

**PS 641: Hall, *Governing the Economy:*
*The Politics of State Intervention in Britain and France***

I. Central Questions:

- A. “Why [do] nations choose different policy paths and divergent political strategies to deal with similar economic problems?”
- B. ...what determines the course economic policy will take?
- C. To what do the economic policies of the state respond?” (p. 4)

II. Standard economics-text approach views economic policymaking as a technical exercise

- A. In part, correct, certainly policy does respond to economic conditions, but
- B. *Governments* make policies, and governments are political creatures responsive to political as well as technocratic factors,
- C. But what political factors? How should we conceptualize the set of relevant factors and the mechanisms of their impacts?
 - 1. Some have focused on...
 - a. ...electoral incentives facing democratic policy-makers (Tuftes)
 - b. ...interest-group pressures and politician responses thereto (Olson)
 - c. ...bureaucracy-politician interactions (Niskanen)
 - d. ...parties and partisan interests (Hibbs)
 - 2. All of these are part of the story, but Hall’s political economy...
 - a. ...stresses “the *interaction* of interests, institutions, and ideas in the policy process”
 - b. “...develops a conception of political action that puts particular stress on the critical role played by institutions in...”
 - (1) ...the definition and articulation of interests,
 - (2) ...the dissemination of ideas,
 - (3) ...the construction of market behavior, and
 - (4) ...the determination of policy” (p. 5).
- D. “On the basis of the cases examined here...we can say that there is a certain institutional logic to the process of economic intervention in the industrialized democracies” (p. 5).

III. Alternative models of politics [*A Brief Historical Overview of Different Approaches to Comparative Political Economy*]

A. The Functionalist Approach

1. *Argument/Definition*: “The actions of the state are explained by the functions they perform for the stability or survival of the political system as a whole...the effects of a phenomenon essentially explain its existence” (p. 6).
2. *Problems/Weaknesses*:
 - a. explains too much: *i.e.*, functions are universally necessary, so no room for variation
 - b. frequently vague definition of *functions* (*accumulation, legitimacy*) and of relation thereto of specific policies *etc.*
 - c. if multiple means of fulfilling particular functions are allowed, quite problematic to say much about what policies will be enacted to fulfill certain (vague) functions
3. *Examples*: Warren (1972) and Kalecki (1943) illustrate the standard problem—both posit that the coexistence of capitalism and democracy creates certain unavoidable conflicts between capital and labor which must be resolved.
 - a. Kalecki concludes: functional requisite is that periodic recessions be induced to avoid full employment and its deleterious consequences for profit rates and capital returns.
 - b. Warren argues exactly to contrary that full-employment maintenance is politically and economically necessary to supporting capitalism in the global economy.
 - c. ==> transitory correlations between, *e.g.*, capitalism and demand-management policies or their absence are *hypostasized* or *reified* into causal connections.
4. *Summary Judgement/Advantages of Institutionalism*:

“It might be possible to identify the functions of a given institutional structure, but it is virtually impossible to derive structure from function in a systematic and non-arbitrary way. It may well be that the polity and economy are a system, in some sense of the term, but, if so, it is by virtue of the institutions that present individuals with a matrix of incentives which render them interdependent, and link their behavior to the nature of the system. Structural-functionalism only works if it gives causal priority to structure rather than function” (7).

B. The Cultural Approach

1. *Argument*: “the behavior of politicians and officials is strongly affected by the political culture into which they have been socialized and in which they operate...we...explain divergent national policies by reference to the different habits of mind of their citizens and officials” (p. 8).
2. *Definition*: ““The political culture of a society consists of the system of empirical beliefs, expressive symbols, and values which defines the situation in which political action takes place. It provides the subjective orientation to politics’ (Verba, 1965: 513)” (p. 8).
3. *Example*: Hayward (1976)
 - a. UK: British myth of “*gradualist political development*” created an incrementalist culture which ““inhibited any unprecedented response to a crisis’ (p. 351)” (p. 8).
 - b. France: ““acquired a style of authority that includes a capacity for crisis utilization for the purpose of imposing overdue changes’ (p. 351)” (p. 8).
4. *Problems/Weaknesses*:
 - a. Too broad and sweeping:
 - (1) specific policy differences are hard to link to broad, national-cultural differences; in fact, policy differences may themselves differ across different policy-areas.
 - (2) conversely, the culture governing behavior in particular government departments may be as much specific to that department as national
 - b. Even when broad cultural differences do seem to capture important aspects of empirical experience, that leaves the culture itself to be explained.
 - (1) Culture is not inherited but rather learned *via* some mechanism or another for the creation and transmission of political culture.
 - (2) To be useful, cultural explanations must say more about those mechanisms.
5. *Summary Judgement/Advantages of Institutionalism*:
 - a. Social and political institutions create sets of “routines and rationalities” that *are* or become political culture.
 - b. Those institutions, in turn, can be traced to “particular historical conjunctures, some contingent, other systematically tied to distribution of power among social groups.”
 - c. At least some commonalities in responses & understandings we observe & attribute to political culture may often more directly attribute to aggregated rational individual responses to matrix of incentives created by institutional structure operant in nation.

C. The Public-Choice Approach

1. *Argument/Definition*: utility-maximization approach

a. Background:

- (1) applies the analytical techniques of (micro) economics to politics
- (2) methodological individualism
- (3) views politics as a competition among individuals whose goals are power or scarce resources and whose actions are rationally calculated to achieve those ends most efficiently.

b. “Policies are explained as outcomes of game-like contests in which power-seeking individuals, or institutions acting like individuals, compete for resources and the support of electors who are also seeking to maximize their personal resources” (10).

