votes is eliminated and his or her second preferences are distributed among the remaining candidates. If this does not produce an absolute majority, then the next lowest candidate is eliminated and his or her second preferences are distributed until an absolute majority is secured.

Figure 4.5. Percentage of pensioners below or above different poverty lines Australia 1981/82-1989/90.



50 percent poverty line, the figure illustrates that different cut-off points can significantly alter the picture. For instance, between 1981/82 and 1985/86 the overall percentage change of poor elderly below the OECD poverty line (50 percent of median income) grew by only .3 percent, from 5 percent to 5.3 percent; yet the percentage of poor pensioners just above the OECD poverty line, with income below 60 percent of the median, grew from 24.7 percent in 1981/82 to 29.5 percent in 1985/86, an overall increase of 4.8 percent. As mentioned in Chapter Two, the main reason for using different cut-off points is that results are very

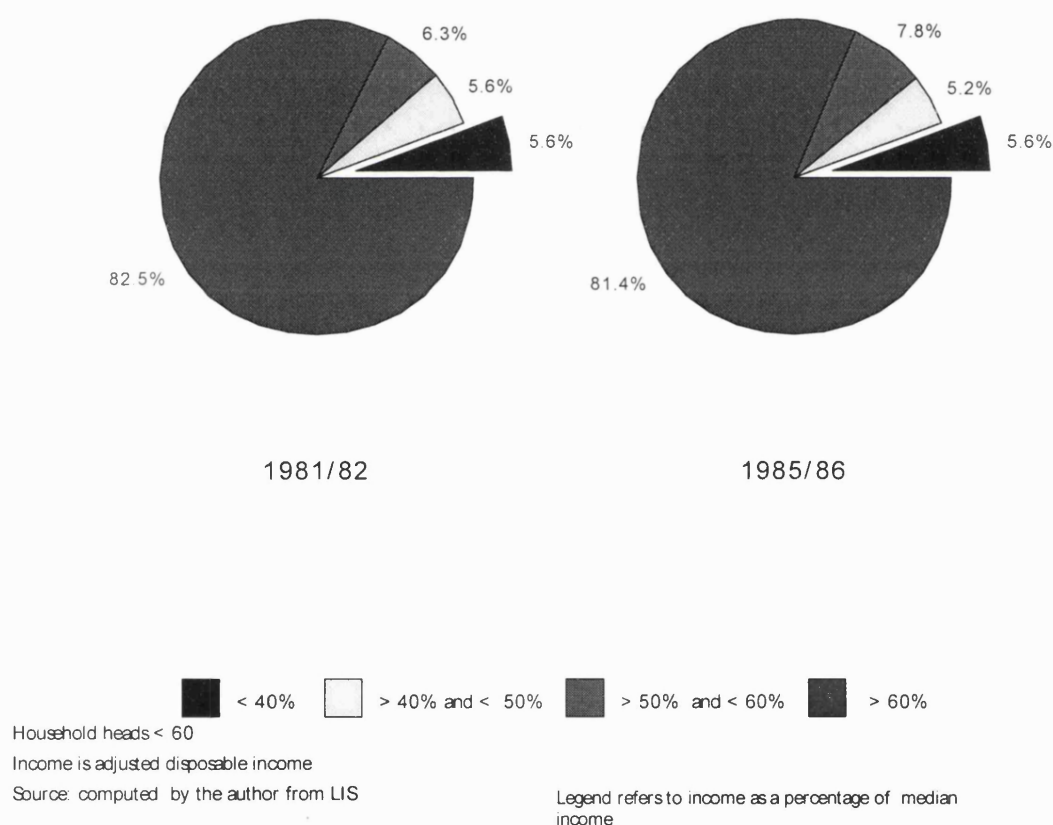
sensitive to the exact placement of the poverty line.

A further consideration arising by looking at Figure 4.5 is that in the second half of the decade economic recovery did not compensate pensioners for stiffer eligibility and entitlement rules. A similar picture is offered by Figure 4.6 which shows the proportion of the population living in households consisting of 'couples with children' with income above or below three different poverty lines. If one limits the analysis to the OECD poverty line one reaches the mistaken conclusion that poverty rates declined by .4 percent. On the contrary, Figure 4.6 shows clearly that under the first term of the Labor government overall poverty increased. The proportion of couples with children with income just above the percent OECD poverty line grew from 6.3 percent in 1981/82 to 7.8 in 1985/86. When the poverty line was set at 40 percent of the median, the proportion was exactly the same in both years.

Rising poverty rates meant that by early 1985 several issues of concern regarding the Family Income Supplement (FIS), the benefit for all low income families, had emerged. Partly as a result of narrow targeting on very low income working families and partly because of low take-up rates, there was evidence that many families entitled to FIS were not claiming for it (Pech, 1986: 3). The take-up rate, which is the proportion of eligible families receiving the payment, was almost less than half. If take-up rates fall with increased targeting 'then the success of targeting as an overall strategy is brought into question' (Saunders, 1991: 311)

The data presented in this section indicate that Labor was actively engaging in social engineering by changing the categories identified as needy. A good example of this strategy was the severe attack on youth welfare. The Young Homeless Allowance of \$76 introduced in 1986 was well below the poverty line and so strictly targeted as to be received by less than 10 percent of the young homeless in 1988 (Gibson, 1990: 196). The waiting period for school leavers under age 21 was extended from 6 to 13 weeks and unemployment benefits for young unemployed aged 16-17 were abolished (Carson and Fitzgerald, 1989). This policy

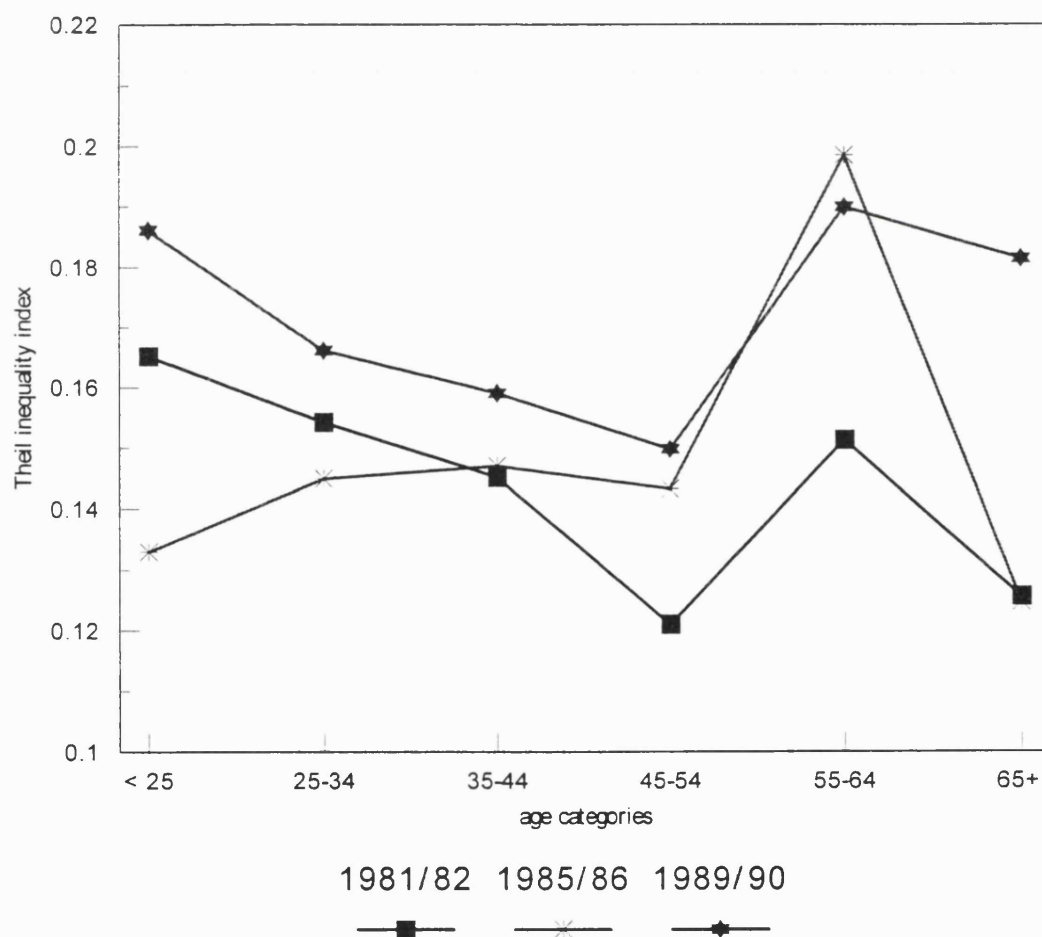
Figure 4.6. Percentage of couples with children below or above different poverty lines Australia 1981/82-1985/86.



exacerbated the plight of low income families because over 50 percent of young unemployed were living in households with at least one other person who was also dependent on social security (Frey, 1986). Figure 4.7 disaggregates the population into six age categories. It

shows that over the 1980s income inequality, as measured by the Theil index, was relatively stable in prime age adults (25-54) but substantially increased within the other three age groups. In particular, young individuals aged under 25 experienced more inequality after a fall in the mid-1980s. These facts suggest that cutbacks in welfare spending, especially the abolition of youth unemployment benefit, had major implications for the standards of living among the young population. Similarly, the dramatic rise in elderly inequality at the end of

Figure 4.7. Within-age group inequality. Australia 1981/82-1989/90



Source: computed from LIS

the decade points to the failure of the old age pension reform to achieve higher standards of living for the elderly. The third category, which includes individuals between 55-64 years-

old, was severely affected in the mid-1980s by soaring unemployment rates. This age group was unable to benefit from the economic recovery in the second half of the 1980s as did prime age adults (*Labour Statistics*, 1990). Hence, the stiffening of eligibility and entitlement rules for unemployment benefits had tremendous consequences for ageing workers with family responsibilities.

Labor leaders, however, were particularly careful not to alienate completely their core constituency. The redistributive strategy was to 'check the growth in [social security recipient] numbers in order to sustain real benefit increases' (Saunders, 1991: 324; see Harding, 1992). The best illustration of this twin goal was the means-testing of all social security benefits except those for the disabled. The effectiveness of this policy is summarized by Brian Howe, Minister for Social Security in Hawke's second and third governments:

Labor's efforts in achieving social justice for people with disabilities represent our progress as a party committed to improving the quality of life for all people. The struggle for disability reform has epitomised the broader struggle for fairness, for expanded opportunities, and for better communities. (Howe, 1992: 39).

The emphasis on disability signalled that 'New Labor' was willing to protect only those social categories marginalized by the private market for their alleged inefficiency.

In a similar manner, after the report of the Social Security Review in 1986 which highlighted poverty trends, the government sharply increased some social security payments, including the Family Allowance Supplement and the Family Assistance Plan, but partly financed these increases through tighter income tests and stiffer eligibility requirements (Harding and Mitchell, 1992). The redistributive effect of these measures was offset by the slow demise of progressive income tax with significant cuts to the marginal tax rate (Krever, 1991: 152-153; Saunders et al 1988). The Hawke government could claim to defend market freedom and at the same time protect the most disadvantaged social categories. Redistributive

policies appear therefore as an instrument which Labor leaders deployed to reshape the identity of the ALP party.

#### **4.4.3 The changing ACTU-FPLP relationship**

The second wedge in the process of 'modernization' of the ALP was the changing relationship between Labor and trade unions. A most surprising fact during the 1980s was that unions raised little or no opposition to Hawke's departure from traditional Labor redistributive goals. Yet historically the Federal Parliamentary Labor Party (FPLP) was created to represent and strive for the interests of the union movement (Manning, 1992). This meant that the FPLP legislative actions should in principle have reflected the wishes of the extraparlimentary organization (Parkin, 1983: 17). Unions were the main source of legitimacy for the party organization because they provided both the funding and the loyalty of affiliated members. Moreover, unions wielded considerable control on the decision-making process through the preselection of parliamentary candidates.

Tensions between the party sub-units constantly surfaced throughout Labor history (MacIntyre, 1991: 21). When Labor took office friction between the ACTU and the FPLP often occurred, because the interests of the two Labor wings typically diverged. By contrast, over the 1980s the ALP-ACTU relationship was surprisingly smooth and largely constructive. Most analysts believe that the roots of this harmony lay in the recognition of mutual dependence sanctioned by the Accord (Manning, 1995; Singleton, 1990; Stutchbury, 1990: 58). Robert Ray, Minister of Defence, makes a strong case for this argument by pointing out that Hawke's strategic manoeuvring ensured 'many prominent left-wing union officials.. enjoyed a new enhanced status in renegotiating, redefining and reassessing the ALP-ACTU Accord' (Ray, 1991: 32). Central to this approach was the role played by interdependence between the political and the industrial wing of the Labor Party.

A different view, however, is expressed by Lindsay Tanner, the Victorian secretary of the Federated Clerks Unions, who contends that the 'gap between the interests and obligations of the two wings of the movement has progressively widened' (1991: 76). Tanner describes the weaker links between unions and ALP as 'the soft underbelly of the Labor movement' (1991: 76). However significant the harmonious interdependence may have been, for Tanner this interpretation pays insufficient attention to the growing *asymmetry* between trade unions and ALP. One expression of this asymmetry was the incipient organizational decline of trade unions on the one hand, and the string of electoral successes accumulated by the ALP on the other. This bifurcation was reflected in the growing percentage of votes gained by the ALP and the declining percentage of trade union officials in Parliament. Between 1971 and 1983 union officials in parliament dropped from 20.9 per cent to 10.5 percent (Kemp, 1988: 344).

What is more, over the 1980s union membership as a percentage of the labor force dropped by 8 percent (see table 4.10). For Manning these figures indicate that the 'creator of the Labor Party faced a less than certain future due to the cancer of membership decline' (Manning, 1995: 3). Table 4.10 indicates that de-unionization is not a universal trend. In the Scandinavian countries there were gains in trade union density rates and in Canada the trend was stable. The table shows that in Australia both trade union density rates and collective bargaining coverage rates declined. By contrast, in Portugal, Spain and France, trade union density rates fell while collective bargaining coverage rates rose. Only in the United Kingdom trade union coverage rates seemed to decline more sharply than in Australia. Several factors affected union density rates, most notably the expansion of jobs in traditional non-unionized sectors, such as non-manual service, female employment and part-time work. In addition to structural shifts, the drop in union membership was caused by wider earning differentials induced by the Accord (Keynon and Lewis, 1992). Between 1980 and 1988 the real value of



Table 4.10. Trade union density rates and collective bargaining coverage rates in selected OECD countries.

Country	data*	trade union density rates			bargaining coverage rates		
		1980	1990	absolute change	1980	1990	absolute change
Portugal	R	61	32	-31	70	79	+9
Spain	E	25	11	-14	67c	68	+1
United Kingdom	E	50	39	-11	70d	47	-23
Netherlands	E	35	25	-10	76	71	-5
Australia	E	48	40	-8	88	80	-8
France	E	17	10	-7	85	92b	+7
Japan	E	31	25	-6	28	23	-5
Portugal	E	36	33	-3	91	90	-1
Norway	E	57	56	-1	n/a	n/a	n/a
Canada	R	36	36	0	37a	38	+1
Finland	E	70	72	+2	95	95	0
Sweden	E	80	82	+2	n/a	n/a	n/a

Source: calculated and adapted by the author from OECD *Employment Outlook*, 1994, Tables 5.7 and 5.8. Countries are ordered according to the absolute change in trade union density rates.

\*E= based on employed members only.

R=based on recorded membership, not corrected for retired, unemployed and self-employed members.

a) 1985; b) 1985; c) 1985; d) Great Britain.

the federal minimum wage declined by 23 percent, mainly because the ACTU had agreed on wage de-indexation (King et al, 1992). De-unionization, moreover, was also a protest act against the economic consequences of the Accord (Thomas, 1991: 32-56).

Generally speaking, exit from organizations has long been recognized as a symptom of dissatisfaction with the organization (Hirschman, 1970). De-unionization offered compelling evidence that unions were losing the monopoly of workers' representation, the most powerful resource they could deploy in bargaining with the ALP. As we have seen, with the exception of the United Kingdom, over the 1980s Australia experienced the sharpest drop in collective bargaining coverage rates amongst selected OECD countries. Hence the acquiescence of trade unions to Labor's redistributive policies can partly be explained with the growing asymmetry between the ACTU and the FPL.

#### 4.5 FACTIONAL GAMES AND INCOME REDISTRIBUTION

It is clear, however, that the Hawke-Keating challenge to traditional redistributive policies was also a manifestation of intraparty warfare. As Robert Ray, Labor Minister of Defence, remarked:

No matter how much ideological verbiage an ALP faction may produce, reality is that it seeks to advance its position relative to other contending factions. What it then does with the command of some or all commanding heights within the party may well contribute to the Forward March of Human Progress...but will also incidentally involve the distribution of various forms of patronage...gaining a stranglehold on the party apparatus is a worthy political goal in itself. (Ray, 1991: 29 and 31)

Against this background, it may be surprising that any redistributive measures were introduced at all. Yet as mentioned above, in 1987 the Labor government implemented the Family Assistance Plan to support economically disadvantaged families. Since usually a time lag of two years is considered sufficient for policies to exert an impact, we could assess the redistributive effect of transfer benefits using the 1989/90 LIS dataset. Table 4.11 illustrates

*Table 4.11 Gini Coefficients for selected income definitions. Australia 1981/82-1989/90.*

year	Pre-Tax Pre-Transfer Income (1)	Pre-Tax Post-Transfer Income (2)	Reduction from Transfers (1)-(2)
1981/82	.465	.302	.163
1985/86	.496	.309	.187
1989/90	.493	.322	.171
Percentage Change			
1981/82-1985/86	+ 6.0	+2.0	....
1985/86-1989/90	- .6	+4.2	....
1981/82-1989/90	+ 6.0	+6.6	....

*Source:* Computed by the author from LIS.  
Income is adjusted with the OECD equivalence scale.

that the drop from pre/tax-pre/transfer Gini to pre/tax-post/transfer Gini in 1989/90 was .171; this is lower than in 1985/86, when it was .187 but higher than in 1981/82, when it was .163. Although it is evident from Table 4.11 that the impact of Labor on inequality was weaker in the second half of the decade, there seems nevertheless to have been some reduction in inequality originating from transfer benefits.

#### **4.5.1 Mitigating regressive policies.**

By limiting the analysis to redistributive outputs and outcomes, however, we cannot capture the redistributive implications of non-decisions (Bachrach and Baratz, 1963). One advantage offered by focusing on intra-party politics is to detect which proposal never reached the agenda. For example, had Keating succeeded in introducing his regressive taxation policy at the Taxation Summit of 1985 lower income groups would presumably have been worse off.

Keating's taxation reform was essentially regressive since it was committed to shifting the tax burden from income to consumer goods. The provision was presented in the government's Draft Paper discussed at the Tax Summit in 1985, which included three options. Option C was prepared by Keating, endorsed by the Cabinet and strongly supported by the Treasury. It recommended a 30 percent cut in personal income tax supplemented by a broad-based consumption tax of 12.5 percent on almost all commodities. Option A proposed measures to broaden the tax base and introduce capital gains tax and cuts in income tax; Option B introduced a broad-based consumption tax at a rate of 5 per cent plus a wholesale tax of 10 percent to apply to a range of goods. The three Options had some support from different sections of the community. Option C was endorsed by the government and by significant sections of the business community (Singleton, 1990: 161). Welfare lobbies and Trade Unions accepted the general thrust of Option A (Carew, 1992: 134). Yet no agreement was reached and the consumption tax was abandoned.

Most analysts attribute the eventual demise of the taxation reform to mounting pressures from within the party (Jaensch, 1989; Singleton, 1990). Hawke makes a strong case for this view in his memoirs:

On Thursday morning, 4th July, Paul and I met the Labor Premiers (Neville Wran, New South Wales; John Cain, Victoria; Brian Burke, Western Australia; and John Bannon, South Australia) in my office.. They unanimously reiterated that they could not and would not support [the consumption tax]...after lunch I formally announced the death of [the tax]. (Hawke, 1994: 310)

This perspective suggests that vertical interactions between leaders and subleaders were the key for rejecting regressive taxation. I find this view rather unconvincing because other policies, notably financial deregulation and privatization, have been implemented despite bitter internal conflict.

A more convincing view holds that the Tax Summit was a disguised power play, an early test of strength between Keating and Hawke (Gruen and Grattan, 1993: xiii). Maddox reinforces this point by arguing that holding a summit on such a visible issue ensured taxation reform would not be implemented (Maddox, 1989: 131). A *Financial Review* editorial described the summit as a 'means of institutionalizing conflict' because each interest group emerged with more articulated and polarized positions (quoted in Galligan, 1986: 199). Anticipating these results, Keating had been reluctant to call a Summit and eventually perceived the abandonment of the consumption tax as a betrayal (Gordon, 1993: 127).

The outcome of the Tax Summit, therefore, constituted the first breach of trust in the Hawke-Keating relationship. Hawke derided Keating's protest of betrayal, by portraying him as a good actor who 'played the injured party whose pride of authorship had been spiked by a Prime Minister who has abandoned his most cherished reform' (Hawke, 1994: 311). This quotation may suggest that internal warfare was fuelled by the confrontational personalities

of Keating and Hawke. However, explanations in terms of personalities sidestep the crucial question regarding the distribution of power within the party, which is the central concern of this work. Keating was the leader of the most powerful faction in the party and it is reasonable to assume that the issue at stake was control over key posts, such as the party leadership, rather than questions of personality.<sup>7</sup> These facts suggest that intra-elite manoeuvring mitigated the antiprogessive policies within the ALP. This is one of those instances in which factional politics may have acted as a stabilizing mechanism in a period of profound social and economic change.

#### **4.5.2 Two-stage game over consumption taxation**

To spell out the dynamics of Labor redistributive policies a useful starting point is to describe the probable alternatives. For simplicity I shall illustrate three basic choices. Redistribute (R) from rich to poor by increasing transfer spending and the progressivity of taxation; adapt to change through minor reforms (r); anti-progressive policy (A) based on regressive taxation and stiffer eligibility and entitlement rules. Labor factions had the preference ordering reported in Figure 4.8. None of the factions coincided in their first preference. The Centre-Left and Left coincided in their least preferred alternative and their first and second most

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<sup>7</sup> Hawke recalls in his memoirs how important it was to appoint to position of responsibility prominent factional leaders. When he formed the government in 1983, he appointed among his personal staff 'Peter Barron who was an important link with the Right, the dominant faction within the Labor Party - and in particular with the New South Wales branch. Robert Hogg, from the Victorian Left of the party, also joined my staff in those early days and was an effective factional counterpoint to Peter' (1994: 164).

Figure 4.8. Preference ordering of Labor factions with regard to redistributive policies.

Factions	Left	Centre Left	Right
Most Preferred	R	r	A
	r	R	r
Least Preferred	A	A	R

preferred alternatives were inverted. From Table 4.12, we see that none of the factions is sufficiently predominant to impose its first preference on the other two groups. Each faction

Table 4.12. ALP national factions. Voting power expressed as a percentage of total members.

Factions	Right	Centre-Left	Left
National Conference 1984	30	28	41
National Conference 1986	41	19	39
percentage change 1984-1986	+36	-32	-5

Source: calculated and adapted by the author from Lloyd and Swan, 1987, Table 1: 109.

must therefore enter into a process of exchange, concessions and compromises with at least one of the other factions to achieve its aim.

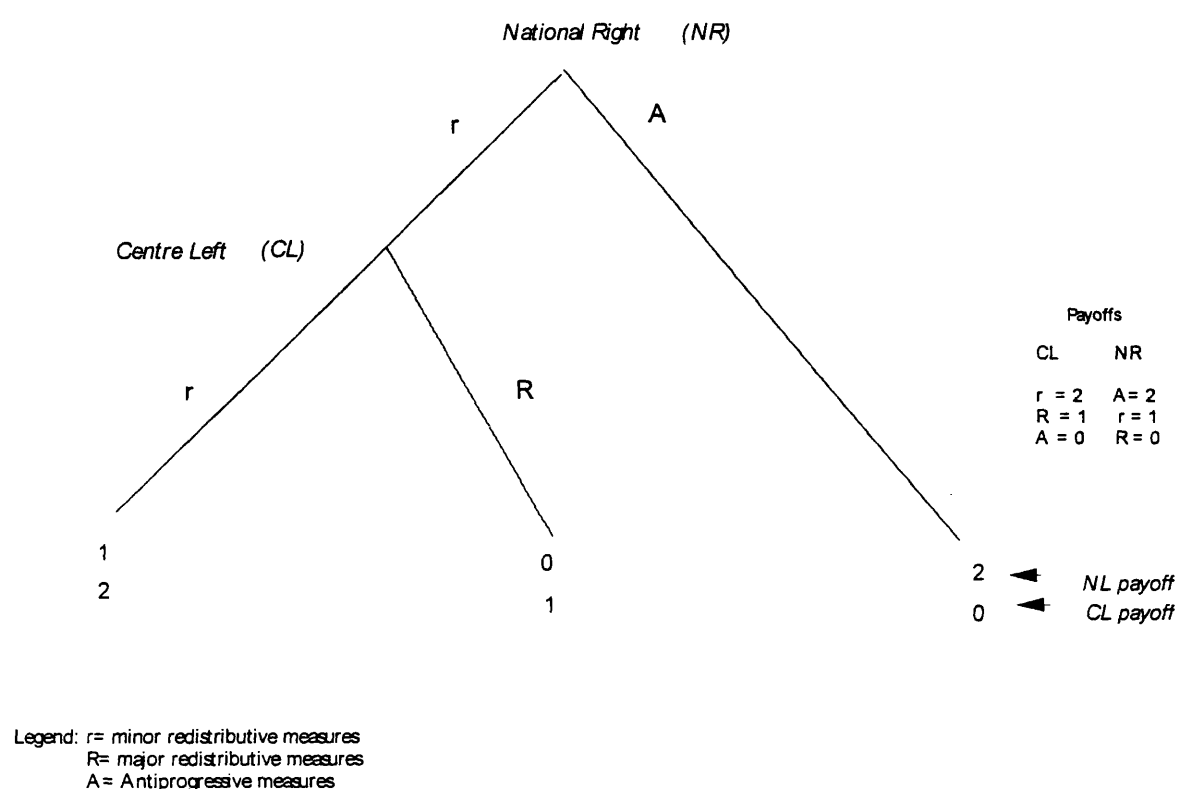
In a sense, the Centre-Left was Labor's power broker because it had the numbers to give victory to the Right or to the Left (Galligan, 1985a: 403). In Sartori's terms, its pivotal position endowed this faction with both coalition and blackmail potential (1976: 122-123). Since the Centre-Left lacked a strong organizational identity, it could rapidly change allegiance from one faction to the other. One of the consequences was that the Centre-Left frequently allied with the Right to defeat the Left (McAllister, 1991: 213). The reason is that weak factions, like weak parties, typically avoid forging alliances with ideologically similar

but stronger factions for fear of being absorbed by their ally (Colomer, 1991; Groennings, 1970: 455). Coalescing with an essentially conservative faction enabled the Centre-Left to build a separate identity from the Left. By the end of the decade the Centre-Left apparently succeeded in its strategy because it became the only credible alternative to the dominant Right, while the Left was 'increasingly isolated on policy' (Gruen and Grattan 1993: 15).

Factional games, therefore, turned on the pivotal role played by the Centre-Left. Thus, Labor's redistributive policies can largely be explained by focusing on the interactions between the Centre-Left and the dominant Right. A simplified account of the strategic choices of the two factions is illustrated in Figure 4.9. This is a game of perfect information where one faction knows the choices its rival makes at each stage. The numbers at the end of each node represent the rank order of each choice for the two factions.

Figure 4.9 illustrates a game in extensive form, based on Rubinstein's (1982) backward induction argument, which proceeds from the second stage of the game when the Centre Left (CL) moves, and works out to the first. In stage two the CL may opt for

Figure 4.9 Redistributive policy and factional politics in the ALP



Redistribution ( $R$ ) and go right. This is the worst solution for the National Right (NR)<sup>8</sup> because it undermines its chief article of faith, which is to reduce the influence of government and devolve power to the individual. The Centre Left would also benefit from choosing  $r$

<sup>8</sup>I introduce here the formal name of the Right faction, i.e. National Right, in order to avoid confusion in the following discussion between Right intended as the faction and right intended as direction.



because it offers higher payoffs. Since both factions have incentives to deviate from (R) and would rather choose  $r$ , the equilibrium solution at the second stage of the game is the pair of strategies  $(r, r)$ .

In the first stage of the game the NR could choose A which is in line with its supply-side policy. However, the CL could retaliate in stage 2 and choose  $R$  (i.e. coalesce with the Left) to compensate for the lack of redistributive measures. For the NR this is the worst outcome with payoff 0 and it will therefore try to pre-empt this threat by choosing  $r$ . Thus, the equilibrium solution of the whole game is the pair of strategies  $(r, r)$  because both partners have no incentives to deviate. This is in essence the strategic manoeuvring which led to the failure of the Taxation Summit. Crucial was the role of the Centre Left as veto player to the antiprogressive policy of the Right (Gruen and Grattan, 1993: 30-32). Bob Hawke also preferred this outcome because it showed Keating was unable to rally the party behind him. Although the former ALP National Secretary, McMullan (1992: 67), criticized the 'all-too-common tendency to put faction before party', the empirical analysis indicates that factional politics had a stabilizing effect on Labor's redistributive policies.

#### 4.5.3 Asymmetric bargaining and social security reforms

To clarify the dynamics which led unions to acquiescence in Labor social security reforms I use another simple game-theoretic model.<sup>9</sup> The left-hand column of Figure 4.10 describes

*Figure 4.10. The preferences of FPLP and ACTU.*

FPLP	ACTU	
	moderate	aggressive
Generous	a) 2,3	b) 1,4
Stiff	c) 3,1	d) 4,3

the redistributive policy choices of the FPLP, Generous or Stiff entitlement and eligibility rules. The top right-hand side of the figure illustrates two strategies of wage policy pursued by the unions, moderate or aggressive. The numbers in the cells indicate the preferences of the two players in rank order from 1 to 4.

From the unions' point of view the best solution would have been cell (b) where the combination of aggressive wage policy and generous social security benefits increase real wages, abate de-unionization, and reduce poverty. From the FPLP point of view cell (b) would have been the worst outcome because it undermines its strategy of promoting an image of financial discipline as opposed to Whitlam's profligacy. It would therefore have preferred to choose cell (d) in which the unions end up with the worst possible outcome: the reputation of 'fiscal responsibility' of the FPLP translates aggressive wage policy and stiffer entitlement

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<sup>9</sup> This model is a variation of Fritz Scharpf's (1987) monetarist coordination game. It differs from Scharpf's model in that the key for the bargaining outcome is the organizational decline of the Trade Unions.

rules into higher unemployment, poverty and wage dispersion, thus fuelling de-unionization. Unions would be better off by shifting to wage restraint to mitigate job losses, ending up in cell (c). Since the last is the best outcome for the supply-side economics beliefs underpinning the Hawke-Keating partnership, the government has no reason to deviate. Thus cell (c) represents the bargaining equilibrium, being a point of stability for both partners.

This analysis suggests that Hawke had restored a workable balance to the complex relationship between ACTU-ALP, but the fulcrum of that balance was the asymmetry of power. Labor leaders had a dominant strategy, that is a strategy preferred irrespective of the choices of the ACTU, which pushed Unions to accept the government's social reforms as the least worst solution. In the mid-1980s ACTU's choices were thus a function of ALP policies.

Needless to say, asymmetry meant the power of the unions was lessening not subsiding. The government, in fact, paid off the cooperation of the unions with the tax cut concessions reviewed in the previous sections. Galligan reported that in the Federal Budget of 1984 trade unions:

had received virtually what its moderate Australian Council of Trade Unions (ACTU) leadership demanded. ACTU president Cliff Dolan denied that this was 'A Dolan or an ACTU document' but admitted.. 'it is one that the ACTU has had the most influence in.' (Galligan, 1984a: 429)

By protecting the Unions' core supporters, Labor leaders were responding to ACTU's concern regarding membership decline. The relationship between ACTU and FPLP reflected the changing pattern of Labor electoral support for the two wings of the Labor movement, and the loosening of organizational links in the ACTU-ALP alliance (Hagan and Turner, 1991).

The conclusion is that unions raised little opposition to Hawke's social reforms because the ACTU-FPLP alliance was increasingly unbalanced. This finding sharply contrasts with the widespread view that the cohesion of the ACTU-FPLP alliance under Hawke was the outcome of a balanced, mutually supportive relationship.

## Conclusions

Income inequality in Australia during the 1980s rose significantly primarily because of income polarization in the market sphere. The shrinking middle-income class reflected a wider dispersion in income differentials apparently produced by structural and technological changes. By contrast, demographic effects had a low distributional impact. Since market income inequality had risen, government tax and transfers should have become more redistributive just to keep the distribution of post/tax-post/transfer income constant. On the contrary they became less effective.

The analysis pointed out that Labor's redistributive policies did not just 'happen' as a result of external shocks. Policy changes were partly the outcome of strategic repositioning among Labor factions and of Opposition effects. In the mid-1980s stiffer entitlement and eligibility rules aimed at shedding the old Labor image associated with wealth redistribution and Labor Left-wingers, and moulding it as the party of wealth production led by Right-wingers. Thus greater reliance on means- testing and the advocacy of free-market principles were also directed at shaping the party identity in order to forge electoral coalitions favourable to Right-wingers. This finding buttresses my contention that governing parties respond to the redistributive demands of their core constituency if the traditional leading faction is not superseded by a new dominant faction. The displacement of the Left by the Right triggered faction-voter re-alignments to sustain the new internal hierarchy.

The direct effect of factional politics on income redistribution was highlighted by the role of the Centre-Left faction. This faction countered the anti-progressive stance of the Hawke-Keating alliance by acting as pivotal player between Right and Left. We have seen

how the Centre-Left threw the weight of its veto power against Keating's proposal of regressive taxation. This outcome is particularly interesting in that it supports earlier results which suggest that factional politics may foster the democratic control of governments (Geer and Shere, 1992). Furthermore, focusing on the internal arena brought to the fore the fact that the acquiescence of unions in Labor's retrenchment of redistributive goals was the product of asymmetric bargaining. These findings point out that by insisting on the primacy of electoral politics, conventional views of the redistributive impact of parties blur our understanding of the incentives behind the redistribution of costs and benefits.

## CHAPTER FIVE-STRATEGIC COMPETITION AND INCOME INEQUALITY UNDER THATCHER. 1979-1986

Let our children grow tall and some  
grow taller than others if they have  
it in them.

Margaret Thatcher<sup>1</sup>

### 5.1 POLITICAL BACKGROUND

The aim of this chapter is to identify the probable causes of the pattern of income distribution in the United Kingdom. In Chapter Two we saw that the pace at which inequality increased in the UK was faster than in most industrialized countries. These findings are corroborated by recent publications, which call into question the widespread perception that the distribution of income was moving in the direction of equality.

In June 1994 the Institute for Fiscal Studies reported that 'the proportion of the UK population with income below half the national average has more than doubled in the past 30 years'; and most of the increases occurred in the 1980s. The report showed that the income share of the top decile of the population rose from 22 percent to 25 percent during the three decades (*Financial Times*, 2 June, 1994: 10). In February 1995, the *Rowntree Inquiry into Income and Wealth* found that the trend towards increasing inequality accelerated rapidly between 1977 and 1990, reaching a higher level than recorded since the war.

When the Conservative Party took office in 1979 the socioeconomic scene in Great Britain was similar to that in Australia. The economy was in the throes of the most severe

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<sup>1</sup> Quoted in *The Independent*, 10 February 1995.

recession since the 1930s, with double digit inflation and soaring unemployment. As a trading nation Britain had been vulnerable to world-market trends. The economic crisis of the late 1970s, however had been exacerbated by Britain's demise as a great power (Gamble, 1995a: 33).

Many supporters of the Conservative government viewed the welfare state as a main causes of the economic downturn. Conservative intellectuals believed that 'egalitarianism [had] accompanied Britain's economic decline' (Joseph and Sumption, 1977: 12). The welfare state allegedly imposed a burden on the taxpayer, stifled incentives to work and to save, and undermined individual self-reliance. Transfer benefits were deemed the principal reason of expenditure growth and budget deficits; stiffer entitlement benefits were therefore necessary to curb 'fraud and abuse' (Lister, 1991: 93).

Accordingly, the Conservative manifesto of 1979 was committed to cutting public expenditure and to 'rolling back the state'. These pledges were to have serious repercussions for social security spending which in 1978/79 represented over 46 percent of government outlays. Part of the problem was that the system was supporting three times the number of people who had depended on it in the mid-1940s, when the National Assistance Board was set up (Donnison, 1982: 11). Claimants of supplementary benefits had risen from one million to almost five million reflecting major changes in the British demographic structure. The number of elderly, single parents and students entitled to benefits rose faster than the rest of the population. Despite these changes no thorough overhaul of social assistance policies had occurred (Dilnot et al 1984: 23-26).

The assault on the welfare state grew out of the philosophical underpinning of the New Right (King, 1987: 28-62). Free-market principles and a staunch defence of the minimalist state rested on the belief that 'trickle down' effects would benefit the least well-off - in the rising tide of economic prosperity, not only the large boats of the rich but also the

small boats of the poor are raised. In some respects, New Right ideas were neither new nor inflexible. The Labour government in 1976-1979 curtailed transfer spending after the International Monetary Fund made new loans conditional on the reduction of government outlays (Gamble, 1995a: 99). Over the 1980s, professional and managerial classes tempered the Conservative government's attack on the welfare state by protecting universal social services, such as the National Health Service (Le Grand and Winter, 1987: 150-151).