- (1) State the objectives of the relevant actors (politicians, voters, *etc.*)
- (2) Define the political and economic “games” which the actors are playing
 - (a) set of available actions to each
 - (b) relations between combinations of possible actions and outcomes
 - (c) values for each possible outcome to each relevant actor
 - (d) everyone knows the game just described and acts to maximize her values

2. *Examples*:

- a. Nordhaus (1975): electoral cycles in monetary policy
- b. Niskanen (1971): budget-maximizing bureaucracies

3. *Problems*:

- a. Preferences may shift more rapidly than theory can usefully manage
- b. Simplification: “The ruthless elegance of these models often seems to founder on the complexities of political motivation and economic behavior” (p. 10).

4. *Summary Judgement/Advantages of Institutionalism*:

- a. “We can correctly model state action and its effects only in the context of an institutional analysis of modes of intervention” (p. 11)
- b. *I.e.*, U-max in context of institutionally structured political and economic world.

D. The Group-Conflict (Pluralism) Approach

1. *Argument/Definition:*

- a. Essential units of analysis are social groups or classes, conflicts among and between whom, and with the polity and state in general, are the substance of politics.
- b. Policy is best explained as the direct product of these conflicts.

2. *Examples:*

- a. *David Truman ('51) classical pluralist vision:* “presence of many competing groups in...democratic polity and...capacity of...polity to entertain...demands of all potential groups offers everyone access to political power, while...prevalence of overlapping memberships among groups reduces likelihood of sectarian conflict.
- b. *Esping-Andersen ('82), Moore ('66) class analysis:* politics=process of class alliance & conflict; policies determined by relative wt of broad classes coalesced behind them
 - (1) Esping-Andersen: welfare-state development understood in social-class terms
 - (a) France=capital and state v. weak, disorganized labor
 - (b) UK=strong esp. financial capital v. fragmented but potent labor movement
 - (c) Sweden=organized, unified labor and state v. fragmented capital
 - (2) Moore: if dictatorship or democracy emerge from industrial revolution depends on class interests ascendant in that formative time. Agrarian/Labor=>lib-dem v. Agrarian/Capital=>fascism v. Capital/Labor=>social-dem or socialism
- c. “*The great virtue of this analysis* is its insistence that coalitional support must be found for any policy, and that the range of policy alternatives will then be constrained by the relative balance of class power” (p. 14).

3. *Problems:*

- a. “what’s missing is a more extensive analysis of basis for class interest and class power...” (p. 14) *I.e.*, what groups? What coalitions? What’s the relative power of those groups and coalitions?
- b. Also missing is discussion of how such large groups manage to act in their collective interest and whether differences in this ability exist and so what (Olson)

4. *Summary Judgement/Advantages of Institutionalism:*

- a. Institutions and structure will help define...
 - (1) ...the relevant groups—those with strategic capacity to act politically
 - (2) ...the policy preferences, the options, and the strategies of those actors
- b. “We should not lose sight of the class interests at stake in economic policy-making, but to portray the policy process accurately, we should add...the institutional structures through which their demands are being shaped, their power is being determined, and their circumstances altered” (p. 15).

E. The State-Centric Approach

1. *Argument/Definition:* Policy is not simply a reaction to pressure from social groups. The state is more autonomous than other approaches allow, having its own interests & policy preferences & some capacity to impose those against social resistance.

2. *Examples/Strands:*

a. Bureaucratic politics (Allison 1974)

- (1) state not unitary actor, policy may not result from any one strategic calculation
- (2) “war of all against all” but here it’s between bureaucrats, “each fighting their corner” and “where you stand depends on where you sit”
- (3) BUT, little on how each bureaucrat might interpret “their corner” or on their relative power and likely outcome of the “war”

b. Policy-making as a process of social learning (Weir and Skocpol 1985)

- (1) policies generated by the process of solving puzzles raised by the, often unintended, consequences of prior policy
- (2) the form of new policies affected by the procedural legacies and political lessons of prior policies
- (3) BUT, how can we tell what lessons will be learned from the past, and which will be embodied in future policy?

c. The notion of “state capacity” (Skocpol and Finegold 1983)

- (1) state’s choice of policies will be heavily influenced by existing capacities to conduct different policies
- (2) success/failure of policies, programs, initiatives depends heavily upon the relevant institutional resources of the state
- (3) BUT, capacities of state to implement programs depend as much on configuration of society as that of the state

3. *Problems:*

- a. Who is “the state”?
- b. What are “the state’s interests”, where do they come from?
- c. How does a democratic state retain capacity to act against social resistance?

4. *Summary Judgement/Advantages of Institutionalism:*

State should be viewed as network of institutions, deeply embedded in constellation of ancillary institutions in society & economy. As such, not nearly so autonomous as some state-centric theorists claim.

IV. Hall's Institutional Approach to Comparative Political Economy

A. Motivation:

1. Strong continuities pervade national patterns of economic policy, but important cross-national variations and occasional and/or slow cross-temporal changes also exist.
2. An institutional approach must be capable of explaining both historical continuities and cross-national variations in policy.

B. Outline of Approach

1. "...emphasizes the institutional relationships, both formal and conventional, that bind the components of the state together and structure its relations with society.
2. While those relationships are subject to incremental change, and more radical change at critical junctures, they provide the context in which most normal politics is conducted"
3. *Aside*: short-run (exogenous) *versus* long-run (endogenous) institutional analysis

C. Definition: "The concept of institutions used here refers to the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy" (p. 19).

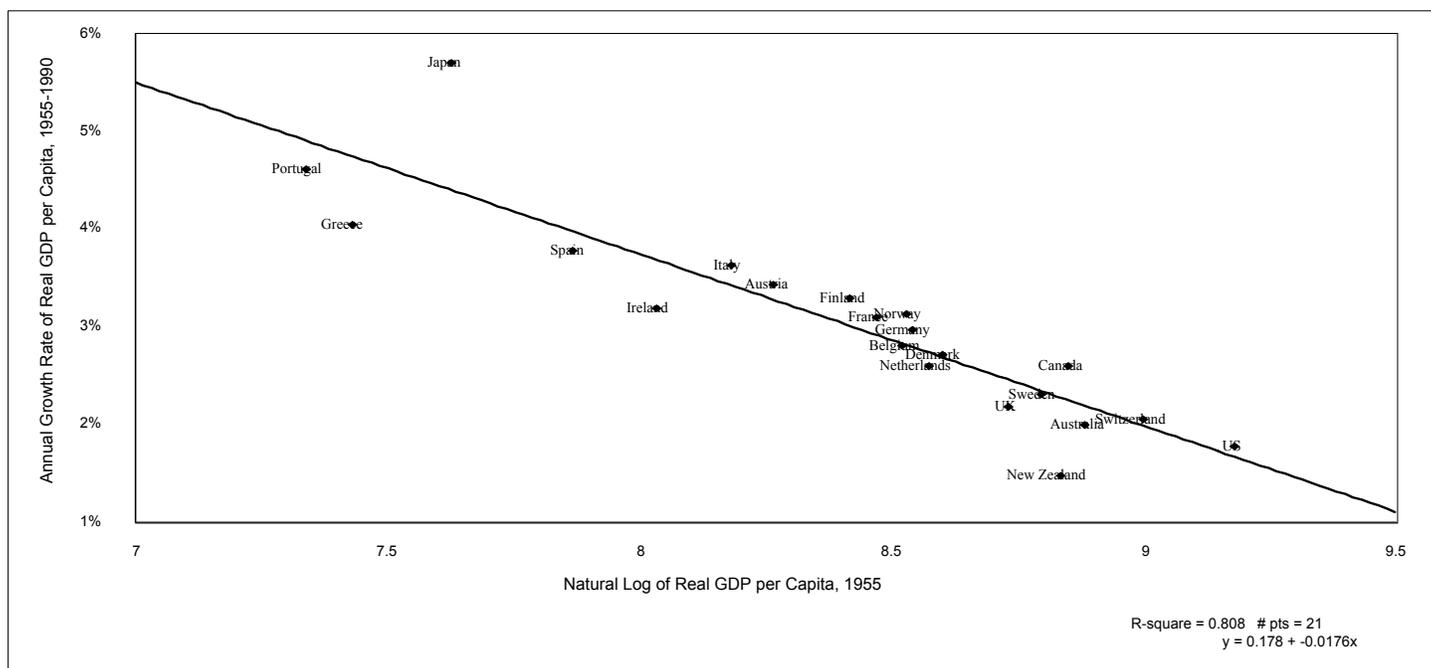
1. More formal status than cultural norms, but not necessarily constitutional/legal or written
2. Emphasis is on "relational character of institutions": way they structure interactions between individuals and groups
3. *I.e.*, organizational aspect of institutions is stressed—*organizations* is a synonym here

D. The Role of Institutions in the Model:

1. Policy-making organization affects various actors' relative power over policy outcomes
2. Organizational position also influences an actor's definition of her own interests, by establishing her institutional responsibilities and relationship to other actors.
3. ==> institutions affect both the degree of pressure an actor can bring to bear on policy & the likely direction of that pressure

E. Policy is more than the sum of countervailing pressure from social groups because those pressures are mediated by organizational structure that imprints its own image on outcome.

V. Chapter 2: Britain's (Relative) Economic Decline



A. Growth has two parts: increased factor inputs, *extensive growth*, and increased output per factor (productivity), *intensive growth*

1. Little or no population increase, so not much extensive growth.
2. Intensive growth limited relative to many other developed democracies for structural reasons about which policymakers could have done little
 - a. Kindleberger/Kaldorian growth (sectoral shift) already occurred for the most part
 - b. Taylorist/Fordist growth (mass production) also mostly occurred by 1950 ±
 - c. Some estimate ½ or more of British relative decline due to these factors
 - d. The catch-up hypothesis as a whole may account for even more than that (see figure)

B. Typical proximate-cause explanations of remaining difference:

1. lagging investment,
2. lagging or slow industrial adjustment,
3. inefficient work organization.

C. Hall: all true, but these only proximate causes; need/want to know why each true. Typical explanations:

1. The size of the state (employment, spending and esp. welfare, and debt/ crowding out)
2. The impact of macroeconomic policy (stop-go and over-valued currency)
3. Culture (Victorian *industrial spirit & laziness* or *obstructionism* of British workforce)

D. Hall's alternative: “market setting in which entrepreneurs & workers operate=complex of interrelated institutions w/ character historically determined & configuration fundamentally affects incentives market actors face” [influences behavior & so policies & outcomes] (35).

1. *The industry-finance nexus* (pp. 38-40)

a. *Cause:* Industrialization began in late 18th C w/ textiles ==> low start-up costs (built on proto-industry of putting-out system). Sum: system of small, competing firms.