Welfare spending, however, followed a curious asymmetry. Although the provision of social services was not substantially altered, the real break with the past came about in social security policies (Atkinson et al, 1986; Lister, 1991; Hill, 1990). *The Economist* pointed out that the Thatcher government was distinctive because 'none of its predecessors had dared to cut social security spending' (22 December, 1979: 13). The Social Security Acts of 1980, 1982 and 1986 established new rules which made take-up benefit more limited and difficult. These measures reduced the value and scope of universal benefits (Atkinson and Micklewright, 1988). As one analyst observed '[t]he practice of *laissez faire* has not permeated social security. Since 1979 there have been almost annual Acts concerned with social security policy as well as countless changes in regulation and policy' (Bradshaw, 1992: 86). During the period 1979-1988, 38 changes in the rules governing unemployment benefits were made which significantly reduced their scope and coverage (Atkinson and Micklewright, 1988: 125-126).

Table 5.1. shows that while the government was cutting social security spending the number of beneficiaries increased substantially. For instance, between 1980/81 and 1981/82 the number of unemployment benefit recipients increased by 25 percent, yet the government had reduced both the coverage and the level of unemployment benefits. The drop in numbers receiving sickness benefits was the result of the transfer to employers of responsibility



*Table 5.1. Estimated numbers receiving social security benefits (Thousands). United Kingdom 1977/78-1984/85.*

year	retirement pension	ub*	sickness benefit	invalidity benefit	child benefit	one parent benefit	fis
1977/78	8,430	620	540	550	13,680	210	85
1978/79	8,530	570	560	600	13,480	290	85
1979/80	8,680	550	490	620	13,330	370	80
1980/81	8,880	960	435	620	13,160	430	95
1981/82	9,015	1,220	445	660	13,145	470	125
1982/83	9,075	1,200	450	700	12,935	505	160
1983/84	9,095	1,260	175	730	12,720	540	175
1984/85	9,145	1,180	170	740	12,510	570	170
1985/86	9,260	1,170	170	740	12,330	600	170

*Source: The Government's Expenditure Plans, 1983-4 to 1985-6 (Cmnd 8789).*

\*ub=unemployment benefit.

for payment during the first eight weeks of sickness in a tax year. The most notable aspect of Table 5.1 is that between 1979/80 and 1985/86 the recipients of child benefit dropped by 7.5 percent. This outcome was probably the result of tighter eligibility criteria (Hills, 1987: 92).

These facts suggest that the redistributive policies of the Conservative government were in stark contrast with the postwar political consensus on the desirability of maintaining and developing a comprehensive system of social insurance. The basic principles of the system were established by the Beveridge Report published in 1942. This report proposed a shift away from the traditional means-tested benefits towards a more universalist system (Dilnot et al, 1984: 9-12). Universal benefits meant that social security was to be provided at the same level to all who qualified; by contrast, means-tested benefits were paid only to those in need.

Political leaders made considerable efforts to defend the innovative spirit of the

Beveridge plan. Although the return of the Conservative government in 1951 marked a reassertion of individualistic values and a shift away from the universalistic model of social policy, the commitment to full employment was strong (Glennerster, 1995: 70-94). In the mid-1960s the Labour government expanded the social security system by incorporating an earnings-related tier into the structure of unemployment benefits (ERS) and by establishing the Supplementary Benefit Commission to report on the conditions of poverty. In June 1970 the elections returned a Conservative government committed 'to develop and improve Britain's social service to the full' (*Conservative Manifesto*, 1970: 3). Prime Minister Heath initiated some new universal benefits, notably the constant attendance-allowance for the disabled and the new pension for those over-80s who could not previously qualify.

The Labour government of 1974-79 made further progress in social security policy by introducing non-contributory invalidity benefits, and the first benefit intended for the one-parent family. Prime Minister Wilson undertook the most important explicit reform of the Beveridge plan in the field of pensions. In 1975 the government brought in the state earnings-related scheme (SERPS), which gave retirement pensioners an earnings-related pension in addition to state pensions. The scheme introduced a 'ratchet' according to which pensions were indexed to prices and earnings, whichever rose faster.

By 1979 a system of annual review of benefits had been established which resulted in uprating national insurance benefits in line with wages and prices, whichever grew faster. For the entire postwar period British party leaders agreed on the definition of poverty (Banting, 1979: 74). This problem was caused by a variety of factors, including personal misfortune, low wages, large families, disability, sickness etc., and the solution proposed was setting a national minimum standard of living.

Consensus on redistributive policies allegedly showed that party politics and electoral considerations had little influence on the final decisions (Banting, 1979: 75; Rose, 1984: 48).

Social policy was either the product of incremental/decremental decision-making or the result of pressure group activity. The Thatcher experience, however, presents a radically different picture. According to the book-length study of Social Security Bills in Britain undertaken by a team of lawyers, under Thatcher:

The primary role of bureaucrats in formulating [social security] policy options has been maintained but the emphasis has changed: the parameters within which reform is perceived as possible have been determined by politicians rather than administrators. (Ogus et al 1988 : 11)

These observations validate the widely held view that in the 1980s the core executive control over the state apparatus was much stronger (Dunleavy, 1990: 96-125). With the election of a Conservative government in 1979 a new, more active and impositional style of government was attempted (Richardson, 1994).

Thatcher made skilful use of advisers to extend her influence in the government and in her party, by establishing links with Right-wing think-tanks and intellectuals. Through this network of advisers Thatcher launched an attack on the social security system. First she wanted to reverse the trend in social security policies by reducing the role of universal benefits and increasing that of means-tested benefits. Although the controversy between selective and universal benefits was not new in British politics (Weale, 1990: 199), Thatcher was the first party leader to elevate it to a primary policy objective.

The Conservative government did not merely introduce new policies to affect transfer benefits. There were also areas where the method of calculation of the benefits was changed. In 1986, for example, the government succeeded in substantially reducing the value of pensions just by modifying the formula for deriving them. As set out in section 6 of the Pensions Act, the formula changed from 25 percent of the best 20 years of earnings to 20 percent of the lifetime average, and the pension inherited by the spouse was halved (Ogus et

al, 1988: 207). The halving of inheritance rights on a partner's pension will presumably have the greatest impact on lower-income families.

In other areas the *lack* of change was just as important. Despite the sharp rise in unemployment in the early eighties, no variations were made on the level and duration of unemployment benefits. The cumulative effect of these measures was that between 1978-9 and 1983-4 the number of social security claimants increased by 138.4 percent but spending on income-related benefits increased by only 110.6 per cent in real terms (Atkinson et al. 1986: 30). This indicated a real decline in the benefit per claimant produced by the abolition of the earnings-related supplement and the taxation of benefits.

The percentage of people with National Insurance benefits also declined by 10 percent because of more stringent entitlement rights. Therefore, a much larger proportion of the unemployed were dependent on supplementary benefit. The data collected on state transfers in Britain show that between 1975 and 1985 average take-home pay rose by 2 percent whereas the real value of social benefits for a single unemployed person rose less than 1 percent per annum on average (Atkinson, 1991).

Lastly, the tax system was made more regressive than ever. There was a shift away from direct to indirect taxation by replacing the previous split rates of Value Added Tax (VAT), 8 and 12.5 percent, with a single rate of 15 percent. The Conservative government initially cut the top marginal tax rate on earned income from 83 to 60 percent, and later reduced it to 40 percent. It also cut the basic rate of income tax from 33 to 30 percent, later reduced to 25 percent. Raising the Value Added Tax at 15 percent added about 4 percent to the Retail Price Index, at a time when inflation was resurgent and oil price rising. Higher indirect taxation was needed to finance part of the reductions in income tax at both the top marginal tax rate and the basic rate.

## 5.2 TRENDS IN INCOME INEQUALITY

An overview of inequality trends from 1969 up to the second Thatcher term is given in Table 5.2. The United Kingdom is one of the few LIS countries with datasets going back to the 1960s; this information provides an opportunity to trace the inequality trend over a longer period than it is possible in the other two case studies. The picture that emerges from Table 5.2. suggests that the inequality trend in Britain is divided into two periods, 1969-79 and 1979-86. It is noteworthy that inequality indices show contradictory values for the first

*Table 5.2. Income Inequality in the United Kingdom 1969-1986.  
(adjusted household post-tax/post-transfer income).*

YEAR	ATKINSON		CV	GINI	THEIL
	$\epsilon=.5$	$\epsilon=1.5$			
1969	7.3	25.0	67.9	29.8	15.9
1974	10.1	27.2	67.3	28.7	14.8
1979	6.3	49.0	53.8	27.6	12.7
1986	8.4	87.9	64.7	30.3	16.5
percentage change*					
'69-'79	-13	+ 99	- 21	- 7	- 20
'79-'86	+33	+ 80	+ 20	+ 10	+ 30

*Source:* computed by the author from LIS.

\* percentage changes are rounded.

period. Although the Gini, Theil and CV clearly drop, the Atkinson indices are ambiguous. When  $\epsilon=.5$  inequality increased from 1969 to 1974, decreased from 1974 to 1979 and increased again from 1979 to 1986; but when  $\epsilon=1.5$  the index constantly grew throughout

the period. Since higher values of epsilon raise the sensitivity of the Atkinson Index to lower income groups, its steady growth throughout the period suggests a consistently less favourable outcome for the poor in an otherwise more affluent society.

The striking feature of Table 5.2. is that under the Conservative government there is a clear reversal of inequality trends. All indices increase, with the rise ranging from 10 percent to percent. The unanimity of the five indices is important because it reduces the possibility that results are dependent on the particular index used. Snapshots of a few years, however, prevent us from identifying the turning point in the trend. Several authors have suggested that the period between 1977 and 1980 marks the start of a sustained and substantial increase in inequality (Atkinson, 1991; Jenkins, 1991; Coulter et al. 1991; Stark, 1989: 179). As in the previous chapter, I employ inequality decomposition methods to identify non-governmental determinants of income inequality. I first examine demographic and market effects and then I evaluate the distributional role of transfer income.

### **5.2.1 Demographic effects**

The age profile of the British population has been regarded as an important determinant of growing income inequality in the years between 1965 and 1980 (Mookerjee and Shorrocks, 1982). The growing number of elderly contributed to the upward trend in inequality to the point where subtracting the 'age effect' from aggregate inequality meant a reversal of the trend. Recent work, however, suggests that the age effect is much less significant in the trend of the 1980s (Stark, 1989: 181-182).

The age-decomposition analysis undertaken in this work differs from previous research both in the data sources and in the choice of the inequality index. Although the LIS datasets have not yet been used in longitudinal analyses of British trends, the most important

contribution of my decomposition is that it relies on the generalized entropy index. As explained in Appendix D, this index is easily decomposable, while the Gini index employed by both Mookherjee and Shorrocks (1982) and Stark (1989) is not. Table 5.3. sets out the

*Table 5.3. Contribution of changes within and between age groups in total inequality. United Kingdom 1969-1986. (Adjusted post/tax post/transfer income. Inequality Index: Generalized Entropy Index  $\theta=.5$ ).*

year	total inequality%	within-group inequality%	age effect% (between-group inequality)
1969	37.0	12.5	24.5
1974	38.1	13.0	25.1
1979	35.7	11.1	24.6
1986	41.1	17.7	23.3

*Source:* computed by the author from LIS.

results of the age decomposition between 1969 and 1986. The pattern highlights again a sharp contrast between the 1970s and the 1980s. Clearly the age effect was roughly stable during the 1970s, while there was a downward trend from 1979 to 1986 when the inequality index dropped from .246 to .233. Since total inequality in the same period grew from .357 to .411, the age factor seems negligible. A detailed examination of Table 5.3. shows that it is within-group inequality that explains the later trend. The age decomposition analysis is particularly useful in that it shows a dramatic change. For the first time in many years the pattern is reversed; there is an upward trend in within-group inequality and a downward trend in between-group inequality.

Table 5.4. shows how measures of inequality would have fared if no changes had occurred in the population shares. When the 1969 population shares are combined with adjusted disposable income figures for 1974, 1979 and 1986, the resulting total inequality is

Table 5.4. Age decomposition of inequality, actual and hypothetical values. United Kingdom, 1969-1986. (Adjusted post/tax-post/transfer income. Generalized Entropy Index with  $\theta = .5$ ).

Year	Actual values	Hypothetical values with fixed population shares		
		1969	1974	1979
Total inequality				
1969	37.0	37.0		
1974	38.1	37.0	38.1	
1979	35.7	38.1	35.9	35.7
1986	41.1	35.6	38.8	39.5
Between-group inequality				
1969	24.5	24.5		
1974	25.1	25.0	25.1	
1979	24.9	25.6	24.1	24.6
1986	23.3	21.9	22.9	24.7
Within-group inequality				
1969	12.5	12.5	14.0	
1974	13.0	12.0	13.0	
1979	11.1	12.4	11.7	11.1
1986	17.7	13.7	15.9	14.8

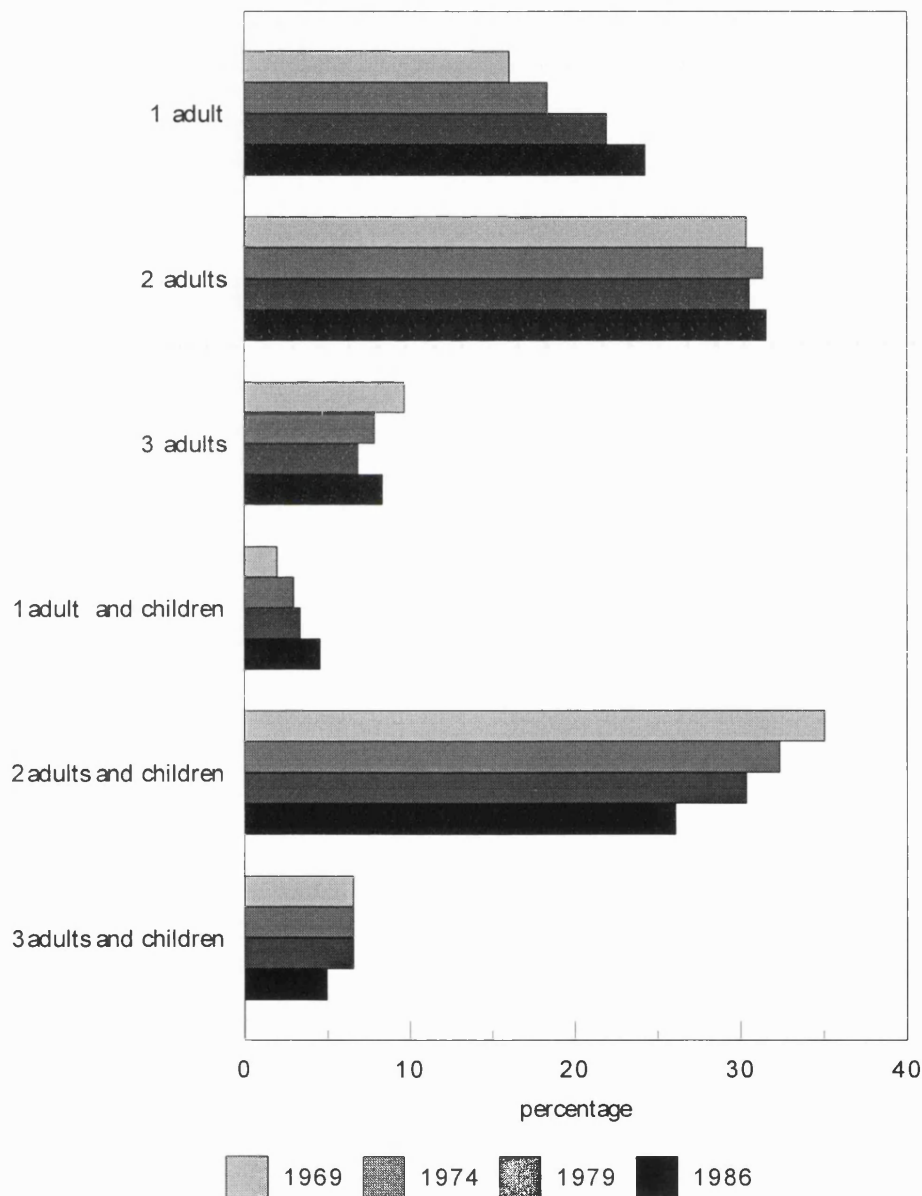
Source: computed by the author from LIS

less in 1974 and 1986 and more in 1979 than the value that corresponds to the population distribution in these years. Similarly, when combining the 1974 and 1979 population shares with the income figures of 1986, the hypothetical values of total inequality are lower than the actual values. The hypothetical values set out in Table 5.4 substantiate the claim that 'between-group inequality' is the main determinant of the changes. Inequality of



income is higher between different age groups than within the same age group. Therefore if population shares had remained constant, there would have been a smaller increase in

Figure 5.1 Distribution of the population by household type  
United Kingdom 1969-1986



Source: computed by the author from LIS

inequality during the period 1969-86. These findings corroborate existing research which suggests that demographic changes have contributed to the pattern of income distribution in

Britain, but not significantly (Jenkins, 1993).

We have seen that different household types may affect the distribution of income by reducing or increasing their concentration. In Britain, as in many other industrialized countries, there has been a secular decline in average household size. Figure 5.1 shows that between 1969 and 1986 the number of large families steadily declined while the number of single households and lone parents gradually increased. There is a sharp reduction in families with three children and a concomitant rise in parents with one offspring.

Reasons for the decline in average household size include greater mobility, a trend towards younger people living independently of their parents and higher divorce rates (Jenkins 1991; Kiernan, 1989; Stark, 1989). The impact of these changes is likely to reduce equality all the more because they prevent income-pooling and increase the number of low income single-adult households, especially those of single parents (Ermisch, 1989). Following the same method adopted for age groups, income inequality trends are estimated for six household types. Table 5.5 shows that the growing proportion of smaller households had marginal effects on total inequality. Between 1969 and 1986 between-

*Table 5.5. Contribution of changes within and between households to the trend in total inequality. United Kingdom 1969-1986. (Adjusted post/tax-post/transfer income. Inequality Index: Generalized Entropy Index  $\theta=.5$ ).*

year	total inequality	within- household inequality	between household inequality
1969	37.0	11.5	25.5
1974	38.1	14.0	24.1
1979	35.7	11.3	24.4
1986	41.1	16.0	25.1

*Source:* computed by the author from LIS.

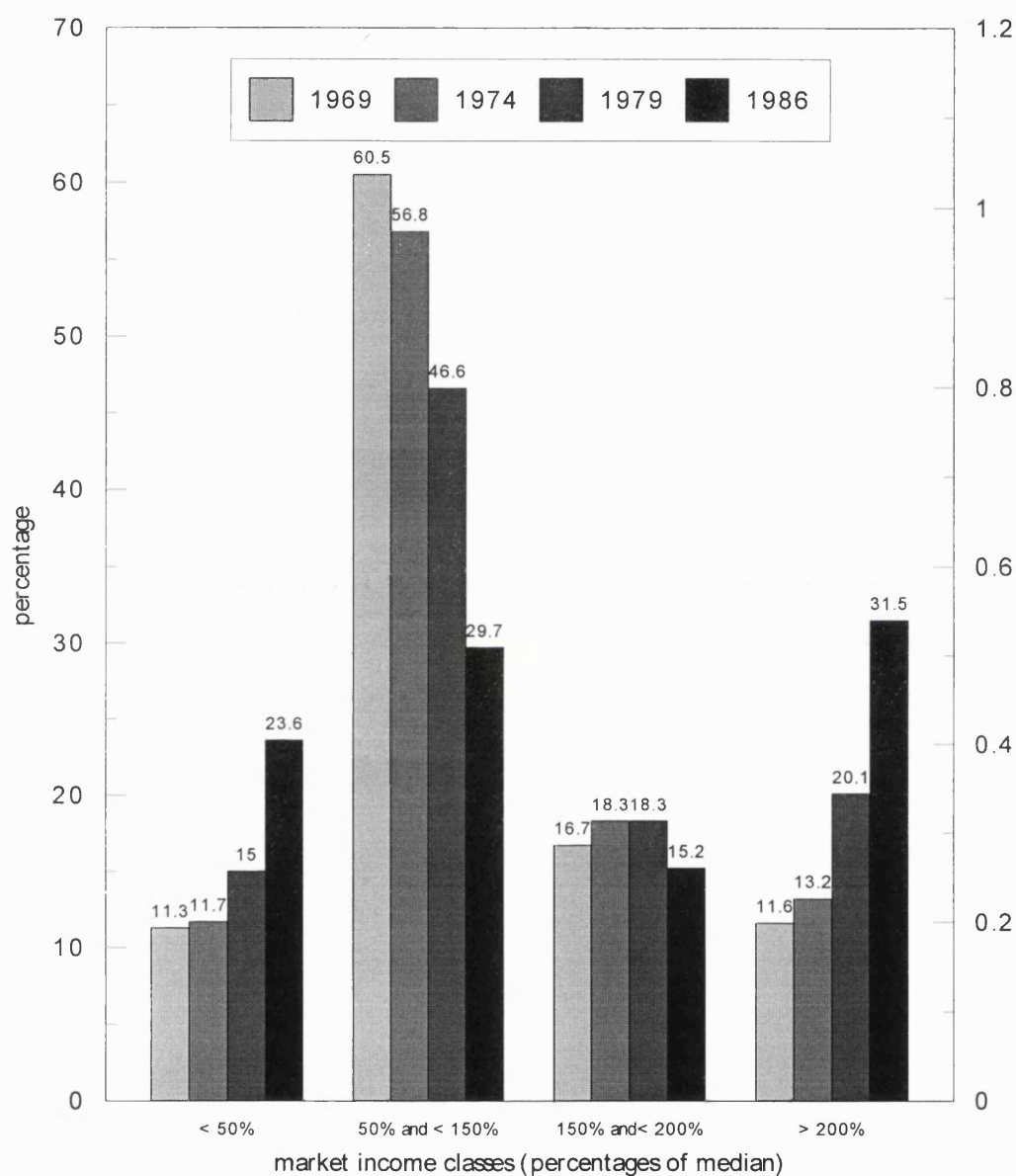
household inequality was fairly stable. By contrast, within-household inequality had a strong distributional impact. These results indicate that modifications in the structure of the population in Britain over a period of about fifteen years had low distributional consequences.

### **5.2.2 Market effects**

The impact of wage differentials on income inequality has received great attention from analysts of the distribution of income in Britain (Atkinson, 1991; Gardiner, 1993; Jenkins, 1993). Several studies have detected a clear link between developments in income inequality and wage dispersion (Jenkins, 1986; Schmitt, 1992; Stark, 1989). Consequently, they concentrate specifically on the pattern of wage dispersion during the last twenty years in Britain. The claim that market income is the principal cause of rising inequality is partially corroborated by the LIS data. Figure 5.2 represents the proportion of the population in four income classes, defined in relation to the median, for the period 1969-1986. The picture that emerges is striking. The proportion of the population with less than 50 percent of median income more than doubled between 1969 and 1986. Furthermore, while the proportion of poor workers grew by 3.7 percent between 1969 and 1979, its growth accelerated under the Thatcher government, increasing by 8.6 percent from 1979 to 1986. At the same time, the richest income category with more than twice median income almost tripled, again with the highest increase of 11.4 percent from 1979 to 1986.

The upper-middle income class experienced minor variations as compared to the other income classes, with the proportion of the population in this class dropping from 16.7 percent to 15.2 percent. A noteworthy feature of Figure 5.2 is that over the 1980s the

Figure 5.2 Proportion of the population in different market income classes  
Head of Household Aged 20-64. United Kingdom 1969-1986



Source: computed by the author from LIS

distribution of market income was more spread away from the middle: The falling percentage of workers with middle range incomes was associated with growth in the lower and upper tails of the distribution, corroborating the hypothesis on the 'shrinking middle' discussed in the previous chapter.

In a process akin to the trends in the Australian labour market, income polarization mainly reflected structural and technological changes (Jenkins, 1993). There was an expansion of the secondary labour market, with an increase in temporary and part-time

workers employed in low skilled jobs. The analysis of market income differentials adds weight to research findings which suggest that market forces greatly affected inequality trends in the United Kingdom (Atkinson, 1991).

### 5.2.3 The distributional impact of cash transfers

As we have seen in the chapter on Australia, the role of market forces can be better understood by analysing the separate effects of market and transfer income inequality on total inequality. We analyse again equation 1.1. by first substituting the values in Table 5.6. for 1979 and 1986 and differentiating first with respect to  $C_m$  and then with respect to  $C_t$ .

*Table 5.6. Income decomposition. Values for the coefficient of variation of market income ( $C_m$ ), transfer income ( $C_t$ ) and the correlation coefficient ( $\rho$ ). United Kingdom 1979 and 1986. (Gross Income).*

variable	1979	1986
$C_m$	1.05	.88
$C_t$	1.00	1.02
$\lambda$	0.78	0.73
Pearson's coefficient ( $\rho$ )	-0.2900*	-0.3042*
	*signif.LE .1 (two-tailed)	

Source: computed by the author from LIS.

The results of this computation, which are reported in Table 5.7, show that the impact of market income inequality on total income inequality was reduced

Table 5.7. Results of partial derivatives of equation 1.1. United Kingdom 1979 and 1986.

partial derivative	1979	1986
$dC/dC_m$	.75	.66
$dC/dC_t$	.34	.015

in the period under examination. The reason is probably related to the higher number of unemployed people not earning market income in the mid-1980s. This analysis points to a remarkable reduction in the impact of transfer income inequality. Seven years under the Tory government seem to have altered the effect of redistributive policies to the point that if transfer income inequality increased by 100 percent it produced only 1.5 percent of total income inequality as opposed to 34 percent in 1979.

### 5.3 ECONOMIC CYCLES AND ELECTORAL POLITICS

Thatcher couched her attack on social security spending primarily in terms of its effect on inflation. Her priority was to bring down inflation even at the price of record levels of unemployment (Thatcher, 1993: 42). The 1979 budget reflected this strategy by embracing the monetarist doctrine, based on the firm control of the money supply in the medium term. To shift the focus of economic policy from the short to the medium term the government announced a *Medium Term Financial Strategy* in March 1980, where monetary targets and the PSBR (Public Sector Borrowing Requirement) were set out four years ahead (Mosley, 1986: 193). The target range for sterling M3 was maintained between 7 percent and 11 percent for 1980/81 and after subsequent reductions, it eventually ranged from 4 percent to 8 percent for 1983/84. Despite greater flexibility in the setting of monetary targets, over the 1980s monetary controls were a constant priority in the government's economic policy.

### 5.3.1 Macroeconomic cycles

The main method chosen by the government to reduce the growth of sterling M3 was to cut the PSBR from 4.77 percent of real GDP in 1979/80 to 1.5 percent in 1983/84 (Smith, 1987: 92). 'Just as the PSBR had been the main source of money creation in the 1970s, it was to become the main instrument of monetary control in the 1980s' (Johnson, 1991: 36). These considerations do not imply that the government implemented a coherent and consistent economic design (Jackson, 1992: 11). Financial liberation proved incompatible with monetary controls 'and not sufficiently predictable to allow broad money targets to be formulated or achieved (Smith, 1987: 70). The Conservatives moved away from planned spending cuts after their failure to achieve them in the early 1980s.

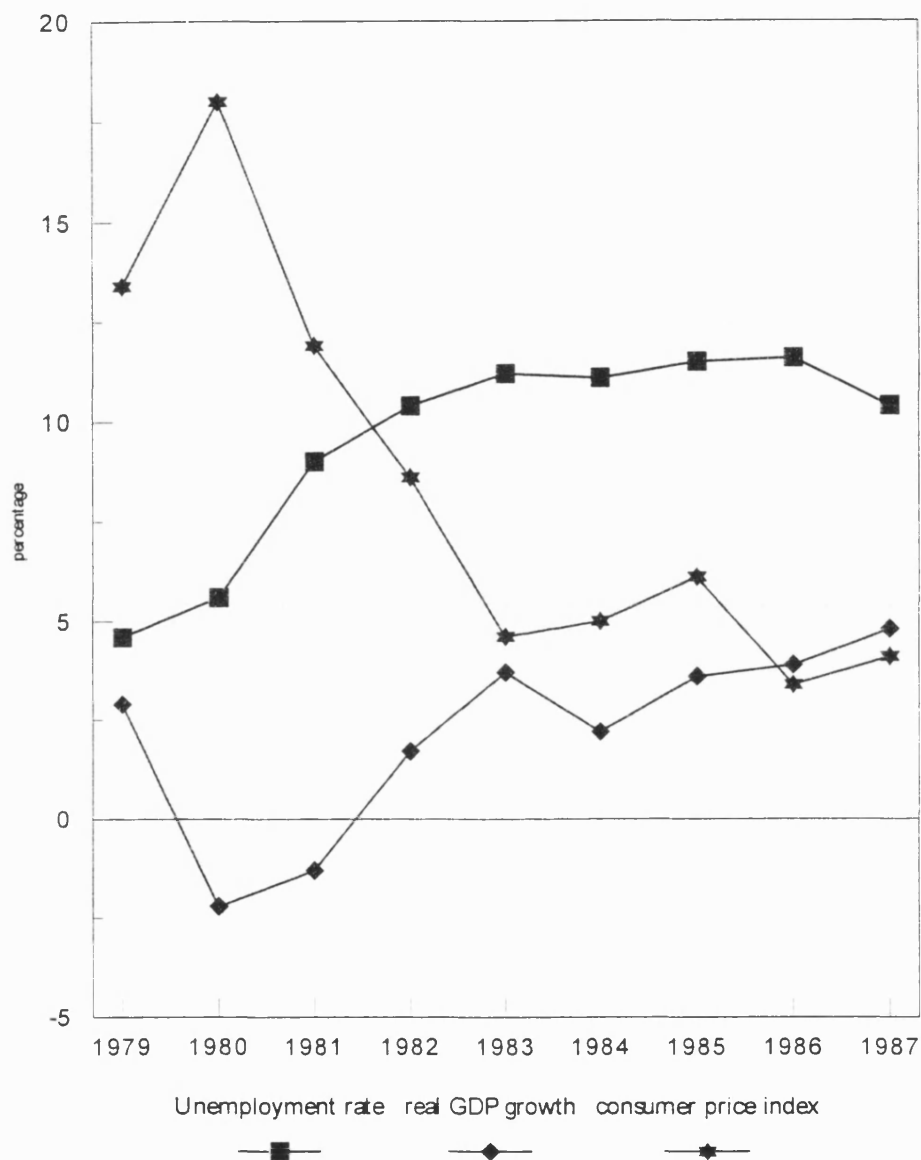
The emphasis on restraining the public sector presumably hampered the ease with which redistributive policies could have adjusted to the economic cycle. Figure 5.3 shows the trends in the inflation rate, unemployment rate and real GDP from 1979 to 1987. The first point to note about the figure is that despite the increased duration of unemployment in the early and mid- eighties, no variations were made in the level and duration of unemployment benefits. Atkinson et al. believe that:

if governments can plead "not guilty", at least until recently, to the charge of making sudden changes in policy, this leaves them open to indictment on grounds of failing to adjust to changing circumstances. It is indeed striking that the White Paper of December 1985 (DHSS, 1985) contains no more than five lines on benefits

for the unemployed. (Atkinson, et al., 1986: 18-19)

The second point is that if redistributive policies had really followed macroeconomic trends, then as real GDP grew the government should have expanded social security benefits.

Figure 5.3 Trends in unemployment rate, real GDP and consumer price index  
United Kingdom 1979-1987



Source: OECD Historical Statistics 1977-1990

Evidence suggests that the opposite actually occurred. Real GDP started rising in 1983 and steadily grew from 1984 to 1987, but social security benefits were curtailed in these years.

The government stiffened entitlement rules with the ratification of the Social Security Act of 1986, which marked the sharpest departure from postwar consensus by incorporating many recommendations of the 1984 Fowler Report. The pattern of change between redistributive policies and economic cycles in the United Kingdom from 1979 to 1987 indicates that redistributive policies did not automatically adjust to macroeconomic variables.



The policy actions and reactions of the Conservative government seemed to interfere with the economic trend.

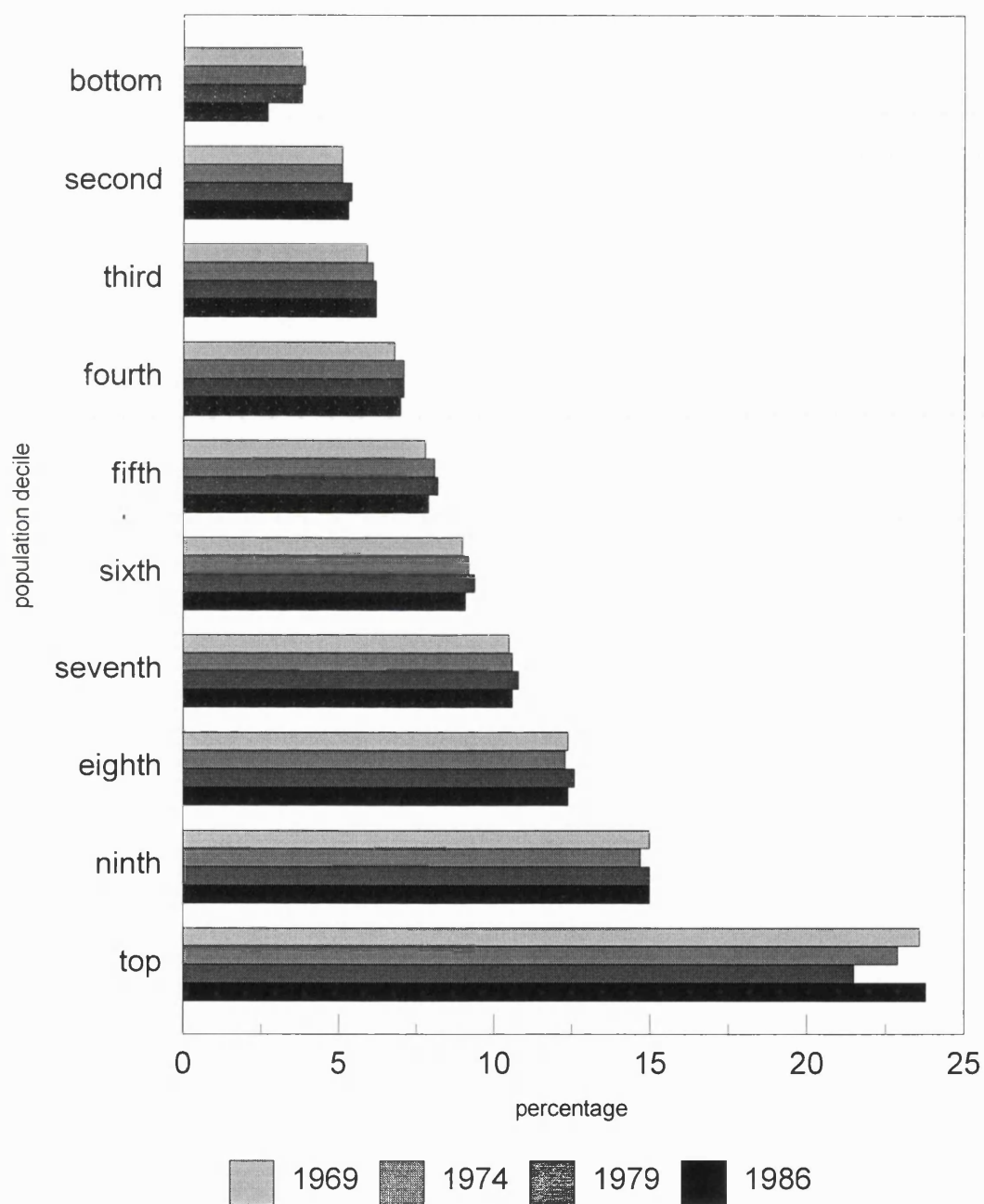
### **5.3.2 Electoral politics: median voter and political business cycles**

One reason why the Conservative government manipulated entitlement rules may be linked to vote-maximizing strategies. It is widely believed that during the postwar period British party leaders agreed that convergence towards 'the middle ground' ensured electoral success (Kavanagh and Morris 1994). Consequently, redistributive strategies were devised to privilege the middle groups.

Figure 5.4 shows the decile percentage share of post/tax-post/transfer income between 1969 and 1986. The figure shows that from 1969 to 1979 a larger share of income accrued to the middle income deciles. There was a steady rise in the income share of the third, fourth, fifth, sixth and seventh decile. This result corroborates the median voter hypothesis because the middle four deciles were net gainers from redistribution. Although the second decile also gained from 1974 to 1979, the values for the bottom decile were approximately stable. This stability partly explains the values for the Atkinson Indices discussed at the beginning of the chapter, which indicated a less favourable outcome for the poor people during the 1970s.

The salient aspect of Figure 5.4 is the reversal of the inequality trends in 1979, marked by wider income gaps between rich and poor. In order to visualize this inversion Figure 5.5 illustrates the percentage loss and gain accruing to population deciles between 1979 and 1986. The striking feature of the figure is that the overwhelming majority of the population lost a share of their income to the advantage of the upper income group. The

Figure 5.4 Income share of population deciles, United Kingdom 1969-1986.  
Adjusted post/tax-post/transfer income.

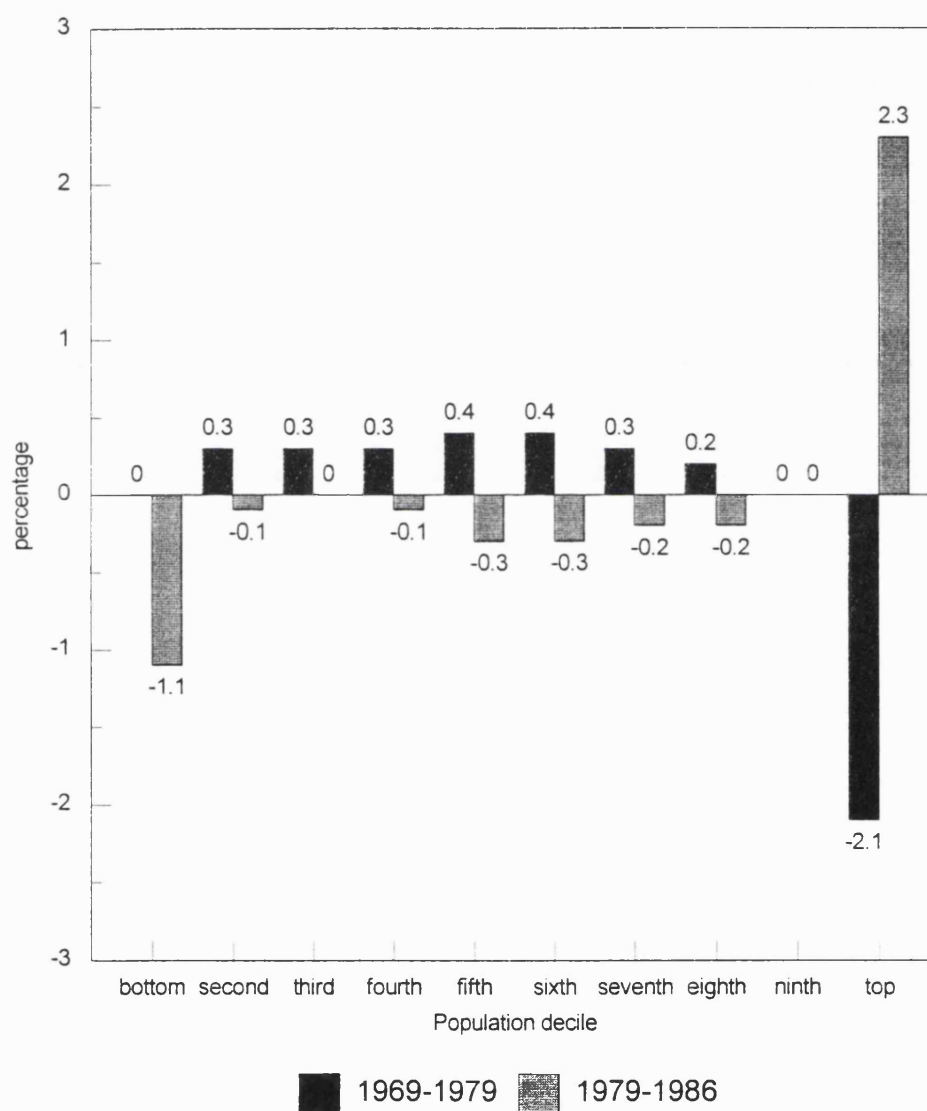


Source: computed by the author from LIS

bottom decile experienced the largest loss, with its income share dropping by 1.1 percentage

points between 1979 and 1986. By contrast, the upper decile gained as much as 2.3 percent, thus more than compensating its income loss in the previous decade of -2.1 percent.

Figure 5.5 Percentage point gain and losses in the income share of population deciles  
United Kingdom 1969-1979 and 1979-1986.  
Adjusted post/tax-post/transfer income.



Source: computed by the author from LIS

The wider dispersion of the distribution of post/tax-post/transfer income in the 1980s is inconsistent with established rational choice explanations based on the median voter hypothesis. The data in Figure 5.4, however, substantiate research findings which suggest that the median voter model offered a good account of the income distribution until 1979 (Crewe and Searing, 1988). Before the advent of the Conservative government the

distribution of disposable income reflected the predictions of models rooted in the Downsian tradition, while the inversion of inequality trends over the 1980s calls these models into question. Both Figure 5.4 and Figure 5.5 testify that under the Conservatives middle income classes lost a share of their income distribution. More specifically, Figure 5.5 points out that the middle four deciles lost a total of .9 percentage points of their disposable income share from 1979 to 1986.

Unfortunately, the analysis of the LIS microdata sets yields only a partial picture of the real income distribution because of the lack of information on indirect taxation and in-kind transfers. It is reasonable to believe that middle income classes gained from taxation policy, especially from the shift to indirect taxation, and from access to universal social services; assessing the validity of these claims, however, lies beyond the scope of this work.

While the LIS data are incongruent with median voter assumptions, evidence for the political business cycle in the United Kingdom between 1979 and 1986 is ambiguous. In 1979 the Conservatives pledged to curb government outlays, but between 1979 and 1981 spending increased by two percent, partly as the effect of soaring unemployment. Further deviation from the model was the government's reduction of the scope and level of benefits after 1981, regardless of the timing of elections. Highly controversial policies were enacted in 1982 just one year *before* the general election of 1983. From June 1982, for instance, the earnings-related supplement for Unemployment and Sickness benefit was abolished. From July 1982 Unemployment Benefit and Supplementary Benefit paid to unemployed people (with the exceptions of additions for children) became taxable.

The impact of these changes was immediate. Official estimates reported that the combined effect of taxation and the 5 percent cut in unemployment benefit of 1980 meant losses ranging from £140 in 1982-83 for a single person to £481.80 for a married couple; unemployed people with very low income lost £1.75 a week in real terms for a couple and

£1.10 for a single person (*Times*, 9 July, 1982: 2). These policies marked a watershed because 'there was no postwar precedent for legislation that cut the real value of the main national insurance benefits for those below pension age and that abolished benefits' (Lister 1991: 92).

The Social Security Act of 1986 deviated from the predictions of the PBC since it lowered benefit levels and stiffened entitlement rights one year *before* the general election of 1987. This Bill abolished lower rate benefits which enabled those individuals not meeting the full contribution conditions to receive a half and a quarter rates of national insurance. The result was that many people failed to qualify for national insurance benefit on account of insufficient contributions. In May 1986, over 800,000 of the 3 million people unemployed had insufficient contributions to receive any unemployment benefit (Atkinson and Micklewright, 1988: 10). Thatcher's attempt to abolish the state earnings-related pension scheme foundered in the face of the opposition of pressure groups. But in 1986 the government succeeded in substantially reducing the value of the benefit by changing the method of calculation as described in section one.

The Social Security Act of 1980 is more consistent with the PBC since it cut the real value of child benefit by 9 percent, despite pre-electoral promises to increase it (Lister, 1991). This Bill also severed the link between wage movements and benefits discussed above. Another instance corroborating the predictions of the PBC is that one year after the 1983 elections, the government abolished the child dependency addition to unemployment benefit. Hence in a few cases the behaviour of Conservative leaders does appear compatible with the PBC, but the overall trend in transfer benefits does not substantiate the model. While taxation policy may have followed a pattern congruent with the political business cycles, this model leaves too many empirical anomalies unaddressed.

### 5.3.3 Electoral geography, vote-mobilization and Director's Law

Perhaps conventional vote-maximization models fail to explain the link between electoral competition and income redistribution because they neglect the peculiarity of the British electoral geography.<sup>2</sup> It is well-documented that the majority of Conservative voters live in the South, whereas Labour supporters are chiefly concentrated in the North. Over the 1980s the geographical distribution of votes coincided with differences in the principal bases of poverty. Available data suggest that in the South the elderly were the most likely to be poor; poverty in the North, by contrast, was more likely to be associated to redundancy and joblessness (Gregson and Robinson, 1993).

The difference in the principal bases of poverty between geographical areas may have been a significant factor behind the asymmetry in social security policies, which privileged the elderly, at least until the mid-1980s, and punished unemployed people. Krieger (1986: 86) argues that arithmetical particularism relied on making sectional appeals, either to different social groups or to different geographical areas. Perhaps this is why social security policies penalized some 'risk exposed' groups, such as the unemployed, and privileged other sub-groups, such as pensioners, at least in the short-run. Cash transfers aimed at adjusting social relativities by changing the economic position of target groups. Redistributive costs and benefits may have been apportioned between different welfare recipients in order to mould the electoral majority.

In the light of these considerations, transfers to pensioners followed an interesting pattern. In Nigel Lawson's words:

The most controversial decision announced in the 1979 Budget was the repeal of

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<sup>2</sup> Unfortunately the LIS datasets do not include the geographical variable for the United Kingdom, so I draw on published information on the geographical distribution of poverty and inequality in Britain.

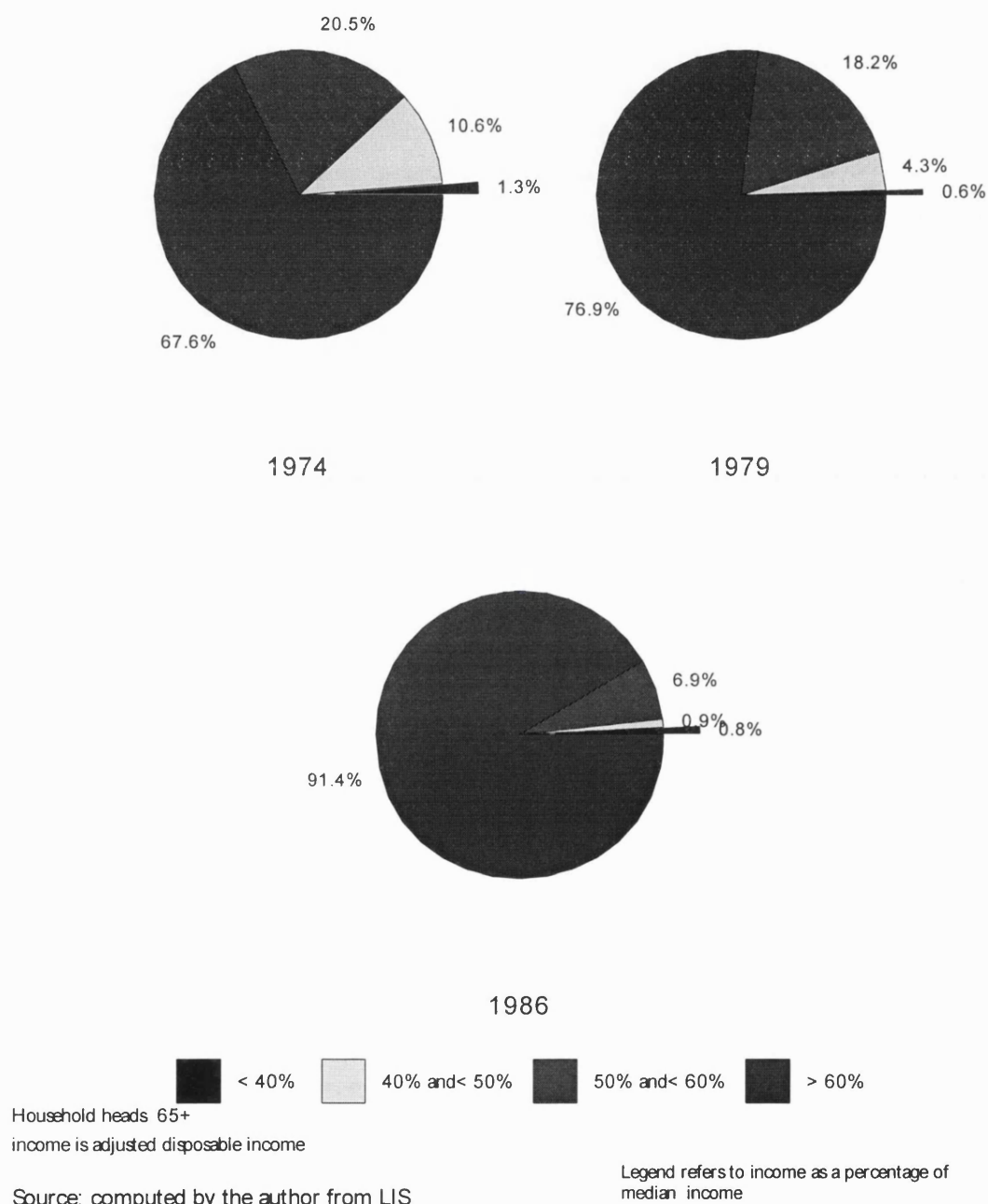
the Labour Government's legislatively enshrined formula for uprating pensions in line with prices or earnings, whichever rose faster. .. As earnings normally rise faster than prices, Labour's commitment was an expensive one.. We decided to switch to straightforward indexation in line with prices. On the other hand the 1979 budget increased pensions by 19 1/2 percent. This increase was designed to compensate and to soften the blow of the change in the form of indexation. (Lawson, 1992: 36-37)

Pensions were curtailed in the medium-long term, but they were increased in the short term. Supporters of the Conservative government claimed that pensioners were better off because pensions grew in real terms by 7 percent between 1978/9 and 1983-84 (Sked and Cook, 1993: 346). These findings conceal the fact that the growth in real spending was almost entirely accounted for by demography. Between 1978/9 and 1983/4 there were 12 percent more pensioners which meant that spending per pensioner hardly changed in real terms (Hills, 1987: 91).

Yet Figure 5.6 shows that under the Conservative government pensioners increased their share of post/tax-post/transfer income. The proportion of pensioners with income below 50 percent of the median dropped substantially from 4.3 percent to .9 percent between 1979 and 1986. This is a remarkable reduction especially in the light of rising poverty rates in the population, which increased from 5.7 percent in 1979 to 7.1 percent in 1986 (see Table 5.8). Pensioners seemingly fared better under the Conservative government than under the previous Labour government. Between 1979 and 1986 the proportion of elderly above the highest poverty line (60 percent of median income) grew by 14.5 percent, while it only rose by 9.3 percent between 1974 and 1979.

The Conservative policy towards pensioners differed significantly from their attitude towards other state-dependent groups. As noted earlier, one of the first casualties of the Thatcher government was the abolition of the earnings-related supplement (ERS) for the unemployed, sick and widows introduced by the Labour Government in 1966. In addition

Figure 5.6 Percentage of pensioners below or above different poverty lines. United Kingdom 1974-1986.



under the terms of the Social Security Act of 1980, 4 percent was cut from short term contributory national insurance benefits, including injury, unemployment, sickness and invalidity benefits. This reduction in the level of unemployment benefits suggests that a much larger proportion of unemployed people were poor and therefore dependent on supplementary benefit.



Since research findings report that at least five years must elapse before policy changes have an impact (Rhodes and Marsh, 1992: 5), we can compare the 1979 and 1986 LIS datasets to evaluate the socioeconomic consequences of changes in the social security system between 1979 and 1981/82. Table 5.8 sets out the cumulative percentage of unemployed people with incomes below three different poverty lines. Between 1974 and 1979 the proportion of unemployed with income below 60 percent of the median declined by 8.5 percent, while between 1979 and 1986 it grew by 6 percent.

*Table 5.8 Cumulative percentage of the unemployed and total population below three different poverty lines (adjusted household post/tax-post/transfer income).*

percent of median income	unemployed population			total population		
	1974	1979	1986	1974	1979	1986
less than 40%	20.5	13.2	14.4	1.8	2.7	4.2
less than 50%	30.7	21.6	23.0	6.9	5.7	7.1
less than 60%	38.5	30.0	36.0	15.5	13.8	13.0

*Source:* Computed by the author from LIS

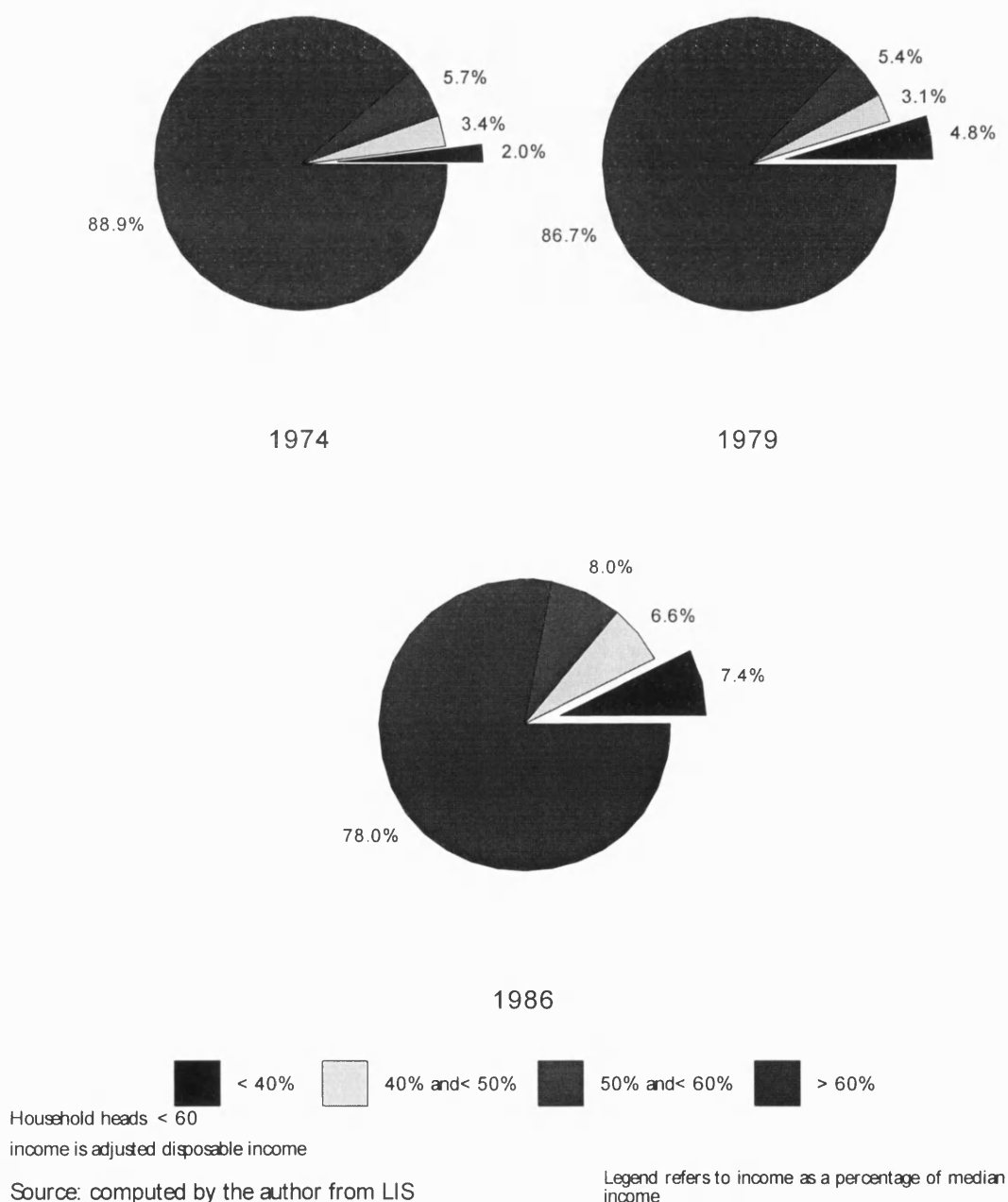
This is a significant increase in poverty rates among unemployed people in a very short period. Table 5.8 also shows that while the proportion of unemployed people with disposable income below the 60 percent poverty line increased between 1979 and 1986, the proportion of the total population under the same poverty line slightly dropped from 13.8 percent to 13 percent, an overall fall of .8 percent. Thus the Conservatives' attack on 'scroungers' may have had considerable implications for the standards of living of the unemployed people.

More generally, the consequences of tighter means testing can be gauged by looking

at Figure 5.7 which shows the proportion of couples with children below three different poverty lines. Between 1974 and 1986 the cumulative percentage of poor families with income below 60 percent of the median almost doubled, growing from 11.1 percent to 22 percent. But while under Labour poverty rates rose by 2.2 percent, from 11.1 percent to 13.3 percent, under the Conservatives the proportion of poor people sharply increased from 13.3 percent to 22 percent. The larger wedge in the pie graph of 1986 which represents extreme poverty (below 40 percent of median income) raises doubts about the success of targeting benefits to the poor people.

Other redistributive measures limited the availability of benefits to women in general, and married females participating in the labour market in particular (Hill, 1990: 5). Since 1979 successive Conservative governments have relied on a rhetoric of the 'family' and a reassertion of Victorian values to justify cuts in welfare spending (McDowell, 1989: 179). These measures increased the financial hardship of women because unemployment is not equally distributed among groups in society, and women are a particularly vulnerable group. Harsh measures, including cutbacks in the real level of child benefit and the taxation of supplementary benefits, affected the standards of living of lone-mothers. In 1986 Fowler was forced to reverse his decision to pay the new family credit to husbands rather than wives, 'the transfer of cash from wife to husband upset the formidable Tory women. When they have allies like that, the poor hardly need the poverty lobby' (*The Economist*, 28 June, 1986: 27). This assertion is reinforced by Ogus et al who found that 'the government [had] only been prepared to make compromise when pressure [had] been exerted from within its own supporters' (1988: 11).

Figure 5.7 Percentage of couples with children below or above different poverty lines. United Kingdom 1974- 1986.



Arithmetical particularism was also pursued to capitalize on the geographical distribution of poverty. Income polarization between North and South was reflected in different patterns of dependence on supplementary benefits. In the South-East the number

of beneficiaries grew from 9.4 percent in 1979/1980 to 9.7 percent in 1983/1984, an increase of .3 percentage points, while in the North it increased from 15.7 percent to 20 percent, a rise of 4.3 percentage points (Walker and Walker, 1987: 47-48). Hence higher unemployment, low paid jobs and poverty were of different magnitude and significance in the two regions (Johnston and Pattie, 1989: 62).

Detailed examinations of the Family Expenditure Survey data of 1985 have shown that the North had a higher proportion of individuals living in poor households (Borooah et al, 1991: 98). The economically fortunate were instead living in the South and formed a sizeable proportion of what Galbraith dubbed the 'contented electorate'(Galbraith, 1993: 15). Although the North-South divide pre-dates the 1980s (Fieldhouse, 1995), Walker contends that the Conservative government 'has helped to widen and deepen these divisions, sometimes to a catastrophic extent' (1987: 13).

Thus rather than passively responding to voters' demands, the Conservative government actively engaged in the mobilization of voters. 'Arithmetical particularism' coupled with the adjustment of social relativities enabled the Conservatives to encourage alliances between sections of the middle class and economically privileged groups. Hence 'Director's Law' of income redistribution and mobilization theory offer more adequate explanations of the curious imbalance in social security spending than mainstream, demand-driven models.

The new electoral coalition was forged by policy changes which explicitly denied benefits to specific groups while granting them to other more privileged groups. Analysts have observed that by stigmatizing benefits claimants through the shift to means testing the Tories 'have tried in a muted (..) way to extract political advantage from a widespread populist suspicion of the state dependent population' (Dunleavy and Husbands, 1985: 24). The link between social security benefits and social identities highlighted in Chapter Two

suggests that Conservatives engaged in vote-mobilization to forge the electoral coalition that kept them in power.

The last point to note about the electoral arena is that the 1980s were marked by the lack of a credible Opposition. Divisions within the Labour Party over proposals of internal constitutional change absorbed the energies of the Labourites. In the late 1970s and early 1980s Labour's political strategy shifted further to the left (Whiteley, 1983: 2-6). Labour's shift to the left opened a political vacuum in the centre of the ideological space, soon filled by the formation of the Social Democratic Party (SDP). Throughout 1981 and 1982 the SDP in alliance with the Liberal Party was an apparently dominant force in shaping public opinion (Dunleavy and Husband, 1985: 67). The rise of the Alliance challenged the Tory moderates because many of them were exposed to the Alliance's advance in their constituencies (Riddell, 1983: 46-47). Electoral competition might therefore have tempered internal opposition against the antiprogressive stance of the 'dries'.

#### **5.4 INTRAPARTY DYNAMICS AND INCOME SECURITY POLICIES**

The government's attack on the 'culture of dependency' in general, and unemployed people in particular, derived from its conviction that transfer benefits generated disincentives to work. The Chancellor of the Exchequer, Nigel Lawson, claimed that the social security system encouraged 'idleness and irresponsibility' (quoted in Gilmour, 1992: 125). Thatcher reinforced this view in her memoirs by pointing out that:

Both for public spending reasons and in order to deal with the "Why Work?" problem (namely, the disincentive to work created by the small disparity between in-work and out-of-work incomes), we had already agreed to tax short-term social benefits as soon as possible. In the interim we decided to reduce these benefits - unemployment, sickness, injury, maternity and invalidity benefits - by 5 percent. (Thatcher, 1993: 55)

The belief that transfer benefits generate disincentives to work was not supported by

empirical evidence. In 1979 only 60 percent of those eligible were claiming the one-parent benefit, and in 1977 only 50 percent of those eligible were claiming FIS, while 24 percent of Supplementary Benefits remained unclaimed (*Social Security Statistics, Great Britain*, 1981: 253).

The take-up rate was therefore well below 100 percent, casting doubts on claims of 'fraud and abuse' by benefits' recipients and on the alleged disincentives effects of transfer benefits. Yet 'abuse and fraud' continued to be the spectre used to justify draconian cuts in spending (Lister, 1991: 94). The *Financial Times* hailed the Fowler report as the cure for clamping down on the 'Costa del Dole' (21 August, 1985: 3). Paradoxically, these remarks were stated while official estimates reported that the Supplementary Benefit unclaimed was running at 25 percent, which meant that 410 million a year went unclaimed (*Guardian*, 5 November, 1986).

#### **5.4.1 Explicit games and anti-egalitarian ideology**

The emphasis on economic, market-oriented explanations has meant that one significant question has gone largely unexplored: What effect has the struggle for relative dominance within the Conservative party had on transfer policies? It is well-documented that the years from 1979 to 1982 were marked by the internal struggle for real control of the party, a time in which contradictions and dilemmas were particularly acute (Jessop et al, 1988: 19). Most accounts of the Thatcher government, however, have paid little or no attention to the redistributive impact of strategic interactions within the party. It is reasonable to assume that internal strife influenced the apportionment of costs and benefits between social groups.

A preliminary step in understanding the Thatcherite assault on universal benefits involves tracing the evolution and consolidation of strategic games within the party. In Schelling's terms, bargaining between the Conservative elites shifted from 'tacit' to 'explicit'

games (1980: 21). Tacit games are those where players watch and interpret each other's behaviour; partners cannot or will not negotiate explicitly; by contrast, in explicit games the conflict of interest is publicized and overt. Tacit and explicit games are not thoroughly distinct concepts, since various gradations of the two games may exist.

Most analysts of the Conservative Party have recognized the pervasiveness of tacit games (Norton and Aughey, 1981: 51; McKenzie, 1963; Rose, 1964; Webb, 1994: 110). As one observer noted 'Conservatives...engage in ideological conflicts using sophisticated codewords and themes which resonate with the cognoscenti but cannot easily be picked up by outsiders' (Dunleavy, 1993: 124-125). Much has been written about the Conservative emphasis on internal cohesion. Tacit games may enhance loyalty and unity because close cooperation and coordination are dominant elements in these games (Schelling, 1980: 54-67).

From the mid-1960s, however, there has been a significant increase in the incidence of intraparty conflict (Shepherd, 1991: 103). There had been more dissenting MP votes under Edward Heath from 1970 to 1974 than in the previous twenty-five years, between 1945 and 1970 (Norton, 1978: 115). The difference with pre-1970s dissent was not just a matter of quantity, but also of quality. Conservative MPs traditionally expressed their dissent by forming *ad hoc* alliances from issue to issue. This pattern of internal coalitions changed in the 1970s, with a substantial number of MPs dissenting on the same issues (Norton, 1978: 244). Hence the shift from tacit to explicit games fostered the formation of more stable internal coalitions.

The consolidation of explicit games between Conservative elites has engendered several attempts at classifying ideological groups in the Conservative Party (Baker, et al, 1994; Crewe and Searing, 1988; Dunleavy, 1993; Norton and Aughey, 1981). The difficulties encountered in reaching a clear-cut classification partly rest on the fact that Conservative elites have generally formed short term, loose tendencies rather than long-lasting, organized

factions (Rose, 1964). Various hypotheses have been advanced to explain the quantitative and qualitative change in internal revolt.

Some authors contend that the party was facing a generational shift and young Conservative MPs had a less deferential attitude towards party policy (Budge et al, 1988: 55). Generational turnovers, however, are usually deemed an insufficient condition for alterations in the balance of power in party organizations (Panebianco, 1988: 33-45). The reason is that they do not always trigger variations in bargaining strength between party elites. Other authors maintain that internal warfare was fuelled by the authoritarian and confrontational personalities of Heath and Thatcher (Norton, 1978: 217-255). But explanations in terms of personalities sidestep the crucial question regarding the dynamics of power within the party.

#### **5.4.2 Introducing sequential elections**

A more convincing view holds that internal strife derived from MP participation in electing the party leader since 1965 (Shepherd, 1991: 103). Prior to 1965 the Conservative leader 'emerged' out of informal discussions in the ranks of the party notables. The rules for the leadership selection introduced in 1965 did not alter significantly the relationship between the leader and the party. Once elected there was no provision for the formal removal of the party leader. It was not until 1975 that the most important changes took place (Punnett, 1993: 262).

Two major modifications in the selection rules were introduced. First, the 15 percent votes requirement on the first ballot was replaced by a requirement of 15 percent of all eligible voters, in addition to an absolute majority. Second, provision was made for regular election at the beginning of each new parliament and in each subsequent session. From 1975 the Conservative leader had first to ensure re-election as leader and therefore satisfy the wishes of the faithful MPs.



One consequence was that the formal security of tenure of the party leader was brought to an end. It may be argued that Conservative leaders never enjoyed security of tenure, and that the new rules merely formalized the realities of existing relationships (Aughey and Norton, 1981: 246-247). Several Conservative leaders had been informally ousted by the members of parliament. Alec Douglas-Home, Harold MacMillan, Anthony Eden, Winston Churchill and Neville Chamberlain all resigned as a consequence of loss of confidence among their close allies (Bogdanor, 1994: 86-96).

Detailed descriptions of the leadership selection, however, suggest that the new rules marked a departure from previous experience. Bogdanor, for instance, concedes that 'neither Mrs. Thatcher, nor perhaps John Major, would have been selected under the old methods' (1994: 96). Jim Prior, a leading Conservative figure, observed that the new rules affected the relationship between Cabinet members:

the traditional ways in which the old 'inner circle' used to organize the Party informally and discreetly, born of the values of duty and loyalty - could no longer work. Whenever Willie Whitelaw and Francis Pym used to get together, they still seemed to think that the party could be run as they had run it ten or fifteen years earlier. Although they undoubtedly could wield some power and used all their skill to keep Margaret's Shadow Cabinet reasonably cohesive, it could never be the same again. (Prior, 1986: 103)

The increased dependence of the leader on the support of the parliamentary party appeared as the 'most significant modification in the relationship between the Conservative leader and the party' (Norton, 1978: 24). The formalization of the re-selection rules strengthened the role of backbench opinion and that of the parliamentary party (Burch and Holliday, 1995: 766-768; Norton, 1990: 45-46).

Traditionally, the leader of the Conservative Party has been very powerful. All authority and policy emanate from the leader. The Central Office, the party's organizational headquarters, is a creature of the party leader (Webb, 1994: 110). Two consecutive election

defeats in 1974 produced widespread recrimination against this concentration of power in the hands of the then leader, Edward Heath (Berhens, 1980: 32). It is well documented that Thatcher was elected because she was the only serious candidate willing to challenge Heath and not because there was a widespread commitment to her views (King, 1983: 97; Riddell, 1983: 21; Shepherd, 1991: 176-177).

Empirical research indicates that in 1975 the estimated share of Thatcherite MPs as a proportion of the Conservative parliamentary party was between 10 and 25 percent (Crewe and Searing, 1988: 371). Hence the election of Thatcher as leader was the unexpected outcome of strategic voting. The strong Tory tradition of loyalty to the party leader implied that those who wanted a leader other than Heath only had a chance of getting who they wanted by 'voting initially for someone they did not, namely a candidate from the right of the party who had no inhibitions about challenging Heath' (Gamble, 1995a: 90; see also Jenkins, 1987: 96-97).

The new rules, however, meant that the Conservative leader was now facing the problem of 'sequential elections'. The potential threat of a candidate standing against the incumbent could prove damaging for the party's image, and this gave some leverage to dissidents within the parliamentary party (Norton, 1978: 25). This claim has recently been substantiated by the contest between Major and Redwood of July 1995, which highlighted the devastating effects on party unity of the visibility of the leadership battle. Most significantly, Major's victory was tarnished by the fact that '218 votes meant that 109 Tory MPs did not cast their votes for Major' (*The Economist*, 8 July, 1995).

Research on the leadership selection in several political parties of Western Europe found that the 'process of selection may constrain the style and behaviour of those selected, either because of the resources required, or because of the need to ensure reselection where that is necessary' (Marsh, 1993: 229). These considerations suggest that 'sequential elections'

may have impinged on Thatcher's policy-making authority and perhaps limited her influence on redistributive outputs.

#### **5.4.3 Sequential elections and redistributive policies**

Despite the difficulty of classifying coalitions within the Conservative party, there is widespread agreement that by the end of the 1970s two broad coalitions could be easily discerned under the names of 'dries' and 'wets'. The dries were identified with nineteenth-century liberalism, with the main watchwords being initiative, duty, independence. This coalition was overtly inegalitarian since its members believed that wide differences in income were both natural and desirable. The main task of the dries' new strategy was 'to challenge one of the central prejudices of modern British politics, the belief that it is a proper function of the State to influence the distribution of wealth for its own sake' (Joseph and Sumption, 1977: 1). The wets were less sympathetic to such views. They claimed that the Tory tradition, going back to Disraeli, stressed the primacy of community over individuality (Gilmour, 1992: 142-177). They believed that some degree of state intervention for the relief of poverty was necessary, and that less privileged groups should be protected.

Until the end of the Conservative first term, the dries were in a minority within the parliamentary party and in the Cabinet. This minority status may have been one of the reasons behind their ideological drive, so unusual among Conservative leaders. Whiteley et al (1994: 127) claim that 'Margaret Thatcher was a Conservative rarity in her readiness to identify Conservatism in unambiguous ideological terms'. Generally speaking, minority coalitions may be more ideological than majority ones because purposive incentives develop to substitute for other incentives controlled by the larger group, including 'representing the party identity and tradition' (Panebianco, 1988: 3-15).

Another reason behind the ideological 'crusade' of the dries was that it helped cement

their internal divisions. A large number of important figures, such as Rhodes Boyson, Lord Beloff, Paul Johnson, Alfred Sherman, Alan Walters, had changed their political allegiances at least once before, and thus might be expected to do so again (Denham and Garnett, 1994: 270-271). These people had been recruited from varying sources, some had been Liberals, others Labour supporters. 'Since their beliefs were shaped more by their antipathies than by a common positive vision, the need for a constant unifying enemy was particularly urgent for them' (Denham and Garnett, 1994: 271).

The existence of internal enemies was instrumental to the viability of the dry coalition. The relevance of the ideology, exemplified in Thatcher's dictum 'Is he one of us?', explains why the divisions engendered in the late 1970s 'remained to plague the party afterwards' (Cosgrave, 1978: 36). Thatcher's account of her conflicts with Jim Prior, Minister of Employment and leading wet, clearly illustrates the instrumental role of the ideological drive:

For all his virtues, Jim Prior was an example of a political type that had dominated and, in my view, damaged the post-war Tory Party. I call such figures 'the false squire'. ... In order to justify the series of defeats that his philosophy entails, the false squire has to persuade rank-and-file Conservatives and indeed himself that advance is impossible. His whole political life would, after all, be a gigantic mistake if a policy of positive Tory reform turned out to be both practical and popular. Hence the passionate and obstinate resistance mounted by the 'wets' to the fiscal, economic and trade union reforms of the early 1980s. These reforms had either to fail or to be stopped. For if they succeeded a whole generation of Tory leaders had despaired unnecessarily. (Thatcher, 1993: 104-105)

The wets' reaction was epitomized in Prior's belief that the inegalitarian stance was 'a very simplistic approach...In a world increasingly interdependent and with a people used to a welfare state, it looked an unpromising scenario' (Prior, 1986: 119).

Although the ideological battle over redistributive policies was cast in economic

terms, several observers have noted that the main goal of the dries was to re-shape the identity of the Conservative Party. For Deakin 'ultimately the economic arguments were means to a still more ambitious end - Keith Joseph's insistence that the party must move away once and for all from its previous position' (Deakin, 1987: 86). Gamble aptly remarks that '[t]he appeal to monetarism was much more than a set of techniques for controlling the money supply' (1995a: 100). Bulpitt argues that '[t]he dictates of party management, political argument, electoral success, and above all, the necessity to find a future governing competence, ensured that a link would be made with the statecraft of monetarism' (1986: 33). To appeal to monetarism was not entirely guided by economic reasons (Hahn, 1988: 107).

Evidence substantiating these claims is provided by Thatcher's belief that a staunch defence of monetarism was a pre-condition to shaping the attitudes of the electorate:

I was utterly convinced of one thing: there was no chance of achieving that *fundamental change of attitudes* which was required to wrench Britain out of decline if people believed that we were prepared to alter course under pressure. (Thatcher, 1993: 122, emphasis added)

Against this background it is not surprising that 'Thatcherism', whatever its meaning, became part of the party's self-identity (Jessop et al, 1988: 6). Shaping the party identity and voters' attitudes was part of the same strategic line.

The minority status of Thatcherites meant that on coming to office Thatcher had little choice but to appoint as Cabinet ministers Heath's most able and effective supporters, including William Whitelaw, Jim Prior, Ian Gilmour, Peter Carrington and Lord Hailsham (Quintin Hogg). Thatcher also brought in people like Peter Walker, the symbol of Heathite interventionism, and Christopher Soames, a typical traditional Tory. As *The Economist* commented in the wake of the Cabinet formation 'the significant thing is not that there is a strong moderate faction in Cabinet, but that, with only a handful of exceptions, the Cabinet

is itself a moderate faction' (*The Economist*, 22 September, 1979: 15). The Prime Minister ensured that four key posts were given to her closest supporters. Geoffrey Howe was appointed Chancellor of the Exchequer, John Biffen, Chief Secretary of the Treasury, Keith Joseph, Secretary of State for Industry and John Nott Secretary of State for Trade.

Divisions inside the Cabinet grew steadily worse. Prior's reaction to the 1979 Budget eloquently expressed this dissension: 'It was really an enormous shock to me that the budget which Geoffrey [Howe] produced the month after the election of 1979 was so extreme' (Prior, 1986: 119). Soon after the Conservatives took office, the Treasury pushed for cuts in welfare outlays proposing the reduction of the annual uprating of benefits in order to save £600 million; but the proposal was abandoned in the face of strong opposition from the Social Service Secretary, Patrick Jenkin (Young, 1991: 212).