(1) Thus Britain came to depend on family & friend finance, then common stocks (w/o a developed stock market), then the stock market

(2) Small regional banks became extinct when economy went large-scale

b. *Effect:* ==> banks less tied to firms & v.v. (than in Ger. e.g.) b/c firms rely on stock markets for equity & banks only small loans for ready cash to firms ==> (purported) short-termism of UK firms

2. *Product markets and the structure of industry* (pp. 40-42)

a. *Cause:* Industrial structure evolved as many small suppliers organized on segments of product market. Lasted into 20th C, when competitors captured world markets with vertically integrated firms & standardized production ==> greater scale returns.

b. *Effect:* large fixed costs of adjusting firm & industrial structure ==> *path dependence* ==> early industry left structure relatively less able to grow by adapting & adopting new technologies ==> lower total factor productivity growth in UK than US or Ger

3. *Firm organization and performance* (pp. 42-44)

a. *Cause:* Similarly, firm (internal) organization & related institutions change slowly. Plus, attitudes of managers & workers, socialized in old system, will adjust still more slowly. Plus, systems like education & the organization of work interact, & change in one will not immediately & automatically produce required changes in other.

b. *Effect:* Britain slow to capitalize on economies of organization in postwar era also.

4. *The structure of the labor market and shopfloor power* (pp. 44-45)

a. *Cause:* UK industrializes during the craft era ==> unionization with *unions based on skilled crafts which control pace of work, work of others, and own wages*

b. *Effect:*

(1) given skilled-labor abundance, & union resistance to “de-skilling” work, often paid firms to stick to craft work rather than adopt mass production w/ unskilled

(2) pivotal position of skilled craftsmen in craft workY trade unions able to protect wages & control shopfloor organizationY strong but fragmented unions

(3) craft-union, strong-but-fragmented-union control of shopfloor & wagesY over-manning and wage increases out of synch with productivity gains

E. Hall's summary of British relative decline (excluding structurally determined portion):

“Each set of actors sought to maximize their returns within context of a particular institutional setting ... when labor is already fully employed & capital-labor ratio is therefore rising, appearance of diminishing returns means that the capital to output ratio will also increase, generating lower profit levels, unless new forms of capital-saving technology are introduced. But British managers faced an array of disincentives that made it especially difficult for them to introduce such technology or utilize it fully. Thus it is not surprising that British rates of profit continued to fall to particularly low levels; and low levels of profit inhibit further investment & innovation. In such situation...also rational for investors to send their funds abroad where a higher return is on offer ... rendering industrial expansion even more difficult ...” (p. 46).

VI. Patterns of British Economic Policy (ch. 3): why didn't state more actively move to alter the institutional conditions that fostered slow rates of growth (these were analyzed in ch. 2)?

A. Outline of argumentation

1. First describe the patterns of policy
2. Then explain why that pattern exists
3. The continuity itself suggests persistent institutions structure incentives facing decision-makers underlying the pattern

B. Description of the pattern

1. *Macro-policy*: dominated by attempts to maintain relatively high exchange rate
2. *Industrial Policy*:
 - a. Volume of such policy was always relatively low
 - b. Criteria for who gets it and how relatively non-selective
 - (1) mostly regional development
 - (2) most of what remained targeted at declining firms
 - c. Degree of government pressure in the industrial policies on industry to restructure, reorganize, and "rationalize" low
 - (1) policies almost invariably relied on arms-length adjustment of market incentives (usually non-selectively) to induce industry to reorganize on its own
 - (2) most of these succeed only in increasing the relative strength of business lobbies *vis-a-vis* the government in securing advantageous treatment

C. Explaining the pattern

1. Two aspects need explaining:

- a. Existence of persistent patterns despite fluctuating world and changing challenges
- b. State inaction and inefficacy in fostering industrial restructuring

2. Four aspects of state position affect policy

- a. Position of state in the international system (58-59) [define, discuss]
- b. Organizational config. of society, esp. of cap. and lab. (59-61) [define, discuss]
- c. Institutional structure of the state itself (61-62) [define, discuss]
- d. Political system: parties & interest groups influence policy (63-66) [define, discuss]

D. The role of historical conjunctures:

At crisis times, especially in periods just after relative cessation of crisis, possibility for profound change in socio-politico-economic institutions and policy-patterns is greatest. The immediate Post-WWII period is an archetypal example of this phenomenon. At this juncture, Keynesianism and Labour government came together.

VII. The Evolution of Keynesianism (ch. 4): partly series of responses to economic conditions, partly series of responses to political consequences of previous responses

A. *Post-War Settlement and Class Compromise as embodied in Keynesian Welfare State (KWS)*

1. Postwar Labour Government Program (July 1945 electoral victory ==> 393-210 HoC)

a. *Nationalization of major economic sectors and institutions*

- (1) Massive in scope originally: BoE, B Telecom, B Air, B Rail, remaining private electricity concerns, coal and gas, most trucking, iron and steel
- (2) Support petered out by 1949 when an internal debate over what should be in subsequent election manifesto proposals in this regard ended with victory of the Keynesian-Full-Employment types over the Socialization types

b. *Welfare State to provide minimum levels of housing, health care, education, and social security to all*

- (1) predecessors: workman's comp mandated 1893, some public pensions 1908, UE insurance 1911
- (2) Beveridge Report 1942 recommended universal SS and NHS
- (3) from 1946-48, benefit system for UE and sick established, and NHS (with free care to all) achieved under Aneurin Bevan 1948.

c. *Commitment to achieving full employment through public management of economy*

- (1) Keynes' theories gain intellectual ground, pre-eminent or nearly so by end war
- (2) Coalition govt during war produced 1944 White Paper on Employment Policy: "The Government accepts as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war."
- (3) Bipartisan acceptance of government responsibility for full-employment maintenance; about as clear a statement of the postwar settlement (something like which occurred everywhere) as one will find in writing anywhere.