As the economy slumped and unemployment soared the attack on social security benefits provoked an outright revolt within both the Cabinet and the Conservative parliamentary party. In 1981 the unemployment rate stood at 13 percent and most Cabinet ministers were expecting less stringent monetary rules. In the words of Francis Pym, a leading wet Cabinet member:

[t]o insist that unemployment is an urgent social problem in need of immediate and imaginative attention may or may not require a new economic policy, but it undoubtedly requires a sympathetic social policy...it is undesirable for any Government to make a hard and fast choice, or to appear to do so, between economic and social policy. (Pym, 1984: 111/112).

Thatcher's reply to mounting opposition from her Cabinet was epitomized in her famous statement 'I have only one thing to say. You turn if you want to. The lady's not for turning' (Thatcher, 1993: 122).

The Blackpool Conference held in 1981 displayed the two faces of a divided cabinet.

Michael Heseltine, Secretary of State for the Environment, criticized the right-wing emphasis on independence and self-help because 'self help [had] a limited meaning in an inner city community where 40 percent of the young kids may be without work' (*Times*, 16 October, 1981: 2). Internal disputes over the relationship between the Conservative party and sections of the British population reflected different views on the identity of the party organization. As mentioned above, the dries wished to reshape the party identity as the party of free-market principles, initiative and duty; while the wets believed that some degree of state intervention for the relief of poverty was necessary.

Arguably, however, the most significant aspect of the Blackpool Conference was the surfacing of the dilemma of sequential elections:

The unease of Tory members of parliament [contrasted] strongly with the loyalty and enthusiasm of constituency delegates for Mrs. Thatcher, and more particularly for Thatcherism. The ..more applause she won at Blackpool the less appeal she had to the broader electorate watching television. (*The Economist*, 17 October, 1981: 29)

Had the Conservative leader responded to the demands of moderate Cabinet ministers and to those of the wider electorate, she would have annoyed the party's rank-and-file. Thatcher skilfully deployed different sources of power to overcome the tensions between wets and rank-and-file on the one side, and between wets and dries on the other. She immediately appealed to party activists in order to mobilize their support. In her words:

The dissenters in the cabinet had been stunned by the 1981 budget proposals. It was clear that the Party in the country must be mobilized in support of what we were doing. The forthcoming Central Council of the Conservative Party provided an opportunity for me to do this... I got a good reception. For the moment at least, the Party faithful were prepared to take the heat and back the government. (Thatcher, 1993: 138-139)

The key importance ascribed to activists is perhaps one of the reasons why party membership

increased under Thatcher, after years of relentless decline. Her appeal to the rank-and-file raised activists' perception of their importance for the party organization. Survey findings suggest that since the early 1980s Conservative activists have been feeling more influential in the decision-making process of the party organization (Whiteley et al, 1994 ).<sup>3</sup>

Thatcher's popularity with the rank-and-file probably reflected her responsiveness to their views. 'Above all', wrote the *Times*, 'Mrs. Thatcher has given voice to many grassroots Tory views about unions, law and order, scroungers and capital punishment' (11 March, 1986: 3). By distributing purposive incentives through attacks on scroungers and on the welfare state, the Conservative leader was able to develop and strengthen the loyalty of party activists.

The strains between wets and dries were partly eased by relaxing public expenditure. Growth in government outlays in the early 1980s was the effect of automatic stabilizers, but it was also reflected in the strength of internal opposition: 'The relenting on cuts took some of the edge off the cabinet anger.. It is regarded as signalling the start of the 'wet appeasement'. (*The Economist*, 24 October, 1981: 29). For Shepherd, Thatcher always tempered her radicalism with an overriding desire that the Conservatives should hold office with her as their leader (1991: 178).

Internal turmoil over Thatcherite social policy was regularly reported by the press. The *Times*, for instance, described how 'the Government suffered one of its biggest backlash revolts of the present parliament.. when 13 Conservative MPs voted to restore the 5 per cent that was cut from unemployment benefits in 1980' (18 March, 1982: 1). The *Financial Times* depicted this revolt as 'the most determined piece of internal dissent Mrs. Thatcher has

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<sup>3</sup> These results seem to reject McKenzie's (1963) claim that Conservative activists are not relevant actors in the decision-making process. Yet, they also qualify Kelly's (1989) contention that activists significantly influence policy-making. Activists do play a role, but not a very significant one.



suffered' (14 July, 1982). Hence by appealing to the party rank-and-file and by appeasing the wets, Thatcher was able to forge an internal alliance and to retain the leadership despite the fact that the dries were a minority coalition.

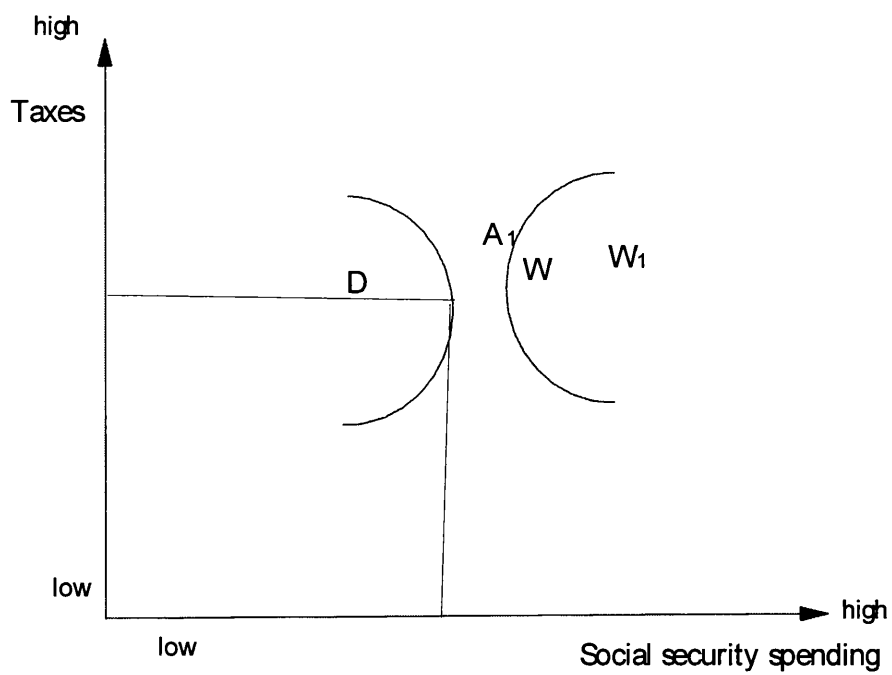
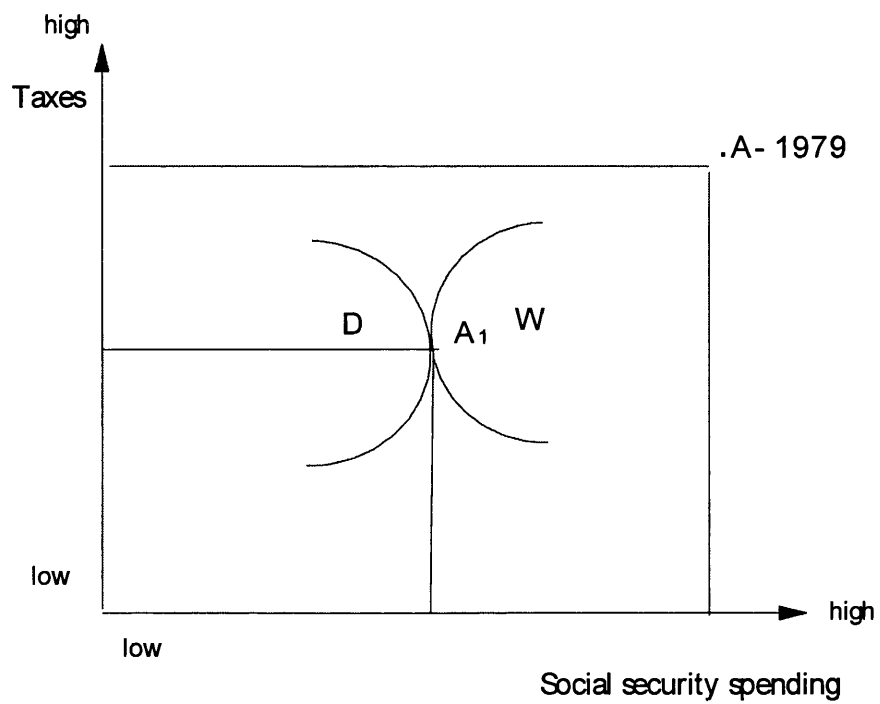
#### **5.4.4 Breaking the Internal Alliance on Social Security Policies.**

Internal wrangling reached a climax in the summer of 1981 during the discussions preparing the budget. The Treasury urged spending cuts for 1982-83, below the totals derived from the March white paper. Thatcher recounts in her memoirs how this proposal sparked 'one of the bitterest arguments on the economy, or any subject, that I can ever recall taking place at Cabinet during my premiership' (Thatcher, 1993: 148). Internal struggles damaged the party image, to the point that:

decisions came to be seen as victories by one side or the other.. and it was quite impossible to convey a sense of unity and purpose in this climate...Some ministers were trying to discredit the [the government's] strategy itself. (Thatcher, 1993: 130)

Fierce reactions to the 1981 Budget acted as a springboard for a Cabinet reshuffle. According to Francis Pym, 'Margaret Thatcher saw this crisis as a personal challenge to her resolve and became doubly determined not to give an inch on the economic strategy' (Pym, 184 : 8). Between 1981-1982 she dropped three well-known wets: Ian Gilmour, Lord Privy Seal, Christopher Soames, Leader of the Lords and Mark Carlisle at Education, and brought in three men on whom she could rely, Norman Tebbit, who was appointed Minister of Employment, Nigel Lawson, Minister of Energy and Norman Fowler, who became Minister

figure 5.8. Making and breaking alliances on redistributive policies  
The Conservative Cabinet, 1979-1982



of Health and Social Security.

Figure 5.8 illustrates the dynamics which induced the cabinet reshuffle and ended the search for a compromise in social security policies. The top part of the figure shows the compromise on social security spending and taxation as the equilibrium solution of the bargaining strategies pursued by the wets and the dries between 1979 and 1981. Point  $A_1$  was appealing to the dries because by 'appeasing' the wets it deferred the threat of a leadership re-selection and retained party unity. The lower half of Figure 5.8 depicts a typical situation in bargaining theory where weakness may be strength (Schelling, 1980: 48-49). As unemployment mounted, the wets shifted their position to  $W_1$  which challenged the redistributive policies of the dries.

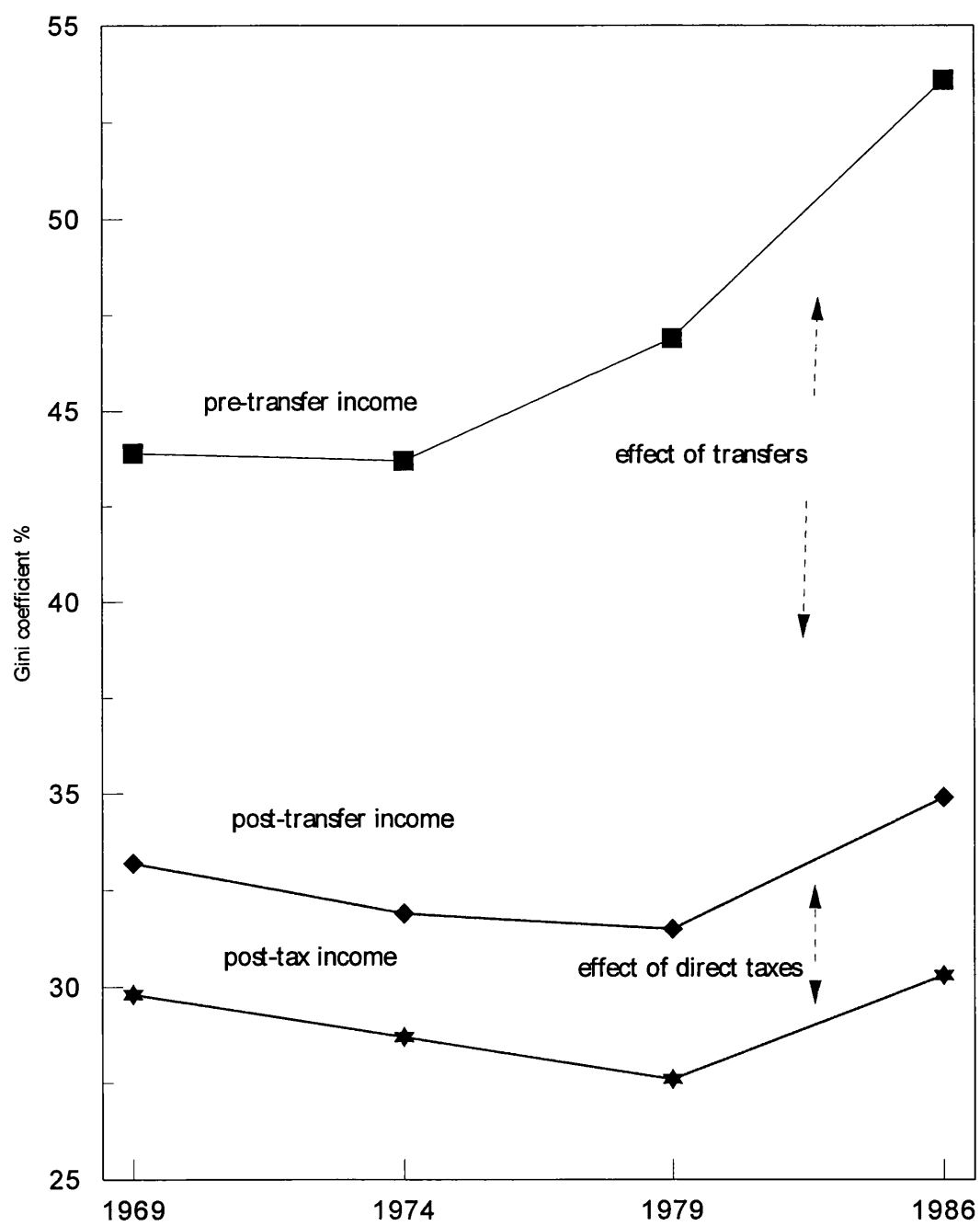
At this critical point two institutional features insulated Margaret Thatcher from losing control of policy-making. The constitutional role of Prime Ministers in appointing and reshuffling their Cabinets was 'undoubtedly one of the most important ways in which a prime minister [could] exercise power over the whole conduct of government' (Thatcher, 1993: 25). King claims that Thatcher used her hiring-and-firing power far more than any other twentieth-century Prime Minister (1988: 59). In Panebianco's terms, another salient aspect was the 'strong institutionalization' of the Conservative party which concentrated power in the hands of the dominant coalition and prevented the development of stable organized factions and (Panebianco, 1988: 130-141). The wets had no real alternative but to grudgingly accept the policy-making authority of the party leader.

The Cabinet reshuffle and the electoral landslide of 1983 crushed the wets as a coherent force within the party. Thatcherite ideas apparently became so dominant that social policy ceased to be a divisive issue among MPs during the second Conservative term (Garry, 1994). The Fowler report marked a retreat from any serious commitment of insuring individuals against risk (Lister, 1991). Its major proposals were cuts in child benefit and the

phasing out of SERPS which meant a far less secure and independent old age. It is noteworthy that research findings show a rapid increase in inequality after 1985 (Atkinson, 1995).

To assess the redistributive impact of those measures implemented under the second Thatcher term, I cannot rely on the LIS dataset of 1986 because of time-lags in the various stages of the policy process. But recent simulations suggest that changes to the transfer system during the entire period 1979-1987 significantly affected income inequality (Johnson

Figure 5.9. Pre-transfer, post-transfer and post-tax income.  
United Kingdom 1969-1986



Source: computed by the author from LIS

and Webb, 1988). Some evidence supporting these findings is presented in Figure 5.9 which shows the trends in the Gini values for pre-transfer, post-transfer and post-tax incomes between 1969 and 1986. It is evident that the distributional impact of the transfer system is far stronger than that of the tax system, adding weight to the findings discussed in Chapter Two. The distributional pattern traced in Figure 5.9 shows that inequality declined steadily in post/transfer and post/tax income until 1979; while it increased in pre/transfer (original) income since 1974, thus corroborating my results on the important role of market income differentials in the acceleration of income inequality.

It is worth pointing out, however, that under the Labour government of 1974 -1979 the Gini values for post-transfer (and post-tax) income continued to decline, suggesting that the social security system had equalizing effects. This decline in post-transfer Gini was consistent with the pattern traced since the 1960s. By contrast, Figure 5.9 clearly indicates that the advent of the Conservative government in 1979 marked a departure from previous experience, with considerable increases in the Gini values for all three income concepts.

## **Conclusions**

The fact that over the 1980s income inequality in the United Kingdom grew faster than elsewhere suggested that national factors played a crucial role. Decomposing the structure of inequality highlighted the low distributional impact of demographic variables, such as the growing number of elderly and the smaller size of households. By contrast, income polarization in the market sphere had strong disequalizing effects, supporting research findings based on the central role of market (original, pre-transfer) income.

This wider dispersion of market differentials, however, was not offset by government intervention. The Conservatives sustained pre-transfer income inequality by attacking the 'culture of dependency'. Yet Conservative rhetoric concealed an asymmetry in the distribution

of costs and benefits among beneficiaries. Generous pension benefits privileged the elderly living in the affluent South while cutbacks in the level and scope of unemployment benefit exposed the people out of work to the risk of extreme poverty. These facts seemed incongruent with conventional demand-driven explanations.

The driving forces behind the allocation of costs and benefits seemingly stemmed from supply-side factors. By capitalizing on the geographical distribution of poverty in Britain, the Thatcher government aimed at moulding coalitions of voters between people in work and pensioners. According to 'Director's Law' of income redistribution social groups enter or exit electoral coalitions if redistributive policies alter their incentives to vote (Stigler, 1970). Thus the Conservatives engaged in a sophisticated application of 'arithmetical particularism', whereby some state-dependent groups, including women, lone parents and low income groups, were penalized while others were privileged. In this way Conservatives mobilized sections of the British adult population into the coalition of Conservative voters.

Explanations of Thatcher's redistributive policies, however, seem to have focused too exclusively on electoral considerations. My account suggests that the struggle between wets and dries was also important. It was evident that the allocation of cash transfers over the 1980s reflected strategic repositioning within the governing party. More specifically, the dilemma of sequential elections impinged on the options available to the contending partners. By raising Thatcher's threat perception, it facilitated the compromise on social security benefits between 1979 and 1981. Furthermore, it was not until the wets abandoned the internal battle that the Conservative government undertook the most radical departure from post-war social security policies.

Vote-mobilization and intraparty politics eventually converged in strengthening the Conservative anti-egalitarian stance, thus contributing to the accelerating pace of income inequality in the United Kingdom. The results presented in this chapter indicate that the

growing gap between rich and poor in Britain is not accidental, a mere product of 'natural' differences. While this consolidates the findings of most scholars, my account differs in that it points out that some of the driving forces behind income redistribution spring from within-elite conflicts.

The argument developed throughout this chapter clearly illustrates that variations in redistributive policies are partly triggered by the formation and demise of party factions, and by the consequent variation in elite-voter alignments. It thus shows the advantages of ceasing to regard governing parties as unitary actors and treating as strategic what is instead conventionally viewed as parametric, that is, the struggle for relative dominance between party elites.



## **CHAPTER SIX-DECLINING INEQUALITY UNDER TRUDEAU. THE IMPACT OF FACTIONAL POLITICS AND OPPOSITION EFFECTS ON INCOME REDISTRIBUTION**

[M]ake sure that once the wealth is produced,  
it is distributed with fairness.

Pierre Elliot Trudeau (1993: 189)

### **6.1 POLITICAL BACKGROUND**

This chapter examines income inequality trends in Canada during the Liberal government of Trudeau. The 1960s and 1970s were marked by rapid developments in social security policies, sparked off by the widespread recognition that despite economic growth there were still millions of Canadians living in poverty. In 1965 Pearson, the Liberal Prime Minister, had established a Special Planning Secretariat to coordinate anti-poverty programmes and a federal-provincial conference to discuss the problem (Westell, 1972: 168). Between 1965 and 1975 new programmes were set up, the scope of existing social insurance schemes was extended and transfer benefits were increased (Wolfson, 1986). Banting (1987a: 17) defines this period as the 'golden age of income security' with the implementation of the Canada Assistance plan, the Guaranteed Income Supplement, the Canada Pension Plan and the Quebec Pension Plan. In 1973 the government expanded Federal family allowances and introduced the Quebec Family allowances.

The Finance Minister Edgar Benson had established a strong redistributive thrust to fiscal policy in his 1970 budget speech: 'steady and sustainable improvement in the standard

of living of all Canadians requires...[among other things] that we obtain a progressively more equitable distribution of the goods and services we produce.' (*House of Commons Debates*:1738, 1970). Gillespie noted that the tax-reform budget of 1971 was indeed 'built upon a fair and equitable tax system' and was 'modestly redistributive' favouring policies that would improve the economic conditions of the poor relative to the highest income families (Gillespie, 1978: 10).

Major reforms in income security were initiated in June 1970, with the publication of the government's White Paper *Unemployment Insurance in the '70s* (Dodge, 1975: Gillespie, 1978: 5-9). The White Paper proposed a sweeping expansion of the unemployment insurance system, transforming it into one of the most generous programmes in the world (Struthers, 1989: 237). The old unemployment insurance scheme introduced in 1940 covered only workers who earned up to \$7,800 a year, excluding all middle income groups. It also related benefits to contributions, which meant that new entrants to the labour force and those who regularly suffered unemployment were entitled to the least benefits. The original act exempted from coverage 58 percent of the labour force, the most prominent among them being agricultural workers, fishermen, hospital employees, civil servants and teachers. The White Paper *Unemployment Insurance in the '70s* also improved old age pensions, boosting a politically potent group of almost two million voters (Banting, 1987: 27).

The new unemployment insurance scheme broadened coverage to all employees, adding 1,200,000 people. Benefits were raised to two-thirds of regular earnings. The length of time for which benefits could be paid was not related to contributions, but to the level of unemployment: when unemployment was high and the chances of getting work low, the pay-out period was lengthened. Premiums paid by employees and employers financed the scheme when unemployment was low, but as soon as it topped 4 percent the government began to contribute, roughly \$100 million for every 1 percent climb in unemployment. For the first

time benefits were paid for maternity and sickness. Research findings on the redistributive effects of the unemployment insurance scheme introduced in 1971 showed that low income groups received 50 percent of all benefit paid while contributing about 14 percent, implying a substantial transfer of income to this group from the middle and upper contributors (Bailey and Naemark, 1977).

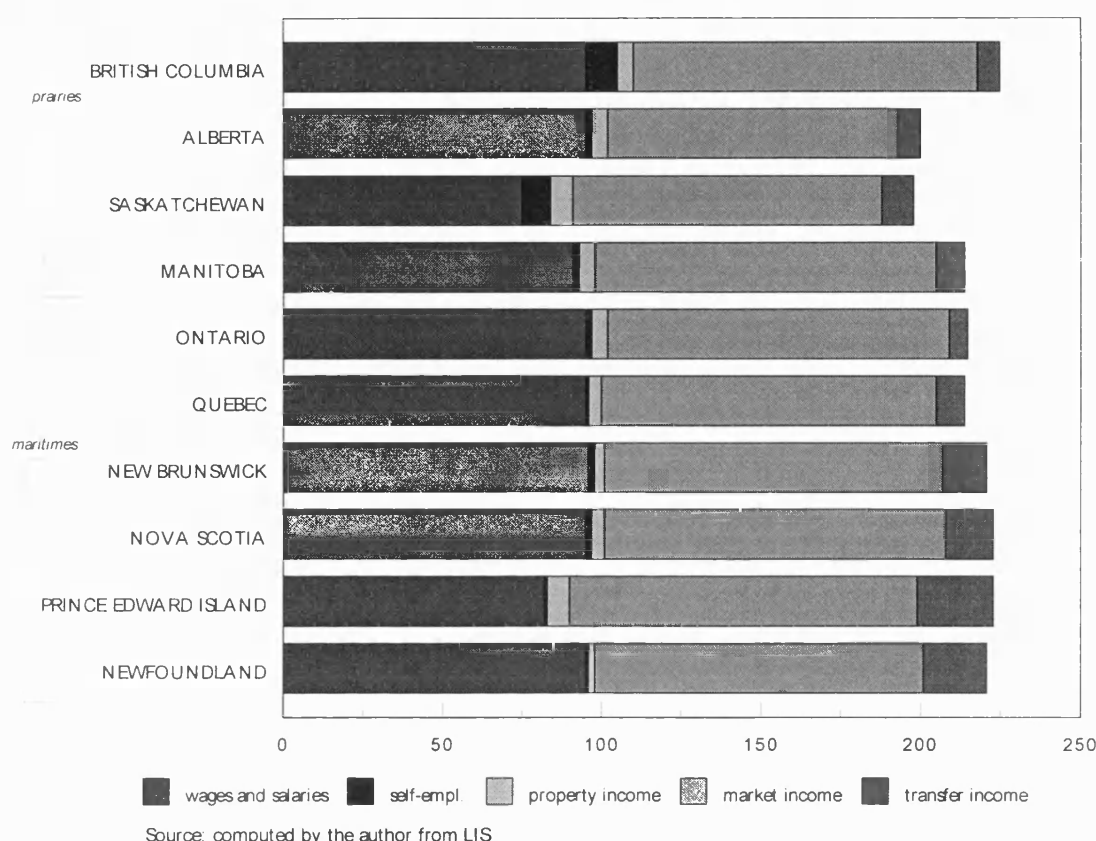
The 'golden age' of fighting income inequality, however, evaporated rapidly in the latter half of the 1970s. The budgetary intentions of the Liberal government with respect to distribution of income policy changed considerably. On 30 September 1974 Trudeau announced to the House of Commons his intention to stiffen eligibility requirements for unemployment benefits. Family allowances were first de-indexed in 1976 and then curtailed in 1978 in favour of an income-tested selective tax-credit programme for children. In 1978 the government reduced the level of unemployment benefits, but attempts to trim pension programmes were withdrawn in response to a nationwide protest (Banting, 1987: 187). This outcome was in stark contrast with the experience of the United States and Great Britain where pension benefits were cut during the 1980s.

A key to understanding social security policies in Canada is the role played by social cleavages, most notably the geographical, cultural and national-local cleavage (Cairns, 1968; Struthers, 1989: 230-237). In the late 1960s income inequality between regions was a sensitive issue. As Cairns writes:

to the extent that our politics has been ameliorative it has been more concerned with the distribution of burdens and benefits between sections than between classes. The poverty of the Maritimes has occupied an honourable place in the foreground of public discussion. The diffuse poverty of the generally underprivileged has scarcely been noticed. (Cairns, 1968: 74)

The extent of regional disparity in 1971 can be gauged by looking at the stacked-bar chart

Figure 6.1. Average value of income component as a percentage of average gross income, Canada 1971.



illustrated in Figure 6.1. It shows the 'income package' of the ten provinces by reporting the average values of the income component as a percentage of average gross income. The point to note is that the percentage of average transfer income over average gross income was much higher in the Maritimes than in the Prairies or in Ontario and Quebec. In Prince Edward Island, for instance, transfer income was three times the share of British Columbia. Transfers were probably compensating for lower shares of wages and salaries accruing to this province. Newfoundland, Nova Scotia and New Brunswick received a larger share of transfers than any of the other western provinces. Figure 6.1. clearly highlights the implications of redistributive choices for the standard of living in the Maritimes.

Territorial conflicts were reflected in the Unemployment Insurance Act of 1978, which provided for regional diversity. Cutbacks in unemployment benefits were moderated by the clause of 'variable entrance requirement' which entitled high unemployment regions,

such as the Maritimes, to more benefits. Traditionally the federal government has been responsible for income support programmes, such as old-age pensions and family allowances, while provinces are mostly in charge of the provision of services (Banting, 1987b). The Canadian Constitution, however, did not address the problem of the constitutional division of power in social security<sup>1</sup>. For this reason, and in contrast to every other policy area, the formal division of power over income security has been repeatedly amended:

Over the course of a half century these adaptations have radically changed the jurisdiction and power relations in the income security field. From an area of virtually absolute provincial dominance in the 1860s, income security has emerged as an area of decisive federal dominance in the 1980'. (Banting, 1987a : 47)

The federal government has often had an incentive to maintain a vigorous role in income security because this has been 'one of its major weapons in the continuing struggle for the loyalties of Canadians' (Banting, 1987a: 66). Looking at the resources of both central and provincial governments in six federal systems, Lijphart argues that Canadian federalism is one of the most decentralized (1984 : 170-179; see Elkins and Simeon, 1980: 31-76; Smiley, 1976). Another index of provincial importance in the 1960s was higher voter turnout at provincial elections than at national elections (Scarrow, 1965).

Cultural conflicts associated with the core-periphery cleavage stemmed from the vigorous resistance raised by the province of Quebec, inhabited by a majority of French Canadians, against attempts to be incorporated into an English-speaking Canada. Although Canada had been a British colony for over a century, the Quebecois retained their language, as well as their religion, laws, customs and education system. So the standardization of a language, which is one of the most important steps for completing the nation-building

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The situation was not modified after the patriation of the Canadian Constitution brought about by the adoption of the Canada Act in the British House of Commons in 1982 (Pal, 1985).

process, was never achieved (Lipset-Rokkan, 1967: 14; see also Kornberg and Clarke, 1992: 1-33 ).

The core-periphery cleavage deeply affected the development of Canadian political parties (McRae, 1974: 250). Unlike Australian and British political parties which divided along class lines, party competition in Canada evolved around opposite sides of the core-periphery cleavage : the Progressive - Conservative party aggregated the interests of the English and Irish Protestants and was considered the party of government centralization in Ottawa. The Liberal party was identified as the party of French speaking Catholics and provincial autonomy. Survey findings in the mid-1960s showed that 62 percent of French-speaking respondents voted for Liberals, 15 percent voted Conservative and 11 percent favoured the New Democratic Party (NDP). By contrast, English speaking voters were more evenly distributed with 42 percent voting for Liberals and 38 percent preferring Conservatives (Engelmann and Schwartz, 1975: 190). Hence the Liberals had the strongest party identification because the French-speaking community was more cohesive in its vote (LeDuc, 1981).

One manifestation of provincial autonomy is that provincial organizations are the most significant unit in Canadian political parties (Engelmann and Schwartz, 1975: 66). The Liberal Party, for instance, developed as a federation of ten provincial and two territorial associations. The party headquarters - the National Liberal Federation - coordinated rather than integrated the organizational subunits. These subunits acted as independent centres of power, increasing the potential for internal divisive forces.

The independence of provincial associations rested on their ability to distribute selective and collective incentives. They enjoyed relative financial autonomy because funds flowed independently to the federal and the provincial units (Smiley, 1976: 90-91). The distribution of selective incentives was achieved through appointments and patronage.

Schlesinger (1991: 215) defines Canadian parties as 'open neophyte parties' because of late entry into advanced office without prior office experience.

Both Conservative and Liberal parties have been conspicuous in western democracies to promote to positions of national legislative leadership individuals with little or no prior parliamentary experience. Trudeau, for instance, was elected leader after merely two years of parliamentary experience. A distinctive feature of Canadian parties is that the career patterns within the federal and provincial organizations are to a large extent separated, there is no cumulation of mandate. In 1970 only 6.4 percent of 264 seats in the House of Commons were filled by former members of provincial legislatures (Smiley, 1976: 89).

Organizational discontinuity between federal and provincial wings has been so significant that cross party alliances at the provincial level have called into question the 'collective identity' of the party transcending federal-provincial lines (Whitaker, 1977: xxii). Tensions between national leaders attempting to centralize power and resistance opposed by provincial associations have marked the history of the Liberal party (Wearing, 1981: 75).

The salience of the core-periphery cleavage in Canadian politics represents an exception in the cleavage theory of party development, which predicts that core-periphery cleavages would give way to the class cleavage, with a trend towards similar patterns of party support across regions (Lipset and Rokkan, 1967: 15-25). National-local conflicts have had greater weight than functionally based interests, such as the owner-worker conflict (Engelmann and Schwartz, 1975: 75). The often quoted comparative study by Alford on class-voting in Anglo-American democracies showed Canada at the bottom of the scale in the early 1960s (Alford, 1964: 102).

Weak links between social class and party support have hindered the transformation of Canadian parties from cadre parties into mass parties. Most analysts stress the organizational underdevelopment of Canadian parties (Angell, 1987: 364-366; Clarkson,

of redistributive policies in its party programmes (1977: 156-159).

Social security policies resurfaced in the political agenda of the Liberal party after the formation of the NDP. By merging the voting strength of the CCF and of the trade unions the NDP constituted an electoral challenge from the Left (Thornburn, 1979: 10). Change in the political atmosphere became gradually discernible. Survey findings showed that NDP supporters were more concerned with social security policies than other voters; perhaps this explains why the completion of the welfare state became one of the dominant campaign themes during the 1960s (Budge et al. 1987: 78; Gagne and Regenstreif, 1965). In those years redistributive policies, such as the Guaranteed Annual Income, were incessantly discussed by both Conservative and Liberal leaders. In Leman's view, proposals for the guaranteed income were 'élite directed', since there was little evidence of widespread public support (1980: 58). The implication was that redistributive policies could be deployed as an instrument for the mobilization of voters.

Entrance of the NDP in the political arena altered the options available to the Liberal leaders. The growing electoral strength of the NDP brought to the fore the erosion of partisan attachments. It also suggested that the declining 'structural predisposition' of the political system towards the Liberal Party (Meisel, 1974). Survey findings in the mid-1960s reported that over 30 percent of respondents were unable or unwilling to identify with a particular party (Jenson 1975: 549); hence there was a sizable number of undecided voters for whom partisanship was less certain (LeDuc, 1981; Clarke et al 1984: 47). Electoral volatility further increased in 1970 when the voting age was lowered from 21 to 18, extending the franchise to approximately one million new voters.

These changes in the political scenario of the 1960s suggest that redistributive programmes under Trudeau were affected by a plurality of factors. Electoral volatility and, more generally, a turbulent electoral arena impinged on the options available to party leaders.



The Trudeau era therefore provides a good case study for mobilization theory, while at the same time lending itself to the analysis of intraparty politics, since Trudeau retained power for sixteen years, from 1968 to 1984.

## 6.2 TRENDS IN INCOME INEQUALITY

An overview of income inequality in the period from 1971 to 1981 is reported in Table 6.1. The inequality indices indicate that over the 1970s there was a reduction in income differences with the sharpest decline occurring at the beginning of the decade. Taking into account that income distributions change slowly, the drop in income inequality between 1971 and 1975 is remarkable, suggesting that redistributive policies had profound effects on inequality.

Another point to note is the faster reduction in most of the indices sensitive to lower income groups. Between 1971 and 1975 the Atkinson Index with  $\epsilon=.5$  dropped by 24 percent and the Theil index fell by 16 percent. In the second half of the 1970s the results are less clear-cut, since most indices declined while the Atkinson index with  $\epsilon=1.5$  increased. This

*Table 6.1. Trends in Income Inequality Canada 1971-1981.  
(Adjusted household post/tax-post/transfer income)*

Year	ATKINSON		CV	GINI	THEIL
	$\epsilon=.5$	$\epsilon=1.5$			
1971	12.5	79.6	72.5	39.1	26.1
1975	09.4	69.5	63.7	36.0	21.8
1981	08.3	83.3	62.5	34.3	19.5
Percentage change					
1971/1975	-24	-12	-12	-8	-16
1975/1981	+12	+19	-1	-5	-10

Source: computed by the author from LIS.

*Table 6.2. Population decile share of post/transfer-post/tax income and adjusted post/tax-post/transfer income. Canada 1971-1981*

Decile	post/tax-post/transfer income			adjusted post/tax- post/transfer income		
	1971	1975	1981	1971	1975	1981
bottom	.8	1.3	1.8	1.3	2.0	2.5
second	2.6	3.2	3.6	3.8	4.4	4.7
third	4.3	5.0	5.2	5.1	5.7	5.9
fourth	6.2	6.6	6.8	6.4	7.0	7.0
fifth	8.1	8.3	8.3	7.9	8.3	8.2
sixth	10.0	10.0	9.9	9.4	9.7	9.5
seventh	11.9	11.7	11.6	11.1	11.2	11.0
eighth	14.0	13.6	13.4	13.3	13.0	12.9
nine	16.9	16.3	16.2	16.4	15.7	15.5
top	25.1	24.0	23.3	25.2	23.1	22.8

*Source:* computed by the author from LIS.

or 2 percent, a difference of .2 percent is significant.

Table 6.2 also shows that adjusting income for family size and composition may substantially reduce the income share of the top decile. From 1971 to 1975 the rich people lost 2.1 percent of their adjusted income share, while they lost only .9 of their unadjusted income. These findings suggest that the income concept might account for the different results obtained in Gillespie's work and in mine. As I have done in the previous two chapters, I now decompose the inequality trend to assess the distributional effects of the age structure and the household size and composition. Since I have already discussed at length the technical and conceptual background to this analysis, in the following sections I only examine the evidence without reiterating on the technical aspects.

### 6.2.1 Demographic effects

Table 6.3 suggests that within-group inequality had a stronger impact on the decline in aggregate inequality than between-group inequality. The distributional effects of the 'baby

*Table 6.3 Contribution of changes within and between age-groups to the trend in total inequality in adjusted post/tax-post/transfer income. Canada 1971-1981.*  
(Inequality Index: Generalized Entropy Index  $\theta=.5$ )

year	total inequality	within group inequality	age effect (between group inequality)
1971	39.0	12.3	26.9
1975	36.7	09.9	26.8
1981	34.4	09.3	25.1

Source: Computed by the author from LIS

boom' of the 1960s seem marginal. The simulation exercise reported in Table 6.4. supports this finding. It shows that when the 1971 population shares are combined with the income data of 1975 and 1981 the resulting hypothetical aggregate inequality is less in 1975 and 1981 than in 1971. When combining the population shares of 1975 with the income data of 1981 the hypothetical value is 36.8 percent which is approximately the same as the actual value. 36.7 percent. The general significance of Table 6.4 is that the 'within-group' component was the major factor influencing the inequality trend.