2. *Keynesianism key to Postwar Settlement / Class Compromise of KWS work politically*

- (1) government could achieve full employment and so could accept responsibility for it [and so had to?]
- (2) government could achieve it without direct controls, so working class could be guaranteed full employment while capital could retain full ownership and control over investment and resource-allocation [see page 72]

3. *Explaining relatively hands-off, macro, full employment emphasis of UK policy relative to interventionist, dirigiste, industrial-policy-oriented French approach*
 - a. Partly reflect differences in national preferences, particularly the party preferences
 - (1) UK R/L tolerate/stress full E, but broach no state intervention into their sphere
 - (2) French R/L tolerate/stress aggressive govt direction of restructuring, but demand growth in exchange
 - b. Also partly explained by Hall's political and institutional factors
 - (1) Strong role of cabinet and esp. PM in directing all policy in UK made detailed industrial plans difficult to devise & harder to implement, requiring apparatus of administrative or bureaucratic initiative outside of cabinet and PM
 - (2) reliance on UK-type (i.e., not Sweden-type) tripartite institutions for negotiated compromise hindered any coordinated much-less state-directed indust. policy
 - c. Key factors behind this pattern
 - (1) labor's organizational strength but fragmented org. & institutional structure
 - (2) role of employers: French employers relatively weakened by complicity with Vichy, UK business was contrarily associated with a successful support of the anti-fascist war effort. This important in early (formative) years.
 - (3) but state could still have done more--certainly did over considerable opposition regarding the health industry, ==> another part of the story is party ideology
 - (a) UK left was for nationalization or Keynesian full E, thus any path involving direct intervention w/o nationalization was out of political view. Industrial policy either within nationalized sectors or irrelevant.
 - (b) UK right was (comparatively) strongly allied with the City and smaller businesses; thus selective industrial policy was never a priority

B. The Phases of Keynesianism

1. Phase 1: relatively pure demand management

- a. Bipartisan, the postwar settlement, "Butskellism"
- b. One strong peculiarity of UK Keynesianism was the heavy emphasis on BoP considerations in demand management
 - (1) [What exactly is the Balance of Payments?]
 - (2) [Why more dominant in UK than elsewhere? pp. 77-80]

2. Phase 2: Keynesianism + Incomes Policy

- a. By 60s becoming apparent that pursuit & attainment of full E could be inflationary
 - (1) Phillips' discovery in late 1950s of a relatively stable UE-Infl trade-off
 - (2) Y change in policy goals from full E, to some UE-Infl mix
- b. Incomes Policy [Define]
 - (1) Both Treasury and BoE behind it [why? p. 81]
 - (2) Mixed history of effectiveness, why
 - (a) wage restraint only, prices left unfettered
 - (b) worked, at least for a while, when Labour comes to power [why?]
 - (c) organization of workers and employers: structure of wage bargaining
- c. Political impacts (esp. on postwar settlement and KWS) of incomes-policy era
 - (1) vitiated promise of full-E-w/o-direct intervention mostly by direct intervention into union's sphere of wage bargaining & work-organization Y TU's v. state
 - (2) obligated central union-leadership to freeze, but 8 shopfloor leaders (stewards) bargaining-role and so power relative to center Y further fragmentation of TU's
 - (3) Embroiled state directly in income determ., & wage diff's. Also, state (esp Labour) became respons. for labor peace Y authority eroded as failed to achieve
 - (4) [Look at Note 3 on page 286 of this chapter]

3. Phase 3: Industrial Intervention

- a. Concern over relative decline and slow growth (relative to other dev dem) ==> some shift to micro proposals to improve efficiency and productivity
- b. Under Wilson (mid-late 60s), several initiatives were attempted to increase the state role in directing the development of industry
 - (1) Most successful of these: *Industrial Reconstruction Corporation* and *Ministry of Technology*
 - (2) IRC played role in 50 mergers, but only 50/3400 in its tenure & only did mergers
 - (3) MinTech denationalized 17 steel companies, created Shipbuilding Board to support that industry, and National Board of Prices and Incomes to focus on 8 productivity *via* work reorganization
- c. Still, even at this highwater mark of UK industrial policy, about 30X that amount to regional aid; in France reverse ratio. Also, with Heath, Wilson's advances all reduced
- d. Some direct indust. aid resurfaced in 70s, but almost entirely subsidies to 9 industries
- e. *Explaining the relatively limited role of industrial policy in UK*
 - (1) Laissez-faire mentality and culture of Brits? Perhaps, but nationalization passed easily enough.
 - (2) Hall: 3 factors (pp. 91-93)
 - (a) Party ideology [discuss]
 - (b) Organization of the state [discuss]
 - (c) Balance of power in society [discuss]

4. *Phase 4: Collapse of the Keynesian Consensus*

- a. *Keynesian policies adopted to address economic needs and political purposes; support for it begins to falter as it begins to fail or appears to begin to fail in each.*
- b. [Hall's brief explanation pp. 93-99, but we defer until Thatcher era discussed.]