Over the 1970s household size and composition in Canada underwent major changes. The processes which brought about the decline of the traditional family composed of a couple with children were similar to those in other industrialized countries, namely greater mobility and higher rates of marital breakdown, which led to large increases in the number of one-

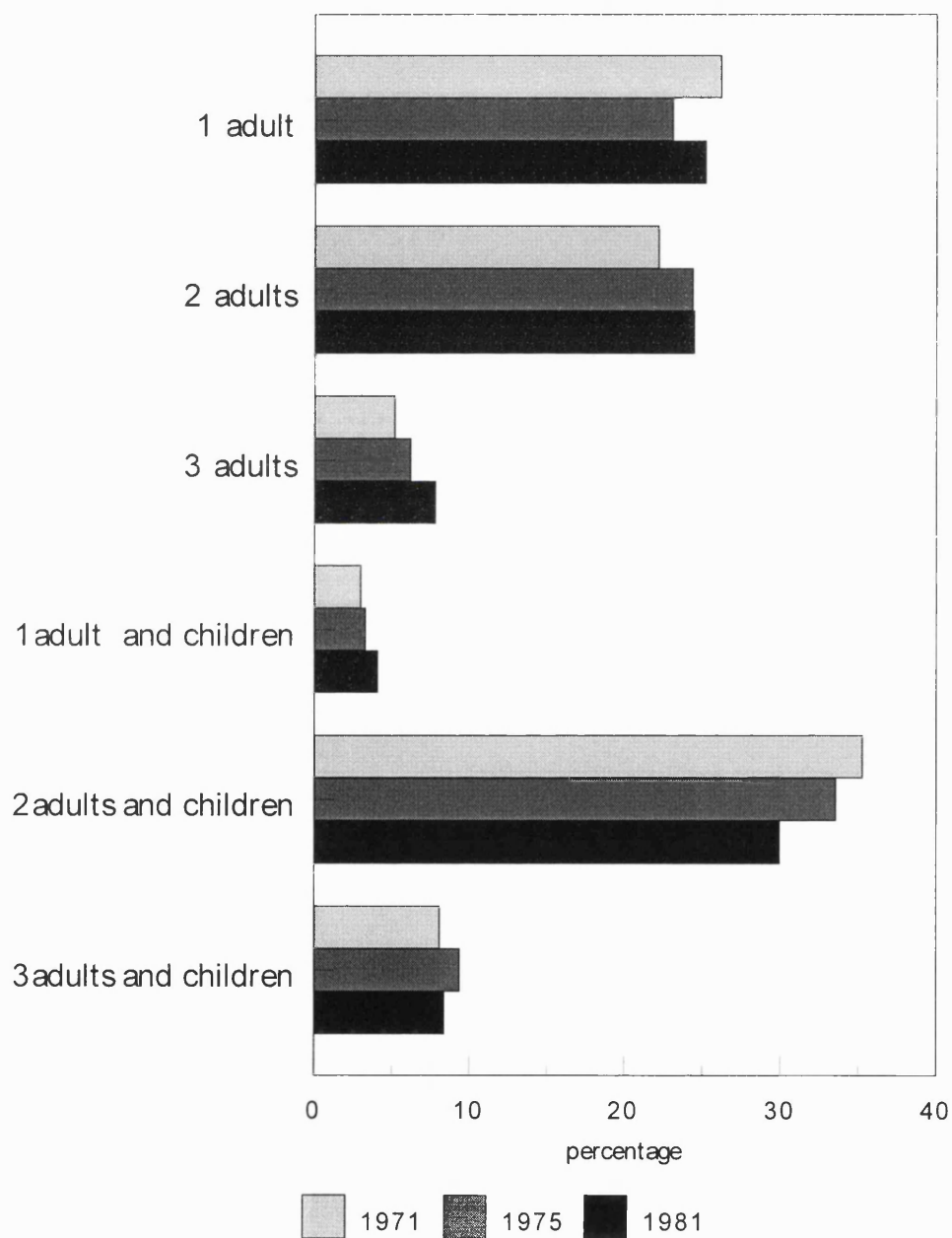
Table 6.4. Age decomposition of inequality in adjusted post tax-post transfer income in Canada 1971-1981 (Inequality Index: Generalized Entropy Index with  $\theta = .5$ ).

Year	Actual values	Hypothetical values with fixed population shares		
		1971	1975	1981
Total inequality				
1971	39.0	39.0	37.5	34.2
1975	36.7	36.3	36.7	34.5
1981	34.4	34.2	36.8	34.4
Between-group inequality				
1971	26.9	26.9	23.5	27.8
1975	26.8	25.8	26.8	29.8
1981	25.1	25.4	25.9	25.1
Within-group inequality				
1971	12.3	12.3	14.0	6.4
1975	9.9	10.5	9.9	4.7
1981	9.3	8.8	10.9	9.3

Source: computed by the author from LIS.

percent to 23.1 percent, but then rose in the second half of the 1970s to 25.2 percent. The significant aspect of Figure 6.2 is the increase in single households with children from 3.0 percent in 1971 to 4.1 percent in 1981, and the concomitant decline in couples with children from 35.3 percent in 1971 to 30.0 percent in 1981, an absolute decline of 5.3 percent. As mentioned in the chapters on Australia and Great Britain, the distributional impact of smaller households is usually negative, because it prevents income-pooling. We should therefore expect a stronger effect of 'between-household inequality' on total income inequality. The decomposition results reported in Table 6.5, however, do not substantiate this hypothesis. Over the 1970s 'between-household' inequality declined only marginally, while

Figure 6.2 Distribution of the population by household type, Canada 1971-1981



Source: computed by the author from LIS

*Table 6.5. Contribution of changes within and between households to the trend in total inequality in adjusted post/tax-post/transfer income. Canada 1971-1981 (Inequality Index: Generalized Entropy Index  $\theta=5$ ).*

year	total inequality	within-household inequality	between- household inequality
1971	39.0	12.5	26.5
1975	36.7	11.0	25.7
1981	34.4	10.3	25.4

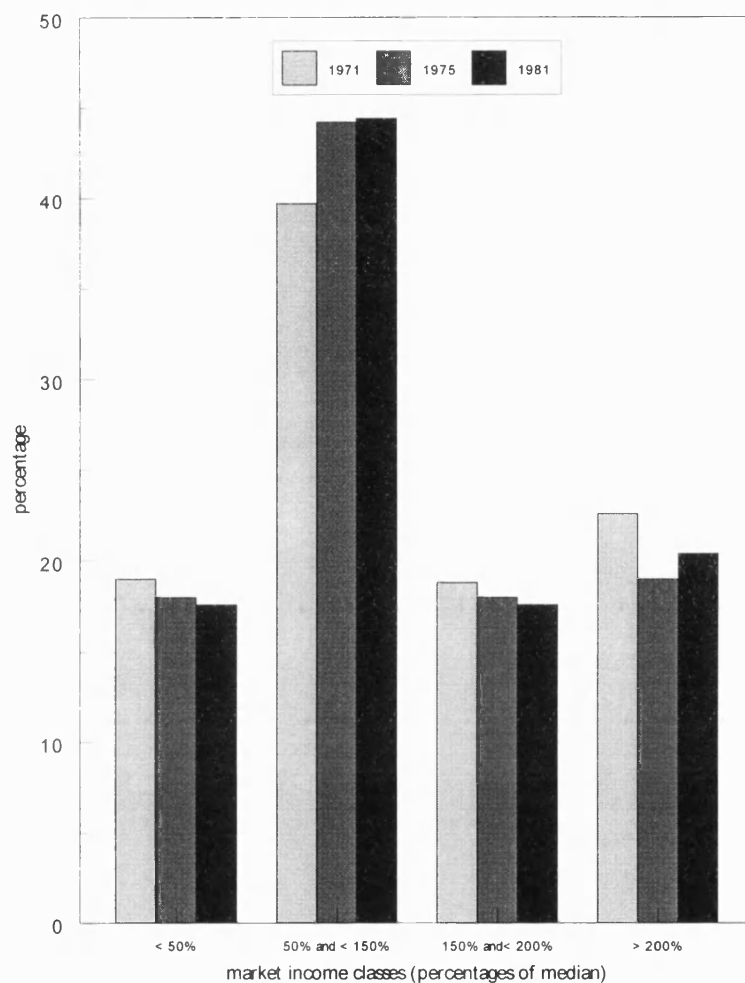
*Source:* computed by the author from LIS.

the sharpest drop occurred in the within-group component from 12.5 percent in 1971 to 10.3 percent in 1981. Developments in family structure had therefore a low distributional impact in Canada during the 1970s.

### 6.2.2 Market effects

The negligible role of demographic variables suggests that other forces were at work in the trends towards growing equality. Market differentials might have played a more relevant role. The descriptive information provided in Figure 6.3 is one reflecting an increase of the middle income class with decreases in the upper and lower tails of the distribution. This is opposite to the trend depicted for Australia and Britain, since Figure 6.3 shows a tendency towards depolarization. We can note a smaller percentage of people with both low market incomes and high market incomes. Between 1971 and 1981 the proportion of the population with market income below 50 percent of the median declined from 19 percent to 17.6 percent, while the proportion of the population in the top income class declined from 22.6 percent in 1971 to 20.4 percent in 1981. An important feature of Figure 6.3, which contrasts

Figure 6.3 Proportion of the population in different market income classes.  
Head of Household Aged 20-64, Canada 1971-1981



Source: computed by the author from LIS

sharply with the experience of the 1980s in Australia and Britain, is that the distribution of market income is more concentrated towards the middle. The falling percentage of workers with low and high incomes was associated with growth in the middle of the distribution. This finding points to the significant role of the changing structure of market differentials in reducing income inequality in Canada during the 1970s.

### 6.2.3. The distributional impact of cash transfers.

Having established that market effects had a strong distributional impact, the last step in decomposing the structure of income inequality is to disentangle the effects of market income

and transfer income on total inequality. Substituting for the values of  $c_m$ ,  $c_t$ ,  $\rho$  and  $\lambda$  in Table 6.5 and differentiating first with respect to  $C_m$  and then with respect to  $C_t$  we get the values reported in Table 6.6. These values show that in 1981  $dC/dC_m$  is equal to .83 and  $dC/dC_t$  is equal to .25. The first point to note about Table 6.6 is that given the size of the 1981 sample ( $n=15,136$ ) the Pearson coefficient is statistically very significant. What is most important, despite the high share of market income in total income in 1981 ( $\lambda=.86$ ),

*Table 6.5. Income decomposition. Values for the coefficient of variation of market income ( $C_m$ ) and transfer income ( $C_t$ ) and the correlation coefficient ( $\rho$ ). Canada 1971-1981.*

variable	1971	1975	1981
$C_m$	0.9	0.9	0.8
$C_t$	1.4	1.2	1.2
$\lambda$	0.83	0.85	0.86
Pearson's coefficient ( $\rho$ )	-0.3247*	-0.3145*	-0.2929*
*signif. LE .01 (2-tailed)			

Source: calculated by the author from LIS

*Table 6.6. Partial derivatives of equation 1.1. Canada 1971-1981.*

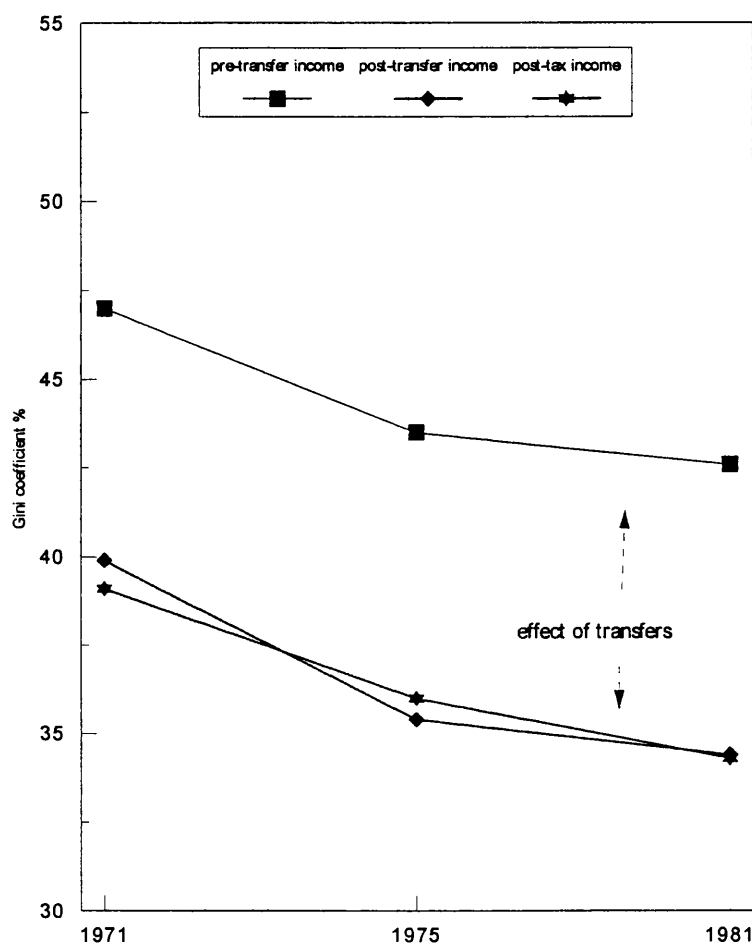
variable	1971	1975	1981
$dC/dC_m$	0.78	0.83	0.82
$dC/dC_t$	0.18	0.38	0.25

the partial derivative shows that transfer income inequality produced a fourth of a unit increase in total inequality.



A less sophisticated analysis is presented in Figure 6.4 which illustrates the role played by cash transfers in the redistribution of income between 1971 and 1981. The figure shows a sharp drop in aggregate inequality between 1971 and 1975 when the income concept

Figure 6.4. Pre-transfer, post-transfer and post-tax income.  
Canada 1971-1981



Source: computed by the author from LIS

changes from pre/transfer to post/transfer income. Note that in 1975 direct taxation slightly reduced the equalizing impact of transfer benefits. Between 1975 and 1981 cash transfers were still important in reducing aggregate inequality but their effect was less significant. Because transfer benefits account for a considerable part of the structure of income inequality attention should focus on the determinants of transfer policies.

### 6.3 VARIATIONS IN REDISTRIBUTIVE POLICIES: MACROECONOMIC CYCLES AND ELECTORAL POLITICS

The idea that redistributive policies are driven by economic forces is a recurrent theme in explanations of income security programmes in Canada (Cuneo, 1979: 157). Cycles in macroeconomic variables are often considered the main determinant of redistributive policies under Trudeau:

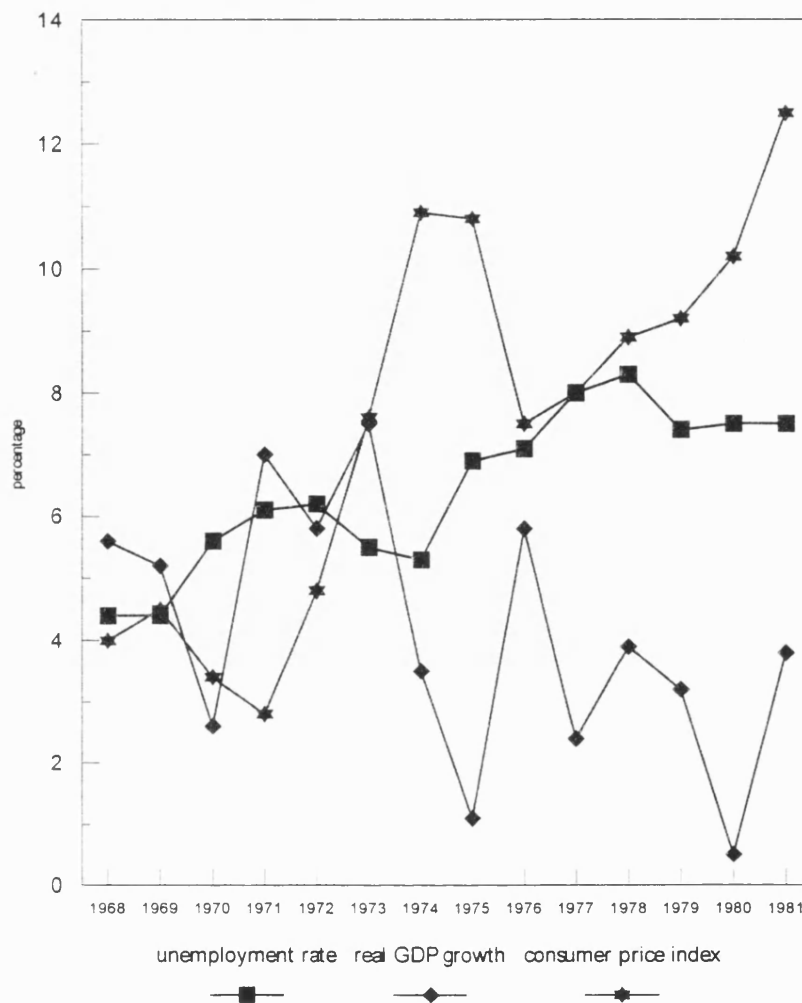
the high economic growth rates of the 1960s had given way by 1973 to a period of stagflation characterized by high unemployment and inflation and by slow economic growth. For governments, this meant sluggish real growth in revenue and a marked rise in spending on income support and protection, such as unemployment insurance and social assistance. *It became obvious that rigorous budgetary constraints would invariably force governments to restrict the expansion of existing programs.* (Fortin, 1985: 153, my emphasis)

Since economic growth was the backdrop of major expansions in social security programmes in the early 1970s, the ensuing economic recession in the late 1970s allegedly implied less generous benefits and cutbacks in welfare programmes (Pal, 1985; Pelletier, 1988: 300; Wolfson, 1986).

#### 6.3.1 Macroeconomic variables

If the aforementioned interpretation is correct, then trends in the main macroeconomic indicators during the 1970s should have coincided with changes in cash transfers. We would expect, for instance, positive associations between economic upturns and expansionary

Figure 6.5 Trends in unemployment rate, real GDP and consumer price index.  
Canada 1968-1981



Source: OECD Historical Statistics 1960-1981

redistributive policies. Correlatively, economic recessions would be accompanied by stiffer entitlement rules. Figure 6.5 illustrates the trends in unemployment rate, inflation rate and the percentage growth in real GDP during the 1970s. It is evident that in the early 1970s the world economic boom had a favourable impact upon Canadian growth with real GDP growing from 2.6 percent in 1970 to 7.5 in 1973.

The coincidence between the economic upturn and generous social security benefits lends support to the view that economic variables exert strong effects on transfer policies. Yet the retrenchment of redistributive policies between 1975 and 1979 took place despite GDP growth. Although the output gains were modest as compared to the early 1970s, there was

clear evidence of economic recovery, with real GDP growth rising from 1.1 percent in 1975 to 5.8 percent in 1976. The surprising aspect of Figure 6.5 is that when Trudeau announced his intention to stiffen eligibility requirements for unemployment benefits in 1974, the unemployment rate touched its lowest point in the 1970s after declining for two years from 6.2 percent in 1972 to 5.3 percent in 1974.

It may be argued that stiffer eligibility criteria were necessary to reduce public expenditure and curb inflation. After all, we have seen in Chapter Five that this argument was incessantly reiterated in the UK under Thatcher. Curiously, however, the doubling of the inflation rate in 1973 did not prevent the tripling of the nominal level of family allowances. This expansion in transfer benefits is the more surprising in the light of massive international borrowing in the late-1960s early 1970s, which transformed Canada into the leading international debtor among industrialized countries (Wilkinson, 1980: 116). In addition, arguing that the inflation rate was the real target of the government is inconsistent with Liberal monetary policy. Trudeau had opted for the depreciation of the Canadian dollar from 1976 in order to restore competitiveness with the United States (Wilkinson, 1980: 134). The Canadian experience of the 1970s shows associations between macroeconomic variables and redistributive policies with unexpected signs. These facts suggest that macroeconomic variables cannot be considered as the only driving force behind changes in redistributive policies under Trudeau.

### **6.3.2 Electoral politics: median voter hypothesis and political business cycles**

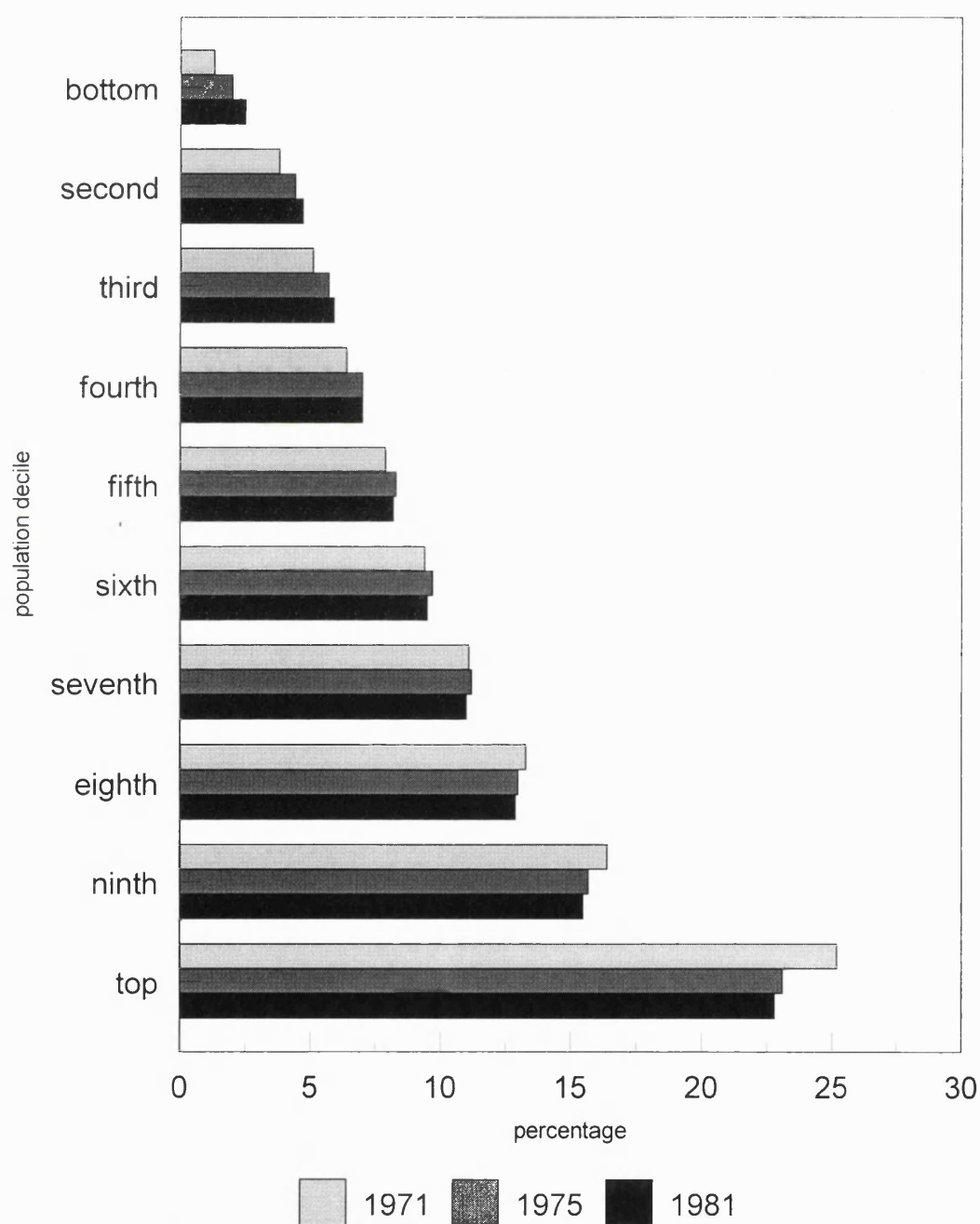
There are good reasons to believe that modifications in the electoral arena offered incentives for variations in redistributive policies. We have seen that the late 1960s and early 1970s were marked by electoral volatility and by the emergence of the NDP as a significant political force. One manifestation of this structural fluidity was that four electoral contests were held

instead of two, as formally required by the five-year term of the Canadian House of Commons. Elections were held in 1968, 1972, 1974 and 1979.

Explanations of the redistributive policies implemented by the Liberal government sometimes rest on self-interested, vote-maximizing behaviour. Gillespie, for instance, contends that middle income classes gained from income redistribution during the 1970s because Trudeau aimed at broadening his electoral appeal (1978: 80). The data in Figure 6.6 provide a picture of the distribution of post/tax-post/transfer income between 1971 and 1981. It shows that the income share of the lower-middle groups, namely the fourth and fifth decile slightly increased, while the income share of the sixth and seventh decile slightly dropped. The interesting aspect of the figure is that over the 1970s the first, second and third deciles, gained from the redistributive process. More specifically, the income share of the bottom decile grew from 1.3 percent in 1971 to 2.5 percent in 1981 and the income share of the second decile grew from 3.8 to 5.7. The rich people underwent the largest loss, as shown by the drop in the income share of the top decile from 25.2 percent in 1971 to 22.8 percent in 1981.

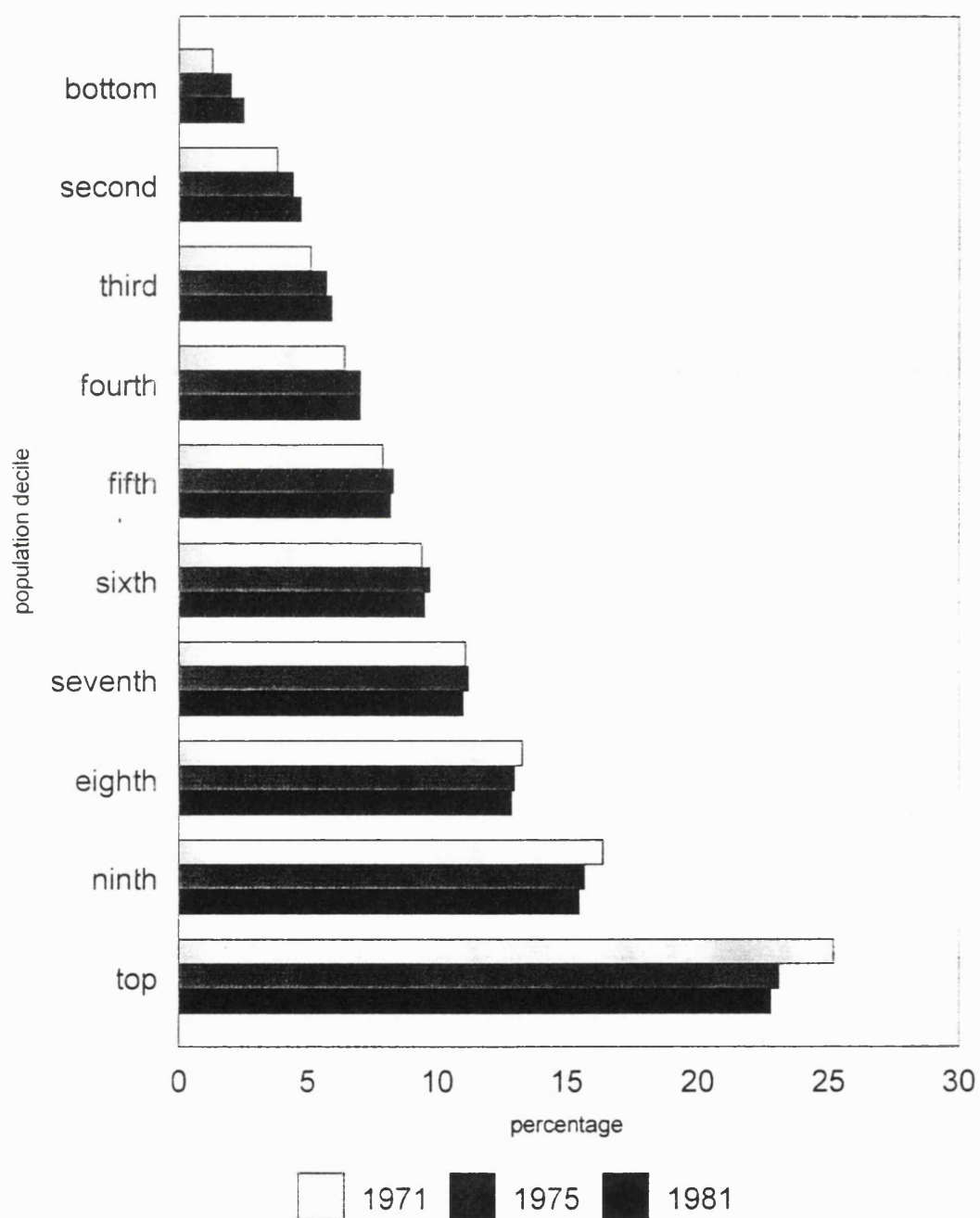
It is important to note that while the proportion of income accruing to the middle deciles increased in the first half of the 1970s, it declined between 1975 and 1981. This finding suggests redistributive effects from the richest to the poorest income strata, rather than to the median group as predicted by scholars rooted in the Downsian tradition. Figure 6.7 consolidates these findings. It shows that the proportion of pre/transfer, post/transfer and post/tax income accruing to the bottom 40 percent of the population changed remarkably over the 1970s. From 1971 to 1975 their share of both post/transfer and post/tax income doubled, while the corresponding shares for the middle 40 percent slightly decreased. The difference

Figure 6.6. Income share of population deciles, Canada 1971-1981.  
(Adjusted post-tax-post-transfer income).



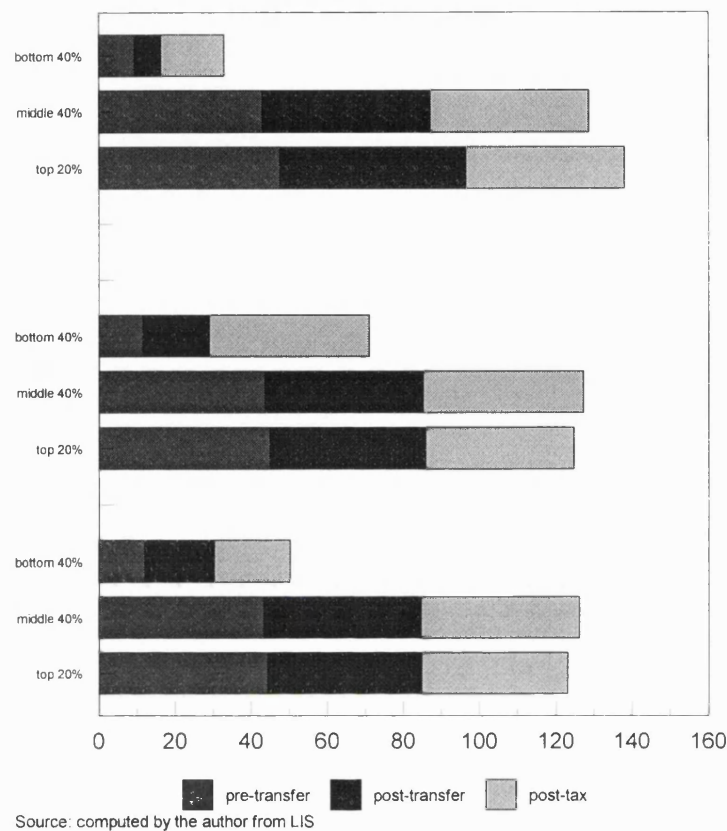
Source: computed by the author from LIS

Figure 6.6. Income share of population deciles, Canada 1971-1981.  
(Adjusted post-tax-post-transfer income).



Source: computed by the author from LIS

Figure 6.7. Percentage of pre-transfer, post-transfer and post-tax income accruing to the bottom 40%, middle 40% and top 20% of the population, Canada 1971-1981. (Adjusted post/tax-post/transfer income).



between 1971 and 1975 was also significant for the top 20 percent of the population, with a visible drop in their post/transfer and post/tax income share. Between 1975 to 1981 the bottom 40 percent of the population still benefitted from a larger share of post/transfer income, their income share rose less than in the early 1970s. Hence evidence from the LIS datasets only partially supports Gillespie's claim that the middle income classes gained from redistributive policies over the 1970s. The median voter hypothesis seems to provide only partial explanations for income redistribution in Canada.



Variations in social security programmes were sometimes compatible with the predictions of the political business cycle. Expansionary measures, including increases in the old-age pension, the guaranteed-income supplement for the elderly, veterans' pensions and the Unemployment Insurance Scheme, were introduced in the 1971 budget just one year before the federal elections of 1972. We know, however, that the model also predicts post-electoral cutbacks in transfer spending after the pre-electoral boost. Yet the Trudeau government introduced a generous scheme of family allowances in 1973 one year after the election. Similarly, the PBC fails to explain why cutbacks in unemployment benefits and family allowances were suddenly implemented in 1978, just one year before the 1979 general election.

What is most puzzling about these policy modifications is that poverty rates were higher in the Atlantic regions and Quebec, that is, the regions where *the core Liberal electorate was concentrated*. Table 6.7. cross-tabulates the poverty rates by family type and province; it is evident that the percentage of poor families was much higher in the Atlantic regions and Quebec than in the West. Newfoundland, Nova Scotia and New Brunswick had poverty rates for couples with children ranging from a minimum of 11 percent to a maximum of 14.2 percent which was well above the national 8.5 percent. Quebec experienced the highest poverty rates with over a fifth of its total population below the poverty line. A decision to enrich programmes related to financial needs, such as family allowances, clearly benefitted a greater proportion of Atlantic Canadians and Quebecers than westerners. In his

*Table 6.7. Proportion of the population below the OECD poverty line. Family type by province 1975. (Adjusted post/tax-post/transfer income).*

province	couples	couples with children	total population in the province	Theil index %
Saskatchewan	7.7	6.1	6.5	23.6
Alberta	6.6	10.0	9.7	20.7
Newfoundland	7.0	14.2	9	19.0
Quebec	18.3	16.8	20.3	17.5
New Brunswick	7.3	11.1	8.6	17.1
BC	8.3	5.8	8.0	17.0
Nova Scotia	10.4	10.6	9.9	16.8
Manitoba	5.2	4.8	5.5	16.6
Ontario	18.6	14.3	18.0	16.1
P.E.I.	1.5	2.1	4.6	15.5
CANADA	7.8	8.5	5.2	21.8

*Source:* computed by the author from LIS. Provinces are ordered according to the Theil index.

longitudinal study of transfer benefits, Banting found that Atlantic Canadians received below average benefits until the mid-1950s as did Quebecers until the 1970s (1987a: 119); this pattern shifted significantly in the 1970s, with a surge in per capita benefits going to the Atlantic region and Quebec, coinciding with the 1971 revision of the unemployment insurance. Table 6.7 also sets out the values of the Theil Index in percentages. Note that

while poverty rates in 1975 were higher in the Atlantic regions, total inequality was higher in the western regions, most notably in Saskatchewan. Since this province seems to have enjoyed relatively low poverty rates, inequality might have been the result of wider income differentials between sub-groups of the population.

As in the Australian and British case, the data for Canada provide insufficient evidence for conventional vote-maximization explanations of income redistribution. This is not to say that vote-maximizing considerations were irrelevant during the Trudeau era. On the contrary, for Thorburn electoral politics in Canada is always of paramount importance in the formulation of public policies. He contends that reforms are first mooted by third parties and only when they appear to be appealing to the electorate are they implemented, albeit in a diluted fashion, by the governing party (1979: 47).

One reason is that when public demand for innovation is clear the risk of jeopardizing the unity of the party by adopting it is minimized (Thorburn 1979: 67). These observations suggest that while demand-driven vote-maximizing strategies may have been important factors behind variations in social security benefits, the role of factional politics cannot be understated.

### **6.3.3 Electoral threats, internal realignment and social security programmes**

Social security programmes over the 1960s and 1970s developed both as a consequence of electoral politics and of internal realignment within the Liberal Party. Explaining the structure of incentives for redistribution over the 1970s in Canada involves considering how the Liberal pro-welfare and anti-welfare coalitions emerged. In fact, the historical pre-conditions for these social security programmes were set after the Liberal party was dismissed from office in 1957 (Guest, 1984: 142).

The traumatic experience of being ousted from government in 1957 after over twenty

years of uninterrupted tenure coincided with a generational turnover in the party elites, which led to internal unrest. In the Liberal party internal conflicts are not institutionalized, there are no organized factions; rather, coalitions form and dissolve on specific issues. In the early 1960s the old guard established under the leadership of St. Laurent (1948-1958) was being replaced by a new generation of Liberals who believed that the electoral defeat had been caused by indiscriminate use of patronage prerogatives and exclusive reliance on the advice and expertise of the civil service. They criticized the caucus for losing touch with social developments and argued that a redefinition of Liberal policies was necessary (Wearing, 1981: 47-64).

A few active left-wing reformers, such as Walter Gordon, Keith Davey, Maurice Lamontagne and Tom Kent pressed for 'intraparty democracy' and a shift in Liberal policies towards the consolidation of the welfare state (McCall-Newman, 1982: 38-39). The old guard mainly composed of, and representing, businessmen strongly opposed social reform and believed these ideas were socialistic (Smith, 1973: 76). The redefinition of Liberal policies was accompanied by a re-examination of the party's constitution and organization (Wearing, 1981: 21). Several changes were made to enhance the authority of the national convention over the parliamentary party. The chief modification to the party constitution was introduced in 1966 when the party convention was entrusted with the task of establishing 'the basic policies' of the party (Wearing 1981: 74). Previously, decision-making authority had always been informally given to the leader. Past Liberal leaders could formulate and enact policies with no prior consent from the extraparliamentary party.