VIII. The Conservative (Thatcher) Experiment (ch. 5)

- A. Like Reagan policies we studied before—new monetarism, cut spending, lower taxes
 1. Same early result of severe recession and threat of rising debt
 2. Differences:
 - a. Controlling money supply harder than originally thought for UK (strong influence of international developments)
 - b. Allow money growth and forego some tax cuts rather than increase PSBR
 - c. Stuck to view that only high UE could only be addressed by lower real wages and greater labor-market flexibility
 3. Gov't fight against TU's more open and central (p. 109)
 - a. Legislation introduced to...
 - (1) reduce union power relative to employers (work-stoppage limitations), and
 - (2) reduce leadership power relative to rank-and-file (democratization of union activities)
 4. Industrial Policy
 - a. Privatization & 9 subsidies + 8 selectivity of remaining industrial policy
 - b. Purposes of privatization, economic and political (p. 110)
 - (1) revenue generation
 - (2) economic efficiency
 - (3) shareholders vote Conservative, so...
- B. Like Reagan, didn't achieve that much in 9 spending (pp. 115-6) Why? Four factors:
 1. Big KWS programs, NHS, Edu, UE insure, pensions retained overwhelming support
 2. The recession in '80-82 increased outlays (and lowered revenues) automatically
 3. Increased defense (esp. re: Falklands), law & order, and agricultural spending
 4. Hopes to cut spending without lowering services provided via increased efficiency and lowered waste were exaggerated

- C. Similar distributional consequences as Reagan era in US (plus an accompanying increase in regional, racial, and age divisions)
- D. Impact on state and society
 - 1. Balance of power within the state:
 - a. Continued trend toward Prime Ministerial government
 - b. Further increased power of central relative to local government
 - 2. Government-Interest Group relations altered also (p. 128-9)
 - a. The role of a coherent ideology guiding policy:
 - (1) strengthens ability of policy-makers to argue the general welfare against special interests
 - (2) this specific ideology also further strengthened the city relative to industrial interests
 - b. Trade-union decline
 - (1) unemployment
 - (2) IR legislation
 - (3) popular opinion turned against TU's
 - 3. Transformation from indust. & manu. power to rentier and service economy completed
 - 4. Economic and social-structural change (p. 134)
 - a. Structural trends:
 - (1) Manufacturing —> Services
 - (2) Large increase in female workforce participation
 - (3) Income differences increasing but becoming less aligned with occupational class distinctions
 - (4) Growth of “dual labor markets”
 - b. Political implication
 - (1) traditional Labour support declining
 - (2) numbers with mixed class interests rising
 - (3) less structurally defined voting
 - (4) part of Thatcher's strategy was use new cleavages to slice off segments of former Labour support
- E. Overall similarity of Thatcher-Major-Blair to Reagan-Bush-Clinton is remarkable

IX. The Political Role of Economic Planning in France (ch. 6):

- A. Following fractionalized & ineffective 3rd then 4th Republic, executive strengthened & state control over the economy extended
 - 1. Nationalization
 - a. BoF and several private banks, large insurance companies
 - b. Gas, ele., and coal; Air France
 - 2. National Planning Commission, the Commissariat Général du Plan (CGP), created
 - 3. INSEE for the collection and analysis of economic data
 - 4. ENA for training civil servants to analyze the data, and to create and administer the plans
- B. Broadest outlines of the policy pattern
 - 1. Increase the nationalized sector
 - 2. Highly interventionist industrial policy
 - 3. Use of diplomatic pressure to maintain and support exports
 - 4. National economic planning
- C. Plans: what were they and how did they work? (p. 141)
 - 1. CGP: an independent agency reporting to the PM and charged with the preparation of a national socioeconomic 5-yr plan
 - 2. What it did:
 - a. Drew on statistics & expertise of INSEE & MinFin to construct set of plausible economic scenarios for the coming years
 - b. These global estimates established broad constraints within which more detailed sectoral & regional plans conducted
 - c. More detailed plans were constructed in the several “Modernization Commissions”
 - (1) vertical commissions by sector
 - (2) horizontal commissions by problem area
 - d. The planning staff compiled and organized the reports of these commissions as a set of options to be debated in the National Assembly before being elaborated into a final plan requiring Assembly approval

D. Plans: Four Shifts over the course of the 9 Postwar Plans—each aimed to extend the scope, influence, and importance of *planification*; each seemed to achieve the opposite

1. Move from limited industrial plans of 1940s and 1950s to global resource-allocation plans of the 1960s (p. 146)
2. More expands in early '60s from econ. management to social infrastructure support (147)
3. Late 60s early 70s shift from econ. growth per se to int'l competitiveness (p. 148-9)
4. From a relatively technical operation manned by civil servants with some distance from political parties to an increasingly politicized endeavor (p. 150-1)

[In each case, Hall outlines why plans moved in this direction and new problems arising from the shift. Discuss]

E. The Implementation of the Plans and Industrial Policy

1. Some highlight as the main contributions:
 - a. Public provision of better info
 - b. Bolstering of business confidence
2. Only a portion of firms could actually be monitored much less influenced directly, but state did monitor the large firms and could and frequently did apply large positive and negative sanctions. State had relatively great influence on industry and business behavior (pp. 152-3). Seven tools in particular:
 - a. Government was a major buyer in many if not most markets
 - b. Government was a major seller of raw materials and inputs (energy, transport, *etc.*)
 - c. Government was a major (direct) source of investment funds: public funds over half of gross fixed capital formation
 - d. Price controls, exemptions from which sometimes had to be bought by plan compliance
 - e. For much of postwar period, MinFin had to approve large bond and stock offers
 - f. Taxes: special depreciation allowance for exports and privileged tax treatment for plan compliance
 - g. And above all: role of nationalized banks and BoF in private sector capital finance
3. *Exceptionalisme* [Define] (p. 153)

F. The Political Functions of Economic Planning: manifest v. latent (rhetoric v. reality)

1. Participation (pp. 156-159)

- a. Plan presented as a mechanism for ensuring wide participation in the determination of economic goals and priorities
- b. But this conflicts with the goal of industrial restructuring (because plans to shift resources will produce political outcry)
- c. Plus, as planners became increasingly tightly involved with industrialists, the plans came to emerge from bilateral agreements between these actors. That too is a closed-door game.
- d. ==> number of participants in formal deliberation of plans increased continually from '46-'70, but simultaneously real planning power concentrated in smaller apex group.
 - (1) tight state-business intertwining in venues relatively sheltered from public view
 - (2) trade unions almost completely excluded from deliberations at these levels
 - (3) ==> conservative dirigism in France, not unlike that in Japan

2. Transparency (pp. 159-161)

- a. Plans were to detail economic choices facing the nation so as to bring greater clarity to social debate and public choices; the thought was that national, common interests would underlie these options if only they were clearly and completely understood
- b. But conflict of interest is not always or even usually illusory
- c. ==> in reality, plans attempt to narrow the debate (without appearing to do so)
 - (1) plans were used to define "success"
 - (2) forecasts used to muster support for needed/desired changes, to aid "success" (self-fulfilling prophecies), and to downplay significance of certain other changes

3. Rationality (pp. 161-2)

- a. Plans were to direct economic policy by rational calculation & rationally coordinate govt & private economic action
- b. Partly succeeded here: comparatively speaking, French state actors did manage to act more coordinated-ly than in many other democ's, but certainly not fully coordinated
- c. Perhaps the real goal was to move French society from one biased toward *status quo* maintenance to a pro-innovation one; if so, considerable success there
- d. Succeeded in bringing social acceptance of face-to-face negotiation, something previously scorned as weak or insincere

X. The State and the Evolution of Social Planning (ch. 7):

A. *Etatisme*: [Four Aspects, Define] (pp. 164-5)

1. Extent to which state is (act as) a cohesive unit
2. Extent or degree to which state is insulated from demands of other social actors
3. Capacity of state to implement policy, over the objections of key groups if necessary
4. Ideology of state and only state as authority which can, should, and does (lesser extent) speak in public interest; corollary: aggregations of ind's and org's outside state suspect

B. How the evolution of planning affected...

1. ...the independence of the state (pp. 167-71)

- a. Planners originally sought to forge alliance b/w business & state to direct economy. As plan became more industrial-policy focused, alliance became increasingly one not with business in general but w/ largest enterprises in fastest-growing sectors
- b. The process had the following effects:
 - (1) indust-pol focus on mergers, concentration, joint ventures (concent. also made planning easier)
 - (2) brought managers large indust & govt officials closer & distanced both from other societal actors
 - (3) 8 inter-penetration of priv. mnmgmt & civ. service: *pantouflage*/technocrat-dominated society
 - (4) 8 secretive and cartelistic aspects of planning relative to the open, coordinating aspect
 - (5) increasingly politicized private sector and privatized public sector
- c. As evolved, organizational manifestation of process is capturing of the business org., CNPF, and then the plan itself by large corporate interests

2. ...the cohesion of the state (pp. 171-6)

- a. Economic policy domain of both MinFin and Plan, but former responsible for budget and maintaining budgetary rein on other ministries while latter more exclusively interested in reconstruction and direction for growth.
- b. Inevitably and increasingly, conflict b/w two arose. Conflicts over both distribution of power w/in bureaucracy and allocation of resources in economy. Implications:
 - (1) oscillation of policy with power shifts in the government and bureaucracy
 - (2) ministerial departments went from having control over govt funds in some area and so being solicited by firms in those areas to having to compete with Plan and MinFin for those firms
- c. several strong groups adversely affected by economic and structural changes brought by state-led growth (e.g., shopkeepers, peasants, small-to-medium firm employees & owners, & declining sectors). These turned to their elected representatives, and thus...
 - (1) ...increasingly different branches of government turned against another.

- (2) ...this difference became institutionalized in split of right into right-liberal Indep. Repubs. (Giscardians) and right-conservative RPR (Gaullists)
- d. Soon plan became political charged offering &, accordingly, executive takes increasingly direct role in framing it (de Gaulle is main person behind this change)
- 3. ...the legitimacy of the state (pp. 176-80)
 - a. Rise of exceptionalism as main policy tool increasingly undermined legitimacy of state since liberal democracy depends so directly and critically on the rule of law.
 - b. This leads to a series of struggles to find legitimacy elsewhere:
 - (1) first replace “rule of law” w/ “need for expertise” w/ claim: expertise provides necessary distance = attempt to define policymaking as technical not political exercise
 - (2) eventual backlash against this, so govt turns increasingly to claim that its policies produce growth and efficiency as basis for its claim on legitimacy
 - c. Latter evolution, of course, dangerous: price eventually paid when (a) performance 9 and (b) economic interdependence 8 (constraining domestic policymakers)

C. Changing environment for planning

- 1. State forming increasingly tight & enmeshed alliances w/ big firms in “advanced sectors”
 - a. One hand: 8 consult w/ esp. capital & less. labor reps in implementing tough policies
 - b. Other hand: rising intimacy w/ these businesses became liability: owe enough & you *own* the bank!
- 2. High visibility of planning turned into a liability...
 - a. ...as an era of slower economic growth arrived
 - b. ...as an era of greater economic interdependence arrived
 - c. [France too often tried to fight irreversible shifts in its comparative advantage: *national champions*]
- 3. Oil crises: \$-denominated imports, esp. oil, DM-denominated exports Y exchange deprec. less effective in its usual role of reconciling high demand stimulus with BoP

D. As policy had to shift from directing growth to apportioning and distributing adjustment costs, policymakers naturally moved to take those decisions out of limelight Y *Deplanification* under Giscard d’Estaing (right liberal) (p. 185-189)