The 'new Liberals' aimed at tighter links between the extraparliamentary party and the rank-and-file. They also wished to broaden the Liberal electoral appeal by campaigning for new social security programmes. For Smith these programmes served the twin purpose of connecting party supporters with new policies and of thrusting a useful weapon into the

hands of the reform wing to do battle with the conservative elements which still exercised considerable power in the caucus (1973: 216). Walter Gordon, the final authority in organizational matters until the mid-1960s, expressed this strategy in the following way:

My idea of the Liberal Party is that we should represent and fight for the great mass of small and inarticulate people. We should be thinking about what is best for them. It's not our job to worry about the bankers. Their profits are going up enough already. (quoted in Smith, 1973: 272)

Keith Davey, the national director of the party, believed that it was also essential 'that the parliamentary wing of the party not be allowed to gain control of the party organization. This was the opinion, he said, of the 'new and younger wing of the Party'..who were 'genuinely concerned that the party organization maintain its vigorous approach' (quoted in Wearing, 1981: 47).

The new Liberals soon acquired responsibility positions in the party structure. In 1961 Walter Gordon became chairman of the National Campaign committee, with direct responsibility for the recruitment of candidates and the management and financing of the party's campaign (Smith 1973: 83). The electoral results of 1963 and 1965 engendered minority governments, offering right-wingers the chance to make counterattacks to Gordon's strategies. The internal balance of power tilted in favour of the right during the Cabinet reshuffle of 1965. One of the most important changes was the replacement of Gordon, as Finance Minister, by Mitchell Sharp, a representative of the financial and business community (Wearing, 1981: 68-72). Indeed 'bankers and businessmen suggested the.. replacement of Walter Gordon in Finance as the price of financial support for the party' (Smith, 1973: 257). Early in the campaign, Gordon was described as 'the most dangerous socialist in Canada today' (Smith, 1973: 259).

After Walter Gordon lost hold on the party in 1965 the old guard consisting of right-

wingers like Mitchell Sharp, Bud Drury and Robert Winters attempted to reassert themselves (McCall-Newnan, 1982: 271). Presumably because the business community was a financial backer of the Liberal Party, 'Gordon was not even seriously defended by the 'progressives' (Taylor, 1974: 162). Towards the end of the 1960s, therefore, electoral considerations affected the strategic manoeuvring within the Liberal party and the anti-welfare alliance steadily increased its strength.

#### **6.4 THE PARTY UNDERWORLD AND REDISTRIBUTIVE POLICIES**

It was not until Pearson confided he was unwilling to run for the election in 1968 that intraparty conflicts re-surfaced. During the leadership campaign the question regarding the consolidation of the welfare system came back to the fore. As Trudeau put it:

I based my campaign on the central theme of the Just Society. Achieving such a society would require promoting equality of opportunity and giving the most help to those who were the most disadvantaged. Social security and equalization payments, as well as a ministry of regional economic expansion, would give practical effect to these abstract principles. (Trudeau, 1993: 87)

The 'new Liberals' threw their support behind Trudeau, while Turner, Hellyer and Winters were backed by the anti-welfare sections of the business community (McCall-Newman, 1982: 78-97).

The extent of the internal dispute may be grasped by comparing the results of the

Table 6.8. Liberal conventions of 1948, 1958, 1968.

AUGUST 7, 1948				
Candidates in order of rank of first ballot	first ballot	second ballot	third ballot	fourth ballot
Louis St. Laurent	61.4			
James G. Gardiner	23.4			
C.G. Power	.4			
Total number of voting	1380			
JANUARY 16, 1958				
Lester B. Pearson	87.5			
Paul Martin	24.8			
L. Henderson	.08			
Total number voting	1227			
APRIL 6, 1968				
Pierre E. Trudeau	31.8	40.8	44.6	51
Paul Hellyer	13.9	19.7	14.3	
Robert Winters	12.4	23.8	26.3	40.4
John Turner	11.7	22.6	20.0	11.8
Paul Martin	11.7*			
J.J. Greene	7.1	4.4	1.2**	
A.J. MacEachen	6.9	.5**		
Eric Kierans	4.3*			
L. Henderson	0**			
total number	2366	2364	2357	2352

\* Withdrew as a result of this ballot.

\*\* Eliminated as a result of this ballot.

Source: calculated by the author from J. Courtney (1973: 58).

leadership convention of 1968 with those of 1948 and 1958. In the Liberal party the leadership is conferred by provincial delegates; the leader can thus claim to represent the whole party. Table 6.8 shows that while in 1948 and 1958 there were three contenders for the leadership, in 1968 there were nine candidates, three times as many as in the previous contests. Table 6.8 also highlights two other aspects. First, at the leadership conventions of

1948 and 1958 the decision was quickly reached at the first ballot, while Trudeau won after four ballots. Second, in 1948 St. Laurent gained a comfortable majority of 61.4 percent of the total votes and in 1958 Pearson obtained an even greater majority of 87.5 percent; by contrast, Trudeau barely achieved an absolute majority of 51 percent. It may be argued that since the total number of voting delegates was almost twice as large in 1968 than in the previous contests, this may explain both the increase in contenders and in the potential for dissension. A closer look at Table 6.8, however, shows that internal strife was not only a question of numbers: at the fourth ballot there were only three candidates left, as many as in 1948 and 1958, but the final vote was almost evenly divided between Trudeau and Winters who were, respectively, the representatives of the pro-welfare and anti-welfare coalitions.

#### **6.4.1 The leadership of Pierre Elliott Trudeau**

The old guard grudgingly accepted Trudeau's leadership. In the words of the new leader:

Some long-time Liberals felt that Marchand, Pelletier, and I had stolen 'their' party from them, because we had been so merciless critics of its policies right up to the moment we had joined it. All of which made me realize that the first thing I had to do was to restore party unity. (Trudeau, 1993: 94)

After taking office in 1968 Trudeau engaged in the strategy of conflict management that reunited the party and kept him in power for sixteen years. He re-staffed and re-organized the Prime Minister's Office, which Lalonde described as 'a power group supporting the Prime Minister and controlled by him' (1971: 520). Trudeau also headed off internal opposition by including in the Cabinet members of the anti-Gordon anti-welfare alliance, such as Sharp and Drury. Finally, he strengthened his hold on the party organization by offering key positions in the Liberal Federation to the 'New Liberals', such as the new party president Richard



Stanbury. Those who had taken leadership positions within the party during the Pearson period now found themselves on the sidelines. For the most part this meant people who had supported Trudeau's rivals, Turner and Hellyer, during the leadership contest (Wearing 1981: 196-197).

Trudeau's efforts at centralizing power in his hands contrasted with attempts at devolving power to the extraparliamentary party. His reforms were in line with the traditional emphasis placed within the Canadian government on leadership, and particularly on leadership by the prime minister (Franks, 1989: 23). In comparing the relationship between prime ministers and MPs in Canada and Britain, Franks notes that 'in Canada a strong, solidly entrenched prime minister faces an insecure and transient House of commons; in Britain an insecure and transient prime minister faces a strong and solidly entrenched House of Commons .' (1989: 24. The symptoms of the greater imbalance between executive and legislative power in Canada are long-term prime ministers and short-term members of parliaments. For Stewart, the strength of party leaders in Canada is a legacy of their pervasive use of patronage in the mid-nineteenth century which bound members to the party and made them dependent on their leader (1986: 95).

Prime Minister Trudeau's tenure has entailed a strengthening of these centralizing tendencies within the Canadian leadership style. It is typical of charismatic leaders such as Trudeau to resist efforts by counter-elites to strengthen the party organization, because it would inevitably set the stage for the party's 'emancipation' from his control (Panebianco, 1988: 66-67).<sup>2</sup> The best illustration of Trudeau's success at controlling the party organization

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<sup>2</sup> Trudeau's behaviour is reminiscent of MacKenzie King, the Liberal leader from 1919 to 1948, who was opposed to the development of a strong party organization. In Whitacker's vivid description :

[c]onsidering the divergent crowds assembled under the umbrella of the Liberal party, [MacKenzie King] had a justifiable fear for any permanent structure which might give voice to divisive policy initiatives, not to speak of challenges to his own leadership. (Whitacker, 1977: 9)

is offered by the process which led to the abandonment of the Guaranteed Annual Income.

#### **6.4.2. Non-decisions: the case of the Guaranteed Annual Income**

Although the Guaranteed Annual Income was approved at the 1970 policy convention with 657 votes in favour, 187 against and 117 abstentions, the proposal never reached the Cabinet agenda. As mentioned above, the amendments to the party's constitution in 1966 declared that '[t]he basic policies of the Party shall be established by the Party assembled in policy conferences' (Courtney 1973: 98). Trudeau claimed in his recent co-authored book that the economic recession dictated the abandonment of the Guaranteed Annual Income (Axworthy and Trudeau, 1990: 39).

Other analysts have advanced a different interpretation. Wearing (1981) and Whitaker (1977), for instance, contend that the Guaranteed Income failed for reasons linked to the distribution of power within the party organization. A more careful enquiry into intraparty power games sheds light on this typical case of policy 'non-decision.' After the party convention of 1970 Allen Linden, the co-chairman of the policy committee, pressed for the Guaranteed Annual Income to be included in the party's manifesto in the next election of 1972. The Liberal caucus, however, strongly opposed this proposal. When the idea was presented to the cabinet 'Linden and Stanbury were surprised by the barrage of criticism that it encountered. The cabinet refused to have anything to do with it.. because there *had been no parliamentarians on the policy committee, they had felt excluded from the whole process* (Wearing, 1981: 171, emphasis added).

In Whitaker's view the process which led to the failure of the Guaranteed Annual Income was intimately connected to the internal distribution of power :

The Liberal party's policy process failed... on the issue of power. Even before the resolutions favouring a guaranteed annual income were debated and passed, the prime minister made clear in his "accountability" session with the delegates that he was not prepared to implement such a major change in his government's approach to welfare. (Whitaker, 1977 : 158)

Trudeau admits in his memoirs that strategies of conflict management within the party at times dictated the endorsement of moderate policies:

Throughout my first mandate, the 'leftist' reputation I had earned in Quebec during my days in opposition to the Duplessis regime imposed a certain reserve on me... Still somewhat shakily established at the head of the organization, I had to be constantly aware of the possible risks involved in ranging the more traditional Liberal members against me, and of provoking a rift between the two wings.. I had to be on my guard all the time to maintain a careful equilibrium between progressive measures and more moderate ones. (Trudeau, 1993: 165)

The abandonment of the guaranteed income was presumably a price worth paying for other major expansions in social security. We have seen in section one that in 1971 the scope of existing social insurance schemes was extended and transfer benefits were increased. What helped Trudeau to push through these programmes was the availability of new strategic options in the electoral arena.

#### **6.4.3 Adjusting social relativities through income redistribution**

The adversarial nature of the Canadian party system during the postwar period had offered few opportunities for interparty bargaining. But the situation changed with the entrance of the NDP into the electoral arena. Competition from the left of the political spectrum threatened to capture actual and potential Liberal voters. By contrast, competition from the right was weak. Conservative leaders were struggling to maintain its unity. Internal strife connected to the leadership succession exhausted their energies and attention (Perlin, 1980: 63-73; Penniman, 1975: 105).

The Liberal Party, moreover, was suffering from a steady erosion of the provincial electoral base in the Western provinces (Manitoba, British Columbia, Alberta, Saskatchewan), where support for the NDP was growing. Liberals, therefore, had to stray into the NDP's electoral territory. In 1971 Jim Davey, a member of the pro-welfare coalition and the programme secretary in the Liberal Prime Minister Office (PMO), succinctly remarked: '[the NDP] is the danger. At the same time, a good proportion of their present support believes that there is only 50% chance that they actually vote for them on election day. This is our chance' (quoted in Wearing, 1981: 193).

For Trudeau the main cause for the erosion of the provincial electoral base in the West was the predominance of right-wing Liberals at the provincial level:

[M]y party...at the provincial level, had for years tended to fall to the right. As a result, in Saskatchewan, Manitoba, and the British Columbia, the Liberal Party had all but disappeared for the political stage, to be replaced by the NDP. As federal Liberals, we were worried that we might share the fate of our British counterparts, who had let themselves be pushed so far to the right by the Labour Party that there were only a handful of Liberal members left in Westminster, none of whom exerted much influence on the course of events. We were determined not to let that happen to the Liberal Party of Canada. (Trudeau, 1993: 165)

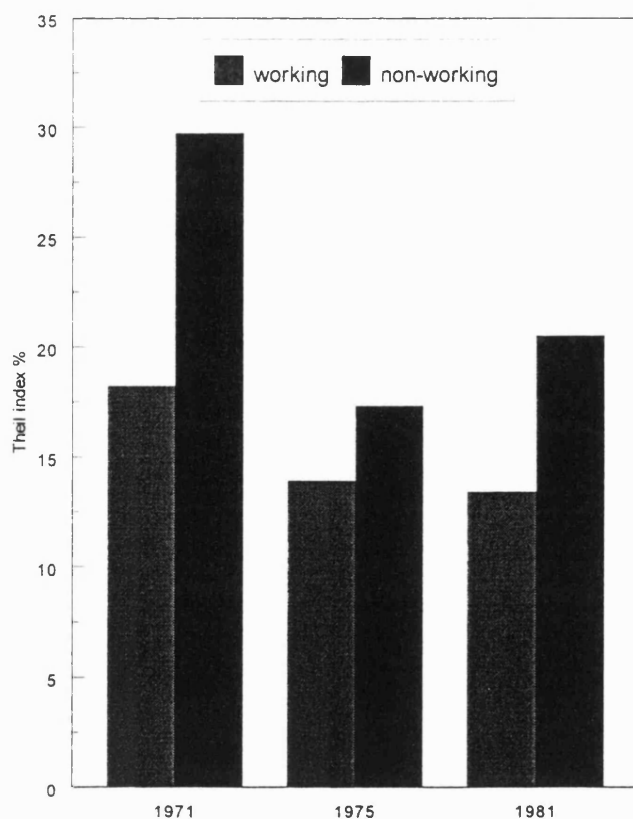
The division of power between federal and provincial states on social security had regularly triggered conflicts in the Liberal party between the provincial units and the centre (Bryden, 1974: 60-75). Perhaps for this reason Trudeau's attempt to weaken right-wing provincial Liberals meant that while in the previous decade federal transfers to provincially delivered services in health, education, and social assistance 'formed the major part of Ottawa's expenditure growth, in the 1970s the Trudeau government used income security programs which it alone controlled.' (Struthers, 1989: 237)

Trudeau's control of social security programmes allowed Liberals to forge a skilful offensive strategy. In Dunleavy's terms, the government engaged in 'partisan social engineering' and in 'adjusting social relativities' (1991: 120-121). Partisan social engineering

was achieved by expanding the size of the population insured by the social security system. NDP supporters tended to have lower incomes, and thus were more exposed to the risks of economic insecurity (Kornberg and Clark, 1992: 75). Figure 6.8 sets out the values for the Theil index for the working and the non-working population in Canada over the 1970s. It is remarkable that between 1971 and 1975 the Theil for the non-working population fell from 29.7 percent to 17.3 percent, a percentage drop of 41.7 points; inequality within the working population also dropped but only 23 percent, from 18.2 percent in 1971 to 13.9 percent in 1975. This decline indicates that the expansion of social security programmes may have had significant distributional consequences. It is also noteworthy that when unemployment soared in the late 1970s, the Theil values increased by only 18 percent.

A crucial feature of the White Paper *Unemployment Insurance in the 70s* was the projection of imminent labour market changes. It argued that rapid technological changes

Figure 6.8. Income inequality within working and non-working household heads, Canada 1971-1981. (Adjusted post-tax/post-transfer income)



Source: computed by the author from LIS

associated with post-industrialism would threaten previously secure employment. The government deployed this argument to overcome the resistance of those groups resenting state interference. As a Liberal MP remarked:

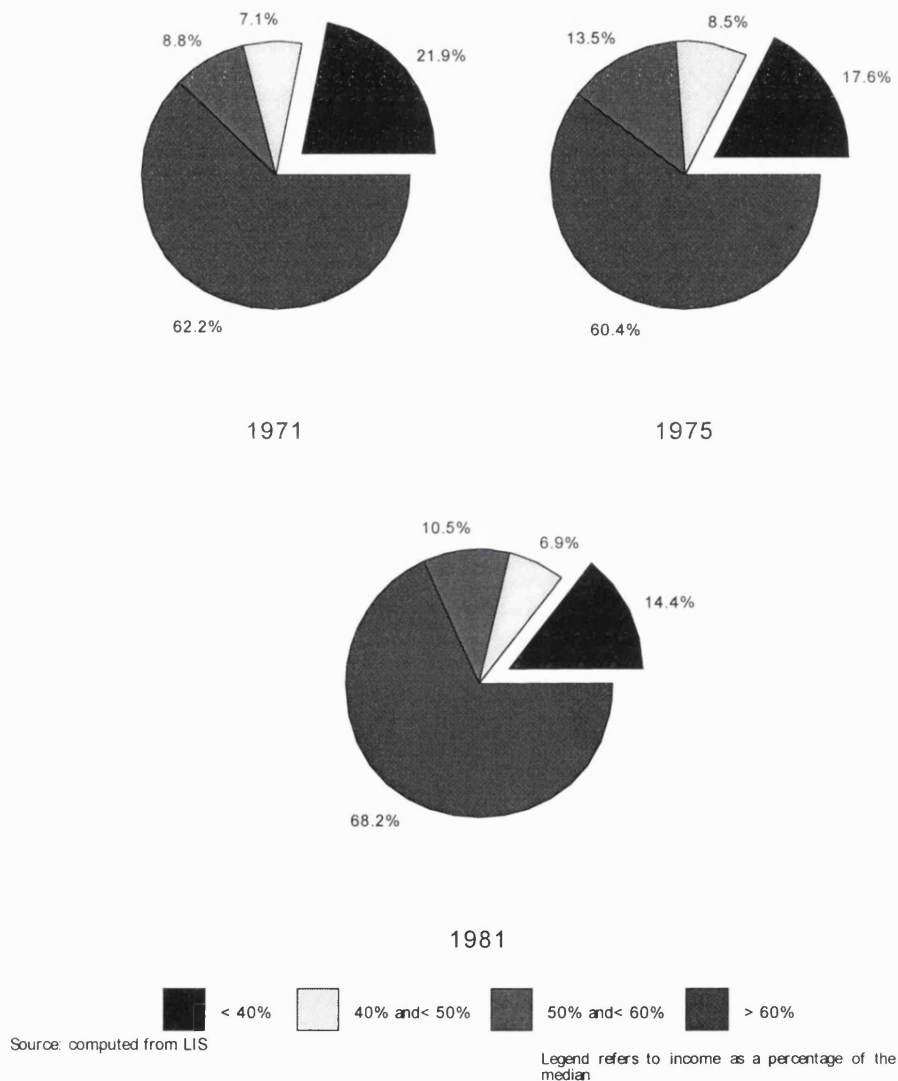
we have heard..that some of the new groups, such as the Canadian Teachers Federation did not appear to favour universality as far as their teachers were concerned...However, it was the committee's opinion, and my personal opinion also, that the contingency of interruption of earnings is not now restricted to certain groups in Canada, as it may have been in earlier years, and that therefore no employee should be excluded from coverage if it were possible to include him. (*House of Commons Debates*, 1971: 5081)

Trade union opposition towards expansionary social security legislation is a recurrent theme in historical accounts of the welfare state (Flora and Heidenheimer, 1981: 17-37). Union representatives feared that state legislation would replace their protective role towards their members, undermining their role as representatives of workers' interests.

The second electoral goal was to 'adjust social relativities' by targeting particular social categories. The unemployment scheme of 1971 extended coverage to self-employed fishermen, the only category of self-employed so covered; in the fishing communities of Atlantic Canada, a region traditionally sympathetic to the Liberals, unemployment benefits constituted an important supplementary source of income. Social relativities were adjusted also by introducing maternity benefits, which strengthened the traditional loyalty of women towards the Liberal party (Kornberg and Clark, 1992: 75). Deliberate attempts to direct the message to women were reinforced by specific pledges for female workers. In the words of David Weatherhead, a Liberal MP:

There are about three million working women in the labor force today and they are and have been for a long time a very vital part of our work force in Canada. Many have worked continually for a long time, have paid into the unemployment insurance fund for a long time, and then decided to have a child. [M]aternity leave will give the female employee significant new rights to which, in my opinion, they are well entitled. (*House of Commons Debates*, 1971: 5083)

Figure 6.9. Percentage of female household heads below or above different poverty lines. Canada 1971-1981. (Adjusted post-tax-post-transfer income).



Modifications in the electoral and social environment changed the options available to the pro-welfare coalition and facilitated the implementation of social security programmes (Wearing 1981: 200-202). Figure 6.9 illustrates that over the 1970s the proportion of female household heads below the three poverty lines declined significantly. In particular, the proportion of women in extreme poverty dropped from 21.9 percent in 1971

to 14.4 percent in 1981. It is worth noting that female poverty rates dropped under all three cut-off points. By 1981 there were 6 percent more women enjoying a relative non-poor standard of living, partly as a result of government intervention.

### 6.5 INTRA AND INTERPARTY COMPETITION: THE IMPACT ON REDISTRIBUTIVE POLICIES

Despite the implementation of social security programmes, the Liberals were unable to form a majority government in 1972. Table 6.11 sets out the percentage of votes and of seats in the House of Commons from 1968 to 1979. It shows that from 1968 to 1972 the proportion of seats obtained by the Liberal Party declined from 58.7 percent to 41.3 percent, a

*Table 6.11. Percentage of votes and seats in Canadian federal elections 1968-1979.*

political party*	1968		1972		1974		1979	
	votes	seats	votes	seats	votes	seats	votes	seats
CP	31.4	27.3	35.0	40.5	35.4	36.6	35.9	48.2
LP	45.5	58.7	38.5	41.3	43.2	53.4	40.1	40.4
NDP	17.0	8.3	17.7	11.7	15.4	6.1	17.9	11.3
SC	.80	0	7.6	5.7	5.1	4.2	4.6	0.0

CP=Conservative Party

LP=Liberal Party

NDP= New Democrats Party

SC=Social Credit

percentage drop of almost 30 percent; however, its proportion of votes fell by only 15 percent, from 45.5 percent to 38.5 percent. The dis-representative effects of the plurality system explain the difference between seats and votes. Conservatives performed much better, increasing their share of seats from 27.3 percent to 40.5 percent, a surge of about 48 percentage points. The two minority parties also gained legislative strength. The NDP



obtained 3.4 percent more seats in 1972 and the Social Credit gained 5.7 percent of the seats.

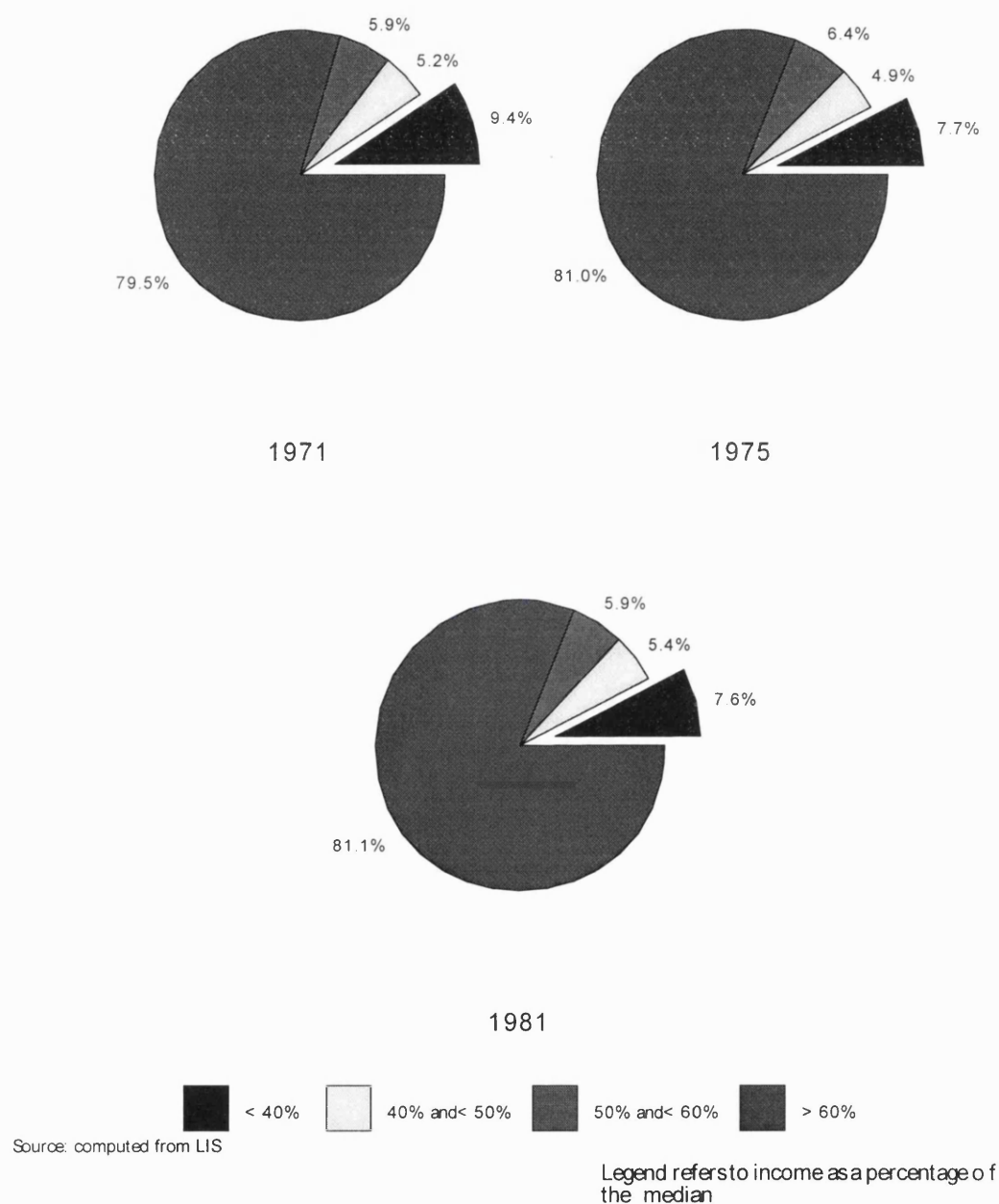
### **6.5.1. Opposition effects on redistributive policies**

The distribution of seats in the House of Commons after the election of 1972 had two major consequences. First, the formation of a minority government led to a Cabinet reshuffle, with the most important change being the replacement of Benson with Turner at the Ministry of Finance. The appointment of John Turner, the most prominent of English-Canadian MPs, sanctioned the strength of the anti-welfare alliance within the party. As Gillespie noted, appointing Turner to Finance meant accepting a shift from Benson's 'modestly redistributive' budget, which had included policy instruments especially favourable towards poor families, to Turner's commitment to maintaining the status quo (Gillespie, 1978: 20-21).

Figure 6.10 clearly shows that the proportion of poor families declined from 9.4 percent in 1971 to 7.7 percent in 1975, an absolute drop of 1.7 percent; however, from 1975 to 1981 this proportion only declined by .1 percent. It is likely that family poverty increased as a result of rising unemployment rates; however, it appears that the Liberal government was unable to offset the distributional consequences of the recession for very poor families.

The second consequence of the near-electoral defeat was the formation of a minority government with the external support of the NDP. In Sartori's terms (1976: 122), the distribution of seats enhanced the blackmail potential of the NDP. Since it now enjoyed veto power in the legislative arena its support was vital for the stability of the Liberal government. Paradoxically, however, Trudeau considered the lack of a legislative majority as an asset

Figure 6.10. Percentage of couples with children below or above different poverty lines. Canada 1971-1981. (Adjusted post-tax-post-transfer income)



against internal opposition. His description of the strategic situation is worth quoting at length:

[B]eing a minority government allowed us to engage in a new form of politics that attracted me greatly [and] allowed me to put forward more advanced 'left wing' projects. I knew that the NDP, under David Lewis, would back me up - *in fact, the*

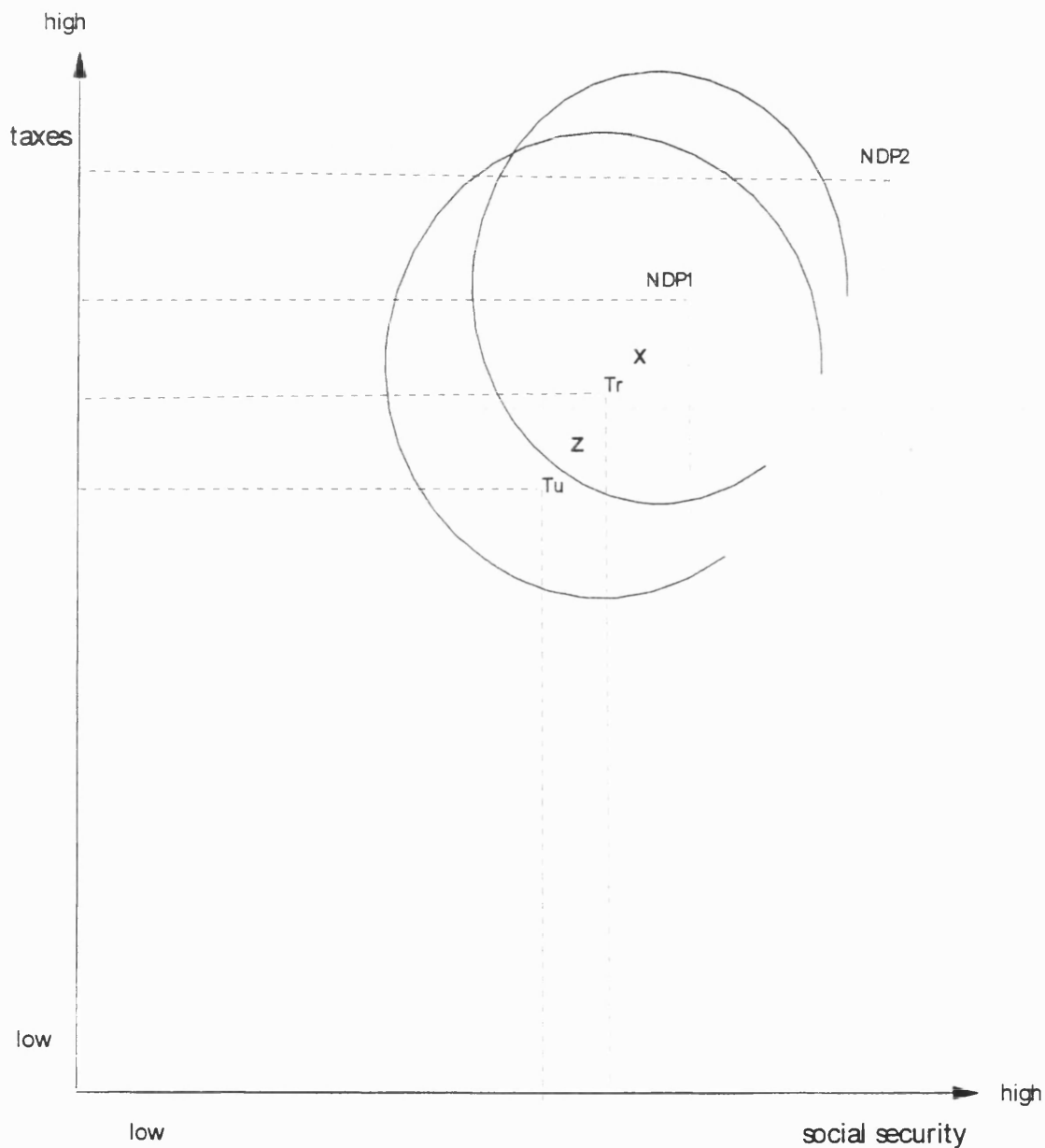
*NDP supported me when some of the more conservative members of my own party did not. I was thus able to institute policies that I had been dreaming about for a long time, and the social-democratic faction of the Opposition was forced to support them, or else deny their own social program... In this way the minority government allowed us to get social legislation through Parliament that helped less-advantaged Canadians, such as the increasing and indexing of old age pensions [and] higher unemployment insurance benefits. (Trudeau, 1993: 165/ 167, emphasis added)*

This quotation suggests that changes in the legislative arena impinged on the outcome of bargaining games within the Liberal party, and that the need for the NDP's support became an advantage for the Liberal pro-welfare alliance (Clarkson, 1974: 83).

Figure 6.11 illustrates the redistributive consequences of the interaction between the Liberal Party and the NDP by using the graphical device elaborated by Laver and Shepsle (1990). It shows a policy space with two dimensions - taxes and social security spending. It depicts the strategic environment during 1972-1974, when the formation and maintenance of the Liberal government hinged on the external support of the NDP. The NDP factions are represented by the ideal points  $NDP_1$  and  $NDP_2$ ; the Liberals are represented by the social reform faction, led by Trudeau (Tr) and the faction defending the status quo led by Turner (Tu). The indifference curves in Figure 6.11 are centred on the faction led by the party leader ( $NDP_1$  and Tr).

Suppose  $NDP_1$ -Tr is the status quo (point x). There is one credible proposal in its win set,  $NDP_1$ -Tu (point z), but this is regarded by  $NDP_1$  as inferior to  $NDP_1$ -Tr, so it will not receive the assent of  $NDP_1$ . This choice has consequences for the internal politics of the Liberal party, because it weakens the position of the so-called 'Turnites'. The priorities of the NDP leaders amplify Trudeau's margin of manoeuvrability, offering him more leeway in the implementation of generous redistributive policies. Figure 6.11 illustrates a typical case of a game in multiple arenas, where the payoffs in the parliamentary arena are deployed as resources in the internal arena (Tsebelis 1990: 10-20). It depicts a strategic

Figure 6.11 Factional interaction and redistributive policies in Canada 1972-1974.



situation in which external weakness can become strength. The Liberal social reformers could implement redistributive policies, such as family allowances, without jeopardizing the unity of the party by further alienating the business community.

Hence expansionary income security programmes in the early 1970s can partly be

interpreted as the outcome of strategic interaction within a changing political environment. The slow erosion of traditional subcultural loyalties and the challenge of a new electoral rival, the NDP, elicited centrifugal drives pushing Liberal leaders to expand redistributive policies. This is technically a dominant strategy because irrespective of the strategy followed by the NDP, the Liberals would have maximised their electoral payoffs by appealing to the NDP's supporters through the visibility of redistributive policies. Correlatively, had redistributive policies not been implemented, the NDP would have maximised its electoral payoffs by withdrawing its support from the minority government. Modifications in income security policies were also affected by the changing conditions of interparty competition.

Moreover, the near-defeat which gave Liberals only two seats more than the Conservatives sharpened opposition within the party organization. Electoral losses lend ammunition to counter-elites by highlighting the weakness of the dominant coalition. One consequence was that expansionary transfer policies were partially offset by tax concessions. Other budgetary instruments such as the personal income tax cut, the corporate-profits tax cut from 49 percent to 40 percent, and indexing of the personal income tax generated larger benefits to middle-upper income families and the business community. The substantial personal income tax cut which cost the government \$1,300 million in foregone revenues did not benefit the poorest families, because their income was too low for them to take advantage of either the increased personal exemptions or the minimum tax credit (Gillespie 1978: 21). John Turner was committed to maintaining the status quo and did not suggest redistributive policies that would improve the real economic position of the poor relative to the highest income families (Gillespie, 1978: 3-4).

### 6.5.2 The u-turn: pre-empting internal rivalry

The relationship between the so-called 'Trudeauites' and 'Turnites' rapidly deteriorated after the elections. Turner thought that Trudeau 'never stopped to consider [that] the economy had to be able to bear the government's social security programs' (McCall-Newman, 1982: 309). When Trudeau denied his support to Turner's proposals for cutting spending and implementing an incomes policy, the Finance Minister left the Cabinet and resigned on 10 September 1975 (McCall-Newman, 1982: 169; Chrétien, 1985: 78). Turner's resignation damaged the unity of the Liberal party because 'for years, Turner had epitomized in his person the alliance for power that had held the party together' (McCall-Newman, 1982: 241). In the winter preceding the 1979 election the Liberal adherents were asked to analyse the causes of the Liberals' difficulties; McCall-Newman reports that 'almost to a man they would begin by citing the decision in 1975 of John Turner, the former Minister of Finance, to abandon politics for the practice of corporate law' (1982: 241).

It is important to note that a few months after Turner's resignation the Cabinet approved both the incomes policy and the cutbacks in spending advocated by the former Finance Minister:

The irony was clear..Trudeau and MacDonald [the new Finance Minister] had both been more firmly anti-interventionist than the rest of the cabinet, and it had been their opposition that prevented other, more timid ministers from supporting Turner in his tough-measures stance months before. (McCall-Newman,1982: 231)

Trudeau wrote in his memoirs that 'MacDonald came to the Cabinet and said: 'There is no choice' (Trudeau, 1993: 196). Yet, this begs the question why Trudeau was prepared to accept the incomes policy from MacDonald and not from Turner. There is some evidence suggesting that the Liberal leader felt threatened by Turner. The former Finance Minister was the only candidate to the leadership contest of 1968 to have kept a personal power base in the

party and an independent public reputation (McCall-Newman 1982: 128). All the others were either devoted to Trudeau's cause or out of politics altogether. What is more, the Liberal party had 'institutionalized' the core-periphery cleavage by alternating English and French speaking leaders, and offering the deputy leadership to the other ethnic group. The view that Turner represented a threat to Trudeau is buttressed by Trudeau's recollection of those events in his memoirs:

You can tell me I handled it badly.. but if [Turner's] heart wasn't in it for one reason or another, either because of his family and his economic circumstances or because I was his leader, then perhaps it was right that he leave politics. (Trudeau, 1993: 194).

After Turner's resignation from the cabinet the anti-welfare coalition became 'a kind of opposition from within the party' (Johnston, 1986: 35; Wearing, 1981: 236).

The Liberal party was facing its biggest crisis for more than ten years as bitter infighting over redistributive policies threatened to fracture the internal alliance. Trudeau retreated into the Prime Minister Office (PMO) and came to regard his staff there as the only group whose loyalty was unquestioned (Wearing, 1981: 236). The impact of internal conflicts on redistributive policies was dramatic. Most cabinet members were taken by surprise when Trudeau and his closest advisers suddenly announced cutbacks both in family allowances and unemployment benefits. In the vivid recollection of those events by Jean Chrétien, then recently appointed Minister of Finance :

Since Trudeau's announcement came as a surprise to me, the press jumped on the idea that the Prime Minister had pulled the rug out from under his Minister of Finance. The people who had criticized Trudeau for not being concerned with the economy now abused him for interfering with Chrétien's territory, and I was made to look like a fool. I've never quite decided whether it was a breakdown in communications or a power play by the PMO. (Chrétien, 1985: 177, emphasis added)

Chrétien's suggestion that the retrenchment of welfare spending may have been the outcome

of a power game lends support to the view that intraparty politics affected redistributive policies. Adopting Turner's policies was like 'stealing the rivals' clothes'. Cutbacks in transfer benefits aimed at showing that Trudeau's internal rivals had no policy alternatives to offer. Hence the u-turn in transfer benefits from an expansionary design in the early 1970s to a restrictive policy in the late 1970s, can be interpreted as an optimal strategy in the intraparty arena. In Tsebelis's terms (1990: 68-70) it can be viewed as an instance of correlated strategies, in which the actions of player I at time T depend on the actions of player II at time T-1.

Focusing on the internal arena sheds light on the fact that Trudeau was playing a game in multiple arenas, consisting of two simultaneous strategies pursued in the electoral and in the internal arena. In the early 1970s redistributive policies were activated and social cleavages gained new political expression partly because they offered a weapon to the reform group. Trudeau was thus able to both maximize votes and defend his intraparty position. By contrast, in the latter half of the 1970s the internal challenge to his leadership pushed the Liberal leader to endorsing restrictive redistributive policies.

## Conclusions

Existing accounts of income redistribution in Canada under Trudeau emphasize the role played by either macroeconomic variables or vote-maximizing behaviour. Expansionary social security programmes over the 1970s have been generally conceived of as the outcome of economic growth or the attempt by party leaders to broaden their electoral appeal. These conventional views have typically neglected the impact of demographic factors and of market effects on the declining income inequality trend over the 1970s.

Results from the LIS datasets indicate that neither the age structure nor shrinking household size had significant distributional effects. Market differentials seemed more



relevant, suggesting that the primary distribution of income had equalizing effects. Yet decomposing aggregate inequality pointed to the key role played by social security policies. Explanations based on demand-driven models of transfer policies, such as the median voter and the political business cycle, offered important insights on the driving forces behind redistributive policies, but left unaddressed too many anomalies.

Factional politics between pro-welfare and anti-welfare coalitions within the Liberal party highlighted some of the reasons which affected Trudeau's redistributive policies in the 1970s. By skilfully exploiting the NDP's blackmail potential, Trudeau was able to overcome the internal opposition against generous social security programmes in the early 1970s. Under the Liberal minority government of 1972-1974 expansionary programmes are interpreted as a dominant strategy in inter-party competition. Internal conflicts re-surfaced in the late 1970s when the u-turn from generous to stiffer cash benefits seemingly aimed at pre-empting the leadership threat. Income redistribution after 1975 could, at least in part, be understood as Trudeau's reaction to his fear of being outmanoeuvred by the Turnites.

The distinctiveness of the Canadian experience with respect to Australia and Britain lies in the role played by electoral competition. Entrance of the NDP in the electoral arena provided an incentive for Liberal leaders to mobilize voters. In turn, the challenge from the left of the political spectrum impinged on the outcome of bargaining games between the Liberal pro-welfare and anti-welfare coalitions. The chapter illustrates how some puzzling aspects of income redistribution during the Trudeau era can be explained by focusing on the interplay between intra and inter-party competition. It thus provides compelling evidence of the redistributive consequences of internal strife and electoral competition.

## CHAPTER SEVEN-CONCLUSIONS

### 7.1 COMPARATIVE ANALYSIS

The foregoing analyses of inequality trends and policy actions and reactions of the three countries describe and explain how each governing party tried to affect income redistribution by means of cash transfers. Of course, these accounts are historically incomplete; like other works in comparative politics my aim is not detailed descriptions but 'narrative explanations' (Sharpf, 1991: 161). In this chapter I review the material presented from an explicitly comparative perspective in order to highlight similarities and differences between the countries. On the basis of the historical experience of the three Westminster systems, it is possible to outline a set of propositions about the incentives for income redistribution in a liberal democracy. Delimiting the investigation to countries with similar institutional conditions facilitates comparisons according to the 'most similar system design'.

The study spanned two decades marked by two economic recessions induced by the oil crises of 1973-74 and 1979-80. Both crises were characterized by the threat of mass unemployment. Hence while the periodization for the three countries was different, their economic conditions were fairly similar. I analysed demographic and market effects to isolate the distributional role of structural factors. I then examined how parties of different ideological persuasions reacted to similar problems that arose from fundamental changes in international socioeconomic conditions. But I was less concerned with similarities among the cases than with their differences, and less with governments' efforts to restore a functioning economy than with their strategic options in redistributing burdens and benefits. I therefore focused on the factors that allowed the governing parties of Australia, Britain and Canada either to alleviate or to exacerbate income inequality. These three parties pursued very different strategies in the allocation of redistributive costs and benefits.

The ALP successfully implemented an incomes policy of wage stability to fight unemployment, but at the same time penalized the state-dependent population by abolishing universal benefits. The redistributive policies of the British Conservative government advantaged specific categories of the dependent population at the expense of other categories. The Canadian Liberals, on the other hand, initially expanded universal social security programmes but failed to sustain generous unemployment benefits later in the term.

Precisely because of the differences in the strategies they adopted, party leaders suggested that there were different incentives for income redistribution, and that neither declining nor rising inequality were unavoidable fates. If some governing party was nevertheless unable to avoid growing inequality, then the reasons must lie less in international trends than in the varying strategic options of their leaders. The sections that follow concentrate on the driving forces behind these strategies. First, however, let us summarize briefly what the incentives are for redistribution in a liberal democracy.

### **7.1.2 The redistributive logic in liberal democracies**

Most scholars of income inequality have assumed that electoral politics and economic development have an in-built mechanism in favour of equality, and therefore in industrialized democracies income differences are reduced over time. Political sociologists see redistributive policies as the outcome of contrasting distributive goals that are consistent with the locations of the party's core constituencies in the hierarchy of income classes (Hibbs and Dennis, 1988). The expectation is that Left-wing parties reduce income inequality by redistributing income from rich to poor and that right-wing parties, in a process of contagion from the left, become less anti-egalitarian in order to appeal to low income groups. Rational choice theorists believe that vote-maximization drives governing parties towards expansive redistributive policies, either to improve the economic position of median income voters

(Denters, 1993), or to achieve short-term electoral benefits (Griffin and Leicht, 1986).

Against this background, the rise in inequality over the 1980s suggests that inequality trends had in some sense evolved counter-intuitively. Yet the wider the gap between rich and poor becomes, the less plausible it is to suppose that liberal democracies converge towards equality and the more important it becomes to examine the sources of income inequality. Perhaps the best example of counter-intuitive inequality trends is Australia where inequality rose in prosperous times under a Labor government. The Hawke government placed redistribution of wealth second to wealth production and implemented redistributive policies more congruent with right-wing ideologies. The Accord protected unionized workers, but the Labor government severely penalized the dependent population by tightening eligibility and entitlement rules. The result was rather disappointing for egalitarians: under Labor inequality steadily grew.

The Australian experience is a far cry from Bobbio's recent contention that the criterion differentiating left and right is the emphasis given by the former to equality (1994: 99-114). It points out that Left-wing parties may implement policies devoid of any emphasis on equality; it suggests that free-market principles can be espoused by Labor parties as well as Conservative parties; it indicates that priorities in the hierarchy of party aims may change irrespective of ideology.

In Canada, in fact, the Liberal government actively engaged in both generous and stiffer social security benefits, thus contributing to both falling and rising inequality trends. Economic prosperity and expansionary redistributive policies in the early 1970s brought about a substantial reduction in income inequality. Poor people appeared to be better off in the mid-1970s, as measured by the share of equivalized disposable income accruing to the bottom deciles. But in the late 1970s, the Liberal government implemented contractionary redistributive programmes which exacerbated the plight of the poor during the economic

recession.

That democracy has no in-built mechanism towards equality was clearly highlighted in Britain where inequality grew faster than elsewhere. British redistributive policies, moreover, were marked by a curious asymmetry, whereby some groups of the dependent population were protected while others were exposed to the risk of poverty. Neither political sociology nor demand-driven, vote maximizing explanations appeared consistent with these facts.

Because established approaches seem incongruent with empirical evidence, it is important to stand back from the 'narrative explanations' of the case studies and again raise the question of what the incentives are for income redistribution in a liberal democracy. The literature on the redistributive impact of parties has with good reason emphasized the role of demand-driven policies. Oriented towards the paradigm of representative democracy, exogenous preferences and inter-party competition, this literature stresses the responsiveness of elected representatives to voters' demands. According to this thinking, party leaders represent the interests of the electorate by responding to their redistributive wishes.

Normatively speaking this argument is correct, but its practical significance may be somewhat exaggerated. Not all party leaders may want to meet voters' redistributive expectations. Reasons for manipulating entitlement rules may be intimately connected to supply-side factors. Politicians may devise redistributive strategies aimed at constructing new social identities in order to forge electoral alliances among protected voters. Redistributive policies are well-suited to trigger issues of social identity because they define categories of privileged and less privileged people. By tracing boundaries between risk-exposed voters and insured voters, party elites can encourage shifting coalitions of supporters. Hence rather than merely responding to voters' demands, party leaders may actively engage in public opinion

formation (Iversen, 1994).

What is more, contrary to the 'class politics' view which is based on the assumption that redistribution occurs vertically from upper to lower income classes, party leaders may also engage in *horizontal* redistribution between social categories included in the same income class. Horizontal redistribution may involve reducing benefits to one category of beneficiaries while increasing them to other welfare recipients. Perhaps because welfare beneficiaries have been regarded as a homogeneous social class, insufficient attention has been paid to the incentives for horizontal redistribution in a liberal democracy.

A second limitation of established approaches seems more important to me. Not all political parties act as cohesive groups. Discussion seems to have focused too exclusively on the electoral logic of income redistribution, while paying little attention to strategic repositioning within the governing party. As Lawson writes, by studying 'who wins, and in what combinations, and who governs, and where, we have tended to shortchange the work of examining the organizations that produce these fateful results' (Lawson, 1990: 107). The search for explanations for redistributive policies in the three countries can thus be focused on the organizational life of governing parties.

Analytically, strategic interaction within party elites evolve in two main arenas. In the strictly internal arena, conflicting pressures within the party may produce redistributive policies with counter-intuitive redistributive results. Incentives for redistribution may be spawned from the struggle for relative dominance within the party organization, especially when a dominant faction is displaced by another one. For example, a newly established right-wing faction of a Labor or Socialist party may wish to re-shape the party's image in order to legitimize its dominant position; it may adopt transfer policies which exacerbate inequality to recast the party as the party of economic growth. Alternatively, credible threats by right-wing factions to the dominant position of a centre-left faction can persuade the latter to

endorsing right-wing redistributive programmes. 'Stealing the clothes of the neighbour' is a familiar process in inter-party competition, but its significance for intraparty strategies has not yet been sufficiently acknowledged.

These considerations mean that party leaders may affect inequality counter-intuitively when their ability to respond to the redistributive demands of their constituency is impaired by their need to maintain internal dominance. Whilst some redistributive strategies may be beyond the manipulative reach of party leaders, the government can be unresponsive to voters' views for reasons connected to the strategy of conflict within the party organization. The formation, consolidation and demise of party factions ushers in modifications to redistributive programmes.

In the external arena, by contrast, incentives for income redistribution stem from the options available to the bargaining partners. The emergence of new social cleavages, such as the feminist movement in the 1960s and 1970s, the formation of new political parties, the end of the Cold War in 1989 and, more generally, rising electoral volatility may impinge on the internal balance of power. A turbulent external arena unleashes new social forces, offering opportunities to factions struggling for relative internal dominance. Governing parties may pursue redistributive policies to adjust social relativities, by altering the economic position of targeted groups; or may wish to reshape the party identity to attract either previously unsympathetic or indifferent voters.

The mixture of objectives embedded in redistributive policies is more clearly detected if we relax the assumption of preference-homogeneity within the party. It is possible to view variations in the allocation of social security benefits as arising from shifting boundaries between party factions and social groups. Consequently, factions are better understood as distributive elites, and sub-groups of the electorate as social clienteles. Manipulations of eligibility and entitlement rules are regarded as attempts at moulding faction-voter

alignments. Since it is reasonable to assume that distributive elites are tied to more than one social clientele, the redistributive process can be viewed as a zero-sum game for the latter but a variable sum game for the former.

Given these reasons for expansionary or contractionary redistributive policies in general, in the following sections I return to the case studies and review which incentives applied to the redistributive strategies pursued by the Australian Labor Party, the British Conservative party and the Liberal Party of Canada. I first consider the extent to which inequality trends were influenced by non-governmental forces, by examining demographic and market effects. Then I turn to the role of transfer income and the incentives for governing parties to implement expansionary or contractionary transfer programmes. Thereafter I consider the broader implications of this analysis for understanding the party-policy link in the field of social security policies. I then conclude by exploring family poverty rates in selected OECD countries and by suggesting possible avenues for future research.

## **7.2 EXOGENOUS DETERMINANTS: DEMOGRAPHY, ECONOMY AND VOTERS**

Evaluating the distributional impact of governing parties requires the identification of non-governmental effects on income inequality. To this end, I employed sophisticated analytical techniques which decomposed the structure of income inequality and brought to the fore the role of demographic and market forces. Whether the grouping variable was age or household type, the results invariably indicated that demographic effects had a low distributional impact. In Australia the ageing of the population and the slowdown in birth rates had a negligible impact on aggregate inequality over the 1980s. I found a similar pattern in Britain where the ageing of the population appeared less significant in the 1980s, in contrast to earlier results. In Canada the expectation that the 'baby boom' of the 1960s had distributional effects in the 1970s was largely refuted by the much greater impact of the within-group



component.

A largely unexpected result was the low distributional impact of household composition. The decline in the traditional family composed of a couple with children and the concomitant increase of one-parent families should have in principle had disequalizing effects. The distributional impact of smaller households is usually negative because they prevent income pooling. My findings, however, suggested that within-household inequality accounted for most of the changes in income differences.

Since the amount of inequality explained by population characteristics was rather small, my results called into question demographic explanations. This was a very interesting conclusion because it implicitly strengthened the relevance of other sources of income inequality. If the age structure or the household size and composition had marginal distributive effects, then I could concentrate on wage differentials and cash transfers.

Wage dispersion presented significant differences in the three countries primarily, but not exclusively, because the time-frame was different. International comparisons show that trends in inequality of earnings in the 1980s differed from those of the 1970s (OECD *Employment Outlook*, 1993: 157). Over the 1970s the earning distribution was relatively stable while in the 1980s it exhibited a wider spread. To highlight the location of changes in the distribution of market income I used a descriptive categorization of four market income classes of unequal size.

In Canada over the 1970s the distribution of market income was more concentrated towards the middle, with both upper and lower tails decreasing constantly. As a consequence, the proportion of the population in the middle income class grew, suggesting market effects behind the drop in inequality. This tendency towards depolarization in Canada sharply contrasted with income polarization in both Australia and the United Kingdom. In these countries the distribution of market income was more spread away from the middle, showing

a wider gap between rich and poor. Because inequality trends were rising in both Australia and the United Kingdom, their association with income polarization in the market sphere adds weight to research findings detecting a clear link between inequality and wage dispersion (Atkinson, 1995; Gottschalk, 1993; Jenkins, 1993).

The emphasis on market differentials in formal distributional analyses has often meant that little or no attention has been paid to the impact of cash transfers. This study took the investigation one step forward and raised the question of the distributional impact of cash transfers. The results yielded consistent answers: cash benefits affected total inequality both directly and indirectly, if they became more dependent on market income.

In Australia, transfer income exerted a stronger distributional impact in the mid-1980s presumably because of persistent high unemployment rates. In Britain, the effect of transfer income on total inequality was less pronounced in the mid-1980s than in the late 1970s, despite soaring unemployment. This result is somewhat puzzling but may be related to cutbacks in social security benefits. In Canada about 25 percent of a unit increase in total inequality was produced by transfer income inequality. Since the analysis showed that transfer policies had a significant distributional impact, the systematic neglect of these policies in the economic literature on income inequality blurs our views of the driving forces behind the size distribution of income in a liberal democracy.<sup>1</sup>

In addition, the experience of the three countries suggested that variations in cash transfers were not merely a passive response to stochastic economic cycles; rather, party leaders actively engaged in policy changes in the field of transfer benefits. In Australia and in Britain, in fact, cash benefits were stiffened when unemployment was both rising and falling, while in Canada associations between macroeconomic variables and cash transfers

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<sup>1</sup>Notable exceptions are Atkinson (1990) and Di Tella and MacCulloch (1995).

yielded unexpected signs, including generous family allowances when the inflation rate was rising. These facts raise doubts about the compliance of policy-makers to macroeconomic cycles, even allowing for inevitable time lags between various stages of the policy process.

To the extent that changes in income inequality were the result of discretionary policy choices I applied conventional public choice explanations to the incentives for income redistribution. The median voter hypothesis was partly supported in Canada where median income groups slightly improved their share of disposable income between 1971 and 1981. But a detailed examination of population deciles suggested that the bottom deciles had gained more in the final distribution of post/tax-post/transfer income, thus questioning the redistributive emphasis on median groups.

Even less supportive evidence was found in both the United Kingdom and Australia, where median income voters appeared net losers in the allocation of direct costs and benefits. In these countries the rich people disproportionately benefitted from the distribution of post/tax-post/transfer income to the disadvantage of middle and lower income groups. As far as income redistribution by means of cash transfers was concerned, the LIS data for the three Westminster systems provided insufficient evidence to support the median voter model.

I also examined roughly nineteen alterations in transfer policies introduced either before or after eight elections. The picture that emerged was rather more complex than the one depicted by the political business cycle. Approximately 50 percent of the changes were congruent with the predictions of this model, suggesting that the timing of elections was but one of several factors influencing transfer policies. In some cases, modifications in transfer policies were in sharp contrast with the PBC.

Most striking was Hawke's announcement of the 'harshest budget for decades' just one year before the 1987 elections. In the United Kingdom, the Conservative government reduced the scope and level of benefits regardless of the timing of elections and introduced

controversial social security policies, such as the taxation of unemployment benefits in 1982, just one year before the 1983 elections. In Canada, cutbacks in unemployment benefits and family allowances were suddenly implemented in 1978, again just one year before the 1979 general election. Overall, the three countries provided compelling evidence that there are important variations in social security programmes that demand-driven explanations cannot adequately address.

In particular, rational choice interpretations of redistributive policies failed to explain asymmetries in the allocation of welfare benefits. Why was the Conservative onslaught against the unemployed followed by expansionary pension benefits in Britain? And why was means testing in Australia counterbalanced with the 'Family Plan' which increased spending for very poor families? Or, why did Trudeau initially advocate and then oppose generous benefits? These questions suggest that redistributive processes may be more articulated and multi-layered than is usually suggested by conventional rational choice models.

A similar critique can be levelled to the 'class politics' view. This approach was particularly ill-suited to interpret transfer policies in Canada where the core-periphery cleavage was still the dominant political conflict. Welfare spending in the late 1960s and early 1970s appeared to redress long-lasting imbalances between rich and poor provinces, rather than between rich and poor income groups. Generous family allowances clearly benefitted a greater proportion of the population in the Atlantic regions and in Quebec where poverty rates were higher.

Interestingly, the salience of the class cleavage in Canada emerged as a result of interparty competition between 1970 and 1974, when traditional geo-political alignments began to fluctuate. Liberal leaders mobilized voters over class issues, advocating the need for universal social security to insure low income groups from the risk of poverty. Vote-mobilization aimed at capturing sections of the NDP's electorate by downplaying the core-

periphery cleavage vis-a-vis the class cleavage.

In Britain, as well, the 'class politics' view was incongruent with the peculiar redistribution of income. Transfer policies seemed to encourage electoral coalitions between sections of one income class, most notably pensioners, and people in work. The generosity of pension benefits during the first two Conservative terms probably increased the traditional concentration of Conservative voters in the South, where pensioners constituted a sizable minority of the population. Evidence from LIS suggested that at least until 1986 pensioners fared better under the Conservative government than under the previous Labour government. Horizontal redistribution between unemployed and elderly seemed more consonant with the electoral aims of the Conservative 'dries'.

Perhaps the clearest refutation of the 'class politics view' were Hawke's policy initiatives undertaken against low income families. The Labor government passed social security legislation which doubtlessly damaged the economic position of some traditional Labor supporters. These policies included the abolition of unemployment benefits for those aged 16-17, the means testing of family allowances and the asset test for the elderly. Labor's attack on targeted groups of the state-dependent population cannot be adequately explained in 'class politics' terms.

Evidence from the three countries contributes to general knowledge of redistributive strategies, but it also brings to the fore important questions disguised by demand-driven approaches. It indicates that party elites can manipulate transfer policies and societal cleavages in order to 'mobilize commitments to particular projects for the future' (Przeworski and Sprague, 1986: 9). Vote-mobilization may forge new collective identities among disjointed groups. Arguably, the most fundamental criticism of demand-driven approaches of income redistribution is their unidirectional conceptualization of elite-voter alignments. By insisting on exogenous determinants of redistributive policies, they neglect the fact that

elites may alter the distribution of costs and benefits to mould group identities and to shift the boundaries of elite-voter alignments.

### **7.3 ENDOGENOUS DETERMINANTS: DISTRIBUTIVE ELITES, INTERNAL CONSTRAINTS AND OPPOSITION EFFECTS**

My account has pointed to the role of supply-side factors in the definition of transfer policies. By penalizing or favouring selected income groups, redistributive outputs were directed at forging new coalitions of voters. Voting behaviour may be unstable because elites are searching for new alliances. Social groups may enter or exit electoral coalitions if redistributive policies alter their incentives to vote. My account has indicated that the pattern of voting sometimes mirrors the direction of transfer policies rather than the other way round, as suggested by demand-driven models. In Australia, the asset test on pensioners alienated the elderly from the ALP; in Canada expansionary transfer policies appealed to the NDP electorate; and in Britain the generosity of pension benefits presumably strengthened the support of pensioners in favour of the Conservative government. Demand-driven models overlook the fact that politics often implies the making and breaking of coalitions between party elites and voters, and that the plasticity of public opinion lends itself to being moulded by the redistribution of costs and benefits. Thus the importance of supply-driven explanations cannot be understated. They point out that the forces behind income redistribution are sparked by the dynamics of policy formation and policy decision.

Although the salience of social cleavages rests on their relevance in the competitive struggle for power, the ease with which the electorate can be swayed by party leaders may be overstated. To understand the constraints on party leaders I examined the internal processes of the party organization, in particular the way in which distinct social security

programmes were selected; I also explored how Opposition effects impinged on the internal balance of power. In the following sections I compare the processes within party organizations from three angles: the changing boundaries between factions and social clienteles, the way power is distributed within the party and, finally, Opposition effects on redistributive policies.

### **7.3.1 Distributive elites and social clienteles**

A common feature of demand driven models is that party leaders are assumed to act collectively to further their interests, or the interests of their core supporters. This argument did not withstand close scrutiny. In the three countries, party leaders pursued conflictual and contradictory goals, with some leaders joining pro-welfare alliances and others forming anti-welfare coalitions. In most cases, social security policies evolved as a compromise between actors with heterogeneous preferences, suggesting that the assumption of preference homogeneity embedded in the unitary actor model was unwarranted.

By relaxing the unitary assumption, it was possible to disentangle the links between factions and social groups. In Australia, for example, the emphasis placed on means-tested benefits by the Labor Right aimed at shaping the party identity so as to secure the support of the business community and market oriented voters. Because left-wingers had traditionally represented the interests of welfare recipients, the attack on social security benefits also discredited the role of left-wingers as leaders in the eyes of their supporters. Therefore the displacement of the Left as dominant faction by the Right paved the way for the introduction of stiffer entitlement rules for pension benefits and unemployment compensation. Seen in this light, the urge to re-shape the party image was a manifestation of the internal struggle for power and of the consequent need to re-define elite-voter alignments.

Transfer policies in Britain also reflected shifting coalitions of distributive elites and

social clienteles. The dries were able to re-apportion redistributive costs and benefits at the expense of low income families, who were identified either with the Opposition or with the Tory wets. The allocation of cash transfers over the 1980s reflected strategic repositioning within the governing party. In fact, it was not until the wets abandoned the internal battle that the Conservative government undertook the most radical departure from postwar social security policies.

Finally, in Canada, Trudeau's expansionary social security programmes encouraged links between members of the pro-welfare faction and voters threatened by unemployment, including women, fishermen and teachers. By mobilizing welfare recipients Trudeau reinforced his bargaining position with respect to Turner's anti-welfare faction. Strategic repositioning of the Trudeauites and Turnites over the 1970s explained why certain social categories were either penalized or privileged by the reallocation of costs and benefits. The analysis of intraparty politics threw considerable light on both the expansion of family allowances and the contraction of unemployment benefits in the late 1970s.

These findings suggest that the redistributive goals of governing parties were partly the outcome of factional efforts to enhance their own position in the internal arena by redefining their links with social clienteles. To some degree, of course, transfer policies were directed at representing the interests of party members and voters. Generally speaking, parties would cease to be such if they did not muster votes. But in the three countries considered in this study, cash transfers were unevenly allocated partly because of changing boundaries between coalitions of distributive elites and social clienteles.

When examining the organizational life of governing parties we see that relaxing the unitary assumption increases tremendously the explanatory power of our analysis. The unitary assumption, in fact, prejudices the most interesting question- under what circumstances faction leaders develop and actively work towards redistributive goals.



Understanding those circumstances and the effect of those circumstances on the manner in which redistributive goals are designed and attained seems to me the central task for anyone interested in the impact of governing parties on income inequality.

### **7.3.2 Internal constraints and possibilities: the distribution of power**

Since transfer policies were apparently the outcome of factional games in multiple arenas with priority given to internal payoffs, redistributive choices could be fully understood only by considering the manner in which power was distributed within the party. In Australia, much of Labor's redistributive policies was explicable in terms of the changes introduced by the new electoral system for the party delegates at the Annual Conference, and by the declining number of unionized members. The shift to proportional representation in 1981 spawned a national system of faction, marked by the formation of the Centre-Left.

The new electoral system endowed the Centre-Left with veto power to counteract Keating's anti-progressive stance. Because the Centre-Left could act as veto player in the redistribution of costs and benefits, income inequality in Australia probably grew less fast. In addition, the declining number of unionized workers and the rising number of individual members yielded a growing asymmetry in organizational strength between the ACTU and the FPLP. This asymmetry strengthened the bargaining position of the FPLP so much so that despite a significant drop in real wages the unions refrained from practising an aggressive wages policy.

The British Conservative party offered another example of the impact of the distribution of power on transfer policies. Modifications in the selection and re-selection rules for the party leader altered the nature of bargaining games between Conservative elites from 'implicit' to 'explicit' games, marked by weaker coordination and potential threats to the leadership. During the first term of the Conservative government, explicit games raised

Thatcher's awareness of the threat to her position and gave some leeway to the wets, thus partly explaining Thatcher's concessions in social security spending from 1979 to 1982.

Arguably, however, Thatcher's major strength lay in the tradition of unity and cohesion in the Conservative party and in the concentration of decision-making authority in the hands of the leader. The joint impact of internal centralization and the considerable margin of freedom conferred by Westminster systems on Prime Ministers, provided Thatcher with the requisite autonomy to depart from postwar consensus on social security legislation.

Finally, in the Liberal party of Canada the combination of a weak bureaucratic structure and the concentration of decision-making power in the hands of the leader, granted Trudeau the flexibility to adjust transfer policies to his advantage. Trudeau enjoyed both the freedom to expand transfer policies when external options changed in his favour between 1972 and 1974, and the readiness to reduce the level of social security benefits in order to pre-empt the leadership threat from the Turnites.

Key importance is ascribed to the distribution of power within governing parties because it affects how party leaders adapt and respond to emerging challenges. In devising redistributive policies, faction leaders have to consider which proposals jeopardize their internal position by preventing them from fostering enduring alliances.

### **7.3.3 Opposition effects**

Cooperation or competition, or lack thereof, in the electoral and legislative arenas altered the options available to the bargaining partners, thus impinging on the redistributive output. For this reason the incentives for income redistribution in the three countries were intelligible only in the light of the internal repercussions of inter-party competition.

We have seen that Opposition effects in Australia afforded Labor Right-wingers with a wider set of feasible policies. Labor's unpopular redistributive strategies carried low risks

because the Opposition was in a shambles. This situation reduced the incentives for Right-wingers to reach a compromise with minority factions, explaining why the Left could so easily be marginalized when selecting transfer programmes. The pivotal role of the Centre-Left, however, meant that an enduring alliance with the Right could only be achieved if Right-wingers tempered their antiprogressive policies. Hence the decentralization of power within the ALP limited the margin of freedom that weak inter-party competition had conferred on Labor Right-wingers.

The interplay between Opposition effects and factional manoeuvring was also evident in Britain. Neither the SDP nor the Labour party were able to provide a credible threat to the Conservative government. This situation deprived the wets of fundamental ammunition in the struggle for relative dominance in the party organization - namely the electoral weakness or defeat of the leading elite. In contrast to Australia, Opposition effects in Britain were reinforced by the centralization of power in the Conservative party. As mentioned above, the cohesion and unity of the Conservative leadership hindered internal rivalry. The weakness of both internal and external competition explained why the dries were able to radicalize their anti-progressive stance and to engage in vote-mobilization by capitalizing on the geographical distribution of poverty.

The distinctiveness of the Canadian experience with respect to Australia and Britain lies in the role played by electoral competition. The chapter was particularly innovative for the insights it threw on the interplay between electoral competition and intra-party bargaining. Entrance of the NDP in the electoral arena provided Trudeau with incentives to mobilize voters. In turn, the challenge from the left of the political spectrum impinged on the outcome of bargaining games between the Liberal pro-welfare and anti-welfare coalitions. The chapter illustrates the advantage of relaxing the unitary assumption by suggesting that some puzzling aspects of income redistribution can be explained by focusing on the

interaction between intra and inter-party competition. As already noted, Trudeau availed himself of the opportunities offered by the blackmail potential of the NDP, transforming a situation of vulnerability into an advantage for the Liberal pro-welfare alliance. In game-theoretic terms, expansionary policies were a dominant strategy in interparty competition: irrespective of the NDP's redistributive choices, expansionary policies were Trudeau's optimal strategy because they enabled him to consolidate his position with respect to the Turnites; similarly, whatever the choices of the Liberal government, the pursuit of generous benefits was the NDP's optimal strategy to garner electoral support. Electoral competition was thus one of the driving forces of income redistribution.

When examining the redistributive choices of governing parties along the dimensions of faction-voter alignments, the internal distribution of power, and Opposition effects we see that sudden u-turns in transfer policies, curious asymmetries in social security benefits, and counter-intuitive allocations of burdens to welfare recipients become more intelligible. The way in which faction leaders engaged in vote-mobilization, or the way in which they shaped the party identity, or the identity of privileged and less privileged groups, was partly a function of their freedom to manoeuvre. This freedom, in turn, was explicable in terms of the distribution of power in the party organization and the internal repercussions of Opposition effects.

#### **7.4 RECONCILING IDENTITY AND STRATEGY**

One advantage of viewing parties as a political system in miniature is that when party behaviour is stripped of all misleading monolithic assumptions, issues of identity and strategies of conflict management coexist. This result reconciles some of the core insights of political sociology and public choice approaches, providing a more encompassing framework of the redistributive impact of parties. In seeking to maximize their position within the party

organization, faction leaders manipulate entitlement and eligibility rules to both mould and respond to social identities.

The analytical gains offered by this framework may be grasped by comparing my perspective with conventional interpretations of the redistributive impact of parties. Contrary to the class politics view endorsed by Hibbs and Dennis (1988), my account suggests that the dominant coalition consolidates its position within the party organization not by devising redistributive programmes that reflect social identities, but by constructing social identities which support and legitimize their dominant position. Thus my account turns the class politics view on its head by highlighting the fact that social identities are not given once and for all, and by pointing to the independent role of party politics in the apportionment of costs and benefits.

The second difference is that Hibbs and Dennis neglect the pervasiveness of rational, self-interested behaviour and are therefore unable to detect non-societal, elite-induced cleavages in the redistribution of costs and benefits. In this way the authors fall prey to what Wilson defines as the Marxian fallacy, the belief 'that every organization represents the underlying objective interests or social condition of its members' (1995: 14). The ALP's retrenchment of redistributive goals emphasizes the severe limits of interpretations which discard elite-initiated redistributive outputs.

I examined the role of within-elites cleavages both in the light of established rational choice explanations and by focusing on intraparty bargaining processes. The picture that emerged indicated that conventional views left many empirical anomalies unaddressed. We have seen that there was insufficient evidence to support either the median voter hypothesis or the political business cycle. Concentrating on the internal arena pointed out that intra-elite conflicts influenced the way in which redistributive goals would be sought. Contrary to established rational choice models, my account lends support to the view that party leaders

are sometimes constrained in their redistributive options by the demands of party members and voters.

For instance, Thatcher's appeal to the party rank-and-file and the successful campaign for membership recruitment signalled to the wets that Conservative activists wanted a radical change from previous redistributive policies. Although Thatcher was the leader of a minority elite, her popularity among Conservative members and their readiness to identify with Thatcherite policies, assuaged the wets' internal opposition. Hence questions of identity intertwined with strategic interactions.

In Australia, the formation of the Centre-Left faction was seemingly directed at guarding Labor's identity as a party concerned with redistributive issues. By exploiting its pivotal role the Centre-Left aimed at allaying the economic burden on traditional Labor supporters by withholding, for instance, its support from Keating's consumption tax. Strategies of conflict management and issues of identity again overlapped. Mixed interests surfaced in the relationship between trade unions and FPLP. Despite Hawke's efforts to appeal to market oriented voters, and despite the declining organizational strength of trade unions, the long-standing identity of the ALP as the 'party of workers' was guarded by Labor's commitment to a policy of full employment. In Canada, by contrast, the role of party members was less relevant, primarily because party organizations were less developed there. Yet the coexistence of identity and instrumental rationality was evident at the level of inter-party competition. The appeal of the Liberals to NDP's supporters involved re-shaping the party identity as the party of the vulnerable and the poor. In Pizzorno's terms (1983), collective or purposeful incentives were a key element in Trudeau's redistributive programmes. But instrumental rationality was also at work in Trudeau's attempt to outmanoeuvre Turner.

Another significant difference between conventional rational choice models and my

perspective is the time dimension. I applied a two-stage analytical framework, which first considered the historical pre-conditions of factional manoeuvring and then examined the choice situation. Rational choice theorists typically analyse 'snapshots' of the redistributive process. In most cases, my account indicated that the driving forces behind income redistribution could not be fully understood by glimpsing a single instant, and that historical reconstructions were necessary to understand how the bargaining partners found themselves in that particular situation.

Furthermore, while the identification of factions and tendencies may be difficult in comparative analyses (Janda and Harmel, 1993), my study points out that historical reconstructions throw considerable insight on internal divisions. This finding is consistent with theoretical progress in economic institutionalism, which highlights the role of historical developments in narrowing the choice-set of institutional actors and in linking the stages of the decision-making process through time (North, 1990: 112-115).

## **7.5 FORMATION, CONSOLIDATION AND THE DEMISE OF PARTY FACTIONS: REASSESSING THE PARTY-POLICY LINK**

Three propositions can be derived from the historical reconstructions of factional politics and income redistribution in the three countries. First, new social security programmes are often sparked by the *formation* of party factions. Emerging factions need supporters - party members and voters - to legitimize their struggle for internal power. Since redistributive policies raise issues of identity, it follows that new redistributive programmes may forge new social identities. This statement is substantiated by evidence from the three countries.

In Canada, the evolution of the Left-wing faction led by Gordon in the early 1960s confronted the business and financial community, which had traditionally backed the Liberal anti-welfare coalition. The distinct aspect of the new faction was its progressive redistributive

policy and the wish to protect the economic welfare of the vulnerable people. The emergence of the new faction involved a re-examination of the redistributive goals of the Liberal party.

In a similar vein, but with opposite effects, in Britain the real break with post-war consensus was marked by the anti-egalitarian drive of the dries. We have seen that the formation of the internal coalition led by Joseph and Thatcher in the mid-1970s was intimately connected to questions of income inequality, and the redefinition of social identities through the stigmatization of the categories in need. Finally, in Australia the development of the Centre-Left faction was anchored to the defence of income redistribution. Although this programme reflected traditional Labor concerns, it corroborates my hypothesis that redistributive policies are an integral part of factional development for their close association with issues of identity.

The second proposition is that the *consolidation* of specific factions as dominant intraparty elites sparks the re-shaping of the party identity. The fact that the party organization acquires a new image testifies to the end of an era and to the success of those 'new faces' holding positions of responsibility in the internal hierarchy. In Australia, the Hawke-Keating partnership aimed at recasting Labor as the party of fiscal responsibility and wealth production against the Left's legacy of profligacy and redistribution. Right-wingers appeared more concerned with establishing a new party identity in order to estrange internal, rather than external, rivals. In Britain, most authors agree that Thatcher's appeal to monetarism was not entirely guided by economic reasons, and that reshaping the party image was just as important (Deakin, 1987: Gamble, 1988: 100). Throwing the burden of fiscal restraint on the shoulders of 'scroungers' was also instrumental to internal disputes and to the forging of symbols for re-constructing the party image. In Canada, Trudeau's consolidation at the top of the Liberal party in the early 1970s was followed by generous cash transfers aimed at moulding the Liberal identity as the party of the less privileged people.