- 1. Fiscal and monetary conservatism: fix to DM
- 2. Privatization and general pro-market “deregulation”
- 3. Like Thatcher & Reagan after him, but earlier & much more limited—most of French *dirigisme*, *etatisme*, etc. remains

XI. The Socialist Experiment of François Mitterand (ch. 8):

A. Experiment constrained by:

1. Existing organization of society
2. The nation's position within the international (political) economy

B. Mitterrand had to deal w/ (at least) 3 strands of French left (PCF and 3 *tendances* w/in PSF)

1. PCF and left PSF: back to / greater nationalization and *etatisme*
2. PSF right: decentralizes and left liberals
3. PSF center: "Redistributive Keynesianism" (Mitterrand leader of this group)
4. Policies were some mix of these with Mitterrand's own getting extra attention

C. Economic constraints on socialist experiment (pp. 195-8)

1. Economic interdependence ==> Keynesianism alone difficult
2. Structural and demographic changes working against UE reduction
3. ==> two problems:
 - a. Rising UE and, likely, to achieve redistribution intended would have to shift some of the cost of that onto middle class (which Barre's "austerity" had not had to do because unconcerned with distribution to low end)
 - b. Low profit levels and high debt meant that French firms would be slow to respond to usual stimuli while BoP to contrary would respond quickly in new era of openness
4. ==> two options
 - a. Keynesian demand stimulus + creative and probably only partially successful measures to stave off BoP crisis
 - b. 8 profit rates directly by cutting corporate taxes &/or 9 wages (politically distasteful)
5. Mitterrand policy path could be described as going from 4a to 4b while looking for a 4c

D. Results:

1. Redistributive Keynesianism —> austerity
2. Nationalization 6 reprivatization & beyond, tax incentives to foster private save & invest
3. Accompanying attempt to decentralize political control to regions (to some °) appears nominally successful, but still little sign of any actual shift in policymaking locus

- E. Like right under Thatcher & Reagan, Mitterand's Socialist govt was as much trying to reshape society to structure more favorable to his partisanship. Less successful though, why?
1. Attempt to strengthen the unions or Socialist-union ties failed:
 - a. Rising unemployment more than offset state's attempts to strengthen unions directly.
 - b. French union movement is divided among itself (along partisan lines) & so makes a structurally difficult ally for parties
 - c. No tradition or history of strong Socialist Party ties to unions
 2. Attempt to recognize more and different business and agricultural groups so as to divide the allies of the right also failed:
 - a. Quasi-corporatist negotiation and agreement between government and big business had become the means of regulating social conflict. The existing business organizations were therefore well-placed to stymie government attempts to divide them because they could threaten the plans and social peace.
 - b. Farmers' organizations, too, had organizational strength to threaten economic shutdown if government challenged them

XII. The Institutional Logic of Comparative Political Economy (ch. 9):

- A. "National economic policy is influenced, 1st, by what a government is pressed to do and, second, by what it can do" (p. 232). I.e...
1. The government has certain objectives it may seek: re-election, partisan interests, and some "national" interest are the usual candidates. These objectives come from the pressures society brings to bear upon it.
 2. What it can do to achieve these objectives, however, depends on the policy options available to it, the way these policies alter private behavior, and the domestic and international structural and institutional constraints on government and private action.
- B. Hall stresses five particular factors that alter these objectives, opportunities, & constraints:
1. The organization of labor
 2. The organization of capital, financial and industrial
 3. The organization of the state itself
 4. The position of the state within the international system
 5. The organization of the domestic political system (parties and party systems)

C. These factors matter for four reasons in particular:

1. “facility with which specific interests can be articulated and force with which they can be pressed on policy makers is dependent upon the organization of the structures within which they are expressed” (p. 233). I.e., institutions help determine who are the relevant group actors and their relative political strength. (Olson: logic of collective action)
2. “interests of actors themselves are critically affected by the organization of the economic and political structures within which they operate” (p. 233). I.e., institutions affect the functioning of the economy and politics and so change the optimal strategies for people with the same underlying incentives facing different institutional configurations.
3. Much economic & political action is action of aggregations of individuals. To understand political economies, therefore, we need to understand how & on what bases aggregations (like firms or parliaments for example) make or don’t make decisions.
4. state depends for its policy implementation upon organizational resources of public *and* private sectors. Therefore, what can & can’t be done depends partly on those resources.

D. Short-Run v. Long-Run Institutional Analysis

1. This is short-run analysis: existing institutions and organizations, the way they define the actors, affect the functioning of polity & economy, & facilitate & constrain certain options are taken as given as we examine particular institutions’ impacts
2. In the long run, actors will adapt institutions to underlying pressures. That is, institutions evolve—or, more correctly, are evolved by individuals comprising or otherwise able to affect them—to fit underlying conditions.

XIII. The Organization of State-Society Relations (ch. 10): [here Hall returns to alternative analyses from chpt. 1 & reiterates how his institutional approach can also explain what they purport to and details in his UK and French cases the shortcomings discussed broadly in the first chapter. I want to draw your attention to three of the points he makes along the way]

- A. Matrix of incentives facing political-economic actors is shaped, not by single institutional or structural feature, but by *interaction* of set of *interlocking institutions*, on the *network of institutions*, the *institutional configuration* of the political economy.
- B. On the output side, this would indicate that policies are likely to have consequences, intended or unintended, which spill well beyond the initial sphere of their action because of this institutional linkage of the whole.
- C. Govts must construct two sorts of coalitions in electoral & policy arenas: one w/ producer groups in order implement economic policies, and one across societal groups to win elects. However, bases around which these two kinds of coalitions may be built may often conflict.