The third proposition is that the *demise* of party factions brings about a radicalization of redistributive programmes if interparty competition is ineffective. Unconstrained by internal and external credible threats the dominant coalition enjoys ample margins of manoeuvre to undertake radical departures from previous redistributive commitments. Evidence from Australia and Britain suggests that the demise of Left-wing factions and the rise of Right-wing factions reinforced antiprogressive measures, irrespective of the location of the governing party on the ideological *continuum*. Hawke penalized the core supporters of the defeated faction and at the same time mobilized voters to sustain the new dominant coalition. Thus *contra* Bobbio (1994) even Left-wing parties may opt for anti-progressive policies in the pursuit of myopic self-interest. Because social identities are malleable, albeit within limits, factional conflicts can ignite social conflicts. For this reason focusing on the formation, consolidation and demise of party factions sheds considerable light on the development and selection of redistributive programmes, enhancing our understanding of the driving forces behind income redistribution.

Although I cannot pretend to have offered a theory in any strict sense. I think I have offered a theoretical perspective that calls attention to processes that seem to explain a variety of redistributive policies. This perspective is quite different from the more conventional way of examining the redistributive impact of parties - namely by identifying their stated goals or their electoral interests. The analysis of strategic interaction within parties is still in its infancy, and the development of a rigorous and realistic model of intraparty politics has proved a daunting task' (Laver and Shepsle, 1995). My work, however, suggests that a lot can be gained by analysing party politics as a game in multiple arenas (Tsebelis. 1990: 10-12), with priority given to internal payoffs.

## 7.6 DEMOCRACY AND INCOME DISTRIBUTION. SOME CONCLUDING REMARKS

If the redistributive impact of governing parties reflects the equilibrium solution of internal strife, party leaders may level or exacerbate income differences irrespective of their ideology or the distributive demands of their core constituencies. Thus the redistributive impact of governing parties is indeterminate. This conclusion begs the question of whether there is any relationship between liberal democracy and the distribution of income. One answer to this question may be found in Huntington's book, *The Third Wave*, which is a study of thirty-nine countries undergoing the process of democratization since the Portuguese revolution in 1974. Huntington finds that the shape of the income distribution was a crucial factor in the establishment of democratic regimes (1991: 66). Where income was concentrated in the hands of the few, such as in the oil-producing Arabic countries, democratic regimes failed to survive.

This association between democratic regimes and income distribution reverses the direction of causation between democracy and equality envisaged by scholars in the 1950s and 1960s. As I briefly outlined in Chapter Two, in those early works liberal democracy was considered a pre-condition for a more equal society; by contrast, Huntington maintains that democracy may flourish only where the distribution of income is not too spread away from the middle. 'Democracy is difficult in a situation of concentrated inequalities' (Huntington, 1991: 66).

If it is true that the spread of income differences should be relatively small for the stability of liberal democracy, then it is important to be aware of the trends in the concentration of wealth and in poverty rates in Western democracies. While information on wealth is typically very difficult to assemble, partly because of the lack of data on capital gains, we can observe the trends in poverty rates by drawing upon the LIS datasets. Table 7.1

*Table 7.1 Families poverty rates in 8 OECD countries 1970s-1980s. Adjusted pre/transfer income and adjusted post/transfer income (50 percent poverty line).*

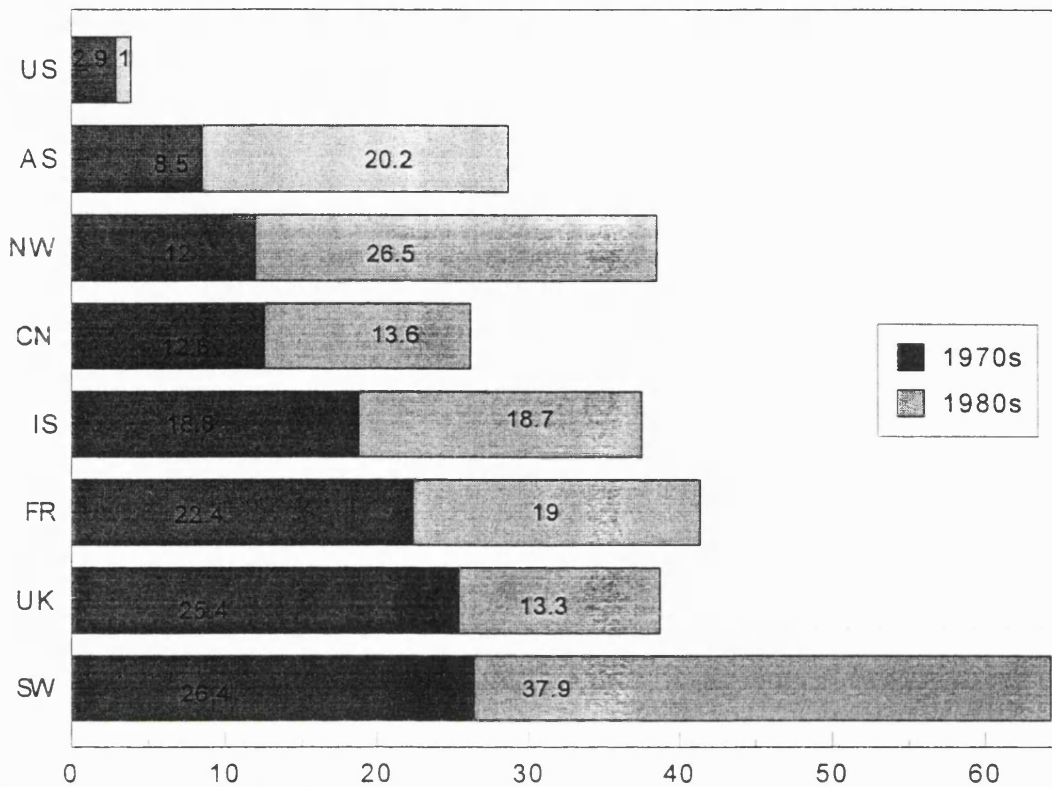
Country	1970s			1980s		
	pre-transfer	post-transfer	%change pre/post	pre-transfer	post-transfer	%change pre/post
NW	8.3	7.3	12.	6.4	4.7	26.5
UK	12.6	9.4	25.4	22.6	19.6	13.3
FR	14.3	11.1	22.4	15.2	12.3	19
AS	15.3	14	8.5	16.8	13.4	20.2
IS	15.4	12.5	18.8	19.2	15.6	18.7
SW	16	11.7	26.4	12.9	8	37.9
US	16.9	16.4	2.9	19.6	19.4	1
CN	17.5	15.3	12.6	18.3	15.8	13.6

*Source:* computed by the author from LIS

sets out the poverty rates for couples with children in eight OECD countries. It shows that between the 1970s and the 1980s the proportion of poor families rose significantly in all eight countries, with the exception of Norway and Sweden. The table highlights two aspects of the trend towards rising poverty rates. First, between the 1970s and the 1980s pre-transfer poverty rates rose dramatically, again with the exception of the Scandinavian countries. This result is consistent with previous findings regarding the wider spread of wage differentials. As already noted, structural and technological changes have increased the proportion of market-income poor, by expanding the secondary labour market of part-time workers and low paid jobs.

Table 7.1 also illustrates that post-transfer family poverty rates sharply rose in some countries between the 1970s and the 1980s. This result indicates that the disengagement of party leaders from protecting the vulnerable by espousing free-market principles, had serious

Figure 7.1 Percentage change in family poverty rates from adjusted pre-transfer to adjusted post-transfer income in 8 OECD countries, 1970s and 1980s



consequences for the standards of living of low income groups. In the light of research finding suggesting that poverty is a culture which is transmitted across generations, the retrenchment of redistributive policies is alarming for the well-being of future generations (O'Neill and Sweetman, 1995). To measure the direct impact of cash transfers on poverty rates I have constructed an index based on the percentage change in family poverty rates between pre/transfer and post/transfer income. This index is reported in columns three and six of Table 7.1. The values illustrate that between the 1970s and the 1980s the index dropped in some countries, suggesting that elected representatives had been less capable of offsetting family poverty rates generated by market forces.

The stacked-bar graph of Figure 7.1 helps to visualize my measure of the direct impact of governing parties on family poverty rates. It is evident that in Sweden, Norway and Australia transfer benefits exerted a much stronger impact on poverty rates in the 1980s than in the 1970s. The reverse situation occurred in the United Kingdom and in the United States,

where poverty rates rose dramatically. The growing proportion of family poverty rates in some countries perhaps reflected the persistent disengagement of governing parties from insuring citizens against market failures. This attitude exposed the vulnerable to the risk of poverty.

As analysts of income distribution in Britain have noted, it is 'a matter of concern that little by little the [social security] system has undergone major changes of principle without any widespread public recognition' (Atkinson and Micklewright, 1988: 125-126). In the light of Huntington's contention that an impoverished population hinders the stability of democratic institutions, it may be disquieting that policy-makers fail to reduce family poverty rates. It is paradoxical that in the United States and in the United Kingdom where the targeting of cash transfers to the 'needy' has been advocated with greatest vigour, family poverty rates have accelerated.

Against the backdrop of these findings, there seems to be at least two avenues for future research. Some political philosophers criticize the inadequacy of conventional policies to fight poverty and argue in favour of a basic income, an income unconditionally paid to all on an individual basis without means test or work requirement (Baker, 1992: 101). Van Parijs claims that this is 'a profound reform that belongs in the same league as the abolition of slavery or the introduction of universal suffrage' (1992: 7). These works, however, do not question the legitimacy of liberal-democratic institutions, and may therefore need to be complemented by empirical studies focusing on the incentives for income redistribution in liberal democracies.

I have argued that advances in the theory of political parties may shed some light on the incentives for generous or stiffer transfer benefits. Viewing parties as political systems in miniature may offer considerable insights into the redistributive impact of electoral and factional politics. Future studies on the redistributive impact of parties might benefit from

rigorous and systematic analyses of intraparty politics, and especially from the development of analytical models focusing on the link between distributive elites and social clienteles.

## Appendix A

### THE LUXEMBOURG INCOME STUDY DATABASE

This appendix contains the technical documentation for the twenty-seven Luxembourg Income Study microdata sets used in my research. Most of the information presented is adapted and summarized from Hackauf and Randell, *Introduction to the Report* (1990) and subsequent updating by the LIS staff in Walferdange, Luxembourg. In total I have used twenty-seven datasets for eleven countries. The basic descriptive information on the countries and years for which data has been used is presented in Tables A.1 - A.6.

Table A.1 The Luxembourg Income Study Datasets				
Australia	1981-82	1985-86	1989-1990	
Canada	1971	1975	1981	
France	1979	1981		
Germany	1973	1978	1984	
Israel	1979	1986		
Italy	1986			
Netherlands	1983			
Norway	1979	1986		
Sweden	1975	1981	1987	
United Kingdom	1969	1974	1979	1986
United States	1974	1979	1986	

Table A.2 Survey Reference Years				
Country	Year	Year	Year	
Australia	1981-82 (AS81)	1985-86 (AS85)	1989-1990 (AS89)	
Canada	1971 (CN71)	1975 (CN75)	1981 (CN81)	
Federal Republic of Germany	1973 (GE73)	1978 (GE78)	1984/85 (GE84)	
France	1979 (FR79)	1984 (FR84)		
Israel	1979 (IS79)	1986 (IS86)		
Italy	1986 (IT86)			
Netherlands	1983 (NL83)			
Norway	1979 (NW79)	1986 (NW86)		
Sweden	1975 (SW75)	1981 (SW81)	1987 (SW87)	
United Kingdom	1969 (UK69)	1974 (UK74)	1979 (UK79)	1986 (UK86)
United States	1974 (US79)	1979 (US79)	1986 (US86)	



Table A.3 Survey Name	
AS81	1981-82 Income and Housing Survey
AS85	1986 Income Distribution Survey
AS89	1990 Income Distribution Survey
CN71	Survey of Consumer Finances 1971
CN75	Survey of Consumer Finances 1975
CN81	Survey of Consumer Finances 1975
FR79	The French Survey of Income from Income Tax 1984 (Revenus Fiscaux 1979)
FR84	The French Survey of Income from Income Tax 1984 (Revenus Fiscaux 1984)
GE73	The 1973 German Transfer Survey (Transferumfrage 1973)
GE78	The 1978 German Transfer Survey (Transferumfrage 1978)
GE84	The German Socio-Economic Panel Study: Wave 1/Wave 2
IS79	The Family Expenditure Survey
IS86	The Family Expenditure Survey
IT86	The Bank of Italy Income Survey
NL83	Additional Enquiry on the Use of (Public) Services
NW79	Income and Property Distribution Survey 1979
NW86	Income and Property Distribution Survey 1986
SW75	Income Distribution Survey 1975
SW81	Income Distribution Survey 1981
SW87	Income Distribution Survey 1987
UK69	The Family Expenditure Survey 1969
UK74	The Family Expenditure Survey 1974
UK79	The Family Expenditure Survey 1979
UK86	The Family Expenditure Survey 1986
US74	March Current Population Survey 1975
US79	March Current Population Survey 1980
US86	March Current Population Survey 1987

Table A.4 Sponsorship of the Survey*	
AS81	National Budget
AS85	National Budget
AS89	National Budget
CN71	Statistics Canada
CN75	Statistics Canada
CN81	Statistics Canada
FR79	Institut National de la Statistique et des Etudes Economiques
FR84	Institut National de la Statistique et des Etudes Economiques
GE73	German Science Foundation (Deutsche Forschungsgemeinschaft). (DFG)
GE78	German Science Foundation (Deutsche Forschungsgemeinschaft). (DFG)
GE84	German Science Foundation (Deutsche Forschungsgemeinschaft). (DFG)
IS79	Israeli Central Bureau of Statistics (CBS)
IS86	Israeli Central Bureau of Statistics (CBS)
IT86	Banca d'Italia (Bank of Italy)
NL83	Sociaal en Cultureel Planbureau (Social and Cultural Planning Office). (SCP)
NW79	SCB, ordinary state budget
NW86	SCB, ordinary state budget
SW75	National Budget
SW81	National Budget
SW87	National Budget
UK69	Department of Employment and Central Statistical Office
UK74	Department of Employment and Central Statistical Office
UK79	Department of Employment and Central Statistical Office
UK86	Department of Employment
US74	The Budgets of the Bureau of Labor Statistics and the Bureau of the Census
US79	The Budgets of the Bureau of Labor Statistics and the Bureau of the Census
US86	The Budgets of the Bureau of Labor Statistics and the Bureau of the Census

\* Sponsorship of the survey refers to the organization which is financially responsible for the survey, or which oversees its general operation.

Table A.5 Administration of Data Collection*	
AS81	The Australian Bureau of Statistics
AS85	The Australian Bureau of Statistics
AS89	The Australian Bureau of Statistics
CN71	Household Surveys Division, Statistics Canada
CN75	Household Surveys Division, Statistics Canada
CN81	Household Surveys Division, Statistics Canada
FR79	Division Revenues, INSEE-DG (Income Tax Administration)
FR84	Division Revenues, INSEE-DG (Income Tax Administration)
GE73	Special Collaborative Program 3 (Sfb 3)
GE78	Special Collaborative Program 3 (Sfb 3)
GE84	Special Collaborative Program 3 (Sfb 3) and Deutsches Institut für Wirtschaftsforschung
IS79	Israeli Central Bureau of Statistics
IS86	Israeli Central Bureau of Statistics
IT86	AGB Italia SPA
NL83	Sociaal en Cultureel Planbureau (Social and Cultural Planning Office), (SCP)
NW79	Central Bureau of Statistics
NW86	Central Bureau of Statistics
SW75	Statistika Centralbyran, (SCB)
SW81	Statistika Centralbyran, (SCB)
SW87	Statistika Centralbyran, (SCB)
UK69	Social Survey Division of the Office of Population Censuses and Surveys
UK74	Social Survey Division of the Office of Population Censuses and Surveys
UK79	Social Survey Division of the Office of Population Censuses and Surveys
UK86	Department of Employment
US74	Bureau of the Census, Demographic Survey
US79	Bureau of the Census, Demographic Survey
US86	Bureau of the Census, Demographic Survey

\* Administration of data collection refers to the organization which is responsible for the sample design, interviewing and other fieldwork.

Table A.6 Primary Objective of the Survey*	
AS81	Measurement of personal and household income distributions and housing costs.
AS85	Measurement of personal and household income distributions and housing costs.
AS89	Measurement of personal and household income distributions and housing costs.
CN71	To measure the composition, earnings levels, and distribution of income in Canada
CN75	To measure the composition, earnings levels, and distribution of income in Canada
CN81	To measure the composition, earnings levels, and distribution of income in Canada
FR79	Measurement of household income distribution
FR84	Measurement of household income distribution
GE73	Microanalyses of the distribution and redistribution of income and monetary transfers
GE78	Microanalyses of the distribution and redistribution of income and monetary transfers
GE84	Provide information on the dynamics of individual welfare
IS79	Determine the 'weights' of the consumer price index basket
IS86	Determine the 'weights' of the consumer price index basket
IT86	Provide information on the economic behavior of families
NL83	To measure income, household composition, and the use of public services
NW79	Provide information about the structure and distribution of income and property
NW86	Provide information about the structure and distribution of income and property
SW75	To measure income distribution
SW81	To measure income distribution
SW87	To measure income distribution
UK69	Provide information on spending patterns for the United Kingdom Retail Prices Index
UK74	Provide information on spending patterns for the United Kingdom Retail Prices Index
UK79	Provide information on spending patterns for the United Kingdom Retail Prices Index
UK86	Provide information on spending patterns for the United Kingdom Retail Prices Index
US74 US79 US86	To provide estimates of employment, unemployment, and other characteristics of the labor force.

\* Primary objective of the survey refers to the main purpose for which the data was collected.

## Population and sample size, sampling methods

Table A.7 Sampling Frame*	
AS81	Block sampling within Census collector's districts
AS85	Block sampling within Census collector's districts
AS89	Block sampling within Census collector's districts
CN71	Address list of all private dwellings
CN75	Address list of all private dwellings
CN81	Address list of all private dwellings
FR79	Census list of housing units
FR84	Census list of housing units
GE73	Electoral registers
GE78	Electoral registers
GE84	Electoral registers
IS79	Census Population Survey
IS86	Census Population Survey
IT86	General Population Register
NL83	Post Office address list of private households
NW79	Central Population Register
NW86	Central Population Register
SW75	Taxation Register
SW81	Taxation Register
SW87	Taxation Register
UK69	Electoral registers
UK74	Electoral registers
UK79	Electoral registers
UK86	Post office address lists
US74	Address lists of Census
US79	Address lists of Census
US86	Address lists of Census

\* For those surveys which utilized a multi-stage sample design, only the final stage sampling frame is listed in this table.

Table A.8 Sample Design	
AS81	A multi-stage sample of private and non-private dwellings, stratified by region.
AS85	A multi-stage sample of private and non-private dwellings, stratified by region.
AS89	A multi-stage sample of private and non-private dwellings, stratified by region.
CN71	Stratified cluster probability sample
CN75	Stratified cluster probability sample
CN81	Stratified cluster probability sample
FR79	A random sample of ordinary households, stratified by region, head of household occupation, and size of the household in the 1975 census.
FR84	A random sample of ordinary households, stratified by region, head of household occupation, and size of the household in the 1982 census.
GE73	Stratified sample (ADM-concept)
GE78	Stratified sample (ADM-concept)
GE84	Two stage stratified sample design
IS79	Two stage stratified sample design
IS86	Two stage stratified sample design
IT86	Three stage stratified sample design
NL83	Random sample
NW79	Two stage sample design
NW86	Two stage sample design
SW75	Four stage stratified sample design
SW81	Four stage stratified sample design
SW87	Four stage stratified sample design
UK69	Four stage stratified sample design
UK74	Four stage stratified sample design
UK79	Four stage stratified sample design
UK86	Four stage stratified sample design
US74	Multistage stratified probability sample
US79	Multistage stratified probability sample
US86	Multistage stratified probability sample

Table A.9 Primary Collection Unit*			
	Households	Families	Individuals
AS81	X		
AS85	X		
AS89	X		
CN71		X	
CN75		X	
CN81		X	
FR79	X		
FR84	X		
GE73	X		
GE78	X		
GE84	X		
IS79	X		
IS86	X		
IT86		X	
NL83	X		
NW79	X		
NW86	X		
SW75	X		
SW81	X		
SW87	X		
UK69	X		
UK74	X		
UK79	X		
UK86	X		
US79	X		
US79	X		
US86	X		

\* Primary collection unit refers to the unit which the survey was designed to measure.

Table A.10 Population Coverage*	
AS81	Australian non-institutionalized population
AS85	Australian non-institutionalized population
AS89	Australian non-institutionalized population
CN71	Canadian non-institutionalized population
CN75	Canadian non-institutionalized population
CN81	Canadian non-institutionalized population
FR79	French non-institutionalized population.
FR84	French non-institutionalized population.
GE73	German civilian non-institutionalized population.
GE78	German civilian non-institutionalized population.
GE84	German civilian non-institutionalized population
IS79	All private households
IS86	All private households
IT86	Italian civilian non-institutionalized population.
NL83	Dutch civilian population-
NW79	Norwegian non-institutionalized population.
NW86	Norwegian non-institutionalized population.
SW75	Swedish non-institutionalized population
SW81	Swedish non-institutionalized population
SW87	Swedish non-institutionalized population
UK69	All private households
UK74	All private households
UK79	All private households
UK86	All private households
US74	American non-institutionalized population
US79	American non-institutionalized population
US86	American non-institutionalized population

\* In each survey certain segments of the population were excluded either at the level of the sample design, or during the fieldwork. This table only describes the general population which the survey was designed to cover.



Table A.11 Number of Survey Units Available				
	Number of Survey Units in Country Data		Number of Survey Units in LIS Data Base	
	Unweighted	Weighted	Unweighted	Weighted
AS81	16,225	5,760,896	15,985	--
AS85	8,867	6,181,151	8,014	--
AS89	15,879		15,879	
CN71	15,136		15,136	
CN75	26,569		26,569	
CN81	87,837	20,267,000	11,960	
FR79	11,044	--	11,044	--
FR84	33,134	--	33,134	--
GE73	2,900	23,000	2,700*	
GE78	2,975	23,075	2,727*	--
GE84	5,174	25,753	5,174	--
IS79	2,271		2,271	
IS86	5,000		5,000	
IT86	8,022	--	8,022	--
NL83	4,833	5,797,000	4,833	--
NW79	9,366	4,210,000	9,366	--
NW86	9,366	4,210,000	9,366	--
SW75	9,625	--	9,625	
SW81	9,625	--	9,625	--
SW87	9,421	8,200,000	9,421	--
UK69	7,005	--	7,005	--
UK74	6,035		6,035	
UK79	6,777	--	6,777	--
UK86	7,045	--	7,045	--
US74	68,500	--	15,225	--
US79	68,500	--	15,225	--
US86	62,000	89,473	11,614	--

Table A.12 Response Rates	
AS81	93.6%
AS85	94.1%
AS89	94.3%
CN71	93.0%
CN75	93.3%
CN81	90.3%
FR79	Not applicable (based on tax file documents)
FR84	Not applicable (based on tax file documents)
GE81	69.6%
GE84	SOEP Wave 1: 61.7%; SOEP Wave 2: 88.9%
IS79	77.7%
IS86	77.0%
IT86	61.4%
NL83	56.9%
NW79	75.0%
NW86	75.0%
SW75	86.9%
SW81	86.9%
SW87	86.1%
UK69	70%
UK74	68%
UK79	67%
UK86	69%
US74	95% to 96.5%
US79	95% to 96.5%
US86	95% to 96.5%

Table A.13 Geographic Areas Excluded from Sample Design	
AS81	None
AS85	None
AS89	None
CN71	Native American Reserves, and the Yukon and Northwest Territories
CN75	Native American Reserves, and the Yukon and Northwest Territories
CN81	Native American Reserves, and the Yukon and Northwest Territories
FR79	The non-metropolitan départements of Réunion, Martinique, Guadeloupe and Guyane.
FR84	The non-metropolitan départements of Réunion, Martinique, Guadeloupe and Guyane.
GE73	None
GE78	None
GE84	None
IS79	Rural areas and non-Jewish residents of Judea and Samaria
IS86	Rural areas and non-Jewish residents of Judea and Samaria
IT86	None
NL83	None
NW79	None
NW86	None
SW75	None
SW81	None
SW87	None
UK69 UK74 UK79 UK86	The Isles of Scilly, and three Scottish districts (Orkney, Shetland and Western Isles) and the island parts of Cunninghame, Argyll and Bute, Lochabar and Skye and Lochalsh districts.
UK86	None
US74	None
US79	None
US86	None

## Data collection and acquisition

Table A.14 Reference Person	
AS81 AS85 AS89	The head of the main income unit in the main family in the household (husband if a couple)
CN71 CN75 CN81	Economic family head
FR79 FR84	The head is the male adult, if there is one family. If there is more than one family, the head is the oldest working person, or the oldest person when no household member is working.
GE73 GE78	The household head was interviewed and provided information for all household members.
GE84	A single person, usually the head of the household, responds to general questions regarding the household as a whole and the dwelling in particular.
IS79 IS86	A single person, usually the housewife responds to general questions regarding the household as a whole
IT86	Household head. Usually the husband or father, but if abroad or in another region of Italy household head is the person who is economically responsible for the family.
NL83	The household head was identified by the respondent. That person should be over 18 years. If the respondent refused (or argued) the interviewer suggested the rent payer, home owner, the person with the highest income, or the oldest person.
NW79	The household head was identified by the Central Population register.
NW86	The household head was identified by the Central Population register.
SW75 SW81 SW87	Household head and all members of household.
UK69 UK74 UK79 UK86	Household head
US74 US79 US86	Individual basis for all reference persons age 15 and over.

\* The reference person is the person who at the time of the interview is identified as the main interview respondent, and to whom the relationship of all other respondents or household or family members are defined.

Table A.14 Data Collection Instruments*	
AS81 AS85 AS89	1. Personal interview (i.e a schedule for each individual)
CN71 CN75 CN81	1. Income schedule
FR79 FR84	1. Questionnaire on demographic structure 2. Questionnaire for each fiscal unit
GE73 GE74	1. Questionnaire
GE84	1. Household head schedule 2. Schedule for each individual over 16 3. Schedule for foreigners 4. Address record
IS79 IS86	1. Diary Record Book 2. Questionnaire
IT86	1. Household head schedule 2. Schedule for other income recipients
NL83	1. Household schedule 2. Schedule for each household member over 6 (short questionnaire for individuals 6-17 years; long questionnaire for individuals over 18 years)
NW79	1. Questionnaire
NW86	1. Questionnaire
SW75	1. Questionnaire
SW81	1. Questionnaire
SW87	1. Questionnaire
UK69	1. Household schedule 2. Income schedule 3. Diary record book
UK74	1. Household schedule 2. Income schedule 3. Diary record book
UK79	1. Household schedule 2. Income schedule 3. Diary record book 4. Credit card sheet
UK86	1. Household schedule 2. Income schedule 3. Diary record book 4. Credit card sheet
US74	1. Questionnaire on current labor force 2. Questionnaire about income and work experience
US79	1. Questionnaire on current labor force 2. Questionnaire about income and work experience
US86	1. Questionnaire on current labor force 2. Questionnaire about income and work experience

Table A.16 Respondents*	
AS81	All household members aged 14 and over.
AS85	All household members aged 15 and over.
AS89	All household members aged 15 and over.
CN71	All household members aged 15 and over
CN75	All household members aged 15 and over
CN81	All household members aged 15 and over
FR79	All households with taxpayers
FR84	All households with taxpayers
GE73	All household members over 16 years of age
GE78	All household members over 16 years of age
GE84	All household members over 16 years of age
IS79	All household members over 15 years of age
IS86	All household members over 15 years of age
IT86	Household head and all income recipients
NL83	All household members over 6 years of age
NW79	All household members over 15 years of age
NW86	All household members over 15 years of age
SW75	All households with tax payers
SW81	All households with tax payers
SW87	All households with tax payers
UK69	All household members over 15 years of age
UK74	All household members over 15 years of age
UK79	All household members over 16 years of age
UK86	All household members over 16 years of age
US74	All household members over 15 years of age
US79	All household members over 15 years of age
US86	All household members over 15 years of age

\* This refers to all individuals who were eligible or asked to complete a survey instrument.

Table A.17 Criteria for Data Base Inclusion	
AS81	Completed schedules (or imputation of missing values possible) for all persons.
AS85	Completed schedules (or imputation of missing values possible) for all persons.
AS89	Completed schedules (or imputation of missing values possible) for all persons.
CN71	Completed interview with at least one household member
CN75	Completed interview with at least one household member
CN81	Completed interview with at least one household member
FR79	Completed schedules by consulting the tax file.
FR84	Completed schedules by consulting the tax file.
GE73	One household member must participate
GE78	One household member must participate
GE84	Completed questionnaire of household and minimum one completed questionnaire of person.
IT86	Completed schedule for household head
NL83	Completed household questionnaire
NW79	Completed household questionnaire, without income data
NW86	Completed household questionnaire, without income data
SW75	Completed schedules by consulting the tax file.
SW81	Completed schedules by consulting the tax file.
SW87	Completed schedules by consulting the tax file.
UK69	Completed schedules from all household members over 15 years of age
UK74	Completed schedules from all household members over 15 years of age
UK79	Completed schedules from all household members over 16 years of age
UK86	Completed schedules from all household members over 16 years of age
US74	Completed household questionnaire
US79	Completed household questionnaire
US86	Completed household questionnaire

### Weighting procedures

With the exception of the United Kingdom Family Expenditure Surveys for 1969, 1979 and 1986, survey weights have been applied to all cases in the European Community member nation surveys in the LIS database. Various weighting procedures have been employed in the different surveys; to adjust for differing selection probabilities, under-representation of sub-groups in the survey, etc.

Table A.18 Weighting of Survey Cases*	
AS81	Yes
AS85	Yes
AS89	Yes
CN71	Yes
CN85	Yes
CN81	Yes
FR79	Yes
FR84	Yes
GE73	Yes
GE74	Yes
GE78	Yes
IS79	Yes
IS86	Yes
IT86	Yes
NL83	Yes
NW79	Yes
NW86	Yes
SW75	Yes
SW81	Yes
SW87	Yes
UK69	No
UK74	No
UK79	No
UK86	No
US74	Yes
US79	Yes
US86	Yes



### Determination of survey unit membership

In each of the surveys different rules are employed in order to determine whether or not any given person is to be considered a household member for the purposes of the survey. For example, visitors may be considered household members if they are staying at the surveyed household for a pre-determined period of time: or children away at boarding school, even though they are not resident in the household at the time of the survey, may be considered household members.

In addition, differing definitions of what constitutes a "household" or a "family" are employed in each of the surveys. The types and availability of information concerning the relationship of the survey unit members to each other, and to the survey unit head, may also vary across the different surveys. This information is summarized in the tables below.

Table A.19 Household Definition	
AS81 AS85 AS89	Persons in the same dwelling sharing eating facilities
CN71 CN75 CN81	Any person or group of persons living in a dwelling
FR79 FR84	The household was formed by combining the tax returns of all household members.
GE73 GE78 GE84	Related or unrelated persons living together in one housing unit.
IS79 IS86	Group of people who live together most days of the week and who have a common budget for food
IT86	Related persons living together in one housing unit.
NL83	Persons living and eating together form a household.
NW79 NW86	Households were defined as all people living in the same dwelling and having common board.
SW75 SW81 SW87	Households were defined as either one adult or two adults (more than 18 years old) with or without children (equal or less than 17 years old).
UK69 UK74 UK79 UK86	A person living alone, or a group of people living at the same address and having meals prepared together, and with common housekeeping.
US74 UK79 US86	Housing unit is the usual place of residence or, if for the moment they have no usual place of residence at the time of the interview.

## Appendix B

### Sampling error

This appendix discusses the limitations of the LIS datasets and therefore the reliability of the statistics quoted in this study and the inferences which are drawn from them. I have analyzed twenty-seven microdata sets at three different levels: aggregate country statistics, disaggregated country statistics and inter-country comparisons over time and at one point in time. Each of these levels raises methodological and statistical issues. Because the LIS datasets are sample surveys, estimates from them are subject to sampling error. The typical statistics which are reported in this study are the percentage of a country's sample which is in poverty or the summary statistics included in the inequality indices. Since the LIS samples are fairly large (see Appendix A. Table A. 11) the sample statistics should provide reliable estimates of the population parameters. The disaggregated sample statistics are based on smaller sample size and therefore the standard error for those estimates will probably be greater. However, for most sub-groups of the population the sample size are sufficient to ensure reasonably reliable estimates.

We would expect there to be some differences between the income distribution produced by datasets assembled during different stages of the macro-economic business cycle. As noted in Chapter Two, some studies report that income inequality is countercyclical (Blank, 1989). Although my findings in the United Kingdom and in Australia suggest that inequality increases also during economic recoveries, it is reasonable to assume that recessions exacerbate income differences. The fact that the data was collected at different stages of the cycle in different countries may imply that cross-national comparisons of poverty and inequality are biased.

A similar problem is raised by differences in the original definitions of the variables and

in the purposes of the surveys. If the surveys are measuring different things this may give rise to differences between the income distributions. Moreover, the process of redefinition of the variables undertaken by the LIS staff to achieve comparison between surveys can only be partially successful in that it is a comparison *ex-post*. The surveys were not initially designed for purposes of comparisons and sampling techniques vary considerably, as shown in Appendix A, Tables A.7- A.13. A further complication emerges from the well-known under-reporting of income by survey respondents, especially the top income groups often report less income than expected from national income data. This is less true of data based on tax file surveys than on income or consumption surveys. It is difficult to make any corrections for this under-reporting, but the reader should be aware that it exists.

Incomplete coverage is another source of potential bias in the sample statistics. The LIS datasets derive from surveys of households and as such do not cover individuals who live in non-household dwellings such as hospitals, hotels, prisons or who are homeless. These individuals would probably fall in the lower tail of the distribution, which means that real poverty rates are higher than the measures reported in this study. Sample statistics may be biased if non-response rates are sizable. Single country studies of non-response indicate that the probability of response declines with increasing age of the head of household and with decreasing qualifications of the male head of household (Wilson, 1995). There is a higher non-response rate in households without children.

## Appendix C

### Description of variables

Two kinds of variables are employed in this study, income variables and demographic variables. Out of 60 variables available for cross-country and intra-country comparisons I have used twenty-nine variables described in Tables C.1 and C.3. Table C.2 reports the derived variables available for all the datasets analyzed.

*Table C.1. Income Variables*

Variable	Variable Description
V1	Wages and Salary Income
V4	Farm self-employment income
V5	Non-farm self-employment income
V7	Mand. Contributions: Self Employed
V8	Income from Property
V11	Income Tax
V13	Mand. Employee Contributions
V16	Sick Pay
V17	Accident Pay
V18	Disability Pay
V19	Social Retirement Benefits
V20	Child or family Allowance
V21	Unemployment Pay
V22	Maternity Allowances
V23	Military/Veterans' Benefits
V24	Other Social Insurance
V25	Means-Tested Cash Benefits
V26	Near Cash Benefits
V32	Private Pensions
V33	Public Sector pensions
V34	Alimony/Child Support
V35	Other Regular Private Income
V36	Other Cash Income

Table C.2. *Derived variables*

SELF1	income from self-employment	V4+V5
EARNING	Earnings	VI+V4+V5
PENSIOI	Pension Income	V32+V33
MEANSI	Means-tested income	V25+V26
OTHSOCI	Other Social Security	V16+V17+V18+V22+V23+V24
SOCI	Total Social Security	V19+V20+V21+OTHSOCI
SOCTRANS	Social transfers Total	MEANSI+SOCI
PRIVATI	Private Income	V34+V35
PAYROLL	Payroll taxes	V7+V13
FI	Factor Income	EARNINGS+V8
TRANSI	Transfer Income	SOCI+MEANSI+PRIVATI
MI	Market Income	FI+PENSIOI
GI	Gross Income	MI+TRANSI+V36
DPI	Disposable Income	GI-V11-PAYROLL

Table C.3. *Demographic variables*

variable	variable description
D1	Age-head
D3	Sex-head
D7	Geographical indicator
D27	Number of children under 18
LFSHD	Head-Labour force status

## Appendix D

### The choice of inequality measures

The construction of inequality indices involve choosing certain criteria which may or may not be desirable according to personal preferences. There is widespread agreement among specialists of income distribution that inequality measures should satisfy at least three principles (Cowell, 1995 ch. 2). The first is known as *income scale independence*. This means that measured inequality should not depend on the size of total income. If there is a proportional increase in income, it can be argued that there has been no essential alteration in the income distribution and therefore it is desirable that the value of the inequality index should remain the same.

The second criterium is the *principle of population*. This principle requires that inequality should not depend on the number of people in the population. If the number of individuals in a population doubles, from  $n$  to  $2n$  and there is the same proportion of the population receiving any given income, measured inequality should be the same in the population with  $2n$  as in that with  $n$ . The two populations should be equally unequal. The third requirement is that the inequality index satisfies the *principles of transfers*. A hypothetical transfer of income from a rich person to a poor person should reduce measured inequality. All the inequality indices I employ in this study satisfy these three criteria.

### The decomposition of inequality measure

Some inequality measures do not lend themselves to be broken up in inequality between and within groups in the population. The Gini coefficient, for instance, cannot easily be decomposed in a way that depends only on group means and population shares. If an index

is not decomposable, it is possible for inequality in one group to increase and yet aggregate inequality to decline. There is, however, a class of measures, known as the generalized entropy class, which can disentangle the within-group and between-group inequality components. The allocation of inequality between and within groups will depend on the value of the inequality aversion parameter. The generalized entropy index with  $\theta=.5$  adopted in this study also satisfies the independence property. As mentioned in Chapter Two, there are relatively few inequality measures that will allow a convenient breakdown by component of income. The coefficient of variation, however, can be handled relatively easily, although we should keep in mind that it is a top sensitive measure and therefore will emphasize inequality changes for the top-income group.

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